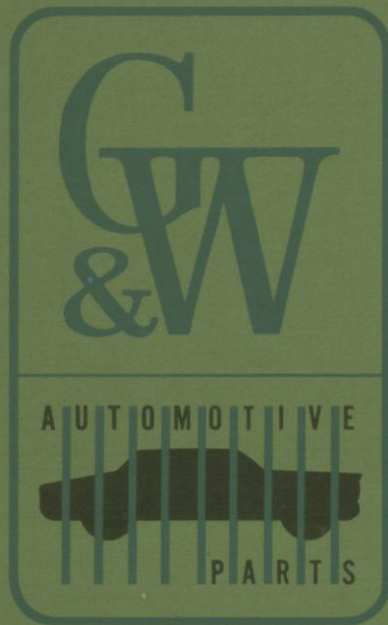


# GULF & WESTERN INDUSTRIES, INC.

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## 1962 ANNUAL REPORT TO THE SHAREHOLDERS





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### On the Cover

The cover illustration is a painting by Charles Wysocki, symbolizing the growth of America's traffic and the problem of keeping it moving. The original was commissioned for use in Gulf & Western's introductory advertising of the American Parts System. Mr. Wysocki is one of the country's leading contemporary artists and is particularly known for his automotive illustrations.

# Trends of Growth

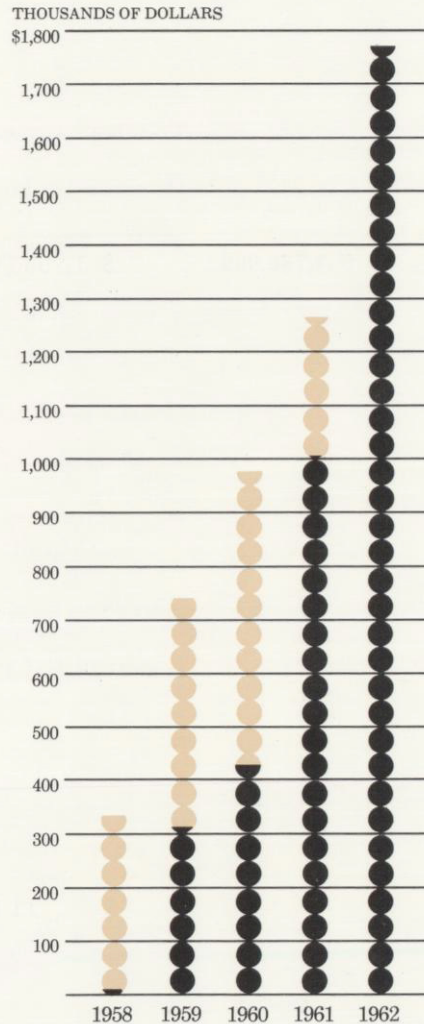
Five-Year Comparison, Years ended July 31, 1958, through July 31, 1962

## Annual Sales



● Sales as originally reported in each year's annual report.  
 Sales prior to the year of acquisition of companies acquired on a "pooling of interests" basis.

## Net Earnings and Special Gains



● Net earnings and special gains as originally reported in each year's annual report.  
 Net earnings and special gains prior to the year of acquisition of companies acquired on a "pooling of interests" basis.

## Net Worth



● Net worth as originally reported in each year's annual report.  
 Net worth prior to year of acquisition of companies acquired on a "pooling of interests" basis.

# Comparative Highlights

Fiscal Years Ended July 31, 1962, and July 31, 1961

	1962	Adjusted For Pooling 1961	Increase	Per Annual Report 1961
Net sales	\$65,646,000	\$43,849,000	49.7%	\$33,835,000
Net earnings after taxes:				
Before special gains	\$ 1,766,000	\$ 1,111,000	59.0%	\$ 850,000
After special gains	\$ 1,766,000	\$ 1,263,000	39.8%	\$ 1,002,000
Average shares outstanding	1,248,000 (A)	1,085,000 (B)	15.0%	961,000 (C)
Per share earnings:				
Before special gains	\$ 1.42	\$ 1.02	39.2%	\$ .89 (C)
After special gains	\$ 1.42	\$ 1.16	22.4%	\$ 1.04 (C)
Current assets	\$29,216,000	\$20,279,000	44.1%	\$17,044,000
Current liabilities	\$13,683,000	\$ 8,242,000	66.0%	\$ 6,779,000
Working capital	\$15,533,000	\$12,037,000	29.0%	\$10,264,000
Total assets	\$37,609,000	\$26,648,000	41.1%	\$22,571,000
Long-term debt	\$ 6,899,000	\$ 5,017,000	37.5%	\$ 5,004,000
Stockholders' equity	\$15,790,000	\$13,015,000	21.3%	\$10,381,000
Book value per share of common stock	\$ 12.26	\$ 11.11	10.4%	\$ 9.45 (C)
(Based on 1,287,577 shares outstanding at end of period, compared with 1,170,928 shares outstanding for the prior period)				
Employees (end of period)	3,491	2,235	56.2%	1,822
Number of automotive parts outlets (end of period)	148	126	17.5%	92

(A) Average number of shares outstanding during the period. (B) Current equivalent of shares outstanding during the period—adjusted for a five per cent stock dividend issued during the year ended July 31, 1962, and for the shares applicable to companies acquired during the current year on a “pooling” basis. (C) Adjusted to reflect a five per cent stock dividend issued during the year ended July 31, 1962.



To Our Shareholders

In a year of general achievement for Gulf & Western, two important developments in our program of establishing a nationwide wholesale automotive parts distribution system are particularly noteworthy. One is the launching of the American Parts System franchise program. The other is the continuing acquisition of sound automotive parts companies.

During this period of accelerated development and expansion, we are pleased to report that both sales and earnings were maintained at record highs.

Consolidated sales for the twelve months ended July 31, 1962, were \$65.6 million, an increase of 50 per cent over the \$43.8 million sales volume for the previous period. Earnings for the current year rose to \$1.8 million, a 59 per cent increase over the \$1.1 million (before special gain) earned last year. The per share earnings were increased to \$1.42, compared with \$1.02 (before special gain) in the previous year, after making adjustments to place the average number of outstanding shares on a comparable basis during the two periods.

Sales and earnings per share have been adjusted from previously reported amounts to reflect the accounting concept of "pooling of interests" with respect to three subsidiaries acquired during the current year. Under this concept, the consolidation of the businesses of the parent and the "pooled" subsidiaries is presumed to have been in effect throughout their corporate lives, and the parent's historical earnings have been adjusted accordingly. Graphic illustrations of the relationships of the reported and adjusted sales, earnings, and net worth for a five-year period are shown on page two.

First steps in the activation of the American Parts jobber franchise program have been completed very satisfactorily. The American Parts System, planned for the independent jobber, offers from a single source complete quality parts coverage, with both nationally advertised and American Parts lines, and a unique 23-point jobber assistance program. Market tests, begun in the spring, have been concluded and analyzed. Strategic areas have been chosen for the introduction of our franchise program, and full scale national advertising in leading automotive trade publications will begin in October. In addition, a subsidiary has been established to provide financial assistance to independent jobbers under the American Parts franchise program.

For the benefit of both the franchise program and the company's own distribution system, we have initiated an important step in the standardization of



Charles G. Bluhdorn  
*Chairman of the Board*



John H. Duncan  
*President*

major parts lines in all outlets. The program is designed to increase our profit, reduce inventories and lower handling costs.

Acquisitions continue to play an important part in the company's progress. During the past year, Gulf & Western added five companies engaged in the wholesale distribution of automotive parts, increasing the number of distribution outlets from 92 to 148. Two other businesses acquired during the year are profitably engaged in activities connected with the automotive parts industry. The combined sales of all operations are now going at the annual rate of \$77 million. Negotiations are under way for the acquisition of two more well established companies in the automotive parts field. The satisfactory conclusion of transactions would greatly strengthen our distribution pattern in the Midwest and broaden our over-all position in the industry.

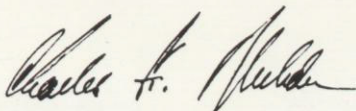
The J. A. Walsh & Co., Inc., a subsidiary which distributes household appliances, was sold in December 1961. The sale of this divergent operation resulted in a loss of \$37,000 after taxes which represents \$.03 per share of current earnings.

Gulf & Western is in sound financial condition to continue its expansion and development programs. Our working capital as of July 31, 1962, was \$15.5 million, an increase of \$5.3 million over the \$10.2 million reported last year. Current assets increased \$12.2 million over the previously reported \$17.0 million, and are 2.1 times current liabilities.

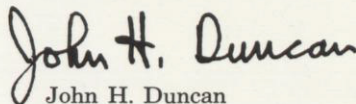
Another five per cent stock dividend, the company's fourth consecutive annual distribution, will be paid October 1, 1962.

The national parts aftermarket, which has steadily increased over the years, has today reached an all time high estimated to be \$7 billion at the national level. It is a vital industry which keeps America's cars, trucks, and buses in operating condition to help meet this country's transportation needs.

We believe our own progress, coupled with the general growth of this industry, supports our plans to establish a nationwide automotive parts distribution system. We are confident that from the solid base of growth built by acquisition and internal development, we will be able to continue increasing our share of this market and to merit the continued support of our shareholders.



Charles G. Bluhdorn  
Chairman of the Board



John H. Duncan  
President

September 28, 1962



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Internal Developments Highlight Progress

Gulf & Western's growth within this past year has been very gratifying, through the execution of internal development programs throughout the system and the continued acquisition of companies which further extended market coverage.

### *Franchise Program Activated*

A comprehensive franchise program for independent automotive parts jobbers has been established through a subsidiary, American Parts Company, Inc. The American Parts System, in addition to offering nationally advertised brands, features the American Parts Poweride Line and the General Service Line. The Poweride name is a registered trade-mark used on engine, chassis and transmission parts. The parts are precision engineered to exacting manufacturers' specifications and are available for virtually every American and foreign made vehicle. The American Parts General Service Line combines tire gauges and valves, gasoline tank caps, wheel weights and thousands of related items in one catalog and one simplified price list. Primary advantages to the trade will be to simplify the purchase and handling of these parts.

An integral feature of the American Parts System is a unique 23-point service program which offers the independent jobber experienced management guidance, planned promotions, financial assistance and complete stock protection. Marketing statistics, sales forecasts, guidance in store location and layout, and other valuable services are also available.



The American Parts System offers a complete development program to the nation's independent jobbers who form the backbone of the automotive parts distribution industry.

A team of marketing managers, selected from the field sales force and thoroughly trained, are acquainting independent jobbers over a wide area of the country with the inherent advantages of the American Parts System as a single source of supply.

#### *Jobber Financing Inaugurated*

Autoparts Finance Company, Inc. provides long-term financing to qualified jobbers who require additional capital to expand their present operations or to start new businesses within the American Parts System.

#### *Data Processing Center*

The Gulf & Western Data Processing Center, located in Houston, provides management at all levels with factual statistical and financial data concerning each store's operations. High-speed electronic computers supply valuable accounting information and analyses which are too time-consuming and costly to obtain manually. Through this center, financial control is maintained over Gulf & Western's widespread operations.

#### *Automotive Parts Distribution*

With the acquisition of five of the country's leading regional wholesale distributors of automotive parts, Gulf & Western has expanded its parts distribution operations to 16 principal subsidiaries. These activities extend from 13 states and Mexico.

On the West Coast, the company has established a solid base of 41 outlets by the acquisition of three well known distributors: Allbright's Auto Parts Incorporated,

Riverside, California; H. M. Parker & Son, North Hollywood, California; and Warehousing Service, Inc., Los Angeles, California. The combined annual sales volume of these parts distributors total approximately \$12 million.

The acquisition of Patten Sales Company of Miami, Florida, greatly strengthened the company's position in the Southeast and increased the number of parts outlets in the area to 14.

The E. S. Youse Company, Inc., with headquarters in Reading, Pennsylvania, operates 17 outlets in the central Pennsylvania area. The company's record of successful growth extends over a period of more than half a century.

The acquisition of these companies, which marked Gulf & Western's first entry into the vast market potentials of the West Coast and the East, has increased the number of automotive parts distribution outlets from 92 to 148 and greatly expanded Gulf & Western's distribution pattern.

#### *Manufacturing and Other Distribution*

Two other businesses engaged in various phases of the automotive parts industry were acquired during the year.

The first is composed of Guaranteed Parts Corporation and three affiliated companies, all located in upper New York State. Guaranteed Parts, Seneca Falls, is a national supplier of automotive electrical parts to



the replacement parts industry, distributing many of the products produced by General Products and the Ocrum Corporation. General Products Corporation manufactures ignition parts and related custom-molded plastics, and Ocrum Corporation is a manufacturer and assembler of electro-mechanical devices. Randco Corporation provides research and development facilities for the Guaranteed Parts group. Guaranteed Parts is one of the oldest independent ignition manufacturers and marketers in the country. During the past half century, it has become a leader in its field. A testimony to the effectiveness of its sales effort is the fact that sales have been tripled in the past nine years.

The second acquisition is Auto Precision Parts, Incorporated, New York City, a manufacturer of component parts for vehicle suspension systems.

Gulf & Western has received important contributions to earnings from its other five manufacturing and distributing subsidiaries. The Klock Corporation of Manchester, Connecticut, continues to expand its facilities for specialized alloy heat treating and brazing. The company processes parts and sub-assemblies for various aircraft, missile and space system applications.

Mal Tool & Engineering Corporation, with plants at Manchester, Connecticut, and Palm Beach, Florida, manufactures precision parts and assemblies required in jet engines, rockets, and other spacecraft. Mal Tool continues to fill an increasing demand for its products.

Michigan Plating and Stamping Company, with headquarters in Grand Rapids, Michigan, manufactures bumpers and bumper parts for passenger cars and trucks. The company has continued to show profitable results from expansion and modernization of plant and equipment.

Unicord Incorporated, of New York City, nationwide distributor of the "Pianorgan" electric chord organ, has expanded its distribution pattern and, in addition, rounded out its line to include other musical instruments.

Unicord International, S. A., with headquarters in Panama, is engaged in the sale and distribution of foreign products outside the United States.

### *Gulf & Western In Brief*

Gulf & Western's plans to establish a national parts distribution system began in 1957 with the acquisition of a Texas-based automotive parts company. Since the decision to enter the parts aftermarket, the company has grown from a single product company with annual sales of \$6.5 million in 1957, to a leader in the wholesale automotive parts field. Sales are now going at the annual rate of \$77 million, of which 73 per cent is directly attributable to automotive parts distribution.

# Automotive Parts Distribution Expanded in the East and West

The automotive parts distribution pattern has been expanded by the acquisition of 41 wholesale outlets on the West Coast, 17 in southeast Pennsylvania and five in south Florida. The addition of these 63 wholesale parts outlets increased Gulf & Western's total number

from 92 reported in the last annual report to shareholders, to 148. Key warehouses located throughout this area form the distribution centers for supplying an ever increasing number of jobbers with both nationally advertised parts and American Parts lines.

## *Eastern Region*

E. S. Youse Company, Inc.  
Reading, Pennsylvania

## *Southeast Region*

The Motor Supply Company  
Savannah, Georgia

Patten Sales Company  
of Jacksonville, Inc.  
Miami, Florida

## *Southwest Region*

American Parts Company, Inc.  
Houston, Texas

Auto Spring & Supply  
Company  
Wichita Falls, Texas

Beard & Stone Electric  
Company, Inc.  
Houston, Texas

Car Parts Depot, Inc.  
El Paso, Texas

Gulf Automotive Supply, Inc.  
Houston, Texas

## *Central and Rocky Mountain Region*

Casper Supply Company, Inc.  
Casper, Wyoming

Hendrie & Bolthoff  
Company, Inc.  
Denver, Colorado

The Scheufler Supply  
Company, Inc.  
Great Bend, Kansas

## *Western Region*

Allbright's Auto Parts, Inc.  
Riverside, California

H. M. Parker & Son  
North Hollywood, California

Jobber Service Warehouse  
Riverside, California

Warehousing Service, Inc.  
Los Angeles, California

## *Mexico*

Overseas, S. A.  
Mexico City, Mexico



# National Advertising Introduces Gulf & Western Franchise Program

The American Parts System will be introduced to the trade with color advertisements in leading trade publications beginning in October. The ads feature the franchise plan for jobbers, the General Service Line and the Poweride hard parts line. This introductory advertising program is designed to appeal to the jobber trade and to acquaint them with the advantages of the American Parts System as a growing factor in automotive parts distribution.

TURNING THE WHEELS THAT MOVE AMERICA



**THE "PSG"**

THE AMERICAN PARTS SYSTEM presents a dynamic 25-point Jobber program aimed directly toward building Profit, Security, and Growth for you. As an American Parts Jobber offering complete quality lines of nationally-advertised automotive parts and general service supplies, you will receive experienced management guidance, powerful planned expansion, financial assistance, complete abuse protection, an estate protection plan, and other valuable services. You will be an important member of your business community as the owner of a unit in a coast-to-coast parts distributing organization. Opportunities now open in many areas of the country... soon in all areas. Find out today if you qualify for this unique opportunity.

For information write to: AMERICAN PARTS COMPANY, INC., DEPT. A, BOX 2101, HOUSTON, TEXAS, U.S.A. A subsidiary of GULF & WESTERN INDUSTRIES, INC.

**PLAN FOR JOBBERS**

... for the man  
with the makings  
of success!







**GENERAL SERVICE LINE**

with single-source convenience

Now... a broad line of quality supplies for your general maintenance and operating needs. You get and give convenient service, with one catalog, one price list, one order form, one invoice. Now available everywhere from GENERAL SERVICE LINE distributors.

For information write to: AMERICAN PARTS COMPANY, INC., DEPT. A, BOX 2101, HOUSTON, TEXAS, U.S.A. A subsidiary of GULF & WESTERN INDUSTRIES, INC.

TURNING THE WHEELS THAT MOVE AMERICA

**Shims to chamois ...  
switches to hitches ...  
and service**







**POWERIDE LINE**

Now... one source, one name, for all your quality hard parts. You get and give faster service, with distinctive easy-to-read illustrated catalogs, a single order form and invoice... better service, because every part is precision-engineered to existing manufacturers' specifications. Top performance Poweride-Line parts for virtually every American and foreign engine, chassis, and automatic transmission... now available in many areas, soon throughout the country. Write for information about the Poweride-Line Distributor nearest you.

For information write to: AMERICAN PARTS COMPANY, INC., DEPT. A, BOX 2101, HOUSTON, TEXAS, U.S.A. A subsidiary of GULF & WESTERN INDUSTRIES, INC.

TURNING THE WHEELS THAT MOVE AMERICA

**... the comprehensive  
engine, chassis  
and automatic  
transmission line!**





The Parts Aftermarket

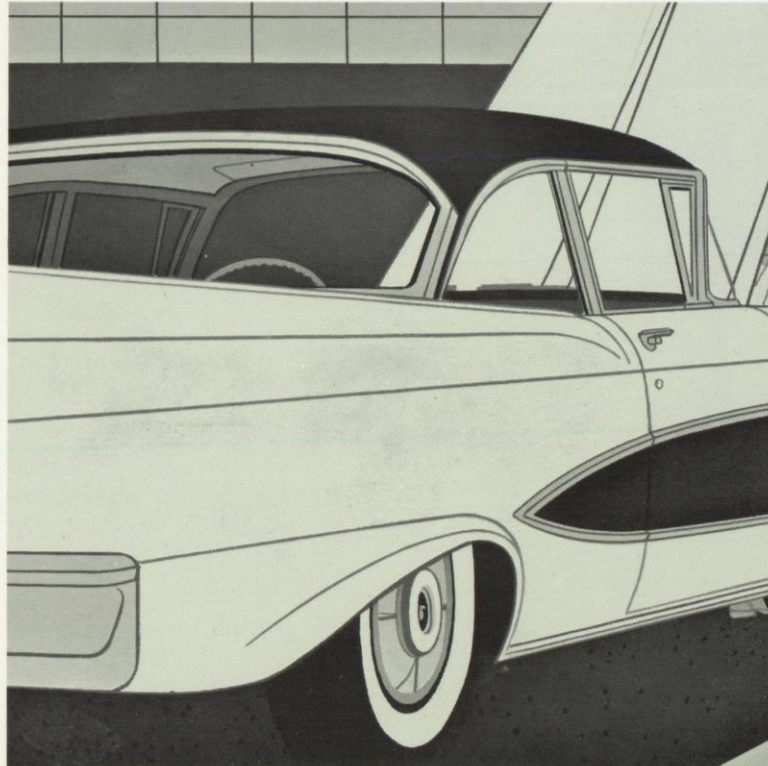


Probably more attention has been focused on the automotive parts aftermarket during the past year than in any previous period in history, primarily because of increasing interest in this field among investors, economists and the general public. The principal factor behind this surge of interest is the tremendous recent growth of the parts aftermarket which promises to continue in the future.

Gulf & Western, as one of the leaders in the modern automotive parts distribution business, finds itself sharing in this attention. FORTUNE magazine (March 1962), in one of the most exhaustive studies ever made in this field, estimates the annual rate of sales of parts and accessories at \$7 billion. FORTUNE and other authoritative sources point to a number of components of the industry's growth:

- The number of registered vehicles, all requiring parts, continues to grow each year. During 1961, total vehicle registration had climbed to more than 76 million, with no end in sight. And, as more and more vehicles travel upon the 2.5 million miles of surfaced highways in this country, it is obvious that they will need more and more parts to keep operating. There are now enough automobiles in this country to average one car for every three persons. Seventy-six per cent of the families in the United States own an automobile, and

Over 335,000 automotive repair facilities are needed to service America's growing vehicle fleet. Skilled craftsmen at the various repair stations and garages use billions of dollars of replacement parts annually.

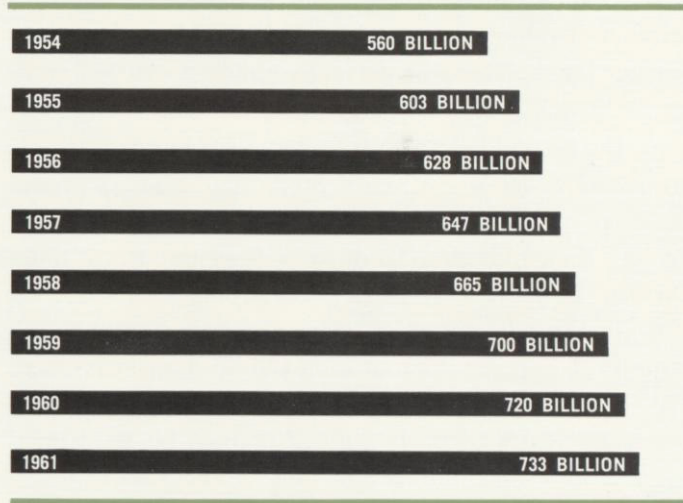




18 per cent of this group own two or more cars. Furthermore, three-car families today outnumber the two-car families that existed in pre-World War II 1939.

■ Annual replacement parts expenditures—not including tires—have increased to nearly \$100 per car, compared to an average of \$16 a car in 1933. According to a recent study, the average age of cars being scrapped in the early 1930's was seven years with about 41,000

miles. Currently the average age of cars being scrapped is slightly over 11 years after being driven 104,000 miles. These figures substantiate the fact that even though cars today are built for faster speeds and longer life, sales of parts have not been adversely affected. Rather, the opposite is the case. Sales of replacement parts have steadily increased to an all-time high with every indication that this trend will continue in the future.



U.S. MOTOR VEHICLE REGISTRATIONS

ANNUAL MILES OF TRAVEL IN THE U.S.



■ The average age of all registered vehicles must also be taken into consideration when viewing the parts market because it is obvious that as a car becomes older, its need for replacement parts becomes greater. Figures show that 55 per cent of the passenger cars in the United States are five or more years old. Moreover, the average truck is almost eight years old.

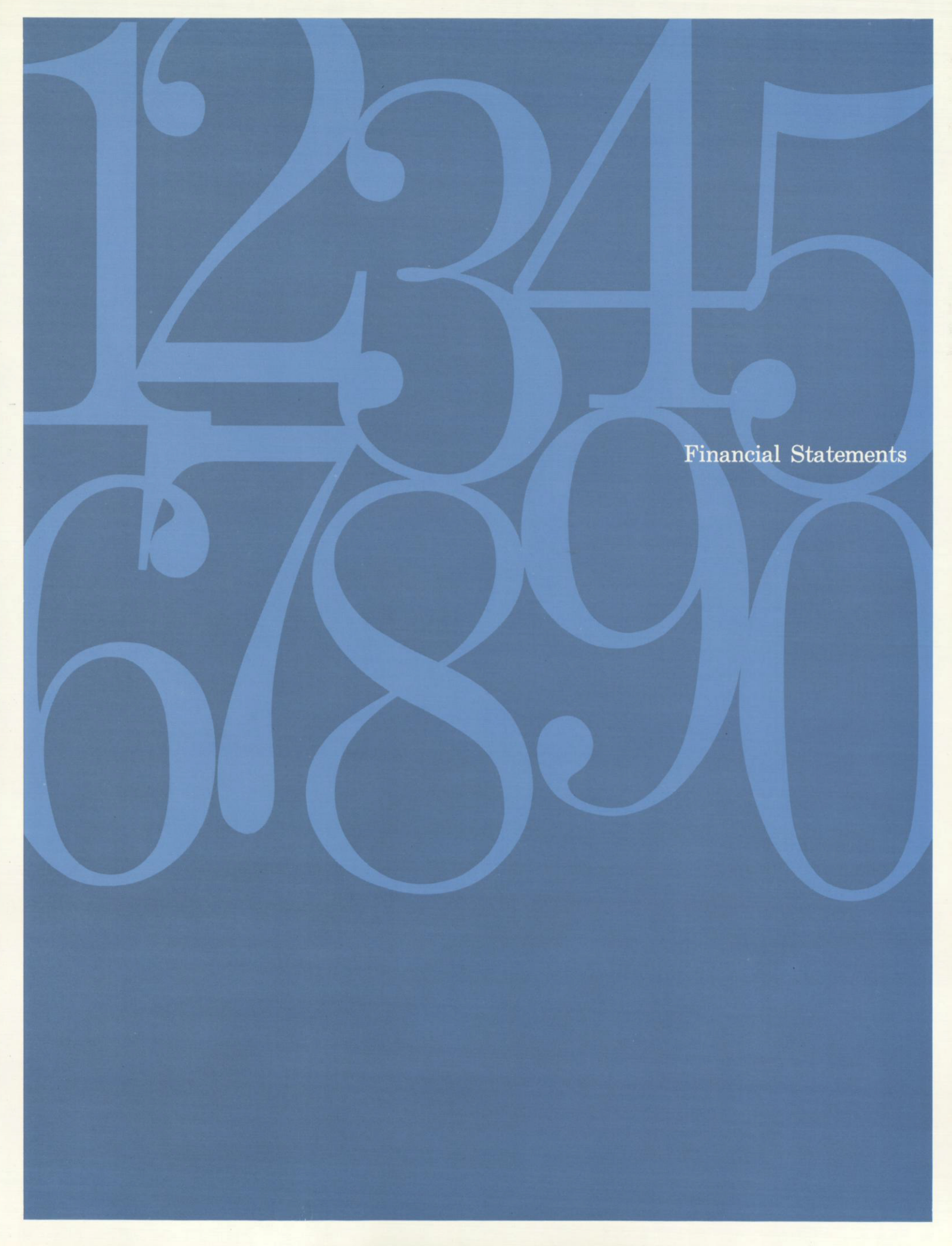
■ In past years, the automotive parts aftermarket has shown remarkable stability during periods of economic recession. During good times, Detroit turns out a record number of automobiles, constantly increasing the total number of vehicle registrations and providing the future market for replacement parts. Production of 1962 models had reached 6.6 million at the end of the 1962 model year, the second best year in automotive history. (Some auto companies are already predicting that 1963 will be even better.) During lean years, people keep on driving their old cars. To do this, they must buy more parts to keep these vehicles on the road.

■ And finally, there are more parts than ever before required to supply the motoring public. Presently there are about 15,000 different parts in an automobile. Replacement sales of parts will, of course, be multiplied by the increasing number of new model cars, and by their growing complexity.

There are two parts distribution systems in operation today. One was formed by the automobile manufacturers and includes the dealer "sales and service" outlets. The other system comprises the independent warehouses and jobber stores which sell their parts not only to the dealer outlets, but also to repair shops, garages and service stations. The independent system, of which Gulf & Western is a growing factor, is by far the larger of the two and includes all types of operations, from a regional warehouse distributor to a neighborhood jobber store. Many factors contribute to this dominant sales position. However, the primary reason that the independent system continues to increase its size in this field is to be found in its effective use of extensive channels of distribution to supply customers with replacement parts when and where needed.

In building a national distribution system, Gulf & Western has employed many of the techniques and principles which have proved successful in other fields of distribution. Its over-all knowledge of the parts market has been enhanced by the experienced personnel of acquired companies.

With the continued application of these techniques and utilization of the experience available, the opportunity for Gulf & Western's continued growth in the expanding parts aftermarket remains attractive.

The background of the page is a solid blue color. Overlaid on this background are large, stylized, light blue numbers from 1 to 0, arranged in a sequence that appears to be 1234567890. The numbers are rendered in a decorative, calligraphic font with thick strokes and elegant curves. The '1' is a simple vertical line, while the '0' is a large, rounded shape with a small tail. The numbers are positioned in the upper half of the page, with the '0' being the largest and most prominent.

Financial Statements

# Gulf & Western Industries, Inc. and Subsidiaries

ASSETS	1962	1961	
		ADJUSTED FOR POOLING—Note A	PER ANNUAL REPORT
<b>CURRENT ASSETS</b>			
Cash .....	\$ 3,046,987	\$ 1,450,731	\$ 1,161,349
Marketable securities—at cost .....	2,825	63,135	63,135
Trade notes and accounts receivable, less allowance of \$246,505 in 1962 and \$162,452 and \$86,621 respectively in 1961 .....	9,023,349	6,949,089	6,052,531
Merchandise and manufacturing inventories—Note B: At last-in, first-out cost—(current prices were higher by \$2,170,131 in 1962 and \$890,494 in 1961) .....	\$10,637,740	\$ 2,335,745	\$ 2,335,745
At lower of cost (first-in, first-out method) or market .....	5,735,256	9,161,344	7,171,827
	<u>\$16,372,996</u>	<u>\$11,497,089</u>	<u>\$ 9,507,572</u>
Prepaid insurance, taxes, and other expenses; and miscellaneous receivables .....	770,762	319,246	259,982
TOTAL CURRENT ASSETS .....	\$29,216,919	\$20,279,290	\$17,044,569
<b>PROPERTY, PLANT, AND EQUIPMENT—at cost .....</b>	<b>\$ 9,895,875</b>	<b>\$ 7,819,697</b>	<b>\$ 6,387,427</b>
Less allowances for depreciation and amortization .....	3,611,948	2,884,026	2,265,785
	<u>\$ 6,283,927</u>	<u>\$ 4,935,671</u>	<u>\$ 4,121,642</u>
<b>OTHER ASSETS</b>			
Investment in and advances to unconsolidated subsidiaries— at cost—Note A .....	\$ 131,629	\$ 44,350	\$ 44,350
Note receivable—secured by stock under purchase option .....	450,000	450,000	450,000
Deferred acquisition and expansion program costs, less amortization—Note C .....	484,688	217,208	217,208
Costs attributed to intangible assets of purchased businesses, less amortization .....	497,936	546,101	546,101
Note receivable, deferred note expense, and other .....	544,649	175,966	147,275
	<u>\$ 2,108,902</u>	<u>\$ 1,433,625</u>	<u>\$ 1,404,934</u>
	<u>\$37,609,748</u>	<u>\$26,648,586</u>	<u>\$22,571,145</u>

# Consolidated Balance Sheets

July 31, 1962, and July 31, 1961

LIABILITIES	1962	1961	
		ADJUSTED FOR POOLING—Note A	PER ANNUAL REPORT
<b>CURRENT LIABILITIES</b>			
Notes payable:			
To banks, secured by:			
Accounts receivable (1961 only) and equipment . . . . .	\$ 25,464	\$ 188,819	\$ 188,819
Note receivable and stock under purchase option . . . . .	450,000	450,000	450,000
Unsecured . . . . .	3,278,005	949,567	854,567
To others, partly secured . . . . .	791,845	203,821	199,090
Trade accounts payable . . . . .	5,744,542	4,254,750	3,389,666
Accrued salaries, taxes, and other expenses . . . . .	1,865,111	841,798	671,025
Federal taxes on income—estimated . . . . .	1,133,530	661,173	339,000
Current maturities of long-term debt . . . . .	394,788	692,675	687,636
TOTAL CURRENT LIABILITIES . . . . .	<u>\$13,683,285</u>	<u>\$ 8,242,603</u>	<u>\$ 6,779,803</u>
LONG-TERM DEBT—less current maturities—Note D . . . . .	6,899,911	5,017,271	5,004,673
DEFERRED FEDERAL INCOME TAXES—Notes B and C . . . . .	1,124,910	261,000	293,000
MINORITY INTEREST IN CONSOLIDATED SUBSIDIARY . . . . .	111,549	112,509	112,509
<b>STOCKHOLDERS' EQUITY</b>			
Common stock, par value \$1.00 a share:			
Authorized 2,000,000 shares; issued and outstanding			
1,287,577 in 1962 and 1,170,928 and 1,046,154			
respectively in 1961—Notes E and F . . . . .	\$ 1,287,577	\$ 1,170,928	\$ 1,046,154
Paid-in surplus . . . . .	7,220,424	5,118,506	4,010,192
Retained earnings . . . . .	7,282,092	6,725,769	5,324,814
	<u>\$15,790,093</u>	<u>\$13,015,203</u>	<u>\$10,381,160</u>
	<u>\$37,609,748</u>	<u>\$26,648,586</u>	<u>\$22,571,145</u>

See notes to consolidated financial statements.

## Consolidated Statement of Earnings

Years ended July 31, 1962, and July 31, 1961

1962

1961

		ADJUSTED FOR POOLING—Note A	PER ANNUAL REPORT
Net sales .....	\$65,646,165	\$43,849,907	\$33,835,385
Cost of goods sold .....	47,019,596	31,910,857	25,092,953
GROSS PROFIT—Note B .....	\$18,626,569	\$11,939,050	\$ 8,742,432
Expenses:			
Selling, administrative, and general .....	\$15,101,316	\$ 9,743,148	\$ 6,995,987
Interest .....	359,359	202,914	189,393
Amortization of intangibles—Note A .....	56,821	27,545	27,545
Minority interest in earnings of a consolidated subsidiary .....	6,028	3,490	3,490
Other income* and deductions—net .....	179,380*	59,903*	4,332
	<u>\$15,344,144</u>	<u>\$ 9,917,194</u>	<u>\$ 7,220,747</u>
EARNINGS BEFORE FEDERAL INCOME TAXES .....	\$ 3,282,425	\$ 2,021,856	\$ 1,521,685
Federal income taxes—estimated—Notes B and C .....	1,515,748	910,819	671,642
NET EARNINGS .....	\$ 1,766,677	\$ 1,111,037	\$ 850,043
Special gains, principally from the sale of a subsidiary's business and assets .....	<u>—0—</u>	<u>152,254</u>	<u>152,254</u>
NET EARNINGS (and special gains for 1961) .....	<u>\$ 1,766,677</u>	<u>\$ 1,263,291</u>	<u>\$ 1,002,297</u>
Depreciation and amortization charges included above .....	\$ 716,994	\$ 549,314	\$ 453,062

See notes to consolidated financial statements.

# Consolidated Statements of Retained Earnings and Paid-In Surplus

Years ended July 31, 1962, and July 31, 1961

	1962	1961	
		ADJUSTED FOR POOLING—Note A	PER ANNUAL REPORT
<b>RETAINED EARNINGS</b>			
Amount at beginning of year .....	\$ 6,725,769	\$ 5,882,065	\$ 4,708,687
Add net earnings and special gains for the year .....	1,766,677	1,263,291	1,002,297
	<u>\$ 8,492,446</u>	<u>\$ 7,145,356</u>	<u>\$ 5,710,984</u>
Deduct dividends:			
Fair value of common stock issued as 5% stock dividends (52,222 shares at \$22.88 in 1962 and 35,375 shares at \$10.00 in 1961) .....	\$ 1,194,578	\$ 353,750	\$ 353,750
Cash payments in lieu of fractional shares on stock dividends .....	15,776	6,975	6,975
Cash dividends paid by a "pooled" subsidiary prior to acquisition .....	—0—	58,862	25,445
	<u>\$ 1,210,354</u>	<u>\$ 419,587</u>	<u>\$ 386,170</u>
AMOUNT AT END OF YEAR .....	<u>\$ 7,282,092</u>	<u>\$ 6,725,769</u>	<u>\$ 5,324,814</u>
<b>PAID-IN SURPLUS</b>			
Amount at beginning of year .....	\$ 5,118,506	\$ 3,404,502	\$ 2,344,014
Add:			
Sale of capital stock by a "pooled" subsidiary prior to acquisition .....	1,777	51,426	3,600
Sale or repurchase* of warrants on 50,000 shares of common stock .....	375*	500	500
Amounts, in excess of par value, recorded in respect to common shares issued in connection with acquisition of companies, stock sales, stock dividends, and exercise of stock options, purchase agreements, and warrants— Note E .....	2,162,922	1,977,441	1,977,441
	<u>\$ 7,282,830</u>	<u>\$ 5,433,869</u>	<u>\$ 4,325,555</u>
Deduct:			
Costs incurred on acquisition of "pooled" subsidiaries .....	\$ 62,406	\$ 10,379	\$ 10,379
Unamortized debenture expense applicable to debentures converted to common stock .....	—0—	132,784	132,784
Purchase of treasury stock by a "pooled" subsidiary prior to acquisition .....	—0—	172,200	172,200
	<u>\$ 62,406</u>	<u>\$ 315,363</u>	<u>\$ 315,363</u>
AMOUNT AT END OF YEAR .....	<u>\$ 7,220,424</u>	<u>\$ 5,118,506</u>	<u>\$ 4,010,192</u>

See notes to consolidated financial statements.

# Notes to Consolidated Financial Statements *Year ended July 31, 1962*

## *NOTE A—Principles of consolidation and acquisition of businesses*

The consolidated financial statements include the accounts of the Company and all its subsidiaries except a finance-company subsidiary and one partly-owned subsidiary. All inter-company investments, accounts, and transactions have been eliminated upon consolidation.

The cost of the Company's investment in the subsidiaries not consolidated was substantially equal to its equity in their underlying net assets at July 31, 1962. The finance-company subsidiary, which was organized in March, 1962, had no outstanding debt at July 31, 1962, other than advances from the Company.

Seven businesses were acquired during the year, three in transactions accounted for as pooling of interests and four in transactions accounted for as purchases. The assets, liabilities, paid-in surplus, and retained earnings of the three "pooled" businesses as shown by their books have been combined with the corresponding accounts of the Company upon consolidation, and the operations of the businesses for periods prior to acquisition have been combined with the operations of the Company for corresponding periods. The accounts of the four "purchased" businesses have been taken into consolidation on the basis of purchase cost to the Company or to its other subsidiaries, and their operations have been included in consolidation beginning with the date of acquisition.

Cost to the Company of purchased businesses is allocated upon consolidation to the underlying net assets at date of purchase by methods appropriate to the terms and conditions of the purchase. Any amounts so allocated to intangibles are charged to income by periodic amortization.

## *NOTE B—Effect of business acquisitions and inventory pricing change on consolidated income*

Cost of goods sold and gross profit for the year ended July 31, 1962, reflect the sale through regular trade channels of inventories acquired as part of the assets of purchased businesses at costs which were approximately \$1,095,000 below the estimated cost which would be incurred to replace them from ordinary sources of supply. The corresponding difference between purchase cost and replacement cost of goods similarly acquired and sold in the year ended July 31, 1961, was approximately \$750,000. Due to certain differences between the Company's methods of reporting this income for financial statement purposes and income tax purposes, the related income tax provisions of \$569,000 in 1962 and \$385,000 in 1961 are deferred since they are due and payable only if, as, and when the total inventory is reduced below the amount originally purchased.

One of the purchased businesses changed its method of pricing inventories from first-in, first-out (FIFO) cost to last-in, first-out (LIFO) cost as of August 31, 1961, resulting in approximately \$1,097,000 less gross profit being realized on the sale of the inventories acquired by the purchase. In addition, four subsidiary groups also changed from the FIFO to the LIFO method of inventory pricing with no resultant effect on gross

profit or inventories, and another subsidiary, in order to take advantage of an operating loss carry-over for federal income tax purposes, changed its method of inventory pricing as of July 31, 1962, from LIFO to FIFO, which resulted in an increase in gross profit of approximately \$143,000. The net effect of these changes in the method of inventory pricing is that inventories at July 31, 1962, and gross profit and earnings before income taxes for the year then ended are \$954,000 lower and net earnings after taxes are \$384,000 lower than they would have been had no changes occurred.

## *NOTE C—Deferred acquisition and expansion program costs and related income taxes*

The Company incurred costs of \$314,191 in 1962 and \$168,843 in 1961 in connection with its corporate acquisition and expansion program. Of the costs incurred in 1962, \$112,833 was applicable to the initial costs of establishing a central computer installation and a franchise operations manual. These acquisition and expansion program costs are deferred and amortized over a period of five years or less, such amortization amounting to \$46,711 in 1962 and \$33,366 in 1961. In computing taxable income, these costs are deducted in the year incurred. As income of future years will be reduced by amortization of these costs without corresponding tax benefits, provision has been made in the consolidated financial statements for applicable deferred federal income taxes of \$112,800 in 1962 and \$75,500 in 1961.

## *NOTE D—Long-term debt*

Long-term debt at July 31, 1962 includes the following:

5¾% notes due January 1, 1977	\$5,000,000
Unsecured, non-interest bearing notes arising from acquisition of businesses, generally payable over five-year periods	1,594,238
Other notes payable, substantially unsecured	700,461
	<u>\$7,294,699</u>
Less amounts due within one year classified as current liabilities	394,788
	<u>\$6,899,911</u>

The 5¾% notes were issued pursuant to an agreement which provides for annual prepayments of \$450,000 on the notes commencing in 1967. The agreement provides certain restrictions on the amount and type of indebtedness that can be incurred, the maintenance of specified ratios between certain assets and liabilities, and the conditions under which the business and assets of subsidiaries or other companies can be disposed of or acquired. Under terms of the agreement, the amount available for the payment of dividends (other than stock dividends) as of July 31, 1962, is \$883,338 plus fifty per cent of future earnings, less the excess, if any, of the cost of treasury stock acquired over the proceeds of any stock sold. Also, no dividend payments or treasury stock purchases can be made which would reduce consolidated net worth to less than \$10,500,000.

## *NOTE E—Capital stock*

Additional shares of the Company's capital stock were issued during the year in connection with the following:



	Shares Issued	Related Amounts in Excess of Par Value Credited to Paid-in Surplus
Acquisition of one subsidiary . . . . .	5,000	\$ 128,750
Private placement at prices not below the market price at date of placement . . . . .	19,319	586,138
Exercise of warrants by a former financial consultant of the Company . . . . .	11,250	129,375
Exercise of options under the Company's Stock Option Incentive Plan and a stock purchase agreement . . . . .	28,858	176,303
Issuance to stockholders as a stock dividend . . . . .	52,222	1,142,356
	<u>116,649</u>	<u>\$2,162,922</u>

The amounts shown above do not include 124,774 shares of stock issued during the year ended July 31, 1962, in connection with the acquisition of businesses accounted for as pooling of interests.

**NOTE F—Stock options and reservations**

The status at July 31, 1962, and the changes during the year then ended, in the number of shares reserved for and unexercised options granted pursuant to the Company's Stock Option Incentive Plan are summarized as follows:

	Total Option Price	No. of Shares Reserved For	
		Options Granted	Options Not Yet Granted
Balance at August 1, 1961 . . . . .	\$ 878,810	85,627	40,394
Granted . . . . .	556,211	21,671	21,671*
Increase for 5% stock dividend . . . . .	—0—	4,381	1,879
Exercised . . . . .	95,161*	17,308*	
Rescinded . . . . .	106,251*	5,046*	5,046
Balance at July 31, 1962 . . . . .	<u>\$1,233,609</u>	<u>89,325</u>	<u>25,648</u>

\*Denotes deduction

Option prices are not less than 95% of the quoted value of the Company's stock at the time the options were granted. Of the 89,325 shares reserved for options granted at July 31, 1962, only 10,406 shares with a total option price of \$95,018 were exercisable as of that date.

At July 31, 1962, 151,313 shares of the Company's unissued common stock were reserved for: exercise of warrants held by a former financial consultant to purchase 1,313 shares at a price of \$11.90 a share; exercise of warrants to purchase 50,000 shares at a price of \$31 a share attached to the 5¾% notes described in Note D; and possible sale to the Employee Stock Purchase Plan of up to 100,000 shares, none of which have been sold.

**NOTE G—Events subsequent to July 31, 1962**

A 5% stock dividend payable October 1, 1962, to shareholders of record at August 31, 1962 (fractional shares being payable in cash), was authorized by the Board of Directors on July 13, 1962. Such stock dividend requires the reservation of 5,749; 65; and 2,500 additional shares, respectively, under "anti-dilution" provisions of the stock option plan, the warrants held by a former financial consultant, and the warrants attached to the 5¾% notes. Of the 5,749 shares reserved for the stock option plan, 4,466 apply to options that have been granted but not exercised.

During August and September 1962, the Company entered into agreements to acquire three separate businesses for an aggregate consideration of \$500,000 in cash, \$200,000 in notes of the Company, and 27,800 shares of common stock of the Company.

**NOTE H—Commitments**

Leases on office and warehouse facilities in effect at July 31, 1962, require annual rental payments of approximately \$845,000 plus, in most instances, the payment of property taxes, insurance, and repairs. The leases have terms ranging from monthly to twenty years.

During the year ended July 31, 1962, the Company and its subsidiaries contributed \$266,154 to various retirement and profit-sharing plans. With respect to two such plans, consulting actuaries estimate that the amount required to fund past service costs at July 31, 1962, was \$443,751.

**Report of Independent Accountants**

**ERNST & ERNST**

2600 GULF BUILDING • HOUSTON, TEXAS

BOARD OF DIRECTORS,  
GULF & WESTERN INDUSTRIES, INC.,  
HOUSTON, TEXAS.

We have examined the consolidated financial statements of Gulf & Western Industries, Inc. and its consolidated subsidiaries for the year ended July 31, 1962. Our examination 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.

In our opinion, the accompanying balance sheet and statements of earnings, retained earnings, and paid-in surplus present fairly the consolidated financial position of Gulf & Western Industries, Inc. and its consolidated subsidiaries at July 31, 1962, and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles which, except for the changes in inventory pricing methods described in Note B, have been applied on a basis consistent with that of the preceding year.

Houston, Texas  
September 26, 1962

*Ernst & Ernst*

# Corporate Information

## Board of Directors

CHARLES G. BLUHDORN, *Chairman*  
Gulf & Western Industries, Inc., New York, N. Y.  
THOS. F. PLANT, *Vice Chairman*  
Gulf & Western Industries, Inc., Houston, Texas  
JOEL DOLKART  
Strasser, Spiegelberg, Fried & Frank, New York, N. Y.  
JOHN H. DUNCAN  
Gulf & Western Industries, Inc., Houston, Texas  
DAVID N. JUDELSON  
Oscar I. Judelshon, New York, N. Y.  
LEWIS M. KROHN  
Ira Haupt & Co., New York, N. Y.  
T. H. NEYLAND  
Gulf & Western Industries, Inc., Houston, Texas  
BASIL E. RYAN  
Car Parts Depot, Inc., El Paso, Texas  
IRWIN SCHLOSS  
Irwin Schloss & Co., Inc., New York, N. Y.  
WESLEY A. STANGER  
Riter & Co., New York, N. Y.

## Executive Committee

THOS. F. PLANT, *Chairman*  
CHARLES G. BLUHDORN  
JOEL DOLKART  
JOHN H. DUNCAN  
DAVID N. JUDELSON

## Officers

CHARLES G. BLUHDORN, *Chairman of the Board*  
THOS. F. PLANT, *Vice Chairman of the Board*  
JOHN H. DUNCAN, *President*  
WILLIAM W. BROWN, *Vice President*  
JOHN H. DeVRIES, *Vice President*  
DAVID N. JUDELSON, *Vice President*  
BASIL E. RYAN, *Vice President*  
T. H. NEYLAND, *Treasurer & Controller*

RICHARD H. FEDSON, *Assistant Treasurer*  
JOEL DOLKART, *Secretary*  
DANIEL C. ARNOLD, *Assistant Secretary*

## Transfer Agent

GULF & WESTERN INDUSTRIES, INC.  
740 Ann Street, N. W., Grand Rapids, Michigan

## Registrar

THE OLD KENT BANK AND TRUST CO.  
Grand Rapids, Michigan

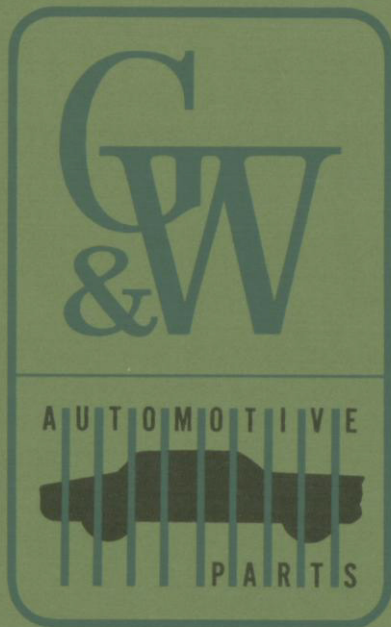
## Annual Meeting

November 13, 1962, Houston, Texas

## Principal Subsidiaries

Allbright's Auto Parts Incorporated  
American Parts Company, Inc.  
Auto Spring & Supply Company  
Beard & Stone Electric Company, Inc.  
Car Parts Depot, Inc.  
Casper Supply Company, Inc.  
E. S. Youse Company, Inc.  
Gulf Automotive Supply, Inc.  
Hendrie & Bolthoff Company, Inc.  
H. M. Parker & Son  
Jobber Service Warehouse  
The Motor Supply Company  
Overseas, S. A.  
Patten Sales Company of Jacksonville, Inc.  
The Scheufler Supply Company, Inc.  
Warehousing Service, Inc.

Autoparts Finance Company, Inc.  
Auto Precision Parts, Incorporated  
General Products Corporation  
Guaranteed Parts Corporation  
The Klock Corporation  
Mal Tool & Engineering Corporation  
Michigan Plating and Stamping Company  
Unicord Incorporated  
Unicord International, S. A.



GULF & WESTERN INDUSTRIES, INC.

HOUSTON / GRAND RAPIDS / NEW YORK

