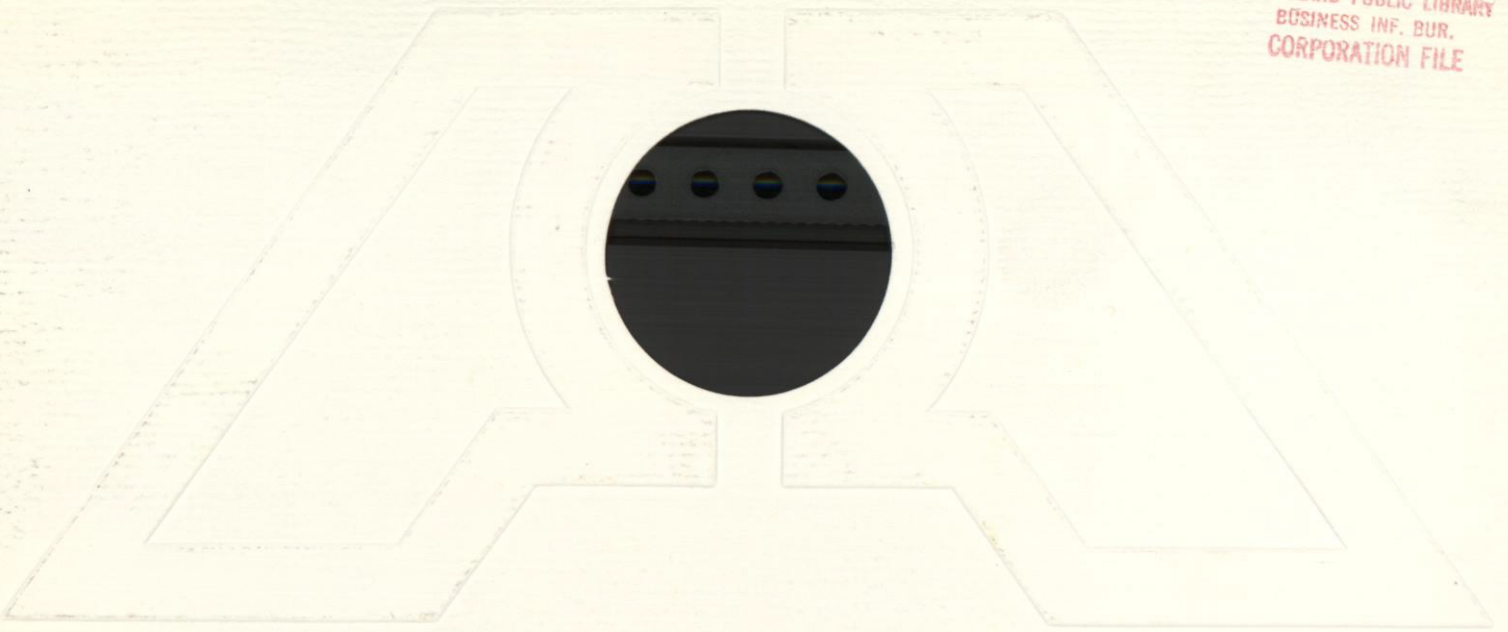
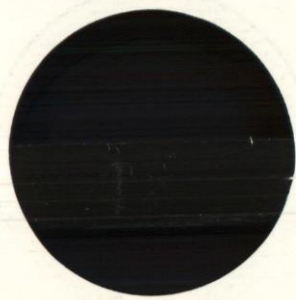


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GULF & WESTERN INDUSTRIES, INC. 1963 ANNUAL REPORT TO SHAREHOLDERS



**THE
AMERICAN
PARTS
SYSTEM**

The American Parts System is a unique concept of marketing automotive parts and services to the nation's independent parts jobbers.

GULF & WESTERN INDUSTRIES, INC. 1963 ANNUAL REPORT



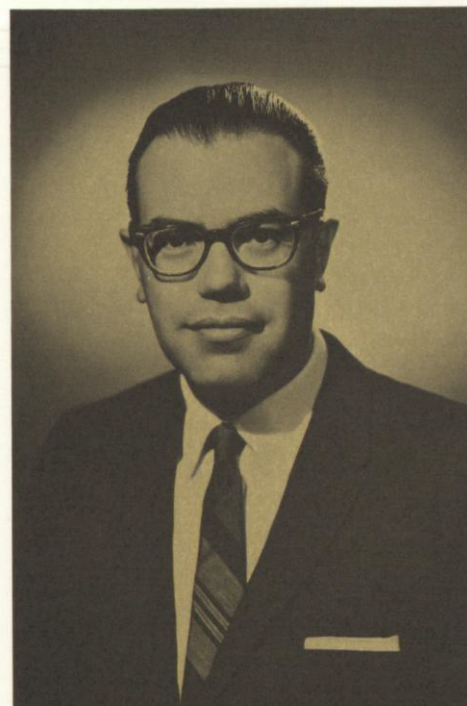
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REPORT TO OUR SHAREHOLDERS

2



CHARLES G. BLUHDORN
Chairman of the Board

JOHN H. DUNCAN
President



We are pleased to report a year of record sales and earnings. During this year in which automobile sales and production records have provided a broader base for the parts aftermarket, Gulf & Western Industries has been rapidly expanding its position as a national distributor, warehouse and manufacturer of automotive parts. Through continuing acquisitions of seasoned companies located strategically across the country, and through the strengthening and development of the American Parts System's program of marketing automotive parts and services to the independent jobber, Gulf & Western has recorded its most rewarding period of growth.

For the 12 months ended July 31, 1963, consolidated sales amounted to \$92,540,000, an increase of 30 per cent over the previous period. Earnings rose to \$2,630,000, a 24 per cent increase over the \$2,120,000 earned last year. Per share earnings amounted to \$1.73, as compared to \$1.46 last year, after adjusting the average number of outstanding shares last year to a comparable basis with this year's.

Sales and earnings per share for 1962 have been adjusted from the amounts previously reported in accordance with Note A on page 12 of this report.

Working capital as of July 31, 1963, was \$20,060,000, an increase of \$3,380,000 over the \$16,680,000 reported last year. The ratio of current assets to current liabilities is 2.2 compared to 2.1 last year.

A five per cent stock dividend, declared for the fifth consecutive year, will be paid October 1, 1963, to shareholders of record on August 30, 1963.

Acquisitions

During the past year, we acquired

eight well-established companies, broadening our scope of operations and intensifying our participation in the automotive industry as a whole. In keeping with our ultimate goal of a national system of automotive parts procurement and distribution, seven automotive parts companies were acquired, as well as a California-based engineering company.

The L. J. Messer Company, with twenty-one jobber outlets in Nebraska, Kansas and Colorado, and KaNebCo, Inc., are both headquartered in Lincoln, Nebraska. Two Philadelphia-based companies, Gaul, Derr & Shearer and Wm. & Harvey Rowland, Inc., added depth to our operations in the East. The Thomas S. Perry Company, Inc. and Jobber's Gasket Service, Inc., both of Atlanta, Georgia, serve customers in Georgia, North Carolina, South Carolina, Alabama, Tennessee and Florida as warehouse distributors.

Improving our position as a source of supply, the P. Sorensen Manufacturing Co., Inc., 60-year-old producer of automotive ignition parts, cable and wire, located at Glasgow, Kentucky, was acquired in November 1962.

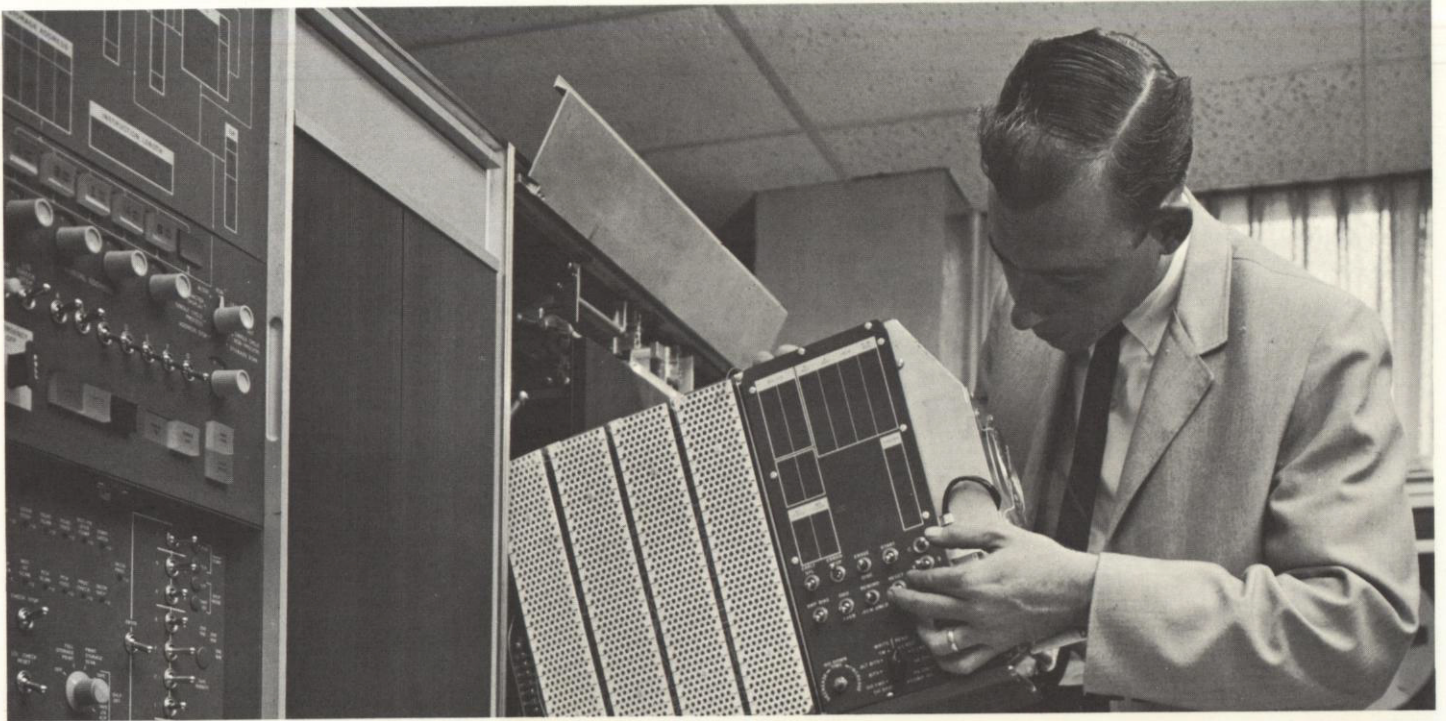
Our most recent acquisition is Rocket Jet Engineering Corp., Glendale, California. Primarily engaged in the design, development and manufacture of escape and survival equipment used in the life support systems of military aircraft and space capsules, Rocket Jet is recognized as a leader in its field. This 11-year-old organization, with its established reputation for quality engineering and service to the industry, complements similar activities in spacecraft research and development conducted by two other Gulf & Western companies, Mal Tool & Engineering Corporation and The Klock Corporation.

Our present sales volume, combined with conservative projections for other acquisitions anticipated for the near future, assure Gulf & Western of exceeding a \$100 million sales volume within the next 12 months. In addition, this planned expansion during the forthcoming year is expected to contribute substantially to the further development and growth of our American Parts System for independent jobbers.

American Parts System

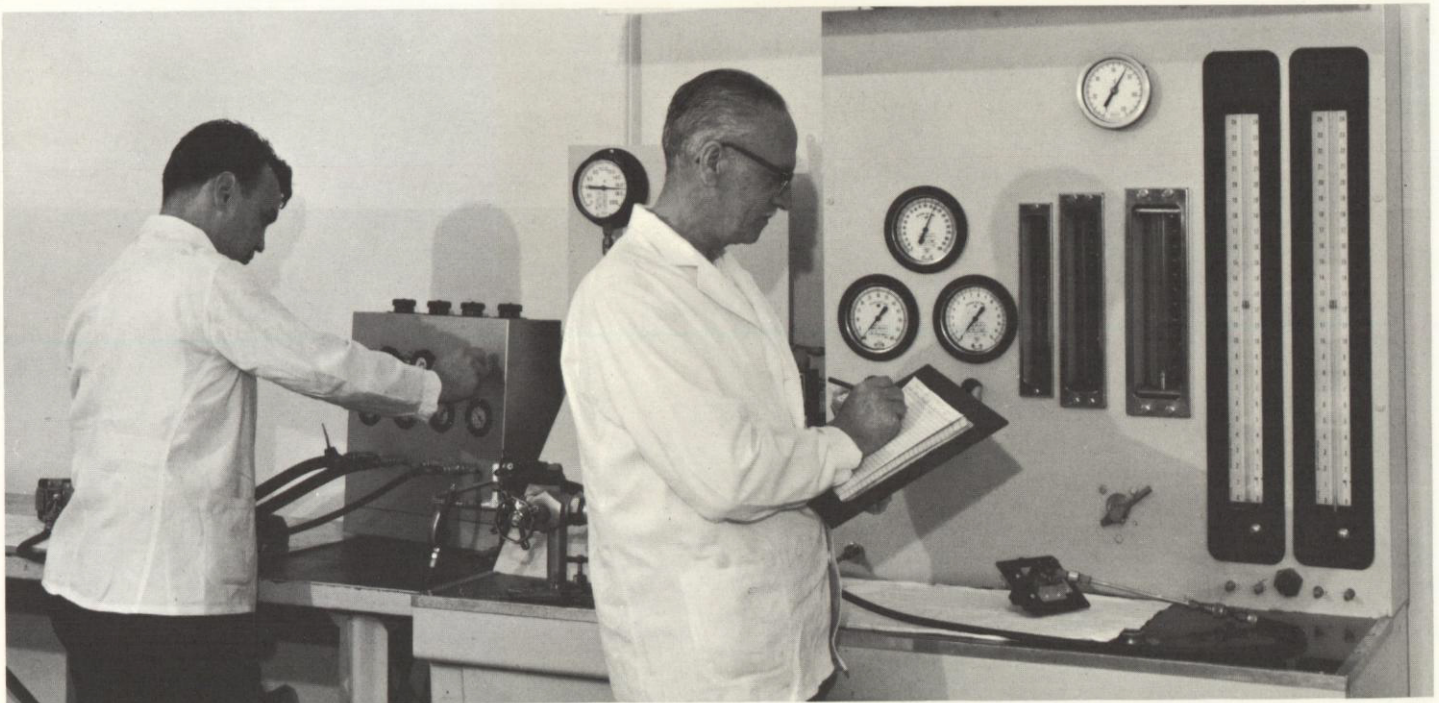
The development of the American Parts System throughout Gulf & Western's area of operations is up to expectations. This comprehensive program, designed to meet the broad requirements of the independent parts jobber, combines such important features as the availability of complete parts coverage from an authorized American Parts System warehouse; 100 per cent stock protection; sales and marketing service; management advisory service; inventory control and accounting systems; long-term financial assistance. All this adds up to an outstanding plan for establishing and expanding jobber facilities.

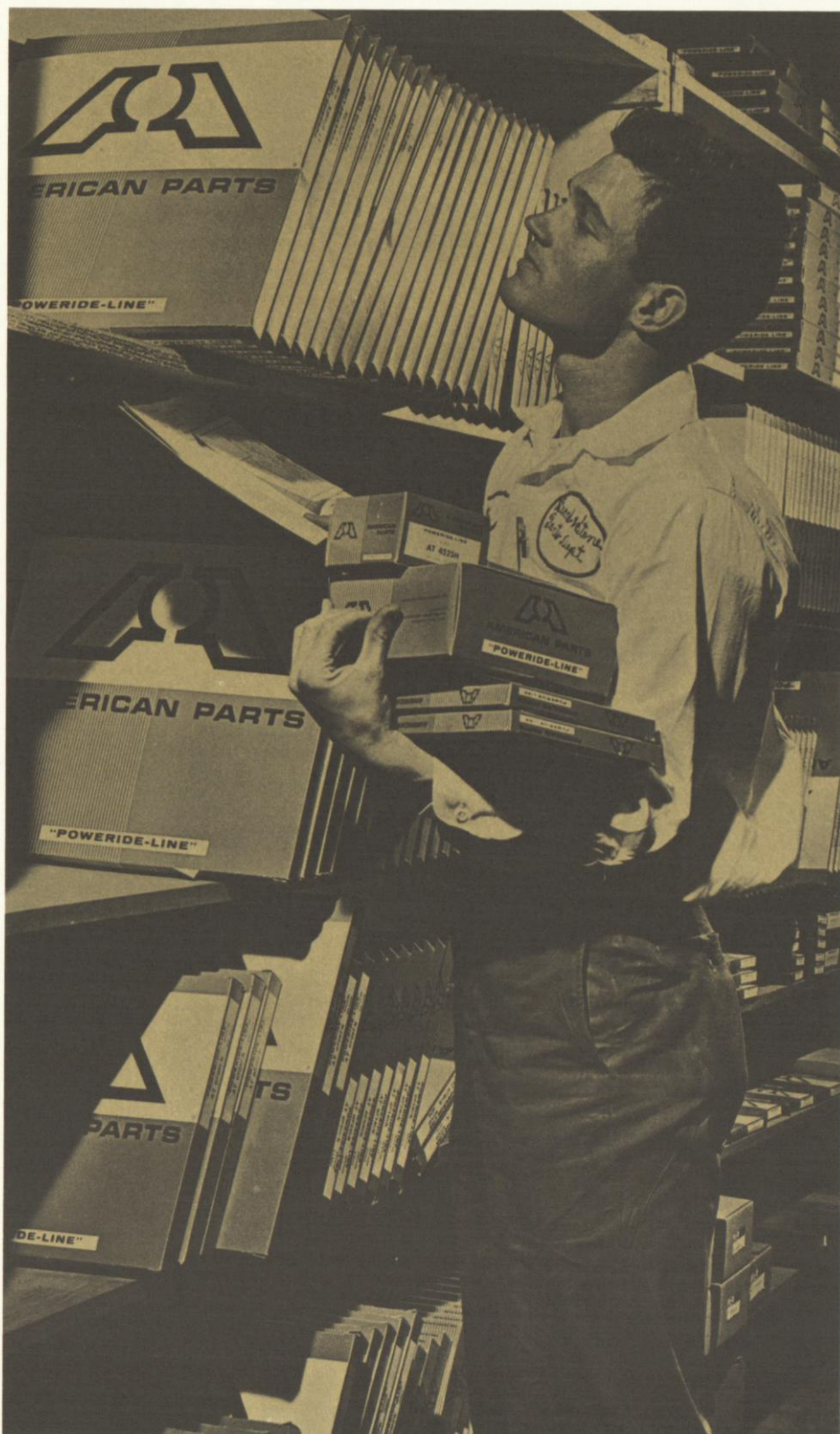
The interest manifested in this program is reflected in the number of inquiries from independent jobbers, with an average of 60 a month being received from all sections of the country. Most encouraging has been the acceptance of our program for recruiting desirable jobbers. During the fiscal year, the company met its goal of establishing 100 new American Parts associated jobbers. This phase of the American Parts System is constantly being expanded as applications come in and, after careful screening, new appointments are made. More important, the general interest exhibited by independent job-



Employing a 1401 computer at its Houston-based data processing center, Gulf & Western has been able to accelerate and centralize the processing of vital accounting data and statistics for its expanding automotive parts distribution system.

Skilled technicians rely on this hydraulic and pneumatic test stand at Rocket Jet Engineering Corp. for precision standards in the development of escape and survival equipment used in the life support systems of military aircraft and space capsules.





bers underscores the feasibility of the Gulf & Western marketing concept.

Internal Progress

The company's data processing facilities, established slightly more than a year ago, have proved most useful. Computer applications have been extended to cover additional accounting data, providing management with numerous levels of statistical and financial analyses of subsidiary operations. At present, information concerning sales, purchasing, inventory, etc., is being processed at the computer center for 60 per cent of our automotive parts distributors.

In addition to standardization of accounting procedures, progress has been made in consolidating both general insurance and employee group insurance. Existing programs have been broadened, accruing many substantial benefits for the employees, individual companies, and Gulf & Western as a whole.

Recognizing the need in a rapidly-growing and geographically-scattered organization for employee communications and education, an employee development program is in planning. This program will actively improve the individual employee's opportunity and, at the same time, acquaint him with ultimate Gulf & Western objectives and motives.

Manufacturing and Other Operations

Complementing the growth of Gulf & Western's distribution complex, similar progress is shown by the automotive parts and related manufacturers selected to supplement distribution facilities. In addition to

The Big A, readily identified with Gulf & Western's American Parts System of marketing automotive parts, is rapidly becoming known throughout the industry as the symbol for superior quality and service.

the already-mentioned P. Sorensen Manufacturing Co., Inc., there is Auto Precision Parts, Incorporated, which manufactures brackets to support shock absorbers, as original equipment for most of the country's automobile makers. General Products Corporation, with a record year in sales, produces ignition parts, custom-molded plastics, industrial capacitors and precision electrical parts and assemblies for both public and military applications. Michigan Plating and Stamping Company, now in the final stages of enlarging plant facilities, manufactures bumpers and bumper parts for passenger cars and trucks. Guaranteed Parts Co., Inc. is a national supplier of automotive electrical parts to the service industry.

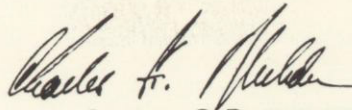
Contributing to Gulf & Western's basic structure and profits are a select group of non-automotive companies, whose past performance and industry-demand indicate excellent growth and earnings potential. These are Mal Tool & Engineering Corporation, with plants in Connecticut and Florida, producing precision parts and assemblies for jet engines, rockets and other spacecraft; The Klock Corporation, also in Connecticut, thermal processor of space-age metals and maker of sub-assemblies for aircraft and missile components; and Rocket Jet Engineering Corp., described earlier in this report. In addition, Unicord Incorporated is an assembler and national distributor of the electric chord organ and other musical instruments. Its lines were expanded within the past year through the acquisition of Merson Musical Products Company.

Conclusion

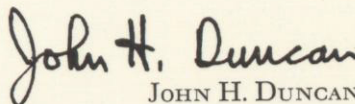
Gulf & Western's national system of providing and distributing automotive replacement parts has con-

tinued to move forward in all areas. Of total sales of \$92,540,000 this fiscal year, 90 per cent is directly attributable to automotive parts functions. Through its expanding warehouse system, now numbering 20, located in major marketing centers across the country, Gulf & Western serves thousands of independent jobbers in addition to 238 associated and owned jobbers. The present 18-state marketing area where Gulf & Western operates through its parts subsidiaries accounts for 51 per cent of the 66,000,000 automobiles registered in America today, providing a sound base for future expansion.

The accelerated growth in the automobile industry over the past decade supports our initial decision to enter the replacement parts field and establish a nation-wide system of parts warehousing and marketing at the wholesale level. Since making this decision in early 1958, we have seen continued confirmation of our projections through the growth and success of our business. Today, more than ever, we are confident of our opportunities for the profitable fulfillment of our goals.



CHARLES G. BLUHDORN
Chairman of the Board



JOHN H. DUNCAN
President

September 25, 1963

COMPARATIVE HIGHLIGHTS — Years ended July 31, 1963, and July 31, 1962

	1963	INCREASE	1962	
			ADJUSTED FOR POOLING	AS PREVIOUSLY REPORTED
Net sales	\$92,537,000	29.7%	\$71,371,000	\$65,646,000
Net earnings after taxes	\$ 2,633,000	24.4%	\$ 2,117,000	\$ 1,767,000
Average shares outstanding (A)	1,526,000	5.4%	1,448,000	1,309,000
Earnings per share	\$ 1.73	18.5%	\$ 1.46	\$ 1.35
Current assets	\$37,071,000	17.9%	\$31,434,000	\$29,217,000
Current liabilities	\$17,011,000	15.3%	\$14,754,000	\$13,683,000
Working capital	\$20,060,000	20.3%	\$16,680,000	\$15,534,000
Total assets	\$48,112,000	20.0%	\$40,094,000	\$37,610,000
Long-term debt	\$ 8,520,000	20.7%	\$ 7,056,000	\$ 6,900,000
Stockholders' equity	\$20,552,000	20.5%	\$17,048,000	\$15,790,000
Stockholders' equity per share (A)	\$ 13.33	17.2%	\$ 11.37	\$ 11.68

(A) Prior year average outstanding shares and the shares outstanding at the end of each year have been adjusted for 5% stock dividends paid through July 31, 1963; and the pooled amounts have been adjusted for shares issued in the acquisition of companies accounted for as a pooling of interests.

LIABILITIES	1963	1962	
CURRENT LIABILITIES		ADJUSTED FOR POOLING-NOTE A	AS PREVIOUSLY REPORTED
Notes payable to banks	\$ 6,082,776	\$ 3,858,469	\$ 3,753,469
Notes payable to others	266,954	791,845	791,845
Current maturities of long-term debt	474,087	408,788	394,788
Trade accounts payable	6,715,909	6,215,960	5,744,542
Accrued expenses	2,365,919	2,006,757	1,865,111
Federal taxes on income — estimated	<u>1,105,980</u>	<u>1,471,943</u>	<u>1,133,530</u>
TOTAL CURRENT LIABILITIES	\$17,011,625	\$14,753,762	\$13,683,285
LONG-TERM DEBT — less current maturities — Note E	8,519,658	7,055,911	6,899,911
DEFERRED FEDERAL INCOME TAXES — Notes B and C	1,916,988	1,124,910	1,124,910
MINORITY INTEREST IN CONSOLIDATED SUBSIDIARY	111,549	111,549	111,549
 STOCKHOLDERS' EQUITY			
Common stock at par value of \$1 a share (authorized 2,000,000 shares) — Note F	\$ 1,541,632	\$ 1,426,844	\$ 1,287,577
Paid-in surplus	10,537,384	7,881,433	7,220,424
Retained earnings	<u>8,472,974</u>	<u>7,739,761</u>	<u>7,282,092</u>
	<u>\$20,551,990</u>	<u>\$17,048,038</u>	<u>\$15,790,093</u>
	<u>\$48,111,810</u>	<u>\$40,094,170</u>	<u>\$37,609,748</u>

See notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

GULF & WESTERN INDUSTRIES, INC. AND SUBSIDIARIES July 31, 1963, and July 31, 1962

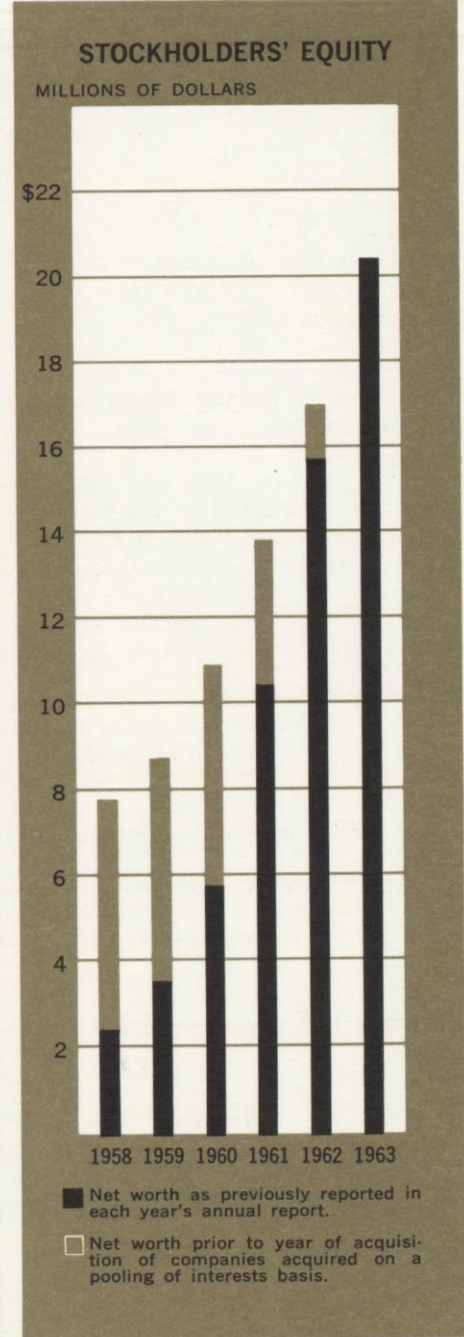
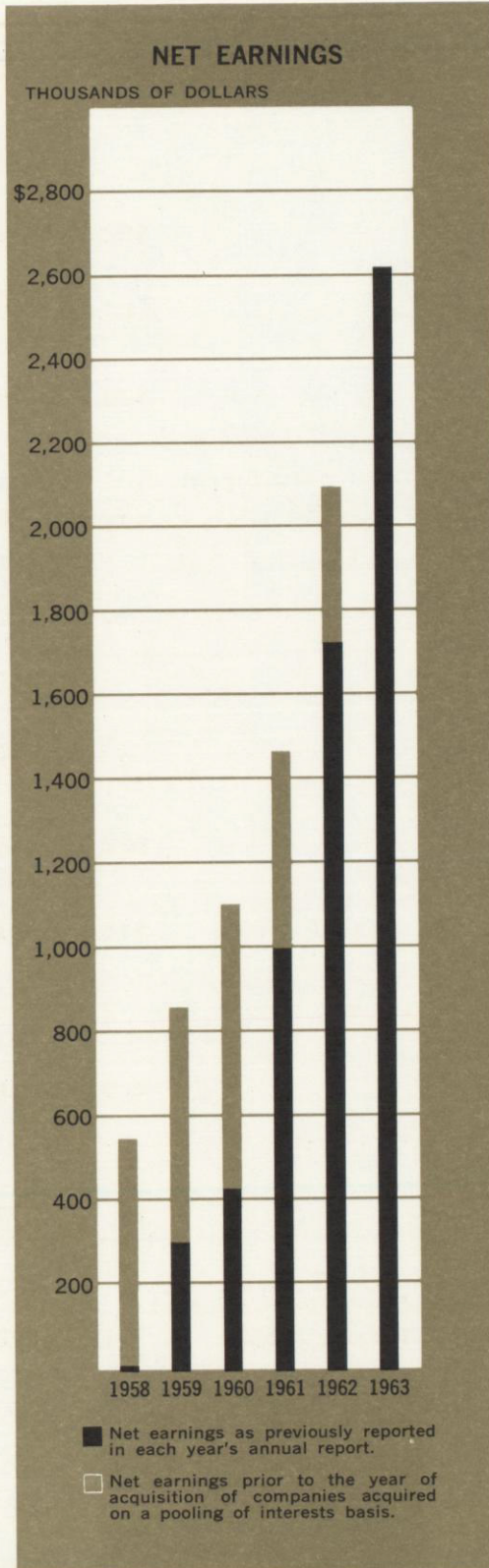
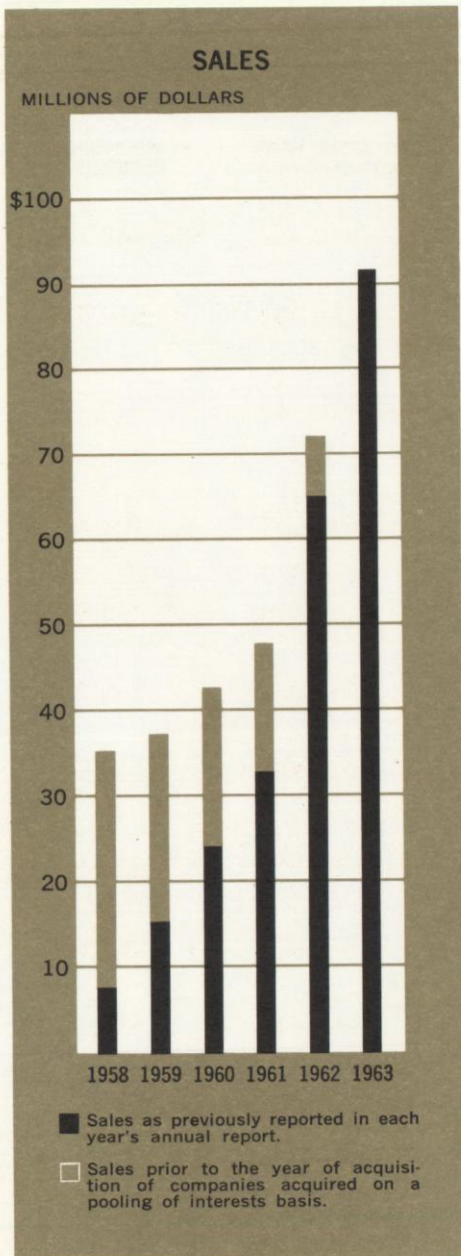
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ASSETS	1963	1962	
		ADJUSTED FOR POOLING-NOTE A	AS PREVIOUSLY REPORTED
CURRENT ASSETS			
Cash	\$ 3,120,316	\$ 3,499,014	\$ 3,046,987
Marketable securities — at cost (market value at September 16, 1963 — \$1,230,434)	937,692	2,825	2,825
Trade receivables, less allowances	11,236,029	9,681,288	9,023,349
Inventories:			
At last-in, first-out cost (current prices were higher by \$2,144,213 in 1963 and \$2,170,131 in 1962)	\$14,042,016	\$10,637,740	\$10,637,740
At lower of cost (first-in, first-out method) or market	7,101,408	6,834,820	5,735,256
	<u>\$21,143,424</u>	<u>\$17,472,560</u>	<u>\$16,372,996</u>
Prepaid expenses and other receivables	634,002	778,101	770,762
TOTAL CURRENT ASSETS	<u>\$37,071,463</u>	<u>\$31,433,788</u>	<u>\$29,216,919</u>
PROPERTY, PLANT, AND EQUIPMENT — at cost			
	\$12,080,147	\$10,255,361	\$ 9,895,875
Less allowances for depreciation and amortization	4,456,085	3,776,411	3,611,948
	<u>\$ 7,624,062</u>	<u>\$ 6,478,950</u>	<u>\$ 6,283,927</u>
OTHER ASSETS			
Investment in and advances to unconsolidated subsidiaries — Note A	\$ 334,238	\$ 131,629	\$ 131,629
Corporate stock held for investment — at cost — Note D	1,430,059	450,000	450,000
Deferred acquisition and merchandising program costs, less amortization — Note C	870,661	484,688	484,688
Intangibles — at cost, less amortization — Note B	355,305	497,936	497,936
Notes receivable, deferred charges, and other	426,022	617,179	544,649
	<u>\$ 3,416,285</u>	<u>\$ 2,181,432</u>	<u>\$ 2,108,902</u>
	<u>\$48,111,810</u>	<u>\$40,094,170</u>	<u>\$37,609,748</u>

TRENDS OF GROWTH

Six-Year Comparison, Years ended July 31, 1958, through July 31, 1963

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CONSOLIDATED STATEMENT OF EARNINGS

GULF & WESTERN INDUSTRIES, INC. AND SUBSIDIARIES

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Years ended July 31, 1963, and July 31, 1962	1963	1962	
		ADJUSTED FOR POOLING-NOTE A	AS PREVIOUSLY REPORTED
Net sales	\$92,536,868	\$71,370,852	\$65,646,165
Cost of goods sold	64,427,649	51,158,334	47,019,596
GROSS PROFIT — NOTE B	\$28,109,219	\$20,212,518	\$18,626,569
Selling, administrative, and general expenses — Note C	\$22,351,209	\$16,021,927	\$15,101,316
Amortization of intangibles — Note B	58,622	56,821	56,821
Interest expense	677,765	373,255	359,359
Other income* and deductions — net	133,328*	215,389*	173,352*
	\$22,954,268	\$16,236,614	\$15,344,144
EARNINGS BEFORE FEDERAL INCOME TAXES ...	\$ 5,154,951	\$ 3,975,904	\$ 3,282,425
Federal income taxes — estimated — Notes B and C	2,521,635	1,858,618	1,515,748
NET EARNINGS	\$ 2,633,316	\$ 2,117,286	\$ 1,766,677
Depreciation charges included above	\$ 937,277	\$ 708,307	\$ 660,173
Average number of shares of common stock outstanding (adjusted for shares issued as 5% stock dividend in October, 1962)	1,526,375	1,448,327	1,309,060
Net earnings per share	\$ 1.73	\$ 1.46	\$ 1.35

See notes to consolidated financial statements.

NOTE F — Stock options and reservations

The status at July 31, 1963, 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:

	Options Total Option Price	Outstanding No. of Shares	Shares Reserved for Future Options
Balance at August 1, 1962	\$1,233,609	89,325	25,648
Granted	406,222	15,950	15,950*
Granted by a pooled subsidiary prior to acquisition	73,424	3,046	3,046*
Reservation of additional shares			25,000
Increase for 5% stock dividend		4,423	1,282
Exercised	174,730*	19,987*	
Rescinded	24,225*	1,050*	1,050
Balance at July 31, 1963	<u>\$1,514,300</u>	<u>91,707</u>	<u>33,984</u>
Exercisable at July 31, 1963	<u>\$ 226,529</u>	<u>18,837</u>	

*Denotes deduction

Option prices are not less than 95% of the quoted value of the Company's stock on the American Stock Exchange on the date the options were granted.

At July 31, 1963, an additional 72,500 shares of the Company's common stock were reserved for issuance upon exercise of Common Stock Warrants delivered in connection with the 5 $\frac{3}{4}$ % notes described in Note D. The exercise price of such warrants is approximately \$29.50 a share.

NOTE G — Events subsequent to July 31, 1963

A 5% stock dividend payable October 1, 1963, to shareholders of record at August 30, 1963 (fractional shares being payable in cash), was authorized by the Board of Directors on August 12, 1963. Such stock dividend requires the reservation of 9,909 additional shares under "anti-dilution" provisions of the stock option plan and the warrants attached to the 5 $\frac{3}{4}$ % notes.

During September 1963, the Company entered into an agreement to acquire a business for 22,525 shares of common stock of the Company.

Note H — Commitments

The rentals payable annually by the Company and its subsidiaries under leases in effect at July 31, 1963, totalled approximately \$952,000. Many of the leases also require the lessee to pay property taxes, carry insurance and make repairs. The leases in effect have varying terms up to twenty years.

During the year ended July 31, 1963, the Company and its subsidiaries contributed \$291,905 to various retirement and profit-sharing plans. Consulting actuaries estimate that the amount required to fund past-service costs under the plans was \$286,528 at July 31, 1963.

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, 1963. 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 and stockholders' equity present fairly the consolidated financial position of Gulf & Western Industries, Inc. and its consolidated subsidiaries at July 31, 1963, 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.

Houston, Texas
September 25, 1963

Ernst & Ernst

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

GULF & WESTERN INDUSTRIES, INC. AND SUBSIDIARIES Year ended July 31, 1963

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NOTE A — Principles of consolidation and acquisition of businesses

The consolidated financial statements include the accounts of the Company and all its subsidiaries except Autoparts Finance Company, Inc. and one partially-owned subsidiary. All intercompany investments, accounts, and transactions have been eliminated upon consolidation.

The investment in Autoparts Finance Company, Inc. is carried at an amount equal to its underlying net asset value, and its earnings are included in the consolidated statement of earnings. Separate financial statements of Autoparts Finance Company, Inc. are included in this report. The investment in the partially-owned subsidiary is carried at cost, which is substantially equal to the Company's equity in underlying net assets.

Ten businesses were acquired by the Company or its subsidiaries during the year, three in transactions accounted for as pooling of interests and seven 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 their operations for periods prior to acquisition have been combined with the operations of the Company for corresponding periods. The accounts of the seven purchased businesses have been taken into consolidation on the basis of purchase cost, and their operations have been included in consolidation as of the date of acquisition.

NOTE B — Effect of business purchases on consolidated earnings

Cost of goods sold and gross profit for the year ended July 31, 1963, reflect the sale through regular trade channels of inventories acquired as part of the assets of purchased businesses at costs which

were approximately \$1,465,000 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, 1962, was approximately \$1,095,000. 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 \$762,000 in 1963 and \$569,000 in 1962 are deferred since they are due and payable only if, as, and when the total inventory is reduced below the amount originally purchased.

Consolidated earnings have been charged with \$59,000 for the year ended July 31, 1963, and \$57,000 for the year ended July 31, 1962, for amortization of amounts attributed to intangible assets of businesses purchased at amounts in excess of the net underlying assets.

The above net benefits of \$644,000 in 1963 and \$469,000 in 1962 have been used by the Company to offset many costs incurred in integrating newly-acquired companies into its operation.

NOTE C — Deferred acquisition and merchandising program costs

Administrative and general expenses for the years ended July 31, 1963, and July 31, 1962, are stated after the deferment of \$385,972 and \$267,480, respectively, which represent costs attributed to the Company's corporate acquisition and private-brand merchandising programs net of amortization of similar costs previously deferred. The expenses deferred are being amortized over five years or less to coincide with the period during which benefits should be derived. In computing taxable income, the deferred expenses are deducted in the year incurred, and provision for the applicable deferred income tax has been made by charges of \$201,000 and \$139,000 to consolidated earnings for the respective years.

NOTE D — Corporate stock subject to litigation

During the year ended July 31, 1963, the Company exercised an option to purchase corporate stock for \$1,392,222. Upon tender of the purchase price, the Grantor of the option refused to comply with the terms of the option agreement. The Company initiated an action to enforce its rights. At present both the corporate stock and the funds tendered by the Company are being held in escrow pending the outcome of the litigation. In the opinion of counsel, the Company will be successful in enforcing its rights. The escrowed stock is pledged as collateral on a bank loan, the proceeds of which were used for the purchase of the stock.

NOTE E — Long-term debt

Long-term debt at July 31, 1963, includes the following:

5 $\frac{3}{4}$ % notes due 1977 and 1978	\$7,000,000
Unsecured, non-interest bearing notes arising from acquisition of businesses, generally payable over five-year periods	973,867
Other notes payable, substantially unsecured	1,019,878
	<u>\$8,993,745</u>
Less amounts due within one year classified as current liabilities	474,087
	<u>\$8,519,658</u>

The 5 $\frac{3}{4}$ % notes were issued pursuant to Agreements which provide for installments on the notes totalling \$450,000 in 1967 and \$630,000 in each year thereafter. Under the terms of the Agreements, the payment of dividends (other than stock dividends) as of July 31, 1963, is limited to \$2,375,301, plus fifty per cent of future earnings, less the excess, if any, of the cost of treasury stock acquired over the proceeds of shares sold. No dividend payments may be made or treasury shares purchased, which would have the effect of reducing consolidated net worth to less than \$10,500,000.

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

GULF & WESTERN INDUSTRIES, INC. AND SUBSIDIARIES

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Year ended July 31, 1963	COMMON STOCK AT \$1 A SHARE	PAID-IN SURPLUS	RETAINED EARNINGS
Balance at July 31, 1962, as previously reported	\$ 1,287,577	\$ 7,220,424	\$ 7,282,092
Acquisition of three pooled subsidiaries	139,267	661,009	457,669
Balance at July 31, 1962, adjusted for pooling	\$ 1,426,844	\$ 7,881,433	\$ 7,739,761
Common stock issued:			
Purchase of six subsidiaries	31,490	794,023	
Exercise of stock options and warrants	21,365	168,990	
5% stock dividend (at fair value) — includes cash paid in lieu of fractional shares	63,383	1,600,421	1,691,086*
Stock and cash dividends paid and stock sold by pooled subsidiaries prior to acquisition		210,368	209,017*
Treasury stock acquired and re-issued in acquisition of a subsidiary	1,450*	46,038*	
Costs incurred on acquisition of pooled subsidiaries		71,813*	
Net earnings for the year			2,633,316
Balance at July 31, 1963	<u>\$ 1,541,632</u>	<u>\$ 10,537,384</u>	<u>\$ 8,472,974</u>

*Denotes deduction
See notes to consolidated financial statements.

FINANCIAL STATEMENTS

AUTOPARTS FINANCE COMPANY, INC.

STATEMENT OF EARNINGS

Year ended July 31, 1963

Interest and loan fees	\$53,162	
Expenses:		
Interest	\$18,537	
Salaries and other expenses	31,452	
Federal income taxes	952	50,941
NET EARNINGS	<u>\$ 2,221</u>	

BALANCE SHEET July 31, 1963

ASSETS

Cash	\$ 1,342
Notes receivable from jobber customers, secured by mortgages and assignments	983,750
Accrued interest and other	7,810
	<u>\$992,902</u>

LIABILITIES

Note payable to bank — secured by assignment of notes receivable and by guaranty of parent company	\$700,000
Accounts payable	1,034
Federal income taxes	952
Advances from parent company	188,695
Stockholder's equity, including \$2221 retained earnings	102,221
	<u>\$992,902</u>



Today nearly 79 million cars, trucks and buses travel America's streets and highways. A near-record automobile sales year is at hand, another predicted for 1964, still another for 1965. At the end of 1962, which was the second best production year in auto history, registrations soared to 78.7 million, a gain of 40 per cent in the past 10 years. Total registrations keep growing despite the fact that during this same period between four and five million vehicles were scrapped each year. By 1972, it has been estimated that there will be over 100 million vehicles on the highways.

In a nation whose vehicles last year traveled some 767 billion miles, the average automobile travels 104,000 miles in its 11-year life span, and each year requires \$100 in replacement parts.

What all this points to is the tremendous potential for automotive replacement parts. Last year, in this gigantic industry often referred to as the parts aftermarket, parts sales, not including labor, amounted to \$7 billion, an amount equal to 30 per cent of what the consumer spent on new vehicles. In this vital industry, Gulf & Western has introduced its American Parts System, an efficient program of marketing parts at the wholesale level throughout the nation.

In reaching this market, the American Parts System is designed to supply its customers through established channels of distribution with the required part when and where needed. The system encompasses every phase involved in supplying a specified part to the ultimate consumer, the car owner. Its procurement function includes both purchasing and manufacturing; the end products represent both American Parts brands and national manufac-

turers' brands; its distribution procedure is channeled through its warehouse system serving thousands of independent jobbers, as well as owned outlets and a growing number of associated jobbers.

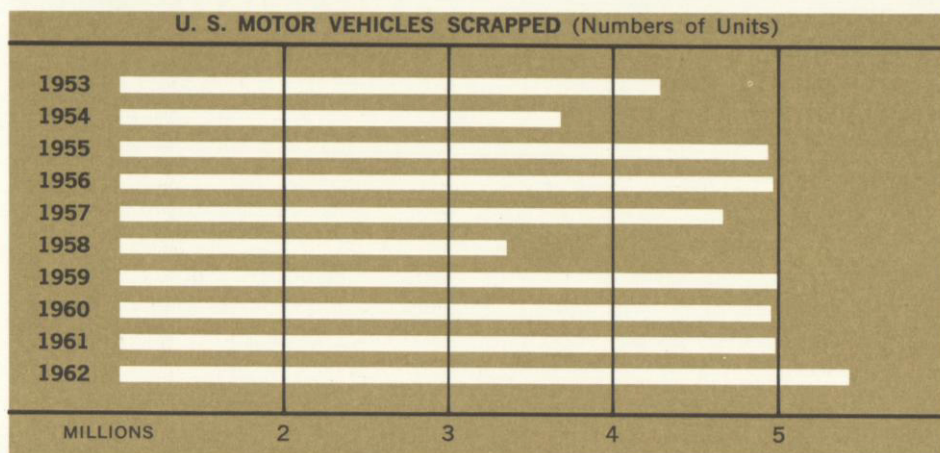
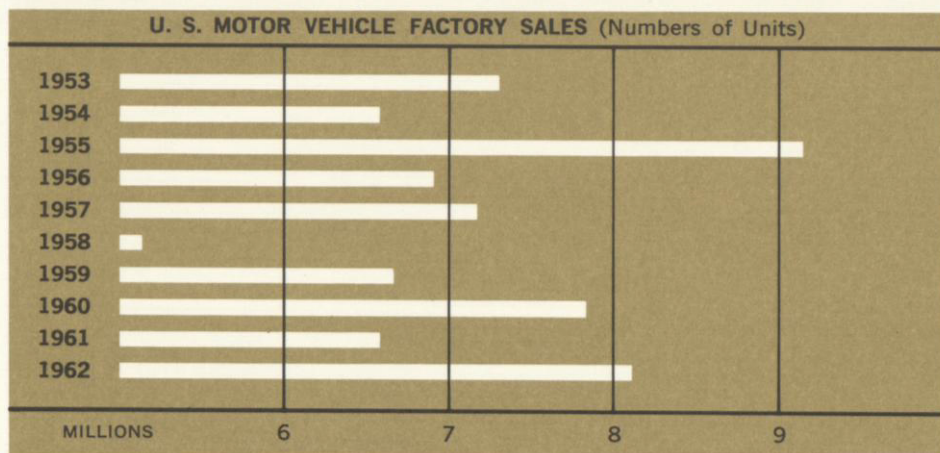
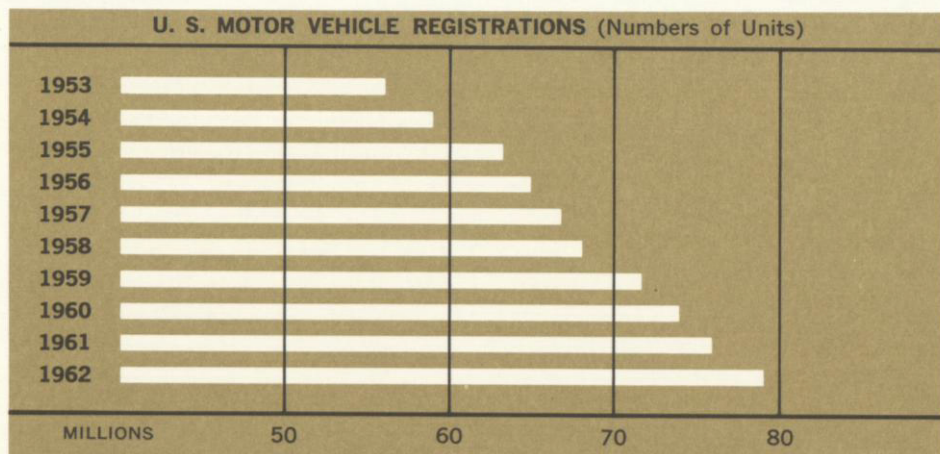
The PSG Plan for Jobbers

In order to bolster its marketing concept, the American Parts System has organized a jobber recruitment program that not only expands distribution facilities, but assures jobber operation within American Parts System marketing principles. The PSG Plan, defined as Profit, Security and Growth, provides to qualified applicants a 23-point platform of service and guidance, ranging from financial assistance to store layout to balanced inventory to obsolescence protection to advertising and promotion. Trade advertising of the American Parts System during the past year has created a great deal of jobber interest, with a scheduled one hundred jobbers actually established within the PSG Plan.

American Parts Brands

The American Parts System provides broad coverage of national manufacturers' brands, supplemented by American Parts brands in two general categories. Under its Poweride-Line name, the American Parts System now offers the most comprehensive line available in engine, chassis and automatic transmission parts; universal joints, timing gears and chains. For the first time, this line is available to the trade with the convenience, service and economy of a complete catalog, order form and delivery source. Further additions to Poweride will serve to extend the presently inherent benefits of the line.

The second category is the General



The number of vehicles on the roads and highways continues to increase. Average annual production necessary to satisfy this demand from 1953 to 1962 was 7.2 million cars and trucks each year. Last year scrappage rose to 5.5 million vehicles. Current predictions that a market for more than 8 million vehicles exists this year are further supported by the fact that there are twice as many multiple-car families today than there were ten years ago, and this trend is still increasing.

Service Line. Offering the advantages of one catalog and source, the General Service Line is constantly being expanded and eventually will provide automotive jobbers with as many as 15,000 to 20,000 miscellaneous service and maintenance supply items.

Finance Company

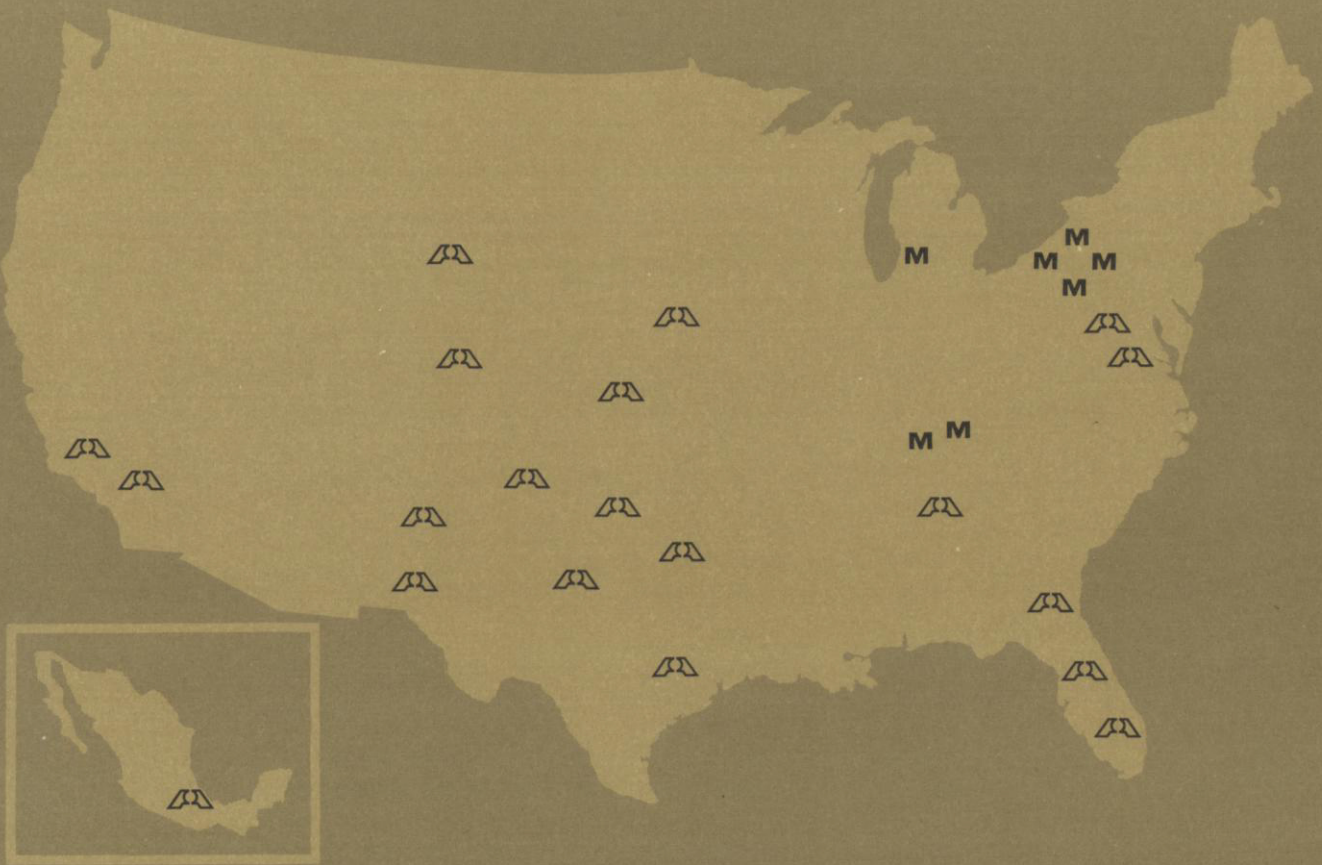
Organized to work with independent jobbers who participate in the American Parts System associated jobber program, Autoparts Finance Company was established as a separate subsidiary over a year ago to provide long-term financing to qualified automotive jobbers who require additional capital for expansion. Over the past fiscal year, the company has made loans of approximately one million dollars. These loans have been extended to jobbers in all parts of the country. Each loan is tailored to fit the needs of the particular jobber and loans are made to supplement his investment in a new outlet or in expansion of his present operation.

American Parts System in the Aftermarket


The first advertisement of the American Parts System appeared in national trade magazines last October. The interest generated in this program, as a result of placing it before the trade during the past 10 months, has been so widespread that inquiries have been received from all but four states.

Although all vehicles regardless of age are potential customers for parts and accessories, the demand for parts naturally increases with age. In the United States last year, the average car on the road was six years old, and the average truck was eight years old. This bodes well for the future market of the American Parts

AUTOMOTIVE PARTS OPERATIONS EXPANDED



Legend

-  American Parts System Warehouses
M-Automotive Parts Manufacturing Facilities

Gulf & Western, through its various automotive parts subsidiaries, has consistently developed and broadened its system of marketing parts over the past six years. From a single product company with annual sales of \$6.5 million and a net worth of \$2.3 million at July 31, 1957, the company has expanded to a nation-wide distribution and manufacturing organization. At July 31, 1963, annual sales were \$92.5 million and net worth was \$20.5 million. Gulf & Western's basic network of automotive companies is presently comprised of seven manufacturing facilities and 20 automotive parts warehouses. These warehouses are located in centers of distribution across the country and in Mexico to serve thousands of independent jobbers, as well as the company's 238 owned and associated jobbers.



Because of the increasing complexity and number of automobile components, the average car today contains some 15,000 parts. Skilled craftsmen at more than 335,000 automotive repair shops and other facilities use billions of dollars of replacement parts annually in maintaining the nation's automotive fleet in top running condition.

System; but even more assuring is the fact that when new car sales are down, the market for parts is secure since people tend to drive their present cars longer and, therefore, require more and more parts to keep these cars on the road.

On the other hand, during good times when automobile sales are up, the aftermarket grows with the increase in registrations. In addition to broadening the market by increasing the total number of vehicles, prosperous owners are prone to take better care of their cars by replacing inefficient parts and adding extras.

Evidence of the stability of the aftermarket sales is to be found in

industry statistics for 1958, which recorded that while factory sales of new cars fell 28 per cent, replacement parts sales gained.

The attractiveness of the aftermarket has been widely publicized in recent years and the obvious result has been increased competition. However, Gulf & Western's American Parts System, developed over the past six years, and now with a proven record, is rapidly expanding into all areas of the nation. As the American Parts System captures an increasing share of the aftermarket sales, its pre-eminent position in the market place will assure Gulf & Western's growth.

BOARD OF DIRECTORS

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Houston, Texas

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Allbright's Auto Parts Incorporated
Riverside, California

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Gulf & Western Industries, Inc.
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Irwin Schloss & Co., Inc.
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WESLEY A. STANGER, JR.
Riter & Co.
New York, N. Y.

COMMON STOCK

Gulf & Western common stock is listed on the American Stock Exchange and the Detroit Stock Exchange under the symbol GFW.

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CHARLES G. BLUHDORN
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and Secretary
DAVID N. JUDELSON, Vice President
T. H. NEYLAND, Financial Vice
President and Assistant Secretary
D. F. GASTON, Treasurer
and Controller

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 12, 1963, Houston, Texas



PRINCIPAL COMPANIES AND DIVISIONS

Allbright's Auto Parts Incorporated
Auto Spring & Supply Company
Beard & Stone, Inc.
Car Parts Depot, Inc.
Casper Supply Company
E. S. Youse Company, Inc.
Gaul, Derr & Shearer
Gulf Automotive Supply, Inc.
Hendrie & Bolthoff Company
H. M. Parker & Son
Jobber Service Warehouse
KaNebCo, Inc.
L. J. Messer Company
The Motor Supply Company
Overseas, S. A.
Patten Sales Company
Riverside Auto Parts Warehouse, Inc.
The Scheufler Supply Company, Inc.
Thomas S. Perry Company, Inc.
Warehousing Service, Inc.
Wm. & Harvey Rowland, Inc.

American Parts Company, Inc.
Autoparts Finance Company, Inc.
Auto Precision Parts, Incorporated
General Products Corporation
Glasgow Industries, Inc.
Guaranteed Parts Co., Inc.
The Klock Corporation
Mal Tool & Engineering Corporation
Michigan Plating and Stamping Company
Ocram Corporation
P. Sorensen Manufacturing Co., Inc.
Rocket Jet Engineering Corp.
Unicord Incorporated
Unicord International, S. A.



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