Gulf+Western Industries, Inc.
Annual Report 1970

G+W

Page

CORPORATE MANAGEMENT

Roy T. Abbott, Jr.
Senior Vice President

Martin S. Davis
Senior Vice President

Joel Dolkart
General Counsel and Secretary

William M. Flatley
Controller

Norman R. Forson
Vice President and Treasurer

Don F. Gaston
Executive Vice President

Robert L. Jones
Vice President and Resident Counsel

Matthew J. Lawlor
Vice President—Employee Relations

Lawrence E. Levinson
Executive Assistant to the Chairman of the Board

Gerald I. Ritthaler
Vice President and Director of Taxes

Joel L. Roth
Vice President—Corporate Planning

Charles G. Bluhdorn
Chairman of the Board

David N. Judelson
President

TO OUR SHAREHOLDERS:

In a time when the economy was beset by the twin forces of inflation and recession, your company performed creditably. For the year ended July 31, 1970, operating earnings declined slightly, but net earnings per share, before securities transactions, rose. Sales again set a record.

Net earnings for the year, excluding securities transactions, were $49.8 million compared with $51.0 million in fiscal 1969, a 2 percent decline. On a per-share basis, net earnings for fiscal 1970, excluding securities transactions, were $2.26 compared with $2.15 ($2.00 on a fully diluted basis) in fiscal 1969.

Total net earnings were $44.8 million, which included a net loss from securities transactions of $5.1 million. This compared with $72.1 million, including net gains from securities transactions of $21.1 million, in the prior year. On a per-share basis, net earnings, including securities transactions, were $2.00 compared with $3.15 ($2.67 fully diluted) last year.

Earnings per share for fiscal 1970 were based on 19.5 million average common and common-equivalent shares outstanding against 21 million shares in 1969—the result of the company acquiring its own shares.

Sales reached $1.63 billion compared with $1.56 billion in 1969.

All eleven of Gulf+Western's groups reported profits from operations; seven reported higher operating income than a year ago. These were Distribution, Consumer Products, Metals Forming, Food Products, Systems, Forest and Paper Products, and Industrial Products.

Four of our groups—Consumer Products, Distribution, Financial Services and Food Products—contributed more than half of the company's operating income in fiscal 1970. These are some of our many businesses with great growth potential.

Some groups experienced difficulties last year. Record high interest costs penalized the growth of Financial Services. The Natural Resources Group labored under a softer demand for zinc metal, one of its basic products. The cutback in aerospace-defense contracts and slower consumer demand for new cars trimmed profit margins in some manufacturing groups. Inflation-boosted raw material and labor costs hindered Forest and Paper Products.

But less-than-expected earnings in these groups were offset by better-than-anticipated performances in others. For example, Distribution recorded its most successful year in the automotive replacement parts business. Food Products harvested a bumper sugar crop. The high-technology Systems Group made another strong showing. Imaginative marketing in Consumer Products continued to return higher profits.

As a whole, your company performed well in the trying economic environment of the past twelve months. We were able to do this because of product and market diversification—the foundation on which Gulf+Western was built. Our performance last year was positive answer to those who questioned the viability of the conglomerate form of business enterprise.

MANAGEMENT PHILOSOPHY

To give our shareholders a broader view and a better understanding of Gulf+Western's operational and financial performance, the following pages contain reports from the chief operating officers who manage our eleven groups. These men operate under a management philosophy that is firmly anchored on two principles: decentralized operations and centralized controls. The top officer of each group is responsible for the daily performance of his profit center, but he operates within a framework of controls—financial, administrative, and planning—directed by Gulf+Western corporate headquarters.

This management concept evolved as the company grew from a small bumper-making firm into a multi-market corporation. During those years we saw ourselves as architects; now we see ourselves as builders.

In fiscal 1970, for the second successive year, your company made no major acquisitions. Also, we substantially reduced our portfolio of marketable securities. Both facts reflect the shift to full-time concentration on the profitable management of our more than $2 billion in assets.

SIGNIFICANT ACTIONS

To enhance the long-range profitability of this large, unique asset base, several significant actions were taken last year. They included:

Stronger management. New talent was added at both the corporate and operating levels. Harold U. Zerbe, a member of the Executive Committee of Gulf+Western's Board of Directors, was elected chairman of The New Jersey Zinc Company, on whose board he has served since 1962. Martin S. Davis, a Gulf+Western director since 1967 and former chief operating officer of Paramount Pictures Corporation, was elected a senior vice president of the parent company. He was succeeded at Paramount by Stanley R. Jaffe, a successful young film producer, who subsequently was named president of Paramount.

Cost reduction. This is a continuing, company-wide effort. Some examples: an initial $3-million economy through consolidation of Paramount Pictures' overseas film distribution system with that of MCA's Universal City Studios; and a $500,000 annual saving by moving the E. W. Bliss Company headquarters from Canton, Ohio, to Grand Rapids, Michigan, home of Gulf+Western Industrial Products Company.

Streamlining operations. This also is a continuing effort to improve our return on investment. Because they did not fit into the company's long-term growth plans, a number of properties were sold last year. These included New Jersey Zinc's Hanover, New Mexico, mine; the Systems Company's Hubbard Spool and American Pulley facilities; the Food Products Group's Guanica Mill in Puerto Rico; and Brown Company's North Stratford, New Hampshire, plywood plant. We also sold a one-half interest in Paramount's Hollywood Studio.

NEW PRODUCTS AND SERVICES

More than ever today, cost-cutting and improved efficiency are matters of basic corporate survival. But innovation in products and services distinguishes the company with a future. At Gulf+Western last year, we continued our emphasis on wide-ranging, imaginative ways to anticipate the demands of the market place. For example:

- To meet the many credit needs of growing young families, our Associates Corporation of North America created the first of a network of single-stop financial service centers.
- To ease cities' budgetary strains, Eagle Signal began marketing its less-costly, lighter-weight Durasig traffic signal.
- To satisfy new consumer tastes, Consolidated Cigar introduced an exciting small cigar line: CigarLet.

- To keep pace with the electronic revolution, Athena Communications widened its stake in CATV.
- To make Americans more comfortable at home and at work, Bohn Aluminum expanded its line of air-conditioning products.

Gulf+Western's new product development is supported by the company's major research centers at Glastonbury, Connecticut (tobacco), Gary, Indiana (metallurgy), Palmerton, Pennsylvania (natural resources), and Swarthmore, Pennsylvania (manufacturing).

OPERATIONS ABROAD

Vast opportunities await the internationally-minded company. Gulf+Western, which has key facilities in sixteen foreign countries, enlarged its operations overseas last year. For example, we acquired a 10.5 percent interest in Società Generale Immobiliare, a worldwide construction and real estate company headquartered in Italy. The Tokyo-based Sega Enterprises, a manufacturer of coin-operated amusement devices, turned in a record year and continued to expand. Under a production-sharing contract, drilling was started in the company's fifty thousand-square-mile Indonesian oil exploration area. Sales of capital equipment from manufacturing bases in the Common Market continued to accelerate. A joint venture with Japan's Koyo-Seiko Company Ltd. began moving into wider markets for machine tools in Asia as well as in Europe.

FINANCIAL POSTURE

The multiple pressures of historic-high interest rates, a contracting money supply and a precipitous decline in equity prices combined to create a climate of financial distress for many companies in recent months. However, Gulf+Western, bolstered by a steady flow of cash and earnings, was able to sustain its forward progress. The company begins fiscal 1971 with assets of $2.2 billion, working capital of $417 million and shareholders' equity of $580.3 million.

Also during the year, the annual cash dividend on the company's common stock was increased to fifty cents a share from forty cents. This was the fifth cash dividend increase in the past six years. And Gulf+Western acquired 2.2 million shares of its common stock. This acquisition reflected your company's belief that purchase of its own stock was a prudent use of capital.

SOCIAL RESPONSIBILITY

In a society increasingly concerned with the quality of life, corporate citizens have an obligation that transcends their balance sheets. At Gulf+Western we are actively meeting this obligation in several areas: from helping needy students with scholarships to helping needy colleges with grants; from hiring the hard-core unemployed to aiding community charities; from identifying and controlling pollution to making our offices and plants safer, more pleasant places to work.

OUR COMMITMENT

As the year closed, your company moved into the new, forty-four-story Gulf+Western Building at New York City's Columbus Circle. A distinctive part of the Manhattan skyline, our building attests that Gulf+Western, which now ranks among the top sixty-five U.S. industrial corporations, has taken its place as a leading member of the nation's business community. Together, our location and our rank symbolize what we have created in little more than a decade. Having put this company together, we intend to make it endure. All of us at Gulf+Western are committed to this task.

Sincerely,

Charles G. Bluhdorn
Chairman of the Board

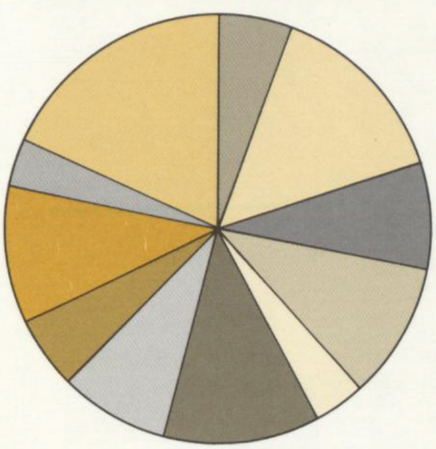
David N. Judelson
President

November 4, 1970

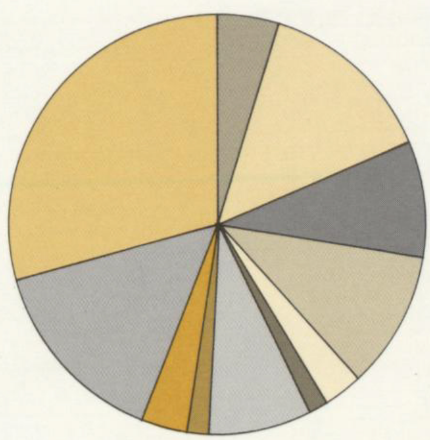
FINANCIAL SUMMARY

HIGHLIGHTS	1970	1969
Net sales and other operating revenues	$1,629,562,000	$1,563,564,000
Operating income	117,172,000	119,690,000
Net earnings excluding gains/losses on sales of securities	49,825,000	50,982,000
Net earnings	44,771,000	72,050,000
Primary earnings per share:		
Net earnings excluding gains/losses on sales of securities	2.26	2.15
Net earnings	2.00	3.15
Fully diluted earnings per share:		
Net earnings excluding gains/losses on sales of securities	2.26	2.00
Net earnings	2.00	2.67
Year-end indicated annual dividend rate per common share	0.50	0.40
Working capital	416,994,000	576,510,000
Total assets	2,154,463,000	2,172,027,000
Shareholders' equity	580,346,000	590,066,000
Book value per common share	25.49	23.16
Capital expenditures	86,676,000	72,825,000

G+W 1970 NET SALES AND OTHER OPERATING REVENUES



G+W 1970 OPERATING INCOME



OPERATING GROUPS

NET SALES AND OTHER OPERATING REVENUES

	1970		1969	
	$ Millions	% Total	$ Millions	% Total
Distribution	109.7	5.5	99.4	5.3
Industrial Products	289.5	14.5	270.5	14.4
Metals Forming	155.7	7.8	153.4	8.2
Systems	207.3	10.4	189.6	10.1
Precision Engineering	74.3	3.7	80.1	4.3
Leisure Time	240.9	12.1	224.0	11.9
Consumer Products	165.5	8.3	154.2	8.2
Natural Resources	105.2	5.3	111.7	5.9
Forest and Paper Products	206.2	10.3	194.5	10.3
Food Products	72.3	3.6	77.8	4.1
Financial Services	367.5	18.4	317.0	16.9
Corporate Revenue (including realty) and Intercompany Items	3.0	0.1	8.4	0.4
	1,997.1	100.0	1,880.6	100.0
Less Financial Services	367.5		317.0	
As Reported in Consolidated Statement of Earnings	1,629.6		1,563.6	

OPERATING INCOME – A

	1970		1969	
	$ Millions	% Total	$ Millions	% Total
Distribution	5.7	4.9	4.5	3.8
Industrial Products	16.7	14.2	15.5	12.9
Metals Forming	11.1	9.5	11.0	9.2
Systems	13.0	11.1	11.9	9.9
Precision Engineering	3.7	3.2	7.1	5.9
Leisure Time	2.0	1.6	7.6	6.4
Consumer Products	9.7	8.3	9.1	7.6
Natural Resources	2.1	1.8	6.9	5.8
Forest and Paper Products	4.1	3.5	2.2	1.8
Food Products	17.8	15.2	15.7	13.1
Financial Services	35.4	30.2	41.2	34.4
Accounting Changes—B			15.1*	12.6*
	121.3	103.5	117.6	98.2
Corporate Income (including realty) and Expenses and Intercompany Items	4.1*	3.5*	2.1	1.8
As Reported in Consolidated Statement of Earnings	117.2	100.0	119.7	100.0

*Denotes deduction

Note A—Operating income represents income before gains/losses or income from securities and before deduction of interest expense, minority interest and income taxes, except for Financial Services, which is income before income taxes.

Note B—Represents change in the method of amortizing the cost of feature films of the Leisure Time Group and of the basis of determining the cost of inventories of certain businesses in other groups.

DISTRIBUTION

In its most successful year so far, the Distribution Group had record sales of $109.7 million and record operating income of $5.7 million.

Our business is service. In the American Parts System, the largest segment of the group, we have mastered the complexities of making available within twenty-four hours any of more than one hundred thousand top-quality automotive replacement parts to our coast-to-coast jobbers. The supply line runs from our thirty-five distribution centers to the approximately eight hundred American Parts jobbers operating in forty-two states, to some fifty thousand service stations as well as repair shops, new car dealers and other customers our jobbers serve.

This fast, dependable service has made the American Parts System a desirable affiliation for parts jobbers. They also benefit from identification with a nationwide distribution system and the specialized business know-how that helps make their operations a success. As proof, the independent small businessmen who are our jobbers have, on the average, higher earnings and a greater return on investment than other automotive parts jobbers.

Last year we started construction of new distribution centers to replace outgrown facilities in Denver; Riverside and North Hollywood, California; Phoenix, Arizona; St. Louis, Missouri; and Islip, Long Island, and Albany, New York. In October, 1970, we opened a new Des Moines distribution center.

The mark of the American Parts System is the "Big A." This emblem, which for seven years has meant quality and dependability, now appears on millions of automotive replacement parts and accessories. In addition to our own brand name lines (Powerflo, Poweready, Poweride and Powerized), we distribute national brands of the industry's best-known manufacturers.

Continuing our emphasis on the popular high-performance market, we are launching a nationwide marketing program that will feature the Poweready high-performance ignition system. This program will include A.P.S.' participation in car racing and sponsorship of the Poweready line by Dick Harrell, champion U.S. drag racer of 1969.

The group's foreign car replacement parts distribution company, Warehousing Service, of Los Angeles, recorded a 36 percent profit increase.

Overseas, S. A., our Mexican auto parts distribution subsidiary, had a good year. A new Mexico City headquarters will be dedicated in early 1971.

Another of our services is the distribution of industrial and electrical supplies. This is the business of Hendrie & Bolthoff, which will move into a new headquarters building in Denver early in 1971. A Hendrie & Bolthoff facility in Grand Rapids, a high-density manufacturing area, was opened in July.

That the automotive replacement parts market is non-cyclic was proved by A.P.S.' performance last year. This market represents a yearly sales volume of $14 billion and is growing. A study by the Stanford Research Institute stated that wholesale sales of automotive replacement parts can be expected to grow rapidly over the next ten years. Moreover, the study continued, the successful existence of the independent jobber ten years from now depends upon his affiliation with a larger organization such as the American Parts System.

The distribution of automotive replacement parts was one of Gulf+Western's earliest enterprises. Over the years it has become one of the company's most successful businesses. This growth and profitability are examples of what can be achieved within the Gulf+Western corporate family.

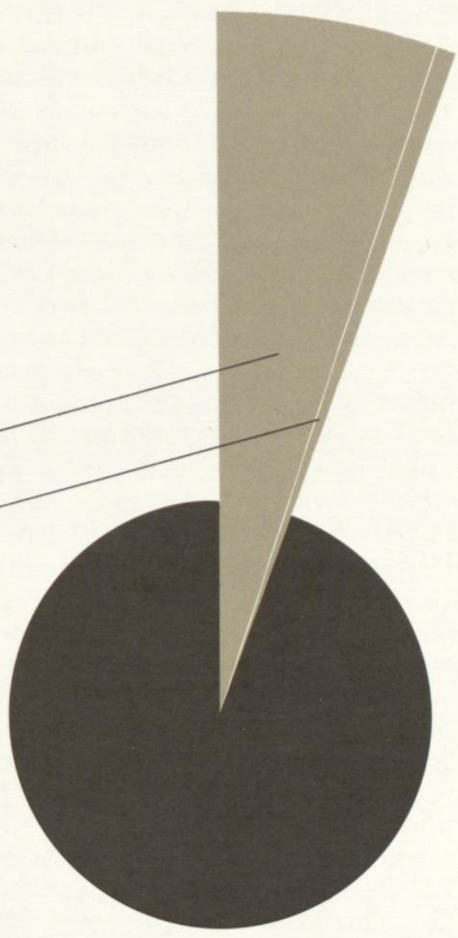
Frank V. Rogers

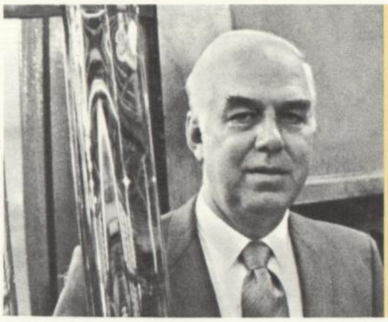
Frank V. Rogers
President, Distribution

OPERATING STATISTICS

	$ (millions) 1970	1969
Net Sales	$ 109.7	$ 99.4
Operating Income	$ 5.7	$ 4.5
Operating Income to Net Sales	5.2%	4.5%
Capital Expenditures	$ 0.6	$ 0.7
Depreciation	$ 0.5	$ 0.5
Owned and Operated Jobbers	161	166
Independent Associate Jobbers	629	503
Employees	2,500	

	SALES AS % OF Group	G+W
Automotive replacement parts	93	5.1
Industrial and electrical supplies	7	0.4
Total Distribution	**100%**	**5.5%**





INDUSTRIAL PRODUCTS

Transition and preparation—that was the story at the Gulf+Western Industrial Products Group, the largest of Gulf+Western's manufacturing operations. A new corporate team at the group's Grand Rapids headquarters made considerable progress in defining our problems and opportunities, and in establishing priorities to meet the challenge of the more competitive markets of the seventies.

One of the operating principles we live by is that the future belongs to those who prepare for it. G+W Automotive & Appliance Manufacturing (GWAAM) Division's success with plated plastics for decorative trim on automobiles is a good example of this philosophy at work. In fiscal 1970 our sales of plated plastics leaped dramatically: to nearly $10 million from $4.5 million in 1969. More important, this helped the group weather the sharp decline in the automotive market. Beyond decorative trim, we have achieved an important breakthrough in the use of plastics for other automotive applications. GWAAM's fiber-reinforced plastic is being used for the first time on the 1971 Ford Pinto as a fender extension.

Another example of preparing for the future is the experimental work we are doing with bumpers. To meet newly-strict federal and state auto safety standards, as well as American motorists' understandable unhappiness with the soaring cost of car repairs, the bumper on tomorrow's car will be designed both to soften impact and limit damage. Working with our major auto manufacturer-customers, engineers at the Gulf+Western Research and Development Center at Swarthmore, Pennsylvania, are busy looking for an answer.

The group's Taylor-Bonney Division had a mixed year: good news and disappointment. The downturn in the aerospace industry was a depressant on the performance of Taylor's Gary, Indiana, facility, which makes major components for military and commercial jet engines. On the plus side, Taylor has been working with Pratt & Whitney Aircraft in the development of light-weight jet engines. Our job is to form, under high temperature and pressure, and to exacting specifications, exotic metals into key parts for these engines. Known as "Gatorizing," this process can save expensive machining time and materials cost.

Taylor-Bonney is heavily involved in the transmission of energy—natural gas, oil, electricity and atomic power. The opening of a $10-million Memphis plant gives us increased capability to serve this expanding field. At Memphis, we will make forty-eight-inch elbow fittings for the planned trans-Alaska pipeline and other energy transmission links.

For the Bliss operation it was a year of rebuilding, and the division moved from a loss to a profit. The Powerbar press, a versatile, compact, high-speed metalworking machine, was brought to the marketplace. Another opportunity at Bliss is our work under an Army development contract to produce shell casings at three times the current per-minute rate.

All things considered, it was a satisfactory twelve months for Gulf+Western's Industrial Products Group. Sales rose $19 million over 1969, to $289.5 million. Operating income was $16.7 million compared with $15.5 million the year before.

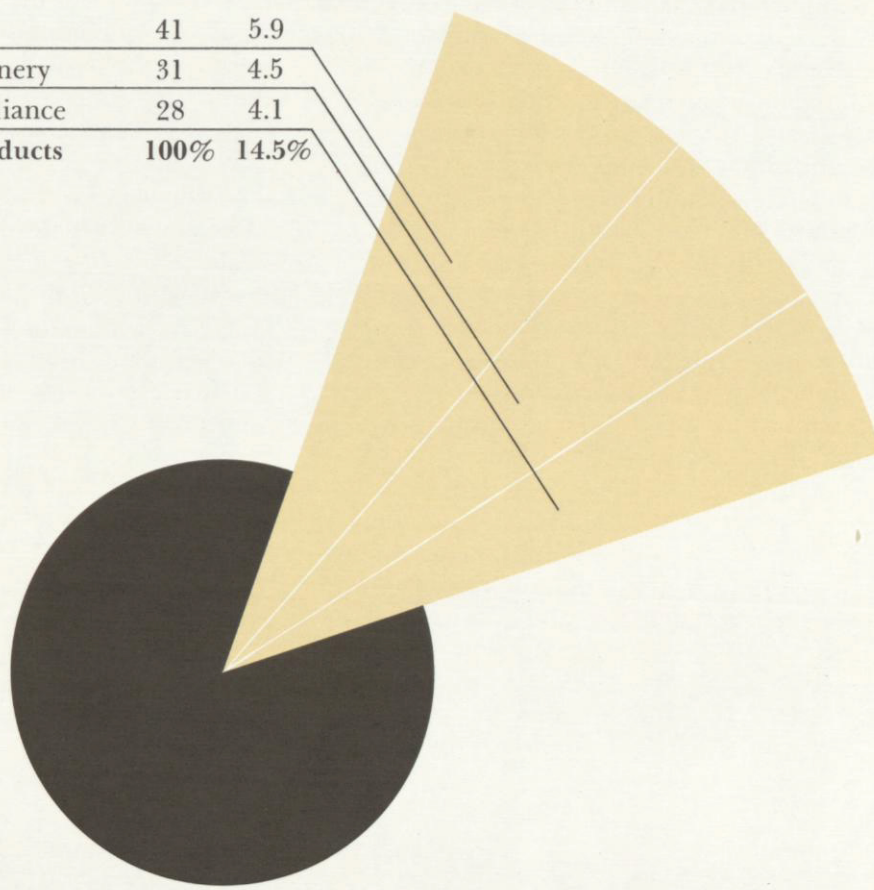
John DeVries

John H. DeVries
President, Industrial Products

OPERATING STATISTICS

	$ (millions) 1970	1969
Net Sales	$ 289.5	$ 270.5
Operating Income	$ 16.7	$ 15.5
Operating Income to Net Sales	5.8%	5.7%
Capital Expenditures	$ 19.1	$ 14.5
Depreciation	$ 8.0	$ 7.4
Manufacturing Plants	62	
Employees	12,200	

	SALES AS % OF Group	G+W
Forge and foundry	41	5.9
Metalworking machinery	31	4.5
Automotive and appliance	28	4.1
Total Industrial Products	**100%**	**14.5%**



METALS FORMING

Operating out of its new Southfield, Michigan, headquarters, Gulf+Western Metals Forming Company regrouped its member companies into three divisions: Bohn Aluminum & Brass, Young, and Stamping. This reduced administrative expenses and strengthened our internal management control.

The group had record sales ($155.7 million) and operating income ($11.1 million). This was accomplished despite strikes at Bohn's Beardstown and Danville, Illinois, heat transfer plants, rising labor costs and the softer national economy.

Over the past decade, the market for air-conditioning products has grown at a rate more than twice that of the economy. This growth is expected to continue. Bohn Aluminum & Brass, the Metals Forming Group's principal component, is one of the nation's foremost manufacturers of heat transfer products—the heart of air-conditioning and refrigeration systems. Last year Bohn sold a record dollar-volume of heat transfer equipment.

We introduced Saddle-Pak, a line of factory-assembled-and-tested refrigeration systems for commercial use. Saddle-Pak complements our existing Bohn-Aire and Bohnmizer lines. Bohn is enlarging its capacity to manufacture heat exchange products by converting a portion of its Adrian, Michigan, plant.

Elsewhere in Bohn, sales of extruded aluminum tubing and aluminum permanent mold castings for industrial applications increased. Another Bohn precision product—machined, heavy-duty aluminum pistons—continued to extend its market reach among some of America's major engine manufacturers. As a consequence, Bohn began expansion of the piston production lines at its Greensburg, Indiana, facility.

The Young Division's engineers, in a continuing program of research and development, are testing new concepts in automotive seating. Among them: the use of urethane, a plastic foam that would replace the present car seat's coil-and-spring construction.

A strike at one of Young's major customers and fewer cars rolling off Detroit's assembly lines resulted in reduced auto industry sales by the division. But the phasing out of a plant in Uniontown, Pennsylvania, and the consolidation of all of the division's seat manufacturing at its Chicago plant largely offset these two negative factors. Sales and profits of Flex-O-Lator pad supports, particularly to the automotive and furniture industries, increased significantly. The same was true for sales of the versatile Commando line, a mainstay in the materials handling field made by Daybrook-Ottawa.

We made important strides in the Stamping Division, putting it in a profitable posture after a loss in fiscal 1969. Part of the continuing progress being made in this division is the consolidation of the Ecorse and Middleville, Michigan, facilities, which will effect a substantial annual savings.

In sum, the Metals Forming Group turned in another creditable performance as a vital part of the Gulf+Western complex.

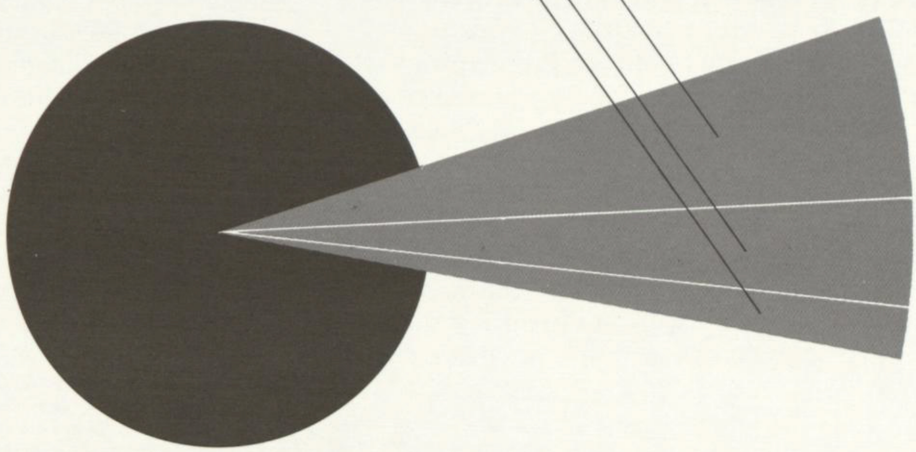
Guy H. Pitts

Guy H. Pitts
President, Metals Forming

OPERATING STATISTICS

	$ (millions) 1970	$ (millions) 1969
Net Sales	$ 155.7	$ 153.4
Operating Income	$ 11.1	$ 11.0
Operating Income to Net Sales	7.1%	7.2%
Capital Expenditures	$ 4.0	$ 4.7
Depreciation	$ 2.7	$ 2.4
Manufacturing Plants	21	
Employees	6,000	

	SALES AS % OF Group	SALES AS % OF G+W
Automotive parts and assemblies	55	4.3
Air conditioning and refrigeration parts and assemblies	31	2.4
Building materials and other	14	1.1
Total Metals Forming	**100%**	**7.8%**



SYSTEMS

Record sales and earnings were achieved by the Gulf+Western Systems Group. Net sales increased 9.3 percent (to $207.3 million, up from $189.6 million last year). Operating income increased 9.2 percent (to $13 million from $11.9 million in fiscal 1969).

The Systems Group, a broadly-diversified global manufacturer and marketer, provides goods and services for a number of key industries: transportation (automotive components and traffic control equipment), communications (cable television), energy (oil exploration and high-voltage transmission cables) and defense (ordnance and survival gear).

Through Athena Communications Corporation, our cable television arm, we now reach twenty thousand subscriber-households, three times the number at the end of fiscal 1969. In Jefferson City, Missouri, Athena built a 100-mile-long system and signed five thousand subscribers. The Jefferson City operation was made possible by the opening of Athena's nine-channel, trans-Missouri microwave transmission link. In Daytona Beach, Florida, Athena began daily broadcasting of five and one-half hours of local origination programming over its own station, channel 11. Athena has set an ambitious goal: nearly two hundred thousand subscribers by 1975.

Exploration for oil was begun in Indonesia, where Gulf+Western, in addition to some of the world's leading oil companies, holds a production-sharing contract. Initial drilling commenced on the Banda Sea island of Ceram, within Gulf+Western's fifty thousand-square-mile contract area. This project—a special venture of Gulf+Western under the direction of the Systems Group—is in the earliest stage of development, and we will first reactivate a previously-producing oil field within our area. We are conducting further exploration in anticipation of discovering additional oil deposits.

Our Eagle Signal Division, maker of precision timers and counters whose uses range from the hospital delivery room to the factory floor, set record sales. In Eagle's other major product line, traffic control systems, the new aluminum-and-plastic Durasig traffic signal was introduced. Durasig will provide municipalities with a light-weight traffic control device.

Despite the decline in new car sales, those Systems companies that supply the original equipment market had an excellent year. Increased domestic and international market penetration was the reason.

Another reason for the group's successful performance was its continuing drive to improve return on investment. The American Pulley Division's Philadelphia plant was sold, along with one of its product lines. However, we retained some of American Pulley's growth-potential businesses and transferred them to other Systems companies. Hubbard Spool at Garrett, Indiana, also was sold.

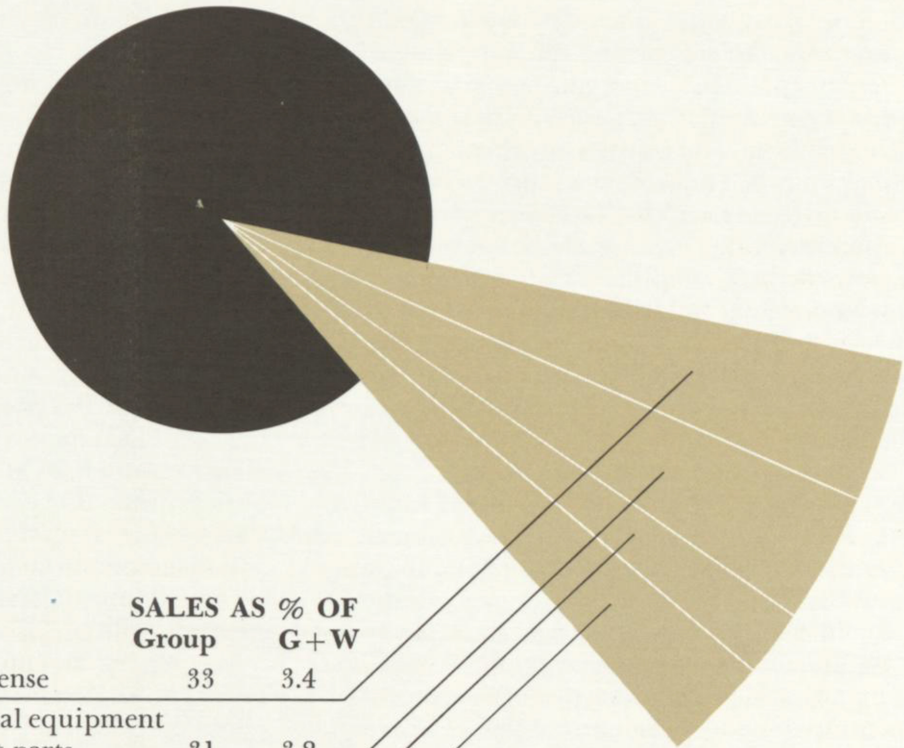
One aspect of the Gulf+Western Systems Group's marketing philosophy is to find new uses for its existing operations. Thus, our Amron Division applied its defense technology to manufacturing ammunition for sportsmen. This new product will be sold in the U.S. by a leading manufacturer of sports firearms. Amron is also involved in manufacturing products for law enforcement agencies.

The Systems Group is confident that it can improve its already-excellent performance record in the new fiscal year.

James J. Shaw
President, Systems

OPERATING STATISTICS

	$ (millions) 1970	1969
Net Sales	$ 207.3	$ 189.6
Operating Income	$ 13.0	$ 11.9
Operating Income to Net Sales	6.3%	6.3%
Capital Expenditures	$ 11.0	$ 9.5
Depreciation	$ 3.7	$ 3.4
Manufacturing and Distribution Facilities	51	
Employees	8,100	



	SALES AS % OF Group	G+W
Aerospace and defense	33	3.4
Automotive original equipment and after-market parts	31	3.2
Electric wire and cable	12	1.3
Capital goods and other	24	2.5
Total Systems	**100%**	**10.4%**

PRECISION ENGINEERING

Sales and earnings of the Gulf+Western Precision Engineering Group were lower because of the slackened economy, particularly in the commercial aircraft and aerospace-defense industries. As a result, the group's sales dropped to $74.3 million (from $80.1 million in fiscal 1969) and operating income fell to $3.7 million (from $7.1 million in 1969).

Disappointing as this was, it spurred plans already afoot to broaden the group's operating base, making it less vulnerable to the cyclic fluctuations of the economy in general and the aircraft-aerospace sectors in particular. During the year our major companies laid solid foundations for further growth and diversification.

Mal Tool & Engineering, a principal supplier of critical jet engine and airframe components to U.S. planemakers, has expanded its capabilities and broadened its sales base for finely-crafted, close-tolerance products. And the New England-based Klock Division moved to capitalize on the growing southeastern U.S. market for its specialized metal-treating and coating capabilities by building a plant in Palm Beach Gardens, Florida. With exotic metals as their raw material, the craftsmen at Mal Tool and Klock are artisans of the space age—and a great asset.

North & Judd Manufacturing began construction of a two hundred fifty thousand-square-foot plant in Middletown, Connecticut, to replace its present facility, where work has been going on continuously since 1847.

With its Japanese partner, Koyo-Seiko Company Ltd., Van Norman Machine began active exploration of new markets for its machine tools elsewhere in Asia as well as in Europe. And two of our divisions, Morse Cutting Tools and Super Tool, both manufacturers of high-speed industrial drills, are expanding their extensive marketing systems and seeking to add new, foreign lines.

The Bliss Portland Division phased out its static wood chipping machine and plant sweeper product lines to concentrate on the more compatible, more growth-prone area of fire fighting equipment—nozzles, turrets and fire-suppressing foam. After the fiscal year ended, Bliss Portland's name was changed to Rockwood to identify the division more closely with its proprietary Rockwood fire fighting and ball valve products. Rockwood also is a prime supplier of aerospace hardware.

We made key management changes in the group with the appointments of three new company presidents: at North & Judd, Philip W. Brown, who started there as a sales trainee in 1948; at Van Norman Machine, Stephen W. Baranyk, a Chicago management engineer specializing in the machine tool and metalworking industry; and at Bliss Portland, William J. Clegg, formerly a vice president of Mal Tool & Engineering.

As new products and new profit opportunities have been developed, the Precision Engineering Group has moved out from its historic New England base. Its plants now dot the map from Florida to Maine and from Michigan to Connecticut. Regardless of this increased size, our basic commitments to customer service and an unyielding standard of quality remain constant.

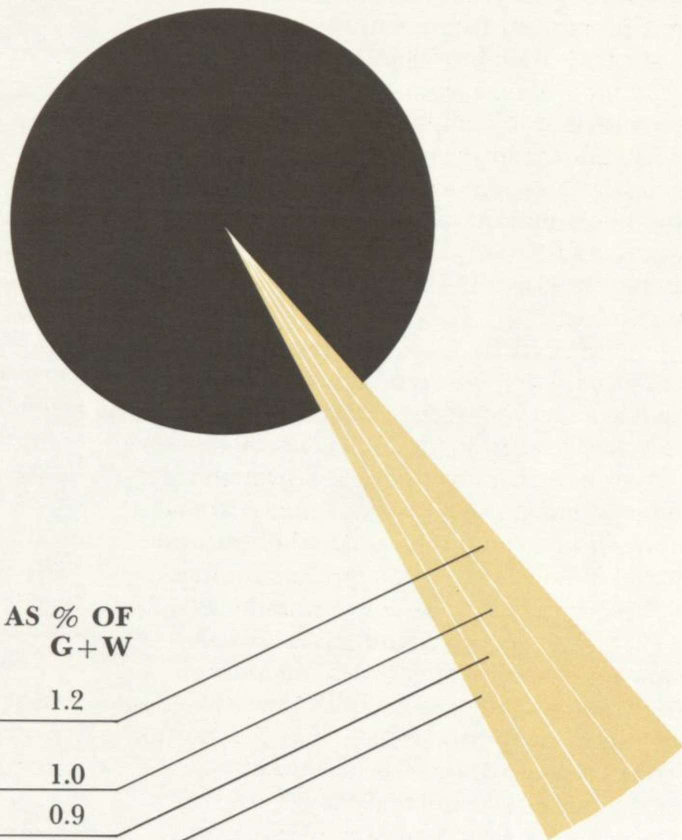
Leaner and stronger, Gulf+Western's Precision Engineering Group enters fiscal 1971 with a widened charter to achieve solid, long-term growth.

George Longtin

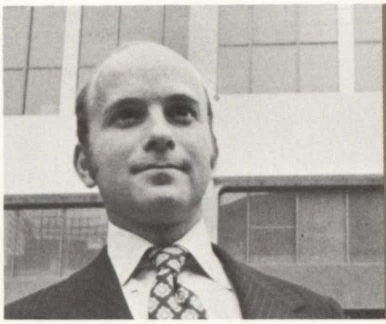
George A. Longtin
President, Precision Engineering

OPERATING STATISTICS

	$ (millions) 1970	1969
Net Sales	$ 74.3	$ 80.1
Operating Income	$ 3.7	$ 7.1
Operating Income to Net Sales	5.0%	8.9%
Capital Expenditures	$ 4.2	$ 3.5
Depreciation	$ 2.3	$ 2.5
Manufacturing Plants	14	
Employees	3,700	



	SALES AS % OF Group	G+W
Drills and other cutting tools	31	1.2
Fasteners, trim and marine hardware	27	1.0
Aerospace components	24	0.9
Other	18	0.6
Total Precision Engineering	**100%**	**3.7%**



The restructuring of Paramount Pictures Corporation continued. Steps taken to bring Paramount into the new economics of moviemaking were the furthest reaching in the company's history:

- Cinema International Corporation was formed by Paramount and MCA's Universal City Studios to achieve new efficiencies in both companies' overseas film distribution. With this move, Paramount expects to save $3 million initially.
- The U.S.-Canadian film distribution system was revamped and computerized.
- Overhead was substantially reduced.
- A 50 percent interest in the Hollywood studio was sold to Società Generale Immobiliare, a worldwide real estate and construction company.

Paramount regards film making as a business, not a pastime. To this end, we intend to become a motion-picture operation without peer: a smaller, more flexible company that is acutely responsive to the ever-changing tastes of moviegoers.

Our domestic production schedule calls for approximately a dozen feature films a year at an average cost of less than $3 million each.

Last year brought the second highest gross revenues in Paramount's history through such films as *Goodbye, Columbus; True Grit;* and *Romeo and Juliet;* and several end-of-the-year releases, including *On a Clear Day You Can See Forever, The Out-of-Towners* and *Catch-22.*

This year Paramount has an equally promising schedule of releases, including *Little Fauss and Big Halsy; Love Story,* based on the nation's current bestseller; *The Confession,* directed by Costa-Gavras of Academy Award-winning *Z* fame; and *Plaza Suite,* the screen version of Neil Simon's hit play.

Going into production soon will be Mario Puzo's *The Godfather; Child's Play,* David Merrick's Broadway hit that will mark his first film production; and *Deadhead Miles,* starring Alan Arkin.

At the beginning of the 1970-71 season, Paramount was the second largest independent supplier of prime-time network television series. The schedule included "Mission: Impossible," "Mannix," "Love, American Style," "The Brady Bunch," "The Odd Couple" and "The Young Lawyers."

Paramount has an exciting future in the leisure field. The economic revolution in the industry has created an unparalleled opportunity for those who, through realistic management, are able to seize it. We intend to be in the vanguard of this group.

Stanley R. Jaffe
President, Paramount Pictures Corporation

FAMOUS PLAYERS CANADIAN CORPORATION

This 51 percent-owned subsidiary began its second half-century of entertaining Canadians. During the fiscal year, under president George P. Destounis, Famous opened 34 new theaters, bringing to 364 (246,057 seats) the number it owns or operates throughout Canada. Corollary to Famous' theater business is the development of real estate. One of the largest projects now underway is redevelopment of the Capitol Theatre site in downtown Ottawa.

Under a Canadian government decree, Famous must reduce to 20 percent its ownership in broadcasting systems. Several CATV systems have been sold, and steps are being taken to dispose of the remainder.

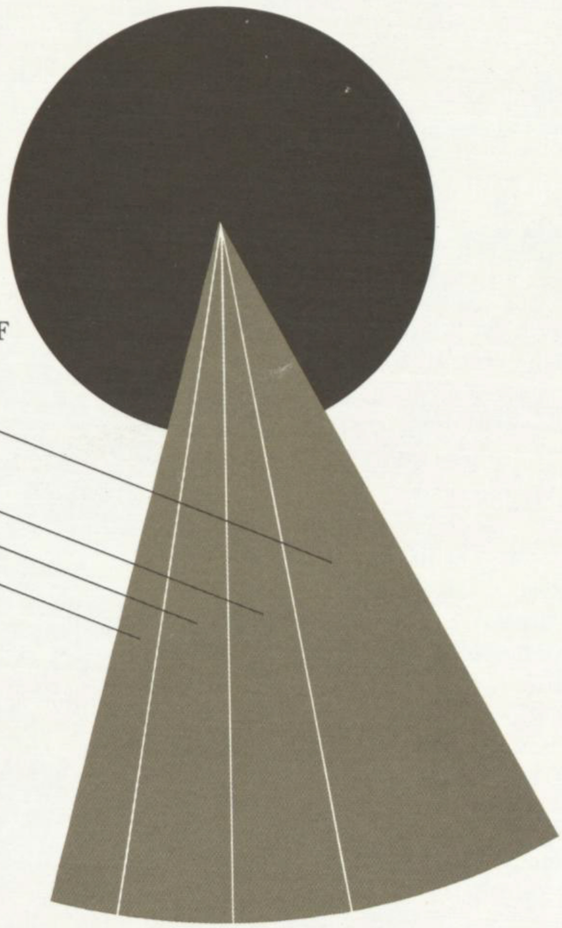
FAMOUS MUSIC CORPORATION

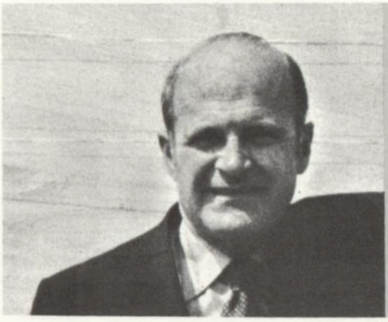
William P. Gallagher, a twenty-year veteran with Columbia and Decca Records, became president of Famous Music, the recording and music publishing division. On its Paramount, Dot and Steed labels, Famous plans to issue a lively mixture of rock, popular and country records and tapes featuring such stars as Roy Clark, Andy Kim, The Illusion, and the Mills Brothers.

OPERATING STATISTICS

	$ (millions) 1970	1969
Revenues	$ 240.9	$ 224.0
Operating Income	$ 2.0	$ 7.6
Operating Income to Revenues	0.8%	3.4%
Motion Pictures Produced	26	32
Motion Pictures Released (in U.S.)	18	29
Television Series Produced	4	3
Theatres Operated (Famous Players)	364	
Employees	2,300	

	REVENUES AS % OF Group	G+W
Theatrical films	42	5.1
Television series and motion pictures	22	2.7
Theatre operations	23	2.7
Other	13	1.6
Total Leisure Time	**100%**	**12.1%**





CONSUMER PRODUCTS

Consolidated Cigar Corporation sold 1.8 billion cigars in the U.S., and its dollar share of the domestic market reached an historic high (29.4 percent for large cigars, 23.4 percent for small cigars). We also brought an exciting small cigar to the marketplace and acquired two companies to complement our cigar business.

Our sales amounted to $165.5 million, up from $154.2 million in fiscal 1969, and operating income rose to $9.7 million from $9.1 million the year before.

The Consumer Products Group's major advances were achieved in U.S. operations. Consolidated Cigar's increase in unit sales was 8 percent better than the industry's, and its dollar share of total consumer cigar purchases in the U.S. reached an all-time high of 28 percent.

We kept in step with the new consumer preference for small, tipped cigars by introducing the air-cooled, charcoal-filtered CigarLet brand, which is made on new, high-speed machines capable of turning out some seven hundred of the little cigars each minute. We are pleased by the public's acceptance of the CigarLet line. The small cigar can substantially expand our market participation among twenty- to thirty-five-year-old cigarette smokers. To further capitalize on this market, we added a new flavor to the Muriel Tipalet line and introduced El Producto Little Tips and Willem Tips brands.

Part of our strategy is to increase our share of the traditional-but-shrinking large cigar market. Consolidated did this by bringing out the La Mancha, El Producto Reno and Dutch Masters Royal lines.

Vital to our success in attracting the consumer to new cigar products is the work going on at Consolidated's Research and Development Center at Glastonbury, Connecticut. There, scientists and technicians are involved in product innovation, tobacco and agronomy research, and quality control.

Seeking logical extensions of our business, we acquired Rogers, Inc., which makes tobacco pouches, and markets pipes, butane lighters and fuel, and Sutliff Tobacco Company, founded in 1849, one of the finest names in pipe tobaccos (Mixture No. 79 and Heine's Blend).

Despite our progress, we did not meet all of the goals we had set. A prolonged strike at our Canadian subsidiary, Simon Cigar, affected profits. Operations of N.V. Willem II Sigarenfabrieken in the Common Market countries were hampered by a sharp rise in labor costs and governmental delay in approving an industry price increase.

As for the future, we are looking at promising growth areas in consumer products beyond cigars. Our subsidiary, Consolidated Brands, Inc., will serve as the corporate vehicle for this move. Consolidated Brands will develop further consumer goods opportunities and bring to market brand name products notable for their high quality (for example, premium vegetables from Gulf+Western Food Products Company). Thus, we can mesh Gulf+Western's managerial and financial resources with Consolidated Cigar's proved marketing ability.

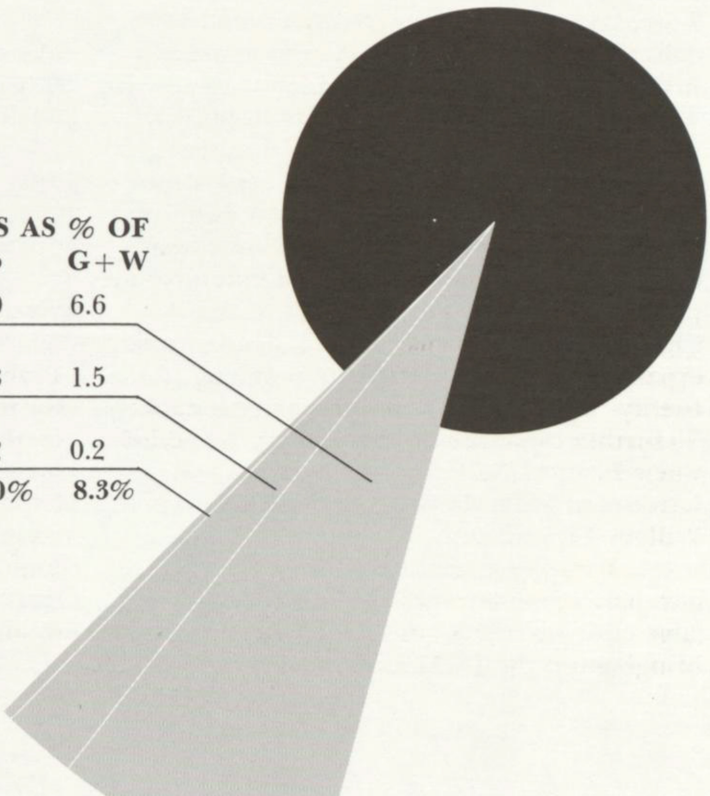
E. W. Kelley

E. W. Kelley
President, Consumer Products

OPERATING STATISTICS

	$ (millions) 1970	1969
Net Sales	$ 165.5	$ 154.2
Operating Income	$ 9.7	$ 9.1
Operating Income to Net Sales	5.9%	5.9%
Capital Expenditures	$ 3.1	$ 2.1
Depreciation	$ 3.1	$ 3.0
Manufacturing Plants	20	
Employees	10,100	

	SALES AS % OF Group	G+W
Traditional cigars	80	6.6
Small, tipped and flavored cigars	18	1.5
Pipe tobaccos and smoking accessories	2	0.2
Total Consumer Products	**100%**	**8.3%**



The New Jersey Zinc Company faced a number of serious problems. Demand for one of its basic products, zinc metal, was sharply reduced by the cutback in auto production, the growing substitution of plastics for zinc die castings, increased competition from zinc imports and slackened sales to the steel industry. This also caused widespread industry discounting in zinc prices of up to one cent a pound. So sensitive is the price-to-profit relationship in the mining industry that at New Jersey Zinc, for example, each half-cent change in the price of zinc affects pre-tax profits by approximately $1 million a year.

Although the Natural Resources Group remained profitable (operating income was $2.1 million), its earnings level was considerably below 1969's $6.9 million, and sales dropped to $105.2 million from last year's $111.7 million.

Lower cost and higher efficiency are our keys to progress. To save approximately $1 million a year and to be closer to several key operations, including the Palmerton Research Center, New Jersey Zinc moved its corporate headquarters from New York City to Bethlehem, Pennsylvania, in September, 1970. We sold our Hanover, New Mexico, mine, an asset of diminishing value to us. At our Friedensville, Pennsylvania, mine, large capital expenditures are being made to insure many more years of profitable operation. At Elmwood, one of the sites in the 955-square-mile active exploration area in middle Tennessee, company engineers and geologists continue to delineate more precisely the zinc mineralization found by surface drilling. This work is being done primarily through a pilot shaft completed in September, 1970. Findings continue to indicate the possibility that a low-cost mining operation will be developed at Elmwood.

Zinc oxide, the company's original product, was a bright spot last year. Demand from the rubber and photo-copying industries remained strong. The nation's largest producer of zinc oxide, New Jersey Zinc further increased its share of the growing market for this basic commodity.

Another of our products, titanium dioxide pigment, which is used in paper and paint manufacture, suffered a small sales decline. Nonetheless, the company's market share of this versatile product—particularly with our new R771 paint pigment—was up last year. There is every indication that sales will improve in fiscal 1971.

We are participants in the fertilizer industry through a diammonium phosphate plant at Depue, Illinois. This industry is still plagued by overcapacity and low prices, and our problems in this field have been aggravated by production difficulties at Depue. The operation continues under the most careful scrutiny.

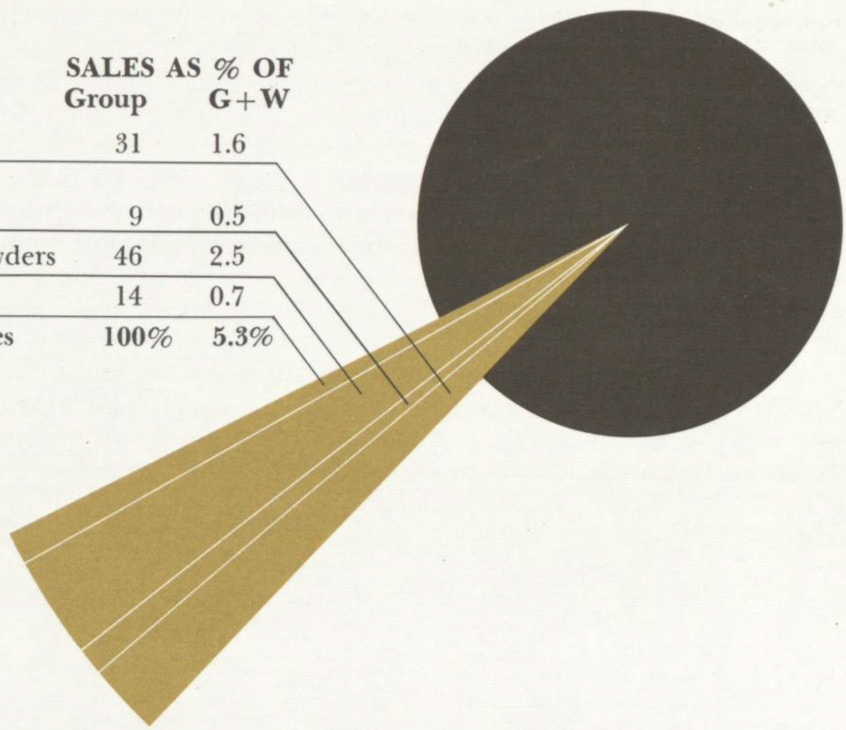
We intend to continue the stringent measures begun in the second half of fiscal 1970 to put Gulf+Western's Natural Resources Group on a solid footing. We are pursuing exploration activities abroad, and are stressing development of products in which our technical competence gives us a competitive advantage. Once the national economy resumes its full upward course, we are confident that these measures will enhance New Jersey Zinc's growth and profitability.

Harold U. Zerbe
Chairman, The New Jersey Zinc Company

OPERATING STATISTICS

	1970 $ (millions)	1969 $ (millions)
Net Sales	$ 105.2	$ 111.7
Operating Income	$ 2.1	$ 6.9
Operating Income to Net Sales	2.0%	6.2%
Capital Expenditures	$ 8.4	$ 8.5
Depreciation and Depletion	$ 8.0	$ 7.7
Ore Mined (thousands of tons)	2,886	3,044
Zinc Metal Produced (thousands of tons)	138	120
Manufacturing Plants and Mines	12	
Employees	4,400	

	SALES AS % OF Group	**SALES AS % OF G+W**
Zinc metal	31	1.6
Byproduct chemicals and minerals	9	0.5
Pigments and metal powders	46	2.5
Agricultural chemicals	14	0.7
Total Natural Resources	**100%**	**5.3%**



FOREST AND PAPER PRODUCTS

Operating income of the Forest and Paper Products Group improved to $4.1 million from the $2.2 million earned in the prior year. Net sales increased to $206.2 million from $194.5 million a year ago. Market weakness in the packaging and paper sectors together with rising raw material prices and labor costs prevented a more substantial improvement. The group's key element is Brown Company, a 69 percent-owned subsidiary of Gulf+Western.

Firmer pulp prices and higher production at the Berlin, New Hampshire, pulp mill helped our performance. This was accompanied by several substantial cost-cutting moves: we sold our marginally-profitable plywood division at North Stratford, New Hampshire; and closed an obsolete packaging plant at Griffin, Georgia, a match plant at Frankfort, Illinois, and some production facilities at Kalamazoo, Michigan.

Consolidation of several manufacturing activities at Kalamazoo was completed in July, 1970. This will produce greater efficiency and permit the sale of several older buildings.

An event of particular significance was conversion from coal to natural gas of the company's power-generating facilities at Kalamazoo. In addition to already-completed water pollution control, this changeover places our Michigan plants among the most pollution-free in the industry. Conservation is another form of environmental control. On the eight hundred thousand New England acres operated by our woodlands division, a continuing regimen of reforestation, fire protection and disease prevention is in effect.

The year was marked by two other major accomplishments: first, the company redeemed its preferred stock through an issue of debentures and warrants, eliminating a continuing dividend arrearage; and second, we further diversified by acquiring a substantial interest in Livingston Rock & Gravel Company, a Southern California producer of sand, gravel and ready-mixed concrete. Livingston will form the nucleus for further expansion in building materials.

Despite this solid progress, much remains to be done if the company is to compete successfully in the seventies. Pollution abatement facilities will be installed at some of our pulp and paper mills. Together with other modernization steps, this will require large capital expenditures over the next several years.

We find the short-range profit picture uncertain. Owing to escalating costs and lower demand caused by the lingering weakness in the national economy, Brown may operate at a loss for its own fiscal year, which ends November 30, 1970. However, the long-range outlook is encouraging. Stringent cost-cutting efforts and the disposal of losing operations will help to offset cost increases next year; but we must look to an improving economy and price firmness for real gains. American Paper Institute projections of operating rates through 1975 show the industry's capacity and demand in good balance. This should permit price increases to cover unavoidable cost rises, and normal growth patterns should insure a healthy paper industry.

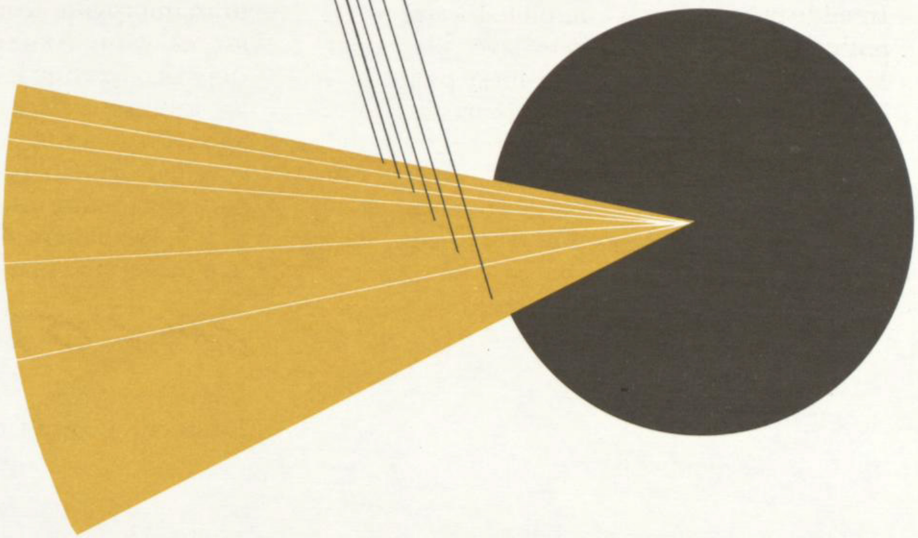
We believe that Brown Company will be in a position to share in this progress.

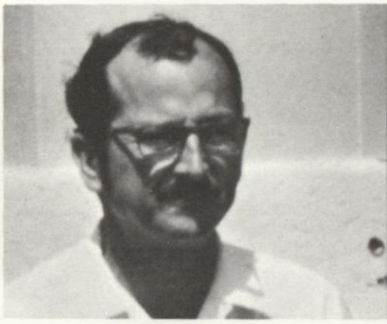
Merrill L. Nash
President, Brown Company

OPERATING STATISTICS

	$ (millions) 1970	1969
Net Sales	$ 206.2	$ 194.5
Operating Income	$ 4.1	$ 2.2
Operating Income to Net Sales	2.0%	1.1%
Capital Expenditures	$ 6.5	$ 4.2
Depreciation and Depletion	$ 7.0	$ 7.8
Manufacturing Plants	12	
Employees	7,300	

	SALES AS % OF Group	G+W
Paper and paperboard	39	4.0
Absorbent and disposable paper convenience items	22	2.2
Packaging	20	2.1
Standing timber, logs and pulp	7	0.8
Building materials	7	0.7
Matches and other	5	0.5
Total Forest and Paper Products	**100%**	**10.3%**





FOOD PRODUCTS

The basic strength of the Food Products Group was never more evident. On lower sales ($72.3 million compared with $77.8 million in 1969), it had higher operating income ($17.8 million versus $15.7 million last year). This was accounted for by a record sugar crop in the Dominican Republic that far outweighed a loss in our Florida farming operations.

In the Dominican Republic, we produced 2,850,297 tons of sugar cane that yielded a record 340,012 tons of raw sugar. Most of this was exported to the higher-priced U.S. market to meet increased demand.

Strategically located in the Caribbean, the Dominican Republic is undergoing a new phase in its economic development. We feel that with its increasing internal stability, and with improving business and investment opportunities, the country is bound to prosper over the next decade. Gulf+Western, in local partnerships, is playing an active role in advancing this economic growth.

For example, since the Dominican Republic's legislature awarded us the right to develop a tax-free industrial zone at La Romana, the zone has attracted its first tenants—a brush company and a clothing manufacturer. Now, three other companies have agreed to construct and operate plants in the zone.

Beyond economic development, Gulf+Western is helping to improve the islanders' standard of living. We have assisted in the construction of more than one hundred thirty schools attended by some seven thousand students. We supply two mobile medical dispensaries that make daily calls around the island, and we operate a modern, forty-bed hospital. Our job training program is designed to reduce local unemployment.

Among the Dominican Republic's riches are its gentle climate and uncommon scenery. In developing this potential asset of tourism, we completed the modernization of the La Romana Hotel overlooking the Caribbean. This year we plan to double its size. Finishing touches are being put on an eighteen-hole golf course near the hotel.

In contrast to the group's outstanding performance in the Dominican Republic, operations in Florida were disappointing. Bad weather seriously hindered the planting, cultivating and harvesting of vegetables at our Scott-Mattson Division. Citrus production, however, was not as badly affected, and it continues above the Florida per-acre average. We are planning to build a fresh-fruit packing plant in Florida to capitalize on our citrus capability.

With the sugar industry in Puerto Rico undergoing change, we terminated operations there by selling our Guanica Mill.

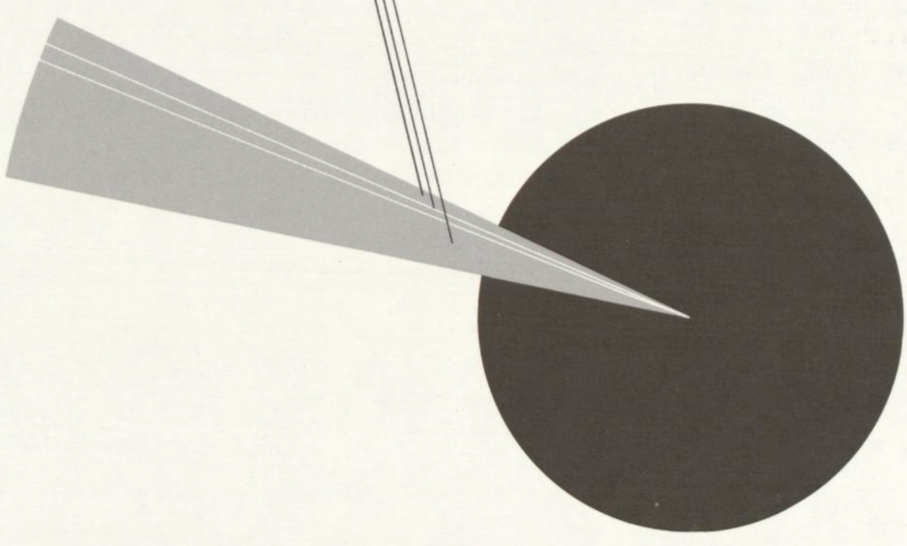
Since South Puerto Rico Sugar Company joined Gulf+Western early in 1967, it has gone through a pattern of internal growth that has taken the company beyond its one-crop dependency on sugar. Reflecting this change, the company, together with Scott-Mattson Farms, has become Gulf+Western Food Products Company. Under this name, the group is engaged in a variety of agriculture-related and land-use activities, ranging from cattle to cucumbers and from tomatoes to tourism.

Alvaro L. Carta
President, Food Products

OPERATING STATISTICS

	\$ (millions) 1970	1969
Net Sales	\$ 72.3	\$ 77.8
Operating Income	\$ 17.8	\$ 15.7
Operating Income to Net Sales	24.6%	20.2%
Capital Expenditures	\$ 7.4	\$ 8.5
Depreciation	\$ 1.5	\$ 1.5
Cane Ground (thousands of tons)	4,606	3,894
Sugar Produced (thousands of tons)	493	403
Manufacturing Plants	7	
Employees (seasonal peak)	20,200	

	SALES AS % OF Group	G+W
Raw and refined cane sugar	74	2.7
Molasses and furfural	11	0.4
Fruit and vegetable produce	15	0.5
Total Food Products	**100%**	**3.6%**



FINANCIAL SERVICES

The Financial Services Group incurred a $16-million increase in interest expense due solely to interest rates that soared to all-time highs. Despite this, and because we were determined to resist inflationary rises in operating costs, the group's consolidated net earnings reached $19.6 million for the twelve months ended June 30, 1970, compared with $21.5 million in the prior year. In its consolidated statement of earnings for the fiscal year ended July 31, 1970, Gulf+Western included the group's operating income (earnings before income taxes) of $35.4 million compared with $41.2 million for the comparable period last year.

A full-service financial institution, Associates engages in three major activities: consumer and commercial lending, insurance, and banking.

Consumer and Commercial Lending. A $300 loan to a young family for a new refrigerator . . . $1 million in installment credit to a truck fleet owner...money to a farmer for irrigation equipment. These are examples of the financial service we provide. With a major emphasis on direct lending, we made over five hundred thousand loans last year for household needs, emergencies and recreation.

We offer innovative concepts in financial service that now include specialized assistance for young doctors and dentists, executives, college students, travelers and credit card holders.

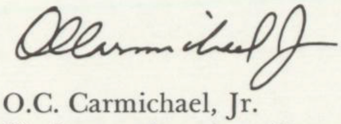
Some of our commercial financing business is basic: short- and medium-term loans to manufacturers to finance inventories, accounts receivable and fixed assets. Beyond this, we have broadened our activities to include the leasing of sophisticated communications equipment to hospitals, universities, and state and local governments—all growth sectors of the economy. We also finance the leasing of a wide range of matériel, from jetliners to typewriters. Our consumer and commercial finance receivables on June 30, 1970, totaled more than $1.9 billion.

Insurance. The company is now in a position to offer a full-line portfolio of insurance coverage. Last year Associates combined all of its insurance operations into Associates Insurance Group. With a record $664 million of ordinary life insurance in force, Associates is on the way to becoming a major North American insurance operation.

Banking. First Bank and Trust Company of South Bend continued its growth, with total deposits reaching $152 million and total resources reaching $168 million.

In the half-century since we began business, Associates has come to stand for fresh ideas in financial service to millions of North American consumers and businessmen. Associates now has more than one thousand offices in the U.S. and Canada. To reflect this hemispheric scope, we changed our name last year to Associates Corporation of North America.

In an increasingly service-oriented economy, Gulf+Western, through Associates, is in a prime growth market. One key to our growth is the single-stop financial center, which will offer such services as family and business loans, money orders, Associates Investment Notes, life and casualty insurance, and auto club memberships. Last year in South Bend, we started construction of the first of these Associates Financial Centers.



O.C. Carmichael, Jr.
Chairman, Associates Corporation of North America

ASSOCIATES CORPORATION OF NORTH AMERICA
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Including All Finance, Insurance, and Banking Subsidiaries)

	(000 omitted) June 30, 1970	1969
ASSETS		
Cash	$ 108,477	$ 106,155
Marketable securities, at cost—A	236,123	239,040
Finance and other receivables	1,815,404	1,761,372
Other assets	46,668	47,889
	$2,206,672	$2,154,456
LIABILITIES AND SHAREHOLDER'S EQUITY		
Commercial bank deposits	$ 152,059	$ 144,152
Insurance reserves and claims	172,459	162,336
Notes and other short-term payables	1,027,297	1,001,156
Long-term debt—B	598,735	604,865
Shareholder's equity—B	256,122	241,947
	$2,206,672	$2,154,456

	(000 omitted) Twelve Months Ended June 30, 1970	1969
REVENUES		
Financing	$ 222,502	$ 198,156
Casualty insurance	85,951	65,124
Life insurance	48,570	45,180
Banking	10,457	8,588
	$ 367,480	$ 317,048
EXPENSES		
Financing:		
Operating	$ 102,530	$ 95,421
Interest	107,362	83,504
Casualty insurance	78,857	58,339
Life insurance	37,141	31,289
Banking	8,172	6,832
Minority interest	14	4*
Federal income taxes	13,828	20,168
	$ 347,904	$ 295,549
NET EARNINGS	$ 19,576	$ 21,499

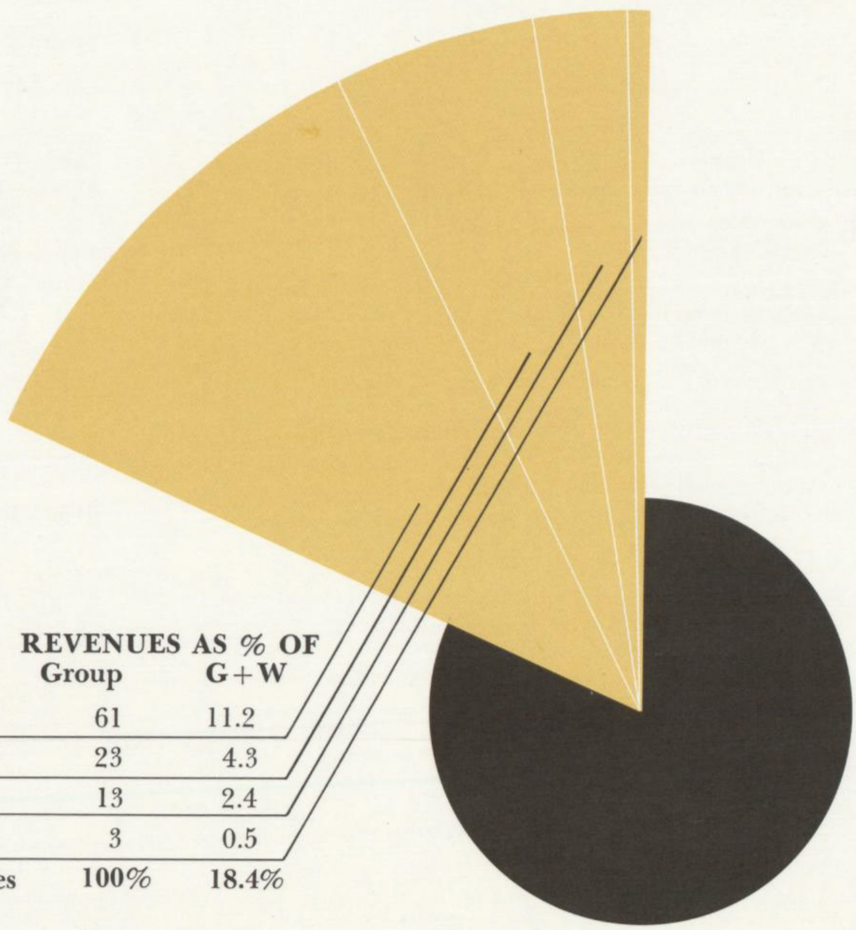
*Denotes deduction.

Note A—Consists of common and preferred stock of $66,446,000 (estimated market value of $45,120,000 at June 30, 1970 and $54,710,000 at October 6, 1970), and bonds (at amortized cost) of $169,677,000.

Note B—Long-term debt at June 30, 1970 bears interest at rates from 3¾% to 8¾% and matures in varying amounts from 1971 to 1988. Under the provisions of the subordinated and capital note agreements, Associates may not permit its net worth to be less than certain percentages of such debt, and dividends subsequent to December 31, 1968 may not exceed certain stipulated amounts. Of the $185,458,000 retained earnings included in shareholder's equity at June 30, 1970, $116,028,000 is restricted by these provisions. In connection with securing temporary standby credit facilities, Associates agreed on September 3, 1970 with a major line bank that during the time the standby credit facility from such bank is in effect no cash dividends will be paid nor capital stock will be repurchased if the consolidated shareholder's equity of Associates would be less than $250,000,000 at the end of the then current calendar quarter.

OPERATING STATISTICS / FINANCIAL SERVICES

(year ended June 30)	$ (millions) 1970	1969
Revenues	$ 367.5	$ 317.0
Finance Receivables	$1,923.6	$1,875.4
Ordinary Life Insurance in Force	$ 663.8	$ 606.5
Casualty Insurance Premiums Written	$ 80.9	$ 64.3
Commercial Bank Total Deposits	$ 152.1	$ 144.2
Employees	7,800	



REVENUES AS % OF

	Group	**G+W**
Financing	61	11.2
Casualty insurance	23	4.3
Life insurance	13	2.4
Banking	3	0.5
Total Financial Services	**100%**	**18.4%**

CONSOLIDATED STATEMENT OF EARNINGS

	Year Ended July 31	
	1970	1969
Net sales and other operating revenues	$1,629,562,000	$1,563,564,000
Equity in earnings before income taxes of unconsolidated affiliates	41,829,000	49,640,000
	$1,671,391,000	$1,613,204,000
Costs of goods sold	$1,240,870,000	$1,205,428,000
Selling, administrative, and general expenses	270,580,000	246,632,000
Depreciation and depletion	42,769,000	41,454,000
	$1,554,219,000	$1,493,514,000
OPERATING INCOME	$ 117,172,000	$ 119,690,000
Dividends, interest, and other income	12,482,000	9,211,000
	$ 129,654,000	$ 128,901,000
Interest expense	64,448,000	64,001,000
Minority interest	3,881,000	4,873,000
Provision for income taxes—Note G	11,500,000	9,045,000
NET EARNINGS EXCLUDING GAINS/LOSSES ON SALES OF SECURITIES	$ 49,825,000	$ 50,982,000
Gains/Losses* on sales of securities (net of income tax benefit of $3,500,000 in 1970 and income tax provision of $11,055,000 in 1969)	5,054,000*	21,068,000
NET EARNINGS	$ 44,771,000	$ 72,050,000
Dividends on preferred stock other than common equivalent shares	$ 5,642,000	$ 5,870,000
Average common and common equivalent shares outstanding—Note H	19,547,000	21,005,000
Primary earnings per share:		
Net earnings excluding gains/losses on sales of securities	$ 2.26	$ 2.15
Net earnings	2.00	3.15
Fully diluted earnings per share:		
Net earnings excluding gains/losses on sales of securities	2.26	2.00
Net earnings	2.00	2.67

See notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEET

ASSETS	July 31 1970	July 31 1969
CURRENT ASSETS		
Cash	$ 64,264,000	$ 33,493,000
Marketable securities—at cost (estimated market value 1970—$23,186,000)—Note F	27,955,000	210,137,000
Trade receivables, less allowances (1970—$7,980,000; 1969—$5,940,000) for doubtful accounts	259,909,000	248,134,000
Inventories—Note B	488,232,000	513,200,000
Prepaid expenses, income taxes, and other receivables	83,758,000	36,426,000
TOTAL CURRENT ASSETS	$ 924,118,000	$1,041,390,000
PROPERTY, PLANT, AND EQUIPMENT—at cost		
Land, buildings, and mines	$ 368,135,000	$ 350,324,000
Machinery, equipment, and other	669,551,000	635,546,000
Construction in progress—Note I	18,076,000	20,596,000
	$1,055,762,000	$1,006,466,000
Less allowances for depreciation and depletion	503,140,000	481,407,000
	$ 552,622,000	$ 525,059,000
OTHER ASSETS		
Investment in affiliated companies and other corporate securities—Notes A and C	$ 536,557,000	$ 446,385,000
Receivables due after one year	70,589,000	82,849,000
Intangibles, deferred costs, and other	70,577,000	76,344,000
	$ 677,723,000	$ 605,578,000
	$2,154,463,000	$2,172,027,000

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY

	July 31 1970	July 31 1969
CURRENT LIABILITIES		
Notes payable (primarily to banks) and commercial paper	$ 254,426,000	$ 203,139,000
Current maturities of long-term debt	28,076,000	23,040,000
Trade accounts payable	103,289,000	104,779,000
Accrued expenses and other liabilities	109,680,000	130,702,000
Income taxes payable	11,653,000	3,220,000
TOTAL CURRENT LIABILITIES	$ 507,124,000	$ 464,880,000
DEFERRALS		
Income taxes	$ 53,978,000	$ 74,134,000
Participation payments and other	43,360,000	25,678,000
	$ 97,338,000	$ 99,812,000
LONG-TERM DEBT, less current maturities—Note D	413,812,000	432,491,000
MINORITY INTEREST—in consolidated subsidiaries	46,740,000	54,869,000
CONVERTIBLE SUBORDINATED DEBT—Note D	509,103,000	529,909,000
SHAREHOLDERS' EQUITY—Note E		
Convertible preferred stock (liquidation value $158,238,000)	$ 4,653,000	$ 5,034,000
$5.75 non-convertible preferred stock	40,726,000	41,856,000
Common stock	14,964,000	16,310,000
Paid-in surplus	226,933,000	247,212,000
Retained earnings—Note D	293,070,000	279,654,000
	$ 580,346,000	$ 590,066,000
	$2,154,463,000	$2,172,027,000

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 101,200 shares of convertible preferred stock and 395,543 shares of common stock held in treasury)	$5,034,000	$41,856,000
Acquisition of pooled businesses		
Balance at beginning of period—Restated	$5,034,000	$41,856,000
Common stock issued:		
3% stock dividend—at fair value		
Exercise of stock options		
Exercise of warrants		
Conversion of preferred stock	241,000*	
Conversion of debentures		
Common stock held in treasury and warrants issued for purchase of assets or exchanged for marketable securities		
Warrants sold		
Acquisition of stock for the treasury	140,000*	1,130,000*
Equity transactions of a subsidiary		
Retirement of stock purchase warrants		
Cash dividends:		
Paid on common stock ($.42½ per share in 1970, $.45 per share in 1969)		
Paid and accrued on preferred stock		
Dividend paid in stock of a subsidiary		
Net earnings for the year		
Balance at end of period (excludes 157,000 shares of convertible preferred stock, 11,300 shares of $5.75 non-convertible preferred stock and 2,559,693 shares of common stock held in treasury)	$4,653,000	$40,726,000

*Denotes deduction.

See notes to consolidated financial statements.

Year Ended July 31, 1970			Year Ended July 31, 1969	
Common Stock	Paid-in Surplus	Retained Earnings	Paid-in Surplus	Retained Earnings
$16,310,000	$247,212,000	$279,654,000	$211,647,000	$263,694,000
			523,000	2,631,000
$16,310,000	$247,212,000	$279,654,000	$212,170,000	$266,325,000
			22,101,000	22,569,000*
27,000	228,000		999,000	
			572,000	
372,000	131,000*		187,000*	
419,000	21,478,000		4,042,000	
45,000	452,000		7,266,000	
			8,098,000	
2,209,000*	42,026,000*	16,066,000*	7,949,000*	8,820,000*
	473,000		100,000	
	753,000*			
		6,585,000*		7,197,000*
		8,704,000*		9,449,000*
				10,686,000*
		44,771,000		72,050,000
$14,964,000	$226,933,000	$293,070,000	$247,212,000	$279,654,000

GULF+WESTERN INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended July 31, 1970

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. 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 investments in other corporate stock are carried at cost.

NOTE B: Inventories

The amounts of inventories were determined using the following methods:	
Lower of cost or market	$348,165,000
Cost, less amortization (primarily theatrical and television films)	124,664,000
Estimated net sales price (commodities, primarily sold but not shipped)	15,403,000
	$488,232,000

NOTE C: Investment in affiliated companies and other corporate securities

Investment in affiliated companies and other corporate securities includes $379,674,000 applicable to the Company's ownership of all of the outstanding capital stock of Associates Corporation of North America (formerly Associates Investment Company), whose condensed consolidated financial statements (including all of its finance, insurance, and banking subsidiaries) are presented on page 27.

NOTE D: Long-term debt and convertible subordinated debt

Long-term debt at July 31, 1970 includes:	
Notes payable to institutional investors, interest 4% to 6.3%, primarily 5¾%, maturing 1971 to 1989	$174,030,000
5½% notes due 1973 to 1986	48,635,000
5% subordinated debentures due 1971 to 1988	64,102,000
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 10%, averaging approximately 6%, due in installments from 1971 to 1993	105,123,000
	$441,888,000
Less current maturities	28,076,000
	$413,812,000
Convertible subordinated debt at July 31, 1970 includes:	
5½% debentures, due 1993, convertible into common stock of the Company at $56.70 a share	$404,494,000
5¼% debentures and notes, due 1972 to 1989, convertible into common stock of the Company from $43.59 to $49.02 a share	104,609,000
	$509,103,000

Maturities of long-term debt and convertible subordinated debt during the five years ending July 31, 1975, are:

1971	$28,076,000
1972	36,476,000
1973	37,634,000
1974	29,586,000
1975	32,678,000

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, 1970 was $44,886,000.

NOTE E: Capital stock at July 31, 1970

	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, (outstanding excludes 1,500 shares held in treasury)	875,000	371,621
$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 35,000 shares held in treasury)	1,375,000	666,021
$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 120,500 shares held in treasury)	1,200,000	823,458
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, (outstanding excludes 11,300 shares held in treasury)	750,000	407,257
Common stock, recorded at $1.00 par value, (outstanding excludes 2,559,693 shares held in treasury)	150,000,000	14,963,691

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 series preferred stock reserved for exercise of warrants and an option, which expire from 1971 to 1974, at a total exercise price of $2,035,000.

Common stock outstanding does not include 1,035,797 shares reserved for exercise of employee stock options, of which options to purchase 491,065 shares have been granted and carry a total exercise price of $15,370,000; 7,418,556 shares reserved for exercise of warrants expiring 1978 and 1986 at a total exercise price of $388,555,000; 10,401,147 shares reserved for issuance upon conversion of an aggregate of $559,101,000 principal amount of convertible debt; and 5,592,662 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, 1970, options to purchase 38,833 shares of the Company's stock at a total purchase price of $669,000 were granted; and options to purchase 26,057 shares at a total purchase price of $255,000 were exercised. Of the 491,065 options outstanding at July 31, 1970, 301,455 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, 1970, 454,375 of such warrants were outstanding.

NOTE F: Market values of marketable securities

The market values of marketable securities in the accompanying balance sheets of the Company and its unconsolidated subsidiary, Associates Corporation of North America, are primarily based on closing stock exchange quotations. The Company believes the decline in market values is temporary and does not represent a permanent impairment of the cost of such securities.

NOTE G: Income taxes

Provision for income taxes includes United States Federal income, foreign income and excess profits, and state income taxes. Such provision for income taxes is low in relation to earnings before taxes primarily due to earnings of tax exempt or low-tax-rate foreign subsidiaries, gains on real estate transactions, dividend income, tax-exempt interest income, 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 tax credits of $17,590,000 for 1970 and deferred tax charges of $5,200,000 for 1969 arising primarily from greater amortization of theatrical film inventory for financial purposes than for tax purposes, 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 H: Earnings per share

Primary earnings per share amounts are based on the average common and common equivalent (the Company's $1.75 Series A and $3.50 Series B convertible preferred stock) shares outstanding during the respective periods. The reduction of average shares outstanding is the result of the Company's repurchase of its shares during the year.

In computing fully diluted earnings per share the following assumptions were made:
(1) exercise of all options (average exercise price is $31.30 a share) and all warrants (average exercise price is $52.38 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 remaining convertible preferred stock and debt. Such assumed exercises and conversions did not result in dilution of the per share amounts for the year ended July 31, 1970. If the events in these assumptions had actually taken place, the Company's shareholders' equity at July 31, 1970 would have been increased by approximately $470 million.

NOTE I: Commitments and contingencies

The aggregate annual rental obligations on leases in effect at July 31, 1970 approximate $11,400,000. 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, 1970 were $17,600,000. The contributions to pension plans include amortization of prior-service cost, primarily over a thirty-year period. The Company's policy generally 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 $29,800,000 as of July 31, 1970.

Estimated cost to complete construction in progress at July 31, 1970 was $12,200,000.

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, 1970. 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 and Brown Company and consolidated subsidiaries for the year ended July 31, 1970, or Associates Corporation of North America and consolidated subsidiaries for the period prior to January 1, 1970, which were reported on by other independent accountants.

In our opinion, based upon our examination and the reports of other independent 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, 1970, 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 with that of the preceding year.

Ernst + Ernst
New York, N.Y.
October 15, 1970

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

	1970
OPERATING RESULTS AS RESTATED FOR POOLINGS—year ended July 31,	
Net sales and other operating revenues	$1,629,562,000
Net earnings excluding gains/losses on sales of securities	49,825,000
Net earnings	44,771,000
Primary earnings per share—Note A:	
Net earnings excluding gains/losses on sales of securities	2.26
Net earnings	2.00
Fully diluted earnings per share—Note A:	
Net earnings excluding gains/losses on sales of securities	2.26
Net earnings	2.00
Depreciation and depletion	42,769,000
OPERATING RESULTS AS ORIGINALLY REPORTED—year ended July 31,	
Net sales and other operating revenues	$1,629,562,000
Net earnings excluding gains/losses on sales of securities	49,825,000
Net earnings	44,771,000
Primary earnings per share—Note A:	
Net earnings excluding gains/losses on sales of securities	2.26
Net earnings	2.00
Fully diluted earnings per share—Note A:	
Net earnings excluding gains/losses on sales of securities	2.26
Net earnings	2.00
Depreciation and depletion	42,769,000
FINANCIAL POSITION AS ORIGINALLY REPORTED—July 31,	
Working capital	$ 416,994,000
Net property, plant, and equipment	552,622,000
Total assets	2,154,463,000
Shareholders' equity	580,346,000
Book value per common share—Note A	25.49
GENERAL STATISTICS AS ORIGINALLY REPORTED	
Number of shareholders:	
Common stock	54,000
Preferred stock	40,000
Capital expenditures	$ 86,676,000

Note A—Adjusted for stock dividends paid through July 31, 1970, 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 Transnation Development Corporation (formerly G & W Land and Development Corp.) for each 20 shares of the Company's common stock held.

Note B—Includes net extraordinary loss of $3,861,000 or $.20 per share.

1969	1968	1967	1966
$1,563,564,000	$1,330,565,000	$1,191,144,000	$1,033,022,000
50,982,000	67,732,000	59,523,000	45,926,000-B
72,050,000	70,366,000	60,818,000	47,290,000-B
2.15	3.00	2.67	2.03
3.15	3.13	2.74	2.10
2.00	2.64	2.67	2.03
2.67	2.74	2.74	2.10
41,454,000	29,124,000	25,355,000	22,780,000
$1,563,564,000	$1,320,486,000	$ 649,488,000	$ 317,533,000
50,982,000	67,208,000	45,411,000	19,306,000
72,050,000	69,842,000	46,199,000	20,117,000
2.15	3.00	2.80	1.90
3.15	3.13	2.85	1.98
2.00	2.63	2.80	1.90
2.67	2.74	2.85	1.98
41,454,000	28,902,000	14,121,000	9,323,000
$ 576,510,000	$ 469,591,000	$ 213,190,000	$ 66,597,000
525,059,000	518,215,000	280,926,000	115,656,000
2,172,027,000	2,055,334,000	749,439,000	294,239,000
590,066,000	537,874,000	229,245,000	107,576,000
23.16	19.93	9.55	7.36
51,000	43,000	26,400	7,600
40,000	42,500	24,600	4,800
$ 72,825,000	$ 61,587,000	$ 53,074,000	$ 26,026,000

BOARD OF DIRECTORS

Roy T. Abbott, Jr.
Senior Vice President
Gulf+Western Industries, Inc.

J. D. Barnette
President
Associates Corporation of North America

J. Robert Baylis
Chairman of the Board
Consolidated Cigar Corporation

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

O. C. Carmichael, Jr.*
Chairman of the Board
Associates Corporation of North America

Martin S. Davis
Senior Vice President
Gulf+Western Industries, Inc.

Joel Dolkart*
Partner
Simpson Thacher & Bartlett, Attorneys

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Chairman of the Executive Committee
Gulf+Western Industries, Inc.

D. Lyle Fife
Chairman of the Board (Retired)
Fife Electric Supply 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

David N. Judelson*
President
Gulf+Western Industries, Inc.

Judd Leighton
Vice Chairman of the Board
First Bank and Trust Company of South Bend

Francis S. Levien
President
Universal American Corporation

*Member of Executive Committee
**Resigned Oct. 22, 1970

Philip J. Levin**
Chairman of the Board
Transnation Development Corporation

R. L. McCann
Chairman of the Board (Retired)
The New Jersey Zinc Company

T. H. Neyland
Investments
Houston, Texas

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*
Chairman of the Board
The New Jersey Zinc Company

CORPORATE OFFICERS

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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

Martin S. Davis
Senior Vice President

Norman R. Forson
Vice President and Treasurer

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Vice President and Resident Counsel

Matthew J. Lawlor
Vice President—Employee Relations

Lawrence E. Levinson
Executive Assistant to the Chairman of the Board

Gerald I. Ritthaler
Vice President and Director of Taxes

Joel L. Roth
Vice President—Corporate Planning

William M. Flatley
Controller

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O. C. Carmichael, Jr.
Chairman of the Board
Associates Corporation of North America

Alvaro L. Carta*
President, Food Products Group

John H. DeVries*
President, Industrial Products Group

Stanley R. Jaffe
President, Paramount Pictures Corporation

E. W. Kelley*
President, Consumer Products Group

George A. Longtin*
President, Precision Engineering Group

Merrill L. Nash
President, Brown Company

*Also Vice President, Gulf+Western Industries, Inc.

Guy H. Pitts*
President, Metals Forming Group

Frank V. Rogers*
President, Distribution Group

James J. Shaw*
President, Systems Group

Harold U. Zerbe
Chairman of the Board
The New Jersey Zinc Company

TRANSFER AGENTS
The Chase Manhattan Bank, N.A.
1 Chase Manhattan Plaza, New York, N.Y. 10015

Fidelity Union Trust Company
765 Broad Street, Newark, New Jersey 07101

REGISTRAR
Manufacturers Hanover Trust Company
4 New York Plaza, New York, N.Y. 10015

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Ernst & Ernst
140 Broadway, New York, N.Y. 10005

COUNSEL
Simpson Thacher & Bartlett
1 Battery Plaza, New York, N.Y. 10004

CORPORATE OFFICES
1 Gulf+Western Plaza, New York, N.Y. 10023

ANNUAL MEETING

The annual meeting of shareholders will be held in New York City on Tuesday, December 8, 1970 at 10:00 a.m. in the Paramount Theatre adjacent to the Gulf+Western Building, 1 Gulf+Western Plaza, at the north end of Columbus Circle.