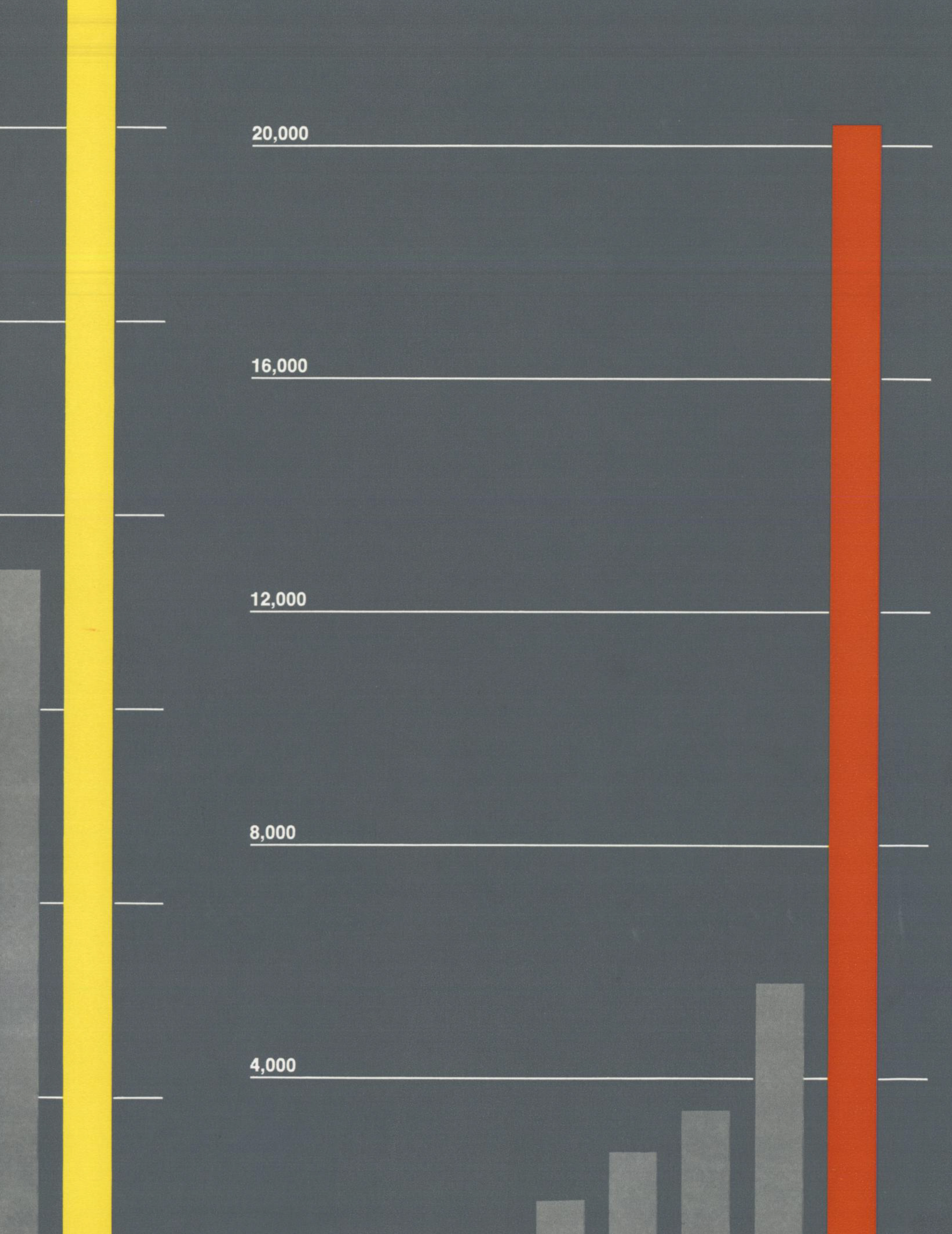
Gulf+Western Industries

1966 Annual Report

Annual Report of
Gulf & Western Industries, Inc.
for the fiscal year ended
July 31, 1966

Table of Contents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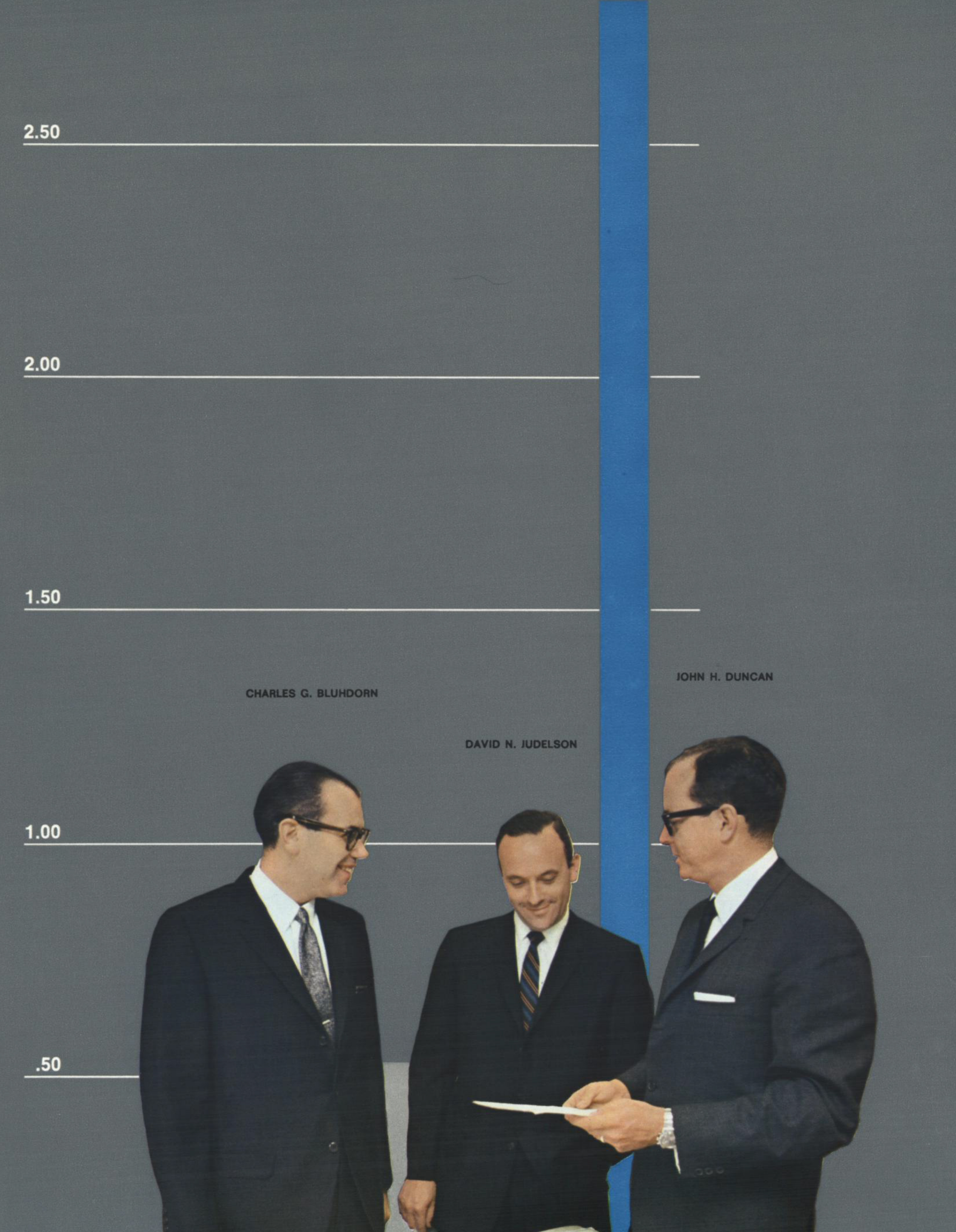
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CHARLES G. BLUHDORN
DAVID N. JUDELSON
JOHN H. DUNCAN

Financial Highlights

Years ended July 31, 1966 and July 31, 1965

	1966	Increase	**1965** As Previously Reported
Net Sales	$317,533,000	74%	$182,079,000
Net Earnings	20,117,000	265	5,514,000
Net Earnings Per Common Share	2.84	230	.86
Working Capital	66,597,000	73	38,401,000
Total Assets	294,239,000	183	104,096,000
Shareholders' Equity	107,576,000	189	37,251,000
Cash Flow (Net Earnings, Depreciation, Depletion, and Amortization)	29,440,000	270	7,949,000
Cash Flow Per Common Share	4.33	249	1.24
Capital Expenditures	26,026,000	369	5,553,000

To Our Shareholders:

Fiscal 1966 was the ninth consecutive year in which Gulf & Western Industries' sales and earnings increased dramatically and reached record highs. As the table on the facing page illustrates, sales for the year were more than 70 per cent higher than in fiscal 1965; net earnings were up 265 per cent; and net earnings per common share were up 230 per cent.

These records were achieved in an atmosphere of continuing expansion and development in three areas of operations: manufacturing, minerals and chemicals, and distribution.

Our acquisition program continued in fiscal 1966 with seven companies becoming affiliated with G&W. The largest of these was The New Jersey Zinc Company, which gives G&W a substantial position in the mineral and chemical industries.

In the new fiscal year, our operations will be further enlarged and a new operating division will be added. On August 5, 1966, following the close of our last fiscal year, we announced that an agreement to merge with Paramount Pictures Corporation had been signed. This transaction is subject to shareholder approval by both companies at separate meetings to be held on October 19, 1966. Following shareholder approval, Paramount will become the fourth major operating division of Gulf & Western—and will provide the company with a strong base in the field of leisure-time activities.

Based upon existing sales and those reported by Paramount for the last year, total Gulf & Western sales for the coming year are expected to exceed $450 million.

Our corporate philosophy is clear: to use acquisitions as an adjunct to our internal expansion program. Acquisitions in turn make it possible for us to obtain additional management capabilities to complement existing operations or acquire dominant proprietary positions in new fields. We require that new operations function in basic areas with growth potentials which can be realized to the fullest with the help of strong management, enthusiasm, and drive. Our philosophy of internal growth assisted by acquisitions is passed on, in turn, to new members of the G&W corporate family. We believe it is this philosophy that has enabled your company to continue a rate of growth substantially above that of the economy as a whole.

Our internal growth story is dramatic, as the table immediately following this letter illustrates. In our expansion, we have followed a planned program involving not only acquisitions but also a strong management emphasis on internal growth. As an example of our dedication to the principle of expansion from within, we spent $26,026,000 during fiscal 1966 for capital investments. The Gulf & Western management team, utilizing the full effect of our capital expenditures program, has produced substantial increases in the sales and operating profits of those companies acquired—that is, growth which occurred *following* the acquisitions. Our "average" subsidiary at July 31, 1966, had a profitable lifetime of more than 41 years and had been affiliated with Gulf & Western for 2.48 years; as a member of the G&W family, it had experienced an increase in operating profits at a compound annual rate of 15.9 per cent; and in terms of sales, our "average" subsidiary had grown at a compound yearly rate of 8.7 per cent.

Details concerning our three principal operating divisions—their products, their markets, and the men who run them—are contained in subsequent pages of this report.

We thank our stockholders for the support they have given our program of internal growth and acquisition. This program will continue, under a management team dedicated to establishing your company as a profitable leader in each of the industries in which we are engaged.

October 7, 1966

Charles G. Bluhdorn

CHARLES G. BLUHDORN
Chairman of the Board

John H. Duncan

JOHN H. DUNCAN
President

Internal Growth

The table below traces the substantial contributions to sales and operating profits made by the subsidiary companies owned by Gulf & Western at July 31, 1966. It illustrates specifically and dramatically how these collective companies have grown after becoming part of G&W—that is, how G&W management, coupled with appropriate capital expenditures on behalf of the subsidiaries, have combined to produce extremely rapid rates of growth.

On the table, this growth is shown as a straight percentage and at an average compounded annual rate—through fiscal 1966. As an example, the operating profits of companies that joined G&W in fiscal 1964 were 134.9 per cent higher in fiscal 1966 than in 1964. During the same period the operating profits of these companies enjoyed an average *annual compound growth rate* of 32.9 per cent. The schedule can be read in the same way for sales as well as operating profits, and for any period of time. While sales dollars have not grown at a rate comparable to the rate of operating profits, they have become appreciably more profitable.

Subsidiary Companies Which Became Affiliated During the Fiscal Year	Growth Percentage Since Time of Acquisition	Average Annual Growth Compounded
SUBSIDIARY OPERATING PROFITS		
1966	17.2%	17.2%
1965	41.1	18.8
1964	134.9	32.9
1963	121.2	21.9
1962	109.4	15.9
1961 and prior	290.7	25.9
SALES		
1966	12.4%	12.4%
1965	41.4	18.9
1964	54.7	15.6
1963	30.2	6.8
1962	11.2	2.3
1961 and prior	7.0	1.0

The "average" company referred to in the letter to our stockholders has been determined by giving consideration both to the size of companies that have joined G&W and to the length of time they have been consolidated. This average company had been affiliated for 2.48 years and had enjoyed a compound annual growth rate of 15.9 per cent in operating profits, and 8.7 per cent in sales.

OPERATIONS


New Orleans
Havana
A T L
O C

The Businesses of Gulf & Western

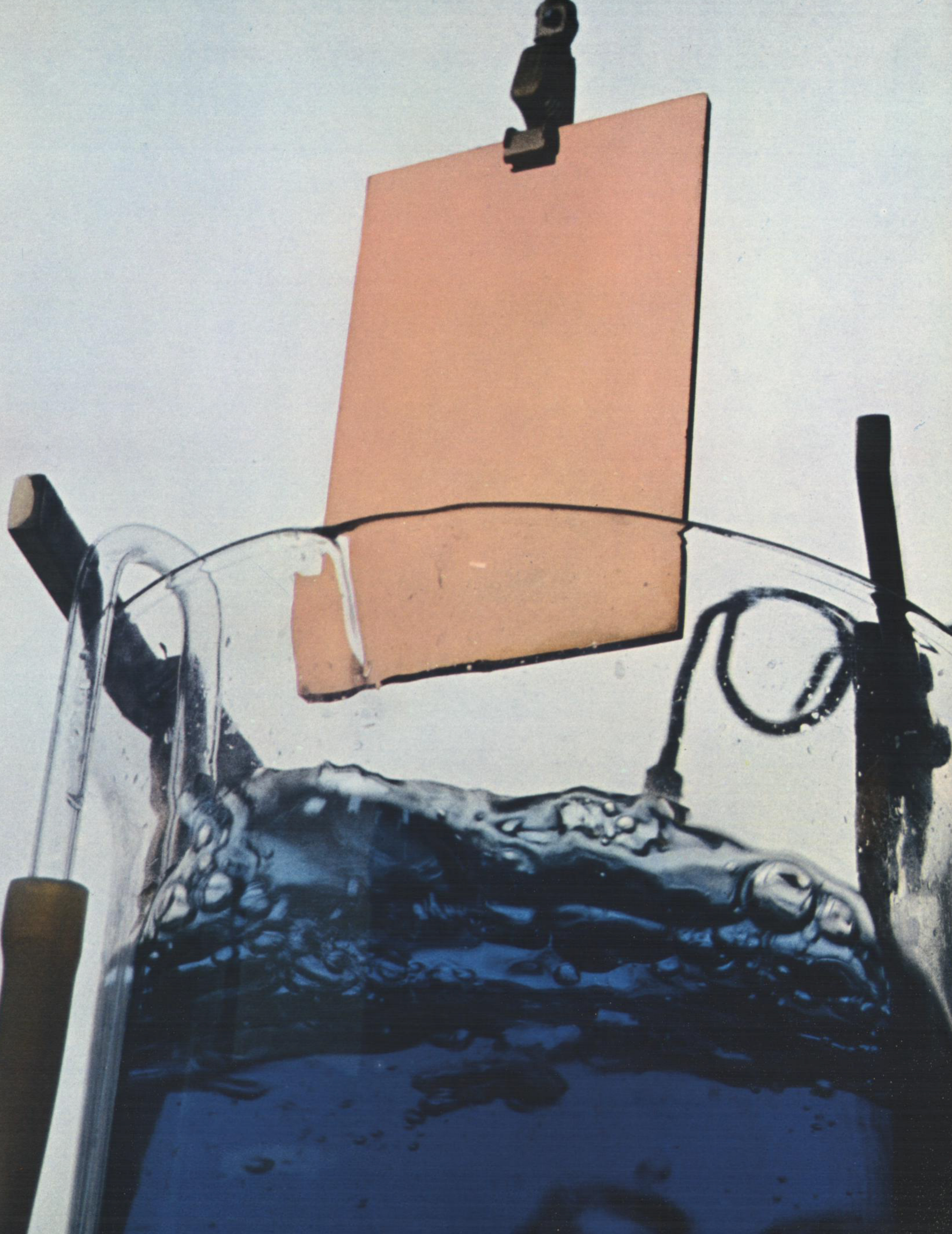
Depicted in the map on the preceding pages are the geographic locations of G&W operations in the United States, Canada, and Mexico—as well as the company's principal operational classifications. The red pins locate G&W's manufacturing plants; the blue, its distribution centers; the yellow, its mines and plants in the minerals and chemicals field. Three European operations are not shown.

The beaker shown on the facing page symbolizes the constant research and development efforts under way within the company. In this typical illustration, a new plating process is being tested in one of our laboratories.

On the following pages, the operations of Gulf & Western are described in this order:

1. Manufacturing—the production of industrial, aerospace, and automotive products.
2. Minerals and Chemicals—including our mining and smelting operations and the production of industrial and agricultural chemicals.
3. Distribution—involving both automotive replacement parts and the fields of industrial supplies and musical instruments and related parts.

In each of these areas, our emphasis has been on the future—specifically on where and how management can improve profitability and accelerate growth, particularly in fields that require a high degree of customer service. This emphasis characterizes the philosophy of G&W.



Manufacturing

G&W's Manufacturing Division covers six basic fields of operations, servicing such growth industries as chemical processing, television, aerospace, and electronics. In addition, the division services the nation's rapidly-increasing automobile population as a leading manufacturer of automotive parts for both the replacement and original equipment markets. The division is also a major producer for the appliance and housewares industry, manufacturing parts for refrigerators, phonographs, transistor radios, electric mixers, and many other similar products.

The Manufacturing Division's basic fields of operations are as follows:

1. *Die-Casting*—the production of zinc die-castings for television set producers, appliance makers, and the automotive industry, as well as other manufacturers.
2. *Metal Stamping and Plating*—the manufacture of automotive parts, and the chrome-plating of metal and plastic items for a variety of industries.
3. *Forging and Casting*—the manufacture of pressure forgings and fittings, involving many patented products, for atomic power plant reactors, petrochemical plants and other installations.
4. *Prototype Aerospace Production*—the processing of specialty metals and coatings, involving the most sophisticated metallurgy, as well as the manufacture of parts for engines now in use and for experimental turbine engines of the expanding space age.
5. *Electrical Components*—the production of components, a field of particular G&W leadership primarily involving the

Primary responsibility for all G&W manufacturing operations rests with David N. Judelson (right), shown with his assistant, James J. Shaw.

G&W is the nation's largest manufacturer of "bezels"—the masks which frame television picture tubes. Here, TV bezels are shown on the production line at the company's die-casting operation at Douglas, Michigan. The sale of television sets constitutes one of the most positive growth factors in the nation's economy.

automotive market, and, more recently, non-automotive uses. G&W also produces the metal stampings which house such components.

6. *Global Support Systems*—another area of G&W leadership involving production of survival systems designed by the company to keep men alive in space, on land and in water around the globe.

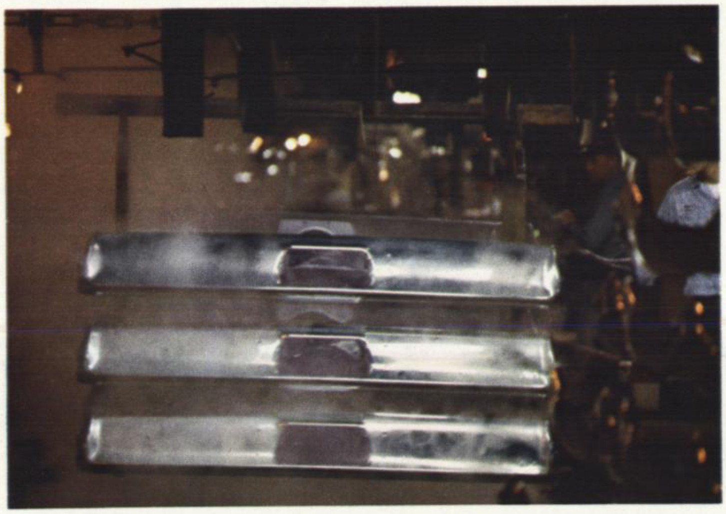
Die-Casting:

A large number of the grilles, door handles, head lamp frames and decorative trims on automobiles traveling on the nation's highways today have not only been produced as zinc die-castings by G&W, but have been chrome-plated by G&W, as well.

The company is also the nation's largest single producer of television bezels, the die-cast painted masks which frame TV picture tubes of 21 inches and larger. In addition, our die-casting facilities today produce appliance parts such as refrigerator door handles and decorative trim, various parts for the plumbing industry, and furniture components including equipment for benches, cabinets and seats.

In order to continue as a leading supplier in these areas of great potential, G&W has spent $2,000,000 to expand the production of larger die-castings since entering this business in 1964.

G&W's rapidly-growing line of chrome-plated plastic products includes handles for electric mixers, as shown here, which are produced in large quantities at Middleville, Michigan. Other new applications of the plastics-plating process are emerging constantly—in furniture trim, radio faces, toys, marine hardware, and other items still in the testing stage.



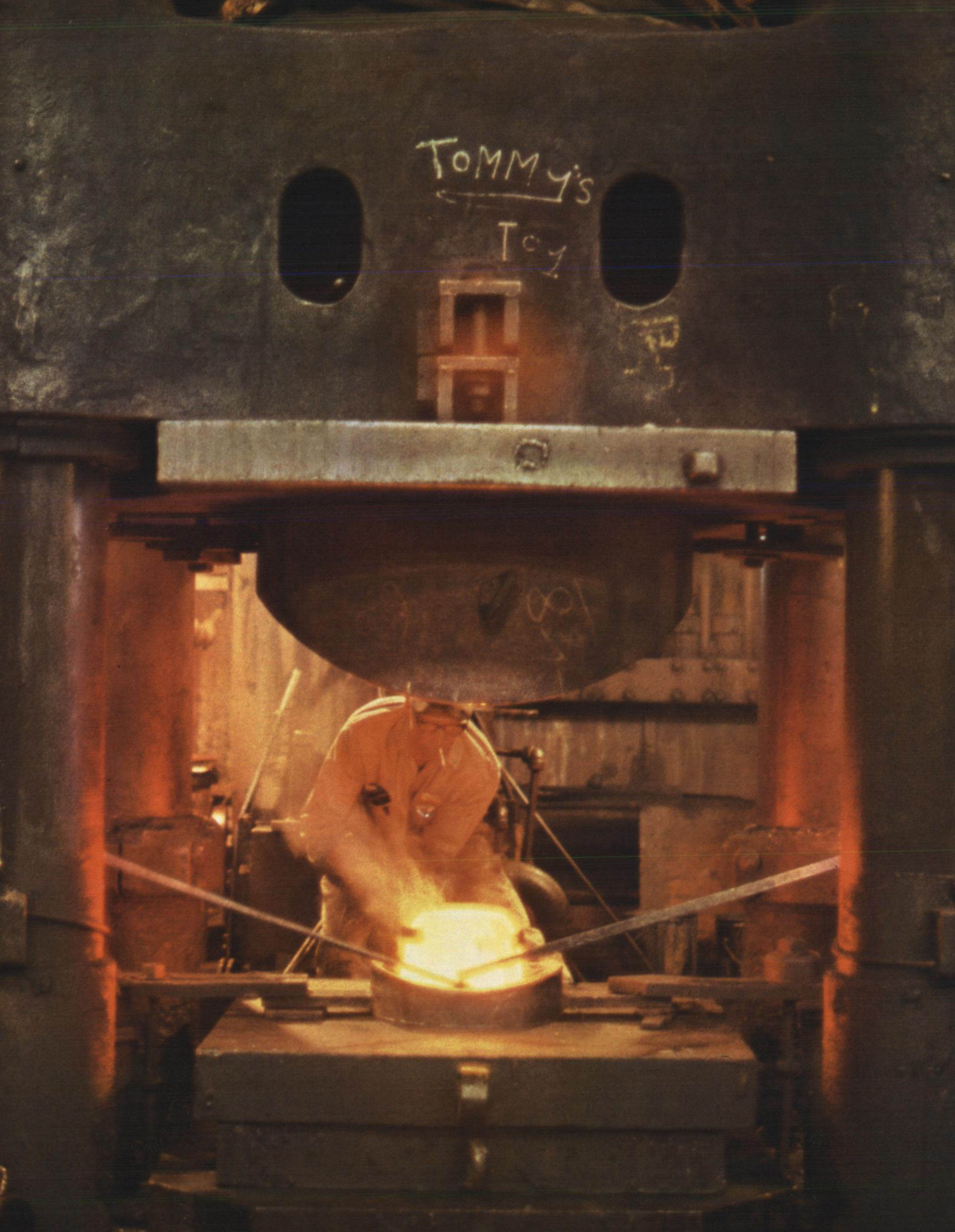
G&W is a major producer of automotive bumpers, an important product in both the original and replacement markets. At Grand Rapids, Michigan, bumpers are shown emerging from a chemical solution in the final stage of the plating process.

Metal Stamping and Plating:

G&W is a leader in metal stamping of all types and in metal plating; it is also unique in its capability to chrome-plate plastic parts. The metal stamping and plating operations serve the automotive industries of the U.S. and Canada with such products as bumpers, underframe and headlight stampings, as well as aluminum grilles and other products. In addition to automotive products, our company is a major producer of phonograph record turntables and other appliance and household items. Today, in the field of metal stamping and plating, G&W employs 1,475 people and has nine plants, producing approximately eight times the dollar volume of the Michigan Bumper Company in 1958. In that year the present management became interested in Michigan Bumper, the original company which has become Gulf & Western Industries. This company now has one of the most modern and integrated bumper manufacturing operations in existence and has just completed a major expansion of its Canadian facilities to provide stamping capability there. In the near future, the operation will be extended beyond the manufacture of bumpers to other products.

During the last two years, G&W has entered a new field of notable promise, the chrome-plating of *plastic* parts. In this field we anticipated the growth of a large market for metal-plated plastic, and acquired facilities and a patented process in 1965. In this one phase of the company's operations—plastic plating—we have increased our original capacity by five times. G&W today is chrome-plating plastic appliance handles, radio fronts and dials, toys, furniture trim, marine hardware and a host of similar products. The potential for chrome-plating plastics in all shapes and sizes is enormous; the list of applications for such services is growing almost daily. Substantial cost savings for customers are being achieved through G&W's pioneering efforts in the chrome-plating of plastic parts.

G&W manufactures and "metallizes," or coats, many component parts used in turbine engines such as these. Customers include major turbine engine manufacturers.


TOMMY's
Toy

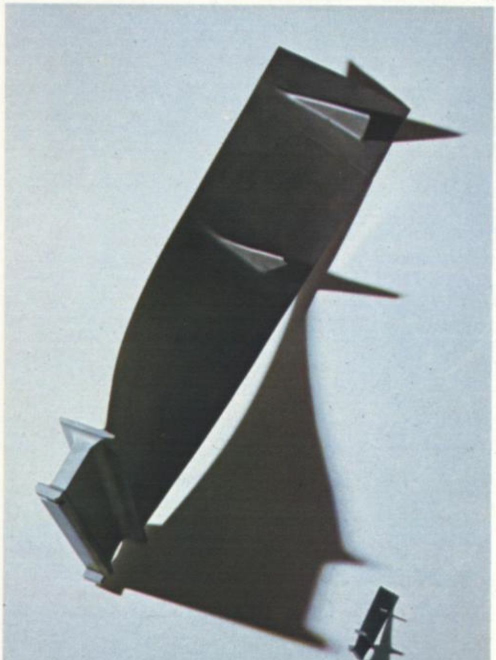
Molten metal is poured into a drop forge at West Chester, Pennsylvania, where the company manufactures patented high pressure fittings. The fittings are used in pressure piping and pressure vessels, particularly in the expanding petrochemical industry and in related activities.

Forging and Casting:

G&W's patented forged fittings are used in several types of high pressure systems. A typical use of particular interest is in the high pressure lines of nuclear submarines. Atomic power reactors, petroleum and chemical plants and aerospace requirements are among other applications. In each of these growth areas, the company is a prime source of forged fittings, flanges, connections, and other forged parts, most of which are produced to the customers' specifications, using high pressure and heat-resistant alloys. G&W's engineers provide a key service of supplying parts to specific needs as required.

G&W also produces castings for generators, missile launching pads, hydraulic presses, locomotive turbines, brake shoes for earth-moving equipment and axle housings.

In fiscal 1966, G&W's capability to produce forged fittings and castings was substantially increased. The total capacity of our facilities at West Chester, Pennsylvania was tripled to meet the growing demand for such parts, particularly for customers in the chemical industry.



In Vernon, Connecticut, G&W manufactures experimental prototype turbine blades, like these, using "exotic" or specialty metals which are also processed by the company.

Aerospace parts are heat-treated in a G&W furnace in Manchester, Connecticut.

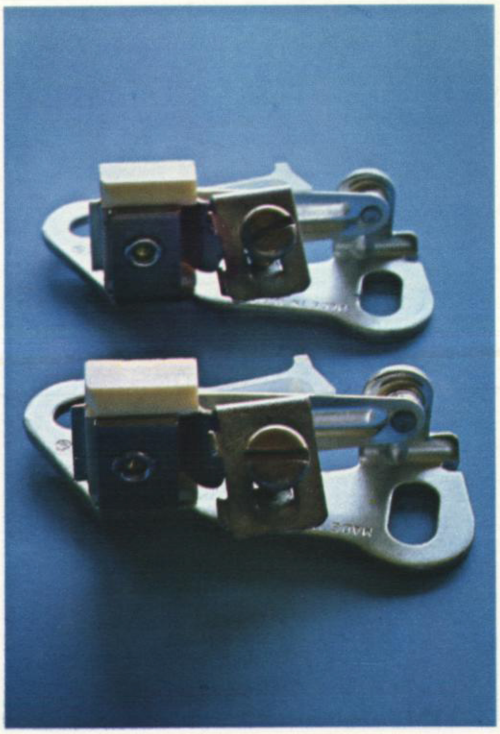
Prototype Aerospace Production:

G&W's aerospace operations are highly specialized and cover two principal fields of activity. The company produces precision parts and assemblies for the aircraft jet engine and missile industries, and is also engaged in the thermal processing of specialty metals for aircraft and missile components and sub-assemblies.

Some parts and assemblies produced by G&W are used in jet engines that are currently operational; but most of them are *prototype* parts and assemblies, designed and produced for experimental use in the work now under way on supersonic engines and spacecraft of the future. In both cases, G&W's customers are the nation's major jet engine manufacturers and companies engaged in the space effort, for whom your company provides a basic service—the technology and capability to produce sophisticated products under tight time schedules.

The company's processed metals are used in many of the aerospace parts produced by G&W. These specialty metals are also used to "metallize" jet engine part surfaces —that is, to adhere to the surfaces special metal coatings which can double, triple or even quadruple an engine's life.

In this new field of opportunity, the metallizing and production of prototype parts, G&W is a recognized leader, with production contracts already running through the end of 1967.



These new pivotless ignition point sets are produced by G&W in Seneca Falls, New York, for the automotive industry. G&W is a major supplier of these parts as well as condensers, capacitors, and plastic rotors and caps.

The company's aerospace production capability was considerably expanded in fiscal 1966 through the addition of three new plants—in Florida, Vermont and Connecticut. Our internal growth in the prototype aerospace parts field has been gratifying, with sales in this area presently running ten times higher than those of the original facility acquired in 1960.

Electrical Components:

For years, G&W has been a major producer of condensers, distributor caps and rotors, capacitors and small metal component housings for the nation's major automotive companies.

To support its operations in this field, G&W maintains an electronic research and development facility which, in recent years, has explored non-automotive applications for the company's components. As a result, high-reliability capacitors and other components for computers, tape recorders, stereo sets, and other end uses are now being produced in large quantities.

Global Support Systems:

With emphasis on the increasingly difficult problems of keeping men alive in an age of conflict and space exploration, an operational group has been organized to work exclusively on the design and production of survival systems. The manufacturing units comprising this group have experience in this field ranging from fourteen to thirty years and have the highest technological capabilities. Customers include both the federal government and private industry; new areas for potential production beyond the military and aerospace fields are constantly emerging in the form of products adaptable to commercial and industrial applications.

In Huntingdon Valley, Pennsylvania, G&W manufactures helicopter parts like those shown here, as well as other precision parts and assemblies for aircraft jet engines, gas turbines, and missiles.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The electrical capacitors shown here are manufactured by G&W in Union Springs, New York, for use in computers and space applications.

These global support systems include complete survival equipment, emergency oxygen systems, components for ejection and release, and a wide range of equipment and supplies enabling the survivor to "live off the land."

Operations have been expanded substantially in the past year through the acquisition of additional facilities in Corte Madera, California.

The global support group has also produced more than 8,000 environmental chambers which simulate extremes of heat, cold, humidity, altitudes, underwater depths, rain, dust, and sunshine for both training and research testing purposes.

The manufacturing group, left to right:

Marco Hecht, electrical components; Donald S. Nesbitt, global support systems; John H. Scott, die-casting; John H. De Vries, metal stamping and plating; Kenneth W. Foust, forging and casting; and George A. Longtin, prototype aerospace manufacturing.

85°C MAX
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913
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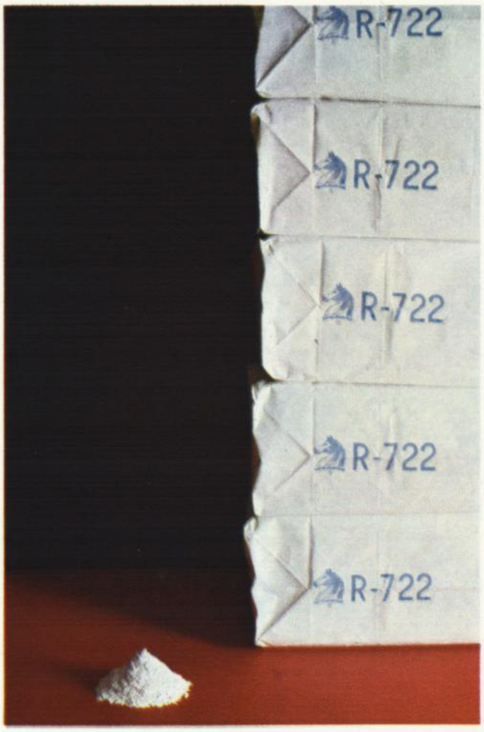
48M 50V
913

Minerals & Chemicals

G&W's Minerals and Chemicals Division includes zinc mining and smelting operations, as well as two large integrated complexes which process and refine metals and chemicals. In the past fiscal year, prices of all the division's products remained stable, the division produced record sales and earnings, and work was begun on several important additions to overall capacity in the processing and chemical areas.

The chemical below, shown in and out of New Jersey Zinc's famous Horsehead Brand packages, is TiO_2, or titanium dioxide, produced by G&W in Gloucester City, New Jersey. A white pigment, titanium dioxide is used in the manufacture of paints (like those opposite), paper, plastics, rubber, and other widely-used products.



Expanding Markets:

Zinc oxide accounted for significant sales gains in 1966. This pigment is used as an activation chemical in the manufacture of rubber, and also as a basic chemical in the production of photo-conductive paper for office copy equipment. In both fields, demand was strong last year and continues strong into fiscal 1967. Similarly, sales of titanium dioxide, a white pigment, increased during 1966. For the first time, annual combined shipments of G&W's zinc and titanium oxides exceeded 100,000 tons. This production is quite impressive when you consider that these products are concentrated pure pigments.

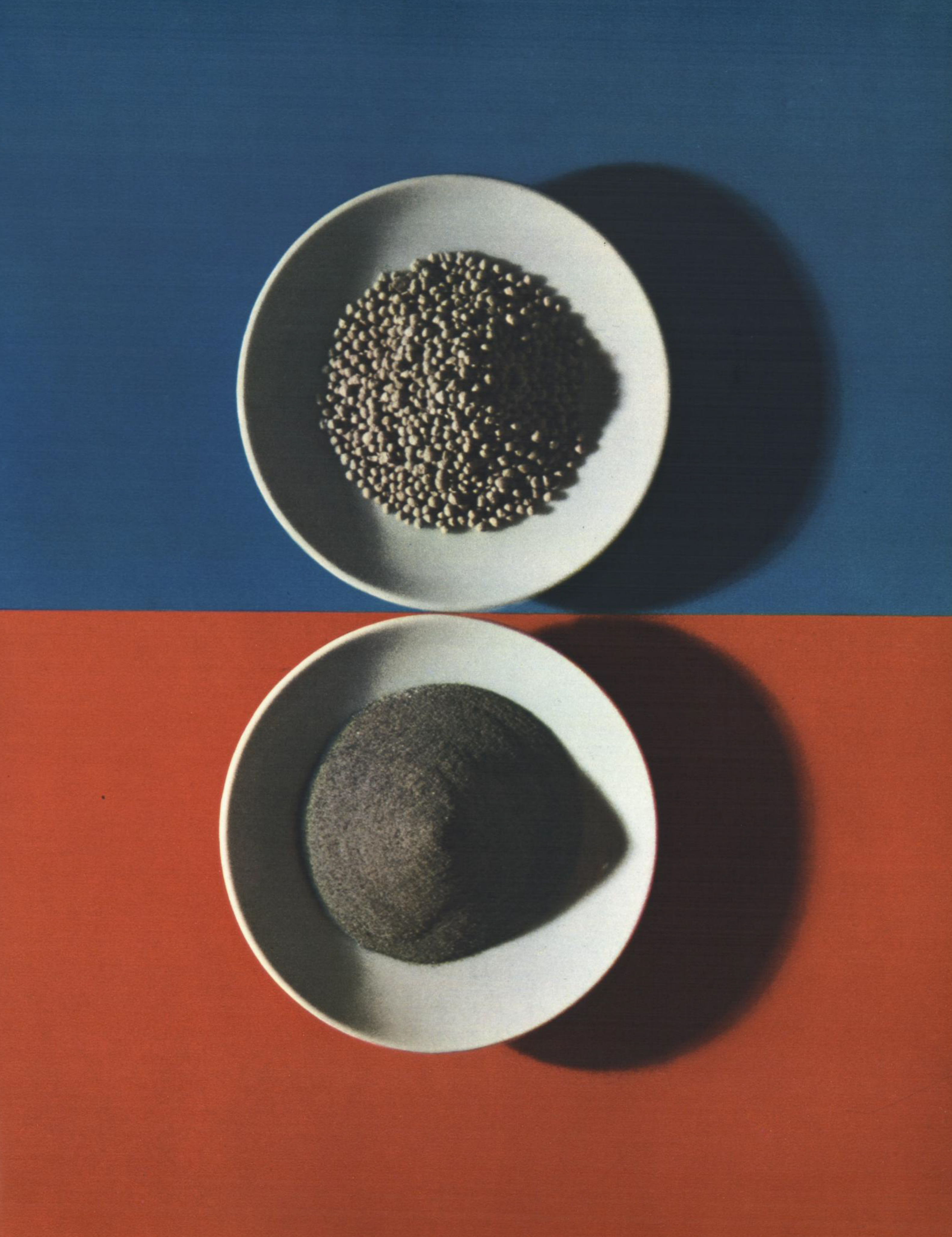
Rolled zinc and metal powders also accounted for sharp sales gains, while sales of slab zinc, zamak alloys, zinc dust and ammonia continued at approximately the same levels as in the previous twelve months, in all cases being limited by production capacity rather than lack of demand.

The chemical shown against the blue background opposite is DAP, or diammonium phosphate, a fertilizer which will be produced by G&W in a plant now under construction in Depue, Illinois. This facility will be completed early in 1967, and will be a major producer for the Midwest fertilizer market.

Against the red background is agricultural limestone, also used as a fertilizer. Limestone is a by-product of G&W's mining operations, and is produced at Jefferson City, Tennessee, Friedensville, Pennsylvania, and Austinville, Virginia.

Mining Operations:

G&W's Minerals and Chemicals Division operates eight zinc mines, with two more mines in development. Those presently operational—one in New Jersey, one in Pennsylvania, two in Virginia, two in Tennessee, and one each in New Mexico and Colorado—produced approximately the same tonnage of zinc as in the previous year. This tonnage represented a majority of the ore required for the company's two smelters—at Palmerton, Pennsylvania, and Depue, Illinois. The balance of the raw material needed was obtained by outside purchase.



Concentrates are smelted by G&W at Palmerton, Pennsylvania, in the largest vertical retort zinc smelting plant in the U.S.

Also in Depue, G&W commenced construction of a major plant to manufacture diammonium phosphate, a fertilizer material with growing demand particularly in the Midwest area most accessible to Depue. This plant, which will use the sulfuric acid recovered in our new roasting facilities, will have an annual capacity of 276,000 tons and will be in production in the spring of 1967.

Upon completion, G&W's capital expenditures at Depue will total $24,000,000 and will place the company firmly in the chemical fertilizer field.

At the Palmerton Plant, work is nearing completion on a new facility to produce liquid carbon dioxide from waste gases from the existing ammonia plant. At the same time, the ammonia system is being modified to increase anhydrous ammonia output by 10 per cent.

The New Jersey Zinc minerals and chemicals management group:

Seated left to right: Lindsay F. Johnson, president of the division; R. L. McCann, division board chairman; and Sidney S. Goodwin, mining and exploration.
Standing left to right: J. R. Alexander, sales; N. K. Banks, manufacturing; and Herb J. Passino, research and development.

Exploration, Research and Development:

During 1966, the company expanded its exploration program in the United States and Canada. Total exploration expenditures amounted to over $1.6 million. G&W is emphasizing a search for other minerals in addition to zinc ore reserves. At two of the company's principal mines, significant additions to ore reserves were determined during the year. Overall additions to reserves greatly exceeded extraction during the year.

This G&W division has always maintained an active research and development program, with over $1.8 million being spent in these efforts last year. During the past fiscal year particular emphasis was given to increasing the applications of white pigments. The use of high purity zinc oxide for photo-conductive office copier papers is expanding rapidly. The growth of this market requires an increasing emphasis on research and development to meet the industry's strict specifications. This work has established the company as the leader in the field of photo-conductive zinc oxides.

Anhydrous ammonia, produced at this plant in Palmerton, Pennsylvania, is sold to industrial users and fertilizer manufacturers.

Distribution

G&W's Distribution Division is one of the world's largest merchandisers of automotive parts, and operates growing distribution networks servicing the industrial and musical instrument fields. Most of this division's sales are in the automotive replacement parts area, where significant gains were achieved during fiscal 1966.

The distribution warehouse on the facing page, in King of Prussia, Pennsylvania, is one of twenty-nine similar centers in the U.S. From these centers G&W distributes automotive replacement items to thousands of jobbers all over the country. G&W's brand, shown above, is the big "A," for American Parts System.

Automotive Distribution:

The rapid and continuing growth of The American Parts System, G&W's automotive parts distribution concept, is based on the following facts about the market:

- nearly 100 million vehicles are on America's roads today—an increase of 69 per cent over the past 10 years.
- the majority of cars are more than three years old and require maintenance, service, and replacement parts—mostly provided by independent garages and service stations rather than by factory-franchised car dealers.
- more styles, sizes, and models of cars are on the road today than ever before—requiring more than 75,000 different functional parts to "keep them rolling".

As a result, the "parts aftermarket" has constituted a dynamic growth market for the past two decades. Few drivers practice preventive maintenance, and when cars break down, owners demand immediate servicing and parts. Because service stations, independent garages, and independent wholesalers do not have sufficient sales volume to invest in the required stock of parts for cars on the road today, our company provides a vital service for this market.

From 29 strategically located warehouses, G&W's automotive parts distribution division offers jobbers a complete program of merchandising services and supplies, including automatic inventory control, availability of national brands as well as G&W's own American Parts brands, complete management systems, sales and

From industrial parts outlets such as this one in Denver, G&W distributes industrial supplies to manufacturers and utility companies throughout the Rocky Mountain region.

promotion programs, protection against obsolescence, and other requirements. The program encourages jobbers to stock fast-moving parts and guarantees that slower-moving items will be available from regional warehouses on a daily basis. In only five years, G&W's parts warehouses have attracted nearly 600 jobbers, making it the fastest growing network of parts wholesalers in the United States. Through this distribution network, replacement parts are channeled to thousands of service and repair outlets in the United States.

During the past year, G&W's warehouses have concentrated on broadening their services. To step up merchandising efforts, G&W initiated an intensive promotional program designed to aid the independent garage and service station operator—the jobber's customer—to increase his share of the local market.

To extend the program to jobbers in new areas, two new warehouses have been established and are in operation—one in Jacksonville, Florida, providing coverage in areas of the Southeast; and another in East Hartford, Connecticut, the first warehouse to be opened in New England.

Other Automotive Distribution:

In addition to the automotive parts warehouse program, G&W is involved in national and international distribution of a wide variety of automotive parts and accessories through other units of its Distribution Division. In the United States and Canada, for example, G&W subsidiaries distribute ignition brands. From Detroit, the company supplies automobile interior fabrics for the replacement market. A subsidiary in Pennsylvania distributes fender skirts, floor shift conversion units and sport wheels, among other automotive accessories. On the West Coast, the division distributes engine parts for imported foreign cars.

Corporate Staff: Robert L. Jones, Resident Counsel, left, and W. Wallace Brown, Personnel.

Every vehicle on the road represents a potential customer for G&W replacement parts. The extent of this market is better understood when you consider that more than 60 per cent of the millions of automobiles in the United States are at least three years old.


SCHOOL BUS
OUT OF
SERVICE

G&W's Distribution Management Group, left to right:

Norman B. Parker, automotive distribution area manager, Greater Los Angeles; Thomas S. Perry, automotive distribution, Southeast Region; Everett L. Kelly, automotive distribution, Central and Rocky Mountain Region; Frank V. Rogers, general manager, automotive distribution; George Granger, industrial and electrical supplies; and Sidney Hack, musical instruments.

During 1966, this division was expanded through the addition of a large automotive parts manufacturer and distributor in Brussels, Belgium, thus providing G&W with a substantial entry into the European parts market.

Industrial Distribution:

The industrial distribution segment of G&W's operations made noteworthy gains during the past year in the Rocky Mountain and Southern California areas. This unit specializes in the distribution of industrial items—electrical supplies, heavy cable, power tools and equipment, air compressors, cutting tools and drills, abrasives, diamond wheels, and similar industrial products.

Growth was recorded in several other industrial areas, especially in the welding supply area. G&W outlets in Southern California supply metal fabricators with automatic welders, electric welders and rods, and other welding tools.

Musical Instruments Distribution:

In addition to automotive parts and industrial supplies, G&W also distributes musical instruments and related products. During the past year, teenage consumers continued to dominate the musical instrument market, with emphasis on the guitar (preferably electric), as well as on drums, tambourines, organs and various other instruments which produce the "sound" so popular with today's young people all over the world.

Both sales and profits in this area of G&W's operations reached record highs during fiscal 1966. A new headquarters and assembly building for musical products was opened in Long Island, New York. Additional distribution was achieved with the acquisition of two new regional warehouse outlets in Denver, Colorado and Portland, Oregon.

The electric guitar, case, and amplifier pictured are among the musical instruments and related products distributed by G&W nationally—mostly to the huge, and still-growing, teen-age market. Distribution in this field is expanding rapidly to meet the unprecedented demand.

The Executive Committee, left to right:

Charles G. Bluhdorn, R. L. McCann, Joel Dolkart, David N. Judelson (committee chairman), Harold U. Zerbe, Lindsay F. Johnson, and John H. Duncan.

Financial Review

G&W's fiscal year 1966 was marked by new highs in revenues, earnings, and cash flow. Two series of preferred stock were issued, and dividends on common stock were increased. A three per cent common stock dividend and a three-for-one stock split on the common stock were declared and paid. New long-term financing was arranged, and the company continued its substantial acquisition and capital expenditure programs.

Operating Results

NET SALES totaled $318 million, an increase of 74% over those reported for 1965.

NET EARNINGS were $20 million, or more than 3½ times the earnings reported a year ago.

NET EARNINGS PER COMMON SHARE were $2.84 as compared with the reported $.86 for 1965 (adjusted for a 3% stock dividend paid September 1, 1965, and for a three-for-one stock split effective July 1, 1966).

CASH FLOW, the sum of net earnings and depreciation, depletion, and amortization, increased to $29,440,000, or more than 3½ times the amount reported for 1965. Cash flow per common share was $4.33, up from $1.24 reported for the preceding year.

Capital Stock and Shareholders' Equity

G&W issued two series of preferred stock during the 1966 fiscal year. On September 30, 1965, the company exchanged with its shareholders 250,000 shares of $2.50 par value $1.75 series cumulative convertible preferred stock for 750,000 shares of the company's common stock. On February 25, 1966, the company exchanged 659,895 shares of $2.50 par value $3.50 series cumulative convertible preferred stock for the outstanding common shares of The New Jersey Zinc Company not owned by the company.

On September 1, 1965, the company paid a stock dividend on common shares for the seventh consecutive year. The three per cent common stock dividend was paid to shareholders of record of August 12, 1965.

On July 1, 1966, a distribution was made to shareholders of two additional shares of common stock for each share held of record June 15, 1966.

In the fourth quarter of the fiscal year 1966, the Board of Directors increased the quarterly dividend on common shares by 50 per cent. The indicated annual dividend rate on common stock is $.25 per share (after the three-for-one stock split).

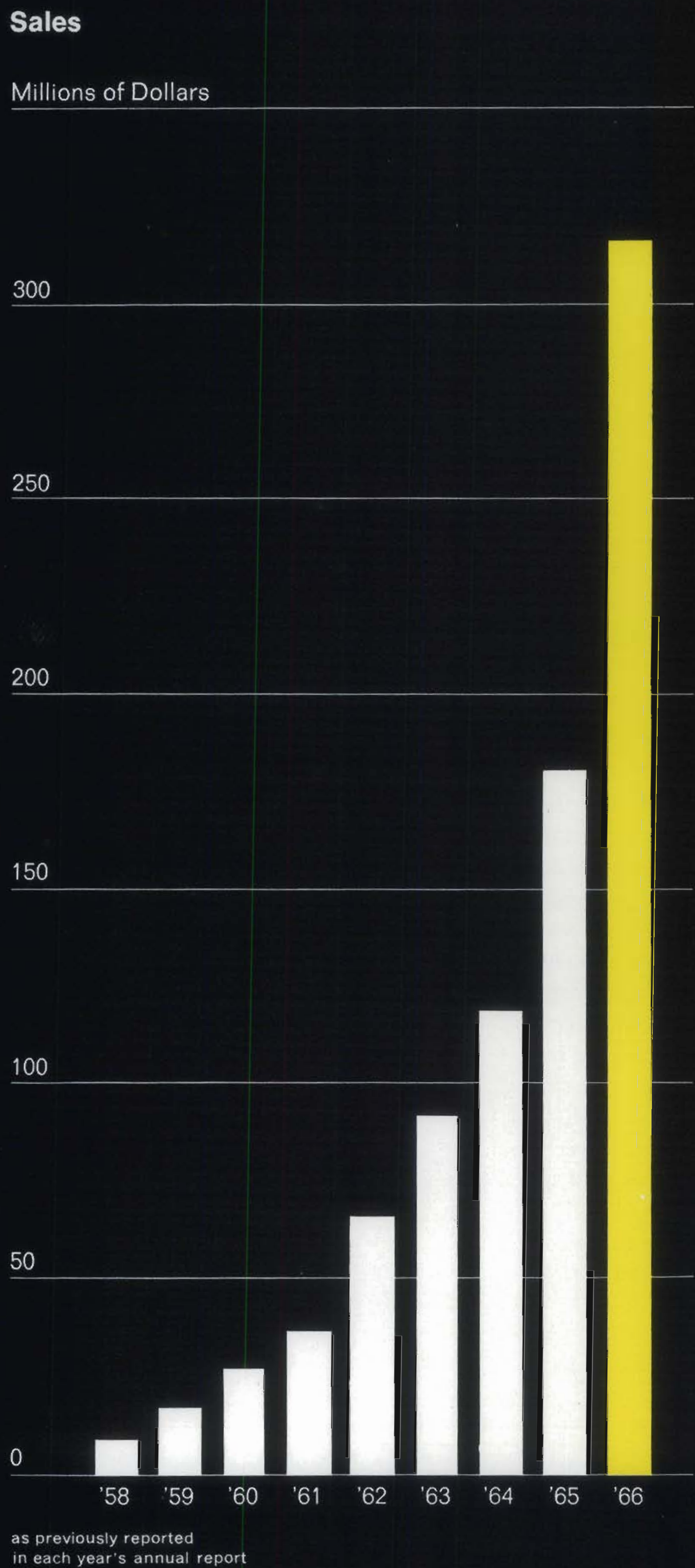
Shareholders' equity, consisting of preferred stock, common stock, paid-in surplus, and retained earnings, amounted to more than $107 million at July 31, 1966, an increase to almost three times the amount reported in 1965.

Financing

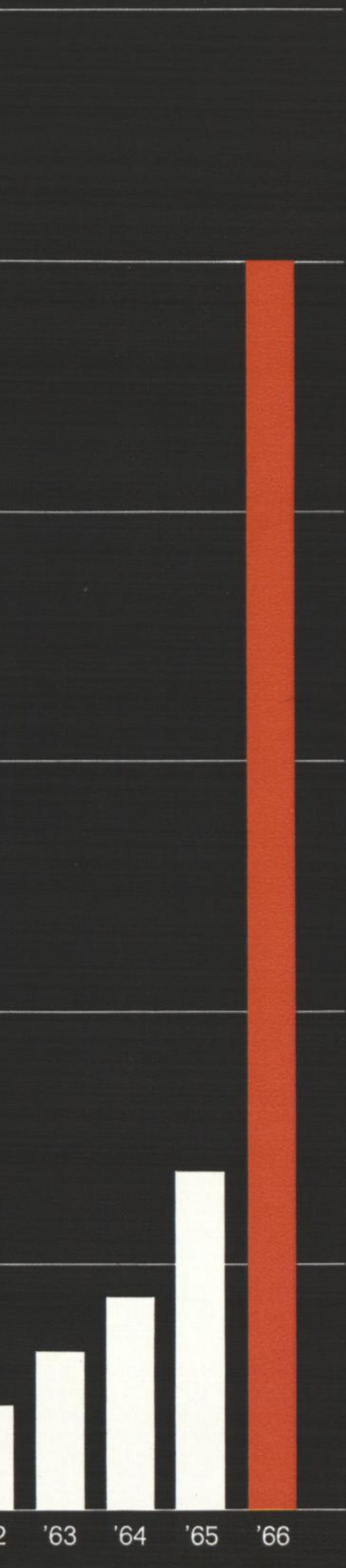
During the first quarter of fiscal 1966, the company purchased 57½ per cent of the outstanding stock of The New Jersey Zinc Company (NJZ) for $83 million provided by short-term bank financing. On February 25, 1966, Gulf & Western exchanged $3.50 series preferred stock as mentioned above for the other 42½ per cent of the outstanding stock of NJZ. Following this merger, the company sold $94 million of its 5¾% notes to a group of institutional investors, and $6 million of its 5½% notes to an institutional lender. The proceeds from the sale of these notes were used to retire substantially all of the prior outstanding indebtedness of the company.

Expenditures for Property, Plant, and Equipment

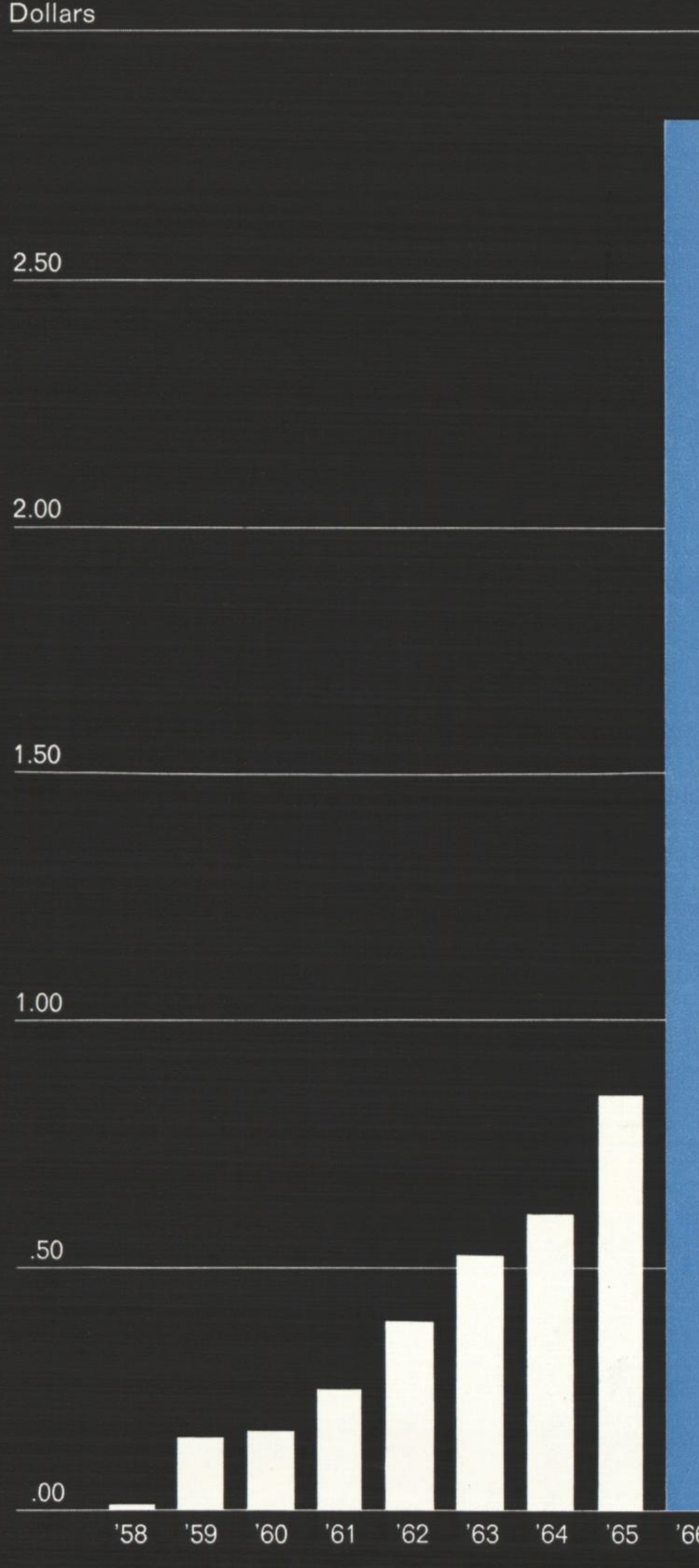
The company invested $26 million in property, plant, and equipment (in addition to that acquired as part of operating businesses) during 1966. These funds were used to increase manufacturing and sales capacity, modernize existing facilities, increase plant safety, and expand research activities. During the year, $9 million was charged against income for depreciation, depletion, and amortization.


Sales
Millions of Dollars
300
250
200
150
100
50
0
'58
'59
'60
'61
'62
'63
'64
'65
'66
as previously reported
in each year's annual report


Net Earnings
Thousands of Dollars
20,000
16,000
12,000
8,000
4,000
0
'58
'59
'60
as previously reported
in each year's annual report



Net Earnings Per Common Share



Financial Highlights of Nine Years of Operation

	1966	1965
Operating Results—year ended July 31,		
Net sales	$317,533,000	$182,079,000
Earnings before taxes on income (excluding minority interest)	29,624,000	10,014,000
Net earnings	20,117,000	5,514,000
Net earnings per average common share outstanding—B	2.84	.86
Depreciation, depletion, and amortization	9,323,000	2,435,000
Financial Position—July 31,		
Working capital	$ 66,597,000	$ 38,401,000
Net property, plant, and equipment	115,656,000	28,785,000
Total assets	294,239,000	104,096,000
Shareholders' equity	107,576,000	37,251,000
General Statistics		
Number of shareholders:		
Common stock	7,600	5,100
Preferred stock	4,800	
Capital expenditures	$ 26,026,000	$ 5,553,000

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 two years prior to 1966 would have been as follows:

	Net Sales	Net Earnings	Net Earnings Per Common Share
1965	$277,211,000	$11,412,000	$1.38
1964	212,514,000	7,638,000	.83

As originally reported in the Company's annual reports—Note A

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
3,458,000-C	2,633,000	1,766,000	850,000-C	433,000-C	316,000	27,000
.60	.52	.40	.25	.16	.15	.01
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
4,600	2,800	2,500	1,700	1,400	1,300	1,300
$ 3,344,000	$ 1,913,000	$ 658,000	$ 862,000	$ 271,000	$ 119,000	$ 250,000

NOTE B—Adjusted for stock dividends paid through July 31, 1966, and for three-for-one stock split effective July 1, 1966.

NOTE C—Excluding net special gain of $1,427,000 or $.25 a share in 1964; $152,000 or $.05 a share in 1961; and $145,000 or $.05 a share in 1960.

onsolidated Balance Sheet

ASSETS	1966	1965 Adjusted—Note A	1965 As Previous Reporte
URRENT ASSETS			
Cash	$ 21,408,396	$ 10,908,412	$ 7,911,62
Marketable securities—at cost (1966 amount includes $15,756,000 of common stock of Paramount Pictures Corporation—Note D)	16,227,975	28,443,692	-0
Trade receivables	35,647,008	32,226,522	22,607,47
Inventories:			
At last-in, first-out cost	$ 22,878,080	$ 19,466,835	$ 19,466,83
At lower of cost (first-in, first-out and average methods) or market	43,483,747	35,254,306	20,375,19
	$ 66,361,827	$ 54,721,141	$ 39,842,02
Prepaid expenses	1,499,863	1,630,743	1,345,48
TOTAL CURRENT ASSETS	$141,145,069	$127,930,510	$ 71,706,61
ROPERTY, PLANT, AND EQUIPMENT—at cost			
Land and buildings	$ 35,304,639	$ 28,221,633	$ 8,817,50
Mines, mining equipment, and mineral rights	71,085,443	54,849,757	-0
Machinery, equipment, and other	98,085,407	88,213,048	31,004,90
Construction in progress—Note E	7,731,266	2,925,387	529,68
	$212,206,755	$174,209,825	$ 40,352,09
Less allowances for depreciation, depletion, and amortization	96,551,231	88,158,142	11,567,08
	$115,655,524	$ 86,051,683	$ 28,785,00
THER ASSETS			
Investments in and advances to unconsolidated subsidiary, corporate joint venture, and corporate stock—Note A	$ 33,036,530	$ 23,386,806	$ 566,76
Deferred costs and intangibles, less amortization, and other	4,402,304	5,492,097	3,037,54
	$ 37,438,834	$ 28,878,903	$ 3,604,30
	$294,239,427	$242,861,096	$104,095,92

LIABILITIES AND SHAREHOLDERS' EQUITY	1966	19 Adjusted— Note A
URRENT LIABILITIES		
Notes payable—primarily to banks	$ 28,173,897	$ 8,809,241
Current maturities of long-term debt	801,775	3,715,647
Trade accounts payable	30,265,100	20,386,715
Accrued expenses and other liabilities	10,508,813	9,704,097
Income taxes payable	4,798,152	5,995,493
TOTAL CURRENT LIABILITIES	$ 74,547,737	$ 48,611,193
ONG-TERM DEBT, less current maturities—Note B	102,367,065	43,690,448
EFERRED FEDERAL INCOME TAXES	9,748,192	3,598,672
INORITY INTEREST (Purchased portion of a part-pooled business)	-0-	62,365,832
HAREHOLDERS' EQUITY		
Preferred stock, $2.50 par value, cumulative, convertible, 1,200,000 shares authorized—Note C		
$1.75 series	$ 531,010	
$3.50 series	1,125,658	$ 1,649,738
Common stock, $1 par value, 15,000,000 shares authorized, outstanding shares exclude those held in treasury (477,360 shares at July 31, 1966)—Note C	7,114,510	6,500,652
Paid-in surplus	39,796,962	31,706,061
Retained earnings—Note B	59,008,293	44,738,500
	$107,576,433	$ 84,594,951
	$294,239,427	$242,861,096

Consolidated Statement of Earnings

Years ended July 31, 1966 and July 31, 1965

INCOME

Net sales ....

Equity in earnings of unconsolidated subsidiary and corporate joint venture—Note A ....

Income from investments and other sources ....

EXPENSES AND OTHER DEDUCTIONS

Cost of goods sold, exclusive of depreciation, depletion, and amortization ....

Selling, administrative, and general expenses ....

Depreciation, depletion, and amortization ....

Interest expense ....

Minority interest in net earnings (purchased portion of a part-pooled business) ....

Provision for income taxes ....

NET EARNINGS

Dividends on preferred stock, including amounts that would have been paid on shares issued for a part-pooled business ....

Average common shares outstanding (adjusted for three-for-one stock split effective July 1, 1966 and 3% stock dividend paid September 1, 1965) ....

Net earnings (after preferred dividends) per common share ....

See notes to consolidated financial statements.

1966	1965 Adjusted— Note A	1965 As Previously Reported
$317,533,071	$277,211,051	$182,078,737
1,866,686	1,899,018	44,956
2,689,052	3,337,639	547,127
$322,088,809	$282,447,708	$182,670,820
$230,263,842	$199,997,560	$134,819,334
43,830,376	41,379,733	33,540,455
9,323,167	7,643,068	2,434,642
7,270,189	2,514,421	1,861,757
1,259,612	8,146,459	-0-
10,025,052	11,354,349	4,500,234
$301,972,238	$271,035,590	$177,156,422
$ 20,116,571	$ 11,412,118	$ 5,514,398
$ 2,430,248	$ 2,309,633	$ -0-
6,236,382	6,595,707	6,428,295
$ 2.84	$ 1.38	$ .86

onsolidated Statement of Shareholders' Equity

Year ended July 31, 196

Balance at July 31, 1965, as previously reported (common stock excludes 571 shares held in treasury) . . . .

Adjustment for three-for-one stock split effective July 1, 1966—Note 1 . . .

Acquisition of pooled and part-pooled businesses (net of costs incurred in the amount of $497,309) . . . .

Increase in cost of retirement of stock purchase warrants outstanding on a pooled subsidiary at date of acquisition . . . .

Balance at July 31, 1965—adjusted—Note A . . . .

Preferred stock issued:

Exchange for common stock of the Company (includes costs incurred in connection with the exchange) . . . .

Exchange for marketable securities . . . .

Common stock issued:

3% stock dividend—at fair value (includes cash in lieu of fractional shares) . . . .

Exercise of stock options . . . .

Conversion of preferred stock:

$1.75 series . . . .

$3.50 series (includes cash in lieu of fractional shares) . . . .

Common stock held in treasury issued for purchase of a business and property . . . .

Common stock received as payment on indebtedness . . . .

Stock sold and cash dividends paid by pooled or part-pooled subsidiaries prior to acquisition . . . .

Cash dividends:

Paid on common stock . . . .

Paid and accrued on preferred stock . . . .

Net earnings for the year ended July 31, 1966 . . . .

Preferred Stock at $2.50 a Share $1.75 Series	Preferred Stock at $2.50 a Share $3.50 Series	Common Stock at $1 a Share	Paid-in Surplus	Retained Earnings
		$2,111,080	$18,275,012	$16,865,209
		4,222,160	4,222,160*	
	$1,649,738	167,412	17,926,806	27,873,291
			273,597*	
	$1,649,738	$6,500,652	$31,706,061	$44,738,500
$625,000		750,000*	59,328	
	51,000		2,289,000	
		181,017	2,180,412	2,446,260*
		100,610	550,125	
93,990*		112,788	18,798*	
	575,080*	862,451	303,202*	
		114,000	3,441,097	
		7,008*	230,604*	
			123,543	1,184,796*
				904,888*
				1,114,074*
				20,116,571
				196,760*
$531,010	$1,125,658	$7,114,510	$39,796,962	$59,008,293

Note A—Principles of consolidation, acquisition of businesses, and adjustment of prior-year financial statements

The consolidated financial statements include the accounts of the Company and of its wholly-owned subsidiaries except a finance company. The Company's investment in the finance company and in a one-third interest in a Canadian corporate joint venture is carried at an amount equal to the Company's equity in their net assets and the net earnings of these companies are included in the consolidated statement of earnings. At July 31, 1966, the finance company had total assets of $3,021,733 and liabilities, excluding advances from the parent company, of $2,356,952 and the Canadian corporate joint venture had total assets of $96,127,292 (U.S. dollars) and liabilities, excluding advances from shareholders, of $14,475,060 (U.S. dollars). The Company's investment in other corporate stock (all less than 50% owned) is carried at cost.

Seven businesses were acquired by the Company during the year, three in transactions accounted for as pooling of interests, three in transactions accounted for as purchases, and one (The New Jersey Zinc Company) accounted for partially as a pooling of interests and partially as a purchase. The operations of the pooled businesses and the pooled portion of the part-pooled, part-purchased business 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 date of acquisition.

The Company amortizes the cost of exploring for and developing mineral reserves on a composite pool basis using the unit-of-extraction method at rates determined in relation to the estimated reserves of mineral properties. Prior to its acquisition by Gulf & Western, New Jersey Zinc expensed certain of these costs as they were incurred and used the individual property basis rather than the composite pool basis in computing depreciation and depletion. The operating results of periods prior to the Company's purchase of a controlling interest in New Jersey Zinc during September 1965 have been restated to reflect the accounting method used by Gulf & Western and to include the pooled portion of the equity in earnings of the Canadian corporate joint venture mentioned above. As a result of these restatements, net earnings have been increased by $196,760 for the year ended July 31, 1966 and by $1,437,451 for the year ended July 31, 1965.

Note B—Long-term debt

Long-term debt at July 31, 1966 includes:

5¾% unsecured notes payable to institutional investors maturing $3,000,000 annually January 1970-1972; $5,000,000 annually January 1973-1985; $20,000,000 in January 1986	$ 94,000,000
5½% unsecured bank notes maturing $2,000,000 annually beginning January 1970	6,000,000
Unsecured notes arising from acquisition of businesses, generally payable over five-year periods	2,550,046
Other notes payable	618,794
	$103,168,840
Less amounts due within one year, classified as current liabilities	801,775
	$102,367,065

The 5¾% and 5½% notes are made under terms of an Agreement which contains certain restrictions and limitations. At July 31, 1966, retained earnings unrestricted as to the payment of cash dividends under the agreement amounted to $5,909,966.

Note C—Stock options, reservations, and preferences

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, 1966, the Company granted options to purchase 95,193 shares of the Company's common stock for a total option price of $2,487,216 and employees exercised options to purchase 100,610 shares at a total option price of $650,735. At July 31, 1966, options to purchase 281,521 shares of the Company's common stock for a total option price of $4,165,230 were outstanding and 327,804 shares of the Company's common stock were reserved for issuance of future options.

At July 31, 1966, additional shares of the Company's authorized but unissued common stock were reserved as follows: (1) 542,283 shares issuable upon exercise of stock purchase warrants granted in connection with the sale by the Company of its long-term notes in 1961, 1962, and 1966, of which 242,283 are exercisable at approximately $8.83 and 300,000 are exercisable at $26.67 each; (2) 637,212 shares for conversion of $1.75 series preferred stock of the Company, and (3) 1,688,486 shares for conversion of $3.50 series preferred stock of the Company.

The $1.75 series preferred stock is redeemable by the Company after September 30, 1970 at $65.00 per share and is entitled to $25.00 per share upon liquidation. The $3.50 series preferred stock is redeemable after February 25, 1971 at $100.00 per share and is entitled to $100.00 per share upon liquidation. Both series of preferred stock are entitled to one vote per share. Each share of the $1.75 series is convertible into 3.0 shares of common stock and each share of the $3.50 series is convertible into 3.75 shares of common stock at any time at the option of the shareholder.

G&W's Financial Group, left to right:
T. H. Neyland, Don F. Gaston, Roy T. Abbott, Jr.

Note D—Proposed merger and events subsequent to July 31, 1966

The Boards of Directors of the Company and of Paramount Pictures Corporation (Paramount) have agreed in principle on the merger of the two companies with Gulf & Western Industries, Inc. being the surviving corporation. The proposed merger is subject to approval by the shareholders of the two corporations. At July 31, 1966, the Company owned 193,000 shares of the common stock of Paramount. On September 12, 1966, the Company purchased an additional 108,427 shares of the common stock of Paramount at a cost of $8,674,160. After the purchase, the Company owns approximately 18.5% of the outstanding common stock of Paramount. A Proxy Statement describing the proposed merger has been mailed to shareholders of record, September 9, 1966.

Note E—Commitments and contingencies

The aggregate annual rental payments on leases in effect at July 31, 1966 approximates $1,850,000. Many of the leases also require the lessee to pay property taxes, insurance, and ordinary repairs and maintenance. The leases have varying terms up to twenty years.

Contributions by the Company and its subsidiaries to various retirement and profit-sharing plans during the year ended July 31, 1966 were $3,553,949. Estimated unfunded past service costs at July 31, 1966 were $14,853,460.

Estimated cost to complete construction in progress at July 31, 1966 was $31,400,000.

At July 31, 1966, a former minority shareholder of New Jersey Zinc was appealing a court decision in which the merger with Gulf & Western was found to be fair and equitable to the shareholders of both companies and not in violation of New Jersey state law. Counsel for Gulf & Western believes that the decision of the lower court will be upheld.

Report of Independent Accountants

Board of Directors,
Gulf & Western Industries, Inc.,
Houston, Texas.

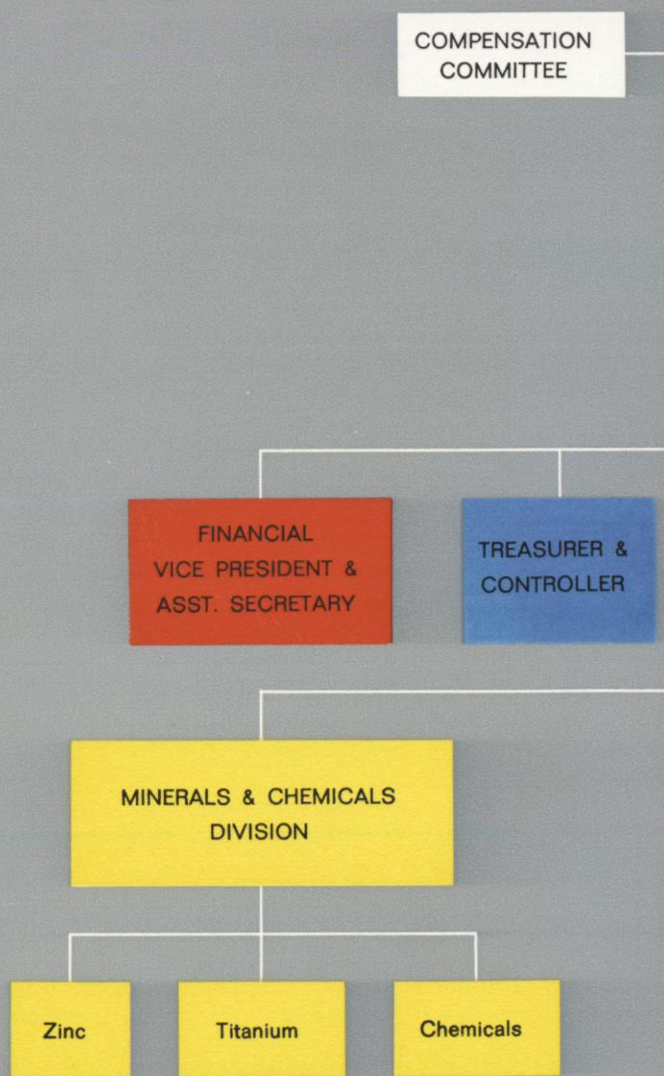
We have examined the consolidated financial statements of Gulf & Western Industries, Inc. and its consolidated subsidiaries for the year ended July 31, 1966. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

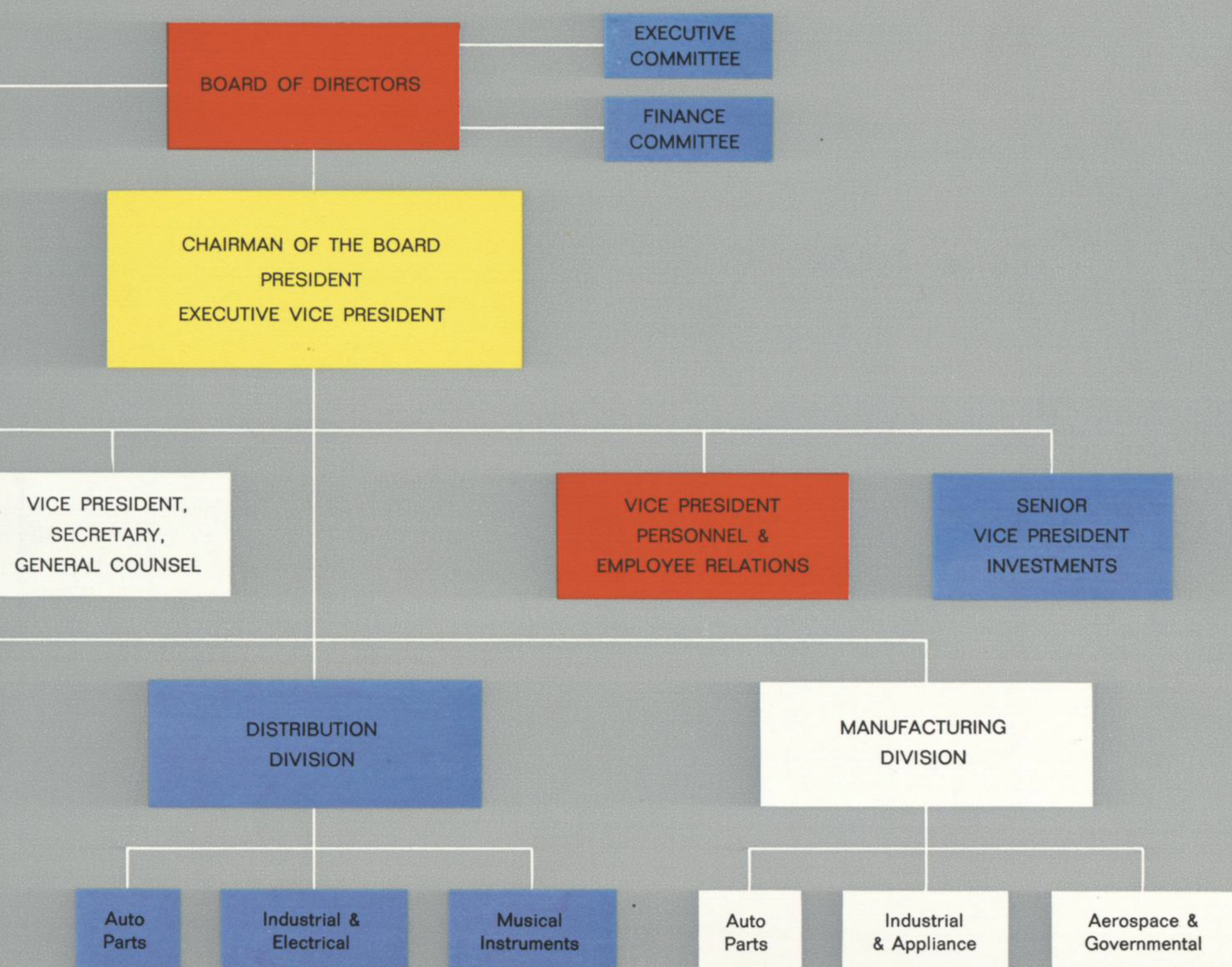
In our opinion, the accompanying balance sheet and statements of earnings and shareholders' equity present fairly the consolidated financial position of Gulf & Western Industries, Inc. and its consolidated subsidiaries at July 31, 1966, and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the restated (Note A) preceding year.

Ernst & Ernst

Houston, Texas
September 23, 1966

Gulf & Western Industries, Inc. Organization Diagram




BOARD OF DIRECTORS
EXECUTIVE COMMITTEE
FINANCE COMMITTEE
CHAIRMAN OF THE BOARD
PRESIDENT
EXECUTIVE VICE PRESIDENT
VICE PRESIDENT, SECRETARY, GENERAL COUNSEL
VICE PRESIDENT PERSONNEL & EMPLOYEE RELATIONS
SENIOR VICE PRESIDENT INVESTMENTS
DISTRIBUTION DIVISION
MANUFACTURING DIVISION
Auto Parts
Industrial & Electrical
Musical Instruments
Auto Parts
Industrial & Appliance
Aerospace & Governmental

Board of Directors, left to right:

Schloss	*Duncan*
Johnson	*Neyland*
McCann	*Patterson*
Judelson	*Hodges*
Gaston	*Goodwin*
Zerbe	*Dolkart*
Bluhdorn	*(Absent: Chisholm and McDougal)*

Corporate Information

BOARD OF DIRECTORS

Charles G. Bluhdorn, *Chairman of the Board*
Gulf & Western Industries, Inc.

John H. Duncan, *President*
Gulf & Western Industries, Inc.

David N. Judelson, *Executive Vice President*
Gulf & Western Industries, Inc.

William H. Chisholm, *President*
Oxford Paper Company, New York

Joel Dolkart, *Partner*
Strasser, Spiegelberg, Fried & Frank

Don F. Gaston, *Treasurer and Controller*
Gulf & Western Industries, Inc.

Sidney S. Goodwin, *Vice President*
The New Jersey Zinc Company, New York
(a G&W subsidiary)

Luther H. Hodges, *Chairman of the Board*
Research Triangle Foundation of North Carolina
Raleigh, North Carolina

Lindsay F. Johnson, *President*
The New Jersey Zinc Company, New York
(a G&W subsidiary)

R. L. McCann, *Chairman of the Board*
The New Jersey Zinc Company, New York
(a G&W subsidiary)

Joseph W. McDougal, *President*
Miller Organization, Inc., Southfield, Michigan
(a G&W subsidiary)

T. H. Neyland, *Financial Vice President*
Gulf & Western Industries, Inc.

William A. Patterson, Sr.
Chairman of the Board (Retired)
United Air Lines, Chicago, Illinois

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
(a G&W subsidiary)

EXECUTIVE COMMITTEE

David N. Judelson, *Chairman*
Charles G. Bluhdorn
Joel Dolkart
John H. Duncan
Lindsay F. Johnson
R. L. McCann
Harold U. Zerbe

FINANCE COMMITTEE

John H. Duncan, *Chairman*
Charles G. Bluhdorn
Don F. Gaston
T. H. Neyland

COMPENSATION COMMITTEE

Charles G. Bluhdorn
John H. Duncan
Luther H. Hodges
Lindsay F. Johnson
David N. Judelson
William A. Patterson, Sr.

OFFICERS

Charles G. Bluhdorn, *Chairman of the Board*
John H. Duncan, *President*
David N. Judelson, *Executive Vice President*
Roy T. Abbott, Jr., *Senior Vice President—Investments*
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*
Don F. Gaston, *Treasurer and Controller*
Robert L. Jones, *Assistant Secretary*
James J. Shaw, *Assistant Vice President*
Richard D. Spence, *Assistant Vice President*

STOCK

Gulf & Western common, $1.75 series and $3.50 series preferred stocks are listed on the New York Stock Exchange.

TRANSFER AGENT

Bankers Trust Company
16 Wall Street, New York, New York

REGISTRAR

Chase Manhattan Bank
1 Chase Manhattan Plaza
New York, New York

ANNUAL MEETING

November 29, 1966, Houston, Texas

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.

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