

P A C K A R D

M O T O R C A R

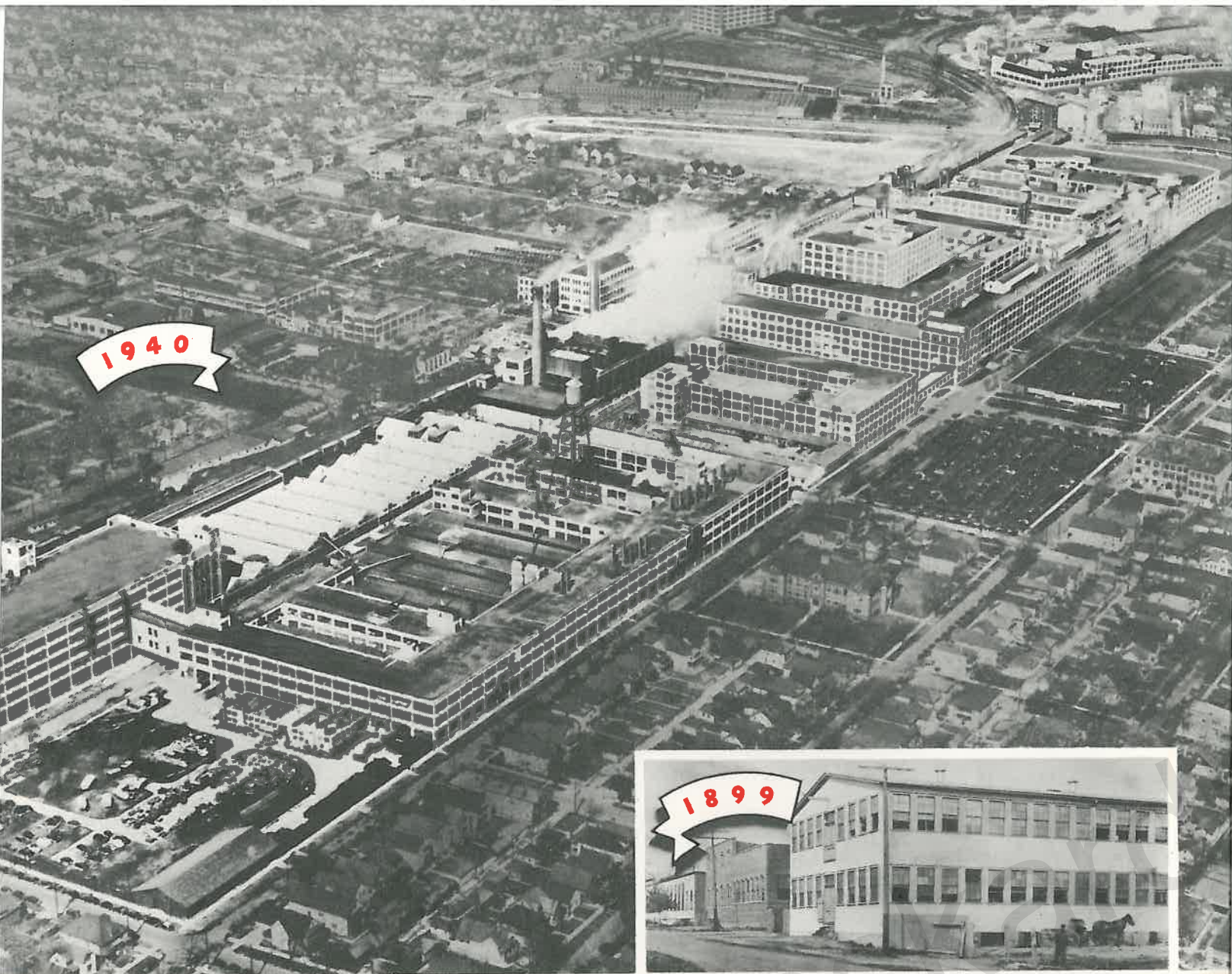
C O M P A N Y

Thirty-Sixth Annual Report

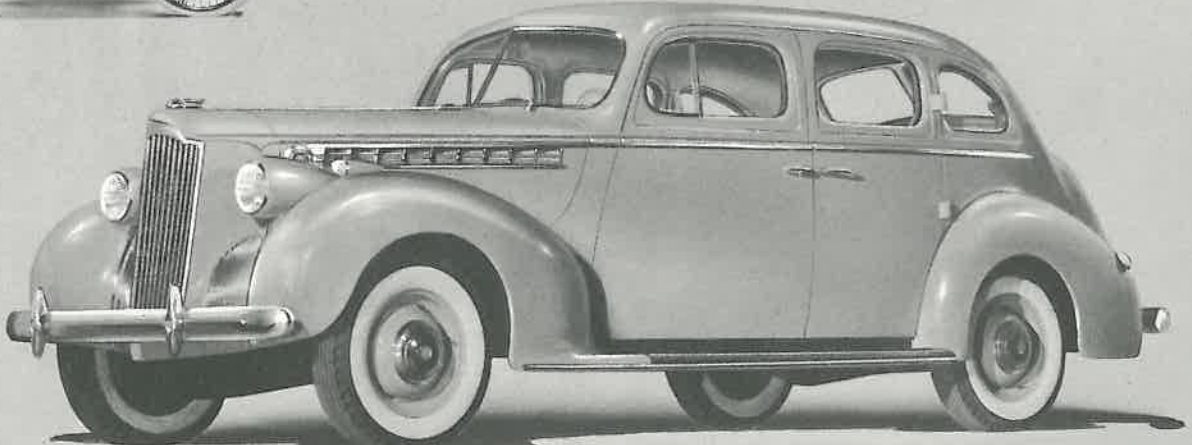
Year Ending December 31, 1939



*To be submitted to Stockholders at the Annual Meeting
in Detroit, Michigan, Monday, April 15, 1940*



MILESTONES From ZERO milestone in 1899, Packard has moved forward to milestone FORTY. From the tiny factory in Warren, Ohio, came the first Packard. There has been an unbroken succession of Packards since that time. The tremendous factory at Detroit today, is a tribute to a fine automobile that has earned public acceptance. Packard builders have pride in the knowledge that milestone FORTY finds them continuing to accept their self-imposed challenge . . . ASK THE MAN WHO OWNS ONE.



To the Stockholders of the

P A C K A R D

M O T O R C A R

C O M P A N Y

To the Stockholders of the
Packard Motor Car Company:

Net earnings for the year 1939 were \$545,867.42 after all charges including depreciation and provision for federal income taxes.

We made progress during this fifth year of our expansion program and although earnings were not satisfactory, it was an accomplishment to have successfully completed our plans for the year with a profit earned. The company is now well established in what may be described as the second phase of its growth. According to reliable sources some 400,000 Packard cars are owned in this country. Altogether, more than three-quarters of a million Packard cars have been produced since the first one was built 40 years ago. It is an interesting fact that nearly one-half of these Packards have been produced during the past five years, during which revolutionary changes have taken place in the company's markets, plants and products.

Operating results for these years are reviewed below, together with the industry's total yearly production of passenger cars, as a guide to the conditions under which they were obtained:

Calendar Year	Industry Production of Passenger Cars	PACKARD OPERATIONS			
		Cars Produced	Factory Sales	Consolidated Earnings	Dividends Paid
1935	3,387,806	52,256	\$ 49,966,420	\$ 3,315,622
1936	3,797,897	80,699	73,052,859	7,053,220	\$ 6,750,000
1937	4,068,935	109,518	94,422,478	3,052,212	3,750,000
1938	2,124,746	50,260	48,340,555	1,638,317 (d)
1939	2,975,530	76,573	63,425,063	545,867
Total	16,354,914	369,306	\$329,207,375	\$12,328,604	\$10,500,000

(d) Denotes a loss for the year.

Our operations were profitable in 4 out of the past 5 years during which our expansion program has been in effect. However these operating results alone do not provide an adequate basis for judging the company's opportunity for future growth and earnings, because they do not show the significant improvements that have been made in its position, competitive and otherwise, as for example:

Factory Delivered Price	Just prior to the expansion program Packard prices started at approximately \$2510. Currently, and as at the close of the year, Packard prices start at \$867 (delivered in Detroit, State taxes extra), a reduction of 65%.
Packard Market	As a result of this substantial reduction in prices, the potential market for Packard cars, which formerly had been limited to approximately 1% of all cars sold in this country, has now been increased to the extent that they are directly competitive with 40% of total domestic sales of all makes of cars.
Factory Capacity	Production capacity has been increased to at least 3 times the former potential output without the addition of factory buildings other than enclosed, connecting bridges.
Sales and Service Organization	The Packard domestic sales and service organization is 3 times its former size. Foreign outlets have been more than doubled.

The progress made during these years has required an unusual amount of engineering development, factory modernization and sales expansion. Committed to a program of widening the company's market by the introduction of new cars at lower prices, the Packard Six—now known as the Packard One-Ten—was launched in 1936 as a companion line to the already then established One-Twenty model. These lower priced Packard cars were designed independently and produced in a separate plant from our larger and more expensive Senior cars. Succeeding models were more unified in design and production, permitting substantial reductions in Senior car selling prices. Demand grew and production climbed. Peak

schedules taxed the facilities of the Six and One-Twenty division. We recognized the ultimate need for further expanding our capacity.

Surveys showed that a completely new factory lay-out was the solution for increased capacity, reduced handling of materials and lower costs. The expansion plan was checked and re-checked until we had determined the most practical combination of manufacturing efficiency and economy for our projected volume. Then gradually it was put into effect without disrupting production. Early in 1939 we had completed all of the planned changes that could be made without closing down the plant. The remainder was finished during the changeover for new models.

The former Six and One-Twenty plant is now the body shop from which the all-steel bodies for all models flow across the new conveyor-equipped bridge to the main plant in which is concentrated all the chassis parts machining, assembling and final car operations. In all there are some four miles of major conveyor and material handling systems. The new centralized paint mixing installation delivers lacquer to spray booths through a distribution system comprising 25 individual pipe lines totaling over eleven miles in length. The entire factory provides 89 acres of working floor space and is nearly a mile long. A cordial invitation is extended to stockholders, Packard owners, and the public to visit the factory in Detroit and see Packard's plants at work.

While increased capacity, better working conditions, improved quality and precision were obtained, the principal immediate benefit derived from this evolution of factory operations and facilities was, of course, lower manufacturing costs. These savings made it possible for us to take a much needed step and reduce prices May 1, 1939, to a point where our pricing position was comparable with competition with immediate beneficial effect on our volume of business and on the operations of Packard dealers and distributors.

Early in August we announced new 1940 model Packard cars. Soundly engineered, modernly styled and built to highest quality standards, they are giving excellent satisfaction in owners' hands. Prices are the lowest in Packard history. The new Super-8 models are powered by an entirely new motor, the most powerful eight cylinder engine built for passenger car use in this country.

Since lower prices were established last May, and especially since the introduction in the fall of new models for the 1940 season, Packard sales gains have been encouraging. Comparing the first four months of the 1940 model year, September through December, 1939, with the corresponding months of the 1939 model year, total deliveries of new Packard cars to customers increased 70.5%. In this connection, it should be noted that we had certain competitive advantages during the closing months of 1939.

Export shipments during the four months of the 1940 model year were 31.7% less than for the same months of the 1939 model year, because of conditions abroad. However there was a noticeable improvement in our export sales in other markets in the Western Hemisphere. Since January 1, 1940, worldwide deliveries of new Packard cars to customers have been approximately 60% more than for the same 1939 period.

It is interesting to note the various sources of our business. A recently completed survey of domestic sales of our 1940 models showed that for every 100 new Packard cars sold, competitive used cars were taken in trade on 50, used Packard cars were taken in trade on 42, and 8 sales did not involve a used car. Analysis of the 50 competitive used cars showed that 38 of them were makes of cars with models currently selling at lower prices and in larger volume, in comparison with Packard cars, and 12 were cars selling at higher prices and in smaller volume.

Further interesting and vital facts relative to the company's merchandising possibilities, developed by an independent research organization through market surveys, show that Packard has an immediate opportunity for extensive growth; that among buyers who consider more than one make of car, more of them seriously consider Packard than any other make with the single exception of one of the lowest priced cars.

At the close of the year Packard cars were being sold and serviced by 1854 distributors and dealers throughout the United States and Canada. This total, the largest number of domestic distributor-dealer outlets in the company's history, included 577 Packard dealers that had joined the distributing organization since September 1939. Packard dealers and distributors in foreign countries totaled 453 at the year-end. The average length of service of all domestic Packard distributors is 16 years, and for

distributers in the Packard export organization, 15 years. The estimated number of persons engaged in selling and servicing Packard cars throughout the world, is 22,500.

With mutual co-operation, relations with Packard employees continued to be satisfactory during the year. We believe that these satisfactory labor relations are due to a long history of fair dealing with employees. Factory personnel increased from 9,753 at the beginning of the year to 14,599 at December 31.

The company was owned by 116,471 Packard stockholders at the close of the year.

Having reviewed the year to year operating results from 1935 through 1939, the first five years of the company's operations in the lower priced markets, it is reassuring to note that the company's strong financial position has been carefully maintained as shown below:

	December 31, 1939	December 31, 1934	Increase
CASH AND SECURITIES	\$13,055,586	\$12,395,680	\$ 659,906
INVENTORIES	9,242,445	4,777,389	4,465,056
CURRENT ASSETS	25,997,114	18,656,432	7,340,682
CURRENT LIABILITIES	8,389,425	4,695,269	3,694,156
NET WORKING CAPITAL	\$17,607,689	\$13,961,163	\$3,646,526
CAPITAL AND SURPLUS OR NET WORTH OF THE COMPANY	43,448,802	41,614,136	1,834,666

Cash position was stronger and net working capital was larger. Our strong position in this respect was more than maintained although we paid out during this 5 year period approximately \$10,500,000 in dividends and \$9,000,000 in excess of normal replacements and maintenance, for plant improvement and rearrangement in connection with our expansion program.

Financial results for the year 1939 are shown in detail in the statements at the conclusion of this report and in condensed form, together with previous years' results on page 12. They are commented on and compared with our 1938 operations as follows:

INCOME ACCOUNT:

Factory Sales and Gross Profit	Factory sales for 1939 totaled \$63,425,062.82, an increase of \$15,084,508.27 or 31.2%. The gross profit earned on these sales amounted to \$4,864,084.11 and was 7.7% to sales as compared with \$2,271,973.68 or 4.7% to sales for 1938.
Operating Expenses	Administrative, selling and general expenses were \$2,933,262.99, an increase of \$380,115.49 for the year. The per cent to sales of these expenses, was reduced from 5.3% for 1938 to 4.6% for 1939.
Depreciation	Provision for depreciation of factory properties amounted to \$1,449,351.56 as against \$1,742,834.60 for the previous year.
Earnings	Branch and subsidiary operations showed a profit of \$17,827.49 as compared with a loss of \$81,158.76 for 1938. Consolidated net profit was \$545,867.42. For 1938, the combined net loss from factory, branch and subsidiary operations was \$1,638,317.43.

After having been out of the special engine business for several years, we undertook early in 1939 the development and production of a small number of high powered marine engines for the United States Navy. A considerable outlay for tools and special facilities was required for this new enterprise. Completion of the project was delayed by design and production problems and the loss sustained on the initial contract, approximately \$330,000, has been charged to cost of sales for the year. We now have another contract for a much larger number of these engines which, with the initial development cost behind us, should be a profitable undertaking.

BALANCE SHEET:

Cash Position	Cash and marketable securities totaled \$13,055,586.13 at December 31, 1939, an increase of 20% during the year.
Receivables	Accounts and notes receivable amounted to \$3,699,083.13 at the close of 1939. The reduction of \$565,540.51 was due chiefly to a sizable decrease in accounts and acceptances of Packard Motors Export Corporation, a subsidiary company.
Inventories	Total inventories were carried at \$9,242,444.89, an increase of \$2,623,871.27 as compared with the previous year-end. Larger production schedules and the consequent increase in raw materials and work in process accounted for most of this increase.
Current Assets	Total current assets, comprising the assets shown above were \$25,997,114.15. At the close of 1938 current assets totaled \$21,763,346.92.
Current Liabilities	Current liabilities, consisting of current accounts payable, payrolls, miscellaneous liabilities, and reserves for miscellaneous items, amounted to \$8,389,425.17, an increase of \$3,130,237.22 for the year, due to our larger volume of business transacted.
Net Property Investment	The net investment in land, buildings, equipment, etc., for manufacturing purposes was \$15,697,886.12 and for distribution purposes, \$10,580,526.12, a combined total of \$26,278,412.24. This represented a reduction of \$579,055.17 from the previous year-end due to depreciation provided at established rates, exceeding new plant additions for the year.
Deferred Charges	Prepaid insurance and other charges consisting principally of engineering development were practically unchanged, amounting to \$354,943.44.
Capital and Surplus	Capital and surplus at December 31 totaled \$43,448,802.20, equivalent to a book value of \$2.90 a share on the common stock outstanding.

The consolidated surplus account as at December 31, 1939, is shown on the balance sheet as \$13,448,802.20 of which \$7,585,046.29 is parent company surplus and \$5,863,755.91 surplus of subsidiaries.

By authority of the stockholders, \$20,000,000 was transferred in 1929 from surplus to capital account on the parent company's books. On April 18, 1932, and April 15, 1935, respectively, \$10,000,000, or a total of \$20,000,000 was re-transferred by the authority of the stockholders from capital to surplus account. The surplus reported each year has reflected the result of the above mentioned transfers and the annual profits, losses and dividends. There is included in the parent company surplus \$5,713,122.77 being the remaining balance of the amount so transferred to surplus, which may not be distributable by way of dividend; also, the surplus of subsidiary companies includes capital surplus of \$777,686.63 which may not be so distributed. These items total \$6,490,809.40.

Our program for the future is based on the same sound policy of superior product value, and service to the public, that has guided the company since it was founded. We are working aggressively to further improve the company's competitive position, to increase our volume of sales and earnings, and to put the company on a dividend paying basis. Packard has the necessary resources and organization to achieve these purposes.

We believe the automobile industry will build and sell a somewhat larger volume of cars in 1940 provided unforeseen developments do not adversely affect the course of general business. We may with assurance expect a larger share of the available business in 1940 than we secured in 1939, and an improvement in earnings for the year.

M. M. Silman

MARCH 22, 1940

PRESIDENT

BALANCE SHEET

Packard Motor Car Company

(A MICHIGAN CORPORATION)

and Subsidiary Companies

Consolidated Balance Sheet as of December 31, 1939

ASSETS

CURRENT ASSETS:

Cash in Banks and on Hand	\$ 7,442,685.24	
Investments, at lower of cost or quoted market value—		
United States Government Securities	4,909,979.72	
Municipal, State and Canadian Bonds	702,921.17	\$13,055,586.13
Accounts and Notes Receivable, less reserve—		
Accounts Receivable	\$ 1,186,630.14	
Deferred Installment Notes	2,512,452.99	3,699,083.13
Inventories, at or below cost—		
Raw Material, Work in Process, etc.	\$ 5,556,439.81	
Finished Motor Vehicles	3,686,005.08	9,242,444.89
Total Current Assets		\$25,997,114.15

MORTGAGES AND MISCELLANEOUS INVESTMENTS 457,757.54

CLAIMS FOR DEPOSITS IN BANKS AND TRUST COMPANIES CLOSED OR
UNDER RESTRICTION 323,889.32

PROPERTY ACCOUNT:

Land, at cost—		
For Manufacturing Purposes	\$ 1,954,461.30	
For Distribution Purposes	4,417,717.10	\$ 6,372,178.40
Buildings, Plant Equipment, etc., at cost—		
Manufacturing Properties	\$22,473,028.43	
Less—Reserve for Depreciation	8,729,604.61	13,743,423.82
Distribution Properties	\$ 9,445,779.35	
Less—Reserve for Depreciation	3,282,970.33	6,162,809.02
Rights, Privileges, Franchises and Inventions	1.00	26,278,412.24

DEFERRED CHARGES TO FUTURE OPERATIONS:

Prepaid Insurance and Other Expense	354,943.44	
Total Assets		\$53,412,116.69

LIABILITIES

CURRENT LIABILITIES:

Current Accounts Payable and Pay Rolls	\$ 5,670,040.26
Miscellaneous Liabilities, Not Yet Due	636,160.26
Reserves for Miscellaneous Items	1,776,510.84
Provision for Income Taxes	306,713.81
Total Current Liabilities	\$ 8,389,425.17

RESERVE FOR GENERAL PURPOSES 1,250,000.00

RESERVE FOR CLAIMS COVERING DEPOSITS IN BANKS AND TRUST COMPANIES CLOSED
OR UNDER RESTRICTION 323,889.32

CAPITAL STOCK:

Common (Authorized 25,000,000 Shares)	
No Par Value—Issued 15,000,000 Shares	30,000,000.00
(Includes 8,660 shares issued to Trustee for account of company, and not carried as an asset)	

SURPLUS:

Balance at December 31, 1938	\$12,902,934.78	
Add—Net Profit for the Year Ended December 31, 1939	545,867.42	13,448,802.20

NOTE—Consolidated Surplus of \$13,448,802.20 includes \$7,585,046.29 Parent Company surplus and \$5,863,755.91 surplus of subsidiaries. By authority of the Stockholders \$20,000,000 was transferred in 1929 from surplus to capital account on the Parent Company's books. Subsequently, a like amount was by authority of the Stockholders re-transferred from capital to surplus account. There is included in the Parent Company surplus \$5,713,122.77 being the remaining balance of the amount so transferred to surplus which may not be distributable by way of dividend; also, surplus of subsidiary companies includes capital surplus of \$777,686.63 which may not be so distributed.

Total Liabilities and Capital \$53,412,116.69

Packard Motor Car Company

(A MICHIGAN CORPORATION)

and Subsidiary Companies

STATEMENT OF INCOME

For the Year Ended December 31, 1939

PARTICULARS

FACTORY OPERATIONS:

Sales of Motor Vehicles and Service Parts, Etc.	\$63,425,062.82
<u>Deduct</u> —Cost of Sales	58,560,978.71
Gross Profit	\$ 4,864,084.11

Add—Other Income:

Discount on Purchases	\$ 191,202.08	
Interest and Rentals	70,540.69	
Miscellaneous	15,822.84	277,565.61

TOTAL GROSS PROFIT AND OTHER INCOME \$ 5,141,649.72

Deduct—Selling, General and Administrative Expense 2,933,262.99

PROFIT BEFORE APPLYING FACTORY DEPRECIATION AND SPECIAL ITEMS \$ 2,208,386.73

Add—Recoveries on Claims for Deposits in Closed Banks 16,420.10

Deduct—

Depreciation of Factory Properties	\$1,449,351.56	
Provision for Unrealized Foreign Exchange Loss	45,454.03	
Provision to Reduce Carrying Value of Securities to Lower of Cost or Quoted Market Value	21,961.31	
Provision for Federal Income Tax	180,000.00	1,696,766.90

NET PROFIT FROM FACTORY OPERATIONS \$ 528,039.93

NET PROFIT FROM OPERATIONS OF BRANCHES AND SUBSIDIARY COM-
PANIES AFTER PROVISION FOR INCOME TAXES 17,827.49

NET PROFIT FOR THE YEAR ENDED DECEMBER 31, 1939 \$ 545,867.42

PRICE, WATERHOUSE & Co.

RESIDENT PARTNER
A. J. BLOODSWORTH
CERTIFIED PUBLIC ACCOUNTANT

PENOBSCOT BUILDING

DETROIT

February 19, 1940

To the Board of Directors,
Packard Motor Car Company,
Detroit, Michigan.

We have examined the consolidated balance sheet of Packard Motor Car Company and its subsidiary companies as of December 31, 1939, and the statement of income for the year 1939, have reviewed the system of internal control and the accounting procedures of the companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the companies and other supporting evidence, by methods and to the extent we deemed appropriate.

Current assets and current liabilities in England and Canada have been included in the consolidated balance sheet at the prevailing rates of exchange at December 31, 1939. Fixed assets have been included at approximate U. S. dollar cost at date of acquisition. Foreign operating accounts have been converted into dollars at the approximate average of the month-end rates of exchange for the year. On the foregoing basis the net assets in foreign countries as at December 31, 1939, amounted to \$714,485.08, consisting of net current assets of \$464,299.25 and fixed and other assets of \$250,185.83. Of the total consolidated sales for 1939 approximately 9% represented foreign sales.

In our opinion, the accompanying consolidated balance sheet and related statement of income present fairly the position of Packard Motor Car Company and its subsidiary companies at December 31, 1939, and the results of operations for the year in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PRICE, WATERHOUSE & Co.

Packard Motor Car Company

(A MICHIGAN CORPORATION)

and Subsidiary Companies

FINANCIAL SUMMARIES

SALES AND EARNINGS SUMMARY

Calendar Year	1939	1938	1937	1936	1935
Factory Net Sales	\$63,425,063	\$48,340,555	\$94,422,478	\$73,052,859	\$49,966,420
Factory Net Profits	528,040	1,557,159 (d)	2,480,181	6,286,810	2,925,453
Branch and Subsidiary Net Profits	17,827	81,158 (d)	572,031	766,410	390,169
Total Net Profits	\$ 545,867	\$ 1,638,317 (d)	\$ 3,052,212	\$ 7,053,220	\$ 3,315,622

(d) Denotes a loss for the year.

CONDENSED CONSOLIDATED BALANCE SHEET

At December 31	1939	1938	1937	1936	1935
ASSETS					
Current Assets:					
Cash and Marketable Securities	\$13,055,586	\$10,880,150	\$ 5,902,371	\$14,357,664	\$12,986,236
Accounts and Notes Receivable	3,699,083	4,264,624	5,003,909	5,468,945	3,756,277
Inventories	9,242,445	6,618,573	12,987,289	9,965,011	8,108,638
Total Current Assets	\$25,997,114	\$21,763,347	\$23,893,569	\$29,791,620	\$24,851,151
Mortgages and Miscellaneous					
Investments	457,758	442,170	500,131	507,976	587,751
Claims for Deposits in Closed Banks	323,889	340,588	506,904	557,827	603,755
Property Account	26,278,412	26,857,467	28,453,449	27,374,908	27,008,289
Deferred Charges	354,944	349,139	373,616	355,209	286,982
Total Assets	\$53,412,117	\$49,752,711	\$53,727,669	\$58,587,540	\$53,337,928
LIABILITIES					
Current Liabilities	\$ 8,389,426	\$ 5,259,188	\$ 7,429,513	\$11,542,838	\$ 6,554,415
Reserve for General Purposes	1,250,000	1,250,000	1,250,000	1,250,000	1,250,000
Reserve for Deposits in Closed Banks	323,889	340,588	506,904	557,827	603,755
Capital Stock	30,000,000	30,000,000	30,000,000	30,000,000	30,000,000
Surplus	13,448,802	12,902,935	14,541,252	15,236,875	14,929,758
Total Liabilities and Capital	\$53,412,117	\$49,752,711	\$53,727,669	\$58,587,540	\$53,337,928

Packard Motor Car Company

DETROIT, MICHIGAN

Incorporated under the Laws of Michigan

DIRECTORS AND OFFICERS

Directors

TRUMAN H. NEWBERRY
HENRY E. BODMAN

ALVAN MACAULEY
M. M. GILMAN

JAMES T. McMILLAN
ROBERT B. PARKER

Officers

ALVAN MACAULEY
Chairman of the Board

M. M. GILMAN
President and General Manager

J. G. VINCENT
Vice-President of Engineering

HENRY E. BODMAN
Vice-President and General Counsel

G. T. CHRISTOPHER
Vice-President of Manufacturing

HUGH J. FERRY
Secretary and Treasurer

W. M. PACKER
Vice-President of Distribution

MILTON TIBBETTS
Vice-President and Patent Counsel

LEE J. EASTMAN
Vice-President

A. G. DENISON
Assistant Secretary and Assistant Treasurer

EUGENE C. HOELZLE
Comptroller

Active Subsidiary Companies

Packard Motor Car Company of New York

Packard Motor Car Company of Chicago

Atlanta Packard Motors, Inc.

Packard Motor Car Company of Canada, Limited

Packard Motors Export Corporation

Packard Motor Sales Company

Packard Limited, London, England

Transfer Offices

Packard Motor Car Company
Detroit, Michigan

Guaranty Trust Company of New York
New York City

Registrars of Stock

Detroit Trust Company
Detroit, Michigan

City Bank Farmers Trust Company
New York City

Auditors

Price, Waterhouse & Co.

THE NEW 1940 PACKARD CARS

THE PACKARD ONE-TEN

. \$ 867* *and up*

THE PACKARD ONE-TWENTY

. \$1038* *and up*

THE PACKARD SUPER-8 ONE-SIXTY

. \$1524* *and up*

THE PACKARD CUSTOM SUPER-8 ONE-EIGHTY

. \$2243* *and up*

**all prices, delivered in Detroit, State taxes extra.*

Stockholders can further their own company interests by buying Packard cars, by influencing their friends to do so, and by furnishing the names of people who ought to own them.

A S K T H E M A N



W H O O W N S O N E