Gulf+Western Industries, Inc.

1967 Annual Report

Contents

Annual Report of

Gulf+Western Industries, Inc.

for the fiscal year ended

July 31, 1967

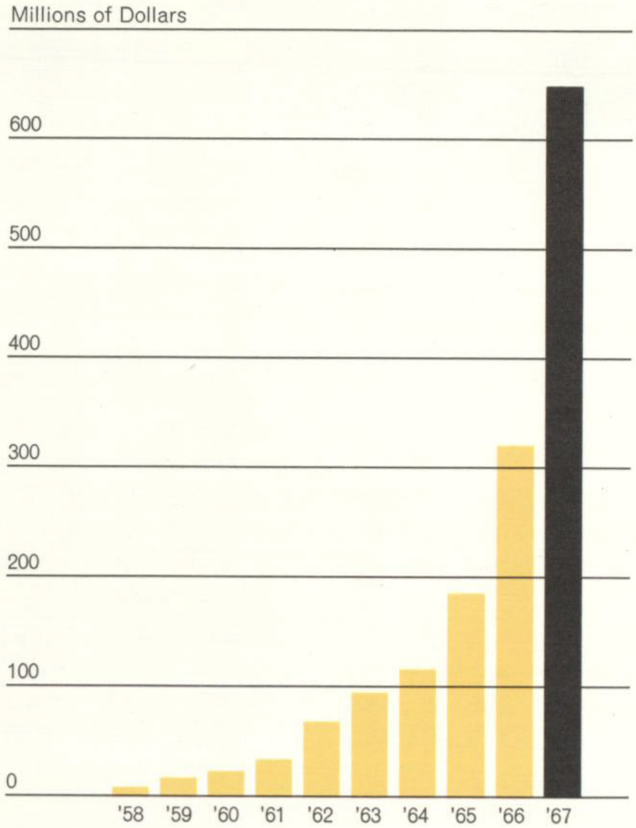
Corporate Headquarters:
437 Madison Avenue
New York, N.Y. 10022

The variety of insulated electric cable—a new market for the company—produced by G+W's electrical products division symbolizes the multi-industry scope of Gulf+Western's operations.

Financial Highlights

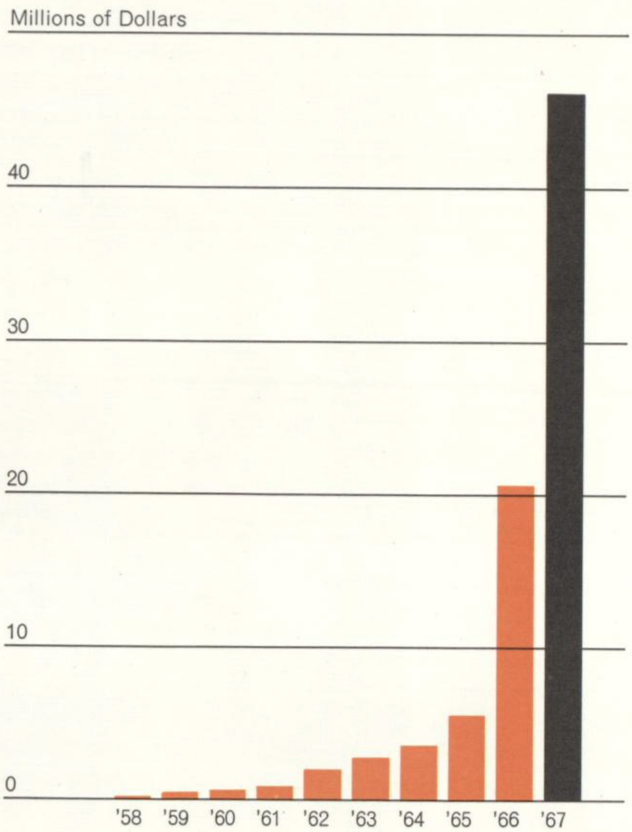
	Year Ended July 31		
	1967	1966 As Previously Reported	% Change
Net Sales	$644,921,000	$317,533,000	+103
Net Earnings	46,199,000	20,117,000	+130
Net Earnings Per Common Share	3.91	2.75	+ 42
Working Capital	213,190,000	66,597,000	+220
Total Assets	749,439,000	294,239,000	+155
Shareholders' Equity	229,245,000	107,576,000	+113
Cash Flow (Net Earnings, Depreciation, and Depletion)	60,320,000	29,440,000	+105
Cash Flow Per Common Share	5.27	4.20	+ 25
Capital Expenditures	53,074,000	26,026,000	+104

Sales



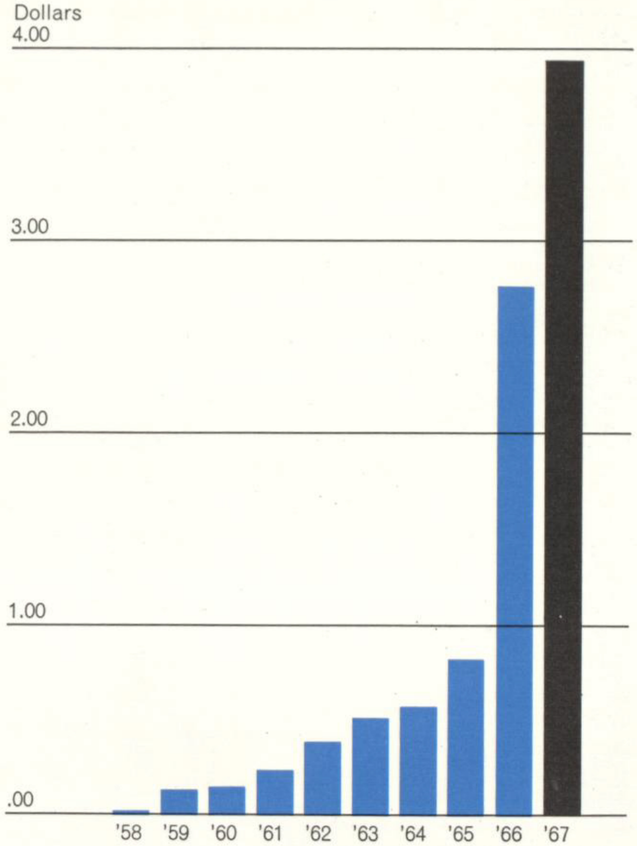
As previously reported in each year's annual report.

Net Earnings



As previously reported in each year's annual report.

Net Earnings Per Common Share



As previously reported, adjusted for stock split and stock dividends through July 31, 1967.

Growth
Management
Scope

To Our Shareholders

In fiscal 1967 Gulf+Western achieved its tenth consecutive year of record sales and earnings. Sales of $644,921,000 were 103% above fiscal 1966. Net earnings climbed to $46,199,000, a 130% increase over the previous year; and net earnings per common share of $3.91 were 42% over 1966.

The two dimensions of G+W's expansion program —internal growth and acquisitions—were responsible for the swift pace and balance of increased sales and earnings among all but one of the company's five operating groups.

Internal Growth

Sales and earnings were significantly increased through internal growth in fiscal 1967. In manufacturing, the automotive parts manufacturing division increased sales over the preceding year despite a disappointing year for the automobile industry; the forging and casting division continued to grow as a supplier to the rapidly expanding energy industries; and impressive gains were achieved in the production of electrical parts products and components for the aerospace and aviation industries.

The distribution group continued steady growth through the introduction of new automotive replacement parts and expansion of the American Parts System warehouse and jobber distribution network.

The expected reduction in the price of slab zinc, which occurred in May, 1967, was an important factor in lower sales and earnings in the metals and chemicals group. The line of products was broadened with the completion late in the fiscal year of a plant for the production of diammonium phosphate, an important chemical fertilizer. The company also purchased a majority interest in Hedman Mines Limited of Canada, an asbestos mining operation. An expanded research and development program is aimed at developing new products and new product application opportunities.

Two New Groups

Two new operating groups extended the scope of G+W's operations in the past year. The merger of Paramount Pictures Corporation into Gulf+Western brought the company a large, solid base for the new leisure-time complex, and the acquisition of South Puerto Rico Sugar Company provided a promising entry into the agricultural products field. The selection of these two industries satisfied the company's requirement of entering fields where strong management, innovation and enthusiasm can be employed to achieve maximum growth.

New Markets and Products Strengthen Operations

Manufacturing capability was further strengthened by the addition of three new operations. Taylor Forge Inc., North & Judd Manufacturing Company and Collyer Insulated Wire Company brought capable management and provided new markets for G+W's manufacturing group. The leisure-time group was complemented by the television management, talent and production facilities brought to Paramount with the addition of Desilu Productions Inc.

October 18, 1967

The new fiscal year will be equally significant to both the expansion of present operations and in structuring a new product area. The boards of directors of E. W. Bliss Co., Consolidated Cigar Corporation, Universal American Corporation and Gulf+Western have approved plans for the acquisition of these three companies by G+W. The transactions are subject to the approval of the shareholders of these three companies. Consolidated Cigar would provide an expandable base for a new consumer products group—a field in which G+W believes there are great opportunities for long-term growth and product diversification. E. W. Bliss and Universal American would bring to G+W long records of industry leadership in specialized manufacturing. These three companies would increase G+W's annual rate of sales to an amount well in excess of $1 billion, a gratifying milestone for G+W shareholders and employees.

Management Appointments

David N. Judelson was elected president of Gulf+Western in August, 1967. Mr. Judelson had been executive vice president and chairman of the executive committee and has been a director of G+W since 1959. John H. Duncan, who had been president since 1959, continues as a key member of the top management team as chairman of the executive committee. Don F. Gaston was named executive vice president. Mr. Gaston was previously treasurer of the company and is a director. Mr. T. H. Neyland, who formerly served as financial vice president, was elected chairman of the finance committee. This management realignment was necessitated by the decision to centralize corporate functions in New York City. G+W's corporate management will be consolidated in a new headquarters location in New York in November, 1967.

Joseph W. McDougal, a Gulf+Western director since 1965, died in October, 1966. His valuable counsel will be missed by the company.

Three new directors were elected during the past fiscal year and serve on the G+W board of directors:

Edwin L. Weisl, partner of Simpson Thacher & Bartlett; Martin S. Davis, executive vice president of Paramount Pictures; and Charles S. Lowry, president of South Puerto Rico Sugar Company.

G+W's First Decade

Fiscal 1967 marks the completion of the first decade of Gulf+Western's operations under present management—a decade that has seen the company grow from sales of $8,395,000 in fiscal 1958 to $644,921,000 in 1967, and net earnings of $27,000 in 1958 to $46,199,000 this past fiscal year. The number of shareholders has increased from 1,300 in 1958 to more than 45,000 in 1967. From 520 employees in 1958, G+W has expanded to an organization of more than 35,000 men and women.

With an excellent foundation for expansion in each operating group, a dedicated management team, a proven program for growth, and the continued interest and support of our shareholders and employees, G+W looks forward to the next ten years of substantial increases in sales, earnings and leadership in the company's selected industries.

Charles G. Bluhdorn
Chairman of the Board

David N. Judelson
President

MANAGEMENT OF GULF+WESTERN

Gulf+Western Industries, Inc. is an organization dedicated to profitable growth through internal expansion in combination with carefully selected acquisitions. The company has prospered and has attained its present position in American industry as a result of intensive concentration on management skills. G+W's management over the years has worked for the growth of each operating unit of the company. This emphasis has provided the impetus for programs of internal growth that have contributed significantly to the current annual sales rate of over $720 million.

Part of the company's growth program is based on the selection of companies which occupy strong positions in their industries in terms of products, services or resources. G+W requires that all the companies it operates are in basic areas with growth potentials that can be fully realized with the support of a strong management organization. Such companies should possess the capability of outperforming the competition, either at the time of joining G+W or in the foreseeable future.

Management Is Most Valuable Asset

A primary objective in the growth program is to seek out those companies which are expertly managed and already staffed with proven executives, who will continue to guide their companies when they become integral parts of Gulf+Western.

These executives are then given broad responsibility to manage their operating units, strengthened by G+W's corporate planning and management services. This complementary method of management has proved an important G+W business principle—operational management is able to increase productivity, sales, and earnings when freed of the responsibilities of corporate management and allowed to concentrate on directing operating units.

The effectiveness of this program is clearly reflected in the achievements of the management teams currently serving in the five operating groups of Gulf+Western.

Corporate Management and Services

G+W's corporate management is structured to provide direction and assistance to divisional management in financial planning, control and analysis; legal services; marketing; communications; and industrial relations. The company's concept of "total organization planning" requires that G+W's top management team continually review the allocation of resources based upon changing profit opportunities.

Internal Management Consulting Group

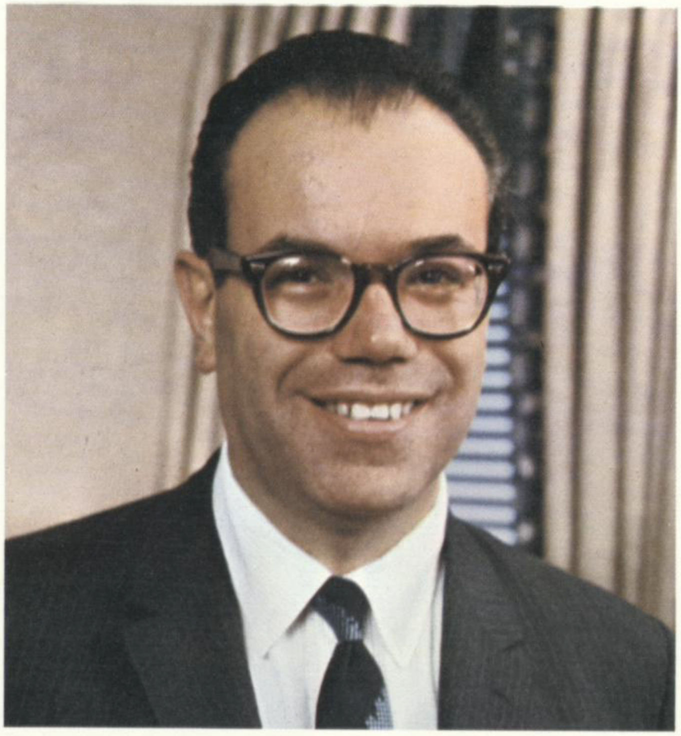
An important service available to G+W's corporate and subsidiary managements is the Internal Management Consulting Group (IMCG). Its activities include the study of short and long range business problems, the development of advanced business systems, cost measurement and control, and supporting research such as econometric analyses and distribution logistics.

The IMCG is a team of professional consultants in such areas as: financial, manufacturing, distribution and inventory management; electronic data processing; marketing information and planning; and operations research techniques as they apply to the above.

The IMCG specialists undertake assignments at the request of either operating or corporate management. They analyze problem areas and explore new areas of opportunity. They develop recommendations and provide assistance in implementing them.

Aggressive and imaginative management—at all levels—is the key to the continued growth of Gulf+Western.

Charles G. Bluhdorn
Chairman of the Board of Directors



David N. Judelson
President

John H. Duncan
Chairman of the Executive Committee

Don F. Gaston
Executive Vice President

Roy T. Abbott, Jr.
Senior Vice President

Joel Dolkart
General Counsel
(Partner: Simpson Thacher & Bartlett, Attorneys, New York, N.Y.)

T. H. Neyland
Chairman, Finance Committee

William M. Flatley
Controller

Robert L. Jones
Vice President
Resident Counsel

James J. Shaw
Vice President
Operations

Norman R. Forson
Treasurer

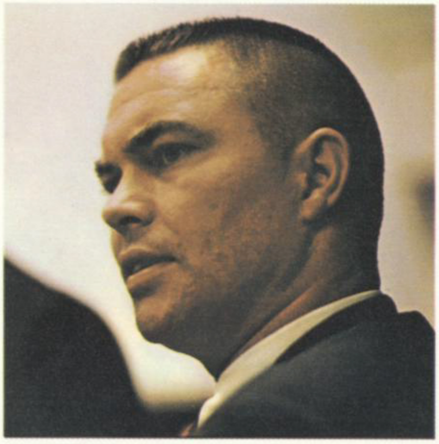
Robert B. Pickett
Director
Corporate Relations

William D. Smith
Director
Insurance

Arnold S. Greenhut
Vice President
Internal Management Consulting Group

Gerald I. Ritthaler
Vice President
Director of Tax

William A. Stone
Director
Corporate Services









THE SCOPE OF GULF+WESTERN

When Gulf+Western began its operations under present management a decade ago, it concentrated on the distribution of automotive parts. In this area, it has brought to a growing, dynamic and virtually inexhaustible market a national distribution organization capable of making the most of the market's potential.

To supplement the company's distribution services, the next logical step for Gulf+Western was to move into the manufacturing area, selecting as its base those manufacturing companies that provide a service to growth industries.

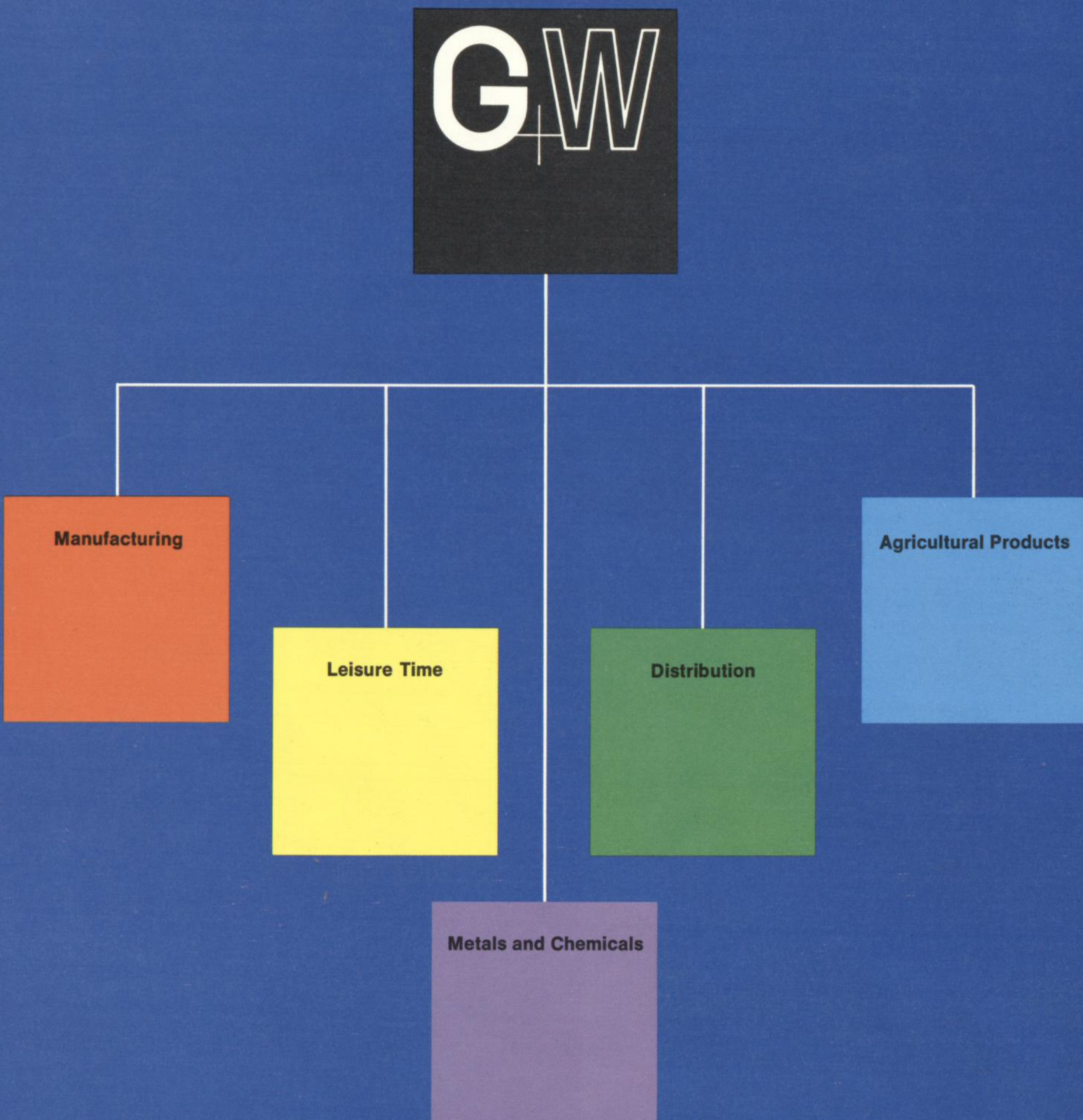
As the next major step in supporting existing operations and broadening the base of the company, Gulf+Western turned its attention to the area of metals and chemicals. G+W selected a company with a strong position in the related fields of metals and chemicals: The New Jersey Zinc Company, an organization with both the capability and desire to broaden its markets through meaningful research and exploration.

In the past fiscal year, Gulf+Western entered the area of "leisure-time activities." G+W identified in Paramount Pictures a potential to grow with the increases in population and rapidly rising discretionary income. This market offers almost limitless possibilities, not only for the present but for decades to come.

With every revolution of the earth, the population increases, causing a greater need for more food and improved agricultural technology. Gulf+Western this past year made a decisive move into the agricultural products field—a promising fifth area of corporate deployment for growth.

Gulf+Western is now firmly established in five select growth areas. It has already taken the first steps toward adding a sixth—the dynamic field of consumer products.

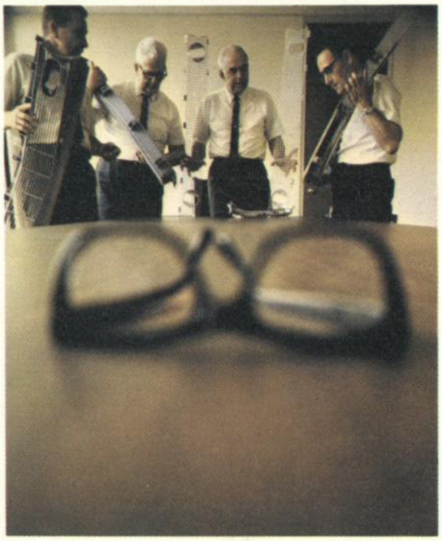
From the company's inception, G+W's corporate plan has pointed toward careful diversification, for the company's management realizes that no one industry offers economic advantages without some disadvantages. Gulf+Western's plan has been: (1) to diversify in such a manner that many inherent advantages in one operation will offset the possible disadvantages in another and, (2) to continue expansion of present operations for sound internal growth. The combination of these two elements is designed to give G+W continued vigorous and balanced growth.


G+W
Manufacturing
Leisure Time
Metals and Chemicals
Distribution
Agricultural Products

A cast-steel automotive frame goes through an initial cutting operation at the Monroe, Michigan, plant prior to final finishing.

Manufacturing

A pioneer in the chrome-plating of plastic automotive and appliance parts, the company is continuing an aggressive search for new applications at its Grand Rapids, Michigan, complex.



MANUFACTURING

John H. DeVries
Vice President
Automotive and Appliance Parts Division

Both sales and earnings of G+W's manufacturing group reached record highs during fiscal 1967. Its six basic fields of operations provide service and products to such growth industries as automotive, aviation, aerospace, electronics, television, home appliances, marine, and the energy industries—nuclear power, petroleum, natural gas and chemicals. G+W extended its services to the energy industries when it added—during the past fiscal year—Taylor Forge Inc. G+W expects an excellent future in this area, one of the most promising growth fields in the American economy.

G+W manufactures automotive parts—providing products to both the original equipment and the replacement markets—and appliance parts. The company also manufactures parts for a variety of consumer products, including refrigerators, phonographs, television sets, transistor radios and electric mixers. The company widened its capability to encompass the manufacture of parts for the marine industry during the past year with the addition of North & Judd Manufacturing, a 155-year-old company. When Collyer Insulated Wire Company joined the company, G+W became a supplier of quality insulated wire and cable products to the defense, commercial, and home construction industries.

The manufacturing group's six operational divisions are: AUTOMOTIVE AND APPLIANCE PARTS; FORGING AND CASTING; PROTOTYPE AEROSPACE PRODUCTION; ELECTRICAL PRODUCTS; MARINE HARDWARE AND METAL STAMPINGS; GLOBAL SYSTEMS.

Automotive and Appliance Parts

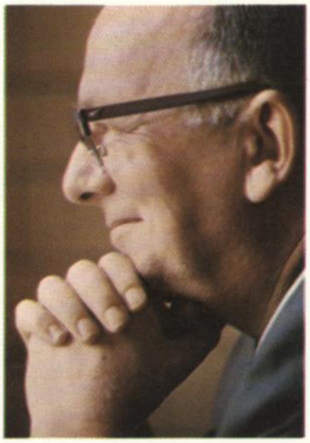
G+W produces a wide range of parts for the automotive and appliance industries. Three manufacturing processes are used—die casting, metal stamping, and metal and plastic plating.

As a supplier to the automotive industry, G+W produces a growing list of die-cast parts, including grills, headlight frames and door handles. The company is one of the largest

Die-cast headlight frames, produced at Grand Rapids, are used by both the original equipment and automotive parts replacement markets.

This 50,000 lb. steam drop hammer at a Taylor Forge plant is one of the four largest in the world and is used in the production of special forgings for the aerospace and other key industries by G+W's forging and casting division.

Kenneth W. Foust
Chairman of the Board
Bonney Forge & Foundry
Forging and Casting Division



Joseph M. Potts
President
Bonney Forge & Foundry
Forging and Casting Division

F. Chaloner McNair
Chairman
Taylor Forge
Forging and Casting Division

Ralph M. Odegard
President
Taylor Forge
Forging and Casting Division

producers of television bezels—die-cast masks which frame TV picture tubes.

The company is also an important manufacturer of metal stamped parts for the automotive field, both in the United States and Canada. During the past year, the division expanded facilities in Michigan to achieve a 75 per cent increase in production capacity of automotive bumpers. Other metal stamped parts produced in increasing volume by G+W are automobile underframes, headlight frames and turntables for record players.

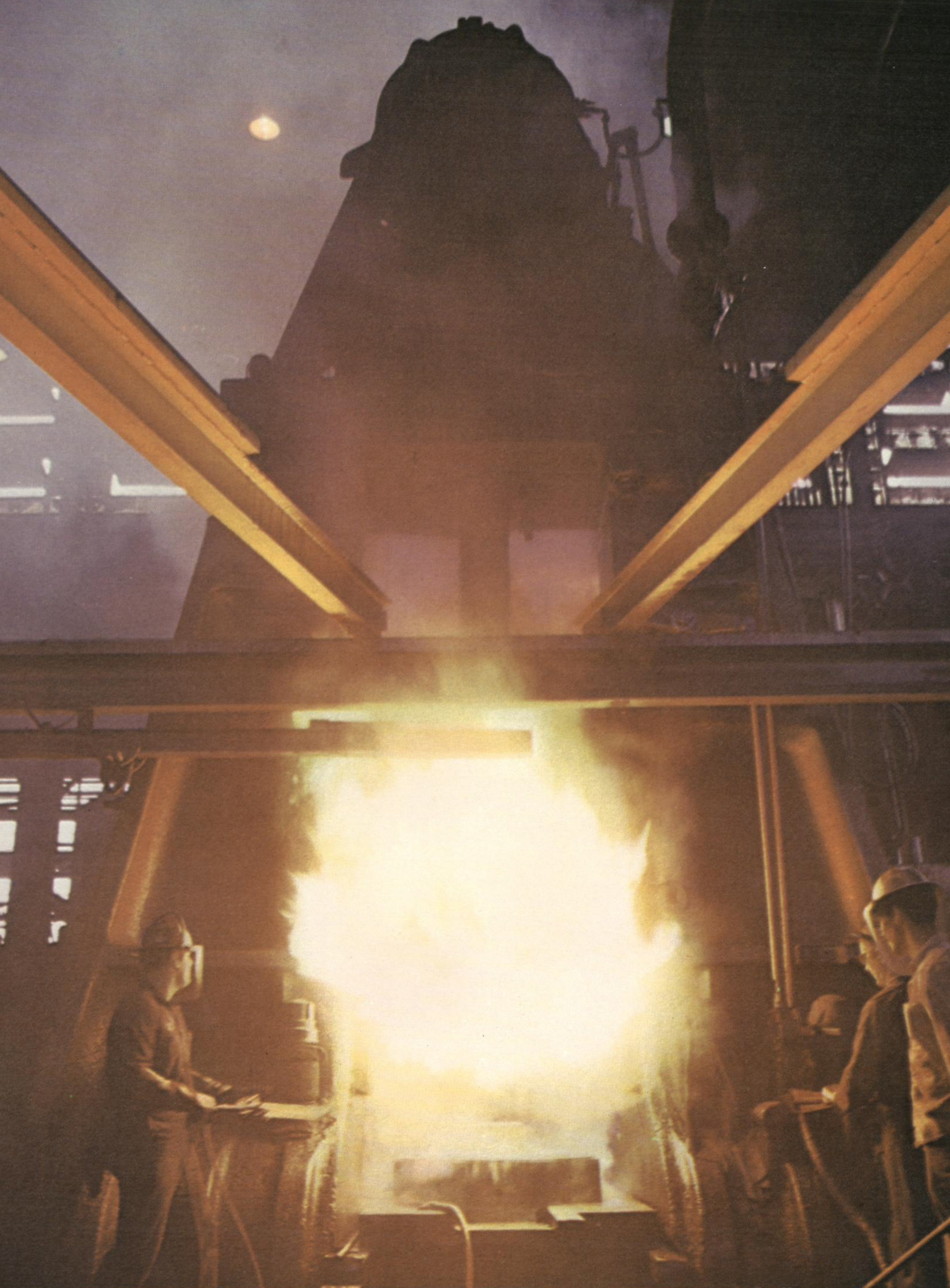
G+W is responsible for a significant volume of business in metal plating; and in a relatively new field affording great potential, the company is unique in its capability to produce chrome-plated plastic parts. This process is presently utilized by G+W for a large number of automotive and appliance components.

Construction was begun during the year on a new plant in Grand Rapids, Michigan, to facilitate large-scale production and metal plating of all types of plastic parts. A vital part of the new facility will consist of an extensive research laboratory which will be devoted to developing new plastic plating technology and applications.

Forging and Casting

G+W is a significant producer of forged fittings, flanges and other forged parts. The company supplies these products to the aerospace, chemical, natural gas, petroleum and nuclear power industries. The market for G+W's piping systems and pressure vessels for the energy industries is one of the company's most rapidly expanding manufacturing opportunities.

Through the production capabilities of its Bonney Forge and Taylor Forge operations, Gulf+Western is now an important producer of welding fittings and flanges, special



products for the chemical, petroleum and other process industries, and custom forgings. The division has twenty plants, forty regional sales offices and agents throughout the world, subsidiaries in Canada, the United Kingdom and Italy, and affiliate companies in Mexico and Australia.

A highly automated flange plant—located in Mississippi—began full production during the past year. Also, the Gary, Indiana, plant significantly increased capacity in manufacturing custom forgings, with the addition of four of the most modern rotary hearth forging furnaces in the country.

In addition to the increasing demand for process and energy system products, the demand for custom forgings—forgings made to customer specifications—continues to be strong. With the introduction of future aircraft and the NASA space programs, a continuing upward trend is expected.

G+W also has an extensive capability to produce a variety of castings, particularly casteel (cast-steel). Manufacturing units of the company now make castings for automotive frames and axle housings, power generating units including locomotive turbines, hydraulic presses, and components for such heavy-duty uses as missile launching pads and brake shoes for earth-moving equipment.

Marine Hardware and Metal Stampings

G+W is a leading producer of marine hardware and accessories, an industry with rapid growth stimulated by the upswing in pleasure boating. Through the Wilcox-Crittenden line of products, G+W introduced this year the Marinium® line of marine hardware. This patented process produces a new magnesium-aluminum alloy that is highly resistant to tarnishing, pitting, and peeling. The initial market acceptance of this new line promises a consistent growth trend for the future.

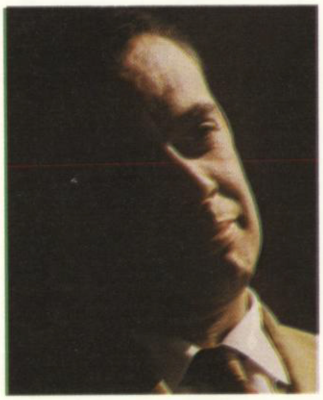
G+W supplies a long list of metal stamped products to the furniture, clothing, and equestrian markets. Fasteners for civilian and military clothing, hardware for saddlery and ranch equipment are a few of the products from plants in Connecticut and Rhode Island.

John A. Morris
President
North & Judd
Marine Hardware Division

Through its Wilcox-Crittenden product line, G+W is a leading producer of marine hardware.

G+W's Global Systems is now manufacturing this new aircraft emergency escape slide for major airlines.

George A. Longtin
President
Mal Tool & Engineering
Prototype Aerospace Division



Richard H. Hahn
President
Airborne Research & Development
Global Systems Division

Maurice P. Koch
President
H. Koch & Sons
Global Systems Division

John T. Soja
President
Rocket Jet Engineering
Global Systems Division

Prototype Aerospace Production

Prototype aerospace production is another G+W operation contributing to the nation's vital aerospace and aircraft programs. This division is a specialized manufacturer of machined component parts and assemblies for jet engines and missiles. While some of the parts and assemblies manufactured by the company are used in operating aircraft, most of the components are designed and produced specifically for use in experimental and development work being done on future aircraft and spacecraft. G+W customers include the country's major jet engine manufacturers as well as companies which are involved in space research. Eight modern G+W plants—three in Connecticut, two in Florida, one in Vermont, one in Illinois and one in Indiana—currently produce parts for the aerospace industry.

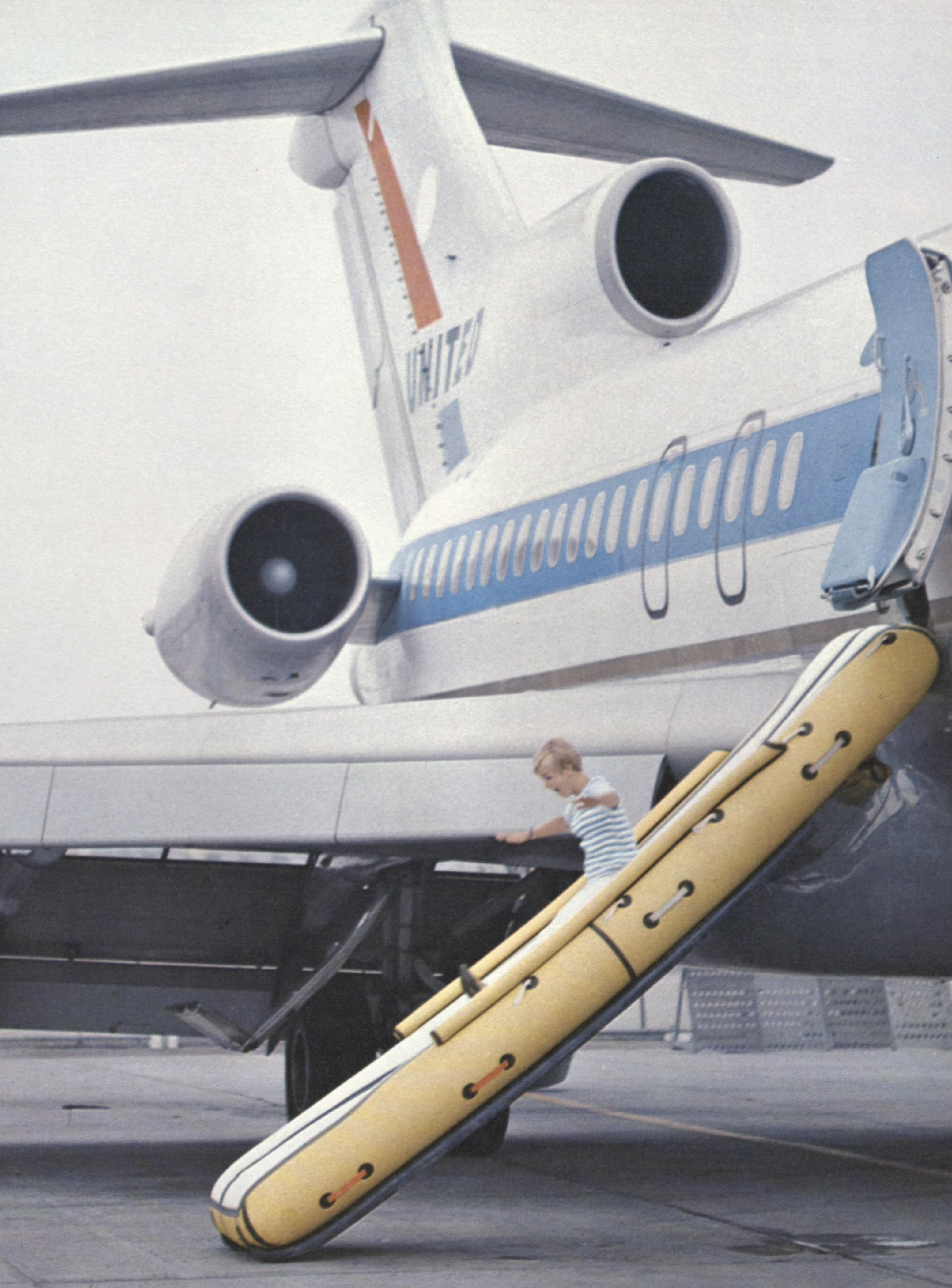
Global Systems

Providing a wide range of equipment and parts for life-support systems is the primary program of the global systems division. Projects of research, development and production to meet both commercial and military requirements are underway in six laboratory/plant facilities in California, Michigan and New York.

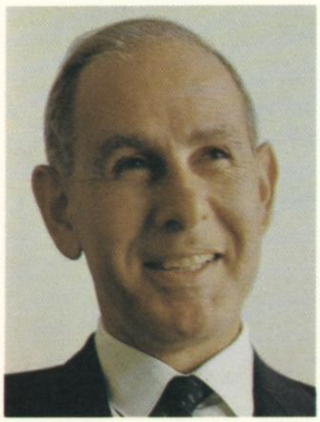
Some of the most significant products and services produced for life-support systems are air crew survival kits, oxygen system components, cryogenic valving and environmental test chambers. The test chambers—used for training purposes—simulate extremes of temperature, wind, altitude, thermal shock and vibration.

With the increasing emphasis on air safety, G+W expects an expanding market for its safety-related products. An example is the development this year of an aircraft emergency escape slide designed for commercial airliners, which has already been sold in quantity to a major airline.

Sophisticated communications technology is now also represented in this group through G+W's International Telemeter Corporation, producer of communications systems, including VHF and UHF color compatible television systems. This operating unit is in the rapidly growing community antennae television (CATV) industry. G+W is building and will soon operate several CATV systems in the United States, and plans are underway to expand this operation with additional systems.


UNITED

Simulating the action of the military tanks which they help keep moving, these electronic capacitors are made by G+W's electrical products plant at Union Springs, N.Y.



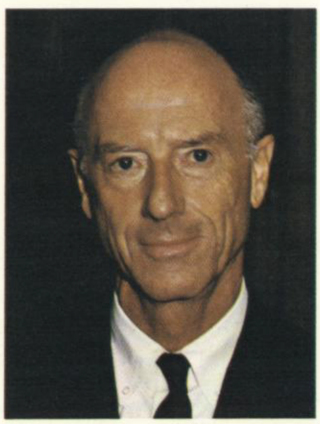
Marco Hecht
President
General Products Corp.
Electrical Products Division

Electrical Products

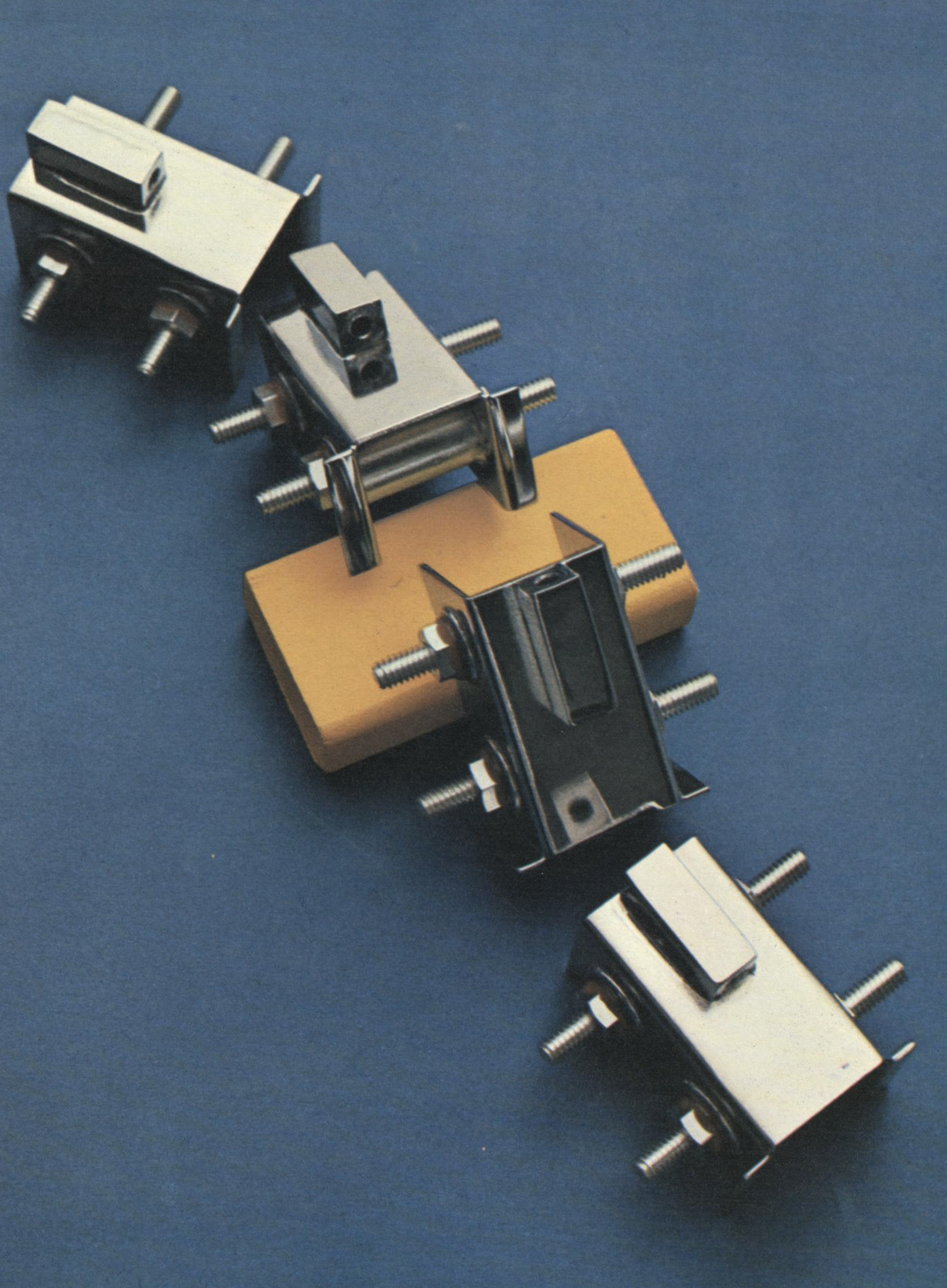
Gulf+Western is one of the country's leading suppliers of ignition system components for the automotive and small engine industries. Condensers, distributor caps, capacitors and metal component housings comprise most of this product line. G+W is also an important supplier of these components in the international market place. Additionally, the company this past year became a significant producer of insulated wire and cable products with the acquisition of Collyer Insulated Wire Company. G+W plants producing ignition system components and insulated wire and cable are located in New York, Connecticut, Kentucky and Rhode Island.

Two new electrical wire products which offer excellent sales potential were introduced this year: a new carburetor tune-up kit, the most complete in the automotive industry, had a highly successful introduction; pollution control valves, an important new line, whose need should continue to increase because of the growing public concern about air pollution, also received wide acceptance.

The electrical components group also manufactures a number of electrical and electronic components for computers, tape recorders and stereo sets.



Robert C. Moeller, Jr.
President
Collyer Insulated Wire
Electrical Products Division

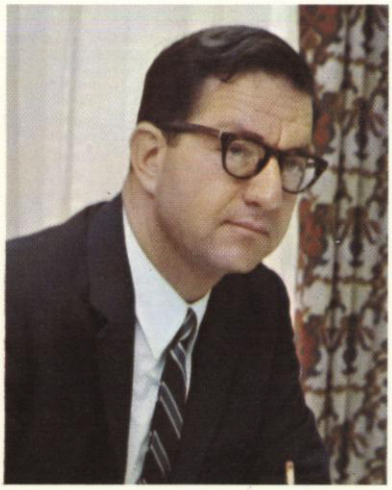


G+W provides quality entertainment for millions in the U.S. and throughout the wo
through the leisure-time group. This complex of operations now covers a broad spectr

Leisure Time

of entertainment media—motion pictures, records, music publishing and television programming. The latter includes such perennial favorites as "The Lucy Show."

The main gate at Paramount's Hollywood studio has for more than fifty years symbolized Paramount's high standing in the motion picture industry. In its first year as part of G+W, Paramount has greatly expanded production of quality feature films.



Martin S. Davis
Executive Vice President
and Chief Operating Officer
Paramount Pictures Corporation

LEISURE TIME

A management precept of Gulf+Western is to enter only those industries that have above-average growth potential, and to make an initial entry by acquiring companies with long records of industry and product leadership. The leisure-time field and Paramount Pictures Corporation met these company requirements.

Paramount Pictures for more than 50 years had been one of the leaders in the motion picture industry. Paramount's world-wide organization now forms the nucleus of G+W's leisure-time complex that includes motion pictures, television, records, music publishing and theatres.

Two important measurements of a free and prosperous society—the amount of leisure time and discretionary income—have greatly increased in the developed nations of the world, and are rapidly increasing in less affluent countries. This increase has created a growing demand for quality motion picture and television entertainment. Gulf+Western is positioned to help meet this demand and to share in the enormous enlargement of the many-faceted leisure-time field.

With new management, enthusiasm and determination, Paramount in the first months as part of G+W, has expanded production, strengthened operations, and has again become a vital segment of the entertainment industry.

The first nine months of the leisure-time group's performance in sales and earnings and expanding activity have more than met G+W's initial growth projections. In calendar 1967, for example, Paramount will release thirty-one new feature films, compared to twenty-one new releases in 1966. The schedule of features that are in varying stages of production during 1967 has increased at an even greater rate over 1966. Increased sales and earnings were also achieved by Famous Players Corporation, Canada's largest motion picture theatre chain, in which G+W owns a majority interest. The music division of Paramount also enjoyed higher sales and earnings.

Through the addition in July of this year of Desilu Productions, one of the most successful producers of television programs, the leisure-time group became better structured to benefit from the closely related growth of the motion picture and television industries. The management and creative talent of Desilu, and its production facilities—adjacent to Paramount's Hollywood studio—have kept Desilu among the leaders in television program production. Combining the Paramount and Desilu management and facilities enhances the growth prospects of the television division.

The leisure-time group is comprised of six operating divisions: MOTION PICTURE PRODUCTION, MOTION PICTURE DISTRIBUTION, TELEVISION, THEATRES, MUSIC, and STUDIO FACILITIES.


Paramount Pictures
IT'S HAPPENING AT Paramount
IT'S HAPPENING AT Paramount
BRONSON AVE. GATE
EXTRAS CHECK IN HERE
INFORMATION 5451 MARATHON

(L) **Robert Evans**
Vice President
Studio Production

(R) **Bernard Donnenfeld**
Vice President
Production Administration

The motion picture version of the Broadway and London stage success, "Half A Sixpence," stars Tommy Steele and veteran actor-comedian Cyril Ritchard. It will be a reserved-seat attraction early in 1968.

(L) **George H. Ornstein**
Vice President
Foreign Production

(R) **Michael F. Flint**
Assistant Vice President
Foreign Production Administration

Motion Pictures

The most significant activity of the leisure-time group is the production, financing and distribution of motion pictures. In the first few months as part of G+W, Paramount's film releases showed substantial improvement in the box office revenues over the same period in the previous year. Feature films released in the first six months of 1967 which paced the increased revenues included *Barefoot in the Park*, *El Dorado* and *Alfie*. Highlighting the success of *Barefoot in the Park* was its establishing new records for the longest run and total dollar gross in the 35-year history of New York's Radio City Music Hall, the world's largest theatre.

PRODUCTION

Paramount has embarked on a major production program of feature films for release in late 1967, 1968 and beyond. The accelerated production schedule utilizes some of the most successful creative talent in the motion picture industry. Many of the world's foremost successful producers, directors and writers are developing a production schedule carefully balanced among a wide range of stories and subjects, covering every entertainment taste. Among the features to be released in 1967 and 1968 are film versions of the Broadway successes, *Half a Sixpence*, with Tommy Steele, and *The Odd Couple*, teaming Jack Lemmon and Walter Matthau; *Blue*, with Terence Stamp; *Will Penny*, with Charlton Heston; *The Bliss of Mrs. Blossom*, starring Shirley MacLaine and Richard Attenborough; *Villa Rides*, starring Yul Brynner, Robert Mitchum and Charles Bronson; *Barbarella*, with Jane Fonda; the best-selling novel *Rosemary's Baby*, starring Mia Farrow; *No Way to Treat a Lady*, starring Rod Steiger, Lee Remick and George Segal; *Romeo and Juliet*, directed by Franco Zeffirelli; and *Smashing Time*, with Lynn Redgrave and Rita Tushingham.

Among many major productions scheduled for release in late 1968, 1969 and beyond are *Darling Lili*, starring Julie Andrews and Rock Hudson; *The Brotherhood*, starring Kirk Douglas and Alex Cord; *Catch 22*, starring Alan Arkin; *Five Card Stud*, with Dean Martin and Robert Mitchum; *On a Clear Day You Can See Forever*, with Barbra Streisand and Richard Harris; and *Paint Your Wagon*, the Lerner and Lowe musical hit.

The expanded feature film program has extended the scope of Paramount's production organization. The strengthened management production teams in Hollywood and London have broadened Paramount's world-wide production capability. Films are being produced in Hollywood, Great Britain and Europe to take advantage of the availability of talent, locale and production economies.

Motion Picture Distribution

Through Paramount, G+W has one of the most extensive distribution organizations in the industry.

The long-running Broadway comedy, "The Odd Couple," is expected to be an even more successful motion picture hit. Starring Jack Lemmon and Walter Matthau, it will be released by Paramount in 1968.

(L) **John T. Reynolds**
President
Paramount Television Division

(R) **Charles Boasberg**
Vice President
Domestic Distribution

(L) **Henri Michaud**
Vice President
Foreign Distribution

(R) **Joseph Friedman**
Vice President
Advertising & Public Relations

Paramount film distribution branches are located throughout the free world. The leisure-time group is also structured to take full advantage of the growing importance of motion picture revenue from foreign markets. Through Paramount's own distribution branches and contracts with independent distributors, Paramount films have distribution in every significant market in the free world.

Television

Gulf+Western is an important part of the dynamic television industry through three operations: the leasing of feature motion pictures for showing on the major television networks, the production of television programs for showing on the major television networks, and the leasing of feature films and television programs for showing on individual television stations throughout the world.

Feature films, initially distributed to motion picture theatres, have become one of the most important sources of quality evening-hour programming for the three major television networks. The 1967-1968 television schedules of the three networks are devoting twelve hours per week of prime-time programming (7:30 P.M. to 11:00 P.M.) to feature films.

The great majority of these films will be leased from the major motion picture producers, including G+W's Paramount. Audience ratings for these feature films are consistently higher than for any other type of entertainment programs. Paramount's substantial film library includes many quality films never shown on television, such as *The Ten Commandments*, *Becket* and *The Carpetbaggers*. Gulf+Western intends to maintain the size and quality of the film library and will not regard it as a depleting asset. To insure increased long-term earnings from both theatre and television showing of Paramount feature films, the number of new feature productions each year—added to the film library after completion of their theatrical runs—and the number of features leased from the Paramount library for television showing will be kept in balance.

PRODUCTION

The production of television program series became an integral part of the leisure-time group with the addition this year of Desilu Productions. Desilu has one of the most distinguished records among the producers of successful television series for network showing. The management, talent and facilities required for the production of motion pictures and television programs are so closely related that the amalgamation of Paramount and Desilu into Paramount Television Enterprises has had immediate benefits to the company. Entering the 1967-1968 television season, G+W will have four prime-time television series on two of the major television networks


(L) **James J. Burke**
Vice President
Finance & Treasurer

(R) **Richard D. Spence**
Assistant Vice President

A new music division, encompassing all of Paramount's extensive interests in recording and publishing, will stress the development of new artists and music composers world-wide.


(L) **Edwin E. Holly**
Vice President
Studio Facilities Division

(R) **Arnold D. Burk**
Vice President
Music Division

—*The Lucy Show* on CBS, *Mission Impossible* on CBS, *Star Trek* on NBC, and *Mannix* on CBS. Three of these programs are renewals from successful runs in the previous season. *The Lucy Show* has been a regular network feature since the 1962-1963 season; *Star Trek* and *Mission Impossible* were introduced in the 1966-1967 season.

TELEVISION SYNDICATION

"Syndicated sales"—the leasing of feature films and television programs to individual television stations in the United States and throughout the world—has been an increasing source of revenue for motion picture and television producers and distributors. Recognizing the importance of this market, the leisure-time group recently organized a television syndication department to handle the leasing of Paramount feature films and television programs. The individual television stations are the "third market" for Paramount's large feature film library and new productions. The company, in addition, has a residual interest in Desilu television series that previously had network showings. These series represent nearly 500 hours of programming available for lease to individual TV stations.

Theatres

Gulf+Western benefits from the increase in motion picture theatre attendance through its 51 per cent interest in the largest theatre chain in Canada, Famous Players Corporation. Famous Players operates 308 theatres in Canada, including a large number in the major urban areas, and has substantial interests in community antenna television systems. G+W also has theatre interests in Great Britain and France.

Music

Music is another important growth field within the leisure-time industry. To capitalize on the long-term upward sales trend in the music field, Paramount's operations in recording and music publishing were consolidated this year under a single management team. The product line of the Paramount music group includes popular single records and albums with popular record labels, such as Dot, and popular sheet music. There will be increased emphasis on recording successful Broadway musicals and the soundtracks of Paramount films.

Studio Facilities

The studio facilities division, headquartered in Hollywood, has been organized to provide production facilities, equipment and servicing for Paramount's own motion picture and television needs as well as for independent producers. The division's main production plant is the consolidated Paramount-Desilu studio complex. The facilities and servicing will enable the maintenance of a continued high level of production quality at all of Paramount's studio properties.


PLAY
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Dm7
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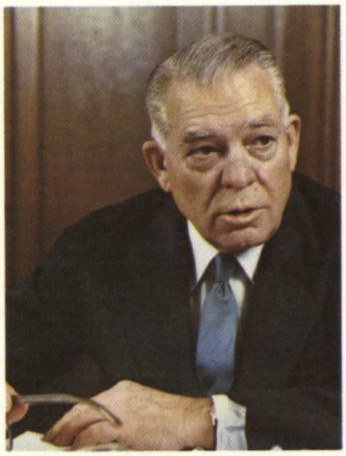
More than 2,300 tons of special high grade zinc from G+W's metals and chemicals group were used to galvanize the main cables of

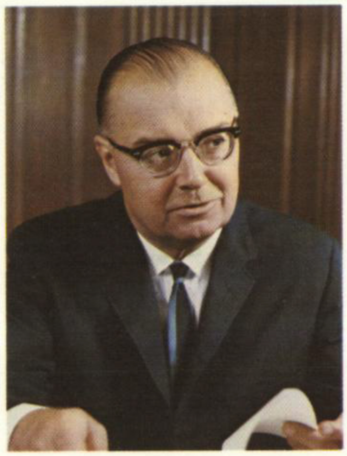
Metals and Chemicals

New York City's Verrazano-Narrows Bridge, longest suspension span in the world

In cooperation with leading manufacturers of paper and office copying equipment, research scientists of G+W's New Jersey Zinc are investigating new photo-conductive zinc oxides that will produce sharper and faster copying papers.



Lindsay F. Johnson
President
The New Jersey Zinc Company
Metals and Chemicals Group



George W. Wunder
Executive Vice President
Metals and Chemicals Group

METALS AND CHEMICALS

Sales and earnings for the metals and chemicals group were lower in fiscal 1967 primarily because of an expected reduction in the price of slab zinc. However, plans for future earnings growth moved forward with the addition of products and expanded exploration. The group's operations are in zinc mining and smelting, refining and processing of metals, and production of a variety of pigments and chemicals.

Mining Operations

G+W operates nine zinc mines at the present time. The nine mines—one each in Wisconsin, New Jersey, New Mexico, Pennsylvania and Colorado and two each in Virginia and Tennessee—produced most of the ore required for the company's two smelters in Pennsylvania and Illinois. Production at the ninth mine—near Elmo, Wisconsin—began in the fourth quarter of the past fiscal year.

Zinc and Titanium Pigments

Demand for zinc oxide remained strong during the past year. One of the principal uses of this pigment is in the manufacture of rubber. Another important new and swiftly increasing use is in photo-conductive paper for office copy equipment. To improve its products to the office equipment industry, G+W broadened cooperative research and development work with major manufacturers of photocopying papers. Sales of another pigment, titanium dioxide, continued at a high rate during 1967. Titanium dioxide is a white pigment used in the manufacture of paint, paper, plastics and other products.

Slab Zinc

Sales of slab zinc during the last half of the fiscal year reacted to generally lower demand from the die casting industry. Sales for galvanizing, however, remained steady. The long-expected drop in the price of zinc occurred on May 1, 1967, but the effect was considerably offset by a continued strong demand for other zinc, titanium and chemical products.

Asbestos

The company's minerals development was extended to include asbestos with the purchase of a majority

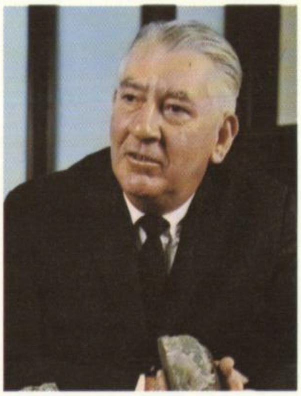

The $1.75 series preferred stock is redeemable by the Company after September 30, 1970 at $65.00 per share and is entitled to $25.00 per share upon liquidation. The $3.50 series preferred stock is redeemable after February 25, 1971 at $100.00 per share and is entitled to $100.00 per share upon liquidation. 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.
57

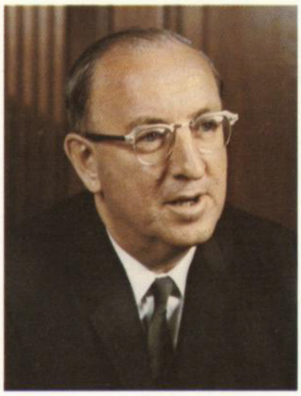
James R. Alexander
Vice President
Sales
Metals and Chemicals Group

Sidney S. Goodwin
Vice President
Mining & Exploration
Metals and Chemicals Group

Neill K. Banks
Vice President
Manufacturing
Metals and Chemicals Group

Herbert J. Passino
Vice President
Research & Development
Metals and Chemicals Group





Titanium dioxide, one of G+W's chemical products, is an agent to increase opacity, brightness and whiteness in paint. The paper, plastics and rubber industries are also important users of this chemical.

interest in Hedman Mines Limited of Canada. Among major users of asbestos are the paper, paving and plastics industries.

New Products

In the past year, G+W increased its manufacturing facilities to provide for the production of two new products. One of these is the fertilizer, diammonium phosphate, which is being produced at a new plant in Depue, Illinois. Inventories are presently being built for the fall and spring fertilizer seasons. This plant has a capacity of 270,000 tons per year. The other new product—liquid carbon dioxide, which has a wide variety of industrial uses, including putting the "fizz" in carbonated beverages—is produced at the Palmerton, Pennsylvania, plant. The entire production of this plant is selling under long-term contracts.

A new zinc ore roaster and a new sulphuric acid plant were completed and put into operation during the year. The entire production of the sulphuric acid plant —which has a capacity of 1,200 tons per day—will be used in the manufacture of diammonium phosphate.

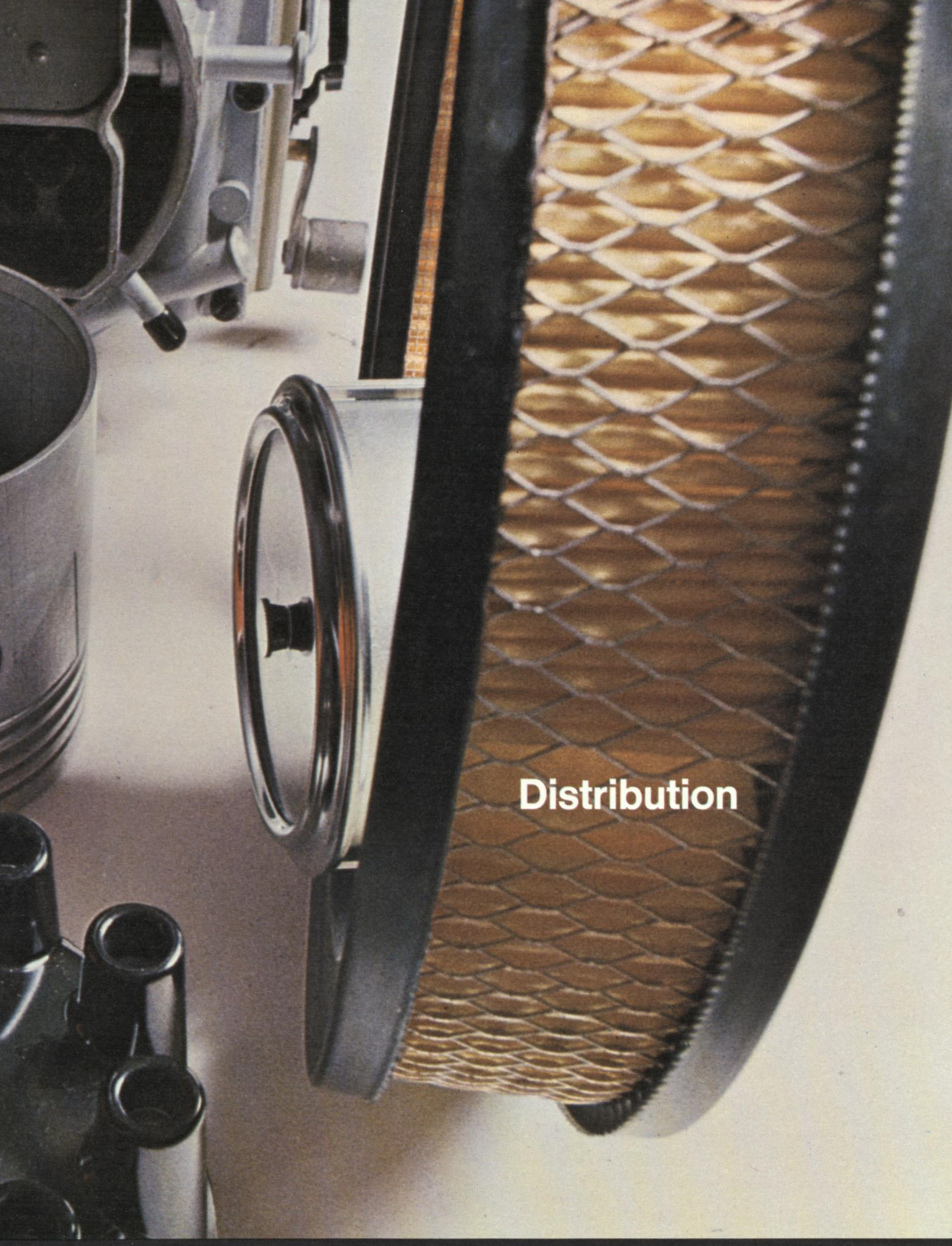
Exploration, Research and Development

During 1967, the company continued aggressive exploration for zinc and other minerals, including copper, nickel, molybdenum and phosphate. Significant additions in proven ore reserves of operating mines were made during the year. Numerous investigations were continued with respect to the economic feasibility of future mine development of other sizable ore reserves.

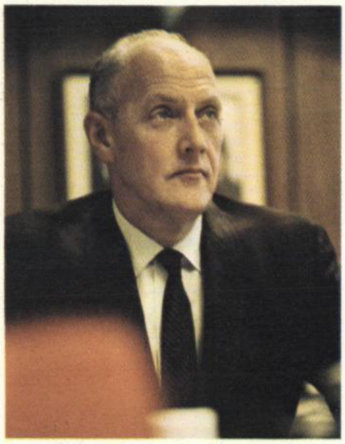
The company's research laboratories completed development of a novel process for producing high quality iron powder. This powder is consumed in making parts under newly developed powder metallurgy techniques. It is expected that the iron powder can be marketed at a price that will encourage significant new applications, particularly in the manufacture of automotive parts.

In a joint venture, design and engineering is well under way, and construction will soon be started for a plant at Sorel, Quebec, to produce 70,000 tons of iron powder annually. The basic iron to be processed into powder will be supplied by Quebec Iron & Titanium Corporation, a company in which G+W has a substantial ownership interest.

The distribution group provides its warehouse and jobber network with a complete line of automotive replacement pa



nd a supporting program of merchandising services



Frank V. Rogers
Vice President
Distribution Group

DISTRIBUTION

Gulf+Western's distribution group continued to register significant gains during the past fiscal year with a new record in sales and earnings. G+W is one of the world's largest merchandisers of automotive parts and also serves the industrial and musical instrument fields. Though automotive parts distribution is the primary activity, industrial equipment and musical instruments are both becoming increasingly significant growth areas for the group.

Automotive Distribution

During the past fiscal year, G+W's American Parts System—the company's automotive distribution division—continued to expand at a rapid rate. This distribution system operates from warehouses located in states across the country. It provides jobbers a complete program of merchandising services, including national brands as well as G+W's own American Parts brands. As part of its overall program, APS also provides jobbers with systematized inventory control, management systems, and sales and promotion assistance. The American Parts System is the fastest growing network of parts wholesalers in the United States.

The American Parts training store in Houston is another service to the more than 650 APS associate jobbers. This store, designed to provide "on-the-job" training for jobber personnel, is the first of its kind in the country. It provides training for managers, salesmen, countermen and machinists. The training center has been so well received by the jobbers that a second center is being planned.

NEW APS PRODUCT LINE

A new and important American Parts product line—Power Flo air and oil filters—was introduced during the year. This line had immediate success; and as this is one of the major lines in a jobber's business, it is expected to continue to produce a profitable volume of sales. Another new line, American Parts Antifreeze, was introduced and is now being distributed throughout the system. With the addition of these two new products, the

For greater penetration at the service station level, the American Parts System has added two important new products: an antifreeze and a full line of Power Flo® air and oil filters.

Unique in the distribution industry is the American Parts training store, a fully-equipped, operating unit in Houston designed to give jobber personnel "on-the-job" training in all aspects of their business.


AMERICAN PARTS
ENERAL SERVICE LINE

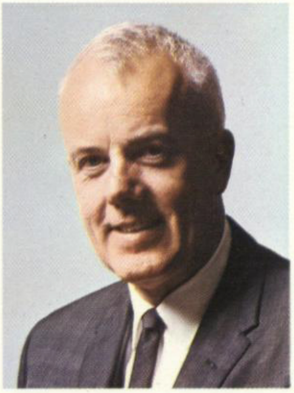
Although the greatest part of the company's distribution business is automotive, G+W has important positions in the distribution of musical instruments and industrial products.

Harold U. Zerbe
President
E. S. Youse Company
Automotive Distribution Division

George Granger
President
Hendrie & Bolthoff Company
Industrial Distribution Division

Everett L. Kelly
Regional Manager
American Parts System
Rocky Mountain Region

Norman B. Parker
President
H. M. Parker & Son
Industrial Distribution Division

The above constitute a management advisory committee for the distribution group.

Sidney Hack
President
Unicord Inc.
Musical Instruments
Distribution Division

"Big A" lines have a greater penetration at the service level than ever before.

As a pilot program, a dealer promotion program consisting of upgrading independent service stations to "Complete Car Protection Centers" was instituted at three locations. These stations were stocked with "Big A" merchandise and provided with a complete merchandising program designed to increase sales to the car owner. This program proved successful and will be expanded to include other market areas during the coming months.

JOBBER EXPANSION PROGRAM

G+W's American Parts System continued to expand its national network of associate jobbers. APS now has more than 650 associate jobbers. During the past fiscal year new warehouse facilities were constructed at Atlanta, Georgia; Omaha, Nebraska; and Great Bend, Kansas, bringing to 31 the total number of automotive distribution warehouses.

Musical Instruments

Gulf+Western is a distributor of musical instruments and related items. The most popular musical instruments distributed by the company include guitars—many with amplifiers—and drums. Basses, organs, tambourines and other instruments are also distributed by the division.

This is a rapidly growing market with the greatest demand for these products coming from the "youth market." With more disposable income, the youth market has become an increasingly important segment of the economy.

Industrial Distribution

The company presently offers strong distribution support to a number of key industries within two broad geographic areas:

On the West Coast, Gulf+Western distributes a complete range of welding products. The company offers this specialized service to the aviation and aerospace industries, the automotive industry, and engineering contractors, particularly those engaged in highway construction and similar projects. All the leading brands of welding equipment are distributed, plus supporting supplies.

In the Rocky Mountain area, the company operates a major industrial and electrical supply business. Industries served include public utilities, industrial maintenance, cement, rubber products, sugar and mining.

Sugar is presently the principal product of G+W's agricultural operations in Florida, the Dominican Republic and Puerto Rico.

Agricultural Products

AGRICULTURAL PRODUCTS

The field of agricultural products is the newest Gulf+Western group.

Every report of the latest population statistics dramatizes the need for more food and the advance of agricultural technology. These needs present the company with both an opportunity and a responsibility to play a small part in helping solve man's age-old problem of nourishing his ever-increasing numbers.

G+W's initial base in agricultural products is the South Puerto Rico Sugar Company, a producer of sugar, citrus, beef and other agricultural products.

Sugar

Sugar is presently the major product in G+W's agricultural operations. This vital nutrient is grown and refined by G+W in Puerto Rico, the Dominican Republic and Florida. The company owns a total of over 400,000 acres of land in these three areas; over 80,000 acres are located in two areas of Florida. Most of this land is devoted to the production of sugar. A substantial majority of the company's sugar is marketed in the United States, where the annual rate of consumption increases steadily.

This group also manufactures molasses as a profitable by-product of its sugar operations.

Citrus

Oranges, lemons and grapefruit are grown in sizable citrus groves which have developed on some of the company's land near Fellsmere, Florida. G+W expects to expand this development in the future.

Cattle

Extensive beef cattle raising is conducted in Florida and the Dominican Republic. Initially a small pilot program, the combined herds number over 30,000 head. The company recently built a meat-packing plant in the Dominican Republic to provide meat products for the local markets.

Furfural

Furfural, another valuable by-product of sugar refining, has developed into an important chemical product. The product has an increasing number of applications in the petroleum and chemical industries. Furfural derivative products, particularly furfural alcohol, have recently opened new markets that promise sales opportunities in the coming year.

Charles S. Lowry
President
South Puerto Rico Sugar Company
Agricultural Products Group

Alvaro L. Carta
Executive Vice President

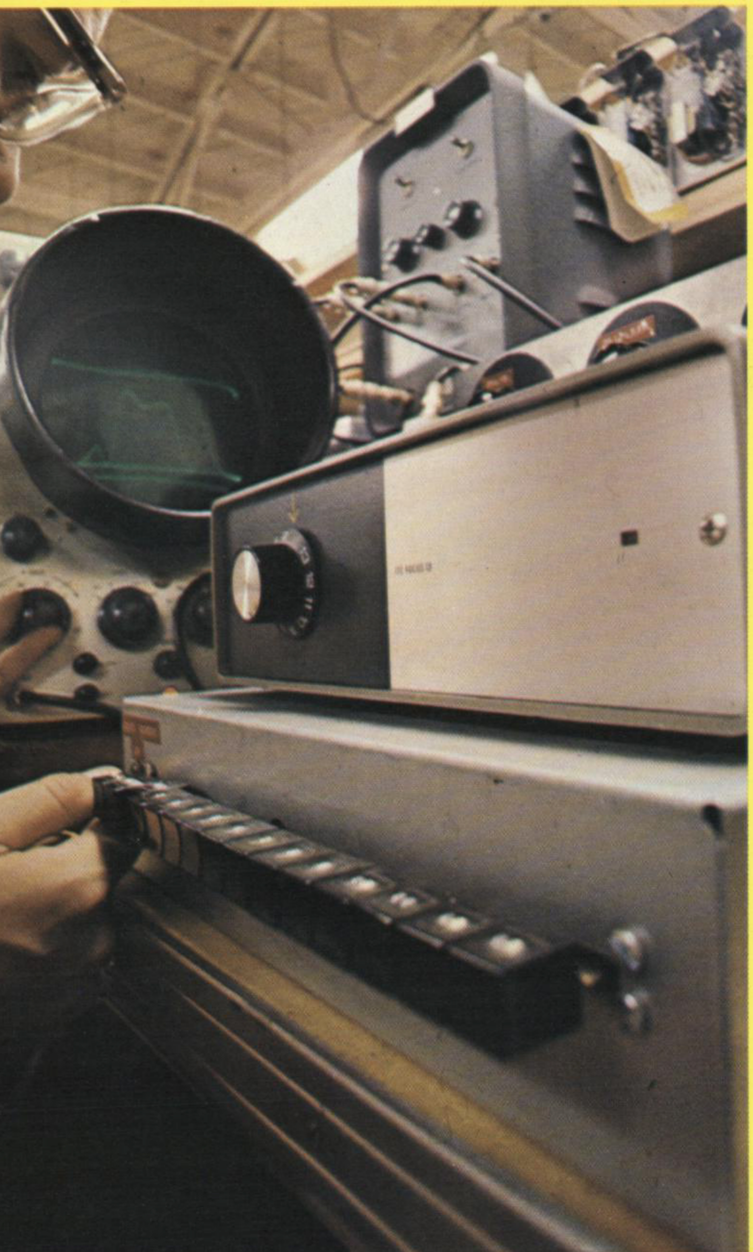
The agricultural products group has developed some 8,000 acres of citrus groves near Fellsmere in Florida's east coast Indian River County. The company is also engaged in cattle raising in Florida and the Dominican Republic.

Communications

and

Electronics

G+W's electronics researchers have developed a number of devices to improve community antenna television (CATV) transmission and reception. Being tested here is the Focus 12, a device which eliminates interference on CATV channels. Another unit, the Plus 13, can increase the number of channels on a set to 25. A third unit, the Gamut 25, both improves reception and adds channels.



The growth fields of communications and electronics are areas in which Gulf+Western is expanding its operations. The special opportunities these fields represent for the company command high management priority. The management of G+W's programs in communications and electronics reports directly to the president of Gulf+Western.

There are presently four principal communications and electronics operations: COMMUNITY ANTENNA TELEVISION (CATV), DEVELOPMENT AND PRODUCTION OF ELECTRONIC EQUIPMENT FOR TELEVISION TRANSMISSION AND RECEPTION, SUBSCRIBER TELEVISION ("PAY TV"), AND COMMERCIAL TELEVISION AND RADIO STATION OPERATIONS.

CATV

Community Antenna Television is one of the most dynamic segments of the communications industry. CATV systems in the United States now serve over 3 million homes. Gulf+Western is part of this burgeoning communications service through its International Telemeter division and its interest in Famous Players Canadian Corporation. Through wholly and partially owned operations, G+W CATV systems in the United States and Canada serve more than 157,000 subscribers. The company now has systems under construction in the United States which will add at least 45,000 more subscribers, and it is actively seeking additional CATV franchises throughout North America.

Chromatron Color Tube

The Chromatron Color Tube is a patented product of International Telemeter. Chromatron makes its first appearance in the U.S. market in 1968 when Sony Corporation of Japan introduces its first color sets.

International Telemeter, a G+W company, has completed work on the engineering and equipment necessary to operate "Pay TV" systems. The company holds a number of key patents, including those for this decoding device which permits subscribers to unscramble programs being transmitted. This company, part of G+W's manufacturing group, has its laboratories in Los Angeles.

The Chromatron tube provides a brighter color picture than the "shadow mask" now used in most color sets produced in the United States.

Sony has an exclusive royalty license for the Chromatron tube in Japan and a non-exclusive license for the rest of the world.

G+W is presently working with a major U.S. television set manufacturer that may lead to use of the Chromatron tube in sets produced by this company.

Subscriber Television ("Pay TV")

There has been increasing public interest in "Pay Television" as a source of entertainment and information. International Telemeter, prior to its becoming part of G+W, had spent several years developing devices and systems for "Pay Television." Two pay-as-you-see Telemeter systems have been developed by this G+W operation, one for over the air transmission and the other for transmission by wire or cable. With its patented equipment, systems, and engineering staff, G+W has the capability to construct and operate "Pay Television" systems on a broad scale.

Television and Radio Stations

Famous Players Canadian Corporation, a company in which Gulf+Western has a substantial ownership interest, operates radio and television stations in five key important market areas: Quebec, Ottawa, Vancouver, Victoria and Kitchener. These stations are sharing in the fast growth of these areas in Canada.

The present profitable operations of G+W in communications and electronics are being expanded to assure the company a role in the exciting future of these fields.

G+W's Internal Earnings Growth

Year Ended July 31	Net Earnings Per Annual Report	Net Earnings of Same Operations for Year Ended July 31, 1967
1962	$ 1,766,000	$ 4,162,000
1963	2,633,000	5,128,000
1964	3,458,000	6,786,000
1965	5,514,000	11,972,000
1966	20,117,000	23,830,000

The above table indicates the internal earnings growth of Gulf+Western Industries for each of the fiscal periods 1962-66 to the present.

The middle column of figures lists the net earnings of those operations that were part of the company as reported for each fiscal year, 1962 through 1966. The last column of figures records the net earnings of the same operations for the 1967 fiscal year. In 1962, for example, the operations within G+W reported total earnings of $1,766,000. These same companies earned $4,162,000 in fiscal 1967. This is an internal growth of 135.7% in five years. Perhaps of more current interest is the fact that the same operations of G+W which provided our reported earnings of $20,117,000 in fiscal 1966 produced $23,830,000 of after tax profit in fiscal 1967, or an internal growth of 18.5% in one year.

Sales of G+W's Operating Groups

	1967		1966-A	
	Amount	Per Cent	Amount	Per Cent
Leisure time:				
Television productions (primarily Desilu) and rentals	$ 87,805,000	13.6%	$ 46,525,000	9.0%
Theatrical rentals and admissions and other	127,886,000	19.9	97,520,000	18.8
	$215,691,000	33.5%	$144,045,000	27.8%
Manufacturing	224,586,000	34.8	181,161,000	34.9
Distribution	102,117,000	15.8	88,400,000	17.0
Metals and Chemicals	86,882,000	13.5	94,957,000	18.3
Agriculture	15,645,000	2.4	10,601,000	2.0
	$644,921,000	100.0%	$519,164,000	100.0%

Note A—1966 has been adjusted to include the operations of companies subsequently acquired in transactions accounted for as pooling and part-pooling of interests.

Consolidated Statement of Earnings

	Year Ended July 31 1967	1966 Note A
REVENUES—Note E		
Net sales	$644,921,051	$519,164,335
Other	11,699,894	8,683,162
	$656,620,945	$527,847,497
EXPENSES AND OTHER DEDUCTIONS		
Cost of goods sold	$453,355,945	$386,953,114
Selling, administrative, and general expenses	103,965,678	83,312,259
Depreciation and depletion	14,121,373	11,800,132
Interest expense	11,523,034	8,226,880
Minority interest in net earnings	1,581,089	2,586,996
Provision for income taxes	25,875,000	12,198,801
	$610,422,119	$505,078,182
NET EARNINGS	$ 46,198,826	$ 22,769,315
Dividends on preferred stock, including amounts that would have been paid on shares issued for pooled and part-pooled businesses	$ 5,786,639	$ 7,238,089
Average common shares outstanding (current equivalent for prior period)	10,337,845	8,434,040
Net earnings (after preferred dividends) per common share	$ 3.91	$ 1.84
PRO FORMA—Net earnings per average common share assuming conversion of all convertible preferred stock and subordinated debt, and exercise of all warrants and stock options	$ 3.02	$ 1.44

See notes to consolidated financial statements.

Consolidated Balance Sheet

ASSETS	July 31, 1967	July 31, 1966 Note A
CURRENT ASSETS		
Cash	$ 36,351,664	$ 32,533,217
Marketable securities, at cost not in excess of market	10,323,809	7,341,546
Trade receivables	110,413,932	74,827,299
Inventories—Note B	221,142,732	162,614,777
Prepaid expenses and other receivables	9,776,191	4,095,748
TOTAL CURRENT ASSETS	$388,008,328	$281,412,587
PROPERTY, PLANT, AND EQUIPMENT, at cost		
Land, buildings, and mines	$226,456,429	$154,869,339
Machinery, equipment, and other	273,363,635	140,427,772
Construction in progress—Note G	6,884,679	8,177,721
	$506,704,743	$303,474,832
Less allowances for depreciation and depletion	225,778,966	147,389,395
	$280,925,777	$156,085,437
OTHER ASSETS		
Investments in affiliated companies—Note A	$ 45,088,954	$ 42,293,779
Receivables due after one year	27,957,526	8,048,025
Deferred costs and intangibles, less amortization, and other	7,458,651	12,388,574
	$ 80,505,131	$ 62,730,378
	$749,439,236	$500,228,402

LIABILITIES AND SHAREHOLDERS' EQUITY	July 31 1967	1966 Note A
CURRENT LIABILITIES		
Notes payable—primarily to banks	$ 54,167,573	$ 38,901,104
Current maturities of long-term debt	3,319,752	1,430,670
Trade accounts payable	67,736,853	60,432,814
Accrued expenses and other liabilities	36,170,988	21,425,280
Income taxes payable	13,422,720	14,205,293
TOTAL CURRENT LIABILITIES	$174,817,886	$136,395,161
DEFERRALS		
Income taxes	$ 43,410,166	$ 25,017,511
Participation payments	10,611,733	9,120,522
Gain on sale of real estate	3,484,303	3,445,892
	$ 57,506,202	$ 37,583,925
LONG-TERM DEBT, less current maturities—Note C	185,274,388	110,804,932
MINORITY INTEREST—in consolidated subsidiaries	19,882,222	23,913,273
CONVERTIBLE SUBORDINATED DEBT—Note C	82,713,790	
SHAREHOLDERS' EQUITY—Note D		
Preferred stock:		
$1.75, convertible	$ 609,098	$ 663,418
$3.50, convertible	1,675,110	2,723,566
$5.75, non-convertible	41,855,700	41,855,700
Common stock, $1.00 par value	11,277,514	9,067,600
Paid-in surplus	47,907,606	37,010,630
Retained earnings—Note C	125,919,720	100,210,197
	$229,244,748	$191,531,111
	$749,439,236	$500,228,402

See notes to consolidated financial statements.

Consolidated Statement of Shareholders' Equity

Balance at July 31, 1966, as previously reported (common stock excludes 477,360 shares held in treasury) . . . .

Acquisition of pooled and part-pooled businesses (net of costs incurred) .

Balance at July 31, 1966—restated—Note A . . . .

Common stock issued:

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

Exercise of stock options . . . .

Conversion of preferred stock (includes cash in lieu of fractional shares)

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

Cash dividends:

Paid on common stock . . . .

Paid and accrued on preferred stock . . . .

Net earnings for the year ended July 31, 1967 . . . .

Balance at July 31, 1967 (common stock excludes 473,075 shares held in treasury) . . . .

*Denotes deduction.
See notes to consolidated financial statements.

Year ended July 31, 1967

Preferred Stock					
at $2.50 a Share		$5.75, non-convertible at $100.00 a share	Common Stock At $1.00 a Share	Paid-in Surplus	Retained Earnings
$1.75 Series	$3.50 Series				
$531,010	$1,125,658		$ 7,114,510	$39,796,962	$ 59,008,293
132,408	1,597,908	$41,855,700	1,953,090	2,786,332*	41,201,904
$663,418	$2,723,566	$41,855,700	$ 9,067,600	$37,010,630	$100,210,197
			273,908	9,309,673	9,881,123*
			260,993	2,934,985	
54,320*	1,048,456*		1,675,013	590,120*	
				757,562*	4,277,257*
					2,433,559*
					3,897,364*
					46,198,826
$609,098	$1,675,110	$41,855,700	$11,277,514	$47,907,606	$125,919,720

Notes

to Consolidated

Financial Statements

Year ended July 31, 1967

Note A—Principles of consolidation and acquisition of businesses

The consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries (with minor exceptions). The Company's investment in its wholly-owned finance company subsidiary, a Canadian corporate joint venture, and its 50 per cent owned subsidiaries is carried at an amount approximately 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. The Company's investment in other corporate stock is carried at cost or less.

During the fiscal year ended July 31, 1967, the Company accounted for six businesses acquired as pooling of interests, one partially as a purchase and partially as a pooling of interests, and four as purchase transactions. The acquisition of businesses accounted for as pooling of interests and part-pooling of interests are those acquisitions of businesses, or portions thereof, for which the consideration given was the stock of the Company. 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. In certain instances, the results of operations of the pooled and the part-pooled businesses included in the 1966 year were restated without audit to conform to the Company's fiscal year. Sales and net earnings of the Company for the year ended July 31, 1966, as originally reported to shareholders were $317,533,071 and $20,116,571.

Note B—Inventories

The amounts of inventories were determined using the following methods:

	1967	1966
Last-in, first-out cost	$ 25,088,489	$ 22,878,080
Lower of cost or market:		
First-in, first-out	43,119,110	33,646,301
Average	27,033,272	18,027,984
Cost, less amortization (predominately theatrical and television films)	104,460,707	88,062,412

Estimated net sales price (commodities, predominately sold but not shipped)	21,441,154	
	$221,142,732	$162,614,777

Note C—Long-term debt and convertible subordinated debt

Long-term debt at July 31, 1967 is substantially unsecured and includes:

Notes payable to institutional investors —primarily 5¾% interest bearing	$123,937,000
Revolving notes payable to banks— variable interest rate (currently 5¾%)	35,000,000
6% non-convertible subordinated debentures	10,000,000
Other interest bearing notes payable to banks and others	19,657,140
	$188,594,140
Less amounts due in one year, classified as current liabilities	3,319,752
	$185,274,388

Convertible subordinated debt at July 31, 1967 includes:

5¼% unsecured debentures convertible into common stock at $47.50 a share—issued July 12, 1967	$ 52,713,790
5¼% unsecured notes convertible into common stock at $52.00 a share— issued March 22, 1967	30,000,000
	$ 82,713,790

The conversion price of convertible debt is subject to anti-dilution provisions and such debt is redeemable over a 15 year period beginning in 1972.

Maturities of long-term debt and convertible subordinated debt during the five years subsequent to July 31, 1967 are:

1968	$ 3,319,752
1969	3,745,139
1970 (includes $35 million in revolving notes)	44,929,874
1971	7,547,588
1972	11,970,583

The Company has complied with restrictions and limitations required under terms of various loan agreements. At July 31, 1967 retained earnings unrestricted as to the payment of cash dividends was $9,961,000.

Note D—Shareholders' equity at July 31, 1967

	Shares	
	Authorized	Outstanding
Preferred Stock:		
$1.75 cumulative, convertible into 3.09 shares of common, redeemable beginning 1970 at $65.00 a share, $25.00 liquidation value, recorded at $2.50 par value	500,000	243,639
$3.50 cumulative, convertible into 3.863 shares of common, redeemable beginning 1971 at $100.00 a share, $100.00 liquidation value, recorded at $2.50 par value	1,500,000	670,044
$5.75 cumulative, non-convertible, redeemable beginning 1971 at $105.00 a share, sinking fund beginning in 1971, recorded at $100.00 liquidation value	750,000	418,557
Common stock (outstanding excludes 473,075 shares held in treasury), recorded at $1.00 par value	25,000,000	11,277,514

Each share of the preferred stock and the common stock is entitled to one vote.

At July 31, 1967, shares of the Company's authorized but unissued stock were reserved as follows: Preferred stock, for exercise of warrants issued in connection with acquisition—$1.75 series, 3,198 shares; $5.75 series, 6,396 shares; Common stock, (1) 588,669 shares for employees' stock options, (see summary) (2) 558,556 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 249,556 are exercisable at approximately $8.58 each and 309,000 are exercisable at $25.89 each, (3) 762,727 shares for conversion of $1.75 series preferred stock of the Company,

(4) 2,588,380 shares for conversion of $3.50 series preferred stock of the Company, and (5) 1,686,687 shares for conversion of 5¼% subordinated debt.

The Stock Option Incentive Plans provide for the issuance of qualified options to officers and other key employees to purchase common stock of the Company at a price not less than the fair market value on the dates the options are granted. A summary of changes affecting the number of shares of common stock reserved for stock options is as follows:

	Options Outstanding		Shares
	Total Option Price	Number of Shares	Reserved For Future Options
Balance at August 1, 1966	$4,165,230	281,521	327,804
Granted	5,772,500	198,225	198,225*
Assumed in connection with acquisition of businesses	3,367,356	216,893	
Increase for 3% stock dividend		17,640	6,376
Exercised	3,195,978*	260,993*	
Rescinded	588,781*	24,156*	23,584
Balance at July 31, 1967	$9,520,327	429,130	159,539
Exercisable at July 31, 1967	$ 733,499	53,124	

*Denotes deduction.

Note E—Revenues

See page 52 for a summary of the net sales of the Company's operating groups.

Other revenues include investment income such as gains on sales of real estate and securities, dividends and interest; and the Company's equity in the net earnings of its unconsolidated affiliated companies mentioned in Note A.

Note F—Proposed acquisitions and events subsequent to July 31, 1967

On October 10, 1967, the Company agreed to purchase approximately 30% of the outstanding capital stock (1,419,132 common shares) of Universal American Corporation for approximately $39,000,000, in cash, notes and convertible subordinated debentures.

The Boards of Directors of the Company, Universal American Corporation, E. W. Bliss Company and Consolidated Cigar Corporation have agreed in principle on the acquisition of Universal, Bliss and Consolidated by the Company. The proposed acquisitions are subject to approval by the shareholders of Universal, Bliss and Consolidated and the approval of the shareholders of the Company of an increase in the number of authorized shares of $2.50 par value, convertible preferred stock. A Proxy Statement describing the proposed acquisitions and proposed share increase will be mailed to shareholders in the near future.

Note G—Commitments and contingencies

The aggregate annual rental obligations on leases in effect at July 31, 1967 approximates $3,191,000. Many of the leases also require the lessee to pay property taxes, insurance, and ordinary repairs and maintenance. Leases held by certain Canadian motion picture theatre operating companies also provide for additional payments based on a percentage of gross receipts. The leases have varying terms up to twenty years.

Contributions to various pension and profit-sharing plans during the year ended July 31, 1967 were $4,161,000. The contributions to pension plans include amortization of prior service cost, generally over a thirty-year period. The Company's policy is to fund pension cost accrued. Estimated unfunded past service costs at July 31, 1967 were $34,176,000.

Estimated cost to complete construction in progress at July 31, 1967 was $7,216,000.

The Company is contingently liable for an indeterminable amount as defendant in certain antitrust and other suits which also involve other major motion picture companies. In the opinion of counsel, individually and in the aggregate, these antitrust suits are without substantial merit and should not result in judgments against the Company or any of its subsidiaries which in the aggregate would be material in relation to the Company's assets.

Report of Independent Accountants

To the Shareholders and Board of Directors,
Gulf+Western Industries, Inc.

We have examined the consolidated financial statements of Gulf+Western Industries, Inc. and its consolidated subsidiaries for the year ended July 31, 1967. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of a significant consolidated subsidiary, which statements were examined by other independent accountants whose report thereon has been furnished to us.

In our opinion, based upon our examination and aforementioned report of other independent accountants, 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, 1967, and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Ernst & Ernst

Houston, Texas
October 18, 1967

Financial Highlights of Ten Years of Operation

	1967	1966	1965
Operating Results—year ended July 31,			
Net sales	$644,921,000	$317,533,000	$182,079,000
Earnings before taxes on income (excluding minority interest)	70,989,000	29,624,000	10,014,000
Net earnings	46,199,000	20,117,000	5,514,000
Net earnings per average common share outstanding—Note B	3.91	2.75	.83
Cash flow per average common share—Note B	5.27	4.20	1.20
Depreciation, depletion, and amortization	14,121,000	9,323,000	2,435,000
Financial Position—July 31,			
Working capital	$213,190,000	$ 66,597,000	$ 38,401,000
Net property, plant, and equipment	280,926,000	115,656,000	28,785,000
Total assets	749,439,000	294,239,000	104,096,000
Shareholders' equity	229,245,000	107,576,000	37,251,000
General Statistics			
Number of shareholders:			
Common stock	26,400	7,600	5,100
Preferred stock	24,600	4,800	
Capital expenditures	$ 53,074,000	$ 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 1967 would have been as follows:

	Net Sales	Net Earnings	Net Earnings Per Common Share
1966	$519,164,000	$22,769,000	$1.84
1965	469,733,000	19,360,000	1.39

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
.58	.50	.39	.24	.16	.15	.01
.79	.68	.55	.38	.25	.25	.11
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, 1967, and for three-for-one stock split effective July 1, 1966.

NOTE C—Excluding net special gain of $1,427,000 or $.24 a share in 1964; $152,000 or $.04 a share in 1961; and $145,000 or $.05 a share in 1960.

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Gulf+Western Industries, Inc.

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E. S. Youse Company, Inc., Reading, Pennsylvania
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JAMES J. SHAW, *Vice President*
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WILLIAM M. FLATLEY, *Controller*

Stock

Gulf+Western Common, $1.75 series, $3.50 series and $5.75 Sinking Fund Preferred Stocks are listed on the New York Stock Exchange

Transfer Agent

The Chase Manhattan Bank
1 Chase Manhattan Plaza
New York, New York 10005

Registrar

Manufacturers Hanover Trust Company
350 Park Avenue
New York, New York 10022

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With the addition in July of Desilu Productions Inc. to G+W's leisure-time group, the company now can provide a broad range of production services for its own motion picture and television divisions, as well as for independent producers.


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