Industrial Products / Precision Engineering / Systems / Metals Forming / Financial Services / Metals and Chemicals / Leisure Time / Consumer Products / Distribution / Food Products / Forest Products /

Gulf+Western annual report 1969

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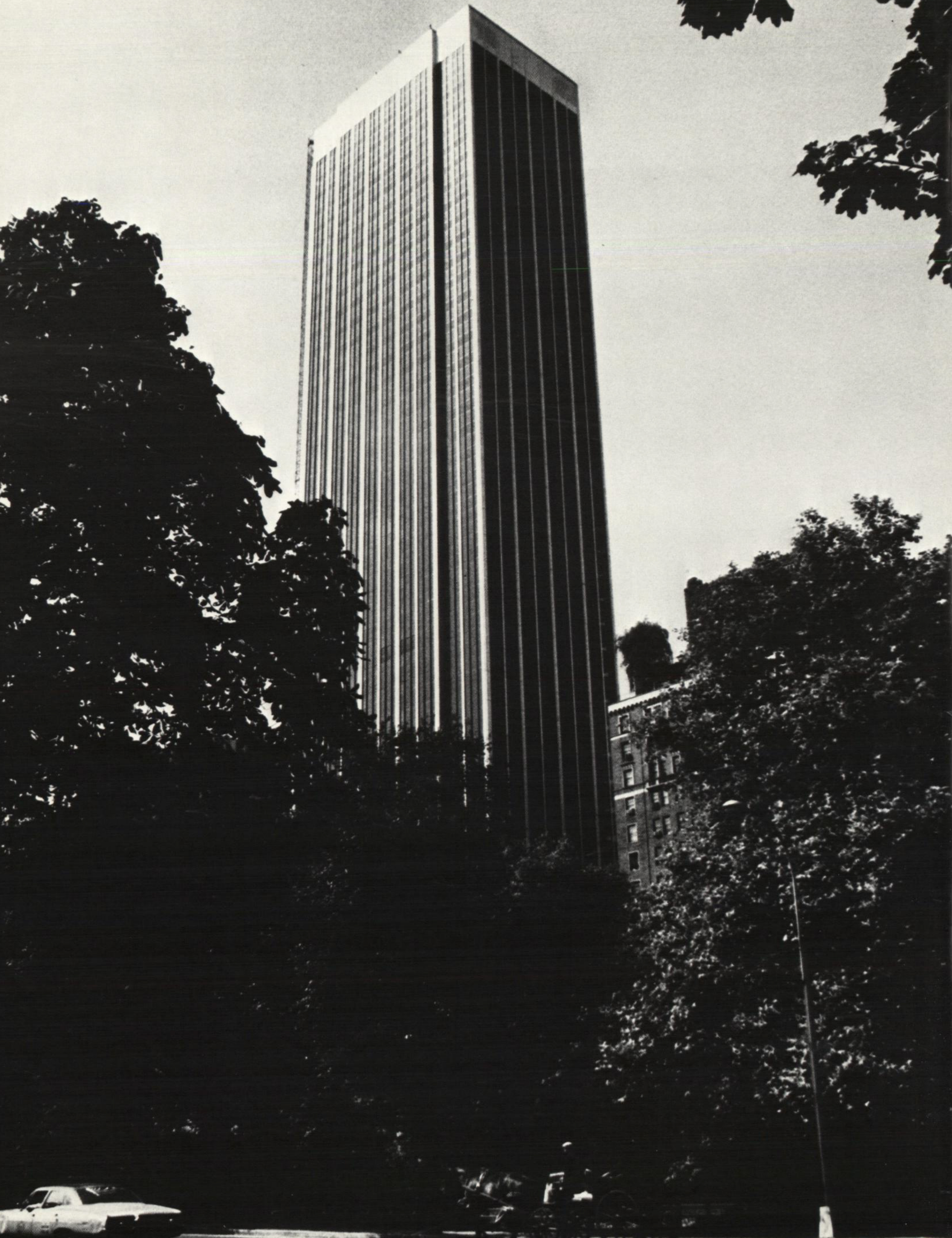
for fiscal year
ended July 31

GULF+WESTERN INDUSTRIES, INC.
437 MADISON AVENUE
NEW YORK, N.Y. 10022



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The new Gulf+Western headquarters building rises 44 stories above Manhattan's Columbus Circle and Central Park. The move to the building will be made in 1970.

GULF+WESTERN INDUSTRIES, INC. AND SUBSIDIARIES
FINANCIAL HIGHLIGHTS

	1969	1968 Adjusted For Pooled Acquisitions
Net sales and other operating revenues	$1,563,564,000	$1,330,565,000
Net earnings	72,050,000	70,366,000
Net earnings excluding gains on sales of securities	50,982,000	67,732,000
Primary earnings per share:		
Net earnings	3.15	3.13
Net earnings excluding gains on sales of securities	2.15	3.00
Fully diluted earnings per share:		
Net earnings	2.67	2.74
Net earnings excluding gains on sales of securities	2.00	2.64
Working capital	576,510,000	471,653,000
Total assets	2,172,027,000	2,061,298,000
Shareholders' equity	590,066,000	541,144,000
Book value per common share	23.16	19.99
Cash flow (net earnings, depreciation and depletion)	113,504,000	99,490,000
Cash flow per average common and common equivalent share	5.12	4.55
Capital expenditures	72,825,000	61,746,000

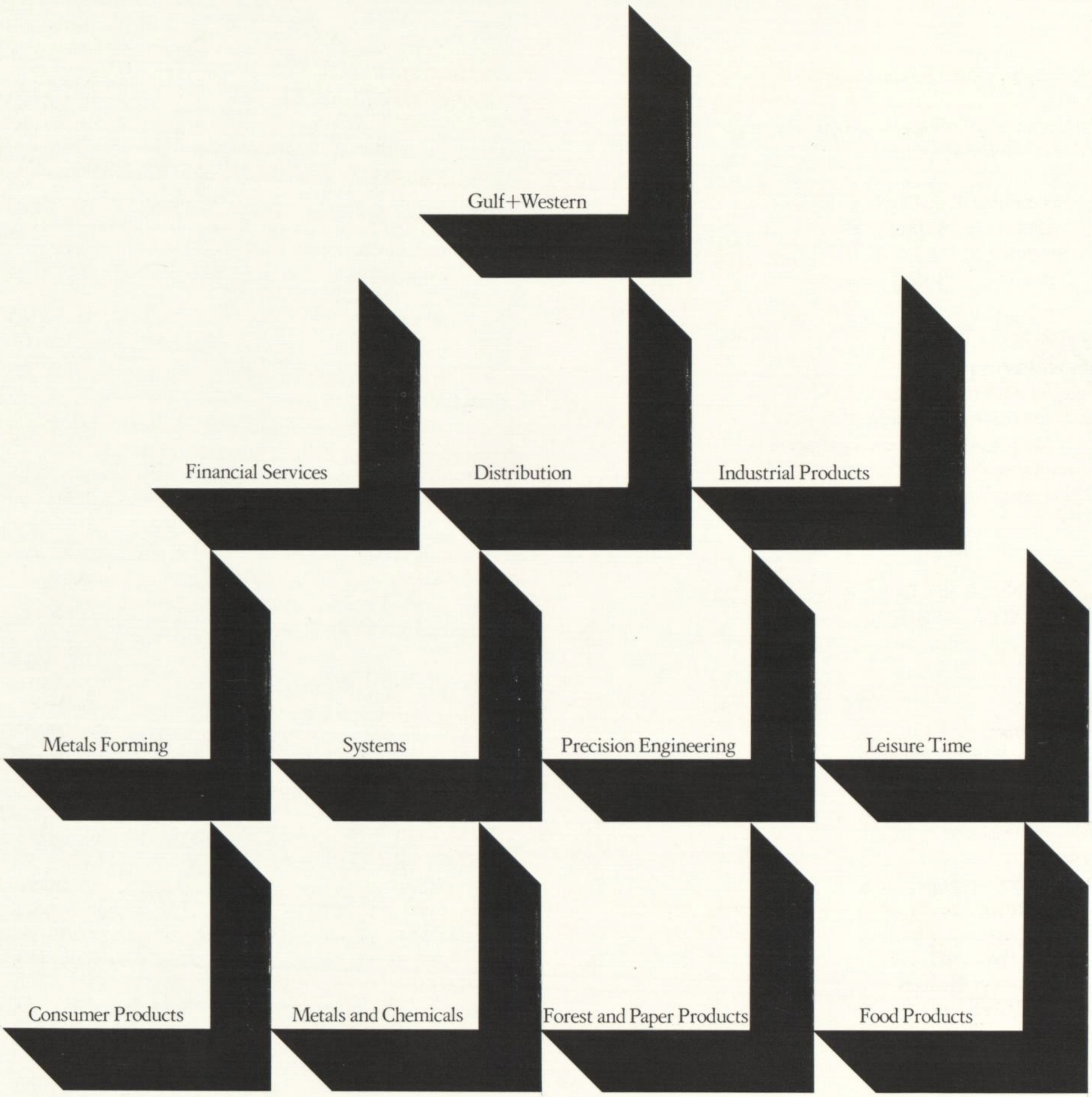
SALES AND OTHER OPERATING REVENUES OF OPERATING GROUPS

	1969	1968 Adjusted For Pooled Acquisitions
Leisure Time:		
Theatrical rentals, admissions and other	$ 184,403,000	$ 141,500,000
Television productions and rentals	39,561,000	83,424,000
	$ 223,964,000	$ 224,924,000
Industrial Products	267,167,000	289,292,000
Systems	158,390,000	153,093,000
Precision Engineering	82,035,000	98,566,000-A
Metals Forming	153,341,000	129,287,000
Food Products	77,781,000	66,432,000
Consumer Products	154,220,000	154,972,000
Forest and Paper Products	194,498,000	—
Metals and Chemicals	110,068,000	100,626,000
Distribution	128,709,000	106,826,000
Realty	13,391,000	6,547,000
	$1,563,564,000	$1,330,565,000

Sales and other operating revenues exclude revenues of Gulf+Western's unconsolidated affiliates, primarily the Financial Services and Insurance Group (Associates Investment Company). See Notes A and D of Notes to Consolidated Financial Statements on pages 26 and 27.

Note A—includes sales ($18,053,000) of a business subsequently sold.

GULF+WESTERN OPERATING GROUPS



TO OUR SHAREHOLDERS:

The first interruption in the growth of operating earnings in the company's 12-year history made fiscal 1969 a disappointing year for Gulf+Western. Sales and total net earnings including securities gains, however, reached record levels. The year saw further moves to strengthen the company's management, products and basic structure.

For the year ended July 31, 1969, earnings, excluding gains from the sales of marketable securities, were $51 million compared with $67.7 million for the prior year. Total net earnings, including $21.1 million from gains on sales of securities, were $72.1 million. This compared with $70.4 million, including $2.6 million from gains on securities sales, in fiscal 1968. Sales increased to a record $1.56 billion, up from $1.33 billion in fiscal 1968.

Primary earnings per share for 1969, excluding gains from securities sales, were $2.15 compared with $3.00 for the prior year. Including gains from securities sales for both years, earnings per share were $3.15 in 1969, compared with $3.13 in 1968. Primary earnings-per-share figures are based on the assumed conversion of the Series A and B preferred stocks.

Fully diluted earnings per share for 1969, excluding gains from securities sales, were $2.00 compared with $2.64 for the prior year. Including gains from securities sales for both years, earnings per share were $2.67 compared with $2.74 in 1968.

ADVERSE CONDITIONS

The reasons for the decline in operating earnings were linked to specific adverse conditions that occurred in some operating groups. Among them were:

— Two costly strikes at the Bliss Company, the effects of which lingered throughout the year.

— Increased labor, manufacturing and product introduction costs at Consolidated Cigar Corporation without offsetting, industry-wide price increases.

— A run of low-grade ore at some of New Jersey Zinc's mines, together with a continuing soft price structure for its agricultural chemicals.

— Postponement by Paramount Pictures of the leasing of feature films to network television and the change to a new accounting method for film inventory valuation; the latter resulted in a $22 million reduction in pre-tax income.

These conditions all converged to penalize operating earnings in fiscal 1969. The problems were largely transitory in nature. Most are either behind us or are in the process of correction.

POSITIVE PERFORMANCE

The year also saw progress. The Distribution Group again achieved record sales and earnings. Distribution's American Parts System enlarged its network of wholesale and retail automotive parts outlets to nearly 800. Associates Investment continued its solid performance in financial services and insurance. Sales and profits rose in the Food Products Group, primarily from increased cane production and higher sugar sales in the more stable U.S. market. The Forest and Paper Products Group began a turnaround in 1969 and realized a profit for the last six months of the fiscal year.

Overall, fiscal 1969 was a time of transition for your company. In the previous year Gulf+Western had virtually doubled in size, making it the nation's 69th largest industrial corporation. This surge in growth created opportunities; it also posed problems and responsibilities. Gulf+Western's management knew that once the company had reached this size its future success would turn largely on the ability to generate growth from within. To that end last year the company:

— Realigned its $700 million manufacturing operations into four groups—Industrial Products, Systems, Metals Forming and Precision Engineering. This action ensures optimum use of Gulf+Western's research, production, management and marketing resources for the company's more than 900 products.

— Attracted able, motivated men committed to the principle of success. These executives are now at work adding experience and depth to the management of companies including Consolidated Cigar, the Brown Company and Paramount Pictures.

— Launched new product lines and services ranging from aircraft guidance systems to flavored cigars, from comprehensive insurance packages to precision cutting tools.

— Expanded production facilities in some of the high-technology activities of the company such as plated-plastic automotive parts, heat transfer systems, public safety and traffic control equipment, and custom-made items for the aerospace and energy industries.

To do all these things and more requires substantial resources. Your company has never been in a stronger financial position. Gulf+Western begins fiscal 1970 with an annual cash flow of $114 million, working capital of $577 million, shareholders' equity of $590 million and assets of $2.2 billion. The company's investment portfolio of marketable securities, which returned a sizable profit in 1969, had a market value of $214 million at the beginning of the current fiscal year.

A GUIDING PHILOSOPHY

As a stockholder in Gulf+Western you have seen a decline in recent months in the market price of your investment. Part of this was due to an erosion in the prices of practically all securities. Another factor was the question raised in some quarters about the role of the conglomerate form of corporation. Gulf+Western was created and shaped by the economy it serves. Through diversification it is in a strong and flexible position to produce a wide range of goods and services demanded by that economy. The future worth of your investment will be based on intrinsic values and operating performance.

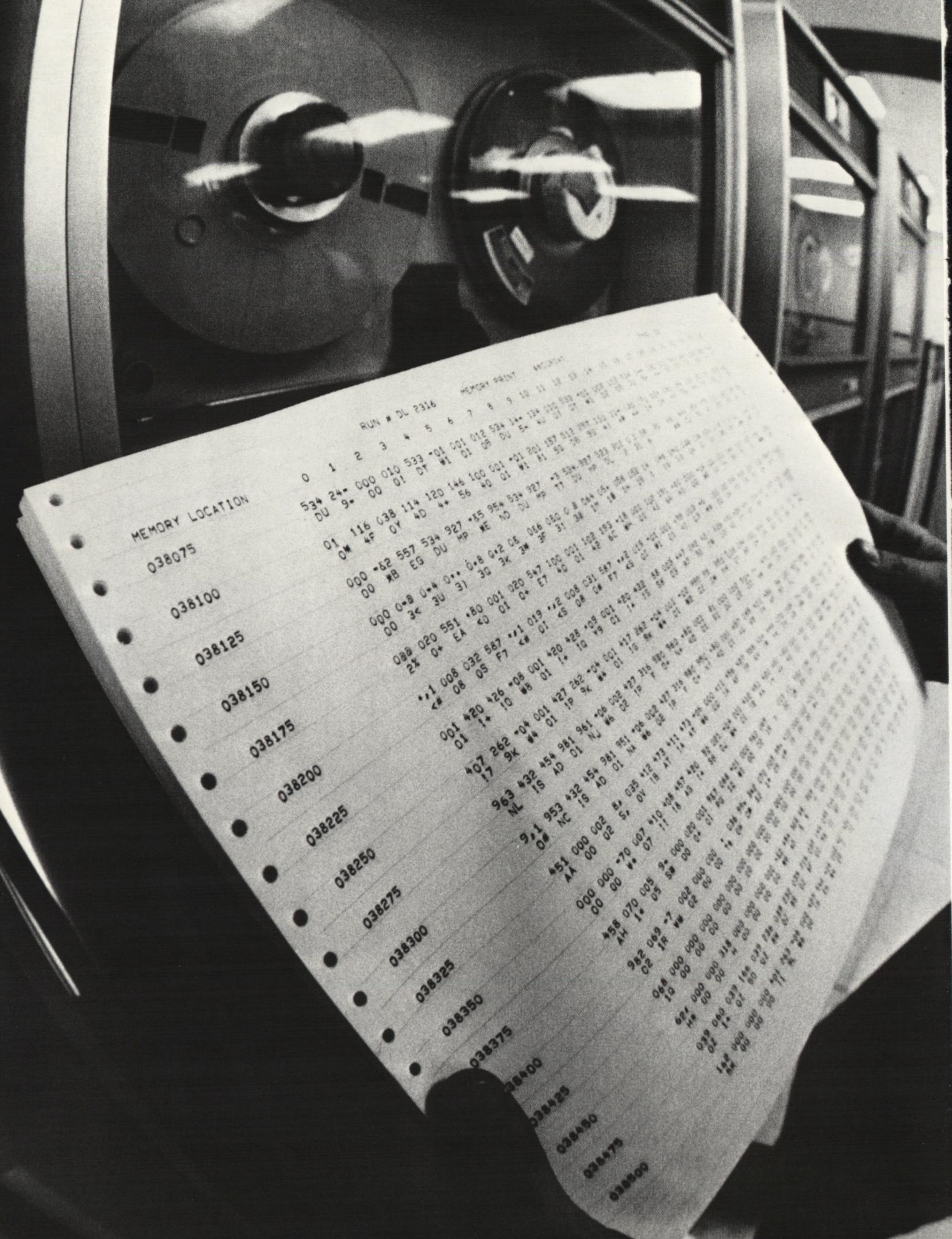
We begin the 1970's with high expectations. Behind these lie the substantial physical resources of Gulf+Western's recently-expanded asset base, as well as resources of another kind, the skills of the company's 85,000 employees. Binding these resources together into a distinctive corporate entity is the philosophy that has guided Gulf+Western from the beginning: to build, to compete, to excel.

The company's assets, experience and determination are the qualities that make us confident we shall achieve our aim. In fiscal 1970 that aim is to resume Gulf+Western's historic pattern of earnings growth.

Charles G. Bluhdorn
Chairman of the Board

David N. Judelson
President

Oct. 30, 1969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FINANCIAL SERVICES AND INSURANCE

In its first full year as part of Gulf+Western, Associates Investment Company diversified and strengthened its financing and insurance services to meet the needs of an expanding economy and a growing population. One of the nation's leading financial institutions, Associates has a network of 1,000 offices in the United States, Canada and Puerto Rico. The company has more than $2 billion in assets and over a half-century of experience.

During the year Associates broadened the range of its commercial and industrial lending activities. The company stressed the financing of heavy-duty trucks, mobile homes and farm equipment while reducing its commitment of funds to less profitable areas. Associates also makes commercial loans on fixed assets, inventories and accounts receivable. The American consumer is relying more and more on installment credit—and on Associates. The company made a record number of personal loans last year.

Associates has enlarged the scope of its insurance activities. For the first time the company can offer the public a full line of insurance—automobile, life, fire, casualty, ocean and marine, and group life, accident and sickness.

The banking activities of Associates are conducted by the First Bank and Trust Company of South Bend, a full-service commercial bank with deposits of $144 million.

In fiscal 1969 a subsidiary, Associates Plans, Inc., continued to research and develop a different approach to financial services—the total package concept. Among these programs are:

- For the employee: *Aegis,* already available in Indiana and scheduled for nationwide expansion, applies mass merchandising techniques to the sale of group insurance. In one package *Aegis* can provide automobile and passenger, home owners, personal property and life insurance.
- For the professional man and woman and the credit card holder: By direct mail Associates offers lines of credit to members of a prominent professional association and subscribers to a leading credit card company.
- For the traveler: Associates Service Club of North America, Inc., a unique idea in motor clubs, provides hotel and motel reservation insurance, discounts on merchandise and automobile rentals, towing coverage and bail bond protection.
- For the student: College Aid Plan, now in its second year of operation, finances all costs of a higher education.

In the decades ahead the demands for consumer and commercial credit, as well as for comprehensive insurance protection, will keep pace with the sharp uptrend in new family formations and business expansion. Through Associates, Gulf+Western can participate in the opportunities offered by these trends.

DISTRIBUTION

Another year of progress was the story in fiscal 1969 for Gulf+Western's Distribution Group. The heart of the group is the American Parts System, Inc. (APS), one of the leading independent companies in the $13 billion-a-year automotive replacement parts market. Highlights of the year for APS were:

- A 25% increase in sales over fiscal 1968.
- The addition of 114 new affiliated jobber outlets, bringing to nearly 800 the number of small, independent businessmen with whom APS is in partnership.
- The opening of a $500,000 regional distribution center in Minneapolis to serve a five-state area. The center will handle a $1 million inventory of APS's "Big A" brand and other replacement parts. This brought to 34 the number of APS regional warehouses and to 40 the number of states served by APS. Another warehouse is scheduled for completion in Des Moines during fiscal 1970.

To capitalize on the growing market for competition-style parts and equipment, estimated to have a yearly sales potential of between $1 and $2 billion, APS began setting up "high performance" corners in its outlets. These cater to drivers from 18 to 30.

The group also includes Warehousing Service, Inc., a major supplier of replacement parts for imported cars. During fiscal 1969 Warehousing Service rounded out its line of parts to become a complete supplier for the foreign car market in the United States.

Gulf+Western continues to bring fresh ideas to auto parts distribution. Recognizing that more than half of all automotive parts jobbers had no salesmen calling on potential customers, APS began recruiting and training full-time parts salesmen, thus bringing a new degree of professionalism to the industry.

Distribution is the business that binds the American economy together. In Gulf+Western's early years it was the business that bound the company together. It was on the basis of a scientific approach to distribution that the company built its American Parts System from a few small companies into the multi-million-dollar operation that it is today. With 103 million vehicles now on U.S. roads and an estimated 127 million by 1975, the automotive replacement parts market will experience lively growth. Because of its experience and know-how, American Parts System will share fully in the aftermarket's future.

The computer center at Associates Investment's South Bend, Indiana, home office keeps track of over 800,000 loan accounts.

INDUSTRIAL PRODUCTS

As a producer of machinery and materials for industry through the Industrial Products Group, Gulf+Western strengthened its position in the vital manufacturing sector of the U.S. economy in fiscal 1969.

The Automotive & Appliance Manufacturing Division, a supplier of bumpers, grilles and other body parts to the automotive industry in the U.S. and Canada, booked record business for fiscal 1970. For the first time in the Division's history it produced all of the front-end assembly—from bumper to hood latch—for a single model, the 1970 Chrysler Imperial.

Gulf+Western is in a strong position to take advantage of an emerging trend in the automotive industry: the use of chrome-plated plastics for exterior body parts. Plated plastics have three distinct advantages—lighter weight, lower cost and higher rust resistance. The Division has a unique method of electroplating plastics and possesses the ability to supply chrome-plated plastics in quantity.

As a result, last year it received the first major orders for such parts. Gulf+Western-produced, chrome-plated plastic grilles appear on the 1970 Ford LTD and Fairlane, the 1970 Oldsmobile Toronado and the 1970 American Motors' Hornet. The completion of a 105,000 sq. ft. plant in Grand Rapids, Michigan, more than doubles the Division's output of these components.

With financial backing from Gulf+Western, the Automotive & Appliance Manufacturing Division has moved to correct a perennial, industry-wide problem. Traditionally the summer months are a money-losing, shut-down period for parts suppliers while car makers tool up for the next year's models. With the cooperation of the automobile companies, the Division began in the summer of 1969 to produce new car parts on a year-around schedule. This smooths out fluctuations in the production cycle and allows the most economic and profitable use of the Division's facilities.

Beyond this, the Division is experimenting with new processes using injection-molded plastics to make major appliance parts and entire automobile body sections. Tests also are under way to explore the feasibility of employing plastics in making basic items for the housing industry.

At the E. W. Bliss works in Salem, Ohio, construction began on a 100,000 sq. ft. addition that will cost $6 million. The expanded plant will centralize and increase Bliss' capacity to build rolling mills and large presses. The Bonney Forge Division enlarged its operations in Scotland and Italy to gain greater sales opportunities in European markets.

Gulf+Western's Industrial Products Group is an example of how financial support combined with experience can put under-utilized resources to work.

At Taylor Forge's Gary, Indiana, plant a loss in 1968 was turned into a profit in 1969 with the installation of three forging hammer complexes and sixteen heat-treating furnaces. A metallurgical laboratory, one of the most modern in the forging industry, was added to enable Taylor Forge to perfect uses for exotic, space-age metals.

METALS FORMING

Bohn Aluminum & Brass Company, the nucleus of Gulf+Western's Metals Forming Group, maintained its position as an innovative leader in the air conditioning and refrigeration industries last year. Bohn is a producer of custom-designed evaporators, condensers and other heat transfer units, including coils for frost-free refrigerators, as well as air conditioning, refrigeration, and heating units and systems. Among its customers are hotels, motels, office buildings and industrial plants. Conservative forecasts indicate that the $4.5 billion-a-year air conditioning business should sustain its impressive growth rate of the past decade.

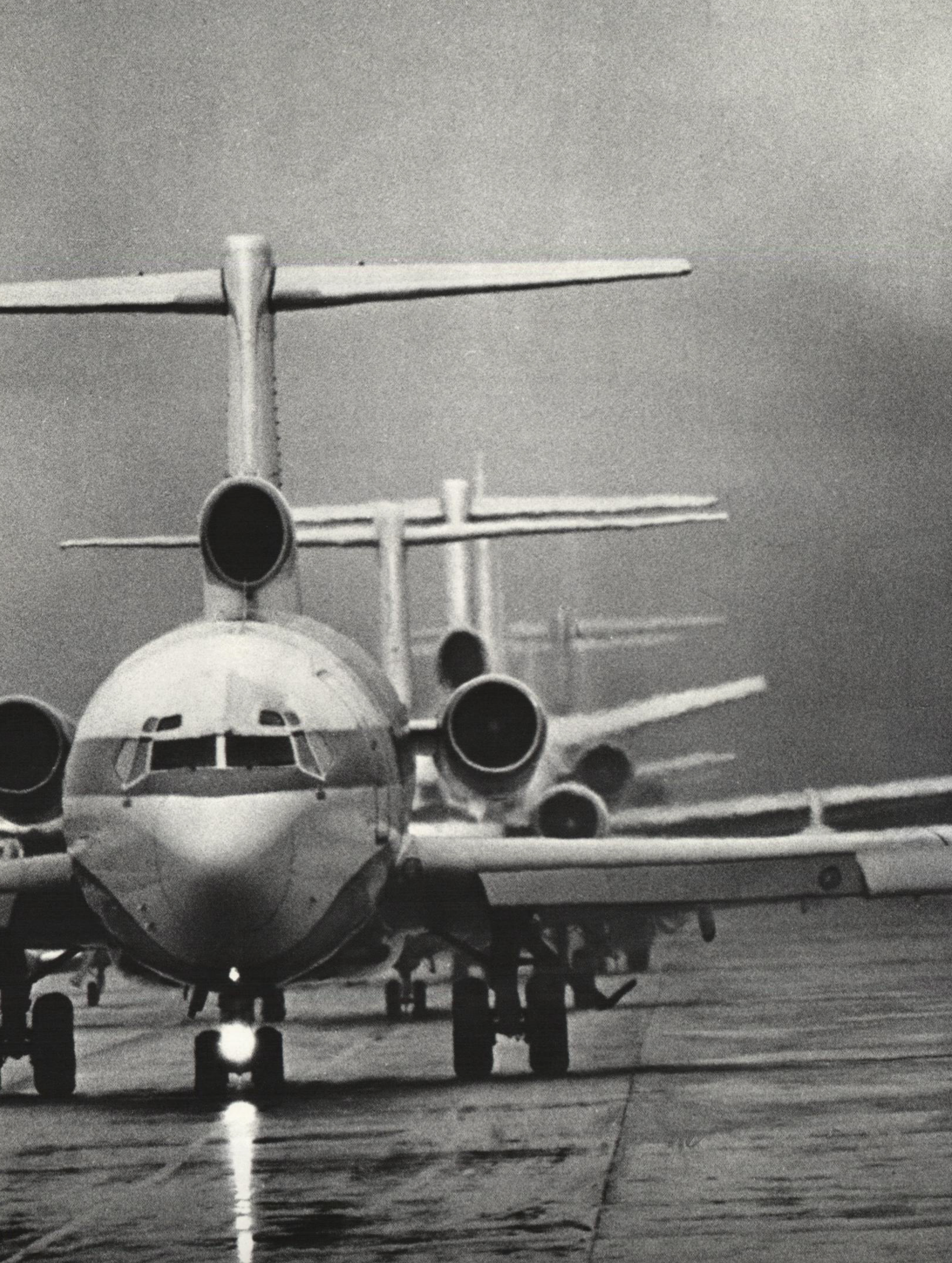
During fiscal 1969 Bohn Aluminum & Brass introduced its new Bohnmizer system, which achieves economies in the operation of commercial refrigeration installations by paring costs and extending equipment life.

A pioneer in the development of aluminum extrusions and castings, Bohn continues to find uses for aluminum in heat transfer applications. One such use is tubing. The heat-conductive properties of aluminum, coupled with its availability and stable price, make it a strong competitor with traditional metals. Because of Bohn's proficiency in the extrusion of aluminum tubing the company last year increased its sales significantly.

Bohn also is one of the U.S.'s prime suppliers of quality pistons for automobile, truck and heavy equipment engines. The company is enlarging its Greensburg, Indiana, plant to turn out diesel-type, finished, machined, aluminum pistons.

Another element of the Metals Forming Group is Young-Daybrook, which produces seat assemblies for the automotive industry and springs for furniture and bedding companies. Young-Daybrook also manufactures a proprietary line of construction and materials-handling equipment. Among its products are hydraulic truck bodies, a truck-mounted aerial tower and a self-propelled tractor to move containerized freight at terminals and docksides.

For the cars and trucks that will keep America moving in 1970, Gulf+Western makes new parts and assemblies.



SYSTEMS

In the year when men walked on the moon and coped with the ever-increasing complexities of life on earth, Gulf+Western's Systems Group applied its technological and engineering skills to both challenges.

The Eagle Signal Division played a small but vital role in the flight of Apollo 11 by supplying miniature relay switches that were an integral part of the command module. Meanwhile, it continued to help solve one of earthbound man's most vexing problems: traffic congestion in the cities. The Division's solid-state, computer-controlled signal system—Moduvac traffic controller—assures a smooth flow of vehicles through crowded urban areas. During the year Moduvac was installed in a number of major cities, among them Los Angeles, Chicago and Dallas. For high-speed expressways Eagle Signal devised a narrow-beam directional light to aid motorists and to reduce the hazards of driving.

Gulf+Western has developed and patented an aircraft ground guidance system which can electronically steer planes to and from the terminal and their landing and takeoff runways. The system will be particularly valuable in the era of the jumbo jet, when airport maneuvering space will be at a premium. Engineered by Gulf+Western's Research and Development Center at Swarthmore, Pennsylvania, the device will be marketed by the Systems Group. A major airline currently is evaluating the ground guidance package for installation in its jet fleet; other airlines have expressed interest. To move air travelers quickly and economically between outlying airports and urban centers, the company is participating in the development of a low-cost, high-speed aerial monorail. This system has wide applications in mass transit.

Through its Athena Communications Corporation, Gulf+Western continued to broaden its participation in a dynamic area of the communications business: cable television (CATV). Athena already has more than two dozen CATV franchises across the nation, and a number of applications are pending. The company extended existing cable systems in Daytona Beach, Florida, and along the Gulf Coast of Texas to reach thousands of new households. It also installed a nine-channel microwave system to carry video programs throughout the State of Missouri. Development now under way of cable television franchises in California can reach a potential market of 72,000 customers. Overall, Gulf+Western's domestic CATV operations are bringing information and entertainment to communities with an audience potential of more than 250,000 subscribers.

Another company in the group, Global Systems, is building a stronger and better trained engineering and design staff to aid in the development of aerospace life support systems. Last year, the Division consolidated its West Coast facilities to achieve economies in the production of crew survival kits, emergency escape slides for commercial aircraft, standard environmental test chambers and oxygen systems.

PRECISION ENGINEERING

Rising material and labor costs, increased competition for government and aerospace contracts, and an anti-inflationary reduction in industry spending were problems confronting Gulf+Western's Precision Engineering Group last year. These factors contributed to a sales decline in the group during fiscal 1969.

The Precision Engineering Group produces finely machined tools and parts with a degree of skill that makes its companies vigorous competitors in the marketplace.

During the year Mal Tool, whose customers make 92% of the jet aircraft engines produced in the free world, continued to meet the exacting demands of advanced engine technology. Mal Tool crafts specialized, prototype engine components and worked on the development of the Boeing 747, the Lockheed C-5A and the Supersonic Transport. The Klock Company, with its exclusive process for coating aircraft engine parts to withstand high temperatures, expanded its sales. Kamis Engineering Company installed a versatile milling machine—the only one of its kind in the Eastern U.S.—that fabricates wing and landing gear sections for airplanes. This machine will importantly boost Kamis Engineering's precision metalworking capabilities.

Bliss Portland Division built a test center at its Portland, Maine, plant as a showcase for the Division's fire-fighting equipment and perfected a new fire-suppressing foam dispenser. Morse Cutting Tools, which gave industry the twist drill 105 years ago, is still making useful contributions. Last year it became a more effective supplier to the automotive, electronics and aerospace markets with redesigned, high-strength alloy drills.

The New England-based North & Judd Manufacturing Company began business in 1812 as a maker of boot spurs. Today it makes hardware for furniture and camping products, as well as clothing fasteners. The firm will increase its capacity with the construction during the next two years of a manufacturing complex in Connecticut. Through its Wilcox-Crittenden Division, North & Judd is a producer of high-quality marine hardware for the shipbuilding industry and the burgeoning pleasure boating market. Sales of Marinium, a line of corrosion-resistant boating hardware made under a patented process using an aluminum-magnesium alloy, increased last year.

Jet-age airport congestion can be eased by a ground guidance system developed and patented by Gulf+Western.

Although Paramount Pictures Corporation had the highest box office revenues in its 57-year history, operations in fiscal 1969 resulted in a loss. This loss was due primarily to carefully-weighed management decisions to: 1) defer the leasing of feature films to network television; and 2) change to a more conservative accounting procedure in film inventory valuation.

Both actions were integral parts of Gulf+Western's long-range plan to restructure and rejuvenate Paramount. The company is resuming the leasing of its films to networks. The new accounting method, now used by a majority of the film industry, will achieve a more accurate matching of film costs to revenues and will make possible a more realistic and timely appraisal of the company's performance. Its short-term effect was a $22 million reduction in Paramount's pre-tax income last year.

Paramount's management is continuing a profit improvement program to streamline its worldwide operations. The company is revamping its theatrical distribution system and is re-evaluating the function of its Hollywood studio. As part of a pre-production investment analysis, each new film is undergoing careful financial scrutiny to assess its risk-to-reward potential.

With the motion picture industry in the midst of fundamental change, these efforts have a three-fold aim: to keep Paramount a vigorous competitor; to make it a strong contributor to Gulf+Western's earnings; and to continue to provide a climate in which creative talent can flourish.

Paramount achieved its box office record last year through a succession of hits. *Romeo and Juliet; Goodbye, Columbus; True Grit; Barbarella;* and *If*—winner of the Cannes Film Festival's Grand Prize—proved to have particular appeal to young audiences, who now account for over half of all motion picture admissions. Another factor was the carry-over business of films such as *Rosemary's Baby* and *The Odd Couple,* features with mass appeal.

Paramount Television produced four series that are being shown during prime time on network television this season. Making their debut on ABC are *Love, American Style,* a one-hour show on Monday nights, and *The Brady Bunch,* a half-hour program on Friday nights. The popular *Mission: Impossible,* now in its fourth year, and *Mannix,* currently in its third season, are continuing on CBS. In addition, Paramount Television is producing special, 90-minute features for ABC's *Movie of the Week.* The number of television sets outside the U.S. has increased by more than 250% in the last five years. This has created a profitable, new international market for Paramount Pictures' extensive entertainment library of feature films and television series.

The Music Division is made up of Paramount Records, the Memphis-based Stax-Volt group of recording companies, and Paramount and Famous Music Publishing Companies. Stax-Volt specializes in contemporary rhythm and blues music and has proved to be a valuable new asset. Unicord-Merson, the company's musical instrument distributor, added a line of western and folk style guitars to its popular Giannini brand. Paramount established a Special Film Projects Division in fiscal 1969 to make educational, training and industrial films for government and business.

Heading the list of Paramount's new films is Alan Jay Lerner's *Paint Your Wagon,* a saga of America in the Gold Rush days. The film, which stars Lee Marvin, Clint Eastwood and Jean Seberg, opened nationwide on a reserved-seat basis in the Fall of 1969.

Other upcoming Paramount releases will be *On a Clear Day You Can See Forever,* starring Barbra Streisand; *The Out-of-Towners* with Jack Lemmon and Sandy Dennis; *Catch 22,* directed by Mike Nichols and based on the Joseph Heller novel that sold more than three million copies; *Hall of Mirrors* with Paul Newman and Joanne Woodward; *The Adventurers,* from the Harold Robbins best-seller, and *Darling Lili,* starring Julie Andrews and Rock Hudson. Films specially tailored for the young audience include *Downhill Racer, Little Fauss and Big Halsey, Norwood* and *The Sterile Cuckoo.*

FAMOUS PLAYERS CANADIAN CORPORATION, LTD.

Gulf+Western's 51%-owned Canadian subsidiary posted record sales and earnings last year. The company added 15 new motion picture theaters, bringing to 368—314 indoor and 54 drive-in—the number of theaters it operates in and around Canada's major population centers. In addition, Famous Players began construction of 28 theaters, some of them in new shopping centers.

More than an entertainment company, Famous Players is one of Canada's principal private owners of real estate and land. With its theaters as the nucleus, Famous owns some 600,000 sq. ft. of prime real estate in 136 cities and 1,000 acres in suburban areas. To realize the full potential of these assets the company has formed a realty development arm to guide the renewal of its theater properties and their immediate surroundings.

Famous Players owns varying interests in Canadian broadcasting stations and CATV systems. Because of recent Canadian legislation it is expected that Famous will reduce its holdings in these properties to a level of 20% or less. Successful operation has enhanced the value of these properties since the company's original investment. It is believed that a significant profit will be realized from these sales.

Barbra Streisand stars in On a Clear Day You Can See Forever, *which will premiere in the Paramount Theater at the new Gulf+Western building.*

CONSUMER PRODUCTS

Response to shifting patterns of consumer preference, creative marketing, new depth in management—these were some of the fiscal 1969 events in Gulf+Western's Consumer Products Group. The group's center is the Consolidated Cigar Corporation.

While the company's dollar sales declined slightly from fiscal 1968, it led the industry in the number of cigars sold. Consolidated's unit sales outpaced the industry by 8% for the full year, with a 10% gain registered during the second half of fiscal 1969. These statistics reflected changing consumer tastes as demand shifted from larger, medium-priced brands of cigars to smaller, less expensive, quality cigars.

To meet these new preferences Consolidated entered the lower-priced field with its slender, tipped and flavored (cherry, wild blueberry and burgundy) Tipalet line. These cigars proved to be popular sellers and helped to increase Consolidated's share of this fast-developing, high-volume market. At the same time, with the more expensive Tueros brand, the company strengthened its position in the premium cigar field.

In fiscal 1969, its first full year in Gulf+Western, Consolidated Cigar made significant strides toward increasing its long-term earning power. This challenge attracted a team of managers with proven talents in the research, marketing and distribution of consumer goods. A cost reduction program was launched, and heightened importance was placed on consumer-oriented research. At a Research and Development Center opened at the Glastonbury, Connecticut, plant scientists are seeking new ways to raise, produce and market tobacco products.

During the year Consolidated's 600-man sales force underwent instruction aimed at making more efficient use of its time. Scientific sales analysis and incisive advertising began to contribute their part to the gain in unit sales.

Progress in manufacturing paralleled the approaches in marketing and selling. An automated plant at McAdoo, Pennsylvania, began full production of manufactured sheet tobacco. And Consolidated reached the midpoint in a two-year expansion of its five cigar manufacturing facilities in Holland and Belgium. This increased production will meet growing European demand for the Willem II line produced by Consolidated's majority-owned Dutch subsidiary, N.V. Willem II Sigarenfabrieken.

Consolidated, the world's largest cigar manufacturer, has made its Dutch Masters, El Producto and Muriel brands household words. The company gives Gulf+Western a solid base on which to build its expansion in the consumer market.

METALS AND CHEMICALS

In fiscal 1969 The New Jersey Zinc Company continued its emphasis on internal growth through exploration, research and plant expansion.

As a result of a Gulf+Western-financed exploration program in Tennessee, the company found substantial zinc mineralization. While drilling is going on to fully assess its extent and concentration there are indications that a zinc mine can be developed. Active exploratory ventures were under way during the year in other areas of the U.S. and in Australia and Canada.

Gulf+Western holds a substantial interest in the Quebec Iron and Titanium Corporation (QIT). Last year through a joint venture of QIT and Gulf+Western a new iron powder plant went on stream at Tracy, Quebec. Iron powder is gaining wide acceptance among major automobile manufacturers in fabricating metal parts. The plant, which has a 70,000-ton annual capacity, will also make possible a greater return on iron ore mined and processed by QIT.

Through a research project with Montecatini-Edison of Italy, New Jersey Zinc developed an efficient method for producing, by the chloride process, high-quality titanium dioxide pigment. This pigment is a key ingredient in the manufacture of paint, paper, plastics and rubber.

For the year as a whole, sales of the company's basic zinc products—slab, oxide, alloys and dust—showed steady progress. Zinc oxide found wider markets in the rubber and photocopying industries.

Financial growth of the Metals and Chemicals Group was hampered during 1969 by a run of relatively low-grade ore at some of New Jersey Zinc's nine mines and a labor shortage at most of its operations. These situations are in the process of correction. Recent industry-wide price increases should help to bolster profit margins in fiscal 1970.

The company's diammonium phosphate plant at Depue, Illinois, has not yet proved profitable, primarily because the fertilizer industry has been suffering from overcapacity and soft prices. Elsewhere in the agricultural field a good start has been made in the marketing of zinc by-products for fortifying animal feeds. In addition, large tonnages of agricultural limestone are being sold, and broader distribution of this by-product is being developed.

Benefiting from the financial and managerial support of Gulf+Western, and with increased demand for its products in the automotive, rubber and photocopying industries, New Jersey Zinc will contribute importantly to Gulf+Western's overall growth in the years ahead.

New ideas in cigars—cherry, wild blueberry, burgundy: Consolidated's bid for the active young market.

FOREST AND PAPER PRODUCTS

Gulf+Western entered the forest and paper products industry in the beginning of fiscal 1969 through the purchase of a majority interest in the Brown Company. Brown manufactures pulp, paper, paper products and building materials. It owns in excess of 600,000 acres of timberland in New Hampshire, Maine and Vermont, and has cutting rights on substantial additional acreage. Plants are located at Berlin-Gorham, New Hampshire; Holyoke, Massachusetts; and Kalamazoo, Michigan, with smaller facilities in California, Georgia, Illinois and New York. The company's products include specialty papers, book matches, towels and tissues, paper plates and cups, and plywood.

With Gulf+Western's support, the management of Brown was realigned and strengthened. Emphasis was placed on cutting costs and phasing out marginally profitable segments of the business. During the year the company sold two unprofitable subsidiary operations, one in Canada and another in Europe. Efficiencies were achieved through capital improvements. For example, with Gulf+Western's assistance the 650 ton-per-day pulp mill at Berlin began to operate at near capacity for the first time; it continues to set monthly production records.

These efforts marked the beginning of a financial turnaround at Brown. The company reported a small profit before provision for preferred dividends at midyear and an increased profit for the first nine months of its fiscal year, compared with losses in the corresponding periods for the prior year. This progress comes at a time of improving conditions in the paper industry. Demand for paper and paper products is growing. Presently, the industry is operating close to full capacity, and forecasts indicate this high operating rate will continue through the mid-1970's.

A further growth opportunity exists in the development of some of Brown's New England properties for year-around recreation and vacation home sites. Included in these holdings are approximately 100 lakes with more than 230 miles of shoreline.

New uses for disposable paper products, such as clothing and hospital supplies, and new users, such as fast-food franchise chains, offer Brown further potentially profitable avenues for expansion and diversification.

FOOD PRODUCTS

Sugar is the mainstay of the Food Products Group. Last year Gulf+Western's South Puerto Rico Sugar increased its total cane production by over 14%, and the company shipped 16% more sugar to the stable, higher-priced U.S. market than in fiscal 1968. South Puerto Rico Sugar's operations are located in the Dominican Republic, where the company owns more than 275,000 acres of land; in Florida, where it owns approximately 90,000 acres; and in Puerto Rico.

Some 80% of the group's sales come from sugar and its by-products. Most of the remainder is accounted for by fruit and vegetable production, which are activities of South Puerto Rico Sugar and its Scott-Mattson Farms Division, and the breeding and raising of beef cattle.

In 1969 the group enlarged its agricultural activities. Florida's Indian River area was the site of extensive new citrus plantings. Basic stocks were assembled for purebred cattle and thoroughbred horse breeding operations that will be carried out in Florida and the Dominican Republic. New growing methods for stake tomatoes were developed.

In a further effort to bring prosperity to a country where a sizable part of the company's sugar business is located, the Gulf+Western Americas Corporation signed a 30-year contract with the Dominican Republic to develop an industrial free zone in La Romana. This marked one of the few times in the history of international commerce that a nation, by special act of its legislative body, named a private corporation to develop and operate a free zone for the government.

The free zone will enable U.S. and foreign companies to build and run light industrial plants with such benefits as a 20-year tax exemption, an abundant supply of low-cost labor, low production costs, and good transportation and communications. Work has begun on clearing the site for the free zone, and plant construction is already under way.

Gulf+Western Americas Corporation has become active in the Caribbean tourism business with the remodeling of a hotel in La Romana and the planned construction of a hotel in Santo Domingo.

A headquarters for the group is under construction in Vero Beach, Florida. From there Gulf+Western's Florida and Caribbean enterprises will be managed.

In its diverse Food Products Group, Gulf+Western possesses an enduring asset. Land that can produce crops and provide pasture for livestock is an invaluable resource in an age when expanding populations demand an ever increasing supply of more nutritious food. Equally invaluable is land that can be used for industrial development, for tourism and for the economic well-being of developing countries.

Over one million acres of land—from forests to sugarcane fields—enhance Gulf+Western's asset base.

FINANCIAL REVIEW

The following pages contain financial details of Gulf+Western's performance in fiscal 1969. Both the Financial Highlights on page 4 and the Letter to Shareholders on pages 6 and 7 give summaries of the company's performance last year. Set out below is additional and supplementary financial information for the year.

FINANCIAL POSITION

Gulf+Western continued to strengthen its financial position during the 1969 fiscal year. Working capital rose to $576.5 million from $471.7 million in 1968, an increase of $104.8 million. The company's cash flow (net earnings and depreciation) reached $113.5 million, or $5.12 per primary share, up from $99.5 million, or $4.55 per primary share. Gulf+Western's cash and marketable securities as of July 31, 1969, exceeded its short-term notes payable and current maturities of long-term debt. Total shareholders' equity increased to $590.1 million, a rise of $48.9 million. The company's book value per common share outstanding increased to $23.16 from $19.99.

DIVIDEND INCREASES

On February 17, 1969, Gulf+Western paid a 3% stock dividend on its common stock to shareholders of record on January 20, 1969. On August 11, 1969, Gulf+Western distributed to the company's common shareholders one share of stock of a wholly-owned subsidiary, G&W Land and Development Corp., for each twenty shares of common stock held of record on July 18, 1969. Effective with the cash dividend paid April 1, 1969, the company increased its regular quarterly dividend on common stock from 7½¢ to 10¢ per share. During the last quarter of fiscal 1969, Gulf+Western paid an extra 10¢ per share cash dividend on common stock. This brought the total cash dividends for the year to 45¢ per common share.

TREASURY STOCK PURCHASES

During the 1969 fiscal year Gulf + Western purchased for its treasury 33,500 shares of $3.50 Series B and 19,100 shares of $3.875 Series C preferred stock and 358,300 shares of common stock at a total cost of $17,259,000. Since July 31, 1969, Gulf+Western has continued to purchase its stock from time to time. In addition, on September 19, 1969, Gulf+Western exchanged 900,000 shares of common stock of G & W Land and Development Corp. and $2.3 million in cash for 595,001 shares of Gulf+Western common stock and 100,000 warrants expiring January 31, 1978, to purchase Gulf+Western common stock.

REALTY

After the transaction described above Gulf+Western retained a less-than-majority interest in G&W Land and Development Corp., whose primary asset is the property and facilities of Chicago Thoroughbred Enterprises, Inc. (CTE). CTE owns and operates two race tracks in the Chicago area, Arlington Park and Washington Park, and holds title to approximately 450 acres of undeveloped land adjacent to them. It also owns the new, 430-room Arlington Park Towers Hotel at Arlington Park. Gulf+Western through its subsidiaries continues to hold over one million acres of land. A wholly-owned subsidiary, the Gulf+Western Realty Corporation, is an entity for the continuing development of the values of Gulf+Western's operating properties.

CAPITAL EXPENDITURES

During fiscal 1969 Gulf+Western invested $73 million in property, plant and equipment. This was in addition to the investment in facilities acquired as part of purchased or pooled businesses. These expenditures were used to increase production and sales capacity, modernize existing facilities, upgrade plant safety, and expand research and development activities. The 1969 figure compares with $62 million in capital expenditures in the prior fiscal year.

OTHER TRANSACTIONS

In December 1968, Gulf+Western sold 3,248,000 shares of Allis-Chalmers Manufacturing Company common stock previously held by Gulf+Western for investment. The consideration was $35 a share and 250,000 shares of common stock of White Consolidated Industries, Inc. This sale did not result in an earnings gain for Gulf+Western.

During the fiscal year Gulf+Western acquired shares of stock of Sinclair Oil Corporation through an exchange offer, through purchases in the open market and from private sellers. In January 1969, Gulf+Western granted to Atlantic Richfield Company an option to purchase 618,360 shares of this Sinclair stock for a total of $80,386,000. In exchange Gulf+Western received a warrant to purchase 618,360 shares of Atlantic Richfield common stock at a price of $125 per share. As a result of the March 1969 merger of Sinclair into Atlantic Richfield, the option granted by Gulf+Western to Atlantic Richfield became an option to purchase the common and preferred stock of Atlantic Richfield—the resulting securities of the merged companies. In August 1969, in accordance with an agreement between Gulf+Western and Atlantic Richfield terminating the option, Gulf+Western paid approximately $2 million to Atlantic Richfield. Gulf+Western also sold in the open market, for approximately $84 million, the Atlantic Richfield stock covered by the option and retained its warrant, expiring December 31, 1976, to purchase 618,360 shares of Atlantic Richfield.

GULF+WESTERN INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF EARNINGS

	Year Ended July 31	
	1969	1968 Note A
Net sales and other operating revenues	$1,563,564,000	$1,330,565,000
Equity in earnings before income taxes of unconsolidated affiliates	49,640,000	8,734,000
	$1,613,204,000	$1,339,299,000
Costs of goods sold	$1,205,428,000	$ 994,403,000
Selling, administrative, and general expenses	246,632,000	188,636,000
Depreciation and depletion	41,454,000	29,124,000
	$1,493,514,000	$1,212,163,000
OPERATING INCOME	$ 119,690,000	$ 127,136,000
Gains on sales of securities	32,123,000	4,155,000
Dividends, interest, and other income	9,211,000	3,106,000
	$ 161,024,000	$ 134,397,000
Interest expense	64,001,000	26,762,000
Minority interest	4,873,000	2,883,000
Provision for income taxes	20,100,000	34,386,000
NET EARNINGS	$ 72,050,000	$ 70,366,000
Dividends on preferred stock other than common equivalent shares	$ 5,870,000	$ 6,160,000
Average common and common equivalent shares outstanding	21,005,000	20,490,000
Primary earnings per share:		
Net earnings	$ 3.15	$ 3.13
Net earnings excluding gains on sales of securities	2.15	3.00
Fully diluted earnings per share:		
Net earnings	2.67	2.74
Net earnings excluding gains on sales of securities	2.00	2.64

See notes to consolidated financial statements.

GULF+WESTERN INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET

ASSETS	July 31 1969	July 31 1968 Note A
CURRENT ASSETS		
Cash	$ 33,493,000	$ 117,669,000
Marketable securities—at cost (estimated market value 1969—$214,000,000, 1968—$85,000,000)	210,137,000	72,389,000
Trade receivables, less allowances (1969—$5,940,000, 1968—$4,659,000) for doubtful accounts	248,134,000	226,717,000
Inventories—Notes B and C	513,200,000	498,745,000
Prepaid expenses, income taxes, and other receivables	36,426,000	23,866,000
TOTAL CURRENT ASSETS	$1,041,390,000	$ 939,386,000
PROPERTY, PLANT, AND EQUIPMENT—at cost:		
Land, buildings, and mines	$ 350,324,000	$ 356,586,000
Machinery, equipment, and other	635,546,000	637,970,000
Construction in progress—Note J	20,596,000	13,199,000
	$1,006,466,000	$1,007,755,000
Less allowances for depreciation and depletion	481,407,000	487,910,000
	$ 525,059,000	$ 519,845,000
OTHER ASSETS		
Investment in affiliated companies—Notes A and D	$ 446,385,000	$ 494,713,000
Receivables due after one year	82,849,000	55,514,000
Intangibles, deferred costs, and other	76,344,000	51,840,000
	$ 605,578,000	$ 602,067,000
	$2,172,027,000	$2,061,298,000

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY

	July 31	
	1969	1968 Note A
CURRENT LIABILITIES		
Notes payable (primarily to banks) and commercial paper	$ 203,139,000	$ 153,040,000
Current maturities of long-term debt	23,040,000	13,811,000
Trade accounts payable	104,779,000	120,543,000
Accrued expenses and other liabilities	130,702,000	154,123,000
Income taxes payable	3,220,000	26,216,000
TOTAL CURRENT LIABILITIES	$ 464,880,000	$ 467,733,000
DEFERRALS		
Income taxes	$ 74,134,000	$ 62,359,000
Participation payments and other	25,678,000	15,734,000
	$ 99,812,000	$ 78,093,000
LONG-TERM DEBT, less current maturities—Note E	432,491,000	461,488,000
MINORITY INTEREST—in consolidated subsidiaries	54,869,000	56,416,000
CONVERTIBLE SUBORDINATED DEBT—Note E	529,909,000	456,424,000
SHAREHOLDERS' EQUITY		
Convertible preferred stock (liquidation value $170,462,000)	$ 5,034,000	$ 5,689,000
$5.75 non-convertible preferred stock	41,856,000	41,856,000
Common stock	16,310,000	15,104,000
Paid-in surplus	247,212,000	212,170,000
Retained earnings—Note E	279,654,000	266,325,000
	$ 590,066,000	$ 541,144,000
	$2,172,027,000	$2,061,298,000

GULF+WESTERN INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

	Preferred Stock	
	Convertible	$5.75 Non-Convertible
Balance at beginning of period, as previously reported (excludes 343,587 shares of common stock and 48,600 shares of convertible preferred stock held in treasury)	$5,689,000	$41,856,000
Acquisition of pooled businesses		
Balance at beginning of period—Restated—Note A	$5,689,000	$41,856,000
Common stock issued:		
3% stock dividend—at fair value		
Exercise of stock options		
Exercise of warrants		
Conversion of preferred stock	523,000*	
Conversion of debentures		
Preferred stock, common stock held in treasury, and warrants issued for purchase of assets or exchanged for marketable securities		
Warrants sold, exchanged for corporate stock and issued for purchase of a business		
Acquisition of stock for the treasury	132,000*	
Equity transactions of pooled businesses prior to acquisition and of a subsidiary		
Cash dividends:		
Paid on common stock ($.45 per share in 1969, $.30 per share in 1968)		
Paid and accrued on preferred stock		
Dividend paid in stock of a subsidiary		
Net earnings for the year		
Balance at end of period (excludes 395,543 shares of common stock and 101,200 shares of convertible preferred stock held in treasury)	$5,034,000	$41,856,000

*Denotes deduction.
See notes to consolidated financial statements.

Year Ended July 31, 1969			Year Ended July 31, 1968	
Common Stock	Paid-in Surplus	Retained Earnings	Paid-in Surplus	Retained Earnings
$14,988,000	$211,647,000	$263,694,000	$ 47,908,000	$125,920,000
116,000	523,000	2,631,000	56,197,000	108,058,000
$15,104,000	$212,170,000	$266,325,000	$104,105,000	$233,978,000
468,000	22,101,000	22,569,000*	19,162,000	19,519,000*
81,000	999,000		1,264,000	
24,000	572,000		1,969,000	
710,000	187,000*		826,000*	
83,000	4,042,000		2,207,000	
198,000	7,266,000		11,551,000	
	8,098,000		70,839,000	
358,000*	7,949,000*	8,820,000*		
	100,000		1,899,000	6,517,000*
		7,197,000*		3,856,000*
		9,449,000*		8,127,000*
		10,686,000*		
		72,050,000		70,366,000
$16,310,000	$247,212,000	$279,654,000	$212,170,000	$266,325,000

GULF+WESTERN INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended July 31, 1969

NOTE A: PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its significant majority-owned subsidiaries other than finance and insurance subsidiaries, and G&W Land and Development Corp., which became a less than 50% owned affiliate subsequent to July 31, 1969. Investments in unconsolidated majority-owned subsidiaries, 50% owned companies and joint ventures are carried at cost plus undistributed net earnings since date of acquisition. The Company's investment in other corporate stock is carried at cost.

The 1968 consolidated financial statements have been restated to include the accounts of businesses acquired by the Company during the year ended July 31, 1969 in transactions accounted for as poolings of interest. Net sales and other operating revenues and net earnings of the Company for the year ended July 31, 1968, before restatement for poolings of interest during the 1969 fiscal year, were $1,320,486,000 and $69,842,000. The Company acquired other businesses during the 1969 fiscal year in transactions accounted for as purchases, the operations of which are included from date of acquisition.

Sales for 1969 include $194 million from Brown Company (60% owned) and net earnings (after related interest expense and income taxes) increased by $8.33 million ($.40 a share on a primary basis) from the operations of Brown Company and Associates Investment Company, which businesses were acquired near the end of the 1968 fiscal year in transactions accounted for as purchases.

NOTE B: CHANGES IN ACCOUNTING METHODS

Effective August 1, 1968, the Company's wholly-owned subsidiary, Paramount Pictures Corporation, changed its method of amortizing the costs of feature films. The theatrical portion of such costs of feature films released prior to August 1, 1968 is being amortized by a 104-week table, based on the passage of time from date of general release of the films. Commencing with films released in the 1969 fiscal year, such costs are amortized on a picture-by-picture basis in the proportion that the theatrical film rentals realized bear to the estimated total theatrical film rental. At the time that the total revenue estimate indicates a loss from a picture, the full amount of the loss is expensed and inventory costs are reduced by the same amount. In addition, effective with the 1969 fiscal year, abandoned film properties are expensed, rather than allocated to other productions as in prior years. These accounting changes to the individual picture method had the effect of increasing fiscal 1969 cost of goods sold and reducing year-end inventory by approximately $22 million.

Also effective in the 1969 fiscal year, those subsidiaries of the Company which formerly determined the costs of their inventory using the Last-In, First-Out method changed to the First-In, First-Out method which had the effect of decreasing cost of goods sold and increasing year-end inventories by approximately $7 million.

The net effect of the above changes resulted in a reduction of net earnings of approximately $7 million ($.34 a share on a primary basis) for the year ended July 31, 1969.

NOTE C: INVENTORIES

The amounts of inventories were determined using the following methods:

Lower of cost or market	$323,486,000
Cost, less amortization (primarily theatrical and television films)	169,293,000
Estimated net sales price (commodities, primarily sold but not shipped)	20,421,000
	$513,200,000

NOTE D: INVESTMENT IN AFFILIATED COMPANIES

Investment in affiliated companies includes $370,833,000 applicable to the Company's ownership of all of the outstanding capital stock of Associates Investment Company, whose condensed consolidated financial statements (including all of its finance, insurance, and banking subsidiaries) are as follows:

	(000 omitted) June 30, 1969	1968
ASSETS		
Cash	$ 106,155	$ 127,705
Marketable securities, at cost	239,040	147,644
Finance and other receivables	1,761,372	1,596,832
Other assets	47,889	42,634
	$2,154,456	$1,914,815
LIABILITIES AND SHAREHOLDER'S EQUITY		
Commercial bank deposits	$ 144,152	$ 130,130
Insurance reserves and claims	162,336	107,355
Notes and other short-term payables	1,001,156	806,244
Long-term debt	604,865	648,008
Shareholder's equity	241,947	223,078
	$2,154,456	$1,914,815

	(000 omitted) Twelve Months Ended June 30, 1969	1968
REVENUES		
Financing	$ 198,156	$ 178,973
Casualty insurance	65,124	32,197
Life insurance	45,180	28,288
Banking	8,588	7,280
	$ 317,048	$ 246,738
EXPENSES		
Financing:		
Operating	$ 95,421	$ 85,733
Interest	83,504	70,154
Casualty insurance	58,339	26,223
Life insurance	31,289	16,878
Banking	6,832	6,045
Minority interest	4*	642
Federal income taxes	20,168	20,013
	$ 295,549	$ 225,688
NET EARNINGS	$ 21,499	$ 21,050

*Denotes deduction.

The Internal Revenue Service has proposed adjustments imputing credit insurance income to Associates and certain of its finance subsidiaries for the years 1954 through 1965. Associates estimates the maximum liability for net additional taxes relative to these credit insurance issues for the period 1954 through 1965 would be $7 million exclusive of interest. In addition, the Internal Revenue Service has asserted tax deficiencies with respect to certain other items for the years 1960 through 1965 (the principal item being a portion of the amounts claimed as additions to the reserve for losses on finance receivables), the resolution of which Associates feels would not have a material effect on the financial statements. Petitions have been filed in the Tax Court contesting all proposed adjustments against Associates and its finance subsidiaries for the years 1954 through 1965.

Long-term debt at June 30, 1969 bears interest at rates from 3¾% to 8% and matures in varying amounts from 1970 to 1988. Under provisions of certain long-term note agreements, Associates may not permit its net worth to be less than certain percentages of such debt. Of the $171,283,000 retained earnings included in shareholder's equity at June 30, 1969, $103,304,000 is restricted by these provisions.

NOTE E: LONG-TERM DEBT AND CONVERTIBLE SUBORDINATED DEBT

Long-term debt at July 31, 1969 includes:

Notes payable to institutional investors, interest 4% to 6.3%, primarily 5¾%, maturing 1970 to 1989	$156,084,000
6½% notes due 1973 to 1986	51,525,000
6% subordinated debentures due 1970 to 1988	64,249,000
6½% notes due 1980	40,000,000
5% debentures due 1979 to 1988, convertible into common stock of the Company at $53.87 a share	49,998,000
Other notes and debentures, payable to banks and others, interest 4% to 12%, averaging approximately 6%, due in installments from 1970 to 1991	93,675,000
	$455,531,000
Less current maturities	23,040,000
	$432,491,000

Convertible subordinated debt at July 31, 1969 includes:

5½% debentures, due 1993, convertible into common stock of the Company at $56.70 a share	$395,698,000
5¼% debentures and notes, due 1972 to 1987, convertible into common stock of the Company from $43.59 to $52.34 a share	134,211,000
	$529,909,000

Maturities of long-term debt and convertible subordinated debt during the five years ended July 31, 1974, are:

1970	$ 23,040,000
1971	22,675,000
1972	26,656,000
1973	32,576,000
1974	28,765,000

The Company has complied with restrictions and limitations required under terms of various loan agreements. Consolidated retained earnings unrestricted as to the payment of cash dividends at July 31, 1969 was $64,100,000.

NOTE F: CAPITAL STOCK AT JULY 31, 1969

	Shares	
	Authorized	Outstanding
Cumulative, convertible preferred stock, recorded at $2.50 par value:		
$1.75 Series A—convertible into 3.367 shares of common, redeemable beginning 1974 at $65.00 a share, $25.00 liquidation value	875,000	412,249
$3.50 Series B—convertible into 4.208 shares of common, redeemable beginning 1974 at $100.00 a share, $100.00 liquidation value, (outstanding excludes 33,500 shares held in treasury)	1,375,000	724,822
$3.875 Series C—convertible into 1.743 shares of common, redeemable beginning 1974 at $105.00 a share, $100.00 liquidation value, (outstanding excludes 67,700 shares held in treasury)	1,200,000	876,739
Undesignated	1,550,000	
Cumulative, non-convertible preferred stock, $5.75 series, 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, recorded at $1.00 par value, (outstanding excludes 395,543 shares held in treasury)	150,000,000	16,309,861

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

Preferred stock outstanding does not include 27,687 shares of $1.75 Series A, 5,902 shares of $3.875 Series C, and 6,396 shares of $5.75 non-convertible preferred stock reserved for exercise of warrants and an option, which expire from 1970 to 1974, at a total exercise price of $2,035,000.

Common stock outstanding does not include 578,433 shares reserved for exercise of employee stock options, of which options to purchase 552,955 shares have been granted and carry a total exercise price of $17,609,000; 7,567,086 shares reserved for exercise of warrants expiring 1978 and 1986 at a total exercise price of $396,510,000; 10,809,944 shares reserved for issuance upon conversion of an aggregate of $579,907,000 principal amount of convertible debt; and 6,069,760 shares reserved for conversion of convertible preferred stock outstanding and reserved.

The Company's Stock Option Incentive Plan provides for the issuance of qualified options to key employees to purchase common stock of the Company at a price not less than fair market value on the date of grant. During the year ended July 31, 1969, options to purchase 132,500 shares of the Company's stock at a total purchase price of $5,680,000 were granted; options to purchase 115,979 shares at a total purchase price of $2,961,000 were assumed in connection with the acquisition of a business; and options to purchase 81,120 shares at a total purchase price of $1,080,000 were exercised. Of the 552,955 options outstanding at July 31, 1969, 266,131 were exercisable.

The Company's Restricted Warrant Plan provides for the issuance to certain key employees of up to a total of 500,000 warrants to purchase common stock of the Company which expire January 31, 1978. Each warrant is exercisable at $55 into 1.027 shares of the Company's common stock. As of July 31, 1969, 499,000 of such warrants had been granted under the plan.

NOTE G: GAINS ON SALES OF SECURITIES

Gains on sales of securities arose largely from the sales of stock of Armour and Company and of Pan American World Airways, Inc. and are shown net of directly related costs other than income taxes. Such taxes, included in the provision for income taxes, applicable to the gains amounted to $11,055,000 in 1969 and $1,521,000 in 1968.

NOTE H: INCOME TAXES

Provision for income taxes include United States Federal income, foreign income and excess profits, and state income taxes. Such provisions for income taxes are low in relation to earnings before taxes primarily due to earnings of tax exempt or low-tax-rate foreign subsidiaries, investment income from gains on sales of securities and real estate, dividend income, investment tax credit, statutory percentage depletion allowable on earnings from mining businesses, and certain permanent differences between taxable income and pretax financial income. Provision for income taxes includes deferred income taxes of $5,200,000 for 1969 and $11,944,000 for 1968 arising primarily from using accelerated methods of depreciation for tax purposes rather than the straight-line method used on substantially all depreciable assets for financial purposes and installment sale income deferred for tax purposes.

NOTE I: EARNINGS PER SHARE

Earnings per share are calculated in conformity with Opinion #15 of the Accounting Principles Board of the American Institute of Certified Public Accountants issued in May 1969. Under this opinion, the Company has elected to classify as common stock equivalents for purposes of computing primary earnings per share those securities (the $1.75 Series A and $3.50 Series B convertible preferred stock) which were previously classified as residual securities so that, at least for the present, primary earnings per share will not fluctuate with the market price of the Company's outstanding securities.

In computing fully diluted earnings per share the following assumptions were made: (1) exercise of all options (average exercise price is $31.85 a share) and all warrants (average exercise price is $52.40 a share), (2) use of the proceeds of such assumed exercises to purchase, at market prices, 20% of the outstanding common shares for the treasury and part of the Company's convertible debt, and (3) conversion of the convertible preferred stock and debt (conversion prices of the debt range from $43.59 to $56.70). If the events in these assumptions had actually taken place, the Company's shareholders' equity at July 31, 1969 would have been increased by approximately $565 million.

NOTE J: COMMITMENTS AND CONTINGENCIES

The aggregate annual rental obligations on leases in effect at July 31, 1969 approximate $12,300,000. Many of the leases also require the lessee to pay property taxes, insurance, and ordinary repairs and maintenance. Certain leases provide for additional payments based on a percentage of gross receipts. The leases have varying terms up to twenty-five years.

Contributions to various pension and profit-sharing plans during the year ended July 31, 1969 were $14,900,000. 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. The actuarially computed value of vested benefits under the pension plans exceeded the total fund assets of such plans and balance sheet accruals by approximately $31,500,000 as of July 31, 1969.

Estimated cost to complete construction in progress at July 31, 1969 was $18,000,000.

The Company is contingently liable for an indeterminable amount as defendant in various suits, including certain antitrust and other suits which also involve other major motion picture companies. In the opinion of counsel, these suits are without substantial merit and should not result in judgments against the Company or any of its subsidiaries which in the aggregate would have a material adverse effect on the Company's financial statements.

REPORT OF INDEPENDENT ACCOUNTANTS

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

We have examined the consolidated financial statements of Gulf+Western Industries, Inc. and consolidated subsidiaries for the year ended July 31, 1969. 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 but it did not cover the financial statements of Paramount Pictures Corporation and consolidated subsidiaries, Brown Company and consolidated subsidiaries, or Associates Investment Company and consolidated subsidiaries which were reported on by other accountants.

In our opinion, based upon our examination and the reports of other accountants mentioned above, the accompanying balance sheet and statements of earnings and shareholders' equity present fairly the consolidated financial position of Gulf+Western Industries, Inc. and consolidated subsidiaries at July 31, 1969, and the consolidated results of their operations and changes in shareholders' equity for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent, except for the changes, which we approve, described in Note B of notes to consolidated financial statements, with that of the preceding year.

Ernst + Ernst

New York, N.Y.
October 17, 1969

GULF+WESTERN INDUSTRIES, INC. AND SUBSIDIARIES
FINANCIAL HIGHLIGHTS OF FIVE YEARS OF OPERATIONS

OPERATING RESULTS AS RESTATED FOR POOLINGS—year ended July 31,
Net sales and other operating revenues
Net earnings
Net earnings excluding gains on sales of securities
Primary earnings per share—Note A:
Net earnings
Net earnings excluding gains on sales of securities
Fully diluted earnings per share—Note A:
Net earnings
Net earnings excluding gains on sales of securities
Cash flow per average common and common equivalent share—Note A
Depreciation and depletion
OPERATING RESULTS AS ORIGINALLY REPORTED—year ended July 31,
Net sales and other operating revenues
Net earnings
Net earnings excluding gains on sales of securities
Primary earnings per share—Note A:
Net earnings
Net earnings excluding gains on sales of securities
Fully diluted earnings per share—Note A:
Net earnings
Net earnings excluding gains on sales of securities
Cash flow per average common and common equivalent share—Note A
Depreciation and depletion
FINANCIAL POSITION AS ORIGINALLY REPORTED—July 31,
Working capital
Net property, plant, and equipment
Total assets
Shareholders' equity
Book value per common share—Note A
GENERAL STATISTICS AS ORIGINALLY REPORTED
Number of shareholders:
Common stock
Preferred stock
Capital expenditures

NOTE A—Adjusted for stock dividends paid through July 31, 1969, the three-for-one stock split effective July 1, 1966, and the effect of the distribution to shareholders of record on July 18, 1969 of one share of stock of G&W Land and Development Corp. for each 20 shares of the Company's common stock held.

1969	1968	1967	1966	1965
$1,563,564,000	$1,330,565,000	$1,191,144,000	$1,033,022,000	$ 917,050,000
72,050,000	70,366,000	60,818,000	47,290,000-B	45,455,000-B
50,982,000	67,732,000	59,523,000	45,926,000-B	44,424,000-B
3.15	3.13	2.74	2.10	2.02
2.15	3.00	2.67	2.03	1.97
2.67	2.74			
2.00	2.64			
5.12	4.55	4.01	3.26	3.01
41,454,000	29,124,000	25,355,000	22,780,000	19,276,000
$1,563,564,000	$1,320,486,000	$ 649,488,000	$ 317,533,000	$ 181,966,000
72,050,000	69,842,000	46,199,000	20,117,000	5,514,000
50,982,000	67,208,000	45,411,000	19,306,000	5,514,000
3.15	3.13	2.85	1.98	.79
2.15	3.00	2.80	1.90	.79
2.67	2.74			
2.00	2.63			
5.12	4.54	3.77	2.90	1.13
41,454,000	28,902,000	14,121,000	9,323,000	2,435,000
$ 576,510,000	$ 469,591,000	$ 213,190,000	$ 66,597,000	$ 38,401,000
525,059,000	518,215,000	280,926,000	115,656,000	28,785,000
2,172,027,000	2,055,334,000	749,439,000	294,239,000	104,096,000
590,066,000	537,874,000	229,245,000	107,576,000	37,251,000
23.16	19.93	9.55	7.36	5.23
51,000	43,000	26,400	7,600	5,100
40,000	42,500	24,600	4,800	
$ 72,825,000	$ 61,587,000	$ 53,074,000	$ 26,026,000	$ 5,553,000

NOTE B—Includes net extraordinary loss of $3,861,000 or $.20 per share in 1966 and net extraordinary gain of $7,817,000 or $.40 per share in 1965.

DIRECTORS

Charles G. Bluhdorn*	*Chairman of the Board* *Gulf+Western Industries, Inc.*
David N. Judelson*	*President* *Gulf+Western Industries, Inc.*
John H. Duncan*	*Chairman of the Executive Committee* *Gulf+Western Industries, Inc.*
J. D. Barnette	*President* *Associates Investment Company*
J. Robert Baylis	*Chairman of the Board* *Consolidated Cigar Corporation*
O. C. Carmichael, Jr.*	*Chairman of the Board* *Associates Investment Company*
Martin S. Davis	*Executive Vice President* *Paramount Pictures Corporation*
Joel Dolkart*	*Partner* *Simpson Thacher & Bartlett, Attorneys*
D. Lyle Fife	*Director* *E. W. Bliss Company*
Don F. Gaston*	*Executive Vice President* *Gulf+Western Industries, Inc.*
Harry E. Gould, Sr.	*Chairman of the Board* *Universal American Corporation*
Luther H. Hodges	*Chairman of the Board* *Research Triangle Foundation of North Carolina*
Lindsay F. Johnson*	*President* *The New Jersey Zinc Company*
Judd Leighton	*Vice Chairman of the Board* *First Bank and Trust Company of South Bend*
Francis S. Levien	*President* *Universal American Corporation*
Philip J. Levin	*Chairman of the Board* *G&W Land and Development Corp.*
R. L. McCann*	*Chairman of the Board (Retired)* *The New Jersey Zinc Company*
T. H. Neyland	*Investments*
Irwin Schloss	*President* *Irwin Schloss & Co., Inc.*
Samuel J. Silberman	*President* *Gulf+Western Foundation*
George A. Smathers	*Partner* *Smathers, Merrigan & O'Keefe, Attorneys*
Edwin L. Weisl	*Partner* *Simpson Thacher & Bartlett, Attorneys*
Harold U. Zerbe*	*President* *American Parts System, Inc.—Pennsylvania*

**Member of Executive Committee*

OFFICERS

Charles G. Bluhdorn	*Chairman of the Board*
David N. Judelson	*President*
Don F. Gaston	*Executive Vice President*
Joel Dolkart	*General Counsel and Secretary*
Roy T. Abbott, Jr.	*Senior Vice President*
Alvaro L. Carta	*Vice President* *(President, Food Products Group)*
John H. DeVries	*Vice President* *(President, Industrial Products Group)*
Norman R. Forson	*Vice President and Treasurer*
Arnold S. Greenhut	*Vice President*
Robert L. Jones	*Vice President and Resident Counsel*
E. W. Kelley	*Vice President* *(President, Consumer Products Group)*
Matthew J. Lawlor	*Vice President—Employee Relations*
George A. Longtin	*Vice President* *(President, Precision Engineering Group)*
Robert B. Pickett	*Vice President—Corporate Relations*
Guy H. Pitts	*Vice President* *(President, Metals Forming Group)*
Gerald I. Ritthaler	*Vice President and Director of Taxes*
Frank V. Rogers	*Vice President* *(President, Automotive/Distribution Group)*
Joel L. Roth	*Vice President—Corporate Planning*
James J. Shaw	*Vice President* *(President, Systems Group)*
William D. Smith	*Vice President—Insurance*
William M. Flatley	*Controller*

TRANSFER AGENTS
The Chase Manhattan Bank
80 Pine Street, New York, N.Y. 10015

The First Jersey National Bank
1 Exchange Place, Jersey City, New Jersey 07302

REGISTRAR
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AUDITORS
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140 Broadway, New York, N.Y. 10005

COUNSEL
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120 Broadway, New York, N.Y. 10005

CORPORATE OFFICES
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