Annual Report 1960

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STUDEBAKER-PACKARD CORPORATION

Corporate Office

635 South Main Street, South Bend 27, Indiana

Plants

Automotive Division	South Bend, Indiana
Canadian Subsidiary (Automotive)	Hamilton, Ontario, Canada
Mexican Subsidiary (Automotive)	Tlalnepantla, Mexico
Clarke Floor Machine Company Division	Muskegon, Michigan
CTL Division	Cincinnati, Ohio (home office) Santa Ana, California
Gering Plastics Division	Kenilworth, New Jersey
Gravely Tractors Division	Dunbar, West Virginia (home office) Albany, Georgia Fort Scott, Kansas Buckfastleigh, Devon, England
Onan Division	Minneapolis, Minnesota

Transfer Agents

First National City Trust Company, New York
Continental Illinois National Bank and Trust Company of Chicago

Registrars

The Chase Manhattan Bank, New York
The First National Bank of Chicago

Certified Public Accountants

Ernst & Ernst, Chicago

Annual Report

FOR THE YEAR ENDED DECEMBER 31 1960

STUDEBAKER-PACKARD CORPORATION

STUDEBAKER-PACKARD CORPORATION
AND CONSOLIDATED SUBSIDIARIES

Highlights of the Year	1960	1959
During the Year:		
Unit sales of cars and trucks	133,984	182,323
Net sales	$323,226,663	$387,372,375
Net income	$ 708,850	$ 28,544,338
Net income per share (assuming complete conversion of the Corporation's $5 Convertible Preferred Stock)	$.05	$2.37
Average number of employees	12,002	11,307
At December 31:		
Cash and marketable securities	$ 29,893,863	$ 62,164,009
Current assets	$105,616,667	$122,544,499
Current liabilities	$ 38,269,691	$ 48,885,398
Ratio	2.76	2.51
Working capital	$ 67,346,976	$ 73,659,101
Property, plant and equipment	$ 48,946,857	$ 33,626,269
Long-term debt	$ 25,815,302	$ 22,835,000
Shareholders' equity	$ 98,954,095	$ 89,597,187

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STUDEBAKER-PACKARD CORPORATION

Officers

Clarence Francis	*Chairman of the Board*
Sherwood H. Egbert	*President and Chief Executive Officer*
Byers A. Burlingame	*Vice President and Comptroller*
C. M. MacMillan	*Vice President—Industrial Relations*
Wm. D. Mewhort	*Vice President—Diversification*
Melvin L. Milligan II	*Secretary*
Arthur E. Gotsch	*Treasurer*
Eugene Felsenthal	*Assistant Secretary*
Stanley B. Feuer	*Assistant Secretary*
Kenneth Thomas	*Assistant Secretary*
Gayle S. Hornbaker	*Assistant Treasurer*
P. A. Braner	*Assistant Comptroller*

Divisions and Subsidiaries

Automotive Division	A. J. Porta	*Executive Vice President and General Manager*
Chemical Compounds Division	C. Dwight Liggett	*General Manager*
Clarke Floor Machine Company Division	Ernest Cooper	*Vice President and General Manager*
CTL Division	Elmer P. Warnken	*Vice President and General Manager*
Gering Plastics Division	Larry Gering	*Vice President and General Manager*
Gravely Tractors Division	D. Ray Hall	*Vice President and General Manager*
Onan Division	C. Warren Onan	*General Manager*
Mercedes-Benz Sales, Inc.	Lon A. Fleener	*President*
Studebaker-Packard of Canada, Limited	Gordon E. Grundy	*President*
Studebaker-Packard de Mexico, S.A.	Clark R. Fletcher, Jr.	*President*

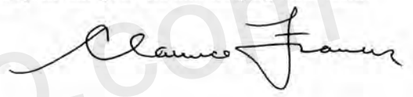
Directors

Harold E. Churchill	*Consultant*
Sherwood H. Egbert	*President and Chief Executive Officer*
J. Russell Forgan	*Partner of Glore, Forgan & Co., New York*
Clarence Francis	*Chairman of the Board*
Randolph H. Guthrie	*Partner of Mudge, Stern, Baldwin & Todd, Attorneys, New York*
D. Ray Hall	*Vice President and General Manager, Gravely Tractors Division*
Dr. Edward H. Litchfield	*Chancellor of University of Pittsburgh, and Chairman of the Board of Directors of Smith-Corona Marchant, Inc.*
Frank J. Manheim	*Partner of Lehman Brothers, New York*
James McMillan	*Director of The Detroit Bank and Trust Co., Detroit*
A. J. Porta	*Executive Vice President and General Manager, Automotive Division*
Robert F. Smith	*President of Indiana General Corporation, Valparaiso, Indiana*
L. Z. Morris Strauss	*Financial Advisor and Capital Management, New York*

To Our Shareholders

From The Chairman

The Chairman thinks it is only proper to state that a most important development during the year was the election by the Board of Directors of Mr. Sherwood H. Egbert as President and Chief Executive Officer of the Corporation effective February 1, 1961. When your Chairman assumed the office on September 2, 1960, he considered the finding of a young, aggresive Chief Executive as a matter of prime importance. In Mr. Egbert, who has an outstanding record as Executive Vice President of McCulloch Corporation, the California manufacturer of chain saws and outboard motors, we have been most fortunate in successfully completing our search. Mr. Egbert has a remarkable record of accomplishment and should give the Corporation the type of dynamic leadership so necessary in our present challenging situation.



The past year has proved disappointing for the Corporation. The success achieved by the 1959 Lark was not sustained in competition with the new compacts introduced by the other automotive companies in the 1960 model year. The situation has been further aggravated by the 1961 model introduction of a second generation of compacts so that there are now 10 different brands competing with the Lark in this limited market.

Financial Review

The Automotive Division sustained a loss for the year while the Corporation, on the basis of earnings from its diversified divisions, had consolidated net income of $708,850 compared with $28,544,338 in 1959. Because of tax loss carry-forward credits, income of the past two years has not been subject to federal income taxes. Net sales declined to $323,226,663 from $387,372,375 in 1959. The Corporation's working capital as of December 31, 1960, was $67,346,976, of which $29,893,863 was cash and marketable securities. A year earlier working capital was $73,659,101, including $62,164,009 in cash and marketable securities. During 1960, cash and marketable securities were reduced in excess of $19,000,000 by the purchase of businesses now operated as acquired divisions. A word of explanation is in order concerning certain items in the Consolidated Balance Sheet and Statement of Income set forth at the end of this Report. In excess of $9,000,000 of the increase in inventories during 1960 is attributable to inventories of the acquired divisions, as is a major portion of the increase which occurred during the past year in selling, administrative and general expenses. More expensive promotional efforts to meet the increased competition in the compact car field also contributed to the heightened selling expenses.

Automotive Review

The intensified competition in the compact field resulted in a decline to 1.6% in the Corporation's sales as a percentage of industry as compared with 2.7% during 1959. World-wide sales of passenger cars manufactured by the Corporation fell to 109,781 units, compared with 160,826 units in the preceding year.

A further decline in production and sales has been experienced since the introduction of the 1961 models last fall and operations are not being conducted profitably at the present volume of sales. While a general softening in the automobile market is partially responsible for unfavorable conditions, the primary difficulty has been the invasion of the compact market by new makes with still more yet to join the fray. Of the 24 brand names in volume production, 11 sell in the compact field currently accounting for some 30% of total retail sales.

Among current activities to deal with conditions are the following:

Mr. Egbert has personally talked with over 700 of the Corporation's dealers in meetings held in principal cities throughout the United States. The purpose of his trips has been to acquire a rounded picture of operations and to find out, by talking to those engaged in selling on the front lines, what can be done by the factory and dealers working together as a team to increase sales.

Top priority is being directed to strengthening existing dealers and to closing key markets where the Corporation lacks representation.

Substantial cost reductions have been insti-

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tuted in an attempt to reduce overhead in line with the decline in sales.

Our restyled 1962 model is now being tooled and we are proceeding with new product planning for future model years which we intend to implement as marketing conditions may allow.

Our programs indicate there is no easy panacea that can be utilized to effect a rapid turn-around in automobile operations. Our load is lightened by the fact, however, that in the 1961 Lark we are offering a product that we believe is unexcelled by competition, and your attention is directed to the Passenger Car section of this report for a review of its many features.

Contrary to the general trend, sales to fleet users increased almost 10% during the 1960 model year compared with the prior year, indicating an endorsement of quality by the most value-conscious purchasers.

The distribution rights to the Mercedes-Benz cars have proved a profitable and valued asset of the Corporation. Despite the substantial decline in foreign import sales, Mercedes-Benz sales continued strong during the year and attained a ranking of third place among all imports (exceeded only by two low-priced makes) during the last quarter of 1960.

Diversification

During 1960 the Corporation made three acquisitions of companies which are leaders in their respective fields. Gravely Tractors, Inc., Dunbar, West Virginia, manufacturer of versatile small utility tractors for lawn, garden and farm application, was acquired in May; Clarke Floor Machine Company, Muskegon, Michigan, producer of a diversified line of floor finishing and maintenance equipment, was purchased in September; and D. W. Onan & Sons, Inc., Minneapolis, Minnesota, manufacturer of electric generating plants, was acquired in October.

In addition, on March 1, 1961, Chemical Compounds, Inc., of St. Joseph, Missouri, was acquired (this acquisition came too late for separate inclusion in the material dealing with each Division beginning on page 10). This company's primary product is a leading oil additive sold under the trade name "STP" which is marketed largely through service stations and garages. STP is essentially a viscosity index improver which decreases the thinning of oil when heated, thereby reducing friction under extreme high temperature conditions. STP is added to lubricating oils in engines of cars, trucks, aircraft, etc., to protect against engine wear, reduce oil consumption and improve oil pressure and engine compression.

Total annual sales of all the acquired divisions (including Mercedes-Benz Sales, Inc.) are at an annual rate in excess of $100,000,000. The acquired divisions as a group are showing satisfactory operating results and realization of growth potential.

We have spent $24,000,000 in cash during the last two years in acquiring new businesses and, therefore, further acquisitions involving cash must be carefully reviewed. Accordingly, future acquisitions would be primarily for stock and contingent payouts.

Management

H. E. Churchill, President of the Corporation since 1956, left the employ of the Corporation in accordance with his own desires in February, 1961, to act as consultant and will continue as a member of the Board of Directors. Mr. Churchill served the Corporation and The Studebaker Corporation for a combined period of 34 years. His many years of tireless devotion and effective service have been greatly appreciated.

During the past year, Larry Gering (Gering Division), D. Ray Hall (Gravely Division), Elmer P. Warnken (CTL Division) and Ernest Cooper (Clarke Division), each being the chief executive officer of an acquired division, became Vice Presidents of the Corporation. R. B. Bender (Parts and Service), E. J. Hardig (Engineering), J. Soelch (Purchasing), C. R. Weaver (Export) and A. D. Whitmer (Manufacturing) became Vice Presidents of the Automotive Division of the Corporation and C. M. MacMillan (Industrial Relations) became a Vice President of the Corporation. L. E. Minkel joined the Corporation during the year as Vice President of Marketing for the Automotive Division.

The Present Situation

Factory sales to dealers so far in 1961 have been unsatisfactory. Substantial production cut-backs have been placed in effect by the Corporation as well as by the other automotive companies as industry dealer inventories have remained at record highs because of slow retail movement.

Automotive Division operations thus far in 1961 have been conducted with considerable losses. However, you can be assured that your management is doing its best to move in new directions and develop new objectives as well as pursue fresh sales techniques, product improvements, and substantial cost reductions to arrest the present decline and rebuild this business to the position it justly deserves.

By Order of the Board of Directors

Chairman of the Board *President*

March 6, 1961

P.S. You can help a great deal by purchasing a Lark and urging your friends to do likewise.

Progress Report for 1960

AUTOMOTIVE DIVISION

Passenger Car

Sales in 1960 were adversely affected by the introduction of additional makes in the compact car market in which the Lark is competing. When first introduced in the fall of 1958, Studebaker occupied the compact field with but one other entry. Before the end of the 1960 calendar year, 11 domestically produced makes were competing for sales.

Compact cars accounted for 27% of total domestic car sales of 6,142,525 during 1960. The Lark obtained 6.3% of the compact car market.

World-wide sales of passenger cars manufactured by the Corporation totaled 109,781 units, compared with 160,826 units in the preceding year.

To meet the greatly increased competition in its market, substantial improvements were made in the 1961 Lark line introduced last October. Primary among these was the "Skybolt" 6-cylinder overhead valve engine developing 112 horsepower. This engine, one of the most powerful among 6-cylinder compacts, is quickly responsive and offers improved fuel economy. As a result, sales of 6-cylinder cars have risen to approximately 65% of domestic retail deliveries compared with 53% during the 1960 model year. In actual road tests, this engine, coupled with a new and improved automatic transmission, out-performs all other 6-cylinder compacts.

The "Cruiser", a more luxurious longer wheelbase model, was added to the Lark line for 1961. The Cruiser has a wheelbase of 113″ compared with 108.5″ for the standard sedan models, and at 179″ in overall length, is four inches longer than the other sedan models. This increased length has been added to the passenger compartment where it can be best utilized. Legroom in the back seat has been increased from 40″ to 44″ to provide the most legroom of any domestically produced automobile, except Cadillac, which has one-half inch more. Yet in overall length, the Cruiser is still shortest of all six-passenger compacts.

It is noteworthy that despite the launching of eight new compacts since the introduction of the Lark, the dimensions of none of the new entries supplies the interior roominess and convenience of the Lark.

For ease of entrance and exit, the Lark offers flat floors and greatest height and width of front door opening, almost 10″ more than some other compacts. Also greater headroom, legroom and hiproom, front and rear, is found in the Lark than in all or most other compacts. Despite giant interior dimensions for its class, the Lark is shorter on the outside than all compacts subsequently offered, thereby providing easier handling and parking.

The Lark 8-cylinder engine (180 horsepower) is more powerful than the engines of any of the subsequently offered compacts and supplies livelier performance. At the same time, the Lark V-8 attained

best mileage for *all* 8-cylinder cars entered in the Mobilgas Economy Run in 1959 and 1960, averaging 23.28 miles per gallon on the 1960 Los Angeles to Minneapolis run.

The story of the 1961 Lark is, therefore, one of product improvement, with the following new features, among others, having been incorporated: Recirculating ball-type steering gear to reduce friction and make steering easier; new automatic transmission for smoother shifting characteristics; increased windshield and back light glass area for improved vision; one inch more legroom in the back seat; suspended brake and clutch pedals providing better leverage and closing floor openings thereby sealing off dust leaks into the car body; counterbalanced torsion bar hood hinge simplifying hood adjustment and permitting hood opening to any height without aid of a prop; safety padded dash now standard on all models; exclusive sliding top sunroof; oval type steering wheel for easier entrance and exit and unimpaired driver vision; and dual headlights.

In addition to offering low initial cost, upkeep and maintenance, the crash repair cost of the Lark is lowest among all compacts. For example, a typical straight rear end collision would result in repairs costing $266.50 for the Lark (parts and labor), compared with costs for similar damage of $359.15 for the Rambler, $337.18 for the Falcon, $416.50 for the Valiant and $402.25 for the Corvair. Similar savings are experienced with the Lark for other repairs, whether for front end or corner collisions.

In January, 1961, the Corporation was awarded a contract by the federal government for $3,127,126 to supply 2,098 six and eight cylinder Larks to the General Services Administration. This was the largest single order of standard production vehicles ever contracted for by the Corporation.

In February, 1961, Lark V-8s with overdrive finished first and second in the Pure Oil Economy Trials held at the Daytona International Speedway. The Larks competed against 18 other entries in the Class IV 251-300 cubic inch piston displacement event. The winning Lark averaged 19.1 miles per gallon on a stop and go road course while maintaining a minimum average speed of over 40 mph with speeds up to 65 mph.

Truck

An improvement in factory truck sales was realized in 1960 despite loss of production time because of the steel strike which delayed introduction of the truck line until April.

The new Champ line of trucks supplies a combination of smart styling and rugged chassis for unmatched payload capacity at lowest industry prices. The Champ, with a payload of 2,065 pounds with standard box, gives from 370 to 700 pounds more payload than any other standard box one-half ton pickup, yet advertised delivered prices vary from $65 to $217 less than the other one-half ton pickups.

To enter the growing market for wide-box pickups, the Champ line was expanded in January, 1961, to offer a new 70¾″ wide pickup box in addition to the standard 51½″ box. It is expected that the addition of the new sturdy, grain-tight wide box will substantially increase sales opportunities.

The Champ line is available with pickup box or as chassis and cab only for use with other bodies in the one-half ton (5,000 pounds G.V.W.) and three-quarter ton (7,000 pounds G.V.W.) size with an option of 112″ (6½ foot box) or 122″ (8 foot box) wheelbase. The truck line also includes the heavy duty Transtar models in one, one and one-half and two tons, covering a G.V.W. range from 10,000 pounds to 23,000 pounds.

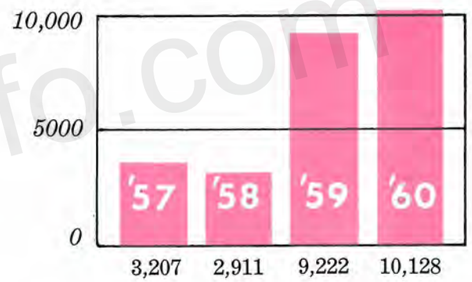
Fleet

Purchases of 1960 model Larks and trucks by the most discriminating of users, the professional fleet buyers, showed a 9.8% increase over the preceding year. Fleet sales of 10,128 1960 model units were second highest in the Corporation's history, exceeded only by the immediately post-war seller's market of 1947.

City, county and state business, which accounts for approximately one-third of fleet sales, improved more than 50% and taxicab sales more than 10%.

Increasing sales demonstrate the proven performance, economy of operation and maintenance as well as driver acceptance of the Corporation's vehicles in meeting the demanding requirements of fleet usage.

FLEET SALES



Warranty—Parts—Service

With the introduction of 1961 models the Corporation extended its warranty on automobiles and trucks to 12 months or 12,000 miles, whichever occurs first. In addition, the extended coverage was applied to 1960 models still within the new warranty period. The warranty extension is another example of the Corporation's effort to protect the value and reputation of its products in the hands of the owner.

Although a basically similar policy has been in effect with Studebaker dealers since 1953, the buyer's written warranty had previously been limited to 90 days or 4,000 miles.

The extension of the warranty by the Corporation is based on complete confidence in product quality and will aid dealers in developing better customer relations and in retaining new-car buyers for required service work.

Additional service training centers for dealer service personnel were established during the year in Atlanta, Georgia and Kansas City, Missouri augmenting existing facilities in New York, Los Angeles and South Bend.

Mercedes-Benz and Auto Union-DKW parts sales increased 50% in 1960. To keep pace with this rapid expansion, parts selection in each of the 15 Zone Parts Depots has been improved and 10,000 square feet of floor space has been added to the Central Parts Warehouse in Roselle, New Jersey.

The establishment of a separate Parts and Service organization for Mercedes-Benz Sales, Inc., is planned for completion in 1961 to better enable specialized attention to the needs imposed by the steady growth in ownership of Mercedes-Benz automobiles.

Lark Cruiser

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INTERNATIONAL OPERATIONS

The Lark was displayed in American industry exhibits at international trade fairs in cooperation with the United States Department of Commerce. The Lark is shown here at the 25th International Fair of Thessaloniki, Greece, where more than a half million people viewed the displays.

Export unit sales of the Corporation's cars and trucks were 24% greater in 1960. The increase was largely the result of agreements concluded during the year for overseas assembly, partial manufacture and distribution of Studebaker vehicles in Argentina, Australia and Israel.

Whereas the license agreement in Argentina provides for production of trucks only because of present import restrictions, licensees in Australia and Israel assemble cars in addition. It is expected that barter agreements between Israel and other purchasers, particularly in Africa and the Middle East, will permit expansion of sales into areas in which dollar restrictions have heretofore impaired the conduct of business.

The new license agreements contributed to a steadily developing trend for shipment of vehicle components for assembly in a foreign country. Other locations in which assembly plants are operated include Belgium and South Africa and discussions concerning agreements in additional countries are in progress.

Canada—During 1960 retail sales by the Corporation's subsidiary, Studebaker-Packard of Canada, Limited, declined somewhat in comparison with the prior year. The decrease was partially attributable to the increased competition from European imports which rose to 30% of the Canadian market. As a result of the continued increase in import penetration coupled with declining production and employment over the past few years, a Royal Commission was appointed to conduct a study of the automotive industry and make recommendations which are expected soon. On December 1, 1960, the Canadian Government took tariff action resulting in a higher landed cost for European imports with the probability that new shipments will be priced more closely to Canadian produced units. Studebaker's fiftieth year in Canada was celebrated in 1960. A number of activities commemorated the occasion, including an open house in which over 5,000 persons toured the Hamilton, Ontario plant.

Mexico—Sales of Studebaker cars and trucks assembled in Mexico by Studebaker-Packard de Mexico, S.A., declined in 1960 due to a reduction by the Mexican Government in import quotas of all Mexican producers. Operating results of the Mexican plant were bolstered, however, through assembly of an increased number of other imported makes.

Mercedes-Benz 300SL Roadster

Mercedes-Benz Sales, Inc.

Mercedes-Benz rose from a 1959 position of 15th in retail sales among all imported makes in the United States to a 9th place ranking for 1960. In the last quarter of 1960 Mercedes-Benz retail sales were exceeded by only two other imported makes, both of which were in the low-price class.

Wholesale and tourist deliveries of Mercedes-Benz vehicles in 1960 totaled 12,687, up five percent from 1959. Mercedes-Benz sales continued strong during the past year, despite a severe decline in United States sales suffered by most other makes of imported cars. However, during the current year a softening in demand has occurred which is reflective of present trends in the entire automobile industry. It is anticipated that a sales pickup will occur in the Spring.

Mercedes-Benz has successfully withstood the adverse fluctuation in overall demand for foreign cars in the United States because of public recognition of Mercedes-Benz high quality and engineering standards, distinguished styling continuity that is never obsoleted, a nation-wide network of parts and service facilities, and a quality dealer organization.

Disappointing sales results have been experienced in the Auto Union-DKW line distributed by Mercedes-Benz Sales, Inc. These unique cars, featuring front-wheel drive and a simple 2-cycle engine with only seven basic moving parts, are manufactured by Auto Union G.m.b.H., a West German company owned by Daimler-Benz A.G.

The combined product line-up of DKW Auto Union and Mercedes-Benz cars gives Mercedes-Benz Sales, Inc., broad coverage of the imported car market. Prices range from $1,665 to $3,925 in the Auto Union-DKW line and from $3,250 to $13,630 in the Mercedes-Benz line.

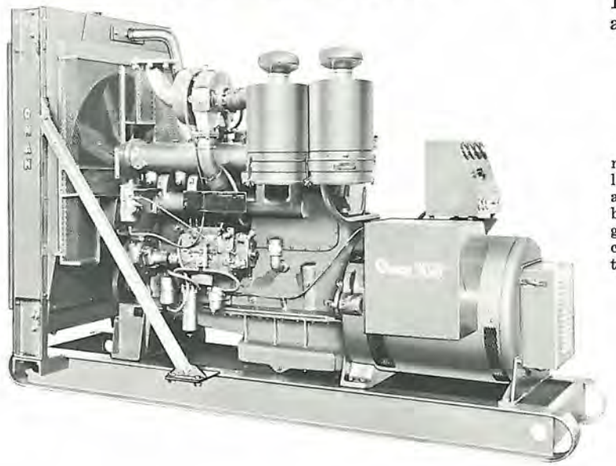
A recently announced addition to the popular Mercedes-Benz six-cylinder 220 series is a new 220SE coupe (shown upper right), a four-passenger hardtop combining the features of a sports-styled vehicle with the comfort of a touring car. Its introduction coincides with the celebration of Daimler-Benz' Diamond Jubilee year, commemorating 75 years of producing quality cars.

Mercedes-Benz 220SE Coupe

DKW 750

On this pleasure boat, Onan marine electric plants supply power for battery charging, heat, air conditioning, cooking, refrigeration, communication, safety equipment, appliances and lights.

Model 05AK, which will provide 500 watts, is powered by a one-cylinder gasoline engine manufactured by Onan. It is Onan's smallest electric generating plant and finds wide usage in the export market for lighting as well as other utilizations where only a small amount of power is required.



Model 230DWF, which will provide 230,000 watts, would be most likely used in standby application for a hospital or other large building. Two or more units can be combined where additional power is needed. This unit, the largest produced by Onan, would customarily be coupled to automatic switch gear which would start the operation of the unit on failure of commercial power and place the unit on standby upon the return to commercial power.

ONAN DIVISION

The Onan Division of Minneapolis, Minnesota, is the world's largest manufacturer of gasoline and diesel engine driven electric generating plants. These plants are produced in a wide range of types and capacities, from small portable units to large stationary plants of more than 200,000 watt capacity.

The Division also manufactures separately powered generators, gasoline and diesel engines and engine compressor units.

Onan electric generating plants are used in circumstances where regular electric service is not available or convenient and electricity must be generated on the spot.

Typical "primary power" applications of Onan electric plants include usage on farms, boats, summer homes, housetrailers, building and road construction jobs and in fire fighting and field work.

"Standby" power service is supplied to meet emergencies in the event of commercial power interruption. Representative applications of standby service to provide power where interruptions would prove dangerous or costly include usage in hospitals, institutions, hatcheries and industry. Onan electric plants also go into service at scenes of disaster, such as floods, hurricanes and tornadoes to provide emergency power for lights and communications.

In addition to world-wide export operations, sales are handled through over 100 distributors in the United States and Canada who in turn are assisted by approximately 2,000 dealers. Original equipment manufacturers, who incorporate Onan units in their own products, constitute a major market, especially in the welding, truck refrigeration and ice cream industries. A substantial volume of sales are also made to the U. S. Government which is currently using Onan engines in post office transportation equipment, pumps, aircraft heaters and compressors, and is using electric plants for ground support of aircraft and missiles.

During the year, a new 16,500 square foot technical center was completed on the Minneapolis property of Onan where all manufacturing facilities are located.

Onan, which has been in business since 1918, became a Division of the Corporation on October 5, 1960. The Division has about 650 employees and annual sales of approximately $15,000,000.

GRAVELY TRACTORS DIVISION

Gravely Tractors Division, with executive and general offices in Dunbar, West Virginia, is the acknowledged leader in the small utility tractor field. The Gravely Tractor has a 6.6 horsepower engine and is available with 30 different tools and attachments giving it unmatched versatility in its field.

The Gravely is best described as a central power unit for a complete system of power tools for lawn, garden and farm work, as well as for specialized industrial applications. Lawn attachments include mowing tools ranging from a 30-inch rotary or reel mower to a 75-inch gang mower as well as a leaf mulcher, lawn sweeper and lawn roller. Farm and garden tools include a rotary plow, rotary cultivator, a toolholder using standard cultivating tools and a seeder-spreader. Miscellaneous applications include snow and ice removal through blowers, plows or brushes and clearing land or cutting timber by chain or circular saw. The Gravely, including its motor, is completely designed and manufactured by the Division.

Gravely became a Division of the Corporation on May 2, 1960. In addition to its main factory at Dunbar, it has manufacturing branches located in Albany, Georgia and Fort Scott, Kansas as well as approximately 50 branches or Tractor Stations located throughout the United States and Canada to perform the distribution function through some 600 dealers. Foreign activities encompass the sale in some 40 different countries and include an overseas factory and assembly plant at Torquay, Devon, England, serving the United Kingdom and European markets.

The Gravely Division has about 530 employees and annual sales of approximately $10,000,000.

Gravely Snow Blower

Gravely Rotary Mower

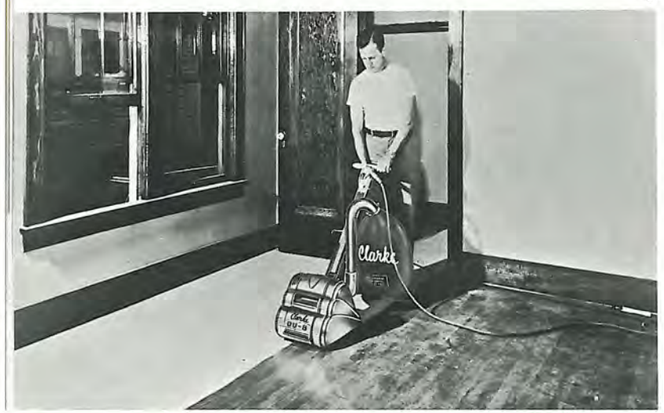
Gravely Rotary Plow

A

B

C

D



CLARKE FLOOR MACHINE COMPANY DIVISION

Clarke Floor Machine Company Division of Muskegon, Michigan is the producer of a diversified line of floor finishing and maintenance equipment under the Clarke name which is the best known in the industry.

The Clarke product line provides labor saving floor maintenance tools and methods to solve the housekeeping problems of floors in factories, office buildings, hospitals, schools, hotels, motels, stores, theaters and wherever else labor saving in floor maintenance is a factor. Clarke eliminates hand methods of floor care which are slow, inefficient and prohibitive from a cost standpoint when manpower accounts for 90% of the usual maintenance budget.

Clarke Floor Maintainers range in diameter from 12 to 23 inches to fit every area requirement and are designed to meet all floor-care needs, including scrubbing, waxing and polishing. In addition, when equipped with solution tank and brushes, the Clarke Maintainer shampoos carpets and rugs.

Clarke wet-dry vacuum cleaners (Illustration B) come with attachments for cleaning everything from floor to ceiling and to pick up dust, dirt, liquids and other refuse.

Recently introduced has been the ClarkeAmatic floor maintainer (Illustration A) in electric, gasoline, propane and battery-powered models for large area maintenance. The self-propelled ClarkeAmatic provides one-pass cleaning action—it meters solution to the floor, scrubs thoroughly, picks up dirt and solution and dries—all in one operation. Labor costs are dramatically reduced. Assuming an average labor rate of $1.50 per hour, the labor cost to mop 100,000 square feet of floor space would be approximately $150. With a ClarkeAmatic, labor cost is only $12, or a reduction in cost from $1.50 per hour to 12 cents for a saving of 92%.

Power sweepers (Illustration C), doing the equivalent of the work of as many as 50 men with pushbrooms, sweep quicker and cleaner than other methods. No dust is raised—being driven into a filter bag by turbine action.

Floor sanders (Illustration D) and edgers, available in several different sizes, are sold to hardware, building supply and paint dealers for rental to "do-it-yourselfers" as well as to professional floor finishers.

Clarke has a nationwide network of sales and service branches in all principal cities of the United States as well as branches in Toronto and Vancouver in Canada. Export sales are made to approximately 15 countries. Sales volume has grown from $200,000 in 1942 to approximately $9,000,000 in 1960.

GERING PLASTICS DIVISION

Gering Plastics Division, located in Kenilworth, New Jersey, manufactures and processes thermoplastic molding compositions and extruded products.

Those Gering products which are subject to further manufacture by companies which are customers for Gering plastics serve a wide range of industrial and consumer end uses such as radio cabinets, air conditioning unit cases, telephone hand sets, wire cable covering, switchboards, electric and electronic parts, pens and pencils, toys, housewares, pipe and pipe fittings, industrial and food packaging, protective covering, shoes, as well as thousands of other uses.

Many consumer products are produced by Gering and warehoused in strategic locations on a nationwide basis for merchandising by the Gering sales organization through outlets such as jobbers, department stores, variety chains and supermarkets. Items sold for direct consumer use include complete lines of plastic garden hose and sprinklers, plastic protective covering for indoor and outdoor use, plastic floor mats and decorative shelving.

A sizeable expansion program which was begun in 1960 will be completed during the second quarter of 1961 adding approximately 100,000 square feet of additional manufacturing and warehouse space. This program, which includes the addition of labor saving equipment, will permit increased production and greater efficiency of operation.

CTL DIVISION

The CTL Division, with headquarters in Cincinnati, Ohio, has been a leader in the development of high temperature thermal shielding. Its most important project of 1960 has been the production of heat shielding for the Mercury (Astronaut) project for human travel into space. Other major programs engaged in during the year have included production of nose cones for the Jupiter, Titan and Pershing missiles and heat resistant liners for a number of rocket motors.

A new plant has been established in Santa Ana, California, to provide better contact in the missile and rocket fields with prime contractors who are concentrated on the west coast, and to broaden production capabilities.

CTL Division recently joined with three other companies (Amcel Propulsion, Inc., a subsidiary of Celanese Corporation of America; Technology Instrument Corporation of Acton and Merz-Chambers Corporation) to form a joint corporation, United Systems Corporation, which will provide systems manager capabilities for missile and space programs. United Systems will be in a position to bid as a prime contractor on Government business drawing as needed upon facilities and personnel of the four participating companies, each of which contributes a specialty. This new management concept is designed to contribute to lowered defense costs through elimination of pyramided administrative overhead. Elmer Warnken, President of the CTL Division, is serving as President of United Systems.

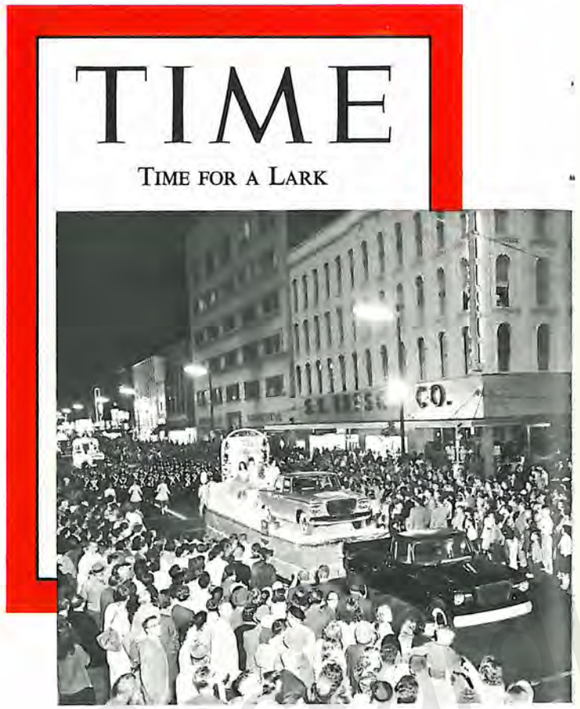
It's Time for a Lark

The Corporation and the City of South Bend were honored in September by Time Magazine's first community service award in recognition of the unique and unusual contributions made to the economic revival of the community since 1958.

The Time award, which was presented by Bernhard M. Auer, the publisher, said: "Presented to the citizens of South Bend in recognition of their vision, determination and work on behalf of an industry vital to the economy of their community and thereby to the prosperity of the nation."

The activities associated with the award included a testimonial dinner attended by 500 persons paying tribute to H. E. Churchill and A. J. Porta who directed the program resulting in the introduction of the Lark in the fall of 1958 with the subsequent improvement in the economic fortunes of the Corporation and the community.

A band and float parade, the largest in the history of the city, was part of the community celebration in honor of the Corporation and provided a pre-introduction viewing of the 1961 models. The theme of the night-time parade, which attracted nearly 100,000 persons, was "It's Time For A Lark." Other features of the two day celebration included window and store displays by retail merchants and the use of posters and stickers to promote the event.



Bucket-type seats and four-speed floor shift gearbox with 210 horsepower V-8 engine are newly offered for 1961 Studebaker Hawk.

Conflict of Interest

During the past year a considerable amount of public interest and attention has been directed to the question of conflict of interest of business executives resulting in undue or special influence being exerted in the procurement of goods and materials.

The procurement practices of the Corporation are guided by the three basic considerations of obtaining competitive prices, consistent quality and delivery as scheduled. Competitive bids are secured wherever possible, the one exception being the purchase of proprietary items from sole sources.

The personnel policies of the Corporation provide that employees cannot accept gifts from vendors or others doing business with the Corporation and cannot have an interest, financial or otherwise, direct or indirect, with any company doing business with the Corporation without obtaining prior approval.

Recently all key personnel of the Corporation completed a questionnaire concerning outside interests and, in particular, interests held by them in concerns doing business with the Corporation. This questionnaire was subsequently reviewed by independent auditors. No evidence of conflict of interest was discovered in this investigation.

Board of Directors

On September 2, 1960, Clarence Francis, who had served on the Board since 1958, was elected Chairman of the Board and Chief Executive Officer. In accordance with the recommendation of Mr. Francis, the Board on December 28, 1960, elected Sherwood H. Egbert as President, Chief Executive Officer and a director, effective February 1, 1961. Mr. Francis remained as Chairman of the Board. Mr. Egbert was also elected Chairman of the Executive Committee of the Board which meets between the regular monthly meetings of the Board. Mr. Egbert had been employed previously by McCulloch Corporation, a California manufacturer of outboard motors, chain saws and other products, since 1946 and had been Executive Vice President of McCulloch Corporation since 1956.

During the year a number of Board members ceased to serve for various reasons. Hugh J. Ferry and John H. Watson, Jr. retired. Mr. Ferry, former President and Chairman of Packard Motor Car Company, had over 50 years of service with the Corporation. Mr. Watson had been a director of The Studebaker Corporation since its reorganization in 1935, and a director of Studebaker-Packard Corporation since the combination with Studebaker in 1954. Also during the year, Sydney A. Skillman, A. M. Sonnabend, Theodore Finder and H. Robert Marschalk terminated their services as directors. Mr. Skillman had served as a director since 1957, Mr. Sonnabend and Mr. Finder from 1958 and Mr. Marschalk since 1959.

The option granted to Mr. Sonnabend in 1958 to purchase up to 500,000 shares of stock was terminated in December, 1960, in connection with the termination of his services as a director.

We have been fortunate in having D. Ray Hall and Robert F. Smith added to the Board as well as Mr. Egbert. Mr. Hall, President of Gravely Tractors Division, was elected in May, 1960. Mr. Smith, President of Indiana General Corporation, manufacturer of magnetic materials and equipment, was elected in February, 1961.

The Chairman of the Personnel Committee of the Board of Directors is Dr. Edward H. Litchfield. This Committee, which is composed of non-management directors, considers major personnel matters, including salaries and stock options and makes awards under the Corporation's Incentive Compensation Plan. No awards were made based on 1960 results.

The Audit Committee is composed of directors who do not hold any position in the management of the Corporation. This Committee recommends to the Board the firm of certified public accountants to be retained. The Committee also confers with the accountants concerning the audit of the books and accounts of the Corporation and its subsidiaries.

Shareholders

Commencing January 1, 1961, the Corporation's $5 Convertible Preferred Stock became convertible into Common at the rate of 33⅓ shares of Common for each share of preferred. As of January 31, 1961, 146,127 shares out of 165,000 outstanding shares of $5 Convertible Preferred Stock had been converted into 4,870,814 shares of Common Stock. The number of shareholders of record is approximately 95,000. We estimate that in addition to the shareholders of record, there are approximately 40,000 other shareholders whose stock is registered in the names of stockbrokers or other nominees.

Last summer the Board of Directors approved the offering of a special $100 refund to all shareholders, record or beneficial, as of June 20, 1960, who purchased a new 1960 model Studebaker car or truck between July 1 and September 30, 1960. This plan, tried on an experimental basis, was in response to requests received from many shareholders. Pursuant to this offer, 526 cars and trucks were sold to shareholders.

In connection with the acquisition of Gravely Tractors, Inc., in May, 1960, the Corporation issued 30,000 shares of 5% Convertible Second Preferred Stock, Series A, par value $100 per share. Each share of this stock bears a cumulative annual dividend of $5 accruing from January 1, 1961, payable quarterly commencing April 1, 1961, is redeemable, upon certain conditions, on and after April 30, 1963, at $100 plus dividends accrued or in arrears, but without benefit of any sinking fund; has a preference of $100 plus dividends accrued or in arrears over Common Stock upon any liquidation or dissolution; taken at $100 is convertible, upon certain conditions, by the holder on or before April 30, 1965, into Common Stock at the price of $25 per share, the conversion price being subject to certain adjustment provisions.

Consolidated Balance Sheet *December 31, 1960 and 1959*

ASSETS

	December 31, **1960**	*December 31,* **1959**
CURRENT ASSETS		
Cash	$ 9,375,384	$ 17,475,777
Marketable securities—at cost and accrued interest (approximate market)	20,518,479	44,688,232
Accounts receivable, less allowances (1960—$352,000; 1959—$491,000)	15,407,644	13,102,037
Inventories—at lower of cost (first-in, first-out method) or market	59,379,475	46,677,210
Prepaid insurance and other expenses	935,685	601,243
TOTAL CURRENT ASSETS	$105,616,667	$122,544,499
OTHER ASSETS		
Purchase costs in excess of amounts ascribed to tangible assets of businesses acquired—Note B	$ 6,940,208	$ 3,732,588
Investment in and advances to unconsolidated subsidiaries—Note A	956,874	1,552,479
Mortgage receivable and miscellaneous investments	1,283,482	801,750
	$ 9,180,564	$ 6,086,817
PROPERTIES—on the basis of cost—Note C		
Land	$ 3,571,363	$ 2,310,955
Buildings	27,639,109	21,748,390
Machinery and equipment	58,568,315	51,747,520
	$ 89,778,787	$ 75,806,865
Less accumulated provisions for depreciation	39,089,139	40,080,596
	$ 50,689,648	$ 35,726,269
Less reserve for possible loss on disposal of surplus property and equipment	1,742,791	2,100,000
	$ 48,946,857	$ 33,626,269
	$163,744,088	$162,257,585

See notes to financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY

	December 31, **1960**	*December 31,* **1959**
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 31,273,017	$ 42,014,065
Notes payable to banks	1,285,600	—0—
Current portion of long-term debt	232,500	387,500
Reserve for product warranty	2,357,066	3,117,659
Reserve for costs related to discontinued operations	3,121,508	3,366,174
TOTAL CURRENT LIABILITIES	$ 38,269,691	$ 48,885,398
OTHER LIABILITIES		
Deferred installments of incentive compensation awards	$ 705,000	$ 940,000
Long-term debt—Note C:		
5% secured notes payable	16,500,000	16,500,000
Other, less current maturities	9,315,302	6,335,000
	$ 26,520,302	$ 23,775,000
SHAREHOLDERS' EQUITY		
Capital Stock:		
$5 Convertible Preferred Stock, $100 par value—authorized and outstanding 165,000 shares, which are convertible on or after January 1, 1961, into 5,500,000 shares of Common Stock; dividends are cumulative from January 1, 1961—Note D	$ 16,500,000	$ 16,500,000
Second Preferred Stock, $100 par value:		
Authorized 250,000 shares (issuance in excess of 150,000 shares must be approved by the holders of two-thirds of the $5 Convertible Preferred Stock)		
Outstanding at December 31, 1960, 30,000 shares of 5% Convertible Second Preferred Stock, Series A, which are convertible until 1965 into 120,000 shares of Common Stock; dividends are cumulative from January 1, 1961	3,000,000	—0—
Common Stock, $1 par value:		
Authorized 18,000,000 shares (5,620,000 shares reserved for conversion of Convertible Preferred Stock and 361,670 shares reserved for options at December 31, 1960)—Notes D and F		
In treasury 101,732 shares		
Outstanding (1960—7,117,410 shares; 1959—6,543,185 shares)	7,117,410	6,543,185
Capital surplus, after deducting deficit of $48,260,412 at November 2, 1956	33,801,407	28,727,574
Retained earnings since November 2, 1956	38,535,278	37,826,428
	$ 98,954,095	$ 89,597,187
	$163,744,088	$162,257,585

See notes to financial statements.

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Consolidated Statement of Income and Retained Earnings

	For the Years Ended December 31, 1960	1959
Net sales	$323,226,663	$387,372,375
Interest income	2,144,435	1,597,499
Other income	2,199,408	1,886,771
	$327,570,506	$390,856,645
Costs and Expenses:		
Cost of products sold	$281,706,188	$323,347,709
Selling, administrative and general expenses	43,082,915	35,383,242
Incentive compensation awards	—0—	1,248,000
Interest expense	907,273	922,316
Amortization of intangibles—Note B	637,553	283,151
Taxes on income of foreign subsidiaries	207,033	798,349
Other deductions	320,694	329,540
	$326,861,656	$362,312,307
NET INCOME FOR THE YEAR—Note E	$ 708,850	$ 28,544,338
Retained earnings at beginning of year	37,826,428	9,282,090
RETAINED EARNINGS AT END OF YEAR	$ 38,535,278	$ 37,826,428

Note: Provisions for depreciation amounted to $5,261,610 in 1960 and $4,352,552 in 1959.

See notes to financial statements.

Consolidated Statement of Capital Stock and Capital Surplus

For the Year Ended December 31, 1960

	$5 Convertible Preferred Stock	*Second Preferred Stock*	*Common Stock*	*Capital Surplus*
Balance at January 1, 1960	$16,500,000	$ —0—	$6,543,185	$28,727,574
Capital stock issued in connection with business acquisitions:				
5% Convertible Second Preferred Stock, Series A, 30,000 shares		3,000,000		
Common Stock—538,625 shares:				
Par value			538,625	
Market value in excess of par value				4,872,256
Common Stock sold under employees' stock ownership plan—35,600 shares			35,600	201,577
BALANCE AT DECEMBER 31, 1960	$16,500,000	$3,000,000	$7,117,410	$33,801,407

See notes to financial statements.

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Notes to Financial Statements *December 31, 1960*

NOTE A—Data on Subsidiaries and Acquisitions:

The accounts of the Corporation and all of its wholly-owned subsidiaries (including subsidiaries in Mexico and Canada) have been consolidated in the financial statements, except for a Mexican finance company and two small foreign subsidiaries. The Corporation's investment in these unconsolidated subsidiaries is carried on its books at cost, which approximates the underlying net assets at December 31, 1960.

On May 2, 1960, the Corporation acquired all the assets and business of Gravely Tractors, Inc., Dunbar, West Virginia, a company engaged in the manufacture and sale of hand tractors and various gardening and home farming equipment. On September 6, 1960, the Corporation acquired the assets and business of Clarke Floor Machine Company, Muskegon, Michigan, a company producing commercial floor maintenance equipment. On October 5, 1960, the Corporation acquired the assets and business of D. W. Onan & Sons, Inc., Minneapolis, Minnesota, a company producing specialized electric generating equipment and related products. The operations of these companies have been included in the Corporation's financial statements from their respective dates of acquisition.

NOTE B—Intangibles:

Purchase costs in excess of amounts ascribed to tangible assets of businesses acquired are being amortized over periods ranging up to 15 years with proportionately higher amounts amortized in the years during which earnings are not subject to federal income taxes because of loss carry-forward credits.

NOTE C—Long-term Debt:

The 5% secured notes are payable in annual installments of $1,650,000 beginning in 1964. Substantially all of the properties of the Corporation at South Bend, Indiana, with a net carrying amount of approximately $20,000,000 at December 31, 1960, have been pledged as collateral. Additional collateral consists of the capital stock of two wholly-owned consolidated subsidiaries, Studebaker-Packard of Canada, Limited and Mercedes-Benz Sales, Inc., which had combined net assets of $13,062,520 at December 31, 1960. The Corporation agrees, among other things, to maintain consolidated net current assets of at least $25,000,000.

Other long-term debt (noninterest-bearing), which was incurred in connection with business acquisitions, is payable in annual installments dependent upon earnings of the acquired divisions, is subject to possible reductions dependent upon such earnings, and is secured, in part, by a mortgage on certain real and personal property acquired.

NOTE D—Conversion of Preferred Stock:

During January, 1961, 146,127 shares of $5 Convertible Preferred Stock were converted into 4,870,814 shares of Common Stock.

NOTE E—Federal Income Taxes:

No provision for federal taxes on income for the year 1960 is required by reason of operating loss carry-forward credit provisions of the Internal Revenue Code. After application to 1960 net income, the following tax loss carry-forward credits remain available to be offset

against future net earnings on the basis of losses shown in the Corporation's income tax returns:

Approximate Amount	*Date of Expiration of Credit*
$34,000,000	December 31, 1961
27,000,000	December 31, 1962
33,000,000	December 31, 1963

NOTE F—Stock Options:

The changes during the year 1960 in the Common Stock optioned to officers and employees under its stock ownership plan are summarized as follows:

	Shares Under Option	*Shares Available For Future Options*
At January 1, 1960	213,970	183,300
Options granted at prices from $7.84 to $12.65 a share	72,000	(72,000)
Options canceled	(41,900)	41,900
Options exercised—at prices of $6.18 and $6.77 a share.	(35,600)	
At December 31, 1960—option prices from $6.18 to $12.65 a share	208,470	153,200

Options are for a ten-year period, and become exercisable beginning two years after dates of grant. In each case the option price is not less than 95% of the quoted market price on the dates the options were granted. Options to purchase 69,470 shares were exercisable at December 31, 1960.

An option granted to A. M. Sonnabend in 1958 to purchase 500,000 shares was terminated in December, 1960.

Under the terms of a five-year contract with Sherwood H. Egbert, who was elected President and Chief Executive Officer effective February 1, 1961, he was granted under the stock ownership plan an option to purchase 100,000 shares of Common Stock at $7.01 a share, exercisable 65,000 shares after February 1, 1963. The balance becomes exercisable in installments during the following three years.

NOTE G—Pension Plans:

Pension plans are in effect for substantially all employees. Contributions for 1960 approximated $3,200,000 as compared with $3,700,000 for 1959, including amounts calculated to fund past service cost requirements of the plans over a thirty-year period.

ERNST & ERNST

Board of Directors and Shareholders
Studebaker-Packard Corporation
South Bend, Indiana

We have examined the consolidated financial statements of Studebaker-Packard Corporation and consolidated subsidiaries for the year ended December 31, 1960. 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. We previously made a similar examination of the financial statements for the preceding year.

In our opinion, the accompanying balance sheet, statement of income and retained earnings, and statement of capital stock and capital surplus present fairly the consolidated financial position of Studebaker-Packard Corporation and consolidated subsidiaries at December 31, 1960, and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Ernst & Ernst
CERTIFIED PUBLIC ACCOUNTANTS

Chicago, Illinois
February 3, 1961

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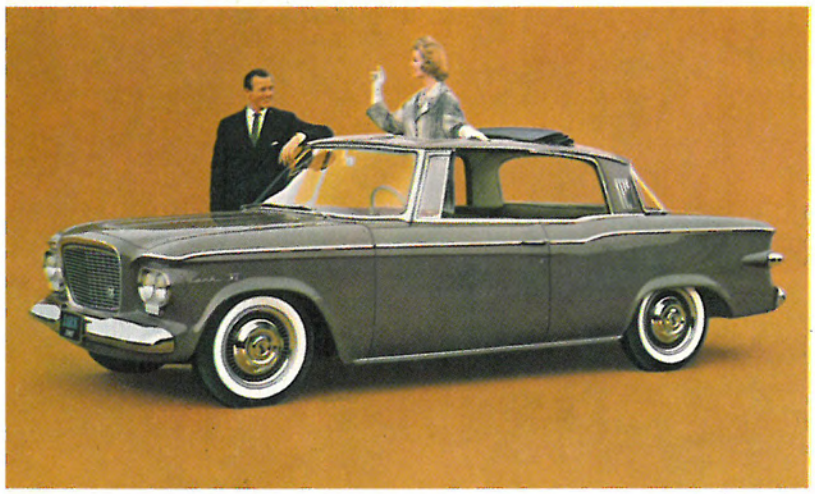

Studebaker-Packard Corporation

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