



MORSE SHOE, INC., 555 Turnpike Street, Canton, MA 02021, 617 828-9300, Telex 92 4469, Cable Address "Morseshoe"

Executive Offices

March 29, 1985

DEAR STOCKHOLDER:

You are cordially invited to attend the 1985 Annual Meeting of Stockholders of Morse Shoe, Inc. to be held on May 15, 1985 at the office of the Company, 555 Turnpike Street, Canton, Massachusetts commencing at 11:00 A.M.

At the meeting, stockholders will elect three Directors, each to serve for a three year term ending in 1988. Additionally, stockholders are being asked to approve the selection of Peat, Marwick, Mitchell & Co. as independent auditors for the current fiscal year.

It is important that your shares are represented at the meeting. Accordingly, please sign, date and mail the enclosed proxy card in the envelope provided for your convenience.

On behalf of the Board of Directors, thank you for your continued support.

Sincerely,

Manuel Rosenberg

MANUEL ROSENBERG
Chairman, President and
Chief Executive Officer

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Morse Shoe, Inc.

555 TURNPIKE STREET, CANTON, MASSACHUSETTS 02021

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

May 15, 1985

*To the Stockholders of
MORSE SHOE, INC.*

Notice is hereby given that the Annual Meeting of Stockholders of Morse Shoe, Inc. (the "Company") will be held at the office of the Company, 555 Turnpike Street, Canton, Massachusetts, on Wednesday, May 15, 1985, at 11:00 A.M., for the following purposes:

1. To elect three members of the Board of Directors to serve until the 1986 Annual Meeting of Stockholders and until their successors are elected.
2. To approve the selection of Peat, Marwick, Mitchell & Co. as independent auditors for the current fiscal year.
3. To consider and act upon any matters incidental to the foregoing purposes, and any other matters which may properly come before the meeting or any reconvened sessions thereof.

Stockholders of record at the close of business on March 22, 1985 will be entitled to notice of and to vote at the meeting or any reconvened sessions thereof.

By Order of the Board of Directors,

KENNETH C. CUMMINS
Secretary

Canton, Massachusetts
March 29, 1985

IMPORTANT

IT IS IMPORTANT THAT YOUR SHARES ARE REPRESENTED AT THE MEETING. ACCORDINGLY, YOU ARE URGED TO PLEASE SIGN, DATE AND PROMPTLY RETURN YOUR PROXY IN THE ENCLOSED POSTAGE-PAID ENVELOPE.

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MORSE SHOE, INC.

555 TURNPIKE STREET
CANTON, MASSACHUSETTS 02021

Mailing date:
March 29, 1985

PROXY STATEMENT

ANNUAL MEETING OF STOCKHOLDERS

May 15, 1985

This Proxy Statement is furnished in connection with the solicitation by the Board of Directors of Morse Shoe, Inc. (the "Company") of proxies to be used at the Annual Meeting of Stockholders to be held May 15, 1985 and at any reconvened sessions thereof, for the purposes set forth in the accompanying notice.

Stockholders of record at the close of business on March 22, 1985 are entitled to notice of and to vote at the meeting and any reconvened sessions thereof. As of the close of business on March 22, 1985, the Company had outstanding 5,434,266 shares of Common Stock, \$1 par value, the only class of equity securities outstanding. Each share of Common Stock is entitled to one vote upon each of the matters to be presented at the meeting.

Unless otherwise directed by the stockholder, or in the absence of a specification with respect to any matter to be acted upon, shares represented by duly executed proxies will be voted FOR the election of the nominees for Directors named below, FOR the approval of the selection of Peat, Marwick, Mitchell & Co. as independent auditors and in the discretion of the persons named as proxies on any other matter which may properly come before the meeting or any reconvened sessions thereof. Proxies may be revoked at any time before they are exercised.

The Company's Annual Report to Stockholders for 1984 is being mailed with this Proxy Statement to each stockholder entitled to vote at the meeting.

PRINCIPAL OWNERS OF VOTING STOCK

The following table sets forth, as of March 1, 1985, the beneficial ownership (as defined in the rules of the Securities and Exchange Commission) of persons known to the Company to be such owner of more than five (5) percent of the outstanding Common Stock of the Company.

<u>Name and Address</u>	<u>Amount Beneficially Owned</u>	<u>Percent of Class</u>
Shufro, Rose & Ehrman 83 Wall Street New York, NY 10005	1,082,885(1)	19.56
Alfred L. Morse 555 Turnpike Street Canton, MA 02021	611,552(2)	11.25
Delafield Asset Management Inc. 63 Wall Street New York, NY 10005	474,100(3)	8.72
BMI Capital Corporation 87 Wall Street New York, NY 10005	365,450(4)	6.72

(1) As reported in the amendment, dated January 14, 1985, to a Schedule 13G filed by said firm with the Securities and Exchange Commission, which report reflects sole dispositive power as to all such shares, sole voting power as to 80,950 such shares and no voting power as to 981,915 such shares.

(2) Includes 10,400 shares owned by Mr. Morse's wife, as to which Mr. Morse disclaims beneficial ownership.

(3) As reported in a Schedule 13G, dated January 29, 1985, filed by said firm with the Securities and Exchange Commission, which report reflects sole dispositive power as to 469,200 such shares, shared dispositive power as to 4,900 such shares, sole voting power as to 408,200 such shares and no voting power as to 65,900 such shares.

(4) As of December 30, 1984, as reported in the amendment, dated January 10, 1985, to a Schedule 13G filed by said firm with the Securities and Exchange Commission, which report reflects sole dispositive power as to all such shares and no voting power as to all such shares.

NOMINEES FOR ELECTION AS DIRECTORS

The Board of Directors is divided into three classes having staggered terms of three years each. The By-laws of the Company provide that a Board of not less than three nor more than fifteen Directors shall be fixed from time to time by the Board of Directors. The total number of Directors comprising the Board of Directors is currently fixed at ten. Of this number, three members of the Board of Directors have terms expiring at the 1985 Annual Meeting of Stockholders and are nominees for election at this meeting, three members have terms expiring at the 1986 Annual Meeting of Stockholders and four members have terms expiring at the 1987 Annual Meeting of Stockholders.

Each Director elected at the 1985 Annual Meeting of Stockholders will hold office until the 1988 Annual Meeting of Stockholders, and until his successor is elected and qualified or until he sooner dies, resigns, is removed or becomes disqualified. Each of the three Directors named below as a nominee was elected to his present term by the stockholders at the Special Meeting of Stockholders held December 13, 1983.

It is the intention of the persons named in the proxy to vote for the election of the three nominees named below. In the event any one or more of such nominees should become unavailable for election, it is the intention of the persons named in the proxy to vote for the election of a substitute or substitutes proposed by the Board of Directors or, if no substitute or substitutes is proposed, for the remaining nominees. To the Company's knowledge all nominees are and will be available to serve.

The nominees for a term ending at the 1985 Annual Meeting of Stockholders are as follows:

	<u>First Year Elected</u>
ROBERT T. SAKOWITZ, 46, is a member of the Audit and Compensation/Stock Option Committees. He is the Chairman, President and Chief Executive Officer (having held the latter two positions since prior to 1980) and a Director of Sakowitz, Inc., specialty stores of Houston, Texas. He is a Director of Continental Airlines, the Houston branch of the Federal Reserve Bank of Dallas, and the City of Houston Industrial Development Corporation. He is a Director of the National Retail Merchants Association and of its Executive and International Committees. He is a Director of Societe Viticole Europeene, S.A.	1974
PETER V. TISHMAN, 53, is a member of the Compensation/Stock Option and Finance Committees. Since prior to 1980, he has been President of New York City based Peter Tishman Real Estate Co., a developer, owner and operator of real estate properties.	1971
BARRETT S. WAYNE, 48, is Executive Vice President of the Company and a member of the Finance Committee. He was General Counsel until November, 1982, and, prior to his election as Executive Vice President in 1980, he served as a Vice President and Secretary of the Company. He is a Vice Chairman and a Director of the Footwear Retailers of America.	1972

The members of the Board of Directors having terms of office which do not expire at the 1985 Annual Meeting of Stockholders, are as follows:

Continuing Directors Having Terms of Office Expiring at the 1986 Annual Meeting of Stockholders

ALFRED L. MORSE, 52, a founder and retired Chief Executive Officer of the Company, is Honorary Chairman of the Board of Directors and a consultant to the Company. He is a member of the Compensation/Stock Option Committee. He served as Chairman of the Board of Directors from 1970 to 1979.	1961
MANUEL ROSENBERG, 54, joined the Company and was elected a Director, Chairman of the Board of Directors and Chief Executive Officer in July, 1982 and was elected President effective December 31, 1982. Prior to 1980, and until his employment by the Company, he was President and a Director of Garfinckel's, Brooks Brothers, Miller & Rhoads, Inc., a department and specialty store chain, and its successor after that company was acquired by Allied Stores Corporation in 1981.	1982

- ERNEST J. SARGEANT, 66**, a member of the Compensation/Stock Option (Chairman) and Finance Committees, has been a partner in the Boston law firm of Ropes & Gray since prior to 1980. 1970
- Continuing Directors Having Terms of Office Expiring at the 1987 Annual Meeting of Stockholders*
- DONALD C. CARROLL, 54**, is a member of the Audit (Chairman), Compensation/Stock Option and Finance Committees. He is Professor of Management and Decision Sciences (presently on a two-year leave of absence expiring in July, 1985) at the Wharton School of the University of Pennsylvania where he served as Dean and Reliance Professor of Private Enterprise from 1972 until July, 1983. He was President of AGT Computer Products, Inc. from July through November, 1983. He is Chairman of CGW Data Services, Inc. and Immunicon Corp. and a Director of MacAndrews and Forbes Holdings, Inc., Monsanto Company, NRUC Corp., SEI Corp., and Vestaur Securities, Inc. 1974
- JESSE HILL, JR., 58**, is a member of the Audit and Compensation/Stock Option Committees. He is President, Chief Executive Officer and Chairman of the Executive Committee of Atlanta Life Insurance Co. of Atlanta, Georgia, in which positions he has served since prior to 1980. He is a Director of Delta Airlines, Inc., National Service Industries, Inc., Trust Company of Georgia and Knight-Ridder Newspapers, Inc. He is Chairman of the Board of Directors of the Martin Luther King Center for Non-violent Social Change and Vice Chairman of the National Urban Coalition. 1979
- THOMAS J. CALLIGAN III, 40**, joined the Company in August of 1984 and was elected a Director, a member of the Finance Committee, Senior Vice President, Chief Financial Officer and Treasurer of the Company on August 15, 1984. Prior to his employment by the Company, he was Vice President, Finance and Chief Financial Officer of PepsiCo International (1983 to 1984), and Director of Corporate Accounting, Assistant Corporate Controller and Vice President, Finance of the Pepsi-Cola Bottling Group (1976 to 1983) of PepsiCo Inc. Mr. Calligan is a certified public accountant and a member of the American Institute of Certified Public Accountants, the New York State Society of Certified Public Accountants and the Treasurers' Club of Boston. 1984
- JEROME ZIMMERMAN, 63**, is a member of the Compensation/Stock Option and Finance (Chairman) Committees. Since 1983, he has been the President, Chief Executive Officer and a Director of Zarpco, Inc., a privately held company engaged in various investments and currently operating businesses engaged in the manufacture of plastic products and the importation and sale of rugs and related products. From prior to 1980 until 1984, he was President of Apollo Forest Products, Inc. of Atlanta, a privately held company, which was engaged in the forest products business and in various investments. 1975

For many years the law firm of Ropes & Gray, of which Mr. Ernest J. Sargeant is a partner, has from time to time performed legal services for the Company.

Under the regulations of the Securities and Exchange Commission, Mr. Alfred L. Morse may be deemed a control person of the Company. Mr. Jerome Zimmerman is the son-in-law of Mr. Alfred L. Morse.

INFORMATION CONCERNING THE BOARD OF DIRECTORS

The Board of Directors presently consists of ten members. Three of the Directors are salaried employees of the Company and one is a former Chief Executive Officer who receives compensation as a consultant to the Company. None of the four receives additional compensation for his service as a Director.

During 1984, those Directors who were not salaried employees or consultants to the Company were paid an annual fee of \$10,000 plus an additional fee of \$500 for attendance at each meeting of the Board of Directors and any committee of the Board of Directors on which they served, together with their expenses of attendance.

The standing committees of the Board of Directors are the Audit, Compensation/Stock Option and Finance Committees. The Company does not have a nominating committee.

The Audit Committee recommends the selection and engagement of the Company's independent auditors and reviews with them the scope and status of the audit, non-audit services to be performed, the fees for services by the firm, and the results of the audit when completed. The Committee also reviews and discusses with management and the Board of Directors accounting policies, internal controls and procedures for preparation of financial statements. The present members of the Committee are Messrs. Donald C. Carroll (Chairman), Jesse Hill, Jr. and Robert T. Sakowitz. During 1984, the Audit Committee held three meetings.

The Compensation/Stock Option Committee reviews and makes recommendations to the Board of Directors on matters of salaries, bonuses, other forms of compensation and retirement benefits (including contractual arrangements) for officers of the Company at the level of Vice President and above, and for certain senior officers of subsidiaries. The Committee administers the Company's 1975 Stock Option Plan (under which no future options may be granted) and the 1982 Incentive Stock Option Plan, including the granting of options under the 1982 Plan. The Committee consists of Directors who are not eligible to participate in the plans. The present members of the Committee are Messrs. Ernest J. Sargeant (Chairman), Donald C. Carroll, Jesse Hill, Jr., Alfred L. Morse, Robert T. Sakowitz, Peter V. Tishman and Jerome Zimmerman. During 1984, the Committee held four meetings.

The Finance Committee reviews and makes recommendations to the Board of Directors and Company management concerning important financial matters. The Committee reviews the Company's long-range financial plans, its long and short-term financing needs, specific financing proposals and ongoing programs to finance capital needs. The present members of the Committee are Messrs. Jerome

Zimmerman (Chairman), Donald C. Carroll, Thomas J. Galligan III, Ernest J. Sargeant, Peter V. Tishman and Barrett S. Wayne. The Committee held three meetings during 1984.

During 1984, the Board of Directors held four meetings.

During 1984, Mr. Sakowitz attended less than 75% of the aggregate number of meetings of the Board of Directors and committees of which he was a member.

EQUITY OWNERSHIP OF MANAGEMENT

The following table sets forth, as of March 1, 1985, the beneficial ownership (as defined in the rules of the Securities and Exchange Commission) of the Company's Common Stock by each Director, each nominee for Director, and all Directors and officers of the Company as a group, from information provided by such persons.

<u>Name of Person or Group</u>	<u>Shares Beneficially Owned</u>	<u>Percent of Class</u>
Donald C. Carroll	1,657	.03
Thomas J. Galligan III	500	.009
Jesse Hill, Jr.	200	.004
Alfred L. Morse	611,552(1)	11.25
Manuel Rosenberg	30,061(2)(3)	.55
Robert T. Sakowitz	2,000	.04
Ernest J. Sargeant	None	—
Peter V. Tishman	10,095(1)	.18
Barrett S. Wayne	15,872(1)(2)	.29
Jerome Zimmerman	19,000(4)	.35
All Directors and Officers as a Group	720,448(1)(2)(3)(4)	13.26

(1) Includes for Mr. Alfred L. Morse 10,400 shares, for Mr. Peter V. Tishman 5,862 shares, for Mr. Barrett S. Wayne 2,779 shares, and for all Directors and officers as a group 19,041 shares, held by or for the benefit of family members. As to these shares the person or persons named or included in the group share voting or investment power but disclaim beneficial ownership.

(2) Includes for Messrs. Manuel Rosenberg and Barrett S. Wayne 5,061 shares and 5,593 shares, respectively, and for all Directors and officers as a group 17,866 shares, which the person or persons have the right to acquire within sixty days after March 1, 1985, under options previously granted pursuant to the Company's stock option plans.

(3) Includes for Mr. Manuel Rosenberg 15,000 shares which are subject to repurchase under certain circumstances. See the section entitled "Executive Compensation" for further information.

(4) Does not include 18,949 shares owned by Mr. Zimmerman's wife, as to which he disclaims voting and investment power and beneficial ownership.

EXECUTIVE COMPENSATION

Cash Compensation

Set forth below is information as to the cash compensation paid or accrued by the Company for the 1984 fiscal year to or for the benefit of (1) each of the five highest paid executive officers of the Company whose cash compensation exceeds \$60,000, and (2) executive officers as a group.

(A) <u>Name of Individual or Number of Persons in Group</u>	(B) <u>Capacities in which Served</u>	(C) <u>Cash Compensation</u>
Manuel Rosenberg	President and Chief Executive Officer	\$321,905(1)
Barrett S. Wayne	Executive Vice President	\$158,404
Kenneth C. Cummins	Vice President, Secretary and General Counsel	\$120,504
Marvin C. Schwartz	Vice President and Comptroller	\$116,468
Thomas J. Galligan III	Senior Vice President, Chief Financial Officer and Treasurer (from August 15, 1984)	\$ 97,920
All Executive Officers as a Group (6 individuals)		\$897,337

(1) Includes amounts received by Mr. Rosenberg in 1984 as reimbursement of certain relocation expenses plus an additional amount necessary to cover any state or federal income tax liabilities payable by him arising from certain payments received by him in 1983 in accordance with the terms of his employment contract.

Mr. Manuel Rosenberg is employed under an agreement which, as amended on November 15, 1984, provides for his full-time employment as Chief Executive Officer until December 31, 1989, at an annual base salary of \$275,000, subject to adjustment equal to the percentage increase in the annual gross national product of the United States for the prior calendar year over the next preceding calendar year. The agreement, as amended, provides for incentive compensation for each year in an amount equal to the same percentage of annual base salary as the percentage increase, adjusted for inflation, in the Company's pre-tax return on stockholders' equity for such year over 14.03 percent. The amount of incentive compensation cannot exceed 100 percent of annual base salary.

During 1984, the Company sold Mr. Rosenberg 25,000 shares of the Company's Common Stock, at a purchase price of \$1.00 per share. On the date of the purchase, the closing price of the Company's Common Stock on the New York Stock Exchange was \$18.58 per share. 15,000 of such shares are subject to the Company's right of repurchase (at \$1.00 per share) in the event Mr. Rosenberg or the Company terminates his employment prior to December 31, 1989 for reasons other than (i) death or disability, or (ii) resignation after a change in control of the Company. However, commencing December 31, 1985, the Company's repurchase right shall lapse at a rate of 3,000 shares annually.

In connection with the purchase of such stock by Mr. Rosenberg, the Company during 1984 made two interest free loans to Mr. Rosenberg aggregating \$245,781 in order to cover his federal and state

income tax liabilities with respect to such purchase. Such loans are payable on December 31, 1989 or earlier upon termination of Mr. Rosenberg's employment for reasons other than (i) death or disability or (ii) resignation after a change in control of the Company. However, if Mr. Rosenberg continues in the employ of the Company until December 31, 1989, the Company is obligated to cancel \$147,469 of such indebtedness and in the event of the earlier termination of Mr. Rosenberg's employment due to death or disability the Company is obligated to cancel both of the loans and, in either case, to pay Mr. Rosenberg (or his legal representatives in the event of death) an amount sufficient to cover any state or federal income tax liabilities arising from the cancellation of such indebtedness.

Pursuant to Mr. Rosenberg's agreement, the Company granted in 1985, and is obligated to grant to Mr. Rosenberg in 1986, options under its 1982 Incentive Stock Option Plan covering the number of shares having an aggregate fair market value of \$100,000 at the time of each grant.

In the event of a change in control of the Company, Mr. Rosenberg has the right to resign his positions with the Company. In such case the Company is obligated to pay Mr. Rosenberg, in 36 equal monthly installments, an amount equal to 200 percent of his then annual base salary, to cancel and discharge the entire indebtedness referred to in the second preceding paragraph and to pay Mr. Rosenberg an amount sufficient to cover any state or federal income tax liabilities arising from the cancellation of such indebtedness.

The agreement provides for separation pay to Mr. Rosenberg, in lieu of payment pursuant to any Company separation compensation policy, if his employment is continued until December 31, 1989 but not thereafter, in an amount equal to 150% of his 1989 annual base salary, payable in eighteen equal monthly installments, provided, however, that no such separation payment shall be paid to Mr. Rosenberg if he receives any payments pursuant to the provisions described in the next preceding paragraph.

Mr. Rosenberg's agreement contains non-competition provisions, and retirement benefits as described under the heading "Pension and Retirement Benefits" beginning on page 9.

Pursuant to his employment arrangement with the Company Mr. Galligan received in 1984 commencement bonus of \$25,000. Under the arrangement he is to receive a salary at an annual rate of \$175,000 through July, 1985. In July, 1985 he will be entitled to receive a bonus of \$20,000. Pursuant to the arrangement during the twelve months following July, 1985 Mr. Galligan is to receive a salary at an annual rate of \$195,000.

Pursuant to such arrangement the Company, in 1984, granted Mr. Galligan stock options under its 1982 Incentive Stock Option Plan covering the number of shares having a market value of \$100,000 on the date of the grant.

In connection with his relocation to the Boston area the Company has agreed to reimburse Mr. Galligan's moving expenses and temporary living expenses together with the reasonable costs of transportation between New York City and Boston for Mr. Galligan and his family. The Company has also agreed to reimburse Mr. Galligan the carrying costs on his former residence in the Metropolitan New York area together with the brokerage costs in connection with the sale of such residence and to pay him an amount sufficient to cover any state or federal income tax liabilities arising from his receipt of such reimbursement.

In the event Mr. Calligan's employment is terminated by the Company within the first 24 months of his employment for any reason (other than for cause), the Company has agreed to pay Mr. Calligan an amount equal to his then current annual base salary payable in 12 equal monthly installments. Such payments are to be reduced by any amounts received by Mr. Calligan in connection with any employment or services rendered by him during such 12 month period.

During 1984, there was outstanding an interest free loan of \$200,000 to Mr. Calligan to assist in his purchase of a residence in the Boston area, which loan was repaid in February of 1985.

Pension and Retirement Benefits

Under the Company's Pension Plan, which is a qualified, non-contributory, defined benefit plan (funded by a group annuity contract with an insurance company) covering employees (including officers), annual benefits are paid upon retirement. Benefits are based on (a) an employee's total annual cash compensation (as shown in Column C of the table on page 7), including bonuses, averaged over the highest consecutive five years of cash compensation during the last ten years of service, and (b) length of service. Upon normal retirement at age 65 the plan will provide a retirement benefit equal to 50 percent of compensation (determined as above) reduced by 50 percent of the employee's primary Social Security benefit at retirement. The normal benefit is in the form of a life annuity with five years certain. The foregoing benefit is reduced on a pro rata basis for service of less than 25 years. Employees with 10 years of service may elect early retirement beginning at age 55, with an appropriate reduction of the pension. Service after the age 65, or in excess of 25 years, results in no additional accrual of benefits, except for an actuarial increase after age 65.

Messrs. Wayne and Schwartz and certain other officers of the Company have supplementary retirement agreements with the Company which provide for annual lifetime retirement benefits, with a minimum period of fifteen years subsequent to termination of employment (but not earlier than age 60, except in the case of death or disability), equal to 50% (which percentage is reduced pursuant to an age formula for termination of employment prior to age 65) of the average total cash compensation, including bonuses, paid or accrued for the three consecutive years of highest total cash compensation during the ten years ending upon termination of employment. The amounts payable by the Company are to be reduced by (a) the annual normal benefit under the Company's Pension Plan (described above) and (b) the amount of primary Social Security retirement benefit as of the date of retirement. The agreements also contain provisions relating to non-competition and payment of benefits following death.

As of December 31, 1984, the estimated credited years of service under the Pension Plan for Messrs. Rosenberg, Wayne, Cummins, Schwartz and Calligan were 3, 22, 11, 33 and none, respectively.

Mr. Rosenberg has a supplementary retirement agreement, substantially in the form of the supplementary retirement agreements described above between the Company and certain of its officers, which provides for annual retirement benefits, before the required reductions, in an amount equal to 5 percent of his average highest total compensation (as defined) for any consecutive three year period during any period not exceeding ten years of employment ending upon the termination of his employment, multiplied by the number of years of his employment by the Company.

The following table illustrates the estimated annual normal benefits payable to employees upon normal retirement under the Pension Plan and supplementary retirement agreements (if any). The benefit amounts shown in the table below are subject to certain offsets, including an offset of 50 percent of the employee's estimated primary Social Security benefit.

Average of Highest Consecutive Five Years of Compensation	Estimated Annual Retirement Benefits for Years of Service Indicated		
	15 Years	20 Years	25 or More Years
\$ 100,000	\$ 30,000	\$ 40,000	\$ 50,000
\$ 200,000	\$ 60,000	\$ 80,000	\$100,000
\$ 300,000	\$ 90,000	\$120,000	\$150,000
\$ 400,000	\$120,000	\$160,000	\$200,000
\$ 500,000	\$150,000	\$200,000	\$250,000
\$ 600,000	\$180,000	\$240,000	\$300,000
\$ 700,000	\$210,000	\$280,000	\$350,000
\$ 800,000	\$240,000	\$320,000	\$400,000
\$ 900,000	\$270,000	\$360,000	\$450,000
\$1,000,000	\$300,000	\$400,000	\$500,000

(1) Amounts payable under the Company's Pension Plan may not exceed the maximum ERISA annual benefit limitation for qualified pension plans. The Tax Equity and Fiscal Responsibility Act of 1982 reduced this limitation to \$90,000.

(2) Since the calculation of benefits payable under the supplementary retirement agreements referred to above is based on the average of the three consecutive years of highest total compensation, future total retirement benefits payable to executive officers having supplementary retirement agreements may be higher than the amounts shown in the table.

(3) The amounts payable to Mr. Rosenberg upon normal retirement approximate 130 percent of the amounts shown under the heading "25 or More Years" in the table (as may be increased as described above in footnote 2).

Stock Options

The Company's 1982 Incentive Stock Option Plan (the "Plan") provides for the granting of options, including incentive stock options, to purchase shares of Common Stock, to officers and other key management employees of the Company and its subsidiaries, whether or not also Directors. The Plan provides that up to 200,000 shares of Common Stock may be issued and sold by the Company pursuant to the exercise of options.

The Plan is administered by the Compensation/Stock Option Committee of the Board of Directors (the members of which are not eligible to receive options while serving on the Committee), which selects participants and determines the amounts of the grants under the Plan. The Committee considers an employee's performance and contributions to the Company's business goals in determining option

grants. Other considerations relating to the granting of options include the need to attract new executives and to motivate and retain quality management employees.

The option price may not be less than the fair market value of the Common Stock at the time of the grant, and the term of the option may not exceed ten years.

The following table shows for certain executive officers and all executive officers as a group (a) the number of shares covered by stock options granted during 1984 and the average per share exercise price, and (b) the number of shares acquired through the exercise of options during 1984 and the amount realized (i.e., market value at the date of exercise minus exercise price) upon such exercise.

	<u>Options Granted</u>		<u>Options Exercised</u>	
	<u>Number of Shares</u>	<u>Average Option Price Per Share</u>	<u>Number of Shares</u>	<u>Amount Realized</u>
Manuel Rosenberg	3,980	\$25.13	—	—
Barrett S. Wayne	3,980	\$25.13	3,546	\$63,233.66
Kenneth C. Cummins	2,500	\$25.13	—	—
Marvin G. Schwartz	2,500	\$25.13	—	—
Thomas J. Galligan III	4,323	\$23.13	—	—
All Executive Officers as a Group	17,283	\$24.63	3,546	\$63,233.66

Group Life Insurance

The Company provides group life insurance benefits to all executive officers of the Company, and certain other officers of the Company and subsidiaries, equal to four times base salary. Other employees of the Company are provided life insurance benefits equal to multiples of base salary, depending upon their position.

Employment Separation Compensation Policy

During 1984, the Board of Directors adopted an employment separation compensation policy for senior executives (hereinafter referred to as the "Policy"). Pursuant to the Policy corporate Vice Presidents and above who are separated from the employ of the Company other than for cause or retirement, are to receive one month's salary for each year of service up to a maximum of one year's base compensation for Vice Presidents, and one and one-half year's base compensation for Senior Vice Presidents, and above.

As noted above, Mr. Rosenberg's agreement provides for separation compensation in lieu of any payment pursuant to the Policy. Mr. Galligan is covered by the Policy after July, 1986; until that time Mr. Galligan's employment arrangement provides for separation compensation in lieu of any payment pursuant to the Policy.

Other Compensation

Other compensation, including non-cash benefits, received by executive officers in 1984 was less than the minimum amount required to be reported pursuant to the rules of the Securities and Exchange Commission.

INFORMATION CONCERNING APPROVAL OF INDEPENDENT AUDITORS

The Board of Directors has selected the firm of Peat, Marwick, Mitchell & Co. as independent auditors for the current fiscal year, upon the recommendation of its Audit Committee, and proposes that the stockholders approve this selection. Peat, Marwick, Mitchell & Co. served as the Company's independent auditor for fiscal 1984. Representatives of that firm are expected to be present at the Annual Meeting of Stockholders at which they will have the opportunity to make a statement if they so desire, and be available to respond to appropriate questions.

PROPOSALS OF STOCKHOLDERS

Proposals of stockholders intended to be presented at the next Annual Meeting of Stockholders must be received by the Secretary, Morse Shoe, Inc., 555 Turnpike Street, Canton, Massachusetts 02021, not later than November 29, 1985 to be considered for inclusion in the Company's Proxy Statement and form of proxy relating to that meeting.

GENERAL

As of the date of this Proxy Statement, the management knows of no business which will be presented to the meeting which is not referred to in the accompanying notice. However, as to other business, if any, which may properly come before the meeting or any reconvened sessions thereof, the persons named as proxies will have discretionary authority to vote the shares represented by the accompanying proxy in accordance with their own judgment.

The Company will bear the cost of solicitation of proxies, including the charges and expenses of brokerage firms and others for forwarding solicitation material to beneficial owners of stock. In addition to the use of the mails, proxies may be solicited by personal interview, by telephone or by telegraph. The Company has retained D. F. King & Co., Inc. to assist in the solicitation of proxies and anticipates that the fees it will incur for this service will not exceed \$5,500, plus reimbursement of expenses.

By Order of the Board of Directors,

KENNETH C. CUMMINS
Secretary

PX N m38,900
14 / 11 85.113 J



MORSE SHOE, INC. 555 Turnpike Street, Canton, MA 02021, 617 828-9300, Telex 92 4469, Cable Address "Morseshoe"

Executive Offices

BEST COPY AVAILABLE

March 28, 1986

DEAR STOCKHOLDER:

You are cordially invited to attend the 1986 Annual Meeting of Stockholders of Morse Shoe, Inc. to be held on May 21, 1986 at the office of the Company, 555 Turnpike Street, Canton, Massachusetts commencing at 11:00 A.M.

At the meeting, stockholders will elect three Directors, each to serve for a three-year term ending in 1989. Additionally, stockholders are being asked to approve a proposal to increase the number of shares of Common Stock available for options under the Company's 1982 Incentive Stock Option Plan from 200,000 to 300,000 and to approve the proposed 1986 Restricted Stock Plan. Stockholders are also being asked to approve the selection of Peat, Marwick, Mitchell & Co. as independent auditors for the current fiscal year.

It is important that your shares are represented at the meeting. Accordingly, please sign, date and mail the enclosed proxy card in the envelope provided for your convenience.

On behalf of the Board of Directors, thank you for your continued support.

Sincerely,

MANUEL ROSENBERG
*Chairman, President and
Chief Executive Officer*

MICROFILMED BY
Q-DATA CORP.
ST. PETERSBURG, FLORIDA U.S.A.

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Morse Shoe, Inc.

555 TURNPIKE STREET, CANTON, MASSACHUSETTS 02021

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

May 21, 1986

*To the Stockholders of
MORSE SHOE, INC.*

Notice is hereby given that the Annual Meeting of Stockholders of Morse Shoe, Inc. (the "Company") will be held at the office of the Company, 555 Turnpike Street, Canton, Massachusetts, on Wednesday, May 21, 1986, at 11:00 A.M., for the following purposes:

1. To elect three members of the Board of Directors to serve until the 1989 Annual Meeting of Stockholders and until their successors are elected.
2. To act upon a proposal to increase the number of shares of Common Stock as to which options may be granted under the Company's 1982 Incentive Stock Option Plan to 300,000 (from 200,000) and to approve the 1982 Incentive Stock Option Plan as so amended.
3. To approve the Company's 1986 Restricted Stock Plan.
4. To approve the selection of Feat, Marwick, Mitchell & Co. as independent auditors for the current fiscal year.
5. To consider and act upon any matters incidental to the foregoing purposes, and any other matters which may properly come before the meeting or any reconvened sessions thereof.

Stockholders of record at the close of business on March 24, 1986 will be entitled to notice of and to vote at the meeting or any reconvened sessions thereof.

By Order of the Board of Directors,

Canton, Massachusetts
March 28, 1986

KENNETH C. CUMMINS
Secretary

IM. JRTANT

IT IS IMPORTANT THAT YOUR SHARES ARE REPRESENTED AT THE MEETING. ACCORDINGLY, YOU ARE URGED TO PLEASE SIGN, DATE AND PROMPTLY RETURN YOUR PROXY IN THE ENCLOSED POSTAGE-PAID ENVELOPE.

B

MORSE SHOE, INC.
555 TURNPIKE STREET
CANTON, MASSACHUSETTS 02021

Mailing date:
March 28, 1986

PROXY STATEMENT

ANNUAL MEETING OF STOCKHOLDERS

May 21, 1986

This Proxy Statement is furnished in connection with the solicitation by the Board of Directors of Morse Shoe, Inc. (the "Company") of proxies to be used at the Annual Meeting of Stockholders to be held May 21, 1986 and at any reconvened sessions thereof, for the purposes set forth in the accompanying notice.

Stockholders of record at the close of business on March 24, 1986 are entitled to notice of and to vote at the meeting and any reconvened sessions thereof. As of the close of business on March 24, 1986, the Company had outstanding 5,499,332 shares of Common Stock, \$1 par value, the only class of equity securities outstanding. Each share of Common Stock is entitled to one vote upon each of the matters to be presented at the meeting.

Unless otherwise directed by the stockholder, or in the absence of a specification with respect to any matter to be acted upon, shares represented by duly executed proxies will be voted FOR the election of the nominees for Directors named below; FOR the approval of the amendment increasing the number of shares of Common Stock issuable under the Company's 1982 Incentive Stock Option Plan and approval of the Plan as so amended; FOR the approval of the Company's 1986 Restricted Stock Plan; FOR the approval of the selection of Peat, Marwick, Mitchell & Co. as independent auditors; and in the discretion of the persons named as proxies on any other matter which may properly come before the meeting or any reconvened sessions thereof. Proxies may be revoked at any time before they are exercised.

The Company's Annual Report to Stockholders for 1985 is being mailed with this Proxy Statement to each stockholder entitled to vote at the meeting.

PRINCIPAL OWNERS OF VOTING STOCK

The following table sets forth, as of March 10, 1986, the beneficial ownership (as defined in the rules of the Securities and Exchange Commission) of persons known to the Company to be such owner of more than five (5) percent of the outstanding Common Stock of the Company.

<u>Name and Address</u>	<u>Amount Beneficially Owned</u>	<u>Percent of Class</u>
Shufro, Rose & Ehrman 63 Wall Street New York, NY 10005	1,470,715(1)	27.04
Alfred L. Morse 555 Turnpike Street Canton, MA 02021	611,552(2)	11.2
Delafield Asset Management, Inc. 63 Wall Street New York, NY 10005	576,800(3)	10.6

(1) As reported in a filing pursuant to Section 13 of the Securities Exchange Act of 1934, dated March 10, 1986, filed by said firm with the Securities and Exchange Commission, which report reflects sole dispositive power and no voting power as to all such shares.

(2) Includes 10,400 shares owned by Mr. Morse's wife, as to which Mr. Morse disclaims beneficial ownership.

(3) As reported in a filing pursuant to Section 13 of the Securities Exchange Act of 1934, dated February 7, 1986, filed by said firm with the Securities and Exchange Commission, which report reflects sole dispositive power as to 566,500 such shares, shared dispositive power as to 10,300 such shares, sole voting power as to 491,500 such shares and no voting power as to 85,300 such shares.

NOMINEES FOR ELECTION AS DIRECTORS

The Board of Directors is divided into three classes having staggered terms of three years each. The By-laws of the Company provide that a Board of not less than three nor more than fifteen Directors shall be fixed from time to time by the Board of Directors. The total number of Directors comprising the Board of Directors is currently fixed at ten. Of the present Board of Directors, which consists of nine members, three members have terms expiring at the 1986 Annual Meeting of Stockholders and are nominees for election at this meeting, four members have terms expiring at the 1987 Annual Meeting of Stockholders and two members have terms expiring at the 1988 Annual Meeting of Stockholders. There is currently a vacancy in the Directors' group with a term expiring at the 1988 Annual Meeting of Stockholders.

Each Director elected at the 1986 Annual Meeting of Stockholders will hold office until the 1989 Annual Meeting of Stockholders, and until his successor is elected and qualified or until he sooner dies, resigns, is removed or becomes disqualified. Each of the three Directors named below as a nominee was elected to his present term by the stockholders at the Special Meeting of Stockholders held December 13, 1983.

It is the intention of the persons named in the proxy to vote for the election of the three nominees named below. In the event any one or more of such nominees should become unavailable for election, it is the intention of the persons named in the proxy to vote for the election of a substitute or

substitutes proposed by the Board of Directors or, if no substitute or substitutes is proposed, for the remaining nominees. To the Company's knowledge all nominees are and will be available to serve.

The nominees for a term ending at the 1989 Annual Meeting of Stockholders are as follows:

	<u>First Year Elected</u>
ALFRED L. MORSE, 83, a founder and retired Chief Executive Officer of the Company, is Honorary Chairman of the Board of Directors and a consultant to the Company. He is a member of the Compensation/Stock Option Committee. He served as Chairman of the Board of Directors from 1970 to 1979.	1961
MANUEL ROSENBERG, 55, joined the Company and was elected a Director, Chairman of the Board of Directors and Chief Executive Officer in July, 1982 and was elected President effective December 31, 1982. Prior to 1981, and until his employment by the Company, he was President and a Director of Carlinekel's, Brooks Brothers, Miller & Rhoads, Inc., a department and specialty store chain, and its successor after that company was acquired by Allied Stores Corporation in 1981.	1982
ERNEST J. SARGEANT, 67, Chairman of the Compensation/Stock Option Committee and a member of the Finance Committee, has been a partner in the Boston law firm of Ropes & Gray since prior to 1981.	1970

The members of the Board of Directors having terms of office which do not expire at the 1986 Annual Meeting of Stockholders, are as follows:

Continuing Directors Having Terms of Office Expiring at the 1987 Annual Meeting of Stockholders

DONALD C. CARROLL, 55, Chairman of the Audit Committee and a member of the Compensation/Stock Option and Finance Committees, is Chairman and Chief Executive Officer of CGW Data Services, Inc. He was Professor of Management at the Wharton School of the University of Pennsylvania from 1972 until 1985 where he served as Dean from 1972 until July, 1983. He was Chairman of TMI Systems Corp. from 1969 through 1982, President of AGT Computer Products, Inc. from July through November, 1983 and Chairman of Immunicon Corp. from 1984 through 1985. He is a Director of MacAndrews and Forbes Holdings, Inc., Monsanto Company, NRUC Corp., Pantry Pride, Inc., SEI Corp., and Vestar Securities, Inc.	1974
JESSE HILL, JR., 59, a member of the Audit and Compensation/Stock Option Committees, is President, Chief Executive Officer and Chairman of the Executive Committee of Atlanta Life Insurance Co. of Atlanta, Georgia, in which positions he has served since prior to 1981. He is a Director of Delta Airlines, Inc., National Service Industries, Inc., Trust Company of Georgia and Knight-Ridder Newspapers, Inc. He is Chairman of the Board of Directors of the Martin Luther King Center for Non-violent Social Change.	1979

THOMAS J. GALLIGAN III, 41, joined the Company in August of 1984 and was elected a Director, a member of the Finance Committee, Senior Vice President, Chief Financial Officer and Treasurer of the Company on August 15, 1984. Prior to his employment by the Company, he was Vice President, Finance and Chief Financial Officer of PepsiCo International (1983 to 1984), and Director of Corporate Accounting, Assistant Corporate Controller and Vice President, Finance of the Pepsi-Cola Bottling Group (1976 to 1983) of PepsiCo Inc. 1984

JEROME ZIMMERMAN, 64, Chairman of the Finance Committee and a member of the Compensation/Stock Option Committee, since 1983 has been the President, Chief Executive Officer and a Director of Zarpcu, Inc., a privately held company engaged in various investments and currently operating businesses involved in the manufacture of plastic products. From prior to 1981 until 1984, he was President of Apollo Forest Products, Inc. of Atlanta, a privately held company, which was engaged in the forest products business and in various investments. 1975

Continuing Directors Having Terms of Office Expiring at the 1988 Annual Meeting of Stockholders

ROBERT T. SAKOWITZ, 47, a member of the Audit and Compensation/Stock Option Committees, is the Chairman, President and Chief Executive Officer (having held the latter two positions since prior to 1981) and a Director of Sakowitz, Inc., specialty stores of Houston, Texas. Sakowitz, Inc., filed for reorganization under Chapter 11 of the federal bankruptcy laws on August 1, 1985. Mr. Sakowitz is a Director of Continental Airlines, and was a Director of the Houston branch of the Federal Reserve Bank of Dallas (1983 to 1985), and the City of Houston Industrial Development Corporation (1982 to 1985). He is a Director of the National Retail Merchants Association and a member of its Executive and International Committees. He is a Director of Societe Viticole Europeene, S.A. 1974

PETER V. TISHMAN, 54, a member of the Compensation/Stock Option and Finance Committees, since prior to 1981 has been President of New York City based Peter Tishman Real Estate Co., a developer, owner and operator of real estate properties. 1971

For many years the law firm of Ropes & Gray, of which Mr. Ernest J. Sargeant is a partner, has from time to time performed legal services for the Company.

Under the regulations of the Securities and Exchange Commission, Mr. Alfred L. Morse may be deemed a control person of the Company. Mr. Jerome Zimmerman is the son-in-law of Mr. Alfred L. Morse.

INFORMATION CONCERNING THE BOARD OF DIRECTORS

The Board of Directors presently consists of nine members. Two of the Directors are salaried employees of the Company and one is a former Chief Executive Officer who receives compensation as a consultant to the Company. None of the three receives additional compensation for his service as a Director.

During 1985, those Directors who were not salaried employees or consultants to the Company were paid an annual fee of \$10,000 plus an additional fee of \$500 for attendance at each meeting of the Board of Directors and any committee of the Board of Directors, together with their expenses of attendance.

The standing committees of the Board of Directors are the Audit, Compensation/Stock Option and Finance Committees. The Company does not have a nominating committee.

The Audit Committee recommends the selection and engagement of the Company's independent auditors and reviews with them the scope and status of the audit, non-audit services to be performed, the fees for services by the firm, and the results of the audit when completed. The Committee also reviews and discusses with management and the Board of Directors accounting policies, internal controls and procedures for preparation of financial statements. The present members of the Committee are Messrs. Donald C. Carroll (Chairman), Jesse Hill, Jr. and Robert T. Sakowitz. During 1985, the Audit Committee held four meetings.

The Compensation/Stock Option Committee reviews and makes recommendations to the Board of Directors on matters of salaries, bonuses, other forms of compensation and retirement benefits (including contractual arrangements) for officers of the Company at the level of Vice President and above, and for certain senior officers of subsidiaries. The Committee administers the Company's 1975 Stock Option Plan (under which no future options may be granted) and the 1982 Incentive Stock Option Plan, including the granting of options under the 1982 Plan. The Committee consists of Directors who are not eligible to participate in the plans. The present members of the Committee are Messrs. Ernest J. Sargeant (Chairman), Donald C. Carroll, Jesse Hill, Jr., Alfred L. Morse, Robert T. Sakowitz, Peter V. Tishman and Jerome Zimmerman. During 1985, the Committee held four meetings.

The Finance Committee reviews and makes recommendations to the Board of Directors and Company management concerning important financial matters. The Committee reviews the Company's long-range financial plans, its long and short-term financing needs, specific financing proposals and ongoing programs to finance capital needs. The present members of the Committee are Messrs. Jerome Zimmerman (Chairman), Donald C. Carroll, Thomas J. Galligan III, Ernest J. Sargeant and Peter V. Tishman. The Committee held two meetings during 1985.

During 1985, the Board of Directors held five meetings.

During 1985, Mr. Tishman attended less than 75% of the aggregate number of meetings of the Board of Directors and committees of which he was a member.

EQUITY OWNERSHIP OF MANAGEMENT

The following table sets forth, as of March 1, 1986, the beneficial ownership (as defined in the rules of the Securities and Exchange Commission) of the Company's Common Stock by each Director, each nominee for Director, and all Directors and officers of the Company as a group, from information provided by such persons.

<u>Name of Person or Group</u>	<u>Shares Beneficially Owned</u>	<u>Percent of Class</u>
Donald C. Carroll	1,657	.03
Thomas J. Galligan III	3,108(1)	.057
Jesse Hill, Jr.	200	.004
Alfred L. Morse	611,552(2)	11.24
Manuel Rosenberg	40,368(1)(3)	.742
Robert T. Sakowitz	2,000	.037
Ernest J. Sargeant	None	—
Peter V. Tishman	10,095(2)	.186
Jerome Zimmerman	19,000(4)	.349
All Directors and Officers as a Group	701,102(1)(2)(3)(4)	12.89

(1) Includes for Messrs. Manuel Rosenberg and Thomas J. Galligan III 15,368 and 2,608 shares, respectively, and for all Directors and officers as a group 31,098 shares, which the person or persons have the right to acquire within sixty days after March 1, 1986, under options previously granted pursuant to the Company's stock option plans.

(2) Includes for Mr. Alfred L. Morse 10,400 shares, for Mr. Peter V. Tishman 5,862 shares, and for all Directors and officers as a group 16,262 shares, held by or for the benefit of family members. As to these shares the person or persons named or included in the group share voting or investment power but disclaim beneficial ownership.

(3) Includes for Mr. Manuel Rosenberg 12,000 shares which are subject to repurchase under certain circumstances. See the section entitled "Executive Compensation" for further information.

(4) Does not include 18,949 shares owned by Mr. Zimmerman's wife, as to which he disclaims voting and investment power and beneficial ownership.

EXECUTIVE COMPENSATION**Cash Compensation**

Set forth below is information as to the cash compensation paid or accrued by the Company for the 1985 fiscal year to or for the benefit of (1) each of the five highest paid executive officers of the Company whose cash compensation exceeds \$60,000, and (2) executive officers as a group.

<u>(A)</u> <u>Name of Individual</u> <u>or Number of</u> <u>Persons in Group</u>	<u>(B)</u> <u>Capacities</u> <u>in which</u> <u>Served</u>	<u>(C)</u> <u>Cash</u> <u>Compensation</u>
Manuel Rosenberg	President and Chief Executive Officer	\$ 345,251
Thomas J. Galligan III	Senior Vice President, Chief Financial Officer and Treasurer.	\$ 191,260(1)
Barrett S. Wayne	Executive Vice President	\$ 147,737
Charles F. Messina	Vice President, Personnel and Employee Relations	\$ 129,814(2)
Kenneth C. Cummins	Vice President, Secretary and General Counsel	\$ 116,071
All Executive Officers as a Group (7 individuals)		\$1,231,533

(1) Does not include a guaranteed bonus of \$20,000 paid in 1985 and \$42,054 received by Mr. Galligan in 1985 as reimbursement of certain relocation expenses plus an additional amount necessary to cover any state or federal income tax liabilities payable by him arising from certain payments received by him in 1985 in accordance with the terms of his employment arrangement.

(2) Does not include commencement and guaranteed bonuses totaling \$57,000 with respect to 1985 that were paid in 1985 and 1986 and \$38,349 received by Mr. Messina in 1985 as reimbursement of certain relocation expenses in accordance with the terms of his employment arrangement.

Mr. Manuel Rosenberg is employed under an agreement which provides for his full-time employment as Chief Executive Officer until December 31, 1989, at an annual base salary of \$275,000, subject to adjustment equal to the percentage increase in the annual gross national product of the United States for the prior calendar year over the next preceding calendar year. The agreement, as amended, provides for incentive compensation for each year in an amount equal to the same percentage of annual base salary as the percentage increase, adjusted for inflation, in the Company's pre-tax return on stockholders' equity for such year over 14.03 percent. The amount of incentive compensation cannot exceed 100 percent of annual base salary.

During 1984, the Company sold Mr. Rosenberg 25,000 shares of the Company's Common Stock, at a purchase price of \$1.00 per share. On the date of the purchase, the closing price of the Company's Common Stock on the New York Stock Exchange was \$18.88 per share. Of such shares, 12,000 are subject to the Company's right of repurchase (at \$1.00 per share) in the event Mr. Rosenberg or the Company terminates his employment prior to December 31, 1989 for reasons other than (i) death or disability, or (ii) resignation after a change in control of the Company. However, the Company's repurchase right lapses at a rate of 3,000 shares on December 31st of each year.

In connection with the purchase of such stock by Mr. Rosenberg, the Company during 1984 made two interest free loans to Mr. Rosenberg aggregating \$245,781 in order to cover his federal and state income tax liabilities with respect to such purchase. Such loans are payable on December 31, 1989 or earlier upon termination of Mr. Rosenberg's employment for reasons other than (i) death or disability,

or (ii) resignation after a change in control of the Company. However, if Mr. Rosenberg continues in the employ of the Company until December 31, 1989, the Company is obligated to cancel \$147,469 of such indebtedness, and in the event of the earlier termination of Mr. Rosenberg's employment due to death or disability the Company is obligated to cancel both of the loans and, in either case, to pay Mr. Rosenberg (or his legal representatives in the event of death) an amount sufficient to cover any state or federal income tax liabilities arising from the cancellation of such indebtedness.

In the event of a change in control of the Company, Mr. Rosenberg has the right to resign his positions with the Company. In such case the Company is obligated to pay Mr. Rosenberg, in 36 equal monthly installments, an amount equal to 200 percent of his then annual base salary, to cancel and discharge the entire indebtedness referred to in the next preceding paragraph and to pay Mr. Rosenberg an amount sufficient to cover any state or federal income tax liabilities arising from the cancellation of such indebtedness.

The agreement provides for separation pay to Mr. Rosenberg, in lieu of payment pursuant to any Company separation compensation policy, if his employment is continued until December 31, 1989 but not thereafter, in an amount equal to 150% of his 1989 annual base salary, payable in eighteen equal monthly installments, provided, however, that no such separation payment shall be paid to Mr. Rosenberg if he receives any payments pursuant to the provisions described in the next preceding paragraph.

Pursuant to Mr. Rosenberg's agreement, the Company granted to Mr. Rosenberg in each of 1985 and 1986 options under its 1982 Incentive Stock Option Plan covering the number of shares having an aggregate fair market value of \$100,000 at the time of each grant.

Mr. Rosenberg's agreement contains non-competition provisions, and retirement benefits as described under the heading "Pension and Retirement Benefits" beginning on page 9.

Pursuant to his employment arrangement with the Company Mr. Calligan received a salary at an annual rate of \$175,000 through July, 1985. In July, 1985 he received a bonus of \$20,000. Pursuant to the arrangement during the twelve months following July, 1985 Mr. Calligan is to receive a salary at an annual rate of \$195,000.

In the event Mr. Calligan's employment is terminated by the Company within the first 24 months of his employment for any reason (other than for cause), the Company has agreed to pay Mr. Calligan an amount equal to his then current annual base salary payable in 12 equal monthly installments. Such payments are to be reduced by any amounts received by Mr. Calligan in connection with any employment or services rendered by him during such 12 month period.

The Company made an interest free loan of \$200,000 to Mr. Calligan for a period of six months, which has been repaid, to assist in his purchase of a residence in the Boston area.

Pursuant to his employment arrangement with the Company Mr. Messina received in 1985 a commencement bonus of \$15,000. Under the arrangement he is to receive a salary at an annual rate of \$120,000 through April, 1986 and has received a guaranteed bonus for 1985 of \$42,000. Pursuant to the arrangement during the twelve months following April, 1986 Mr. Messina is to receive a salary at an annual rate of \$132,500.

Pursuant to such arrangement the Company, in 1985, granted Mr. Messina stock options under its 1982 Incentive Stock Option Plan covering the number of shares having a market value of \$60,000 on the date of the grant.

In connection with his relocation to the Boston area, the Company has agreed to reimburse Mr. Messina's moving expenses together with the reasonable costs of transportation between Oregon and

Boston for Mr. Messina and his family. The Company has also agreed to reimburse Mr. Messina the carrying costs on his former residence in Oregon together with the brokerage costs in connection with the sale of such residence and to pay him an amount sufficient to cover any state or federal income tax liabilities arising from his receipt of such reimbursement as well as any reimbursement in connection with his relocation.

During 1985, there was outstanding an interest free loan of \$35,500 to Mr. Messina to assist in his purchase of a residence in the Boston area, which loan was repaid in February of 1985.

Mr. Wayne resigned as Executive Vice President and a Director of the Company effective as of February 28, 1986. In connection with his resignation, Mr. Wayne and the Company entered into an agreement pursuant to which Mr. Wayne will render consulting services to the Company for a period of 18 months and will be compensated at the rate \$11,667 per month. Under the agreement, Mr. Wayne also will be entitled to the substantial continuation of previous benefits and to reimbursement of expenses related to his consulting services during the 18 month period. If Mr. Wayne dies prior to the expiration of the 18 month period, the Company will pay to his estate the remaining amount he would have received under the agreement had he completed the consulting period. In addition, the Company may terminate the agreement at any time, provided it pays Mr. Wayne any remaining amount to which he would have otherwise been entitled under the agreement.

For the five fiscal years ended December 28, 1985, the aggregate amounts of cash bonus payments made by the Company, including discretionary bonuses, bonuses paid pursuant to contractual arrangements, and bonuses paid under the Company's bonus plans (the Management Incentive Plan and the Incentive Plan For Middle Management), in the case of certain individual executive officers listed below, all current executive officers as a group, all other current officers and Directors as a group, and all employees as a group, were as follows: Manuel Rosenberg — \$323,160; Thomas J. Galligan III — \$45,000; Charles F. Messina — \$57,000; Kenneth C. Cummins — \$59,617; all current executive officers as a group — \$558,882; all other current officers and Directors as a group — \$132,587; and all employees as a group — \$3,517,766.

Pension and Retirement Benefits

Under the Company's Pension Plan, which is a qualified, non-contributory, defined benefit plan (funded by a group annuity contract with an insurance company) covering employees (including officers), annual benefits are paid upon retirement. Retirement benefits are based on (a) an employee's total annual cash compensation (as shown in Column C of the table on page 7), including bonuses, averaged over the highest consecutive five years of cash compensation during the years after age 55 (or the last three years of cash compensation if retirement occurs prior to age 60), and (b) length of service. Upon normal retirement at age 65 the plan will provide a retirement benefit equal to 50 percent of compensation (determined as above) reduced by 50 percent of the employee's primary Social Security benefit at retirement. The foregoing benefit is reduced on a pro rata basis for service of less than 25 years. The normal retirement benefit is in the form of a life annuity with five years certain for unmarried participants and in the form of a qualified joint and survivor annuity for married employees. Employees with 10 years of service may elect early retirement beginning at age 55, with an appropriate reduction of the pension. Service after age 65, or in excess of 25 years, results in no additional accrual of benefits, except for an actuarial increase after age 65.

Certain officers of the Company, including Mr. Marvin Schwartz, Vice President and Comptroller, and Mr. Barrett Wayne, who resigned from the Company as of February 28, 1986, have supplementary retirement agreements with the Company which provide for annual lifetime retirement benefits, with a minimum period of fifteen years subsequent to termination of employment (but not earlier than age 60, except in the case of death or disability), equal to 50% (which percentage is reduced pursuant to an

age formula for termination of employment prior to age 65) of the average total cash compensation, including bonuses, paid or accrued for the three consecutive years of highest total cash compensation during the ten years ending upon termination of employment. The amounts payable by the Company are to be reduced by (a) the annual normal benefit under the Company's Pension Plan (described above) and (b) the amount of primary Social Security retirement benefits as of the date of retirement. The agreements also contain provisions relating to non-competition and payment of benefits following death.

Mr. Rosenberg has a supplementary retirement agreement, substantially in the form of the supplementary retirement agreements described above between the Company and certain of its officers, which provides for annual retirement benefits, before the required reductions, in an amount equal to 5 percent of his average highest total compensation (as defined) for any consecutive three year period during any period not exceeding ten years of employment ending upon the termination of his employment multiplied by the number of years of his employment by the Company.

As of December 31, 1985, the estimated credited years of service under the Pension Plan for Messrs. Rosenberg, Galligan, Wayne, Messina and Cummins were 4, 1, 23, 1, and 12, respectively. For the five fiscal years ended December 28, 1985, the aggregate contributions made by the Company under the Company's Pension Plan for all employees as a group was \$5,225,399 (individual contributions by the Company are not determinable because contributions are made on an aggregate basis).

The following table illustrates the estimated annual normal benefits payable to employees upon normal retirement under the Pension Plan and supplementary retirement agreements (if any). The benefit amounts shown in the table below are subject to certain offsets, including an offset of 50 percent of the employee's estimated primary Social Security benefit.

<i>Average of Highest Consecutive Five Years of Compensation</i>	<i>Estimated Annual Retirement Benefits for Years of Service Indicated</i>		
	<i>15 Years</i>	<i>20 Years</i>	<i>25 or More Years</i>
\$ 100,000	\$ 30,000	\$ 40,000	\$ 50,000
\$ 200,000	\$ 60,000	\$ 80,000	\$100,000
\$ 300,000	\$ 90,000	\$120,000	\$150,000
\$ 400,000	\$120,000	\$160,000	\$200,000
\$ 500,000	\$150,000	\$200,000	\$250,000
\$ 600,000	\$180,000	\$240,000	\$300,000
\$ 700,000	\$210,000	\$280,000	\$350,000
\$ 800,000	\$240,000	\$320,000	\$400,000
\$ 900,000	\$270,000	\$360,000	\$450,000
\$1,000,000	\$300,000	\$400,000	\$500,000

(1) Amounts payable under the Company's Pension Plan may not exceed the maximum ERISA annual benefit limitation for qualified pension plans. The Tax Equity and Fiscal Responsibility Act of 1982 reduced this limitation to \$90,000.

(2) Since the calculation of benefits payable under the supplementary retirement agreements referred to above is based on the average of the three consecutive years of highest total compensation, future total retirement benefits payable to executive officers having supplementary retirement agreements may be higher than the amounts shown in the table.

(3) The amounts payable to Mr. Rosenberg upon normal retirement approximate 130 percent of the amounts shown under the heading "25 or More Years" in the table (as may be increased as described above in footnote 2).

Stock Options

For a description of the Company's 1982 Incentive Stock Option Plan, see "Increase in the Number of Shares Issuable Under the 1982 Incentive Stock Option Plan and Approval of the Plan as so Amended" on page 12.

The following table shows as to certain individual executive officers, all current executive officers as a group and all other current officers and Directors as a group, for the period January 1, 1981 to March 1, 1986, the following information with respect to stock options: (i) the aggregate amount of Common Stock subject to options granted under the Company's 1982 Incentive Stock Option Plan, (ii) the average per-share option exercise price thereof, (iii) the net value of shares (market value at exercise less exercise price) realized during such period upon exercise of options granted during or prior to such period, (iv) the number of shares of Common Stock sold during such period, and (v) the number of shares of Common Stock subject to all options outstanding as of the end of the period.

<u>Common Stock</u>	<u>Manuel Rosenberg</u>	<u>Thomas J. Galligan III</u>	<u>Charles F. Messina</u>	<u>Kenneth C. Cummins</u>	<u>Executive Officers as a Group</u>	<u>Other Officers and Directors as a Group</u>
Number of Shares Granted from 1/1/81 to						
3/1/86	23,805	7,523	2,727	5,000	47,355	8,669
Average Exercise Price Per Share	\$20.96	\$22.62	\$22.00	\$23.57	\$21.83	\$24.23
Net Value Realized (Market Value at Exercise less Exercise Price) through the Exercise of Options from 1/1/81 to 3/1/86	\$ 0	\$ 0	\$ 0	\$ 0	\$49,719	\$137,214
Number of Shares Sold between 1/1/81 and 3/1/86	0	0	0	0	7,500	2,000
Number of Shares Subject to Unexercised Options at 3/1/86	23,805	7,523	2,727	6,250	49,895	8,669

In addition, for the period January 1, 1981 to March 1, 1986 employees of the Company other than current Directors and officers were granted options to purchase an aggregate of 74,619 shares at an average option price of \$23.93 per share.

Group Life Insurance

The Company provides group life insurance benefits to all executive officers of the Company, and certain other officers of the Company and subsidiaries, equal to four times base salary. Other employees of the Company are provided life insurance benefits equal to multiples of base salary, depending upon their position with the Company.

Employment Separation Compensation Policy

The Company has an employment separation compensation policy for senior executives (hereinafter referred to as the "Policy"). Pursuant to the Policy, corporate Vice Presidents and above who are separated from the employ of the Company, other than for cause or retirement, are to receive one month's salary for each year of service up to a maximum of one year's base compensation for Vice Presidents, and one and one-half year's base compensation for Senior Vice Presidents and above.

As noted above, Mr. Rosenberg's agreement provides for separation compensation in lieu of any payment pursuant to the Policy. Mr. Galligan is covered by the Policy after July, 1986; until that time Mr. Galligan's employment arrangement provides for separation compensation in lieu of any payment pursuant to the Policy.

In lieu of the foregoing payment, certain senior executives, including Mr. Galligan (after July, 1986), Mr. Messina and Mr. Cummins, are entitled to receive a lump sum payment upon termination of their employment within one year after a change in control of the Company, unless the Company terminates the executive's employment for cause or, with certain exceptions, the executive resigns. The lump sum payment shall be equal to the greater of (i) the executive's then current annual base compensation or (ii) one month's base compensation for each year of service, but may not exceed 150% of the executive's annual base compensation.

Other Compensation

Other compensation, including non-cash benefits, received by executive officers in 1985 was less than the minimum amount required to be reported pursuant to the rules of the Securities and Exchange Commission.

INCREASE IN THE NUMBER OF SHARES ISSUABLE UNDER THE 1982 INCENTIVE STOCK OPTION PLAN AND APPROVAL OF THE PLAN AS SO AMENDED

On November 20, 1985, the Board of Directors of the Company, subject to the approval of the stockholders, authorized an increase to 300,000 (from the 200,000 presently authorized) in the number of shares of Common Stock, \$1 par value, for which options may be granted under the 1982 Incentive Stock Option Plan (the "1982 Plan"). As of March 1, 1986, no shares had been issued under the 1982 Plan. 123,224 shares were reserved for issuance in connection with outstanding options and 76,776 shares remained available for the granting of new stock options. If the proposal is approved, the number of shares as to which stock options may be granted under the 1982 Plan will be increased by 100,000. The Board of Directors believes the proposed increase in the number of shares issuable under the 1982 Plan will assist the Company in attracting new management level executives, and will assist it in motivating and retaining high quality management employees.

A copy of the 1982 Plan may be obtained by writing to the Secretary, Morse Shoe, Inc., 555 Turnpike Street, Canton, Massachusetts 02021. A summary of the 1982 Plan as proposed to be amended, which summary is subject to the provisions of the 1982 Plan itself, follows:

Introduction. The 1982 Incentive Stock Option Plan (the "1982 Plan") is the successor to the 1975 Stock Option Plan. The 1982 Plan provides that options granted thereunder may be incentive stock options ("incentive options," "ISO" or "ISOs") as defined in the Internal Revenue Code, as amended (the "Code"), or non-incentive options, or both.

Administration. The 1982 Plan is administered by the Compensation/Stock Option Committee (the "Committee") of the Board of Directors. Members of the Committee are ineligible to receive options while serving on the Committee.

Maximum Number of Shares. The number of shares which may be issued under the 1982 Plan is limited to 300,000, subject to adjustment in the event of certain changes in the Company's stock. No maximum or minimum number of shares which may be granted to a participant has been established, provided, however, the aggregate fair market value (as of the grant date) of the shares for which an individual may be granted incentive stock options in any calendar year may not exceed \$100,000 plus any "unused limit carryover" (as defined in the 1982 Plan). If an option outstanding under the 1982 Plan expires or is terminated (including termination by agreement with the optionee) unexercised as to any shares, such shares may again be subject to a future option under the 1982 Plan.

Eligible Employees. Eligible Employees are officers and key management employees of the Company and its subsidiaries or future subsidiaries, whether or not also Directors. Directors of the Company are not eligible for grants of options under the 1982 Plan. A Participant is an Eligible Employee to whom an option is granted. No person who owns, directly or indirectly, ten (10%) percent or more of the combined voting securities of the Company is eligible to receive an incentive option unless the option price for such option (at the time of grant) is at least 110% of the fair market value of the stock and such option is not exercisable after five (5) years from the date of grant. The current officers and Directors of the Company named under "Cash Compensation" are eligible to receive grants of options under the 1982 Plan. Options may be granted under the 1982 Plan in replacement of options which were previously granted (including grants under the 1975 Plan) and have been cancelled, terminated or expired.

Time Limit on Plan. No incentive stock options may be granted after February 16, 1992, but options granted on or before that date may extend beyond that date.

Option Price. The option price may not be less than the fair market value of the Common Stock at the time the option is granted. The full purchase price must be paid for shares acquired upon any exercise of an option. To the extent so authorized the purchase price may be paid in shares of Common Stock of the Company or in a combination of cash and such shares.

Term of Option. The period for exercising an option will in no event exceed ten (10) years from the date of grant. An incentive stock option may not be exercised while there is outstanding (within the meaning of Section 422A of the Code) any incentive option previously granted to the same Participant. The unexercised portion of any option terminates upon a Participant's termination of employment, except that (a) if the Participant dies at a time when he is entitled to exercise an option, his legal representative may exercise the option at any time within the period up to the latest date the Participant could have exercised the option had he remained an employee, or within the period provided in the option certificate or further period allowed by the Committee, (b) if the Participant retires or is disabled at a time he is entitled to exercise an option, he may exercise such option at any time thereafter up to the latest date he could have exercised the option had he remained an employee, and (c) if the Participant's employment is otherwise terminated, except for cause, he may exercise such option within 90 days after such termination or such longer period as the Committee may provide. Options may not be transferred by a Participant otherwise than by will or the laws of descent and distribution, and during his lifetime may be exercised only by him.

Amendment, Suspension or Termination. The Board of Directors of the Company may from time to time alter, amend, suspend or terminate the 1982 Plan. Amendments may be made for any purpose which may be at the time permitted by law, provided, however, the Board of Directors may not, without the approval of stockholders (except in the event of stock dividends, splits, mergers, capital changes or with respect to replacement options), amend the 1982 Plan so as to further increase the maximum number of shares available under the 1982 Plan, decrease the minimum option price, or increase the maximum term of options or the time within which options may be granted under the 1982 Plan; and provided further that the rights of any Participant under any option theretofore granted may not be adversely affected without his consent.

Stock to be Delivered. The 1982 Plan provides that shares issued on the exercise of options may be either authorized and unissued shares or treasury shares as determined by the Board of Directors. No preemptive rights of stockholders of the Company will exist with respect to such shares. Delivery of shares upon exercise is subject to certain legal requirements.

Tax Treatment — Incentive Stock Options. The Company is advised that under the present Code and regulations, the grant of an incentive option does not produce taxable income to the optionee or a

deduction to the Company. If an incentive stock option is exercised while the optionee is employed or within three months following termination of employment (twelve months in the case of termination of employment because of permanent disability), or after the optionee's death, exercise of the option will also not produce taxable income or a deduction to the Company, although for alternative minimum tax purposes such exercise will give rise to an item of tax preference. The following description of the tax consequences associated with incentive stock options assumes that the foregoing exercise requirements have been met. If an incentive stock option is exercised other than as described above, the tax consequences will be the same as those described below for non-incentive stock options.

If the employee, after exercise of an incentive stock option, does not dispose of the shares acquired for at least one year after their receipt and at least two years after the date the option was granted, any gain or loss realized upon the subsequent disposition of the shares will be treated as long-term capital gain or loss. If the shares are disposed of prior to satisfaction of those holding periods ("disqualifying disposition"), the employee will realize ordinary income in the year of disposition in an amount equal in general to the lesser of (a) the amount by which the fair market value of the shares exceeds the option price, or, (b) if the disposition is a sale or exchange for which a loss is sustained would be recognized under the Code, the amount of gain realized. For purposes of measuring the excess of the market value of the shares over the option price under (a) above, the measuring date will be the date of exercise unless the employee at the time of exercise was subject to the restrictions of Section 16(b) of the Securities Exchange Act of 1934 (the "Act"), in which case the measuring date will in general be six months after exercise. Any gain in connection with a disqualifying disposition in excess of the amount of ordinary income realized upon the disposition will be treated as long-term or short-term capital gain, depending upon the holding period applicable to the shares. Upon a disqualifying disposition the Company may be entitled to a deduction equal to the ordinary income realized by the employee, subject to certain withholding and reporting requirements. A disqualifying disposition of shares acquired upon exercise of an incentive option will eliminate the tax preference associated with the exercise for those shares.

In the event an employee pays the option price of an incentive option by surrendering shares of previously owned stock of the Company, the surrender will not, in general, be a disposition of the old shares such as will result in the recognition of gain. However, the exercise of an incentive option by the surrender of shares acquired by the optionee upon exercise of an incentive stock option will be a disqualifying disposition of the surrendered shares if it takes place within the one- or two-year holding periods applicable in respect of the surrendered shares. Special rules apply in determining the tax basis of shares acquired upon exercise of an incentive option where part or all of the option price is paid in previously owned shares.

Tax Treatment — Non-Incentive Stock Options. The grant of a non-incentive stock option does not produce taxable income to the employee or a deduction to the Company. The employee exercising a non-incentive stock option will be deemed to have received compensation taxable as ordinary income, and subject to withholding, to the extent that the fair market value per share of the Common Stock received upon exercise exceeds the option exercise price. The amount of ordinary income realized by the employee will be an expense deductible by the Company for federal income tax purposes. In the case of an employee not subject to the restrictions of Section 16(b) of the Act, the fair market value of the shares received upon exercise will be measured, and ordinary income will be recognized, at the time of exercise. In the case of an employee who is subject to the restrictions of Section 16(b) of the Act, the fair market value of the shares received upon exercise will be measured, and ordinary income will be recognized, six months after exercise unless the employee elects immediate recognition of income pursuant to Section 53(b) of the Code. The employee's tax basis in the shares acquired will in

general equal the fair market value of those shares at time of exercise (six months after exercise, in the case of an employee subject to the restrictions of Section 16(b) of the Act who does not elect immediate recognition of income pursuant to Section 83(b) of the Code), except that if shares of previously owned stock of the Company are surrendered as part or all of the purchase price of the non-incentive stock option, the number of shares received upon exercise which equals the number of shares surrendered will have the same tax basis as the tax basis of the surrendered shares. Upon a subsequent sale or exchange of shares acquired in exercise of a non-incentive stock option, the optionee will recognize capital gain or loss, short-term or long-term depending on the holding period applicable to the shares. The Company will not be entitled to any deduction in respect of the disposition of shares acquired upon exercise of a non-incentive stock option.

Market Price. The closing price of the Company's Common Stock on the New York Stock Exchange on March 4, 1986 was \$25.00 per share.

Required Vote. The favorable vote of the holders of a majority of the outstanding shares of Common Stock of the Company present in person or by proxy at the Annual Meeting and entitled to vote is required to approve the increase in the number of shares authorized to be granted under the 1982 Plan, and to approve the 1982 Plan as so amended.

General. Upon approval of the amendment and of the 1982 Plan as so amended by the stockholders, the Board of Directors will reserve 100,000 additional shares of Common Stock for issuance upon the exercise of options which may be granted under the 1982 Plan, and will authorize the listing of such shares on the New York Stock Exchange. The Board of Directors may consider revisions in the 1982 Plan (except as precluded by the provisions of the Plan itself) as regulations under the Internal Revenue Code are promulgated, in order to conform the 1982 Plan to the Code and applicable regulations.

The Directors recommend a vote FOR the proposal to increase the number of shares authorized under the 1982 Plan and to approve the 1982 Plan as so amended.

APPROVAL OF 1986 RESTRICTED STOCK PLAN

On February 19, 1986, the Board of Directors of the Company adopted, subject to the approval of the stockholders of the Company, the 1986 Restricted Stock Plan of the Company (the "Restricted Stock Plan"). The Restricted Stock Plan is intended to encourage ownership of Common Stock of the Company by those executives whose efforts have an important bearing on the success of the Company and its subsidiaries. The Restricted Stock Plan is designed to accomplish this purpose by enhancing the Company's ability to reward key executives for their contributions to the success of the Company and its subsidiaries and to create an incentive for the continued efforts of such executives to increase the profitability of the Company and its subsidiaries. The Board of Directors believes that the Restricted Stock Plan will benefit the Company by assisting it in attracting and retaining competent personnel. The Board of Directors recommends approval of the Restricted Stock Plan.

A copy of the Restricted Stock Plan is set forth as Exhibit A hereto. The following summary is subject in all respects to the provisions of the Restricted Stock Plan itself.

Administration. The Restricted Stock Plan is administered by the Compensation/Stock Option Committee (the "Committee") of the Board of Directors. Members of the Committee are ineligible to receive awards while serving on the Committee.

Eligibility. The president and any vice president of the Company, the president and any vice president of any subsidiary of the Company, the president or any vice president of any division of the

Company and the managing director of any foreign office of the Company are eligible to receive awards under the Restricted Stock Plan.

Grant of Awards. The Committee will have the sole authority and discretion to make awards to such eligible employees as the Committee selects ("Participants") and to determine the size, and the terms and conditions, of each award within the provisions of the Restricted Stock Plan.

Terms of Awards. Each award will give the Participant the right to purchase on a specified date not more than 60 days after the date of the award (the "Purchase Date") a specified number of shares of Common Stock of the Company ("Shares") at a price of \$1.00 per Share. Any one award shall be for not less than 2,500 Shares nor more than 12,500 Shares. Receipt of an award will not preclude a Participant from receiving additional awards under the Restricted Stock Plan. Until a Share becomes vested, such Share is nontransferable and must be sold back to the Company for \$1.00 within 30 days after the Participant ceases to be employed by the Company or a subsidiary for any reason. Twenty percent of the Shares purchased by a Participant will cease to be subject to the requirement that they be sold back to the Company for \$1.00 and will thereupon become "Vested Shares" on each of the first five anniversaries of the Purchase Date. In the event that a Participant becomes disabled or dies, those Shares which would have vested on the anniversary of the Purchase Date next following such event will become Vested Shares as of the date of such event and the Participant's remaining non-vested Shares must be sold back to the Company as described above. In addition, if a Participant's employment with the Company or a subsidiary terminates for any reason within two years after a change in control of the Company, all Shares of such Participant will become Vested Shares as of the date of termination of the Participant's employment.

Tax Loans. A Participant who purchases Shares under the Restricted Stock Plan will be required to file an election in accordance with Section 53(b) of the Internal Revenue Code within 30 days after the Purchase Date and will be entitled upon request to receive a Tax Loan from the Company. The effect of the election under existing law is that the Participant will realize ordinary income for federal tax purposes on the Purchase Date in an amount equal to the excess of the then market value of the Shares purchased over the price paid for the Shares (the "Spread"). The Tax Loan will be in an amount equal to that percentage of the Spread which represents the highest marginal tax rate then in effect with respect to federal income taxes, increased to take into account the highest marginal rate then in effect with respect to state income taxes applicable to the Participant (including in any such adjustment the federal income tax benefits attributable to such state income taxes). The Tax Loan also will be interest free and will be payable on the fifth anniversary of the Purchase Date. If the Participant is employed by the Company or a subsidiary on the fifth anniversary of the Purchase Date, the Company will forgive the entire amount of the Tax Loan. Except as provided below with respect to a change in control of the Company, the Tax Loan of any Participant who voluntarily terminates his or her employment or who is discharged for cause prior to the fifth anniversary of the Purchase Date will become due and payable 30 days after such termination or discharge. If the Participant becomes disabled or dies prior to such fifth anniversary the Company will forgive the entire amount of the Participant's Tax Loan. If the Participant is discharged for reasons other than cause prior to such fifth anniversary, the Company will pay to the discharged Participant the greater of (i) an amount equal to the sum of (A) that portion of the Participant's Tax Loan which exceeds the aggregate "vested value" (as defined below) of all Shares which were purchased by the Participant on such Purchase Date and became Vested Shares, plus (B) the amount determined on a grossed-up basis (so that the Participant is whole on an after-tax basis) necessary to discharge all federal and state income tax liability of the Participant arising from the payment, and (ii) an amount equal to 50% of the Participant's Tax Loan, such payment obligation to be satisfied to the extent possible by forgiving the appropriate portion of the Tax Loan. For this purpose, the "vested value" of a Share will be the fair market value of such

Share at the time it became a Vested Share minus the \$1.00 paid for the Share. If a Participant's employment terminates for any reason within two years following the date of any change in control of the Company, the Participant's entire Tax Loan will be forgiven.

Shares Subject to Plan. Shares awarded pursuant to the Restricted Stock Plan may be authorized but unissued shares or treasury shares as determined by the Committee. The aggregate number of Shares which may be issued under the Restricted Stock Plan will not exceed 175,000. However, non-vested Shares which are repurchased by the Company from Participants for \$1.00 may be resold under the Restricted Stock Plan.

Tax Treatment. A Participant who purchases Shares and files an election in accordance with Section 53(b) of the Internal Revenue Code (the "Code") within 30 days after the Purchase Date (an "53(b) election") will realize ordinary income on the Purchase Date in an amount equal to the difference between the then fair market value of each Share and the \$1.00 paid for each Share. A Participant who disposes of a Vested Share after making an 53(b) election will realize capital gain or loss in the amount of the difference between the sales price and the fair market value of the Share at the time the 53(b) election was made (assuming the Share was held as a capital asset).

A Participant who receives a Tax Loan will realize ordinary income in each year during which the Tax Loan is outstanding in the amount of the "foregone interest" for that year, and will be entitled to an offsetting deduction for interest paid except to the extent deductions for interest on investment indebtedness may be limited by the Code. To the extent that a Tax Loan is forgiven, a Participant will realize ordinary income in the year of forgiveness in the amount of the principal forgiven.

Except to the extent Section 250G of the Code (provisions relating to payments contingent upon a change in control) applies, when a Participant realizes ordinary income (upon an 53(b) election or as a consequence of the Tax Loan), the Company will be entitled to a deduction for compensation paid in a like amount. The forgiveness of a Tax Loan and the acceleration of the vesting of the Shares upon a change in control may trigger the foregoing provisions of the Code. Under those provisions, the Company will not be entitled to a deduction for, and the Participant must pay a 20 percent excise tax on, any "excess parachute payments" (the excess of parachute payments over the base amount).

Adjustment, Amendment and Termination. The Committee may adjust the number of Shares awarded to Participants, and may otherwise adjust the Restricted Stock Plan, to take into consideration material changes in accounting practices or principles, recapitalizations, mergers, consolidations, stock splits, acquisitions or dispositions of stock or property, changes in the fiscal year, or other events if it is determined by the Committee that such adjustment is appropriate to avoid distortion in the operation of the Restricted Stock Plan. The Restricted Stock Plan may be terminated or otherwise amended or modified at any time by the Committee; provided, however, that the Committee may not without the approval of the stockholders: (a) increase the maximum number of Shares which may be issued under the Restricted Stock Plan (except as provided above), (b) provide for administration of the Restricted Stock Plan other than by the Committee, or (c) change the class of executives eligible for awards under the Restricted Stock Plan.

Effective Date. The Restricted Stock Plan shall become effective upon its approval by the stockholders of the Company.

Required Vote. The favorable vote of the holders of a majority of the outstanding shares of Common Stock of the Company present in person or by proxy at the Annual Meeting and entitled to vote is required to approve the Restricted Stock Plan.

The Directors recommend a vote FOR the proposal to approve the Restricted Stock Plan.

APPROVAL OF INDEPENDENT AUDITORS

The Board of Directors has selected the firm of Peat, Marwick, Mitchell & Co. as independent auditors for the current fiscal year, upon the recommendation of its Audit Committee, and proposes that the stockholders approve this selection. Peat, Marwick, Mitchell & Co. served as the Company's independent auditor for fiscal 1985. Representatives of that firm are expected to be present at the Annual Meeting of Stockholders at which they will have the opportunity to make a statement if they so desire, and be available to respond to appropriate questions.

PROPOSALS OF STOCKHOLDERS

Proposals of stockholders intended to be presented at the next Annual Meeting of Stockholders must be received by the Secretary, Morse Shoe, Inc., 535 Turnpike Street, Canton, Massachusetts 02021, not later than November 29, 1986 to be considered for inclusion in the Company's Proxy Statement and form of proxy relating to that meeting.

GENERAL

As of the date of this Proxy Statement, the management knows of no business which will be presented to the meeting which is not referred to in the accompanying notice. However, as to other business, if any, which may properly come before the meeting or any reconvened sessions thereof, the persons named as proxies will have discretionary authority to vote the shares represented by the accompanying proxy in accordance with their own judgment.

The Company will bear the cost of solicitation of proxies, including the charges and expenses of brokerage firms and others for forwarding solicitation material to beneficial owners of stock. In addition to the use of the mails, proxies may be solicited by personal interview, by telephone or by telegraph. The Company has retained D. F. King & Co., Inc. to assist in the solicitation of proxies and anticipates that the fees it will incur for this service will not exceed \$6,000, plus reimbursement of expenses.

By Order of the Board of Directors,

KENNETH C. CUMMINS
Secretary