
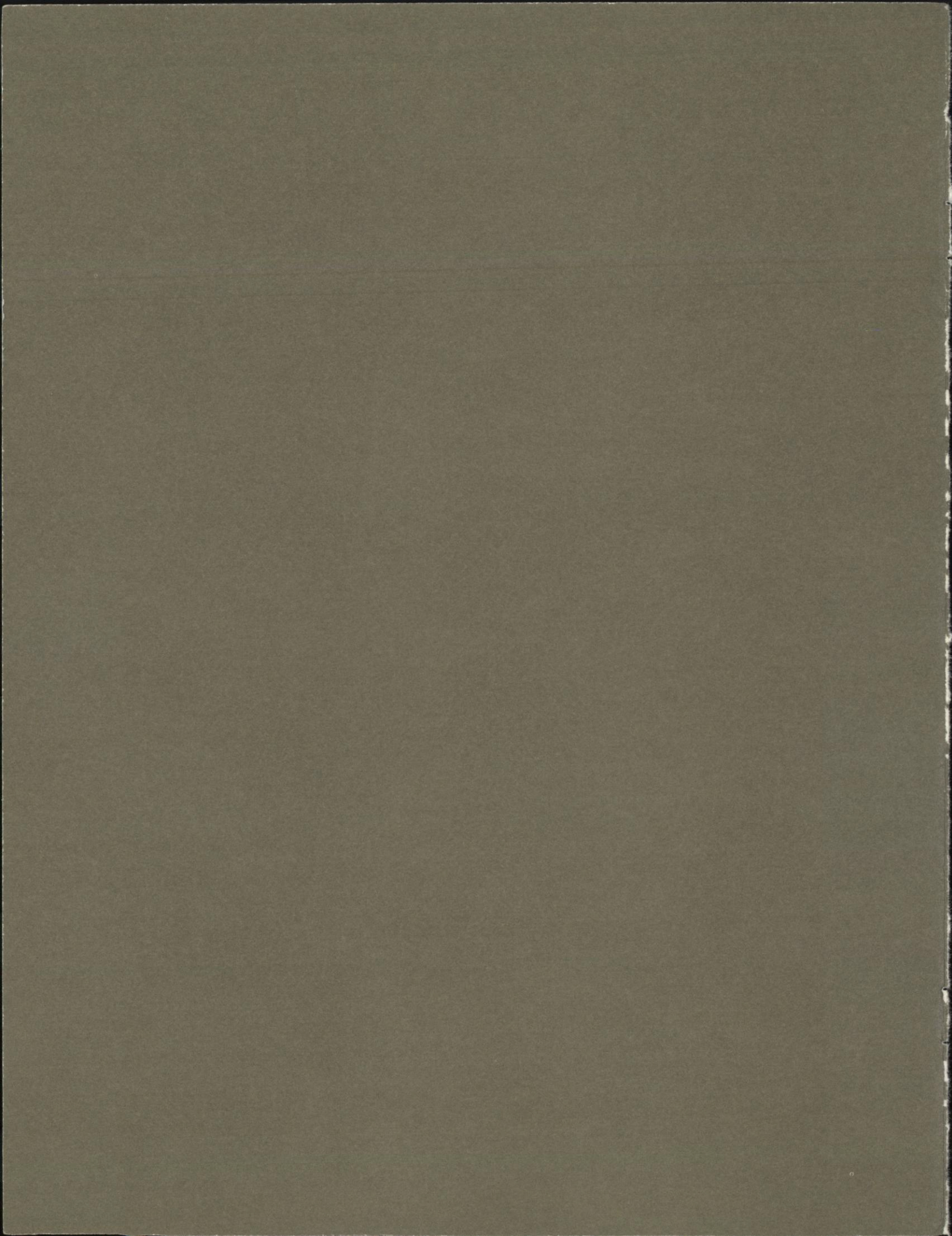


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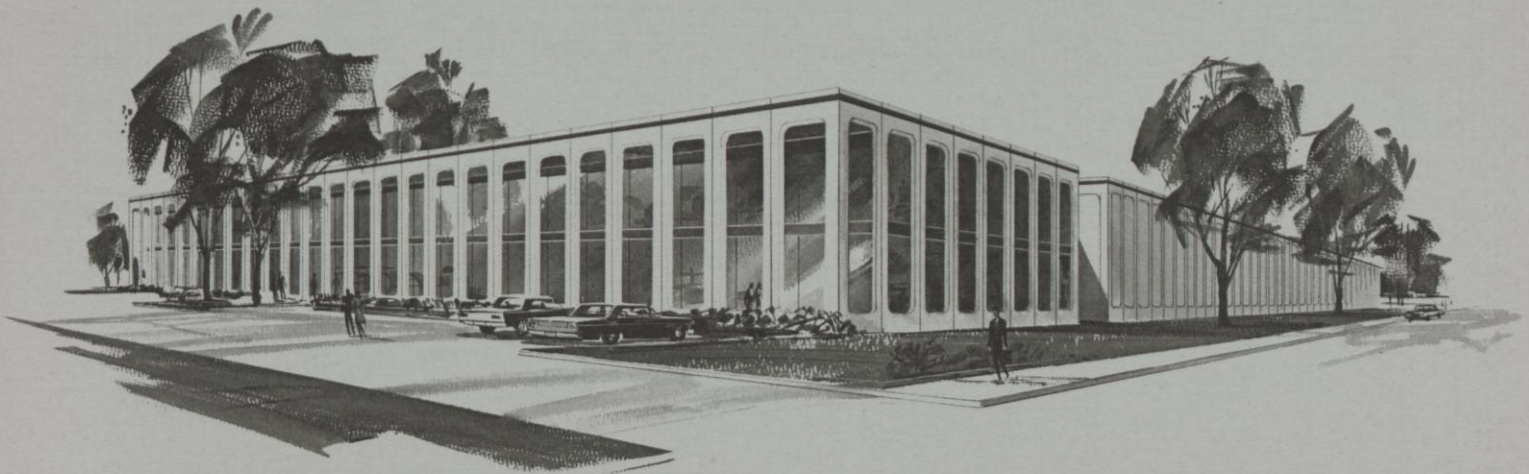
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This new \$1.3 million building under construction in Houston, Texas, is scheduled for completion in November. It is designed to consolidate local Gulf & Western administrative offices, the automotive parts distribution headquarters and other major American Parts operations.

Measure of Growth in Eight Years of Operation

	<u>1965</u>	<u>Measure of eight-year growth</u>	<u>1958*</u>
Net Sales	\$182,079,000	is 22 times greater than	\$8,395,000
Net earnings ..\$	5,514,000	is 204 times greater than	\$ 27,000
Total assets	\$104,096,000	is 22 times greater than	\$4,682,000
Shareholders' equity	\$ 37,251,000	is 16 times greater than	\$2,292,000
Total number of shares out- standing	2,111,080	is 8 times greater than	265,262
National and regional distributors	8	is 8 more than	0
Warehouses	27	is 7 times greater than	4
Jobbers (owned and associate)	500	is 83 times greater than	6
Manufacturing plants	33	is 33 times greater than	1

* The figures shown in the 1958 column are as reported in the annual report to shareholders at July 31, 1958, and have not been adjusted for companies acquired on a pooling of interests basis subsequent to that date.

Financial Briefs Years ended July 31, 1965, and July 31, 1964

	1965	Increase	1964	
			Adjusted For Pooled Acquisitions	As Previously Reported
Net sales	\$182,079,000	40.5%	\$129,628,000	\$117,246,000
Net earnings	\$ 5,514,000	33.0%	\$ 4,145,000	\$ 3,458,000
Average shares outstanding (A)	2,082,000	2.5%	2,032,000	1,877,000
Earnings per share (A)	\$ 2.65	29.9%	\$ 2.04	\$ 1.84
Current assets	\$ 71,707,000	32.3%	\$ 54,197,000	\$ 49,732,000
Current liabilities	\$ 33,306,000	20.2%	\$ 27,705,000	\$ 25,039,000
Working capital	\$ 38,401,000	45.0%	\$ 26,492,000	\$ 24,693,000
Total assets	\$104,096,000	40.9%	\$ 73,854,000	\$ 68,364,000
Long-term debt	\$ 29,940,000	146.0%	\$ 12,170,000	\$ 11,526,000
Shareholders' equity	\$ 37,251,000	17.2%	\$ 31,795,000	\$ 29,615,000

(A) Average shares outstanding have been adjusted for the 3% stock dividend paid in September 1964.

To Our Shareholders

Record high sales and earnings reflect Gulf & Western's progress during the past year. Sales totaling \$182,079,000 were up 40 per cent over last year. Earnings rose to \$2.65 per share, up 30 per cent over \$2.04 per share a year ago. The average number of common shares outstanding at July 31, 1965, was 2,082,000, or 2.5 per cent more than last year after adjusting for a stock dividend and for companies acquired on a pooling of interests basis.

Important steps were taken during the year to broaden the company's capital structure and increase returns to shareholders.

Management's proposal to create 500,000 shares of a new cumulative convertible preferred stock received shareholder approval at a special meeting held in July. Of this amount, 250,000 shares were offered to shareholders in September, and the balance will be held unissued for use in future development programs.

By further action of the board this summer, Gulf & Western's quarterly cash dividend on the common stock was raised to \$.12½ per share, and a three per cent stock dividend was voted.

Since beginning its program just eight years ago, the company has solidified its position each year in the dynamic automotive industry. At the same time, Gulf & Western's over-all base has been strengthened by entering into the fields of industrial manufacturing and aerospace.

Through a program of internal development and growth, Gulf & Western is well established and operating profitably in the distribution of automotive parts in the aftermarket; the manufacture of automotive parts for both the aftermarket and the original equipment market; the production of components and systems for the aerospace industry; and the manufacture of industrial products for diversified industries.

During the past year, internal growth reached a peak in the company's history. Capital expenditures of \$5.2 million were made primarily for increasing production and for improving and building facilities throughout Gulf & Western. This represents an increase of 55.1 per cent over last year.

In the field of automotive parts distribution, the company's American Parts System for independent parts jobbers was expanded to better serve the needs of

jobbers over a wider area of the country. Four new warehouses were established and a fifth is in final stages of construction.

Further penetration into the aftermarket was achieved by expanding the distribution of automotive replacement parts and accessories through other wholesale operations in Pennsylvania, North Carolina, Connecticut and Michigan.

Production of the automotive parts manufacturing group was stepped up sharply this year to satisfy new and larger orders. Completion of internal development programs and the addition of new manufacturing facilities anticipate the need for increased production capabilities next year. This coordinated group now has the capacities and engineering skills to supply a larger share of the automotive parts for the nation's vehicles.

With the entire world looking toward space as a part of its natural future, it is fitting that Gulf & Western expand its own interests in this new industry. In the current period three major plant additions have been made to handle research, development and production of power plant systems, heat-treating metals, experimental testing chambers and survival equipment.

The company's industrial manufacturing units registered important advances in two significant areas. Through a multi-plant industrial manufacturer, the company now produces products for customers in such industries as road building, oil refining and gas transmission. Capitalizing on a revolutionary process for chrome plating of plastics, Gulf & Western in June completed an expansion of the existing facility to more than double its production of plated parts.

Several changes in membership on the board of directors and the executive committee occurred during the fiscal year.

David N. Judelson, who is in charge of all manufacturing operations, was elected chairman of the executive committee. A member of that committee since 1962, Mr. Judelson has been a vice president and director of Gulf & Western since 1959.

Former Governor of North Carolina, Luther H. Hodges, was elected a member of the board of directors in July. Governor Hodges, who resigned his cabinet post as United States Secretary of Commerce earlier this year, brings his broad experience and wide capabilities to Gulf & Western's board.

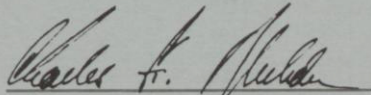
Harold U. Zerbe was appointed a member of the

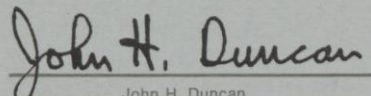
executive committee. Mr. Zerbe is a director of Gulf & Western and is president of one of the company's auto parts distribution subsidiaries that has been affiliated with Gulf & Western since 1962.

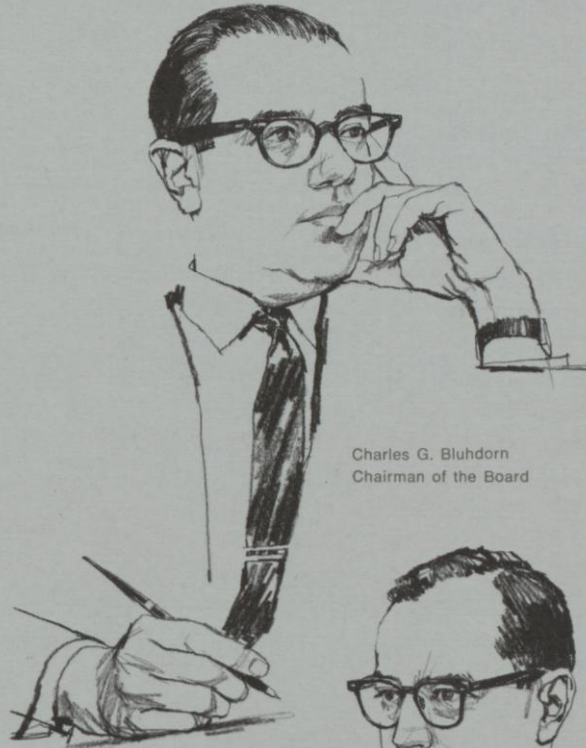
To enlarge and consolidate local facilities, Gulf & Western has begun construction of a new Houston headquarters building. The new 86,000 square-foot building will include separate offices and warehouse space for major American Parts operations, and serve as administrative offices of Gulf & Western. Completion is scheduled for November.

Between September 10, 1965, and October 4, 1965, Gulf & Western purchased from certain shareholders of The New Jersey Zinc Company 2,084,306 shares (approximately 57.5 per cent of the shares outstanding) of common stock for a price of \$40 per share. A plan to merge Gulf & Western Industries and The New Jersey Zinc Company, with Gulf & Western to be the surviving corporation, was approved in principle by the boards of directors of both companies on September 29, 1965.

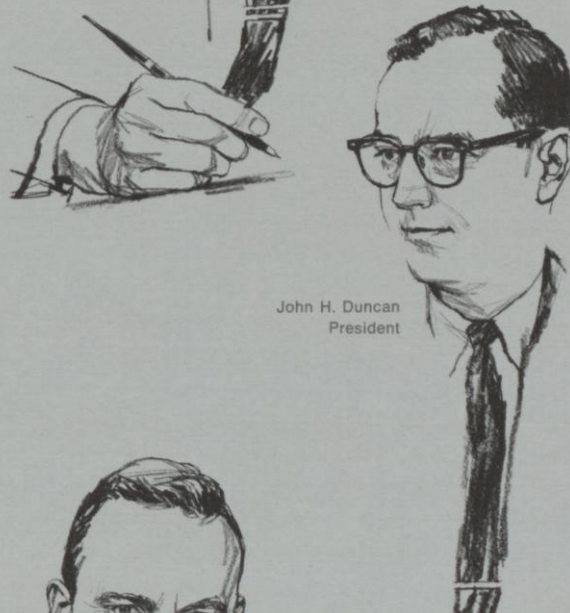
Although the growth of Gulf & Western has been exceptional, the potential of the industries it serves has barely been tapped. With the increasing demand for quality products and services to the automotive, industrial and aerospace industries, we are confident that our greatest achievements are still forthcoming.


Charles G. Bluhdorn

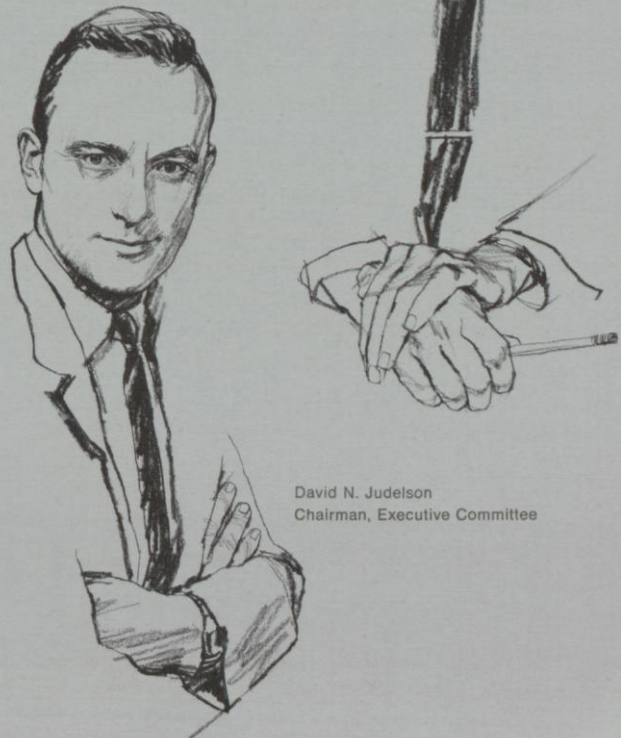

John H. Duncan



Charles G. Bluhdorn
Chairman of the Board

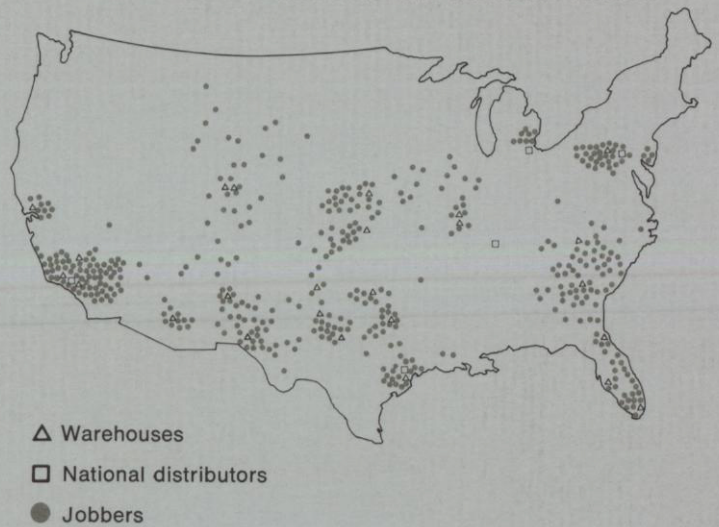


John H. Duncan
President



David N. Judelson
Chairman, Executive Committee

Gulf & Western's Automotive Parts Distribution Network



OPERATIONS: Automotive Parts Distribution

Nearly \$7 billion worth of auto replacement parts was sold by wholesalers last year. Most of this volume was handled by auto parts jobbers. And, one of the nation's fastest growing networks to serve independent jobbers is Gulf & Western's American Parts System.

While no one knows the exact dollar amount spent annually in the automotive parts aftermarket, today educated guesses range from \$9 billion to \$12 billion at the retail level. In a market so far-flung, so vast, and with such complex levels of distribution, there are many to enter the debate. On one point, however, the experts concur: the jobber is the man to watch. For of the \$6.5 billion in parts sold at wholesale last year, an estimated 87 per cent went through the nation's automotive parts jobbers.

It is here that Gulf & Western's American Parts System enters the market place. Through a national system of regional warehouses, the American Parts System offers the independent automotive parts jobber a program. It is appealing, giving the jobber single source supply, a parts classification designed for his particular market, understandable inventory guides, obsolescence protection, sales and advertising support and other basic services vital to the success of these businessmen.

As the program gained impetus, with an ever-increasing number of regional warehouses and owned and associate jobbers, far-sighted efforts were made to counteract shortcomings in the procurement and distribution of certain classifications of parts and service supplies. Specific American Parts product lines were developed and added to the program offered to jobbers through G&W warehouses. First came Poweride's engine, chassis and automatic transmission parts; next the American Parts' General Service Line with thousands of service and supply items; then Poweready Ignition parts. This year, with the introduction of the American Parts Rogers (automotive) Paint line and the Powerized line of rebuilt parts, American Parts System

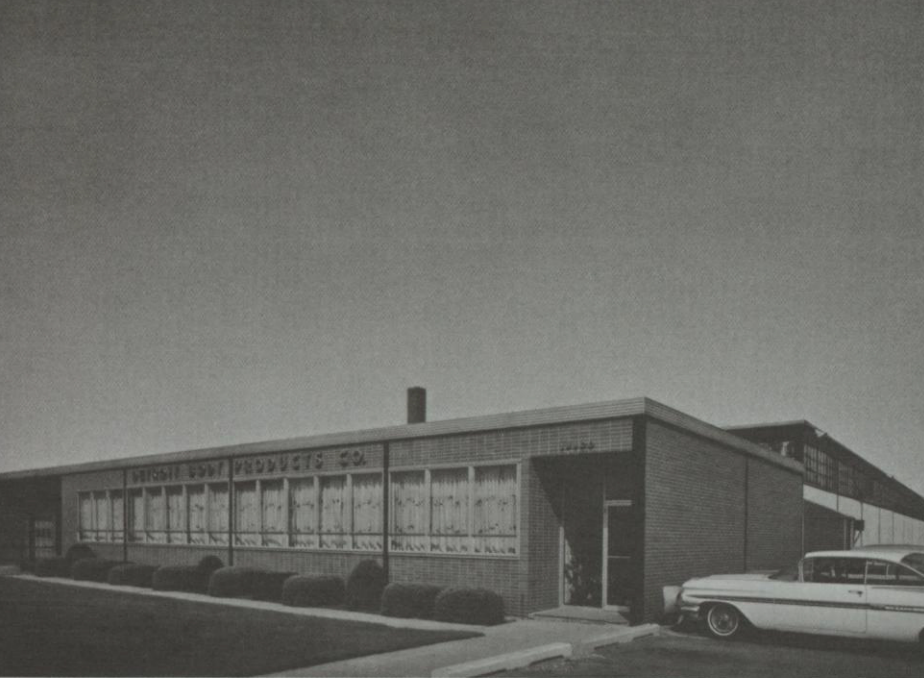
warehouses are making available five necessary parts categories specially tailored for jobbers. These American Parts products supplement many other national brands to give associate jobbers the balanced coverage desired.

Today, Gulf & Western's automotive parts distribution network includes 27 regional warehouses which service 500 owned and associate jobbers in 28 states, Mexico and Nassau. During the current period, modern warehouses were established in Dallas, Texas; Anaheim, California; Denver, Colorado; San Francisco, California; and Jacksonville, Florida.

Company-owned jobber activities were extended in the eastern and southeastern sections of the United States this year through the purchase of 13 outlets in the Harrisburg, Pennsylvania area; 6 outlets centered around Asheville, North Carolina; and 5 affiliated stores in the Hartford, Connecticut region.

Still further penetration into the automotive aftermarket is exhibited by five operations which distribute independently to national wholesalers of replacement items. Three of these plants market quality ignition lines under their own brand names in the United States and Canadian markets. One Detroit company serves an intriguing facet of the market as a principal supplier of original automobile interior fabrics which are used for replacement of the factory-installed upholstery. A fourth, based in Philadelphia, distributes fender skirts, floor shift conversion units, sport wheels and other accessories. The appeal of this company's products has increased greatly due to the mounting demand of sports car enthusiasts for special parts and accessories to modify standard equipment on automobiles.

Gulf & Western is enlarging its share of aftermarket volume through internal development and the application of proven marketing procedures. The automotive distribution companies' rate of growth is expected to accelerate as these programs gain momentum and reach fulfillment.



A major supplier of original interior upholstery materials to the after-market, Gulf & Western serves distributors in all sections of the country through its Detroit Body Products Company.



American Parts System warehouses, offering a single-source, comprehensive program to independent automotive parts jobbers, are being established in key regions of the nation to support jobbers in better penetrating their markets.

More and more Associate Jobbers across the country are improving sales, profits and service to customers under the American Parts System's efficient, modern program for marketing automotive parts.

OPERATIONS: Automotive Parts Manufacturing

Cars in this country are multiplying at a faster rate than people. Also, today's average car will last 4 years longer and drive 63,000 miles farther than the average of 30 years ago. Result: growing markets for new car parts and replacement parts . . . and, Gulf & Western factories supply both.

One of the most massive and complex industries in America today is listed under the simple heading: automotive. Yet this vast industry embraces the fields of design, engineering, research and development, management techniques and top sales effort.

If the term "automotive" can be segmented at all, it is in two broad categories:

Original Equipment (parts used by the automotive manufacturer), and

The Aftermarket (parts furnished to replace the original parts as they wear out).

Structured to serve each of these two categories Gulf & Western, through its long-range program of internal expansion, has completed a record year in automotive parts manufacturing.

With leading car assemblers as steady customers, Gulf & Western's bumper and bumper parts manufacturers made a major contribution to this record. Affecting this performance was the automated plating line which completed its first full year of operation. Augmenting capabilities in serving automobile manufacturers were the addition of a bumper plating plant in Detroit, and one in Windsor, Ontario, which marked entry into the Canadian market. The Ontario plant has since been enlarged to increase its plating capacity by 80 per cent.

The comprehensive line of ignition components, cable and wire, distributor caps, rotors and condensers offered by Gulf & Western has played an important role in the over-all progress made this year. In a constant search for new and sophisticated techniques and materials, a rock-hard compound called phenolic was tested and approved by Gulf & Western for use in its manufacture of condensers for the automotive industry. Through

its molded plastics and stamping operations, the company also doubled its production of ignition points during the past year to satisfy the demands of new business and larger orders for these electrical system parts.

Sales of automotive decorative trim and hardware have also made a vital contribution to the company's advancement. As a major supplier of automotive grills, tail lights, headlamp frames, door handles, hub caps and horn rings, considerable investment has been required to accelerate production. As a result, this year two plant additions were made, a large and modern paint department was built and 14 new die-casting machines were installed.

Other expansions in this field include:

—The installation of new machinery and equipment which make the wire sections and lengths needed for the manufacture of spring shackles used in the suspension systems of automobiles and trucks (G&W produces the majority of the assembler's requirements of spring shackles.),

—Introduction of polystyrene film capacitors and metallized Mylar and Feedthru capacitors made in great quantity for leading manufacturers of two-way radios used in police cars, taxi cabs and heavy construction and cement trucks,

—Penetration into a new area of the market this year with the purchase of a company specializing in the manufacture of body frame support parts.

Based on Gulf & Western's highly successful year in automotive parts manufacturing, and on the industry outlook, the company has set new and higher goals for its production facilities in the year to come.

GULF & WESTERN AUTOMOTIVE PARTS MANUFACTURING FACILITIES ARE PRODUCING PRODUCTS FROM 17 LOCATIONS IN THE U.S. AND CANADA:

Amory, Mississippi
Detroit, Michigan (2)
Douglas, Michigan
Glasgow, Kentucky
Grand Rapids, Michigan (4)
Holland, Michigan (2)

Huntingdon Valley, Pennsylvania
Mansfield, Pennsylvania
Middleville, Michigan
Seneca Falls, New York
Union Springs, New York
Windsor, Ontario, Canada



Major expansion has taken place at Gulf & Western's General Products plant during the past two years. Turning out ignition components, custom-molded plastics, capacitors and condensers, the original plant (outlined at left) has more than doubled its former space.



During each hour of operation, thousands of automotive parts or accessories come off this automatic continuous plater at Gulf & Western's Grand Rapids Brass Co. Moving counter-clockwise, the racked parts go through a series of steps in an electro-plating process where they are lowered into cleaning baths, plated with copper, then nickel and then chrome and finally moved out to a drying oven before being unracked.

Production at Gulf & Western's bumper manufacturing operations has been stepped up for both U. S. and Canadian markets. Here finished car and truck bumpers, which have just been processed through a newly automated nickel and chrome plating line, move down the conveyor for inspection before crating and shipping.

OPERATIONS: Industrial Manufacturing

World-famous Bonney Forge fittings and Lenape forgings are part of Gulf & Western's growing family of general industrial products. So are TV set fronts, steel cabinets, electronic components, plated plastics, sound equipment and many other products.

In today's demanding world of mechanized specialization, the manufacturing subsidiaries of Gulf & Western are acknowledged leaders in their respective fields.

Bonney Forge, Inc. is a prime example. Its important pipe fitting designs have international technical application in oil refining, chemical processing, gas and oil transmission, ship building, steam power system and atomic reactor fields. Bonney is also a principal supplier of stainless steel, copper, nickel and carbon steel fittings to the builders of nuclear submarines.

Significant in the foreign market is Bonney Forge, International, located at Irvine, Ayshire, Scotland, which has tripled its volume in the past three years. The recent addition of a new wing to the present plant will enhance service to customers in Africa, the Far and Middle East, and 22 European nations.

Working in conjunction with Bonney's domestic operation, Lenape Hydraulic Pressing and Forging Company is considered to have the industry's most complete range of carbon and alloy forgings and pressings for pressure vessels. These include nozzles, welding necks, circular and elliptical tank manholes, cylinders, studing and other connections for boilers, tanks and towers. Increasing demands for Lenape products have necessitated a plant addition which will triple the size, and the installation of one of industry's largest hydraulic presses to handle larger pressure vessels.

Important to Gulf & Western is a company which has received international acclaim for its revolutionary patented process for chrome plating plastics. Future demands for plated plastics in hardware, plumbing, furniture, electronic components, housewares and appliances have necessitated major in-plant remodeling and the addition of a second (100,000 square-foot) plant, thus making it the largest plastic plating enterprise in the world.

During the past year, Gulf & Western has combined several operations which now have consolidated facilities to produce sound equipment systems, amplifiers, and tape recording equipment and to import and distribute musical instruments. This company's sonar signal simulator is used by the military as a part of the Navy training program.

Another Gulf & Western company provides customers with yokes, eyebolts, tank flanges (rims), clevises and ASE rod ends. To bring this into closer perspective for the layman, standard rod ends are found as a part of the mechanism which closes the door on a school bus.

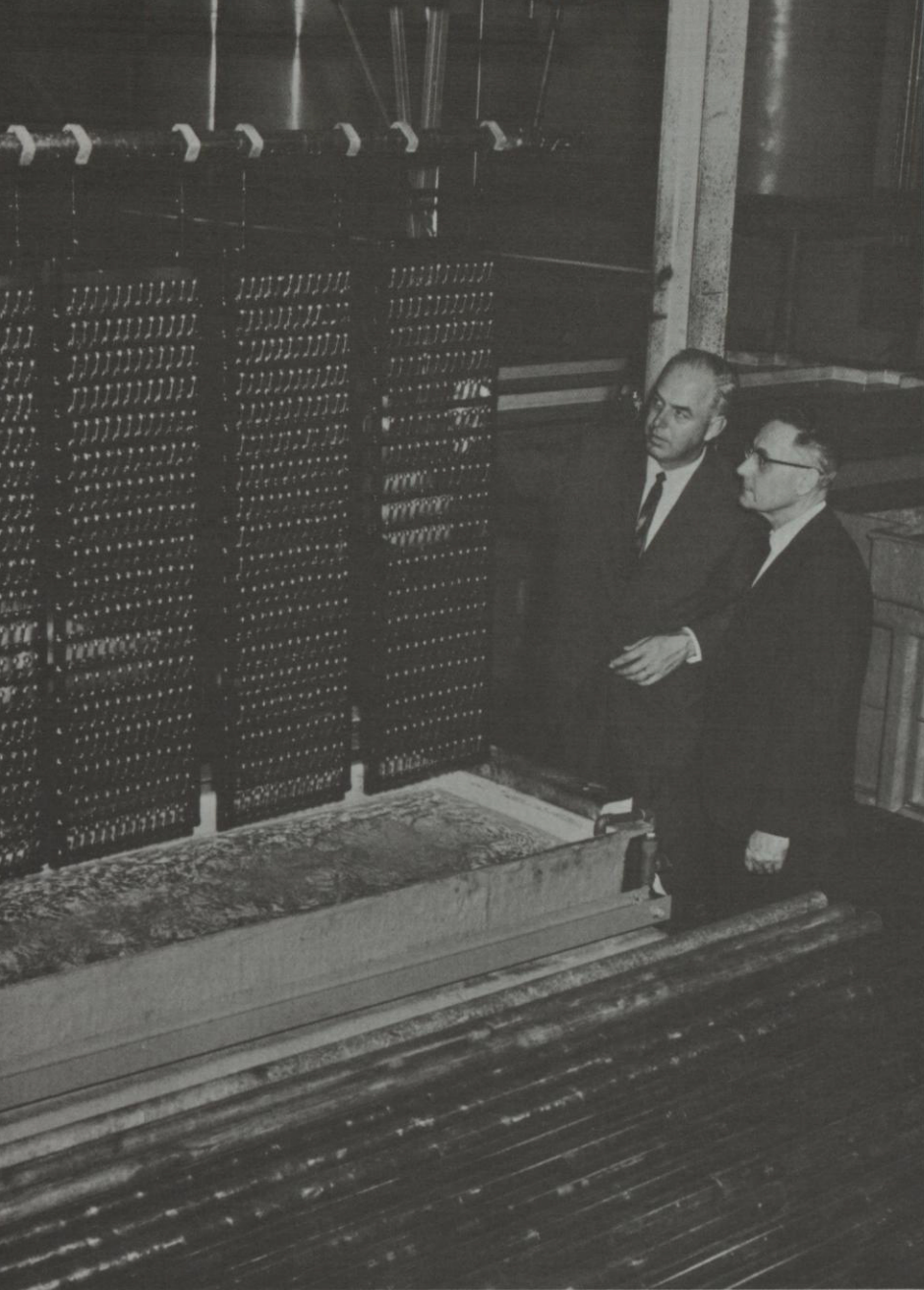
Further manufacturing includes castings used on farm machinery, large trucks, trailers, road building, construction and railroad equipment. Hardware such as freezer hinges, latches, faucets and flush handles are mass-produced for use on appliances and plumbing. G&W's die-cast and finishing processes supply television set fronts to leading national TV manufacturers. The demand for steel cabinets, desks, benches and shelving for schools, factories and offices represents a growing segment of the industrial market served by Gulf & Western. And, to support its strong position in automotive electrical ignition parts, G&W supplies electronic components, industrial capacitors, electrical switch blades, circuit breakers and other special parts for the electronics industry.

The field of industrial manufacturing holds great potential for Gulf & Western. Now firmly established and growing in this field, the company anticipates even greater returns on its investment.

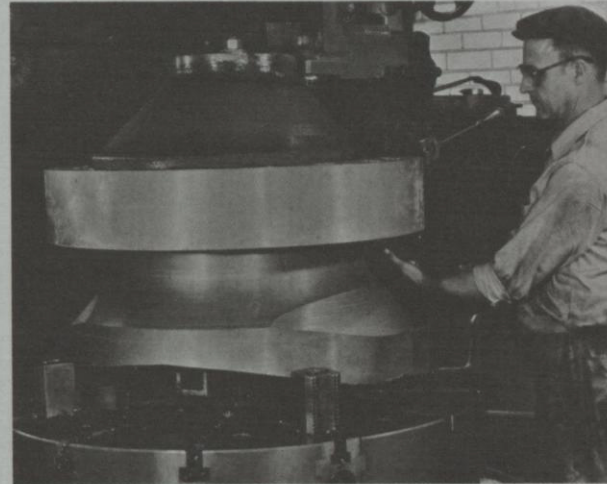
GULF & WESTERN INDUSTRIAL MANUFACTURING FACILITIES ARE PRODUCING PRODUCTS FROM 20 LOCATIONS IN THE U.S. AND SCOTLAND:

Allentown, Pennsylvania
Amory, Mississippi
Bucyrus, Ohio
Cleveland, Ohio
Douglas, Michigan
Glasgow, Kentucky
Grand Rapids, Michigan (3)
Holland, Michigan (2)
Huntingdon, Pennsylvania

Huntingdon Valley, Pennsylvania
Middleville, Michigan
Monroe, Michigan
New York, New York
Plainwell, Michigan
Union Springs, New York
Westchester, Pennsylvania
Irvine, Ayshire, Scotland



Seven racks containing 4,000 chrome-plated plastic locking buttons for car doors complete the first production run at Gulf & Western's new Middleville, Michigan plant. This new process for plating plastics has revolutionary applications for the automotive, plumbing and electronics industries.



Gulf & Western's manufacturing activities include the production of many types of fittings used extensively throughout industry. Here being machined at Lenape Hydraulic Pressing and Forging Company is a special 16-inch, 1500-pound nozzle which has been forged under a 3000-ton press for high pressure chemical, refinery or atomic vessels.



The production of heavy castings used in construction equipment, mining machinery and large rolling mills and presses, is performed by the company's Crawford Steel Foundry plant. Here, a grinding operation is shown. The casting is a drum lagging, weighing 3200 pounds, and will be used on an eight cubic-yard dragline power shovel.

OPERATIONS: Aerospace Activities

Precision parts for space craft, complete survival systems, environmental test chambers and revolutionary metallizing techniques—These and a hundred other products and processes for aerospace come from Gulf & Western plants and laboratories.

Constantly striving for the development of new and improved products and systems consistent with the stringent demands of the space age, Gulf & Western aerospace companies ended this year with all-time high production and sales.

Mal Tool & Engineering Company, winner of G&W's highest manufacturing award for 1964, is a supplier of experimental and prototype machined parts for the aircraft and space industry. In five years, the company has grown from one plant to three manufacturing units in Connecticut and Florida. The last, placed in operation in the fall of 1964, was recently expanded to twice its original size. It has been staffed in part through Mal's new program to recruit and train special machine operators. Established this year, the program is coupled with a full-time training center to refine skills of men already on the job as well as to develop new skills for recruits.

Also located in the heart of New England's aircraft, missile defense and engineering industry is another Gulf & Western aerospace specialist engaged in the field of metallurgy. By the heat-treating and brazing of various metals and alloys, thousands of parts are processed here which ultimately find their way into many diverse aircraft, missile and space system applications.

To meet the critical stresses and strains demanded of today's space age, these parts are treated to withstand temperatures as low as minus 230 degrees centigrade without becoming brittle. The metals are processed to withstand the searing heat generated during the re-entry of a space vehicle; to bear up under the crushing force of sea water at depths of over 1,000 feet; to withstand the thrust impact of a one-million pound rocket engine. In a continuing effort to achieve greater strength and wear resistance, engineers this year adapted for use a new metallizing process for coating exotic metals with a dissimilar metal, which is expected to substantially add to sales within the next two years.

Produced amidst the mass concentration of space age

contractors in Southern California, Gulf & Western components have been designed and approved for use in conjunction with life support systems for the Mercury and Gemini space capsules. Here, company research engineers first developed survival kit hardware and components able to be adapted to today's aircraft. Continuing research is performed to meet requirements of manned aircraft for new and changing criteria of survival and escape.

With a need for modern and more automatic survival equipment, a major program is the eventual retrofit (replacing outdated equipment) of the majority of the military's aircraft with new "hard pack" survival systems. This program has been expedited so that the kits will be available when new rocket catapults are incorporated in the aircraft ejection seats. Contracts now signed will result in systems having universal installation capabilities in U.S. Air Force and Navy aircraft.

Extreme environments of heat, cold, humidity, altitude, rain, dust, sunshine and explosion are simulated through Gulf & Western's manufacture of environmental test chambers. In determining and measuring thermal shock for missile and capsule components, a temperature reading of 165 degrees F. has been reduced by 230 degrees in two minutes. These environmental chambers, ranging in size from less than one cubic foot to over 6,100 cubic feet, are manufactured for customers throughout the free world.

Special capacitors for telemetry systems have been developed by Gulf & Western for military contracts. These synthetic dielectric capacitors are designed for applications requiring close tolerance and high stability. Switch bases and digital headers manufactured through Gulf & Western are used in the Polaris missile program.

With research and development of even more sophisticated systems for its aerospace program, Gulf & Western is continually preparing for the new challenges ahead.

GULF & WESTERN FACILITIES ARE PRODUCING FOR THE AEROSPACE INDUSTRY FROM 8 LOCATIONS:

Glendale, California

Holland, Michigan

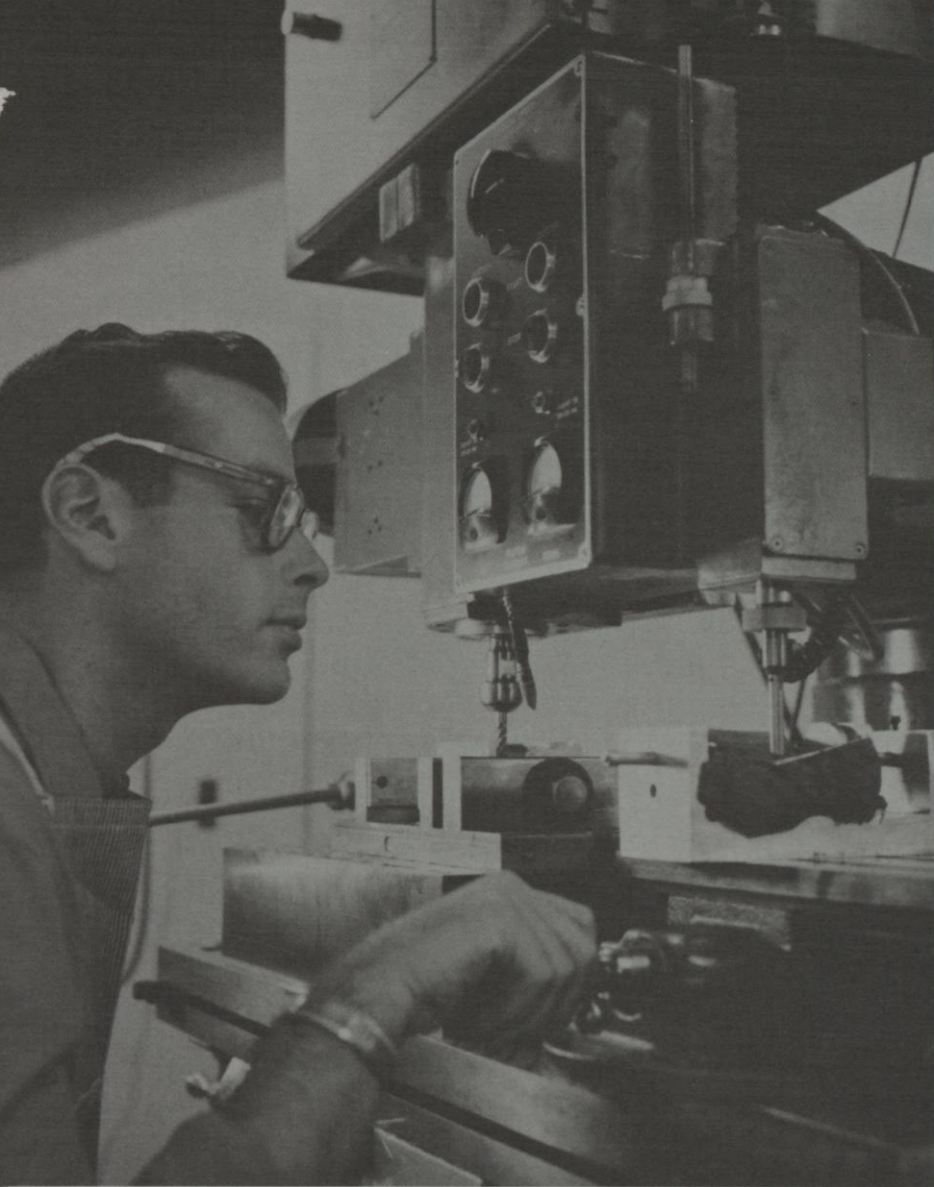
Huntingdon Valley, Pennsylvania

Manchester, Connecticut (2)

West Palm Beach, Florida

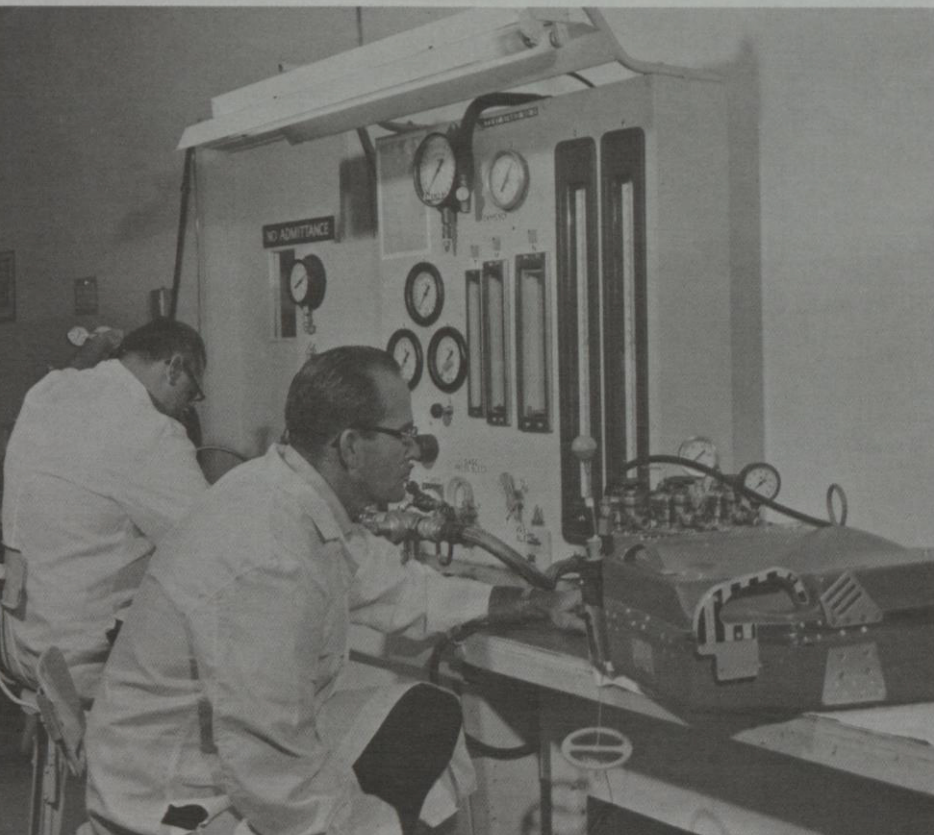
Union Springs, New York

Vernon, Connecticut



Employees are trained to produce precision parts and assemblies for today's space vehicles at the company's Mal Tool & Engineering training school in Manchester, Connecticut.

One of a battery of large contour milling machines is shown in Gulf & Western's new, modern plant in Pennsylvania. Here a craftsman is machining arresting hooks (right foreground) used with large nylon cable in the launching dolly assembly for catapulting aircraft.



At G&W's Rocket Jet plant in Los Angeles, skilled technicians perform final checkout of the emergency oxygen system of a survival kit. This rigid seat survival kit is designed and built as an integral part of the escape system for high speed aircraft.

Financial Review

During fiscal 1965, Gulf & Western's over-all performance attained record highs.

Sales and income: Sales of the combined operations totaled \$182.1 million during the past twelve months, an increase of \$52.5 million over \$129.6 million in 1964. Expanded operations augmented by a strong internal development program have boosted the current annual going sales rate to \$200 million.

Net income this year was \$5.5 million compared to \$4.1 million last year, an improvement of \$1.4 million. Translated into earnings per share, Gulf & Western earned \$2.65 in 1965, compared to \$2.04 in 1964, after making adjustments to place the average number of outstanding shares on a comparable basis during the two years.

Sales, net income and average shares outstanding reported for last year have been retroactively adjusted to include a subsequent stock dividend and the operations of businesses acquired in pooling of interests.

Financial Position: Working capital increased to \$38.4 million during 1965, compared with \$26.5 million for the previous period. At July 31, 1965, current assets were \$71.7 million and current liabilities, \$33.3 million. The current ratio was 2.2 to 1, up from the ratio of 2.0 to 1 for last year.

Capital Stock and Dividends: At a special meeting held on July 21, 1965, Gulf & Western shareholders overwhelmingly approved the creation of 500,000 shares of a \$2.50 par value cumulative convertible preferred stock. In September the company offered to exchange 250,000 of these preferred shares for common stock. Shareholders tendered 1,491,233 shares of common stock in response to this offer. In accordance with the exchange ratio, participants

in the exchange will receive approximately one share of preferred and five shares of common for each six shares of common tendered.

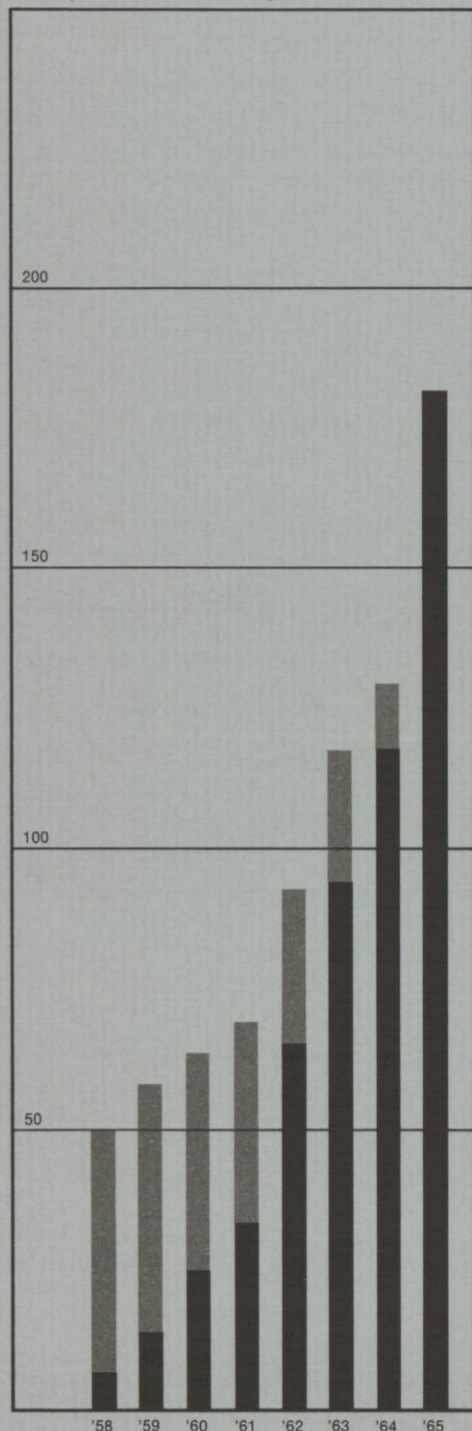
Owners of the preferred shares will receive an annual dividend of \$1.75 and at their option may convert each share of preferred into one full share of common stock. The new stock will not only benefit the shareholders, but will result in a more flexible capital structure that will allow Gulf & Western to continue its program of development and growth.

The board of directors, on July 29, 1965, increased the regular quarterly dividend on Gulf & Western common stock to \$.12½ per share, and also declared a three per cent stock dividend. The first quarterly cash dividend of \$.10 per share was inaugurated a year ago. Both the cash and stock dividends were paid September 1, 1965, to shareholders of record August 12, 1965.

Growth and Development: Record expenditures for property, plant and equipment in 1965 reflect the company's strides in carrying out its internal development program. Capital expenditures of \$5.2 million during the past year are one and one-half times the amount invested during the previous period.

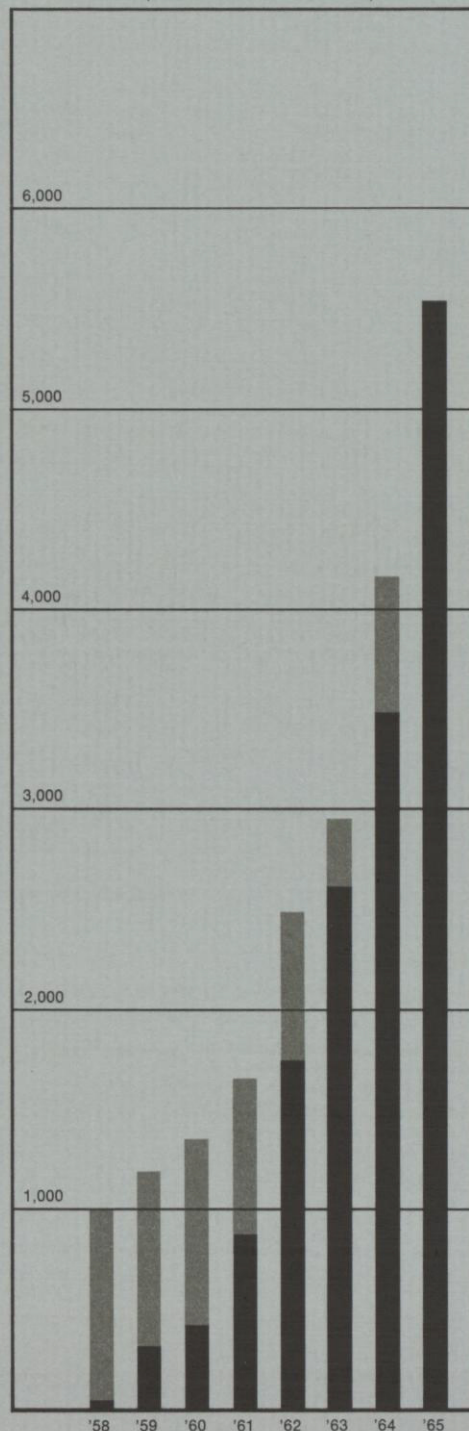
As indicated in the eight-year financial highlights in this report, Gulf & Western's progress has been one of steady gain. Through a program to expand in growth industries, consolidated sales at July 31, 1965, were 21.6 times greater than in 1958; earnings were 204 times greater and assets, 22.2 times greater. Total sales have increased at a compound rate in excess of 55 per cent annually. The company's performance over the past eight years has resulted in the establishment of a broad operating base from which Gulf & Western expects to continue its record growth into the years ahead.

SALES (MILLIONS OF DOLLARS)



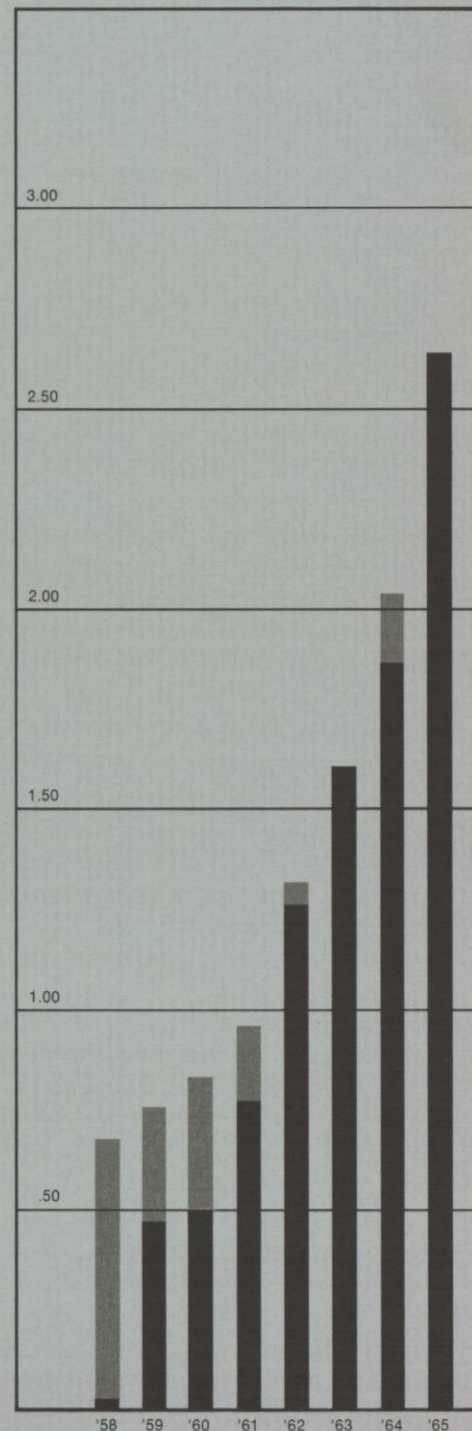
■ Sales as previously reported in each year's annual report.
 ■ Sales prior to the year of acquisition of companies acquired on a pooling of interests basis.

NET EARNINGS (THOUSANDS OF DOLLARS)



■ Net earnings as previously reported in each year's annual report.
 ■ Net earnings prior to the year of acquisition of companies acquired on a pooling of interests basis.

NET EARNINGS PER SHARE (DOLLARS)



■ Net earnings per share as previously reported, adjusted for stock dividends through July 31, 1965.
 ■ Net earnings per share prior to the year of acquisition of companies acquired on a pooling of interests basis, adjusted for stock dividends through July 31, 1965.

Financial Highlights of Eight Years of Operation

1965

OPERATING RESULTS

Net sales	\$182,079,000
Earnings before taxes on income	10,014,000
Federal taxes on income	4,500,000
Net earnings	5,514,000
Per average common share outstanding—B	2.65
Depreciation	2,435,000

FINANCIAL POSITION (Year-End)

Working capital	\$ 38,401,000
Net property, plant and equipment— at cost	28,785,000
Total assets	104,096,000
Shareholders' equity	37,251,000

GENERAL STATISTICS

Average shares of common stock outstanding—B	2,082,000
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Note A — In its annual financial statements the Company consistently reports the operations of businesses acquired under the pooling of interests concept from the beginning of the year in which the acquisition occurs. On the basis of including operations of pooled businesses prior to their years of acquisition, operating results for the four years prior to 1965 would have been as follows:

	NET SALES	NET EARNINGS	NET EARNINGS PER AVERAGE COMMON SHARE
1964	\$129,628,000	\$4,145,000	\$2.04
1963	117,686,000	2,940,000	1.47
1962	93,392,000	2,493,000	1.30
1961	68,319,000	1,655,000	.96

As originally reported in the Company's annual reports—Note A Year Ended July 31,

1964	1963	1962	1961	1960	1959	1958
\$117,246,000	\$ 92,537,000	\$ 65,646,000	\$ 33,835,000	\$ 24,047,000	\$ 15,377,000	\$ 8,395,000
6,006,000	5,155,000	3,282,000	1,522,000	809,000	639,000	48,000
2,548,000	2,522,000	1,516,000	672,000	376,000	323,000	21,000
3,458,000-C	2,633,000	1,766,000	850,000-C	433,000-C	316,000	27,000
1.84-C	1.60	1.25	.78-C	.50-C	.48	.04
1,263,000	937,000	717,000	453,000	265,000	214,000	194,000

\$ 24,693,000	\$ 20,060,000	\$ 15,534,000	\$ 10,264,000	\$ 5,410,000	\$ 2,824,000	\$ 1,738,000
14,477,000	7,624,000	6,284,000	4,122,000	1,715,000	1,573,000	1,645,000
68,364,000	48,112,000	37,609,000	22,571,000	11,527,000	6,894,000	4,682,000
29,615,000	20,552,000	15,790,000	10,381,000	5,932,000	3,412,000	2,292,000

1,877,000	1,650,000	1,416,000	1,091,000	864,000	664,000	612,000
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Note B — Adjusted for stock dividends paid through July 31, 1965.

Note C — Excluding net special gain of \$1,427,000 or \$.76 a share in 1964; \$152,000 or \$.14 a share in 1961; and \$145,000 or \$.17 a share in 1960.

Consolidated Balance Sheets

Gulf & Western Industries, Inc. and Subsidiaries July 31, 1965, and July 31, 1964

Assets	1965	1964	
		Adjusted For Pooling—Note A	As Previously Reported
CURRENT ASSETS			
Cash	\$ 7,911,626	\$ 5,413,738	\$ 5,014,917
Trade receivables	22,607,472	17,985,633	16,620,666
Inventories:			
At last-in, first-out cost	\$ 19,466,835	\$ 13,994,507	\$ 13,994,507
At lower of cost (first-in, first-out method) or market	20,375,193	15,833,923	13,205,977
	\$ 39,842,028	\$ 29,828,430	\$ 27,200,484
Prepaid expenses and other receivables	1,345,485	969,179	896,285
TOTAL CURRENT ASSETS	\$ 71,706,611	\$ 54,196,980	\$ 49,732,352
PROPERTY, PLANT AND EQUIPMENT—at cost			
Land and buildings	\$ 9,347,191	\$ 6,139,478	\$ 5,626,989
Machinery, equipment and other	31,004,901	18,856,930	17,596,533
	\$ 40,352,092	\$ 24,996,408	\$ 23,223,522
Less allowances for depreciation and amortization	11,567,086	9,637,883	8,746,811
	\$ 28,785,006	\$ 15,358,525	\$ 14,476,711
OTHER ASSETS			
Investment in and advances to unconsolidated subsidiary—Note A	\$ 566,763	\$ 436,395	\$ 436,395
Corporate stock held for investment— at cost		1,609,799	1,609,799
Deferred acquisition and merchandising program costs, less amortization—Note C	770,412	1,124,283	1,124,283
Intangibles—at cost, less amortization	1,185,033	381,357	381,357
Notes receivable, deferred charges and other	1,082,098	746,472	602,996
	\$ 3,604,306	\$ 4,298,306	\$ 4,154,830
	<u>\$104,095,923</u>	<u>\$ 73,853,811</u>	<u>\$ 68,363,893</u>

Liabilities and Shareholders' Equity	1965	1964	
		Adjusted For Pooling—Note A	As Previously Reported
CURRENT LIABILITIES			
Notes payable to banks and others	\$ 8,134,241	\$ 8,744,451	\$ 8,429,451
Current maturities of long-term debt	2,465,647	540,232	483,282
Trade accounts payable	12,791,772	10,835,524	10,010,953
Accrued expenses	6,765,396	4,671,724	3,411,797
Federal income taxes	3,148,446	2,912,684	2,703,641
TOTAL CURRENT LIABILITIES	\$ 33,305,502	\$ 27,704,615	\$ 25,039,124
LONG-TERM DEBT—less current maturities—			
Note E	29,940,448	12,170,323	11,526,013
DEFERRED FEDERAL INCOME TAXES	3,598,672	2,183,977	2,183,977
SHAREHOLDERS' EQUITY			
Common stock at par value of \$1 a share (authorized 4,000,000 shares)—			
Note F	\$ 2,111,651	\$ 2,010,583	\$ 1,970,893
Paid-in surplus	18,289,673	16,291,556	18,540,766
Retained earnings—Note E	16,865,209	13,863,491	12,544,415
	<u>\$ 37,266,533</u>	<u>\$ 32,165,630</u>	<u>\$ 33,056,074</u>
Less treasury stock (1965—571 shares; 1964—13,960 shares adjusted for pooling and 125,838 shares as previously reported)	15,232	370,734	3,441,295
	<u>\$ 37,251,301</u>	<u>\$ 31,794,896</u>	<u>\$ 29,614,779</u>
	<u>\$104,095,923</u>	<u>\$ 73,853,811</u>	<u>\$ 68,363,893</u>
See notes to consolidated financial statements.			

Consolidated Statement of Earnings

Gulf & Western Industries, Inc. and Subsidiaries

Years ended July 31, 1965, and July 31, 1964

	1965	1964	
		Adjusted For Pooling—Note A	As Previously Reported
Net sales	\$182,078,737	\$129,627,860	\$117,246,439
Cost of goods sold	136,676,493	94,751,747	85,706,767
GROSS PROFIT—Note B.....	\$ 45,402,244	\$ 34,876,113	\$ 31,539,672
Selling, administrative, and general expenses—Note C	\$ 34,072,982	\$ 27,417,749	\$ 25,320,250
Interest expense	1,861,757	1,012,515	955,900
Other income* and deductions—net	547,127*	746,920*	742,263*
	\$ 35,387,612	\$ 27,683,344	\$ 25,533,887
EARNINGS BEFORE INCOME TAXES....	\$ 10,014,632	\$ 7,192,769	\$ 6,005,785
Income taxes—estimated	4,500,234	3,047,479	2,548,196
NET EARNINGS	\$ 5,514,398	\$ 4,145,290	\$ 3,457,589
Net special gain (gain on sale of corporate stock, less losses on liquidation of certain acquisitions)		1,426,986	1,426,986
NET EARNINGS AND NET SPECIAL GAIN.....	\$ 5,514,398	\$ 5,572,276	\$ 4,884,575
Depreciation and amortization charges included above	\$ 2,434,642	\$ 1,465,535	\$ 1,262,525
Average number of shares of common stock outstanding (adjusted for shares issued as 3% stock dividend in September 1964)	2,082,426	2,032,198	1,876,856
Net earnings (before net special gain) per share	\$ 2.65	\$ 2.04	\$ 1.84

See notes to consolidated financial statements.

Consolidated Statement of Shareholders' Equity

Gulf & Western Industries, Inc. and Subsidiaries Year ended July 31, 1965

	Common Stock at \$1 a share	Paid-in Surplus	Retained Earnings	Treasury Stock
Balance at July 31, 1964, as previously reported	\$1,970,893	\$18,540,766	\$12,544,415	\$3,441,295
Acquisition of seven pooled subsidiaries—Note A	39,690	2,849,210*	1,919,076	3,670,561*
Preacquisition adjustments of a pooled subsidiary—Note D		600,000	600,000*	600,000
Balance at July 31, 1964, adjusted for pooling	\$2,010,583	\$16,291,556	\$13,863,491	\$ 370,734
Common stock issued:				
Purchase of three subsidiaries	10,000	460,022		355,502*
Exercise of stock options	34,078	413,110		
3% stock dividend (at fair value)—includes cash paid in lieu of fractional shares	56,990	1,481,740	1,596,406*	
Increase in provision for retire- ment of stock purchase warrants outstanding on a pooled sub- sidiary at date of acquisition		513,750*		
Cash dividends paid or declared			852,881*	
Stock sold and capital contributions received, less cash dividends paid, by pooled subsidiaries prior to acquisition		327,894	63,393*	
Costs incurred on acquisition of pooled subsidiaries		170,899*		
Net earnings for the year			5,514,398	
Balance at July 31, 1965	<u>\$2,111,651</u>	<u>\$18,289,673</u>	<u>\$16,865,209</u>	<u>\$ 15,232</u>

*Denotes deduction. See notes to consolidated financial statements.

Financial Statements

Autoparts Finance Company, Inc.

STATEMENT OF EARNINGS

Year ended July 31, 1965

Interest and loan fees	\$203,507	
Expenses:		
Interest	\$114,177	
Salaries and other expenses	30,284	
Federal income taxes— estimated	14,090	158,551
Net Earnings	\$ 44,956	

BALANCE SHEET

July 31, 1965

Assets	
Cash	\$ 16,538
Notes receivable from jobber customers, secured by mortgages and assignments	2,878,035
Accrued interest and other	14,720
	<u>\$2,909,293</u>
Liabilities and Shareholder's Equity	
Notes payable to bank— guaranteed by parent company	\$2,300,000
Accounts payable and accrued interest	18,847
Federal income taxes	23,683
Advances from parent company	191,050
Shareholder's equity, including \$75,713 retained earnings	375,713
	<u>\$2,909,293</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Gulf & Western Industries, Inc. and Subsidiaries
Year ended July 31, 1965

Note A—Principles of consolidation and acquisition of businesses

The accounts of the Company and all its subsidiaries except Autoparts Finance Company, Inc. have been consolidated in the accompanying financial statements. The investment in Autoparts Finance Company, Inc. (see Page 23 of this report) is carried at an amount equal to its shareholder's equity, and its earnings are included in the consolidated statement of earnings.

Thirteen businesses were acquired by the Company during the year; seven in transactions accounted for as pooling of interests and six accounted for as purchases. The operations of the pooled businesses have been included in the consolidation for both years covered by the comparative financial statements, and the operations of the purchased businesses have been included from the date of their acquisition.

Note B—Effect of business purchases on consolidated earnings

For the year ended July 31, 1965, earnings do not include any amounts resulting from the sale of inventories acquired at less than replacement costs as part of the assets of purchased businesses. For the year ended July 31, 1964, earnings before income taxes included \$394,000 from the sale of such inventories.

Note C—Deferred acquisition and merchandising program costs

Expenses for the year ended July 31, 1965, include a charge of \$354,000 representing the amortization of costs deferred in prior years for corporate acquisition and private brand merchandising programs. No such costs were deferred during the year ended July 31, 1965, but during the prior year, expenses were decreased by \$254,000 representing the deferral, net of amortization, of these costs. The balance of these deferred costs is being amortized over periods of five years or less.

Note D—Prior year adjustments

During the year ended July 31, 1965, the Company received 15,000 shares of its common stock as an adjustment of the consideration and for settlement of certain warranties and representations made by the sellers of a company acquired in a prior year in a pooling of interests transaction. At time of receipt, this stock had a market value of \$40 a share, or a total value of \$600,000, which approximated the aggregate liability, net of related income taxes, incurred by the acquired company for certain renegotiation refunds and other charges and adjustments for the years 1961 through 1964.

The receipt of the 15,000 shares of stock and the renegotiation refunds and other charges and adjustments have been respectively accounted for as adjustments of prior years' paid-in surplus and earnings.

Note E—Long-term debt

Long-term debt at July 31, 1965, includes:

5 $\frac{3}{4}$ % unsecured bank notes payable	\$19,000,000
5 $\frac{3}{4}$ % notes due 1977 and 1978	7,000,000
Unsecured notes arising from acquisition of businesses, generally payable over five-year periods	3,424,952
Other notes payable, substantially secured	2,981,143
	<hr/>
	\$32,406,095
Less amounts due within one year, classified as current liabilities	2,465,647
	<hr/>
	\$29,940,448

The 5 $\frac{3}{4}$ % unsecured bank notes provide for \$593,750 quarterly payments beginning March 1, 1966, and continuing to maturity. Terms of the 5 $\frac{3}{4}$ % unsecured bank notes limit the payment of annual cash dividends to \$.50 per share on common stock until shareholders' equity exceeds forty per cent of total tangible assets, at which time the payment of cash dividends becomes restricted to an amount not exceeding forty per cent of consolidated net earnings of the preceding fiscal year plus \$500,000. The 5 $\frac{3}{4}$ % notes require aggregate annual installments of \$450,000, in 1967 and \$630,000 in each year thereafter.

Note F—Stock options and reservations

The Stock Option Incentive Plan provides for the issuance of qualified stock options to officers and other key employees at a price not less than the fair market value on the dates the options are granted. During the year ended July 31, 1965, the Company granted options to purchase 40,700 shares of the Company's common stock for a total option price of \$1,464,863, and employees exercised options to purchase 34,078 shares at a total option price of \$447,188. At July 31, 1965, options to purchase 103,248 shares of the Company's common stock for a total option price of \$2,795,008 were outstanding and 34,300 shares of the Company's common stock were reserved for issuance of future options.

At July 31, 1965, an additional 78,409 shares of the Company's common stock were reserved for issuance upon exercise of Common Stock Warrants delivered in connection with the 5 $\frac{3}{4}$ % notes described in Note E. The exercise price of such warrants is approximately \$27.30 a share.

Note G—Events Subsequent to July 31, 1965

During the period September 10, 1965, through October 4, 1965, the Company purchased 2,084,306 shares (approximately 57.5 per cent of the total shares outstanding) of New Jersey Zinc Company common stock at \$40 per share. In connection with the purchase of said shares, the Company

obtained bank financing which will be converted into long-term financing at the earliest possible date.

On September 30, 1965, the Companies announced that their respective boards of directors had approved a plan for the merger of the two Companies subject to the adoption of a written merger agreement and the approval of the shareholders of both Companies.

Refer to the "Financial Review" section of this report for comments on cash and stock dividends and a new preferred stock issue.

Note H—Commitments and contingencies

The rentals payable annually by the Company and its subsidiaries under leases in effect at July 31, 1965, totalled approximately \$1,750,000. Many of the leases also require the lessee to pay for property taxes, insurance and necessary repairs. The leases in effect have varying terms up to twenty years.

During the year ended July 31, 1965, the Company and its subsidiaries contributed \$1,065,783 to various retirement and profit sharing plans. Consulting actuaries estimate that the amount required to fund past-service costs under the plans was \$1,713,594 at July 31, 1965.

Report of Independent Accountants

ERNST & ERNST 2600 Gulf Building • Houston, Texas

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

We have examined the consolidated financial statements of Gulf & Western Industries, Inc. and its consolidated subsidiaries for the year ended July 31, 1965. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and statements of earnings and shareholders' equity present fairly the consolidated financial position of Gulf & Western Industries, Inc. and its consolidated subsidiaries at July 31, 1965, and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Houston, Texas
September 22, 1965,
except as to Note G,
as to which the date is
October 4, 1965.

Ernst + Ernst

Corporate Information

Board of Directors

CHARLES G. BLUHDORN, *Chairman of the Board*
Gulf & Western Industries, Inc., New York, New York

JOHN H. DUNCAN, *President*
Gulf & Western Industries, Inc., Houston, Texas

DAVID N. JUDELSON, *Vice President*
Gulf & Western Industries, Inc., New York, New York

JOEL DOLKART, *General Counsel*
Gulf & Western Industries, Inc., New York, New York

LUTHER H. HODGES, *Chairman*
Research Triangle Foundation of North Carolina
Raleigh, North Carolina

JOSEPH W. McDOUGAL, *President*
Miller Manufacturing Co., Southfield, Michigan

T. H. NEYLAND, *Financial Vice President*
Gulf & Western Industries, Inc., Houston, Texas

IRWIN SCHLOSS
Irwin Schloss & Co., Inc. (Member firm, New York Stock Exchange)
New York, New York

HAROLD U. ZERBE, *President*
E. S. Youse Company, Inc., Reading, Pennsylvania

Executive Committee

DAVID N. JUDELSON, *Chairman*

CHARLES G. BLUHDORN

JOHN H. DUNCAN

JOEL DOLKART

HAROLD U. ZERBE

Finance Committee

JOHN H. DUNCAN, *Chairman*

T. H. NEYLAND

D. F. GASTON

Officers

CHARLES G. BLUHDORN, *Chairman of the Board*

JOHN H. DUNCAN, *President*

DAVID N. JUDELSON, *Vice President*

WILLIAM W. BROWN, *Vice President*

JOEL DOLKART, *Vice President and Secretary*

T. H. NEYLAND, *Financial Vice President and Assistant Secretary*

FRANK V. ROGERS, *Vice President*

D. F. GASTON, *Treasurer and Controller*

R. L. JONES, *Assistant Secretary*

Common Stock

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

Transfer Agent

Bankers Trust Company, 485 Lexington Avenue, New York, New York

Registrar

The Marine Midland Grace Trust Company of New York
120 Broadway, New York, New York

Annual Meeting

November 18, 1965, Houston, Texas



HOUSTON / NEW YORK

This report and the financial statements it contains are submitted for the general information of the shareholders of Gulf & Western Industries, Inc. and are not intended to induce, or to be used in connection with, any sale or purchase of securities. Additional copies of this report may be obtained upon request to the Public Relations Department of the company, P. O. Box 1147, Houston, Texas 77001.

