

STUDEBAKER-PACKARD

Corporation

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1957



ANNUAL REPORT



Annual Report

FOR THE YEAR ENDED DECEMBER 31,

1957



STUDEBAKER-PACKARD

Corporation

DIRECTORS

Edwin Foster Blair
Harold E. Churchill
J. Cheever Cowdin
Hugh J. Ferry
Theodore R. Finder

J. Russell Forgan
Carl F. Giese
Frank J. Manheim
James McMillan
Maurice T. Moore

A. J. Porta
Sydney A. Skillman
L. Z. Morris Strauss
John H. Watson, Jr.

OFFICERS

President
Harold E. Churchill

Secretary
Melvin L. Milligan II

Vice Presidents
R. A. Hutchinson
A. J. Porta
Sydney A. Skillman

Comptroller
Byers A. Burlingame

Treasurer
A. E. Gotsch

Assistant Secretaries
R. E. Bryar
Stanley B. Feuer

Assistant Comptroller
Percy A. Braner

CORPORATE OFFICE:

635 South Main Street, South Bend 27, Indiana

PLANTS:

South Bend, Indiana
Hamilton, Ontario, Canada
Tlalnepantla, Estado de Mexico, Mexico

PROVING GROUNDS:

South Bend, Indiana

SUBSIDIARY COMPANIES:

Studebaker-Packard of Canada, Limited
Studebaker-Packard de Mexico, S.A.
SP Motor Company of Canada, Limited

TRANSFER AGENT:

City Bank Farmers Trust Company
New York, N. Y.

REGISTRAR:

The Chase Manhattan Bank
New York, N. Y.

CERTIFIED PUBLIC ACCOUNTANTS:

Ernst & Ernst
Chicago, Ill.

REPORT TO SHAREHOLDERS



This Annual Report covers the first full year of operations under the program inaugurated in the fall of 1956. During 1957 your management concentrated upon accomplishing five major objectives:

1. Further reduction of costs of operations.
2. Disposal of Detroit properties and other surplus real estate holdings.
3. Establishment of Mercedes-Benz marketing organization.
4. Further development of our products to fit selective or less competitive markets.
5. Improvement of dealer organization and increase of sales of the Corporation's cars and trucks.

We have accomplished substantially all of the foregoing with the exception of increase of sales of Studebakers and Packards.

Total sales for the year were \$213,203,741 compared with \$303,038,430 in 1956. Despite the drop in sales, our operating loss—which had been \$43,318,257 in 1956 before special charges of \$60,000,000—was reduced to \$11,135,108. The relatively small operating loss incurred during the fourth quarter was more than offset by year-end adjustments.

The significant reduction in net operating loss was accomplished principally by cost reductions in our manufacturing operations and elimination of fixed and variable expense through liquidation of high operating cost and surplus plants, property and equipment. After disposing of Detroit properties and manufacturing facilities, \$21,273,339 remained in the reserve for general obsolescence and possible loss on disposal of high operating cost and surplus plants, property and equipment, most of which is applicable to the South Bend properties which are currently being utilized.

Throughout the year 1957 our advisory management agreement with Curtiss-Wright Corporation has been in effect.

The Scotsman models were introduced in May, 1957, as America's lowest-priced, full-sized automobiles. The marketing program of Mercedes-Benz has had steady growth since its beginning in the spring of 1957 and it has aided us in strengthening our dealer organization. There had been some losses of dealers to competitors in 1957. There had been losses due to normal causes. I am pleased to report that in October we reversed the downward trend in our dealer organization and since that month we have shown a net increase in the sales potential of our dealer organization.

The Scotsman sedans and station wagons and the distribution of Mercedes-Benz cars are important parts of a previously announced policy to provide our dealer organization with products in selective segments of the automobile market. We are aggressively studying new product designs. As an example, we have expanded the Scotsman line by the addition of a ½-ton pickup truck.

Our regular 1958 fleet and truck offerings have been supplemented with the addition of two specialty models having potential in selective areas. The taxicab is designed with heavy-duty components to provide durability, low operating and maintenance costs with low capital investment. The 4x4 all-wheel-drive trucks in ½- to 1-ton capacities satisfy domestic and export requirements for this specialized type of vehicle with high performance characteristics in off-highway operations.

Despite our progress, sales of passenger cars and trucks have not been up to expectations. At this writing, the automobile industry is feeling the effects of a nationwide business recession. Naturally, our program has been adversely affected by this widespread downturn in business. In my report to you a year ago, I stated that with continued improvement in our retail sales we could attain our goal of profitable operations. We have not attained this goal.

Management is exploring every possible avenue in the interest of the shareholders. The continuing cooperation of our employees and shareholders is appreciated.

BY ORDER OF THE BOARD OF DIRECTORS

H. E. Churchill
President

March 17, 1958

PRODUCT FEATURES

Styling

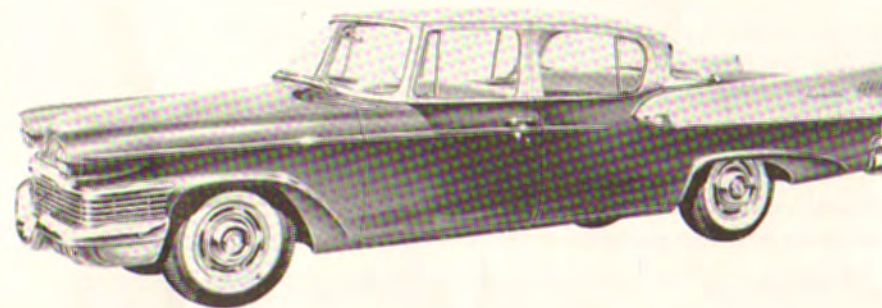
In styling concept the Studebaker sedan, station wagon and newly-introduced hardtop models emphasize many of the distinctive features of the style-award-winning Hawks. The sleekness and fin treatment of the Hawks has been combined with big car roominess to produce a tastefully striking visual appeal. Traditional Studebaker economy of operation has been emphasized and forced bigness and excessive weight, resulting in wasted horsepower and excessive fuel consumption, have been avoided.

Unique in design with its downswept hood and dignified grille, Packard for 1958 was extensively restyled to present a dramatically new and exciting appearance. The Packard interiors are luxuriously appointed, with the newly-introduced Packard Hawk featuring pleated leather seats. In addition to the Hawk, the Packard line has been supplemented with a sedan-size hardtop.

The total number of Studebaker and Packard models offered for 1958 was reduced from 23 to 17—13 Studebakers and 4 Packards—in order to concentrate product and sales efforts.

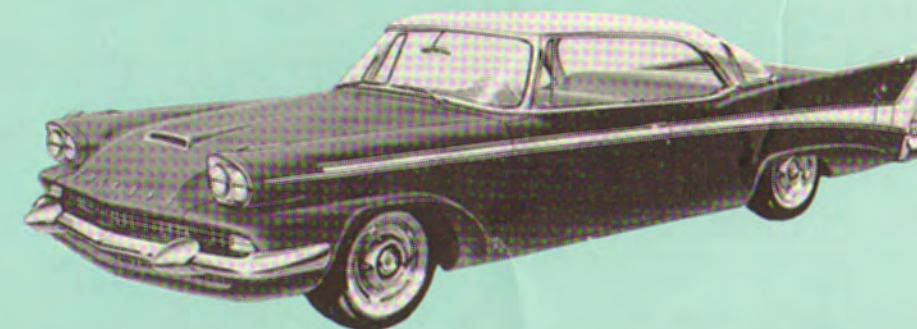
Engineering Advances

Primary among engineering advances incorporated in the 1958 automobiles is a new, much-improved ride resulting from the combination of lowered center of gravity, newly-designed rear springs, a new link-type stabilizer bar and new



STUDEBAKER PRESIDENT 4-DOOR SEDAN features interior elegance and extra-long wheelbase of 120.5 inches for smooth Luxury Level ride . . . V-8 engine has 4-barrel carburetor.

THE PACKARD HARDTOP, completely new for 1958 . . . advanced styling . . . long, graceful, distinctive lines . . .



spring and shock absorber rates, together with the exclusive variable rate front coil springs.

Other newly-introduced features include dual headlights, "safety rim" wheels and improved 4-barrel carburetion for greater engine efficiency.

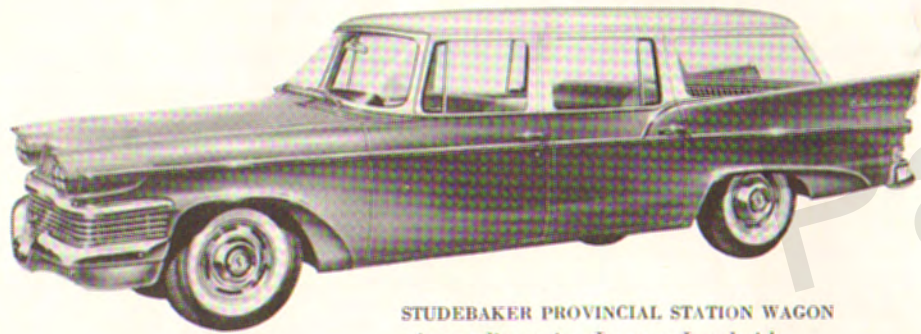
EXPANDED SALES ACTIVITIES

The Studebaker-Packard Sales Department has emphasized volume merchandising implemented in the following manner:

Dealer Development was expanded and its operations intensified to increase the quantity and quality of dealer outlets, particularly in metropolitan markets.

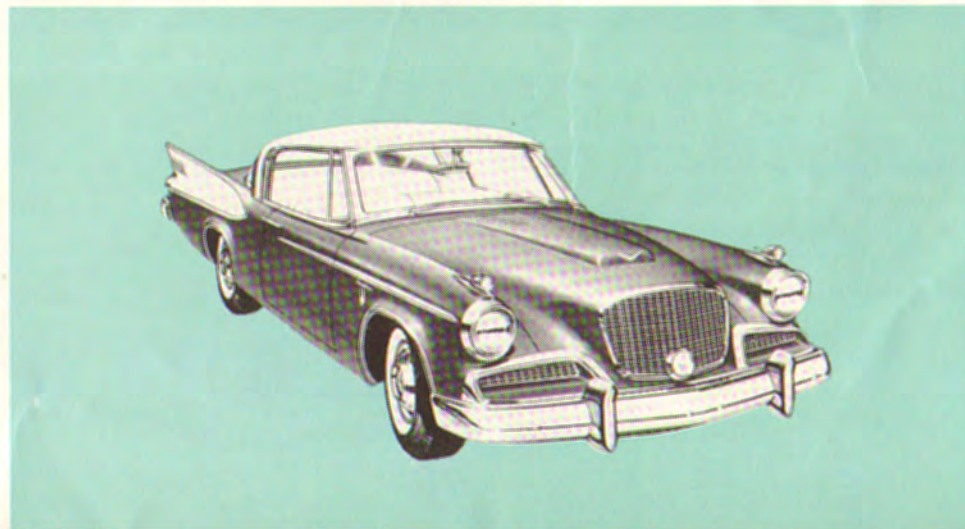
Business Management field forces were expanded to help the dealer organization increase its financial strength and sales effectiveness. Assistance was accorded this campaign by meetings in each zone between top Corporation executives and zone personnel.

Sales training and refresher courses, attended by the entire field sales force, were instituted to insure training of field sales personnel for maximum sales performance, with additional courses being scheduled for 1958.

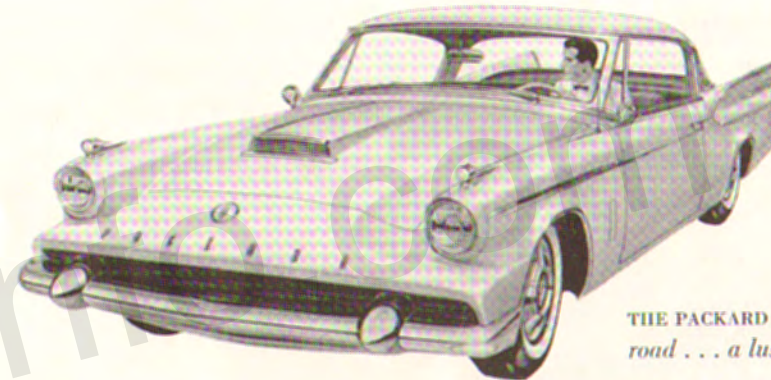


STUDEBAKER PROVINCIAL STATION WAGON gives a limousine Luxury Level ride with both light and heavy loads . . . on any road.

STUDEBAKER GOLDEN HAWK, premier family-sized sports car . . . the Golden Hawk and the Packard Hawk are the only supercharged production cars in the world.



PRESIDENT STARLIGHT HARDTOP is high fashion in motion, with slim Flight-Stream roof line, panoramic visibility, sedan all-weather comfort and V-8 power.



THE PACKARD HAWK is the most original car on the road . . . a luxury sports car for an entire family.

Advertising, for the first time, included full-page, four-color rotogravure ads appearing in selected feature magazine sections distributed with Sunday newspapers in key market areas throughout the United States. A 16-page Sunday color supplement, a copy of which was sent to shareholders in December, appeared in leading newspapers, with a combined readership of 16,000,000. To our knowledge, this was the first time a separate Sunday color supplement was devoted on a national scale to automobiles of one manufacturer. For maximum sales impact, reprints of this special supplement were sent in quantity to dealers for local distribution. Additional advertising of this nature is planned for 1958.

Special "Drive-Aways" were staged during new model introduction in which dealers from all sections of the United States converged on South Bend, Indiana, or San Mateo, California, to familiarize themselves for the first time with our new cars and trucks, meet and be addressed by corporate executives, and return to their dealerships driving the new models.

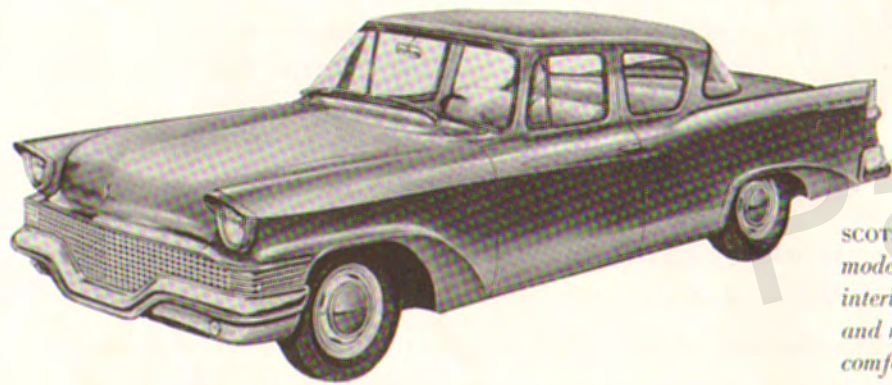
THE SCOTSMAN SERIES— AMERICA'S LOWEST-PRICED, FULL-SIZED CARS

With new cars costing more to own and operate, it became apparent that the motorist desiring economical transportation with big car roominess and comfort was being ignored.

To capitalize on this market, Studebaker-Packard introduced the Scotsman series in May, consisting of a two-door sedan, a four-door sedan and a station wagon. The Scotsman line offers America's lowest-priced, full-sized cars.

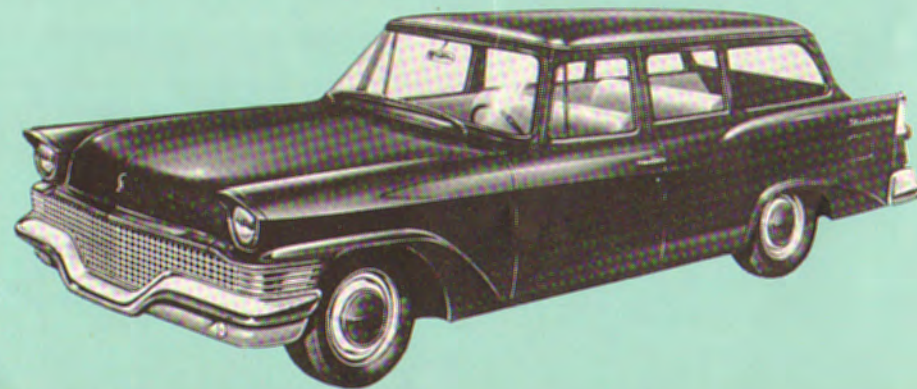
The line was designed to appeal to the buyer desiring lowest possible initial investment; maximum reliability and economy of operation; a basic and durable interior; functional and uncluttered modern styling; plus the roominess and comfort associated with costlier cars. Excessive chromium trim, over-decorated interiors and nonessentials were deliberately omitted.

Since the Scotsman models were introduced, they have accounted for more than 25% of the Corporation's passenger car sales. A majority of the cars traded in on Scotsman models have been competitive makes, representing a broadening of the market for Studebaker-Packard products.

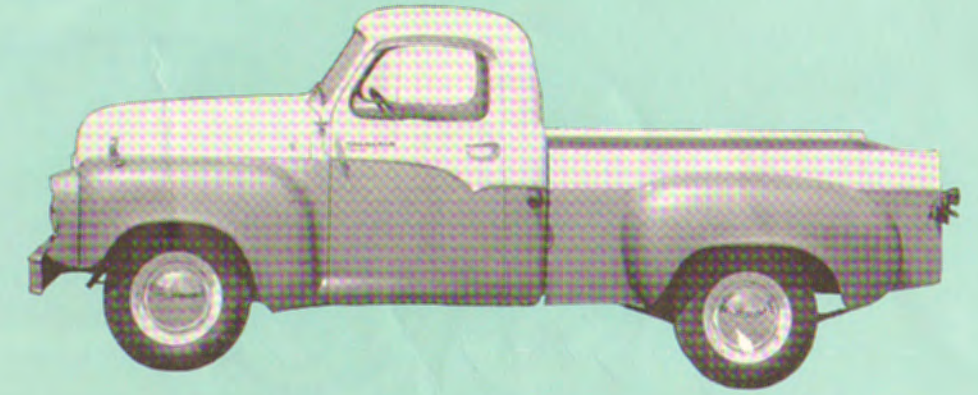


SCOTSMAN 2-DOOR SEDAN provides modern styling . . . smartly functional interiors designed for family use . . . and room for six adults in complete comfort.

SCOTSMAN STATION WAGON has all the spacious comfort of a 6-passenger sedan and seats eight with optional Hideaway Seat . . . plus more than 93 cubic feet of cargo space with the rear seat down.



STUDEBAKER TRANSTAR TRUCKS, economical in both price and operation, make ideal units for either individual or fleet use. They range from the popular ½-ton pickups to the powerful 2-ton heavy duty models. And in addition, there's the Scotsman ½-ton full-sized utility pickup.



FLEET AND TRUCK

The Studebaker-Packard fleet and truck program concentrated on the development of products specifically designed for the specialized vehicle user.

After intensive investigation and engineering, the Studebaker Econ-O-Miler, a "built-for-the-purpose" taxicab, stressing large rear door openings, 6-cylinder engine and economy of operation, was introduced. Within a few months, this cab was operating in many of the major metropolitan markets throughout the country.

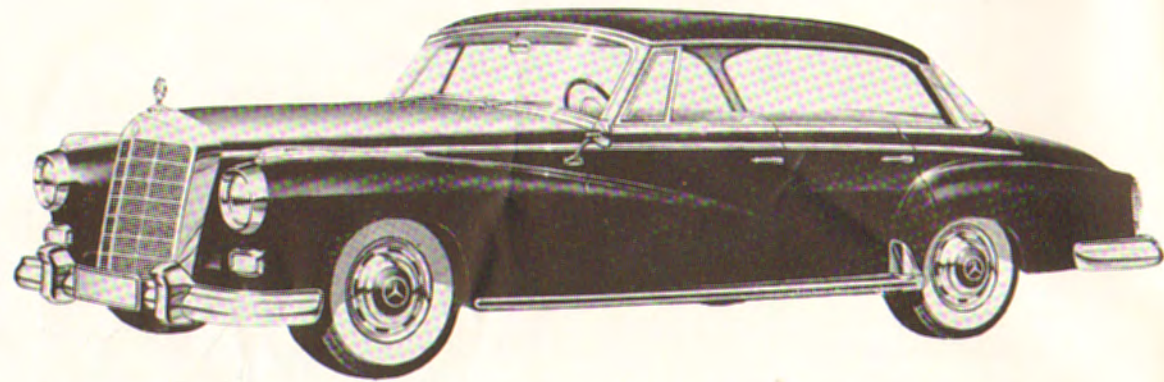
For the sedan delivery market, Studebaker-Packard designed and engineered the Panel-Wagon. Having all the features of a station wagon, including higher resale value, this unit is additionally equipped with removable side panels for use as a delivery vehicle. The Panel-Wagon can be converted from a delivery to a pleasure car in 30 seconds, thus providing the owner two types of vehicles at one low price.

For salesmen carrying merchandise, the Scotsman two-door car can be converted to a Utility Sedan providing 30 cubic feet of storage space behind the front seat with 17 cubic feet of cargo space in the trunk.

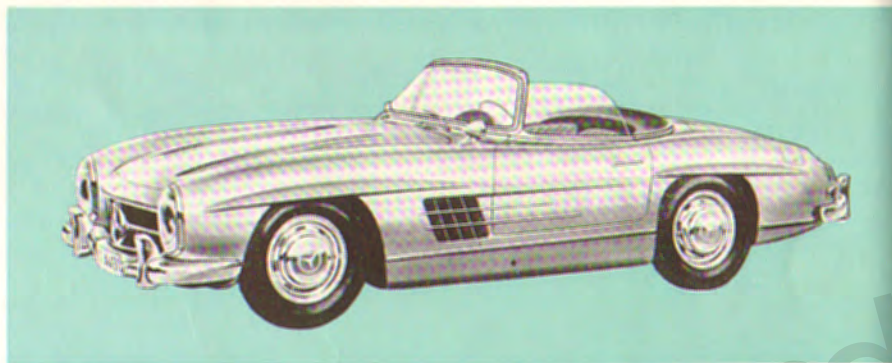
The Studebaker Police Marshal features a high-powered V-8 engine and has the reputation among law enforcement officers of being one of the safest and most maneuverable squad cars in use.

The Scotsman half-ton pickup truck, the lowest-priced model in the industry, was designed specifically to give minimum cost per mile of operation with resultant increase in profit-making potential for its users.

A new series of 4-wheel drive trucks was introduced in the latter part of 1957 to supply added power for equipment and supply haulers operating over difficult terrains.



MERCEDES-BENZ 300d . . . unsurpassed among all executive automobiles. Luxurious leather and polished wood appointments, fuel injection engine, automatic transmission.



MERCEDES-BENZ 300 SL ROADSTER, without peer among sports cars . . . fuel injection engine, breathtaking performance! Unsurpassed interior appointments, all-weather comfort.

MERCEDES-BENZ

In describing the Mercedes-Benz cars, a popular automobile magazine stated in its February issue:

"Mercedes-Benz is a name that is synonymous with automobiles, but more than being one of the most influential makes in the history of the automobile, the mention of the name Mercedes strikes a different note with almost anyone hearing it. Competitors fear it, other cars are compared to it, enthusiasts worship it."

Studebaker-Packard assumed the distribution responsibilities in North America for the superbly crafted Mercedes-Benz line in the spring of 1957. To insure highly skilled and readily available service, Studebaker-Packard, as a franchise prerequisite, made it mandatory for dealers to send mechanics through two week-long training schools and stock parts and tools adequate for normal service problems. Permanent and mobile training schools were conducted by company personnel specially trained in the German factories. Never before in our automobile industry has a comparable program of service training and

parts stocking been accomplished on a national scale in order to insure operating satisfaction for the domestic purchaser of an imported car.

To carry the story of the world's most highly esteemed car to the public, full-line caravans have been established to hold salon showings at franchised dealerships throughout the country. The Mercedes-Benz line, offering a model to suit every taste—from the 180 series sedans to sports-racing cars and the luxurious 300 sedans—is now an established member of the American fine car market.

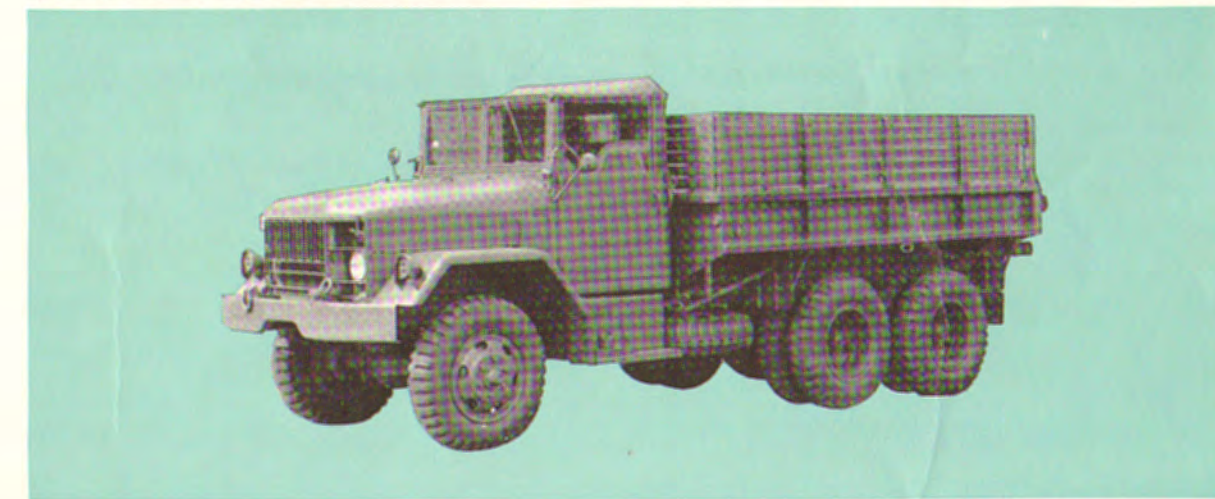
COST REDUCTION

Utmost emphasis and effort has been and will continue to be devoted to cost reduction. During the year, substantial savings were achieved in our operations, primarily the result of realizing the effects of consolidation of production facilities in South Bend, and further reorganization of departments and combination of functions. Selling, administrative and general expenses were reduced approximately \$17,000,000 during the year.

DEFENSE ACTIVITY

Defense activities consisted principally of the assembly of a 2½-ton 6 x 6 military truck pursuant to a subcontract calling for 5,037 units. A second subcontract for 5,031 units has been negotiated with production to follow the completion of the first contract and run through 1958.

THE 2½-TON MILITARY TRUCK, with a 6-wheel drive, is being assembled by Studebaker-Packard.



*Consolidated Balance Sheet* DECEMBER 31, 1957*Assets*

CURRENT ASSETS

Cash		\$ 12,690,996
Marketable securities—at cost and accrued interest (approximate market)		8,040,510
Accounts receivable, including U. S. Government, less allowances of \$590,000.		15,797,986
Unbilled costs under U. S. Government contracts		1,024,814
Inventories—at lower of cost (first-in, first-out method) or market:		
Automobiles and trucks	\$13,928,286	
Raw materials, work in process, service parts, and supplies	35,347,006	49,275,292
Prepaid insurance and other expenses		735,080
		<u>735,080</u>
TOTAL CURRENT ASSETS		\$ 87,564,678

OTHER ASSETS

Investment in and advance to affiliated company	\$ 613,537	
Mortgages receivable and miscellaneous investments	421,821	1,035,358

PROPERTIES—Note F

Land (\$4,018,097) and buildings—at cost or less	\$45,160,055	
Machinery and equipment—at cost	52,475,415	
	\$97,635,470	
Less accumulated amortization and provisions for depreciation	48,440,758	
	\$49,194,712	
Less reserve for general obsolescence and possible loss on disposal of high operating cost and surplus plants, property, and equipment	21,273,339	27,921,373
		<u>27,921,373</u>
		<u>\$116,521,409</u>

See notes to financial statements.

Liabilities and Shareholders' Equity

CURRENT LIABILITIES

Accounts payable and accrued expenses		\$ 26,430,151
Reserve for product warranty on automobiles and under government contracts		1,479,766
Reserve for price redetermination refund to U. S. Government and for costs of liquidating Detroit area operations (other than losses on disposal of properties)		7,418,335
		<u>7,418,335</u>
TOTAL CURRENT LIABILITIES		\$ 35,328,252

LONG-TERM DEBT—Note A

Notes payable to banks	\$29,700,000	
Notes payable to insurance companies	25,000,000	54,700,000

DEFERRED RENTAL INCOME—Note F

22,018,333

SHAREHOLDERS' EQUITY

Common Stock, \$1 par value:		
Authorized 15,000,000 shares (5,400,000 shares reserved for options—Note D):		
In treasury 101,732 shares		
Outstanding 6,440,455 shares	\$ 6,440,455	
Capital surplus, after deducting deficit of \$48,260,412 at November 2, 1956 (no change during 1957)	8,273,551	
Earned-surplus deficit—since November 2, 1956—		
Note A (deduction*)	10,239,182*	4,474,824

CONTINGENT LIABILITIES—See Note E

\$116,521,409

See notes to financial statements.



*Consolidated Statement of Operations and
Earned Surplus* YEAR ENDED DECEMBER 31, 1957

Sales of automobiles, trucks, defense items, service parts and other products.....	\$213,203,741
Rental income, interest, and miscellaneous income....	2,723,378
	<u>\$215,927,119</u>
Costs and expenses:	
Cost of products sold.....	\$198,139,488
Selling, administrative, and general expenses.....	26,758,978
Interest expense.....	2,076,593
Other deductions.....	87,168
	<u>227,062,227</u>
NET LOSS FOR THE YEAR	<u>\$ 11,135,108</u>
Earned surplus at January 1, 1957.....	895,926
EARNED-SURPLUS DEFICIT AT DECEMBER 31, 1957	<u>\$ 10,239,182</u>
Note—Provision for depreciation charged to operations—\$5,587,033	
See notes to financial statements.	

ACCOUNTANTS' REPORT

Board of Directors and Shareholders
Studebaker-Packard Corporation

We have examined the consolidated financial statements of Studebaker-Packard Corporation and subsidiaries for the year ended December 31, 1957. 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 statement of operations and earned surplus present fairly the consolidated financial position of Studebaker-Packard Corporation and subsidiaries at December 31, 1957, and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ERNST & ERNST

Ernst & Ernst

CERTIFIED PUBLIC ACCOUNTANTS

Chicago, February 24, 1958

*Notes to Financial
Statements* DECEMBER 31, 1957

Note A—Long-Term Debt:

The notes to banks bear interest at 3½% and were payable on January 26, 1958. The notes were subsequently renewed for a six-month period and may be renewed, if no events of default have occurred, for additional six-month periods at the option of the Corporation, except that no note may be renewed for a period ending later than July 26, 1959.

The notes to insurance companies bear interest at 4%, are payable \$1,400,000 annually beginning October 1, 1959, and mature with a payment of \$4,000,000 on October 1, 1974.

The Corporation has agreed not to pay any cash dividends or acquire or redeem any of its capital stock until payment in full of the notes payable to banks. The loan agreement with the insurance companies limits cash dividends and purchases of capital stock to 75% of consolidated net income subsequent to December 31, 1954, and such payments may not reduce consolidated net current assets below \$50,000,000.

Both loan agreements provide that should the Corporation or Curtiss-Wright Corporation terminate, other than by merger, an agreement under which Curtiss-Wright furnishes advisory management services, the lenders may demand immediate payment of all notes.

Note B—Pension Plan:

Pension plans are in effect for substantially all employees. In prior years the Corporation has made contributions equal to or in excess of amounts required to maintain the actuarial soundness of the plans, and accordingly certain contributions for the year 1957 have been reduced. On this basis, contributions aggregated approximately \$4,300,000 for the year. The unfunded cost of past services, as determined by independent actuaries, amounted to approximately \$54,000,000 at December 31, 1957. Such amounts may be funded over periods up to thirty years from the inception of the plans or from dates of granting with respect to the costs of additional benefits.

Note C—Renegotiation:

Sales of approximately \$300,000,000 to the United States Government by the Corporation for the years 1955 through 1957, and the former Studebaker Corporation from January 1, 1953, through September 30, 1954, are subject to renegotiation. The management believes that no excessive profits have been realized and no provision for renegotiation refunds has been made.

Note D—Stock Options:

The changes during the year 1957 in the Common Stock optioned to officers and employees are summarized as follows:

	<i>Options Granted</i>		
	1955	1956	1957
Shares under option at January 1, 1957.....	14,000	227,000	
Option price per share (average*)..	\$ 11.08*	\$ 6.77	
Shares under options canceled during 1957.....	10,000	47,500	
Shares under options issued July 31, 1957.....			48,000
Shares under option at December 31, 1957.....	4,000	179,500	48,000
Option price per share.....	\$ 10.00	\$ 6.77	\$ 6.18

The options granted in 1955 became exercisable in 1957, and those granted in 1956 become exercisable on December 21, 1958. The options granted in 1957 become exercisable on July 31, 1959, and the option price of \$6.18 a share was not less than 95% of the quoted market price on the date the options were granted.

At January 1, 1957, there were 159,000 shares of unissued Common Stock reserved for granting additional options under the restricted stock option plan for officers and employees, and at December 31, 1957, there were 168,500 shares so reserved.

On November 3, 1956, following approval by shareholders, the Corporation granted an immediately exercisable option to Curtiss-Wright Corporation for 5,000,000 shares of unissued Common Stock at a price of \$5.00 a share. This option terminates on November 2, 1958, or the date of termination of an advisory management agreement with Curtiss-Wright Corporation, whichever date is earlier.

Note E—Repurchase Agreements and Contingent Liabilities:

The Corporation has repurchase agreements outstanding in the approximate amount of \$7,000,000 in connection with certain automobiles sold in December, 1957.

At December 31, 1957, the Corporation was contingently liable as guarantor under retail installment contracts aggregating approximately \$1,000,000.

Note F—Properties:

In 1956, the Board of Directors established a reserve of \$32,000,000 for general obsolescence and possible loss on disposal of high operating cost and surplus plants, property, and equipment. Losses aggregating \$10,726,661 (of which \$10,244,732 occurred in 1957) have been charged to this reserve as a result of disposals of surplus properties; remaining properties presently classified as surplus are carried at approximately \$5,000,000. No provisions for depreciation of idle facilities held for disposal have been made since November 2, 1956. Costs and expenses incident to the maintenance of such facilities have been charged to the reserve previously provided for costs of liquidating Detroit area operations.

At December 31, 1957, properties include facilities leased to Utica-Bend Corporation, a wholly-owned subsidiary of Curtiss-Wright Corporation. The lease agreement covers a twelve-year period ending in 1968 at a net cash rental of \$25,000,000, all of which was received in 1956. Utica-Bend Corporation has assumed the cost of related property taxes, insurance, maintenance, and utilities.

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STUDEBAKER-PACKARD Corporation

Where pride of workmanship comes first.