

Gulf & Western Industries, Inc.

annual report 1960



Gulf & Western Industries, Inc.

SUBSIDIARIES

Beard & Stone Electric Company, Inc.
Gulf Automotive Supply, Inc.
Car Parts Depot, Inc.
Wood Tire & Supply Company
Auto Spring & Supply Company
Michigan Plating & Stamping Company
J. A. Walsh & Co., Inc.
Unicord Incorporated
Mal Tool & Engineering Corporation

Dallas, Texas
Houston, Texas
El Paso, Texas
Huntsville, Texas
Wichita Falls, Texas
Grand Rapids, Michigan
Houston, Texas
New York, New York
Manchester, Connecticut



Stock listed on the American Stock Exchange



Gulf & Western's board of directors includes (left to right) Thomas F. Plant, Basil E. Ryan, Charles G. Bluhdorn, David N. Judelson, John H. Duncan, James A. Walsh, Lewis M. Krohn, C. Arthur Woodhouse, and Joel Dolkart. Directors not pictured are Siegel W. Judd and Cyril R. Porthouse.

GULF & WESTERN MANAGEMENT

OFFICERS

Charles G. Bluhdorn
C. Arthur Woodhouse
John H. Duncan
Basil E. Ryan
James A. Walsh
William W. Brown
Joel Dolkart
Siegel W. Judd
T. H. Neyland

Chairman of the Board
Vice Chairman of the Board
President
Vice President
Vice President
Vice President
Secretary
Assistant Secretary
Treasurer, Controller, Assistant Secretary
Assistant Secretary

Daniel C. Arnold

DIRECTORS

Charles G. Bluhdorn
C. Arthur Woodhouse
John H. Duncan
James A. Walsh
Siegel W. Judd
Joel Dolkart
Cyril R. Porthouse
David N. Judelson
Thomas F. Plant
Lewis M. Krohn
Basil E. Ryan

New York, New York
Grand Rapids, Michigan
Houston, Texas
Houston, Texas
Grand Rapids, Michigan
New York, New York
Ravenna, Ohio
New York, New York
Houston, Texas
New York, New York
El Paso, Texas

EXECUTIVE COMMITTEE

Thomas F. Plant, Chairman
Charles G. Bluhdorn
John H. Duncan

C. Arthur Woodhouse
Joel Dolkart

TRANSFER AGENT

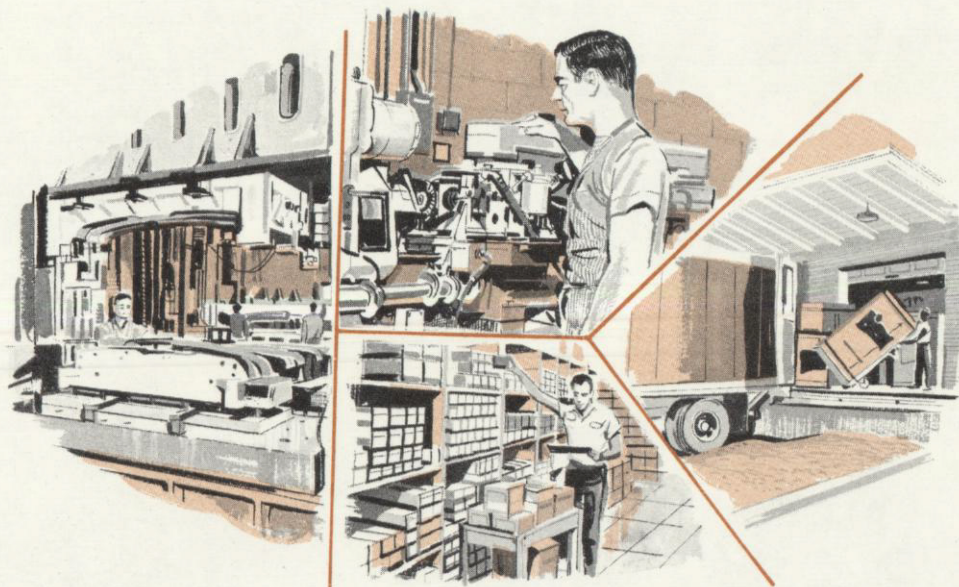
Gulf & Western Industries, Inc., Grand Rapids, Michigan

REGISTRAR

The Old Kent Bank and Trust Co., Grand Rapids, Michigan

ANNUAL MEETING

November 15, 1960



COMPARATIVE HIGHLIGHTS

Fiscal years ended July 31, 1960 and July 31, 1959 (adjusted)


	1960	1959
Net sales	\$24,046,600	\$21,861,833
Net income after taxes	\$ 432,687	\$ 380,696
Average shares outstanding	689,813(A)	647,386(B)
Per share of common stock	63¢	59¢
Current assets	\$ 9,168,862	\$ 6,931,374
Current liabilities	\$ 3,758,868	\$ 3,101,298
Working capital	\$ 5,409,994	\$ 3,830,076
Total assets	\$11,527,129	\$ 8,693,709
Long-term debt	\$ 1,798,915	\$ 1,166,927
Shareholders' equity	\$ 5,931,846	\$ 4,425,484
Book value per share of common stock	\$ 8.22	\$ 8.47
(Based on 721,450 shares outstanding at end of period, compared with 522,693 shares outstanding for the prior period)		
Employees (end of period)	909	714
Number of units (end of period)	40	26

(A) Average number of shares outstanding during the period.


(B) Current equivalent of shares outstanding during the period — adjusted for the

shares issued for conversion of subordinated debentures and a five percent stock dividend issued during the year ended July 31, 1960.

This report is prepared primarily for the information of security holders of the Corporation and is not transmitted in connection with the sale of any security or offer to sell or offer to buy any security.




Charles G. Bluhdorn
Chairman of the Board



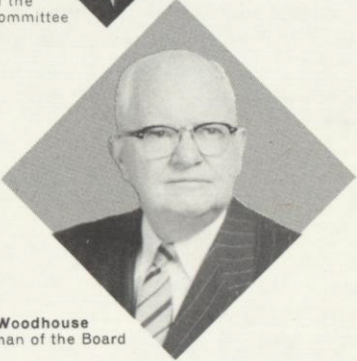
John H. Duncan
President

Letter To Our Shareholders

October 3, 1960



Thomas F. Plant
Chairman of the
Executive Committee



C. Arthur Woodhouse
Vice Chairman of the Board

Your Company's program of expansion and diversification, carried on energetically for approximately three years, is attaining our objective of increased sales and earnings.

Sales during the fiscal year ended July 31, 1960, totaled \$24,046,600 compared to \$21,861,833 in the previous year, an increase of 10 percent. Net earnings for the fiscal year moved up to \$432,687, compared to \$380,696 in the previous period, an increase of 14 percent. With appropriate adjustments to make comparable the average number of shares outstanding during the past two fiscal years, earnings in fiscal 1960 were 63¢ a share on 689,813 shares, compared to 59¢ on 647,386 shares in the previous year.

We consider these results particularly significant in view of the fact that they were attained at a time of rapid expansion, characterized by additional expenses of assimilating newly-acquired firms. These acquisitions, now firmly integrated into our organization, are expected to contribute importantly to future earnings.

Automotive Expansion

Since your management entered the automotive parts distribution business in December, 1957, through purchase of the Beard & Stone Electric Company, Inc., of Texas, we have added to our properties 25 additional warehouses. Your Company now distributes automotive parts through 37 warehouses in 30 cities. In addition, we entered the remanufactured parts field, which is an expanding industry with much promise for the future.

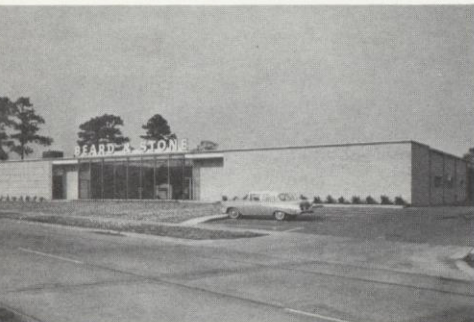
Sales of automotive parts and service is a \$4.3 billion business which continues to grow rapidly. Unlike the new car industry, which is subject to market fluctuations from year to year, the aftermarket for parts is relatively stable. Our basic concept in entering this expanding field was to apply to the parts industry methods that have been successful in other fields of distribution. Being the largest publicly listed corporation in this field, we have an opportunity to apply management techniques and concepts that cannot be adapted to smaller organizations. It is now apparent we were correct in anticipating that centralization of management functions, such as purchasing and accounting, can offer attractive earnings possibilities.

Strong Financial Position

Your Company is now in a position to continue its expansion in this field and in others where there are opportunities for profitable diversification.

As reported to you previously, \$1.5 million in six percent convertible debentures were marketed December 16, 1959. Proceeds were added to working capital. As a result of this debenture issue and an enlarged cash flow derived from higher

This building in El Paso serves as headquarters for the 15 jobber outlets operated by Car Parts Depot.



This new Beard & Stone warehouse in Houston is a typical example of a warehouse distribution operation.

sales and earnings, your Company is in excellent financial condition, with current assets of \$9,168,862 and current liabilities of \$3,758,868, a ratio of 2.4 to one.

Another action strengthening our ability to expand was taken during a special meeting of shareholders on July 27, 1960, at Grand Rapids, Michigan, when capital shares of your Company were increased from one million to two million. While your management has no specific plans at this time for issuing the bulk of these additional shares, they are available for acquisition of properties or securities of desirable companies, or for sale to provide additional funds for your Company's needs.

At the same meeting, the shareholders approved changing the name of your Company from Gulf & Western Corporation to Gulf & Western Industries, Inc., which is more descriptive of our diversified activities.

New Executive Talent

Recognizing that expansion can be carried out soundly only if the management organization is enlarged proportionately, your Company has added a number of capable, thoroughly experienced executives to its management group.

Outstanding among these is Thomas F. Plant, former general sales manager of United Motors Service, parts distribution division of General Motors Corporation. Mr. Plant was elected president of American Parts Company, our new division which coordinates the operation of our automotive parts distribution subsidiaries. He has also been elected a director of Gulf & Western and chairman of the executive committee. Mr. Plant has assumed the primary responsibility of accelerating our dual program of acquiring additional properties in the vehicle parts field and expanding sales of our present distribution units.

Acquisitions Continuing

In the automotive parts business, your Company made four major acquisitions during the past year. Our diversification program has moved into two potentially profitable areas — the leisure-time industry and the all-important field of space age research. These acquisitions and other highlights of our operations are treated in more detail elsewhere in this report.

Stock Dividend Distributed

For the second successive year, a five percent stock dividend was distributed September 1, 1960, to shareholders of record August 1, 1960. A similar dividend was paid in October, 1959.

It is noteworthy that in a relatively short period of three years, your Company has expanded from a bumper manufacturing operation, with sales of \$6.5 million in 1957, to a major wholesale distributing and manufacturing firm, with sales of \$24 million in fiscal 1960.

Your management is confident this trend of healthy growth, reflected in the figures presented in this report, will continue in the future. Our encouraging progress is attributable to our aggressive program of acquisitions, a gratifying upturn in sales by our subsidiaries, and the faithful work of our growing management team at all levels. We are sincerely grateful to our employees for their devotion to duty and to our shareholders for their continuing loyalty and confidence.

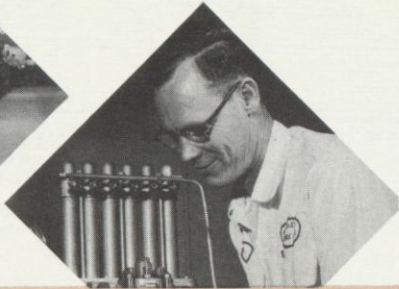
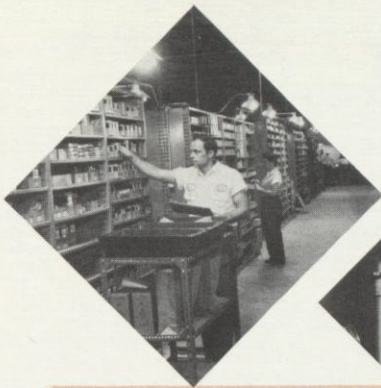
Respectfully submitted,

CHARLES G. BLUHDORN

Chairman of the Board

JOHN H. DUNCAN

President



Gulf & Western's "Family of Firms" Expands



Your Company made notable progress in diversifying and expanding its activities during the past year, especially in the automotive parts distribution field. Since our last annual report, Gulf & Western has added four outstanding wholesale automotive parts firms. With these additions, the number of our automotive parts distribution warehouses has grown from 12 to 37. Each firm has increased our geographical market area and our penetration of the expanding parts field. These new firms are Car Parts Depot, Inc., Wood Tire & Supply Company, Auto Spring & Supply Company, and J. J. Gibson Company.

Through our acquisition of Unicord Incorporated and Mal Tool & Engineering Corporation, we have moved into two areas of great promise . . . the growing American recreational industry and research to conquer space.

A brief description of our operating subsidiaries, including firms acquired during the past year, follows:

BEARD & STONE ELECTRIC COMPANY, INC.

Founded in 1919 and acquired by Gulf & Western in December, 1957, Beard & Stone Electric Company is one of the oldest and most respected automotive parts warehouse distributors in the nation. Sales of the four warehouses during fiscal 1960 totaled \$6.6 million.

In Houston the company occupies a new \$500,000 warehouse completed in October, 1959. A new \$150,000 warehouse is under construction in Amarillo and will be ready for occupancy this fall.

GULF AUTOMOTIVE SUPPLY, INC.

Gulf Automotive Supply, Inc. was organized in July, 1959, from the assets of eight jobbing stores formerly owned by Beard & Stone. Another store was added to this group in January, 1960, increasing the number of outlets to nine. Operating from headquarters in Houston, the company's sales were \$2.3 million during fiscal 1960.

CAR PARTS DEPOT, INC.

In October, 1959, the acquisition of Car Parts Depot, Inc., of El Paso, Texas, added 15 outlets to our chain of automotive parts warehouses and expanded our sales territory into new areas of West Texas and New Mexico. This large and aggressive organization, established in 1922, has shown consistent sales increases since it was founded and during fiscal 1960, its sales were \$4.1 million.

These compact electric organs, manufactured at the FARFISA plant in Italy, are carefully examined before shipment to the United States for distribution by Unicord Incorporated.



A new 33,000 square foot warehouse, completed in February, 1960, is an indication of the growth this company is experiencing.

WOOD TIRE & SUPPLY COMPANY

The four outlets of Wood Tire & Supply Company, an East-Central Texas automotive parts distributor, were acquired in December, 1959. Operating from headquarters in Huntsville, Texas, this fast growing firm grossed approximately \$775,000 in fiscal 1960.

AUTO SPRING & SUPPLY COMPANY

Our most recent automotive parts acquisition occurred in May, 1960, with the purchase of Auto Spring & Supply Company, a five-store chain with headquarters in Wichita Falls, Texas. Sales of this North-Central Texas company were approximately \$1.5 million during fiscal 1960.

J. J. GIBSON COMPANY

The J. J. Gibson Company, with outlets in Dallas and Houston, was merged with the Beard & Stone Electric Company operations in those cities after the firm was acquired in January, 1960.

O-E, INC.

As a means of further strengthening our position in the automotive parts field, Gulf & Western organized O-E, Inc., as a subsidiary of Beard & Stone Electric Company, and began distribution of a new line of remanufactured water pumps, clutch plates, brake shoes, generators, and starters.

MICHIGAN PLATING & STAMPING COMPANY

Michigan Plating & Stamping Company, of Grand Rapids, Michigan, our original company, has been manufacturing bumpers and bumper parts

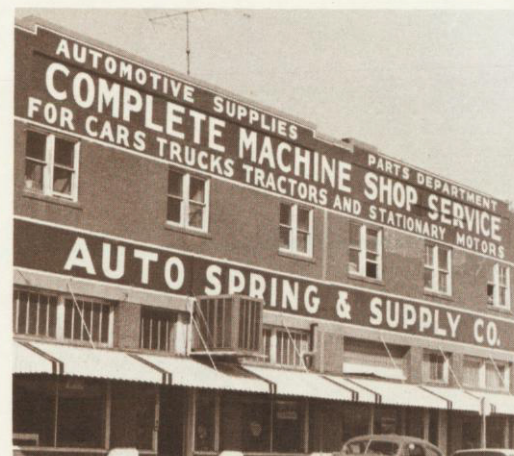
Representative of the Wood Tire & Supply Company operation is this store in Palestine.



This interior picture of the Mal Tool plant shows a portion of the 42 milling machines which are used in the production of precision parts.



Headquarters for Auto Spring & Supply are located at this store in Wichita Falls.



for passenger cars and trucks since the early 1920's. The company produces bumpers from raw steel to the finished product through an intricate process of stamping and plating.

UNICORD INCORPORATED

Through acquisition in October, 1959, of Unicord Incorporated, of New York, distributor of compact electric organs throughout the United States and Canada, we have gained a foothold in the profitable business of helping Americans enjoy their greatly increased leisure time.

J. A. WALSH & CO., INC.

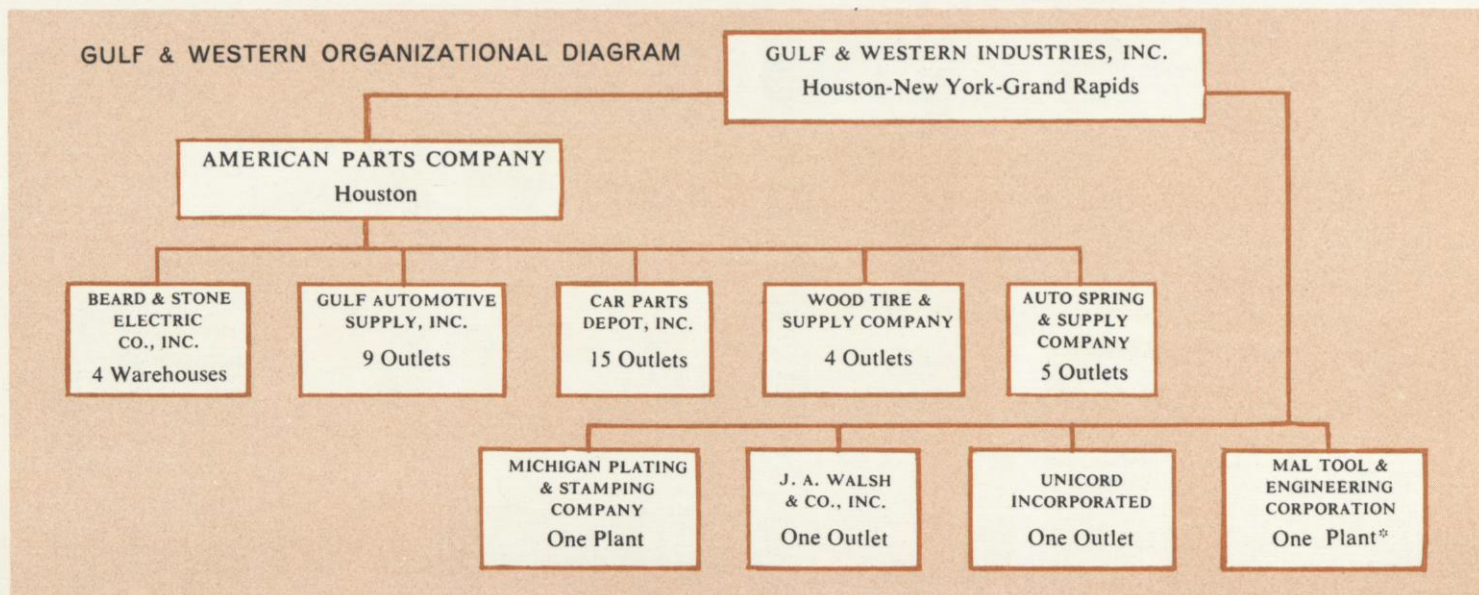
Located in Houston, J. A. Walsh & Co., Inc. is the RCA Victor and RCA Whirlpool distributor for the Houston-Gulf Coast area. The firm was founded in 1936 and was acquired by your Company in February, 1959.

A new Sport-N-Marine department was opened in May, 1960, to specialize in wholesale distribution of boating accessories and marine supplies.

MAL TOOL & ENGINEERING CORPORATION

Your Company entered the field of space age research in September, 1960. Following negotiations which began during the fiscal year, Mal Tool & Engineering Corporation, of Manchester, Connecticut, was acquired. This five-year-old firm is a recognized leader in the production of precision parts and assemblies needed in jet engine, rocket, and missile research.

Mal Tool has recently announced plans for a second plant to be built in Florida. The financial results of this report do not reflect the acquisition of this firm.



* Acquired Sept. 1, 1960.



GULF & WESTERN INDUSTRIES, INC.

*A diversified "family of firms" . . .
Nine subsidiaries, 33 cities, 41 outlets*



*D. L. Naylor,
President, Auto Spring
& Supply Company
Wichita Falls, Texas*



*J. W. Hagerman,
President, Wood Tire &
Supply Company
Huntsville, Texas*



*Basil E. Ryan,
President, Car Parts Depot, Inc.
El Paso, Texas*



*J. Sterling Cooper,
President, Gulf Automotive
Supply, Inc.
Houston, Texas*





□
C. Arthur Woodhouse,
*President, Michigan Plating
& Stamping Company*
Grand Rapids, Michigan



★
Sidney Hack,
President, Unicord Incorporated
New York, New York



*
James A. Walsh,
*President, J. A. Walsh
& Co., Inc.*
Houston, Texas



■
George A. Longtin,
*President, Mal Tool &
Engineering Corporation**
Manchester, Connecticut
* Acquired September 1, 1960



△
E. C. Beard,
Chairman of the Board
Beard & Stone Electric Company, Inc.
Dallas, Texas



Gulf & Western's Sales Growth . . .

and its relation to the growth of the automotive parts industry

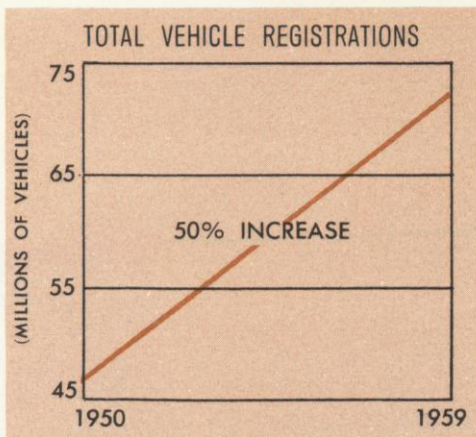
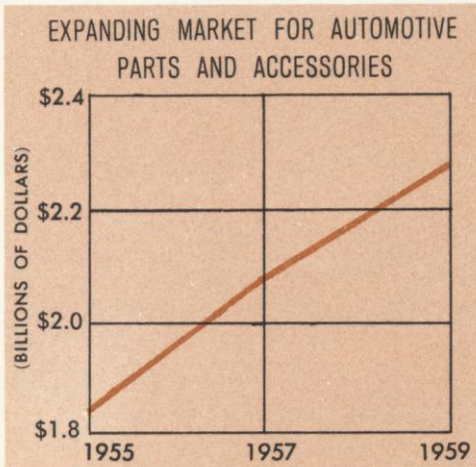
In less than three years, Gulf & Western has developed into one of the nation's leading wholesale distributors of automotive parts and accessories. Our five subsidiaries in this growing field had record sales of \$15.2 million in fiscal 1960.

The field of replacement parts is an enormous industry. Based upon past performance, the future looks bright indeed. Our belief that this industry offers excellent opportunities for future growth is based upon sound statistical evidence. In 1959, motorists spent almost \$2.25 billion at the dealer level (wholesale cost) for parts and accessories. The Distributors Institute of Chicago reports that sales in the automotive parts replacement field have increased seven to nine percent annually during the past 10 years. This upward trend is expected to continue during the 1960's, with an increase of approximately 100 percent by 1970.

The number of working vehicles — fleets, trucks, tractors, and leased cars — is increasing, and the nation's working force is growing steadily. The automotive parts replacement business depends, for the most part, on total car registrations which have climbed to new highs each year. Ten years ago there were 48 million registered vehicles in the United States, compared to more than 72 million at present. As the number continues to increase, sales of automotive replacement parts will keep pace.

Automobiles four to eight years old account for 70 percent of major engine reconditioning jobs. This year there are 25.6 million cars in this age group. As the total car population continues to grow, this group will become proportionately larger.

The new car industry sometimes overshadows this attractive picture of the replacement parts business. Nevertheless, the automobile aftermarket has, in some respects, greater stability and is, from the profit standpoint, more alluring than its glamorous parent. New car production is tied closely to the ebb and flow of the economy and the attractiveness of the new models. As a result, the new car market fluctuates widely. In 1954, new car out-

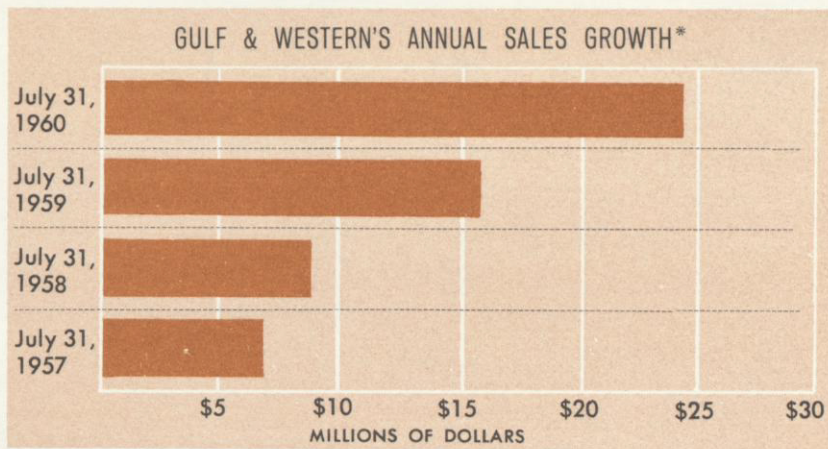
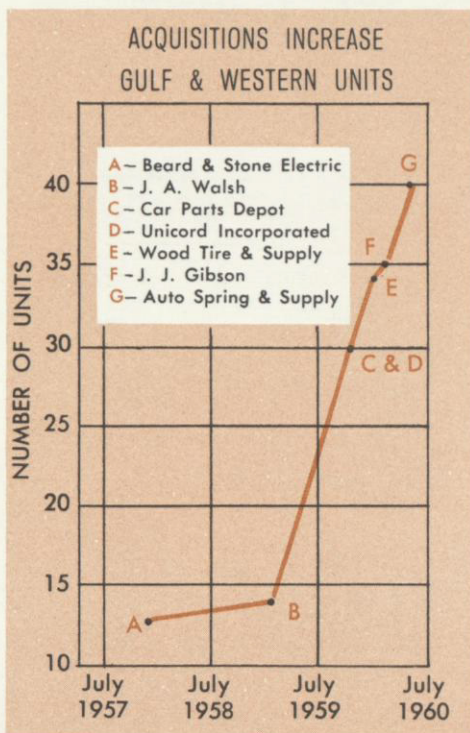


put was 5.6 million. A year later, in 1955, production reached an all-time high of 7.9 million, but dropped back to 5.8 million in 1956. Output in 1957 was 6.1 million, but dropped again in 1958 to a low of 4.2 million. In 1959, production increased to 5.5 million cars.

By contrast, the replacement parts and accessories business has shown a steady rise, increasing from \$1.6 billion in 1954 to more than \$2 billion in 1957 and 1958, and continued to increase to nearly \$2.25 billion in 1959.

There is extensive growth in another facet of the replacement industry — the remanufacture of parts. A recent survey shows that more than 16 percent of the average automotive jobber's parts volume is now derived from remanufactured items. In many cases, these units greatly outsell new parts. Gulf & Western has established a firm position in this promising area with the introduction of its own line, now being marketed under the registered "O-E" trade name. This quality line is remanufactured to *Original Equipment* specifications and includes generators, starters, water pumps, clutch plates, and brake shoes.

We believe all this points to an optimistic conclusion. Gulf & Western is well entrenched in an industry that gives every promise of continued growth. We expect our automotive parts sales to exceed the national rate of growth because our operations are concentrated in the dynamic regions which are growing faster than the nation as a whole. Also, we are conducting extensive market surveys in other areas of the country to determine the best possibilities for future growth through acquisitions.



* The sales of acquired firms are included in the year of acquisition.
 Beard & Stone Electric Company, Inc. December, 1957.
 J. A. Walsh & Co., Inc. February, 1959. Wood Tire & Supply Company December, 1959.
 Car Parts Depot, Inc. October, 1959. J. J. Gibson Company January, 1960.
 Unicord Incorporated October, 1959. Auto Spring & Supply Company May, 1960.

Gulf & Western Industries, Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS

ASSETS

	1960	1959
<i>CURRENT ASSETS</i>		
Cash	\$ 790,243	\$ 577,281
United States Treasury Bills and other marketable securities — at cost	139,310	—
Trade accounts and notes receivable, less allowance for possible losses (\$62,295 in 1960 and \$26,000 in 1959)	2,420,577	1,811,719
Inventories:		
At last-in, first-out cost since January 1, 1958 (current prices were higher by \$607,946 in 1960 and \$593,377 in 1959) — jobbing merchandise	\$ 1,516,882	\$1,444,376
At lower of cost (first-in, first-out method) or market:		
Jobbing merchandise	3,304,944	1,974,579
Work in process and finished products	329,502	271,681
Raw materials and manufacturing supplies	533,939	751,520
	<u>\$ 5,685,267</u>	<u>\$4,442,156</u>
Prepaid insurance, taxes, and other expenses	133,465	100,218
<i>TOTAL CURRENT ASSETS</i>	<u>\$ 9,168,862</u>	<u>\$6,931,374</u>
<i>PROPERTY, PLANT, AND EQUIPMENT</i> — at cost	\$ 3,247,960	\$2,973,785
Less allowances for depreciation and amortization	1,532,842	1,318,586
	<u>\$ 1,715,118</u>	<u>\$1,655,199</u>
<i>OTHER ASSETS</i>		
Investment in capital stock of subsidiary, not consolidated (72% interest), at cost (underlying net book value \$46,- 298)	\$ 44,350	\$ 44,350
Cash surrender value of life insurance	66,887	56,524
Unamortized debenture expense	143,125	—
Deferred acquisition and expansion program costs — Note B ...	81,731	—
Excess of cost of subsidiaries purchased over net book value of underlying assets at date of acquisition	275,449	—
Miscellaneous	31,607	6,262
	<u>\$ 643,149</u>	<u>\$ 107,136</u>
<i>TOTALS</i>	<u>\$11,527,129</u>	<u>\$8,693,709</u>

July 31, 1960 and July 31, 1959 (Adjusted — Note A)

LIABILITIES

CURRENT LIABILITIES

Notes payable:

Banks—unsecured except for \$295,207 in 1960 and \$214,278 in 1959 collateralized by assignment of accounts receivable of \$347,302 in 1960 and \$252,092 in 1959.....

Other — unsecured

Trade accounts payable.....

Accrued salaries, commissions, and pay roll taxes.....

Accrued interest, ad valorem taxes, and other expenses.....

Federal taxes on income — estimated.....

Current maturities of long-term debt.....

TOTAL CURRENT LIABILITIES.....

LONG-TERM DEBT, less current maturities — Note C.....

DEFERRED FEDERAL INCOME TAXES — Note B.....

SHAREHOLDERS' EQUITY

Common stock, par value \$1.00 a share:

Authorized 2,000,000 shares; issued and outstanding 721,450 in 1960 and 522,693 in 1959 — Notes D and E.....

Paid-in surplus

Retained earnings

CONTINGENT LIABILITY — Note F.....

TOTALS

1960

1959

\$ 1,128,899

\$ 574,278

131,160

172,239

1,587,886

1,429,448

234,208

138,004

204,030

151,262

312,040

391,104

160,645

244,963

\$ 3,758,868

\$3,101,298

1,798,915

1,166,927

37,500

—

\$ 721,450

\$ 522,693

1,864,264

1,062,564

3,346,132

2,840,227

\$ 5,931,846

\$4,425,484

\$11,527,129

\$8,693,709

See notes to consolidated financial statements.

Gulf & Western Industries, Inc. and Subsidiaries

Consolidated Statement of Earnings

Years ended July 31, 1960 and July 31, 1959 (Adjusted-Note A)

	1960	1959
Net sales.....	\$24,046,600	\$21,861,833
Cost of goods sold — Note I.....	18,313,053	16,899,527
	GROSS PROFIT	\$ 4,962,306
Selling, administrative, and general expenses.....	4,768,715	4,062,243
	\$ 964,832	\$ 900,063
Other charges — net (including interest expense of \$134,842 in 1960 and \$112,794 in 1959).....	155,542	113,850
	EARNINGS BEFORE FEDERAL INCOME TAXES	\$ 786,213
Federal income taxes — estimated.....	376,603	405,517
	NET EARNINGS	\$ 380,696

Note — Depreciation and amortization amounted to \$265,367 in 1960 and \$242,595 in 1959

Consolidated Statement of Retained Earnings and Paid-In Surplus

Years ended July 31, 1960 and July 31, 1959 (Adjusted-Note A)

RETAINED EARNINGS	1960	1959
Amount at beginning of year.....	\$ 2,840,227	\$ 2,459,531
Add:		
Net earnings for the year.....	432,687	380,696
Retained earnings of wholly-owned subsidiary (accumulated prior to acquisition) applicable to issuance of 105,000 shares of common stock on debentures convertible under warrants — Note A.....	275,953	—
	\$ 3,548,867	\$ 2,840,227
Deduct dividends:		
Fair value (\$9.75 a share) of 19,693 shares of common stock issued as a 5% stock dividend.....	\$ 192,007	\$ —
Cash payments in lieu of fractional shares on stock dividend.....	5,728	—
Cash dividend paid by a wholly-owned subsidiary to former shareholders prior to acquisition — Note A.....	5,000	—
	\$ 202,735	\$ —
	\$ 3,346,132	\$ 2,840,227
PAID-IN SURPLUS		
Amount at beginning of year.....	\$ 1,062,564	\$1,009,479
Add amounts, in excess of par value, recorded in respect of common shares issued in connection with acquisition of companies, stock dividends, and exercise of stock options — Note D.....	815,950	53,085
	\$ 1,878,514	\$ 1,062,564
Deduct costs incurred on acquisition of subsidiaries under the “pooling of interests” concept — Note A.....	14,250	—
	\$ 1,864,264	\$ 1,062,564

See notes to consolidated financial statements.

NOTE A — Principles of consolidation and “pooling of interests”

The consolidated financial statements include those of the parent company and its wholly-owned subsidiaries. All intercompany accounts with, and investments in, the consolidated subsidiaries have been eliminated from the consolidated balance sheet and all intercompany transactions have been eliminated from the consolidated statements of income.

The consolidated financial statements for the two years ended July 31, 1960, have been adjusted to reflect the accounting concept of a “pooling of interests” with respect to three subsidiaries acquired between December 30, 1957, and August 25, 1959. Under this concept, which was first used by the Company in presentation of financial statements included in a Registration Statement filed in 1959, the consolidation of the businesses of the parent company and the three “pooled” subsidiaries is presumed to have been in effect throughout their corporate lives.

NOTE B — Deferred acquisition and expansion program costs and related income taxes

The Company incurred expenses of \$81,731 in connection with its corporate acquisition and expansion program. Although such expenses are included in the consolidated balance sheet under the caption of other assets they will be deducted in computing taxable income of the Company for the year ended July 31, 1960. Income of future years will be reduced by amortization of these expenses without corresponding tax benefits. Accordingly, provision has been made in the consolidated financial statements for applicable estimated deferred federal income taxes of \$37,500.

NOTE C — Long-term debt

Long-term debt consisted of the following obligations:

	1960	1959
Notes payable to banks:		
4¾%, maturing \$10,000 monthly.....	\$ —	\$ 140,000
5%, unsecured, maturing \$8,400 monthly and balance on September 27, 1960.....	—	466,400
Notes payable to individuals arising from acquisition of subsidiaries:		
Conditional sales contract on merchandise inventories and property and equipment with a net book value of \$65,566 at July 31, 1960.....	34,156	—
6% note, maturing \$20,163 annually on May 1 (col- lateralized by chattel mortgage on certain inventory and equipment).....	40,327	60,490
6% unsecured notes, maturing \$13,606 annually, com- mencing June 15, 1961.....	67,557	—
Other:		
Deferred insurance premium contract.....	17,520	—
5% unsecured note, maturing \$12,500 monthly, com- mencing November 1, 1960.....	300,000	300,000
5% convertible debentures — Note D.....	—	419,000
Subordinated 5% debentures, due in varying amounts each year until 1966.....	—	26,000
6% convertible subordinated debentures, due Novem- ber 15, 1974 — Note E.....	1,500,000	—
	<u>\$1,959,560</u>	<u>\$1,411,890</u>
Less amounts due within one year classified as current liabilities	160,645	244,963
	<u>\$1,798,915</u>	<u>\$1,166,927</u>

NOTE D — Capital stock and name changes

Additional shares of the Company's capital stock were issued during the year, as follows:

	<u>Shares Issued</u>	<u>Related Amounts In Excess of Par Value Credited To Paid-In Surplus or Retained Earnings</u>
In connecton with acquisition of net assets and business of four corporations	67,501	\$625,197
Exercise of options under executives' stock option plan....	6,563	18,439
Issued to shareholders as a stock dividend.....	19,693	172,314
	<u>93,757</u>	<u>\$815,950</u>
5% debentures converted into common stock — related amounts in excess of par value credited to retained earnings	105,000	\$275,953
	<u>198,757</u>	

On July 27, 1960, the shareholders approved an increase in the authorized capital stock from 1,000,000 to 2,000,000 shares, and change of the Company's name from Gulf & Western Corporation to Gulf & Western Industries, Inc.

NOTE E — Stock options and conversion rights

Of the Company's authorized but unissued common stock, 150,000 shares are reserved at July 31, 1960, for grant of options to key executives for purchase of such shares, the options to be exercisable after two years of employment but prior to the expiration of five years from date options granted, and then only to the extent of 50% in any one year of the shares originally optioned. At July 31, 1960, options had been granted but had not been exercised on 67,412 of such reserved shares, the option prices ranging from \$3.81 to \$10.81 per share (an aggregate of \$445,386), which prices were based on a percentage (not less than 95%) of the quoted value of the Company's stock on the date of option grants.

An additional 125,000 shares are reserved for conversion of 6% convertible subordinated debentures at \$12 per share until November 15, 1961, and at \$13 per share thereafter until maturity.

NOTE F — Contingent liability

The Parent Company is contingently liable as guarantor on a \$90,000 note of an officer of the Company. The note originated from the purchase of 10,000 shares of stock of Gulf & Western Industries, Inc., which stock is being held as collateral by the payee of the note.

NOTE G — Events subsequent to July 31, 1960

On June 16, 1960, the Board of Directors authorized a 5% stock dividend on the Company's issued shares, payable September 1, 1960, to shareholders of record at August 1, 1960 (fractional shares being payable in cash). Such stock dividend requires the reservation of an additional 3,372 and 7,007 shares, respectively, under "anti-dilution" provisions of

the stock option plan and the 6% convertible subordinated debentures (debenture conversion rate of \$11.363 per share after such stock dividend).

On September 1, 1960, a contract was executed for the purchase of the business and net assets of Mal Tool & Engineering Corporation, of Manchester, Connecticut, for the sum of \$1,250,000, payable \$242,500 in cash and \$1,032,500 in notes maturing over a five-year period.

NOTE H — Long-term leases

The Parent Company and all except one of the wholly-owned subsidiaries lease all office and warehouse facilities from various lessors and on terms ranging from monthly to twenty years. The leases in effect at July 31, 1960, require annual rental payments of approximately \$293,000 and, in most instances, the companies are liable for payment of property taxes, insurance, and repairs.

NOTE I — Non-recurring income

Cost of goods sold for the year ended July 31, 1960, is approximately \$121,000 less, and income before tax is correspondingly greater, than they would otherwise have been because of inventories purchased as a part of an acquired business for an amount below replacement cost and substantially sold by July 31, 1960.

Report of Certified Public Accountants

ERNST & ERNST

2600 Gulf Building • Houston 2, Texas

Board of Directors,
Gulf & Western Industries, Inc.,
Houston, Texas.

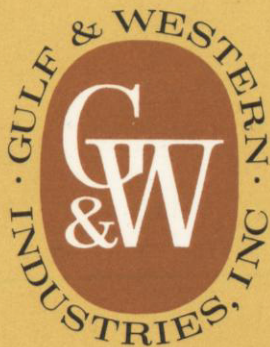
We have examined the consolidated financial statements of Gulf & Western Industries, Inc. and its wholly-owned subsidiaries for the year ended July 31, 1960. Our examination of the Parent Company and of the subsidiaries examined by us was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. With respect to subsidiary companies not examined by us (net assets of such subsidiaries amounted to \$3,223,411 at July 31, 1960, and net income for the year then ended amounted to \$357,511), we were furnished with financial statements reported upon by other independent accountants.

In our opinion, based upon our examination and the reports of other accountants on the financial statements of certain subsidiary companies, the accompanying balance sheet and statements of earnings and retained earnings and paid-in surplus present fairly the consolidated financial position of Gulf & Western Industries, Inc. and its wholly-owned subsidiaries at July 31, 1960, and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Ernst + Ernst

ERNST & ERNST
Certified Public Accountants

Houston, Texas
September 14, 1960



BEARD & STONE ELECTRIC COMPANY, INC.
GULF AUTOMOTIVE SUPPLY, INC.
CAR PARTS DEPOT, INC.
WOOD TIRE & SUPPLY COMPANY
AUTO SPRING & SUPPLY COMPANY
MICHIGAN PLATING & STAMPING COMPANY
J. A. WALSH & CO., INC.
UNICORD INCORPORATED
MAL TOOL & ENGINEERING CORPORATION

OFFICES: HOUSTON, TEXAS
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NEW YORK, NEW YORK
4615 Empire State Building

GRAND RAPIDS, MICHIGAN
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