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GAF Corporation Annual Report 1968



GAF 12398

01-10-1968

Financial Highlights

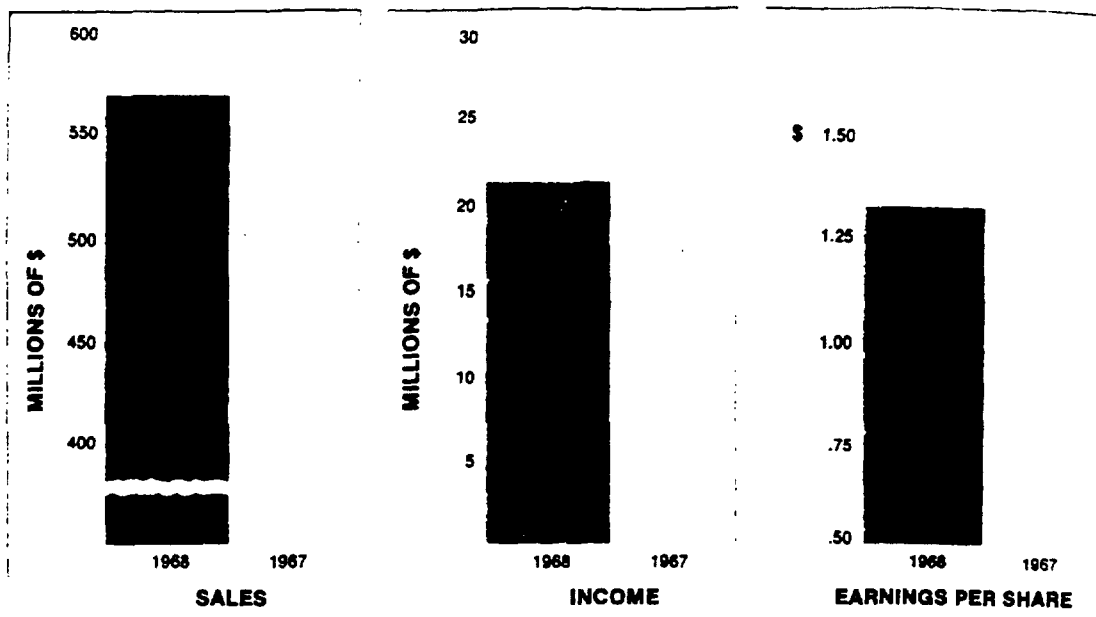


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Front cover:
A view of Portofino, Italy, from a transparency taken on GAF color slide film (Anscochrome®).

The GAF Corporation

GAF 12399

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Jesse Werner, Chairman of the Board
and President

To GAF Stockholders:

In 1968 GAF Corporation's consolidated net sales rose 9 per cent over the preceding year to \$569,548,000, and consolidated net income rose 12 per cent to \$21,232,000. Net income per share of common stock was \$1.31, up 15 per cent over 1967. These set new records for GAF.

Each of the five major sales groups that make up the company's operations contributed to this increase with record individual sales. Equally gratifying is the rise in net income despite ever-increasing operating costs. Earnings were also adversely affected by the 10 per cent federal income tax surcharge enacted in July, which reduced earnings by \$1.5 million, or 11.5 cents per share.

The year 1968 was a costly one from an operations viewpoint. Expenditures for raw materials, services, and wages and salaries continued to escalate. Secondly, GAF is engaged in ambitious plant and marketing expansion programs that involved added expenses for plant startups, for new technical and sales personnel, and most dramatically, for interest on borrowed money used to help finance this internal growth. Interest expense for GAF was \$8,292,000, or 31 per cent higher in 1968 than in 1967. A third element of added costs that deserves mention was a 60-day strike at the company's largest chemical plant, in Linden, N.J.

Achievement of improved earnings in the face of these obstacles was due to added sales volumes from the new products introduced in 1968 and new production facilities that came on stream during the year, some price firming in all the company's five major sales groups, and the continuing cost-reduction program involving the consolidation of services and improvements in operating efficiency.

Although the operating review that follows in later sections of this annual report gives details on the company's five major product groups, a few highlights of each should be noted.

The chemical group's sales performance is particularly noteworthy in view of the previously mentioned strike, continuing sluggishness in this market, and severe import competition in the dyestuff and pigment area. The first high-pressure acetylene chemical units and the new Amiben herbicide facility at the new Texas City plant were successfully brought on stream.

While the photo products group showed the largest sales percentage gain of any for the year, much of this was due to the strong growth in photo equipment products. To permit acceleration in sales of GAF photo-sensitized materials, additional manufacturing facilities are being built and placed in operation as rapidly as possible.

The company's largest single 1968 construction project, completed at the very end of the year, consisted of new coating facilities for the manufacture of sensitized photographic materials (both films and papers) at the Binghamton, N.Y. photo plant. These new facilities will be undergoing startup activities for much of the first half of 1969.

The business systems group also showed sales improvement, notwithstanding the effect on the company's British operations of devaluation of the British pound late in 1967. Part of the growth came from an increase in sales of the Gafax® electrostatic copying machine, paper and toner system.

Building products rebounded strongly in both sales and profits from a somewhat sluggish 1967. This was because of the combination of more housing starts, better weather conditions and firmer prices.

The industrial products group's improvement was directly related to the general strength of the varied industries with which it supplied equally varied products.

On specific capital improvements mentioned above, and others underway, GAF spent a record total of \$43.6 million in 1968 to improve and expand operating facilities in the United States and abroad.

There are many examples of the success of the consolidation effort in 1968. The most visible achievement was undoubtedly the company's year-long television advertising program. Increased impact on consumers was achieved without an equivalent increase in advertising expenditures by handling all GAF's consumer products advertising as one package rather than separate programs.

In addition to improved exposure of company products to the consuming public, the 1968 advertising and public relations programs gave major emphasis to promotion of the new corporate name and identity. Upon approval by shareholders at the Annual Meeting on April 23, 1968, the name of the company was changed from General Aniline & Film Corporation to GAF Corporation. We believe considerable progress is being made in familiarizing the financial and business communities and the general public with our new name, and in further explaining GAF's commitment to growth by exploitation of technology in a number of congeneric major sales fields.

In 1969, we plan to intensify advertising and promotion of the GAF name to industrial and consumer users of our many products. The GAF name and logotype will be used increasingly as the dominating and unifying theme for identification of all GAF product lines. This will offer a double advantage: it will permit users of any GAF product to recognize other families of GAF products offering the same high quality and reliability; it will also graphically show the varied and growing markets in which GAF products are sold.

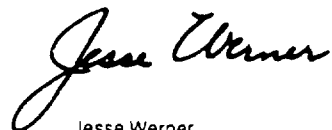
GAF's five major product lines are used in some of the fastest growing segments of the economy. To give shareholders a concept of the magnitude of this growth potential, each operations review that follows carries marginal quotations from leading industrial publications and other current reports. There is little doubt that the fields in which we are engaged provide GAF with an opportunity to grow at a rate surpassing the average of the economy.

Turning to the immediate future, present indications are that, should the economy continue at current levels for 1969, GAF will maintain high rates of growth in the sales and profits of all major product lines. At the same time, we shall continue to press our programs for internal growth by construction of new facilities and introduction of new products, and external growth by vigorous efforts to find appropriate acquisition and merger opportunities.

GAF has been exceedingly fortunate in the acquisitions it has consummated, and we are certain that the future will bring still more equally successful acquisitions.

On behalf of the Board of Directors, I wish to extend appreciation to our employees for their devoted and conscientious efforts, and to the shareholders for their confidence and loyalty.

By order of the Board of Directors



Jesse Werner
Chairman of the Board and President

March 5, 1969

GAF 12401

Financial Review

GAF sales in 1968 totaled a record \$569,548,000 and were \$48,676,000, or 9 per cent, higher than 1967. All of the company's sales groups contributed to this increase, as shown in the comparative figures below:

	1968		1967		
	\$ Sales	Per Cent of Total	\$ Sales	Per Cent of Total	Per Cent Increase
Chemicals	150,107,000	26.4	142,945,000	27.4	5.0
Photo Products	134,009,000	23.5	115,601,000	22.2	16.0
Business Systems	71,002,000	12.5	64,355,000	12.4	10.0
Building Products	168,203,000	29.5	154,461,000	29.7	9.0
Industrial Products	46,227,000	8.1	43,510,000	8.3	6.0
	569,548,000	100.0	520,872,000	100.0	9.0

Net income in 1968 was a record \$21,232,000, which was \$2,271,000, or 12 per cent, higher than 1967. Earnings per share on common stock was \$1.31, an increase of 17 cents, or 15 per cent, per share.

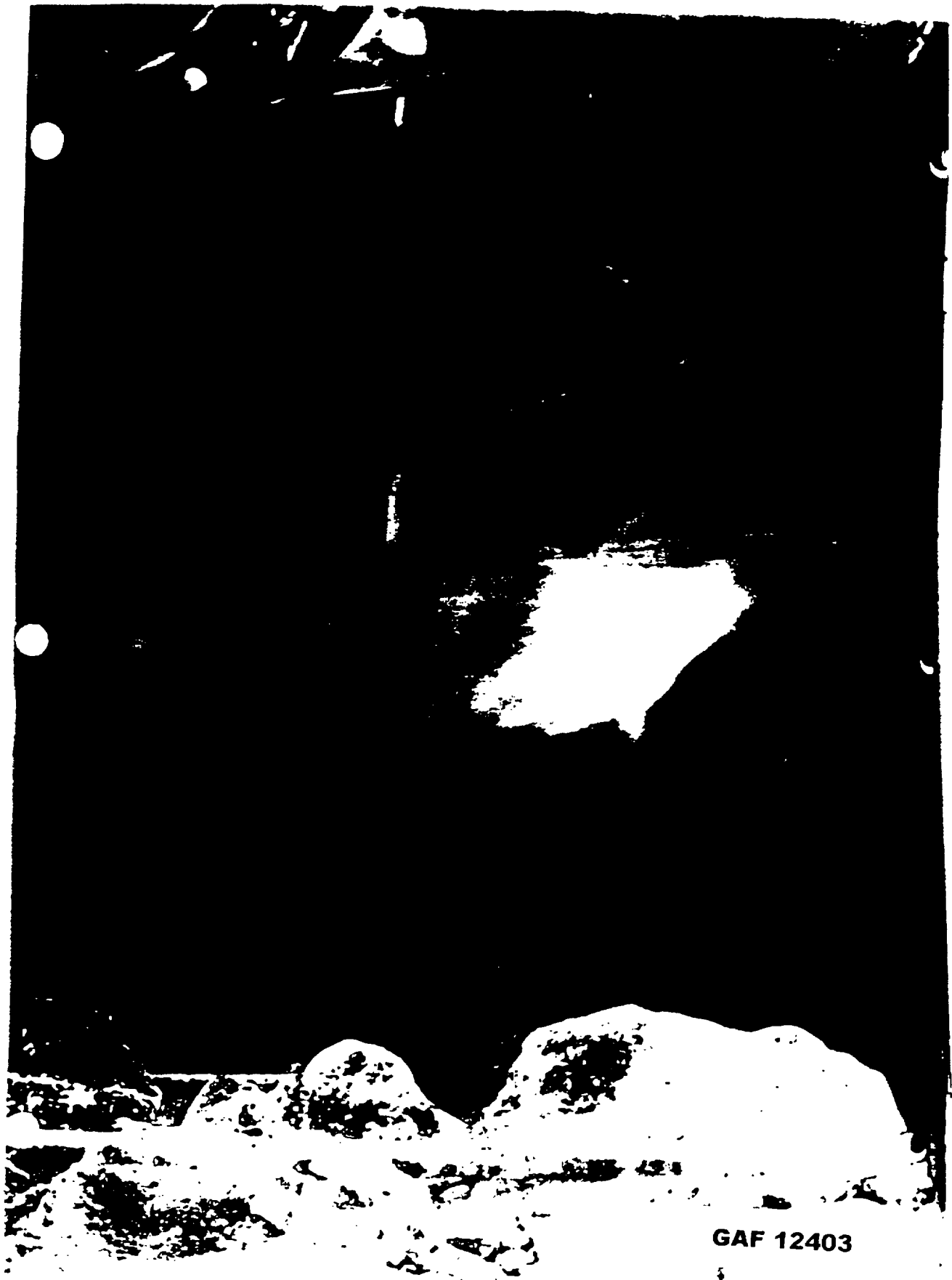
Dividends to both common and preferred shareholders totaled \$9,112,841 during 1968 and represented 43 per cent of net earnings. Four quarterly cash dividends of 10 cents per share of common stock (totaling 40 cents), and 30 cents per share of preferred stock (totaling \$1.20) were declared by the Board of Directors and disbursed to the shareholders.

Plant and equipment expenditures totaled \$43,578,000 in 1968, compared with \$39,931,000 in 1967.

Working capital at year-end amounted to \$156,255,000 a decrease of \$1,309,000 from 1967. A consolidated statement of the source and use of funds is shown on page 24.

Shareholders' equity increased during the year from \$273,314,000, or \$14.06 per share of common stock, on December 31, 1967 to \$286,449,000, or \$14.90 per share of common stock, on December 31, 1968.

No new credit facilities were negotiated during 1968. The company continues to finance its needs through the use of the revolving credit agreement arranged in 1967, from sale of short-term notes, and from internally generated funds.



GAF 12403

1 Chemicals

"Sales of textile chemicals in 1968 were about \$300 million—a 13 per cent increase over 1967. . . . Sales growth in specialty chemicals has averaged 5 per cent per year over the past decade, and projected growth in the next decade is expected to average 5½ per cent a year. . . . Sales of cosmetics in 1968 were roughly \$3 billion, and growth over the next ten years is expected to range from 8 to 10 per cent a year. . . . For pesticides, a recent projection for the decade 1965-75 pegs annual growth at 16 per cent; for herbicides, at 18 per cent. . . . Heavy chemicals showed an annual sales growth in the past ten years of 5.4 per cent, and experts forecast growth averaging 7.8 per cent a year in the next decade."

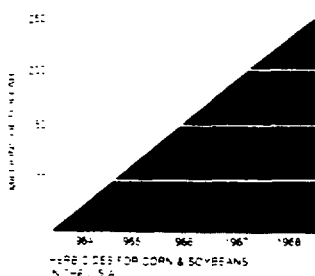
CHEMICAL WEEK

"The chemical and allied products industry sold products worth \$51.4 billion in 1968, which was 8 per cent higher than last year. The prospect for 1969 is the same rate of growth with sales of about \$56 billion."

CHEMICAL & ENGINEERING NEWS

"The total market for crop-protection chemicals is approaching \$1 billion annually. The largest submarket is for herbicides for corn and soybeans. In the United States, it amounts to about \$250 million and has grown about 400 per cent over the past five years."

THE JOURNAL OF COMMERCE



One of the most exciting and promising chemical markets is that for weed killers and pesticides. Taken at GAF's Linden, N. J. chemical plant is this interesting view of a project which is synthesizing new herbicide compounds related to Amben, a leading pre-emergent herbicide for soybeans produced for Rorer-Amchem Inc.

GAF chemical activities are conducted by two operating divisions: the Dyestuff & Chemical Division and the Textile Chemical Division.

While GAF's chemical operations moved ahead in 1968, the increase in sales volume would have been larger, had it not been for a 60-day strike shutdown in the first quarter at the Linden, N. J., plant.

High-Pressure Acetylene Derivatives—Sales of GAF's acetylene chemicals increased to a record high again in 1968. This product line is being expanded steadily to accommodate the continuing discovery of applications in many diverse industries.

Construction of the new GAF acetylene derivatives plant at Texas City, Texas, costing more than \$20 million, was completed during 1968 and start-up operations proceeded smoothly. This new facility represents a major increase in capacity and a second source of supply completely independent of GAF's similar plant at Calvert City, Ky.

Regular production has begun at Texas City on the polyvinylpyrrolidone (PVP) family of products: butynediol, propargyl alcohol, butanediol, butyrolactone and pyrrolidone. Vinylpyrrolidone and PVP startups are under way.

To meet steadily rising demand for PVP products, a new specialty products building, costing more than \$3 million, was added at GAF's Calvert City plant. New products being made here initially are Polyclar® clarifying and flavor stabilizing agent for beer and wine; and Polectron® emulsion copolymers—for adhesives, special opacifiers and textile finishes.

Another new family of high-pressure acetylene derivatives that is expanding rapidly is that of the vinyl ethers and their polymers, copolymers and derivatives used in cosmetics, industrial explosives, latex paints, textile finishes, detergents and adhesives.

To meet the needs of the expanding market, a \$2.5 million expansion of Gantrez® polymer facilities at the Calvert City plant was completed in 1968. The expansion more than doubled production capacity for Gantrez AN polymer, a product used for tablet coatings and binders for pharmaceuticals, stabilizers for detergents, adhesives and explosives, finishing agents for Spandex fibers and film-formers in cosmetics. Gantrez esters are being used in cosmetic formulations.

In addition to established uses for Gantrez M polyvinyl methyl ether such as adhesives and coatings, new applications developed in 1968 include epoxy resins, integrated circuits and computer memory disks.

The vinyl ether family was expanded in 1968 by introduction on a commercial scale of ethyl vinyl ether and Gantrez B polyvinyl isobutyl ether. Gantrez B ether is being promoted for adhesives and coatings, as a tackifier and plasticizer for synthetic rubber, and as a viscosity-index improver.

Other applications of vinyl ether products developed in 1968 by GAF's Commercial Development Department include a gelling agent for a nitrate explosive system and the use of dodecyl vinyl ether in polyvinyl chloride for molding and extruding applications in packaging. GAF's long chain vinyl ethers are used by manufacturers of PVC to improve processing and impart excellent color and glass-like quality to the bottles. This use was approved by the Food and Drug Administration in 1968.

Specialty Chemicals—The growing demand for Amiben, a leading herbicide for soybean cultivation, produced by GAF for Rorer-Amchem, Inc., which markets the product, necessitated construction of a new Amiben facility at GAF's Texas City plant. Production at this \$10-million facility began in late 1968. Amiben facilities at the Linden, N. J. plant were also expanded in 1968.

Rorer-Amchem is field testing several other agricultural chemicals synthesized by GAF, one of them under the name Ethrel. On a preliminary basis, Ethrel was found to be an effective growth regulator for pineapple and other fruits and vegetables.

Use of GAF Uvinul® ultraviolet light absorbers increased significantly in 1968 because of new applications in plastics, cosmetics, and their acceptance for sun-screen applications by pharmaceutical manufacturers.

Dyestuffs and Pigments—The first of five scheduled 10 per cent tariff reductions called for by the Kennedy Round of tariff negotiations went into effect in 1968. As a result, imports of synthetic organic dyes increased 43 per cent. The second 10 per cent reduction went into effect in January 1969. Under the agreement, cuts in the U. S. tariff will eventually total 50 per cent of original rates while European nations will not cut their tariffs by more than 20 per cent.

Major streamlining of dye product lines was undertaken during the year and many low-profit, slow-moving products were dropped from manufacture. A study is under way now to determine how GAF should continue to participate in these markets—especially in view of the eventual adverse effect of the full 50 per cent tariff reductions.

Five new dyes for the synthetic fiber industry were introduced in 1968, and are expected to increase GAF's share of this rapidly expanding market—three are for polyester and two for nylon. GAF also introduced three liquid dyes for paper and two other paper dyes.

Surfactants—All major surfactant product groups showed improved sales and profitability in 1968. Important new accounts were established for surfactants in the cosmetics, synthetic fibers, plastics and industrial compounding industries.

Five new products introduced in 1968 for use as detergents and as pesticide emulsifiers have been well accepted by industry.

Industrial Chemicals—GAF maintained its position as a major supplier in the Northeast of such heavy chemicals as chlorine, caustic soda, muriatic acid and sodium hypochlorite.

Construction continued in 1968 on the new multi-million dollar chlorine-caustic plant at Linden, N. J., which will double present capacity when in production in the fall of 1969.

Textile Chemical Division—Production and sales of this division in 1968 also increased to new highs.

Increasing demand for styrene-butadiene copolymer latices necessitated expansion of manufacturing and storage facilities in 1968 at the GAF polymer manufacturing plant in Chattanooga, Tenn. This project will be completed late in 1969.

Four new latices for the textile industry and one new latex for the paper industry were introduced in 1968.

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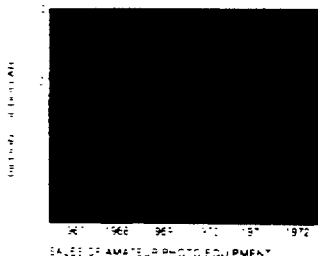
Photo Products

The photographic industry is one of the fastest growing sections of the U.S. economy. Sales of amateur photographic film, equipment, and photo finishing are expected to grow 7.5 per cent per year from \$1.9 billion in 1967 to \$2.8 billion in 1972. Sales of film to amateurs are estimated to grow 8 per cent annually, from \$506 million in 1967 to \$750 million in 1972... while sales of equipment should grow at 4 to 6 per cent a year, from \$728 million in 1967 to \$890-980 million in 1972.

"Estimates for sales of X-ray film, equipment, and chemicals indicate growth of 8 per cent per year, from \$165 million in 1967 to \$240 million in 1972. Approximately 80 per cent of the X-ray market is medical and dental; the balance is industrial.

"Use of photographic methods in printing and publishing—the graphic arts—is expected to grow 10 to 12 per cent per year for the next five years, or from \$140 million to a range of \$220-250 million."

ARTHUR D. LITTLE, INC.
Research, Engineering,
Management Consultants



GAF photographic operations are conducted by two separate divisions created in 1968—the Consumer Photo Division and the Industrial Photo Division. They are successors, in part, to the former Photo & Repro Division.

Consumer Photo Division—Sales of photographic equipment and sensitized materials increased markedly in 1968, reflecting consumer acceptance of new products and expanded distribution of all products through major retail chains, department stores, independent retailers, jewelry stores, and mail order retailers.

Manufacturing activity at the Portland, Oregon consumer products plant increased by more than 20 per cent in 1968.

Construction at Portland—to house office and engineering facilities—freed areas for expansion of plant operations. A glass lens-grinding facility was established and manufacturing facilities were expanded for metal stamping and for plastic injection molding.

Some of the new consumer photo products introduced during the year include:

- Three GAF 35mm slide projectors with broad market appeal in several price ranges. These projectors will accept a unique new GAF Slide-Seeker™ random access attachment selling for less than \$40.

- The unique portable GAF Sawyer's projector/viewer, which costs less than \$30. As a viewer—slides can be viewed by several persons in a lighted room, as a projector—it fills a 40 x 40 inch screen with a brilliant image.

- The GAF Sawyer's Miraview™ projection viewer, which is designed for previewing and editing slides.

- Three new models of GAF Super-8 movie cameras to cover a price range from \$40 to \$250.

- GAF Sawyer's 550RF slide projector and GAF Sawyer's Rotomatic® 707AQZ 35mm slide projector were two new models added to existing lines in 1968.

GAF's popular line of film has been expanded or improved as follows:

GAF®D/500 film, the fastest color slide film commercially available, previously sold only in 35mm size, is now offered in 120 roll-film size. The GAF 126 cartridges, previously available only in 12-exposure cartridges, are now also offered in the 20-exposure cartridge size and an improved, finer grain black-and-white film was introduced.

Sales of GAF View-Master viewers and packets increased again in 1968, largely as a result of timely releases such as the space program-oriented packets, Apollo Project and Man-on-Moon, and the television-oriented Mod Squad and Laugh-In.

A single distribution subsidiary, Lenco Photo Products, Inc., was created in 1968 by amalgamation of the former marketing subsidiaries, Lenco, Inc., Lenco-West, Gem-Klein Photo Corp., and H. A. Bohm and Co. Headquartered in New York, Lenco opened new regional distribution centers in Denver, Cleveland, Boston and Atlanta.

Sales of Lenco Photo Products also increased in 1968. Lenco sells—in addition to GAF product lines—Ricoh camera equipment, and Mercury tape recorders and phonographs—as well as items marketed under its own Goldcrest® brand name. Ampex tape recorders are being test marketed in two regions.

Lenco achieved a marketing first in 1968 by its appointment as exclusive distributor of Walt Disney 8mm home movies. These films were never before available to the home market.

Industrial Photo Division—This division manufactures and markets a product line that includes: (1) professional photo products for portrait, commercial and industrial photography; (2) graphic photo products for use in printing and graphic arts processes; and (3) X-ray film for medical and industrial applications.

There were significant increases in sales volume in GAF's industrial X-ray and professional photo products in 1968.

A \$16 million dollar expansion project was virtually completed at GAF's Binghamton, N. Y. film plant by the end of 1968. The new construction includes photographic paper coating and finishing facilities, designed for highest quality color



A fully automated control room for one of the modern film-coating machines at GAF's photographic manufacturing plant at Binghamton, N. Y. These electronic "nerve centers" control operations which apply the sensitized layer of color or black-and-white emulsion to the film base support. Finished results: GAF's top-quality film products sold around the world.

and black-and-white photo prints, an experimental film coating laboratory and pilot plant for evaluation of film emulsions, and a semi-works facility for manufacturing specially sensitized materials. All these facilities began startup early in 1969.

New products added to the professional line in 1968 included: a sheet film for the studio photographer, suitable for tungsten light use; a premium enlarging paper for black-and-white prints made from color negatives; a new high-speed reversal black-and-white movie film; and improved Multigram[™], Allura[®] and Cyko[®] papers with greater versatility in modern processing machines.

Sales of graphic photo products were strengthened in 1968 by introduction of Anscoline[™] film for use in automatic processors in the lithographic field. GAF also introduced the companion chemistry system for this film.

GAF-X[®] high-speed medical X-ray film on a polyester base, introduced in 1966, replaced both acetate-base film and polyester-base Supreme[®] Gafstar[®] film. The new GAF-X film is for 90-second automatic processors. Another 90-second medical X-ray film, Finex[®] II medium-speed film—was introduced with its companion system, Liquimat II[®] chemicals.

Another product introduced by the division in 1968 was a new instrumentation film for computer data processing, one suitable for extremely rapid processing of images from the face of the electronic display tube.

Contracts for an improved aerial film and allied products awarded to GAF by the U. S. Government in 1968 were in excess of \$5 million.

A program was started to market cellulose acetate film manufactured at the Binghamton photo plant to converters for varied uses, such as protective sleeves and sheets for display materials.

3 Business Systems

"Electrostatics continues to grow rapidly, 15 to 20 percent annually. . . . By 1970, dollar estimates on copying equipment and materials point to \$1.2 to \$1.6 billion."

MODERN OFFICE PROCEDURES

Photo by G. J. Schmitt



SALES OF ELECTROSTATIC COPYING EQUIPMENT

GAF's Office Systems Division was established in 1968. The new division caters to the fast-growing needs of the information explosion—in business and industry, in education, in science and technology. It incorporates many of the product lines of GAF's former Photo & Repro Division, combining with them operations of the GAF subsidiary, Shelby Business Forms, Inc.

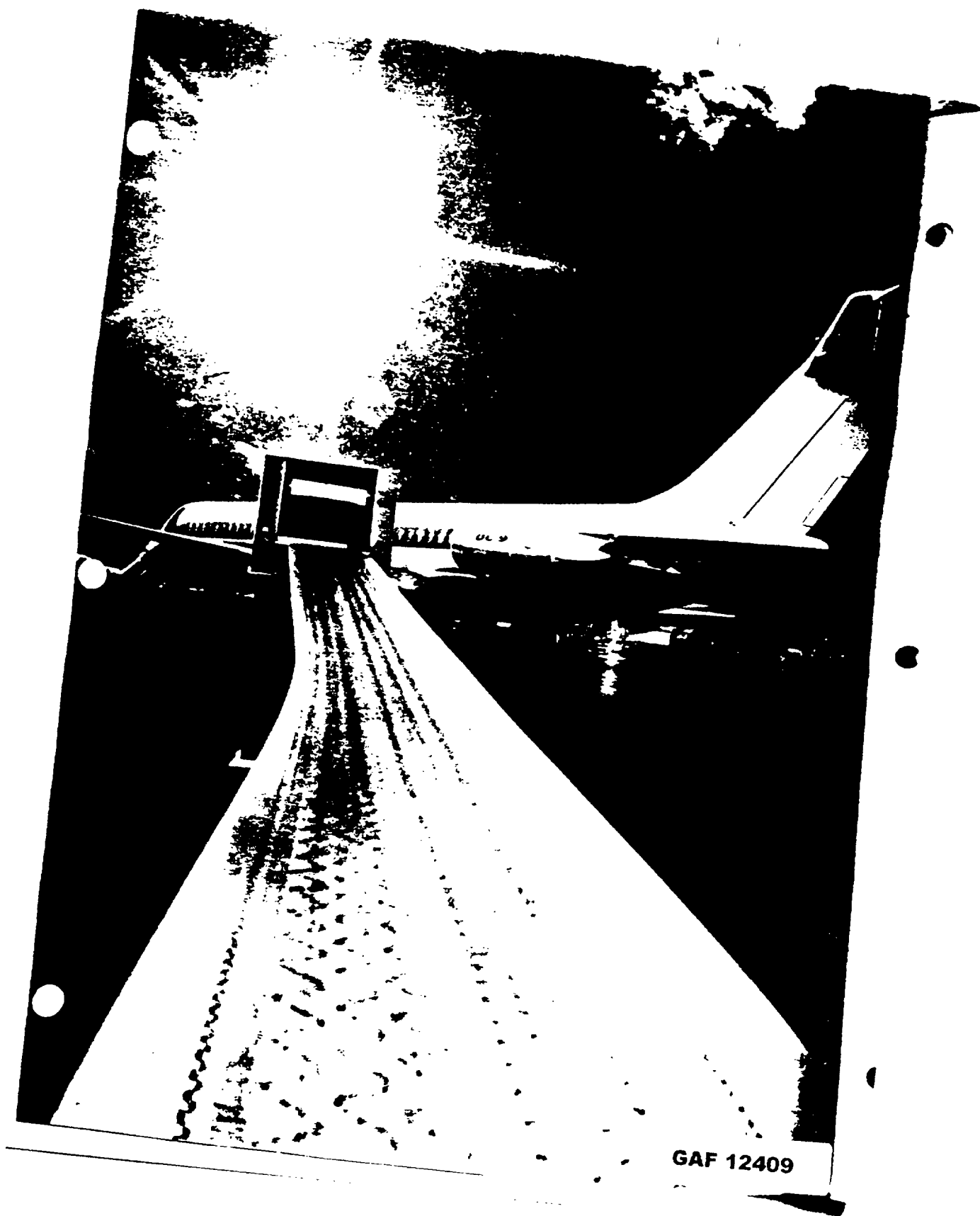
Convenience Office Copiers—The Gafax[®] 500 electrostatic copier has been widely accepted in the U. S. and overseas since its introduction in 1967.

For example, an aircraft manufacturer, the Douglas Division of McDonnell Douglas is operating 280 Gafax copiers throughout its plants for a combined output of approximately 17 million copies a year.

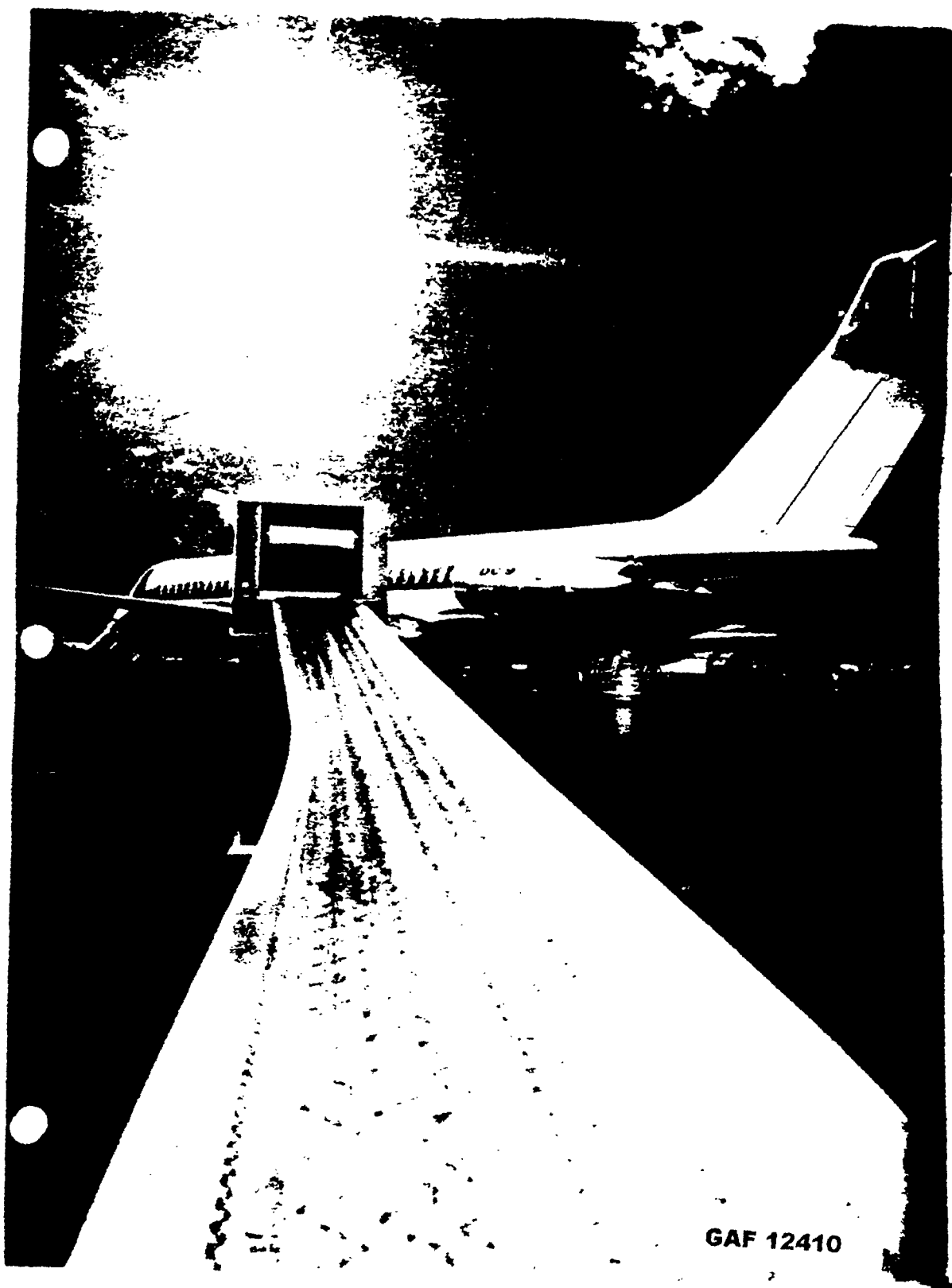
Improvements in the Gafax 500 in 1968 include a better optical system and greater speed. Gafax paper and toners have been improved and the line expanded for use in other electrostatic equipment.

Significant progress was made in 1968 in establishing a marketing organization for the Gafax 500 copier system, and a national distribution network of trained GAF representatives and independent dealers.

The Gafax 600 copier, capable of producing up to 15 copies automatically from each original, was previewed for the trade in late 1968. This copier will be ready for wide distribution here and abroad in 1969.



GAF 12409



"Diazo, the most widely used system in engineering, has not reached the limits of its potential."

REPROGRAPHICS

"The audio-visual market has grown at a rate better than the gross national product and has an excellent growth potential."

U.S. INDUSTRIAL OUTLOOK 1969

"Shipments of business forms in 1968 are estimated at \$960 million. By 1970, they can be expected to reach \$1.2 billion."

BUSINESS FORMS REPORTER

The GAF electrostatic office copier shown here required the use of an air strip to demonstrate the machine's ability to make, automatically, copies of oscillograph recordings up to 460 feet in length. It also makes 500 copies of letter-size originals.

Diazo Reproduction Systems—GAF sales of diazo reproduction equipment and materials increased in 1968. This required a substantial rise in paper-coating capacity for standard diazo products, obtained by modification of coating equipment at company plants in Detroit, Mich. and Arlington, Texas.

Two diazo machines were introduced to the market early in 1968: the PM-920 copier, reproducing originals up to 43 inches wide at paper speeds up to 75 feet a minute, and the OM-300 whiteprinter, a 19-inch high-speed machine. These new machines supplement more than 20 others in the GAF line of diazo reproduction equipment.

GAF offers users of reprographic equipment more than 70 diazo paper and chemical products, including a new, improved blackline paper and a new blue-line diazo paper usable under marginal conditions of reproduction.

Audio-Visual Aids—Many GAF products are available for those who handle groups in training, instruction, education, sales or reporting. One of the most useful is Projecto-Viewfoil® diazo film used for making overhead projection transparencies in color.

Using its Projecto-Viewfoil film, GAF works with educators and artists in the preparation of visual-aid package programs for the overhead projector and markets them to educational institutions. In 1968, those programs having a large number of transparencies were divided into smaller sets, to make their purchase easier for the average instructor or school. The 30 programs currently offered have been divided into 115 packaged sets.

Sixteen new programs were introduced in 1968. They covered such varied subjects as: Understanding Growth and Social Development (a 72-transparency sex-education program); Learning About Communism; Asian Studies; and Fundamentals of Color.

Information Storage and Retrieval—The solution to the constantly growing problem of procurement, storage and use of information is largely dependent on use of microfilm. GAF's microfilm products are available in rolls and sheets, including standard, tonal and high-speed microfilm. Two new diazo microfilms were introduced in 1968 with good tonal scale, excellent reprinting quality and wide exposure latitude.

At Johnson City, N.Y., a multi-million dollar expansion completed in 1968 provides new facilities for coating and converting diazo film products such as microfilm and Projecto-Viewfoil film. In the new, fully air-conditioned, dust-free building, new facilities include sophisticated film-coating equipment and high-speed film slitting and rewinding equipment.

Business Forms and Sales Aids—GAF sales increased in the business forms and sales aids market despite intense competition. To meet the competition, GAF's subsidiary, Shelby Business Forms, Inc., increased field sales activity and intensified advertising and promotional programs. Marketing strategy emphasized further penetration into the relatively new market for electronic data processing forms.

Dictation-Transcriber Instrument—A unique dictation-transcriber instrument manufactured and marketed under license by Sawyer's prior to its merger into GAF was test marketed in the latter half of 1968. This program is progressing and is expected to be broadened in 1969 to make the new GAF dictating machine available in major cities.

GAF 12411



4 Building Products

"We're on the threshold of one of the greatest, if not the greatest, housing-real estate booms in our entire history. We're on our way toward the 1.6 million plus level (non-farm housing starts) and then on to a "normal" 1.9 to 2.0 million a year record."

SYLVIA PORTER,
New York Post syndicated columnist

"Housing starts in 1969 will total about 1.65 million units, up from 1.48 million in 1968. Sales of about 350,000 mobile homes in 1969 will bring the total close to 2 million. Housing starts at the beginning of 1969 will be at about the 1.5 million rate, rising to 1.6 million by midyear."

F. W. DODGE CONSTRUCTION
REPORTS

A 5 per cent sales increase is seen for vinyl asbestos tile in 1969, to raise shipments at the manufacturers' level to \$125 million. Sheet vinyl sales should increase by 7 per cent to \$340 million. Over the next five years, based on industry trends in the residential and commercial markets, it is likely that vinyl asbestos tile will increase 10 per cent per year. Sales of sheet vinyl flooring should increase at the rate of 8 per cent per year over the next five years."

FLOORING MAGAZINE



Five lens camera lens view of 9x12-foot tile of GAF's sheet vinyl embossed floor covering which has just been inspected and accepted by GAF's Whitehall, Pa. plant and is ready for wrapping and shipping. This is the new and popular MCD pattern and it comes in eight psychedelic colors to complement any decor.

GAF's building products operations registered 9 per cent higher sales in 1968 than the year before. These operations are carried out through two GAF Divisions—Building Products and Floor Products. Principal markets for GAF building products are residential construction, remodeling and rehabilitation, with upturns being forecast in each category.

Building Products Division—Sales volume of this division was substantially higher in 1968 than in 1967, reflecting increased housing starts and greater emphasis on improvements in products, distribution and marketing.

A program to further automate production operations on manufacturing machines for asphalt roofing is approaching completion in three plants with four more scheduled by mid-1970. This program will substantially increase the efficiency of manufacturing operations and improve working conditions at the plants.

The two newest products in commercial development—a permanently finished laminated mineral siding that resembles wood-shake shingles for exterior walls—and Timberline™ asphalt roof shingle, which simulates wood shingles—have been extremely well received in markets in which they have been introduced. Accordingly, additional manufacturing capacity for these products, being installed in 1969, will permit broader marketing of them nationally.

Field tests have been run successfully on a new product, a canal bulkhead sheet for erosion control or land development and reclamation in coastal and inland waterways. There is growing demand for this product, especially in Florida and the Gulf Coast.

Floor Products Division—Higher sales volumes in both floor tile and sheet vinyl products were registered in 1968.

The nationwide network of distributors stocking and merchandising GAF floor products was expanded and strengthened in 1968, now making these products more widely available from floor-covering dealers throughout the nation.

New product introductions in 1968 catered to these principal fashion trends: (1) high-fashion colors in both sheet vinyl and floor tile, with stronger and bolder colors than before, (2) indexed-in-register vinyl-asbestos tile.

Ten new sheet vinyl pattern lines were introduced in 1968 as part of GAF's continuing program to improve turnover and profits for dealers. An outstanding introduction in 1968 was Luran® Regency Agiers flooring. A new series of embossed sheet vinyl sold under the trademark Foamcraft® introduced in 1968 is designed to meet the requirements of new residential housing construction.

Many new patterns and new colors were added to the sheet vinyl product lines in 1968, among which were four pattern groups involving twenty-four colors and including the "Mod" pattern in Solid® vinyl, Monte Carlo and Montego in Foamcraft vinyl and ten new colors in Arried® Huddy flooring.

Four new vinyl-asbestos floor tile products were introduced in 1968 in an important new development in the industry—to assure continued style leadership—GAF is cutting tile in registry with an embossed design, thus concealing the seams that are visible in most floor tile installations. The indexed-in-register patented design Casablanca, and several other registered design patterns have been well accepted.

Among other new vinyl-asbestos floor tile designs introduced in 1968 were Royal Travertine patterned with translucent motif which adds a natural marble-like appearance. Fantasy, a new pattern in six colors and Windsor Brick, a registered tile pattern.

GAF realized a substantial increase in sales volume to the mobile home industry in 1968. Because of the fast-growing potential of this industry, GAF established as part of the Floor Products Division a Construction Systems Unit. This unit markets to the mobile home industry all GAF related products, including floor products, wallboard, insulation, siding, roofing and roofing membrane.

5 Industrial Products

"Production of cars in 1968 reached 8.8 million units, trucks, 1.9 million—close to a record year. . . . Expected shipments of cars in 1969 are 8.9 million, trucks about 2.0 million."

AUTOMOTIVE NEWS

"Consumption of fibers for filtration use continues well beyond the 20-million pound mark."

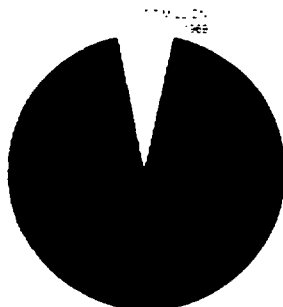
TEXTILE ORGANON

"Supporting research in the field, the government will spend more than \$70 million in water-pollution-control research. . . . Municipal water pollution problems will be attacked in an \$8 to \$10 billion program through 1973."

CHEMICAL WEEK

"Federal funds allocated to air pollution research, development and demonstrations will grow by more than 17 per cent, or \$7.7 million, to over \$53 million, according to the 1970 budget established for the Department of Health, Education and Welfare."

CLEAN AIR AND WATER NEWS



FEDERAL EXPENDITURES FOR ENVIRONMENTAL HEALTH

Sales of GAF's new Industrial Products Division were higher in 1968 than the year before, reflecting the growth of the markets in which the division's products are sold for such uses as automotive insulation and filtration equipment for many industries, as well as for control devices for air and water pollution.

GAF's Industrial Products Division was established in May 1968 by consolidation of the following groups: (1) the marketing and manufacturing functions of the former subsidiaries, American Felt Co. and Drycor Felt Co.; (2) the automotive asbestos, insulation and roofing granules product lines of GAF's former Building and Industrial Products Division; and (3) the contract sales group for precision machine parts of the former Photo & Repro Division.

The division is organized into the following groups: (1) the Felt, Asbestos, Paper and Millboard Group, which is a major supplier of wool and synthetic felts for filtration, polishing, and apparel and industrial uses; (2) the Automotive Products Group, which supplies sound and vibration damping packages to the principal automobile manufacturers; (3) the Insulation & Construction Group, which produces Calsilite® insulations; asbestos-cement products for cooling towers, baffles, and industrial siding; pipeline felt, T/NA 100® weatherproof jacketing for pipe covering; and other commercial and domestic insulation products; (4) the Mineral Products Group, which produces granules, fillers and asbestos fibers, and (5) the Contract Sales Group, which offers contract manufacturing facilities for precision machine parts.

A new GAF manufacturing technique to reorient industrial felt fibers in three dimensions into seamless curvilinear forms such as cylinders and cones promises wide use in the nation's rockets and missiles propulsion systems. These felt products are used as base materials for reinforced plastics designed to resist the high temperatures and erosion confronting missiles and rockets. Additional space application of GAF felt products occur in nose cones, missile launching pads, and astronaut space suits.

Automotive Felts—The automotive industry accepted a new concept in an oil filtration component in 1968. This component, first used by Ford Motor Co., permits uniform and effective filtering for 6,000 miles before an oil and filter change is needed. This product required an expansion program at the Newburgh, N. Y. felt production plant.

In 1968, several sound and vibration control products were developed for the automotive industry—for use in upper body, dashboard and floor areas of many 1969 cars and trucks. A new flat dashboard sound control package has been adopted for various 1968-69 automotive models. In subsequent years, this package is expected to be extended to additional makes and models.

A new filtration system has been developed for introduction to the paint, chemical and food processing industries—employing a replaceable felt filter bag, which is encased in a pressure vessel.

Other Products—In GAF's Calsilite calcium silicate line, which is an improved thermal insulation in sectional design for easy installation, a new product, Calsilite S.S. insulation, inhibited against stress corrosion of stainless steel, was well received by the market in 1968.

Nine new colors of roofing granules were introduced in 1968. One color, "Accent Tone," improves color styling capabilities when used with granules of other colors.

Two small sales lines of the division were eliminated during the year. One involved the sale of the company's only mica plant at Hartwell, Ga.; the other was the sale of a line of microdensitometers for precision analysis.

International Operations

GAF's sales outside the United States from exports and foreign subsidiaries contributed to the results shown for each of the company's five operating groups. Sales from international operations in 1968 were \$61,240,000 compared with \$58,105,000 in 1967, an increase of 5.4 per cent. The 1968 results were sharply affected by the 1967 devaluation of the pound sterling.

EUROPEAN SUBSIDIARIES

In the United Kingdom, GAF subsidiaries were merged into a single company GAF (Great Britain) Ltd., which functions through four divisions: (1) the Reprographic Products Division; (2) the Photo Products Division; (3) the Chemical Products Division, established early in 1968 to distribute chemicals and dyestuffs; and (4) a Floor Products Division, established in London, at mid-year 1968 to market GAF's vinyl-asbestos floor tiles and vinyl sheet flooring in the United Kingdom. A new GAF film processing laboratory was installed in London in 1968.

In the Netherlands, photo and reprographic product sales by GAF (Nederland) N. V. ended the year at an all-time high. The company, headquartered in Delft, functions through two divisions: the Reprographic Division and the Photo Products Division. Marketing responsibility for all GAF reprographic products in the European Common Market was assigned to this subsidiary in 1968.

Introduce Copier—The Gafax® 500 copier was introduced in many countries of Europe in 1968 with excellent customer acceptance. Facilities for coating sensitized materials, including GAF electrostatic copy paper, were expanded and a plant for producing photographic processing chemicals was installed at Delft.

Marketing for all GAF consumer photo products in Europe is the responsibility of GAF (Belgium) N. V., headquartered at Sint-Niklaas. New introductions to the market in 1968 were GAF slide projectors, film and new items in the View-Master and Pana-Vue photographic lines. A film processing laboratory was established in Belgium for customer film service. Construction at Sint-Niklaas is nearing completion on expanded manufacturing capacity for GAF slide projectors.

GAF (Deutschland) G.m.b.H. began direct marketing of dyes and chemicals throughout West Germany and Eastern Europe in 1968. With headquarters at Hamburg, sales and warehouse locations have been established throughout West Germany. Consumer photo product marketing, headquartered in Cologne, has increased sales and expanded its organization.

GAF (France) S.a.r.l., with headquarters in Paris, achieved improved consumer sales despite disturbed economic conditions early in 1968. Late in the year a new warehouse and service center was acquired to improve service to customers.

In Sweden, GAF Svenska AB, headquartered at Stockholm, was enlarged from a GAF marketing subsidiary handling consumer photo products to include reprographic equipment and supplies, Gafax 500 copiers and chemical products.

Other new marketing subsidiaries established in 1968 were GAF (Norge) A/S in Oslo, Norway and GAF (Ireland) Ltd., in Dublin.

CANADIAN OPERATIONS

GAF (Canada) Ltd. in Toronto, continues to expand GAF's photographic business with the result that sales in Canada are at an all-time high. In June, 1968, GAF acquired Camsales Limited and International Camera Imports Limited. Camsales formerly marketed GAF Sawyer's® photographic products throughout Canada. With this acquisition a customer service center was obtained in Vancouver, B. C. and an additional warehouse was put into operation in Montreal. Three major locations now insure better photo customer service in Canada for all GAF photo products.

Corporate Staff Departments

Corporate staff departments provide services to all divisions and units in the U.S. and overseas. They include: Legal; Patent; Financial (offices of Controller, Treasurer, and Information Systems); Distribution and Traffic; Personnel; Relations; Marketing Services; Advertising and Promotion; Public Relations; Corporate Engineering; Research and Development; Process Engineering and Environmental Engineering; Industrial Engineering; Planning and Economic Evaluation; Market Research; Market Development; and General Development.

Advertising and Promotion—GAF has begun to use television as a major advertising medium in its new role as an important manufacturer and marketer of consumer products. The company was able to buy, on an economical basis, a network package of spot commercials featuring GAF photo products and floor covering products.

There were, in 1968, 136 spot commercials on prime-audience programs such as: Walter Cronkite and the News; Campaign 1968; National Football League games; National Hockey League games; and Thursday and Friday Night Movies. Research data indicate that GAF commercials had a cumulative total of 1.4 billion viewings.

A special print media corporate advertising program ran in 22 leading general financial and business publications to carry the corporate story and announce the change of corporate name. In addition, more than 200 advertisements created during the year appeared in approximately 300 business and professional publications to promote GAF products and product lines.

Distribution—Major cost savings accrued in 1968 as a result of the program for improvement of GAF's distribution activities. In Chicago, seven separate leased facilities were consolidated into four locations. Other consolidations are under way in or near Boston, Mass.; Washington, D.C.; Charlotte, N.C.; and St. Louis, Mo.

Purchasing—GAF's centralized purchasing, by a Corporate Purchasing Department, showed further results in 1968. Purchasing economies are being realized of value engineering and use of lower-cost materials without sacrifice of quality. Costly double inventories have been eliminated wherever practicable.

Public Relations—During 1968, a highlight of GAF's broad public relations program was the extensive internal and external communications activities in connection with the change of the company's name to GAF Corporation. The program ran the gamut of public relations techniques to tell the story of GAF's name change, diversification, growth and future. The same story is being presented by traveling corporate exhibits, which will have been displayed in the windows of 75 brokerage offices in the East and Midwest by the end of 1969. Special emphasis was also placed on financial, stockholder, community, and media relations, governmental and urban affairs, and employee communications.

New Departments Organized—To coordinate the program for reduction of operating costs, a Corporate Industrial Engineering Department was established in 1968. The department serves as internal consultant to operating divisions and staff departments on improvement of efficiency at all plants and reduction of costs of operation. Some areas of activity include: materials handling, maintenance, warehousing and shipping, plant layout and new plant site selection, plant location and labor economy.



GAF's traveling corporate exhibit

Increased emphasis has been placed on environmental health conditions at all GAF plant locations by establishment of a Corporate Environmental Engineering Department in 1968. This department has been charged with responsibility for coordination and improvement of air and water pollution control and solid waste disposal at all plants. Expenditures for control of plant effluents are expected to increase over the next few years.

To integrate the computer into company operations in the most effective manner, all electronic data processing activities were joined in 1968 as an independent function in a newly created Information Systems Department. The new department controls operations of the company's eight computer centers.

Commercial Development, Research and Development—The Commercial Development Department was involved in proposing, promoting or conducting market development programs for at least nine product lines marketed in 1968 or about to reach commercialization. Some of these new products have been reported under the various operating divisions.

GAF continues to emphasize the importance of research and development activity. Total expenditures in 1968 were \$12,291,000. At the end of the year, more than 360 scientists and engineers were engaged in GAF research in the U.S. and overseas. The results of their activity have been reported in the form of new product developments in sections dealing with the various operating divisions.

Personnel—GAF employed 20,177 people at the end of the year, 800 more than a year ago. Thirty-one labor and 16 retirement agreements were negotiated during the year.

There were three work stoppages in 1968. The longest, 60 days, occurred at the Linden, N. J. dyestuff and chemical plant; another, 47 days, took place at the Detroit paper coating plant; a brief wildcat strike occurred at the Kansas City, Mo. building products plant. Despite these work stoppages, overall employee relations continued to be excellent.

In 1969, 27 labor and 13 pension agreements are scheduled for negotiation.

Organizational Changes—Mr. Edwin R. Cowherd joined GAF in March 1968 as Vice President and has the responsibility for GAF's chemical operations.

Mr. R. Power Fraser was elected Vice President in June 1968 with responsibility for the Industrial Products Division. He had been Vice President, Marketing and Sales, for the former subsidiary American Felt Co.

Mr. Herbert L. Abrons was elected Corporate Secretary on September 1, 1968. He continues to serve as Corporation Counsel.

Mr. C. Joseph Hyland, who had been Corporate Secretary since 1951, retired after 26 years with GAF. The Board of Directors expressed its appreciation for Mr. Hyland's long and faithful service.

At the beginning of February 1969, Dr. Chris C. Schurze, formerly a Senior Vice President of GAF, and Mr. Alvin Zises resigned as directors of the corporation. The Board expressed deep appreciation to both for their services to the company.

Dr. Howard S. Turner, president of Turner Construction Company, was elected a director in February, 1969.

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GAF Corporation
and Consolidated Subsidiaries

**Five-Year
Financial
Summary**

(Dollars in thousands
except per share figures)

	Year Ended December 31				
	1968	1967	1966	1965	1964
Operating Results:					
Net Sales	\$569,548	\$520,872	\$484,062	\$416,677	\$362,840
Income:					
Before Income Taxes					
And Other Charges	38,567	33,441	45,289	39,123	32,184
Net Income	21,232	18,961	18,725	19,538	15,656
Per Common Share (a)	1.31	1.14	1.13	1.20	.92
Dividends Paid:					
Preferred	3,775	2,686	—	—	—
Capital Stock of					
Acquired Companies	—	797	3,147	2,768	2,593
Common (b)	5,338	5,337	4,786	3,590	—
Per Common Share (b)	.40	.40	.40	.30	—
Capital Expenditures	43,578	39,931	31,572	43,979	16,567
Wages and Salaries Including Employee Benefits	156,012	151,751	137,006	121,876	108,577
			December 31		
	1968	1967	1966	1965	1964
Financial Condition:					
Current Assets	267,153	230,327	237,809	204,758	195,170
Current Liabilities	110,898	72,763	53,100	46,956	37,192
Working Capital	156,255	157,564	184,709	157,802	157,978
Property, Plant & Equipment (Net)	237,530	212,623	183,365	161,487	128,655
Total Assets	535,444	473,522	441,645	375,011	333,933
Long-term Debt	103,439	96,192	78,095	34,050	27,395
Shareholders' Equity	286,449	273,314	261,960	249,904	234,793
Number of Employees	20,177	19,377	18,477	15,911	14,065

(a) Based on average number of common shares outstanding after recognition of preferred dividend requirements

(b) Represents dividends paid by GAF since commencement of quarterly dividends on common stock in second quarter of 1965

GAF Corporation
and Consolidated Subsidiaries

**Consolidated
Income and
Retained
Earnings**

	Year Ended December 31	
	1968	1967
Revenues:		
Net sales	\$569,547,597	\$520,871,770
Other income—net	<u>1,911,244</u>	<u>2,398,654</u>
	<u>571,458,841</u>	<u>523,270,424</u>
Cost and Expenses:		
Cost of products sold	398,695,046	368,503,548
Distribution and selling expenses	93,832,175	82,720,025
Research and development expenses	12,290,972	12,367,769
Administrative and general expenses	19,781,762	20,248,029
Interest on borrowed capital	<u>8,291,676</u>	<u>6,340,168</u>
	<u>532,891,631</u>	<u>490,179,539</u>
Income before Taxes	<u>38,567,210</u>	<u>33,090,885</u>
Provision for Federal and Foreign Income Taxes (Note 5):		
Current income taxes	15,206,208	10,992,891
Deferred income taxes	384,214	2,828,791
Deferred investment tax credit	<u>1,744,292</u>	<u>307,841</u>
	<u>17,334,714</u>	<u>14,129,523</u>
Net Income	<u>21,232,496</u>	<u>18,961,362</u>
Retained Earnings, beginning of year	208,975,251	198,993,633
Cash Dividends:		
Preferred stock—1968, \$1.20 per share:		
1967, \$.86½ per share	(3,774,590)	(2,685,754)
Common stock—1968 and 1967, \$.40 per share	(5,338,251)	(5,336,824)
To shareholders of acquired companies prior to pooling	—	(797,499)
Retirement of Capital Stock held in treasury	—	(159,667)
Retained Earnings, end of year (Note 5)	<u>\$221,094,906</u>	<u>\$208,975,251</u>
Net Income per Share of Common Stock (Note A)	<u>\$1.31</u>	<u>\$1.14</u>
Pro Forma Net Income per Share of Common Stock (Note B)	<u>\$1.23</u>	<u>\$1.10</u>

Note A—Based on average number of common shares outstanding during each year after recognition of preferred dividend requirements.

Note B—Based on assumption that the outstanding preferred shares and 5½% convertible subordinated notes were converted into common shares at the conversion ratio in effect at the end of each year, reflecting the shares issuable on conversion and eliminating the preferred dividend and convertible note interest requirements.

The Notes to Consolidated Financial Statements are an integral part of this statement.

GAF Corporation
and Consolidated Subsidiaries

**Consolidated
Balance
Sheet**

Assets

	December 31	
	1968	1967
Current Assets:		
Cash	\$ 20,804,648	\$ 14,412,198
Marketable securities, at cost which approximates market	372,650	73,428
Accounts receivable, less allowance for doubtful accounts—1968, \$2,044,444; 1967, \$2,014,500	102,858,637	90,617,278
Inventories, at the lower of cost (principally average) or market (Note 2)	136,932,483	120,956,191
Prepaid expenses	3,992,000	4,268,165
Future Federal income tax benefits (Note 5)	2,192,674	—
	<u>267,153,092</u>	<u>230,327,260</u>
 Other Investments and Advances, at cost (Note 3)	 <u>779,574</u>	 <u>1,971,640</u>
 Property, Plant and Equipment, at cost:		
Land, land improvements and mineral properties	12,933,402	11,990,803
Buildings and building equipment	100,128,078	93,711,728
Machinery and equipment	268,812,035	238,286,078
Construction in progress	36,298,113	35,306,312
	<u>418,171,628</u>	<u>379,294,921</u>
Less accumulated depreciation, amortization and depletion	180,641,940	166,671,782
	<u>237,529,688</u>	<u>212,623,139</u>
 Goodwill, Patents, Trade-marks, etc. (Note 1)	 <u>29,981,589</u>	 <u>28,599,641</u>
	<u>\$535,443,943</u>	<u>\$473,521,880</u>

The Notes to Consolidated Financial

Liabilities

	December 31	
	1968	1967
Current Liabilities:		
Notes payable	\$ 41,650,085	\$ 20,337,297
Current portion of long-term debt	4,623,600	5,656,151
Accounts payable	31,972,600	25,563,574
Accrued taxes, wages, etc	13,314,265	12,781,837
Federal and foreign income taxes	15,338,026	8,045,380
Deferred income (Note 5)	4,000,000	379,321
	<u>110,898,576</u>	<u>72,763,560</u>
Long-term Debt Less Current Portion Above (Note 6)	103,438,600	96,191,900
Obligation Under Long-term Lease (Note 10)	4,175,000	4,395,000
Deferred Income Taxes (Note 5)	21,373,485	19,606,353
Other Liabilities	3,041,523	2,927,863
Deferred Investment Tax Credit (Note 5)	6,067,913	4,323,621

Shareholders' Equity

Preferred stock, \$1 par value, authorized 6,000,000 shares, \$1.20 convertible series issued and outstanding—1968, 3,155,882 shares, 1967, 3,117,922 shares at assigned value of \$1.25 per share (liquidation value 1968, \$86,786,755) (Note 7)	3,944,853	3,897,402
Common stock, \$1 par value, authorized 25,000,000 shares, issued and outstanding— 1968, 13,360,933.5 shares, 1967, 13,342,060.5 shares (Note 7)	13,360,934	13,342,061
Paid-in surplus (Note 8)	48,048,153	47,098,869
Retained earnings (Note 6)	221,094,906	208,975,251
	<u>286,448,846</u>	<u>273,313,583</u>
	<u>\$535,443,943</u>	<u>\$473,521,880</u>

is an integral part of this statement

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Notes to Consolidated Financial Statements

Note 1

Principles of Consolidation—In the accompanying financial statements the accounts of all significant subsidiaries have been consolidated. The accounts of consolidated foreign subsidiaries, which are not material in relation to the consolidated accounts, have been translated into U. S. dollars at appropriate rates of exchange.

The cost of investments in and advances to subsidiaries at December 31, 1968 was \$3,096,122 in excess of the Company's equity in their net assets. In consolidation this net amount was included in accounts as follows:

Goodwill, Patents, Trade-marks, etc.	\$10,785,199
Retained Earnings (undistributed net income since acquisition)	7,689,077

Note 2

Inventories—Inventories consisted of the following:

	December 31	
	1968	1967
Finished goods	\$ 67,988,468	\$ 55,730,740
Work in process	31,998,871	29,470,092
Raw materials and supplies	36,945,144	35,755,359
Total	<u>\$136,932,483</u>	<u>\$120,956,191</u>

Note 3

Other Investments and Advances—The Company owns 49% of the common stock of Chemical Developments of Canada, Limited. The remaining 51% is owned by Domtar, Ltd. The Company's equity in the net assets of Chemical Developments of Canada, Limited at December 31, 1968 was \$943,191 in excess of its investment in that company.

Note 4

Depreciation, Amortization and Depletion Policy—It is the

policy of the Companies to provide for depreciation and amortization of plant properties generally at straight-line rates based on the estimated service lives of the property. Depletion of mineral properties is provided at fixed rates per ton of materials produced. Depreciation, amortization and depletion charged to cost and expenses for 1968 and 1967 amounted to \$17,884,763 and \$17,023,555, respectively.

Note 5

Income Taxes—For income tax purposes only, the Companies use accelerated depreciation methods and the shorter "Guideline" lives as permitted by the U. S. Treasury Department. The resulting reductions in the provisions for current income taxes have no effect on net income, however, since amounts equivalent to such reductions are provided for deferred income taxes. Effective January 1, 1968 the Companies have also recognized the tax effects of other items of expense which enter into the determination of pre-tax accounting income but which are not currently deductible for income tax purposes; this change in practice and other adjustments resulted in an increase in net income for 1968 of \$646,000.

In December 1968 the Company sold, as a production payment, a portion of its interest in certain asbestos deposits for \$4,000,000. The proceeds of this sale, and the tax effects thereof (\$1,626,000) have been deferred and will be reflected in income as the asbestos is mined, processed and sold which is expected to be in 1969.

The investment tax credit available under the Revenue Act of 1962 is being deferred and reflected in income ratably over the estimated service lives of the respective assets.

Note 6

Long-term Debt and Dividend Restrictions—Long-term debt represents the balance of unsecured loans as follows:

	December 31	
	1968	1967
5 7/8% Sinking Fund Debentures due December 1, 1991 with annual sinking fund payments of \$2,500,000 beginning December 1, 1972	\$ 50,000,000	\$ 50,000,000
6 3/4% notes payable to banks under credit agreement dated October 9, 1967	28,500,000	28,500,000
4 7/8% notes due June 30, 1972 with quarterly installments ranging from \$750,000 beginning September 30, 1969 to \$1,000,000 beginning September 30, 1971	10,000,000	10,000,000
3 1/2% notes due March 1, 1972 with annual prepayments of \$1,250,000 on March 1, 1969 through 1971 and balance of \$5,250,000 payable March 1, 1972	9,000,000	10,250,000
5 1/2% Convertible Subordinated Notes due April 1, 1983 with annual prepayments of \$200,000 on April 1, 1972 through 1982 and balance of \$1,800,000 payable April 1, 1983 (Note 7)	4,000,000	4,000,000
Other notes, which bear interest at 4 1/8% to 6 1/8% and mature at various dates to 1985	6,562,200	11,098,051
Total	<u>108,062,200</u>	<u>111,848,051</u>
Less portion due within one year	4,623,600	5,456,151
Remainder	<u>\$103,438,600</u>	<u>\$106,391,900</u>

Under the terms of a revolving credit agreement dated October 9, 1967 the Company may borrow up to a maximum of \$75,000,000 on 90-day notes. On April 30, 1970 the then outstanding notes are repayable and the Company may reborrow up to \$75,000,000 on Term Loans payable quarterly to May 1, 1974. At December 31, 1968 the Company had borrowed \$39,750,000 under this agreement, \$28,500,000 of which is classified as long-term debt since it is the present intention of the Company to convert these notes to Term Loans. The remaining \$11,250,000 is classified as current notes payable.

Dividends are restricted under the provisions of the indenture relating to the sinking fund debentures and of certain loan agreements. Under the most restrictive of these provisions, approximately \$180,000,000 of the consolidated retained earnings at December 31, 1968 was not available for dividends.

Note 7

Capital Stock—The \$1.20 convertible preferred stock, dividends on which are cumulative, is convertible at any time into common stock at the rate of 1 1/4 shares of common stock for each share of preferred. In 1968, 195 shares of such preferred stock were converted into 243 shares of common stock. At any time after June 1, 1972 the Company may redeem the preferred stock at specified prices ranging from \$30.00 to \$27.50 per share.

Under the provisions of the Company's stock option plan, options to purchase shares of common stock may be granted to key employees during a ten-year period ending March 31, 1975. The prices at which options may be granted may not be less than 100% of the fair market value of the shares on the date the option is granted. The options are exercisable for five years from date of grant. At January 1, 1968 there were options outstanding for 235,000 shares. During 1968 options for 176,750 shares were granted for an aggregate option price of \$4,134,250, options for 5,000 shares were exercised for an aggregate option price of \$114,050, and options for 17,000 shares were terminated. At December 31, 1968 options were outstanding with respect to 369,750 shares having an aggregate option price of \$9,917,866 and 205,250 shares were reserved for the granting of additional options.

In addition to the above, 23,665 shares of the \$1.20 convertible preferred stock were reserved at December 31, 1968 for options assumed by the Company as a result of the Ruberoid merger in 1967. The options for all of these shares were exercisable at that date for an aggregate option price of \$418,193. During 1968 options for 38,155 shares were exercised for an aggregate option price of \$667,546 and options for 2,400 shares were terminated.

At December 31, 1968 the following number of shares of the Company's capital stock were reserved for issuance as follows:

\$1.20 Convertible Preferred Stock	
Reserved for exercise of stock options	23,665
Common Stock	
Reserved for conversion of \$1.20 convertible preferred stock, including 29,581 shares for stock options	3,974,434
Reserved for exercise of stock options	575,000
Reserved for conversion of 5 1/2 % convertible subordinated notes due April 1, 1983 convertible at any time prior to April 2, 1976 at the current conversion rate of \$29.1404 per share	137,266
Total	4,686,365

Note 8

Paid-in Surplus—Changes in paid-in surplus during 1968 were as follows:

Balance, December 31, 1967	\$47,098,869
Excess of option price over assigned or par values of preferred and common stock issued for options exercised	728,903
Excess of market value over par value of 13,630 shares of common stock issued under the Company's incentive compensation plan	245,340
Other	(24,959)
Balance, December 31, 1968	\$48,048,153

Note 9

Retirement Plans—The Company and its subsidiaries have several pension plans covering substantially all employees. The total pension cost which was funded, amounted to \$3,778,208 for 1968 and \$5,012,373 for 1967 and includes, as to certain of the plans, amortization of prior service cost over periods ranging from ten to forty years.

Note 10

Commitments and Contingent Liabilities—Under the terms of a long-term lease obligation covering 3 1/2 % to 4 1/4 % City of Annapolis, Missouri industrial revenue bonds, an annual rental of approximately \$385,000 is payable until September 30, 1983 to cover bond principal and interest. At December 31, 1968 the Companies were obligated under other long-term leases as follows:

Leases Expiring In	Aggregate Annual Rental
2-5 Years	\$1,008,000
6-10 Years	382,000
11-20 Years	1,844,000
Over 20 Years	79,000

At December 31, 1968 the Companies had commitments of approximately \$5,700,000 for the acquisition of property, plant and equipment.

At December 31, 1968 there were certain civil lawsuits and claims pending against the Companies. In the opinion of management the ultimate disposition of these matters will not materially affect the Companies' consolidated financial position.

GAF Corporation
and Consolidated Subsidiaries

**Consolidated Source
and Use of Funds**

	Year Ended December 31	
	1968	1967
Funds Provided by:		
Net income	\$ 21,232,496	\$ 18,961,362
Depreciation, amortization and depletion	17,884,763	17,023,555
Deferred income taxes (non-current portion)	1,767,132	2,828,791
Deferred investment tax credit	1,744,292	307,841
Proceeds from long-term borrowing	12,000,000	23,028,385
Reduction of other investments and advances	1,192,066	593,717
Proceeds from stock options exercised	781,596	805,728
Other-net	329,239	323,873
	<u>56,931,584</u>	<u>63,873,252</u>
Funds Used for:		
Capital expenditures	43,578,007	39,931,340
Reduction of long-term debt	4,753,300	7,415,000
Dividend payments	9,112,841	8,820,077
Purchase of minority interests	605,098	30,416,415
Purchase of subsidiaries (less working capital of such subsidiaries)	191,522	4,435,633
	<u>58,240,768</u>	<u>91,018,465</u>
Decrease in Working Capital	1,309,184	27,145,213
Working Capital, beginning of year	<u>157,563,700</u>	<u>184,708,913</u>
Working Capital, end of year	<u>\$156,254,516</u>	<u>\$157,563,700</u>

**Accountants'
Opinion**

HASKINS & SELLS CERTIFIED PUBLIC ACCOUNTANTS TWO SPRINGDALE NEW YORK 10004 To the Stockholders and Board of Directors of GAF Corporation: We have examined the consolidated balance sheet of GAF Corporation and its consolidated subsidiaries as of December 31, 1968 and the related statements of consolidated income and retained earnings and of consolidated source and use of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. In our opinion, the accompanying consolidated balance sheet and statement of consolidated income and retained earnings present fairly the financial position of the companies at December 31, 1968 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year, and the accompanying statement of consolidated source and use of funds presents fairly the information shown therein. <i>Haskins & Sells</i> February 11, 1969

GAF Corporation

Directors and Officers

DIRECTORS

*Jesse Werner, Chairman
*T. Roland Berner
**John B. Bridgwood
†John A. Coleman
Philip B. Dalton
†Francis A. Gibbons
*Bailey K. Howard
**Wm. Peyton Marin
E. J. O'Leary
†Donald L. Sanders
Howard S. Turner
*Sumner H. Williams

Members of
*Executive Committee
†Retirement Board
*Stock Option Committee

CORPORATE OFFICERS

Jesse Werner
Philip B. Dalton
Donald L. Sanders
E. J. O'Leary
James M. Cloney
Edwin R. Cowherd
Thomas A. Dent
Thomas H. Dermody
R. Power Fraser
Frederick Grosser
Julien O. Heppes
Juliette M. Moran
Frederick K. Sweeney
Frank P. Sottile
Herbert L. Abrons
John F. Heintz

President
Executive Vice President
Executive Vice President
Senior Vice President
Vice President
Vice President
Vice President
Vice President
Vice President
Vice President
Vice President
Vice President
Vice President
Vice President
Treasurer
Secretary and Counsel
Controller

REGISTRARS

The Chase Manhattan Bank
1 Chase Manhattan Plaza
New York, N. Y. 10015
Commercial Trust Company of New Jersey
15 Exchange Place
Jersey City, N. J. 07302

TRANSFER AGENTS

First National City Bank
55 Wall Street
New York, N. Y. 10015
The Corporation Trust Co.
15 Exchange Place
Jersey City, N. J. 07302

GAF 12425

Directory of Products

CHEMICALS

Surfactants—nonionic, anionic, cationic, and amphoteric surface-active agents for use as detergents, emulsifiers, dispersants, and wetting agents

Specialty Chemicals—processing and formulating agents including bactericides and fungicides, finishing agents, adhesive additives, sequestrants, anti-static agents, lubricants, and solvents for use in various industries

High-Pressure Acetylene Derivatives—monomers, polymers, copolymers, solvents, organic intermediates, and other chemicals derived from acetylene for use in cosmetic, petroleum, pharmaceutical, plastic, textile, adhesive, and a variety of other industries

Industrial Organic Chemicals—aromatic derivatives, complex cyclic compounds, and aliphatic compounds (including formaldehyde, chlorine chloride, and methylamines) for use as intermediates in the dye, pharmaceutical, and chemical processing industries

Heavy Chemicals—chlorine, caustic soda, muriatic acid, ethylene oxide, and glycols

Iron Powders—microscopic-size spheres of iron used in VHF and UHF circuitry transmitters, receivers, radar, and in powder metallurgy

Ultraviolet Absorbers—ultraviolet-screening agents for plastics, textiles, pigments, rubber, adhesives, and cosmetics

Dyestuffs—acid, azo, azoic, basic, condensation, chrome, direct, disperse, mordant, metalized, sulfur, vat, and vat-ester dyes, fluorescent brighteners, oil-, spirit-, and water-soluble dyes

Pigments—azo, benzidine, BON, carbazole, carbon, chrome, dianisidine, molybdate, naphthol, nitroso, oxide, PMA, phthalocyanine, PTA, and pyrazolone pigments; lakes, dispersed powder, toners, dispensed pastes, and presscakes

Textile Chemicals—textile auxiliaries, flame retardants, carpet antistats, rubber latices for rug backing, fabric coatings and paper coatings, Gafco[™] latex foam backing for drapery fabrics

PHOTO PRODUCTS

Consumer Products—color films, black-and-white films, papers, and chemicals; still and motion picture cameras, Anscomama[™], Anscomatic[®], and Sawyer's[®] brands slide projectors, motion-picture projectors and accessories, slide viewers, PanaVue scenic color slides, View-Master stereo viewers and picture reels, and TruVue photographic toys

Professional Products—color films, black-and-white films, papers, and chemicals for portrait, photofinisher, press, industrial, aerial, and motion-picture uses, photorecording films, paper and chemicals; automatic processors for films and papers

X-ray Products—medical and industrial X-ray films, chemicals, and accessories, radiologic teaching aids

Graphic Arts Products—films, papers, and chemicals for offset printing, photolithography, photoengraving, rotogravure, and silkscreen printing

BUSINESS SYSTEMS

Business Machines—electrostatic copiers, papers, toners, and supplies; dictating machines and accessories

Diazo Reproduction Products—diazo copying machines and sensitized materials for engineering and business systems

Audio-Visual Products—overhead projection transparency series for pre-school through college instruction, custom transparency production service, materials and supplies

Micrographic Products—microfilm equipment and film

Shelby[™] Business Forms—custom designed and printed data-processing forms, sales books, manifold-order books, single copy forms, Uniset[™] forms, voucher and receipt books, Card Set[™] forms, and forms for autographic register and similar items

BUILDING PRODUCTS

Floor Products—asphalt and vinyl-asbestos resilient floor tiles; adhesives, cove bases, sheet-vinyl floor coverings for residential and commercial uses

Building Materials—asphalt roof shingles, asphalt roll roofing and siding, asphalt asbestos, or tar built-up roofing felts, asphalt protective coatings and cements, T/NA 200[®] roofing membrane, mineral fiber board, roof shingles, sidings, building and specialty boards, mineral fiber canal bulkheads, building and roof insulations, gypsum building board, lath and plasters

INDUSTRIAL PRODUCTS

Felt Products—wool and synthetic fiber felts and filter devices for air, liquid, and gas filtration, sealing and lubricating devices; plate-glass and metal-polishing felts, piano felts, wool felts for apparel and interior design; felts for automotive, industrial, and aerospace applications, nonwoven paper-makers felts for paper, asbestos cement pipe, and wallboard manufacture

Asbestos, Automotive, and Insulation Products—asbestos fibers, automotive acoustic products, unsaturated felts, asbestos and organic insulating felts and boards, asbestos papers, Calisilite[®] molded high-pressure pipe coverings and industrial insulations, electrical insulating tapes, mineral granules for roofing and other uses, and inert fillers

Precision Analytical Equipment—contract manufacture of precision parts and assemblies

GAF CORPORATION

140 West 51 Street, New York, N. Y. 10020

OPERATING DIVISIONS

Building Products
Consumer Photo
Dyestuff & Chemical
Floor Products

Textile Chemical Division
1228 Chestnut Street
Chattanooga, Tenn. 37402

Industrial Photo
Industrial Products
Office Systems

International Operations
1180 Avenue of the Americas
New York, N. Y. 10036

PLANTS*, RESEARCH LABORATORIES* PRINCIPAL SALES AND DISTRIBUTION OFFICES*

NORTHEAST & MIDDLE ATLANTIC

Connecticut
Greenwich***
Hartford*
Rockville*
Staffordville*
Maryland
Baltimore**
Cheverly*
Hagerstown**
Massachusetts
Franklin**
Milis**
Westwood*
New Jersey
Bound Brook**
South Bound Brook***
Gloucester City*
Linden**
Newark*
Paterson*
Union*
New York
Binghamton**
Buffalo*
Caledonia**
Delmar*
Johnson City**
Newburgh*
New York City*
Rensselaer**
Syracuse*
Van Hook**
Vestal***
Woodside*
Pennsylvania
Blue Ridge Summit*
Delta*
Easton*
Erie** (2 plants)
Monroeville*
Pottsville*
Philadelphia*
Pittsburgh*
Reading*
Roslyn*
Whitehall***
Rhode Island
Westerly*
Vermont
Hyde Park*

MIDWEST

Illinois
Chicago*
Joliet*** (2 plants)
Metairie Park*
Peoria*
Indiana
Indianapolis*
South Bend*
Iowa
Des Moines*

Michigan
Detroit** (2 plants)
Harper Woods*
Minnesota
Minneapolis**
Missouri
Annapolis*
Kansas City**
Maryland Heights*
St. Louis**
Ohio
Cincinnati*
Cleveland*
Columbus*
Elyria*
Sheboygan*
Toledo*
Youngstown*
Wisconsin
Milwaukee*
Pembine*
Wauwatosa*

SOUTH & SOUTHWEST

Alabama
Huntsville**
Mobile**
Florida
Orlando*
Tampa**
Georgia
Atlanta*
Dalton**
Fairburn*
Savannah**
Kentucky
Calvert City**
Louisiana
New Orleans*
North Carolina
Charlotte*
South Carolina
Greenville*
Tennessee
Chattanooga***
Knoxville*
Nashville*
Texas
Arlington**
Dallas**
Houston**
Texas City**

WEST & NORTHWEST

California
La Habra**
Long Beach**
Los Angeles*
South San Francisco*
Colorado
Denver**
Oregon
Portland*
Progress*
Washington
Seattle*

GAF 12427

DOMESTIC SUBSIDIARIES

Shelby Business Forms, Inc.
Shelby, Ohio
44875

Lenco Photo Products, Inc.
140 West 51st Street
New York, N. Y. 10020

INTERNATIONAL OPERATIONS MANUFACTURING AND MARKETING SUBSIDIARIES

GAF (Canada) Ltd.
Cooksville, Ontario, Canada
GAF (Belgium) N.V.
Sint-Niklaas, Belgium
GAF (Great Britain) Limited
London SW1, England
GAF (Nederland) N.V.
Delft, Holland

MARKETING SUBSIDIARIES

GAF Svenska AB
Stockholm, Sweden
GAF (France) S.a.r.l.
Paris 10, France
GAF (Deutschland) G.m.b.H.
Cologne, Germany
GAF (Ireland) Limited
Dublin 2, Ireland
GAF (Norge) A/S
Oslo, Norway

AFFILIATE

Chemical Developments of Canada, Limited
Point Claire, Quebec, Canada
(49% owned by GAF)

GAF FILM-PROCESSING LABORATORIES* AND PHOTO-EQUIPMENT REPAIR STATIONS*

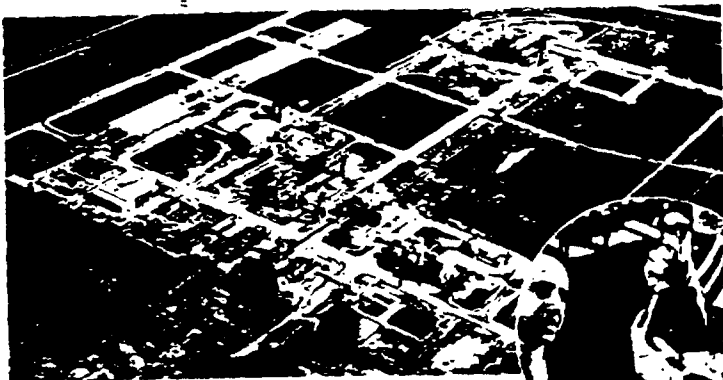
Binghamton, N. Y. *
Long Island City, N. Y. *
Union, N. J. *
Hollywood, Calif. *
Chicago, Ill. *
London, England *
Sint-Niklaas, Belgium *

GAF authorized film-processing laboratories and equipment-repair stations are located throughout the world.

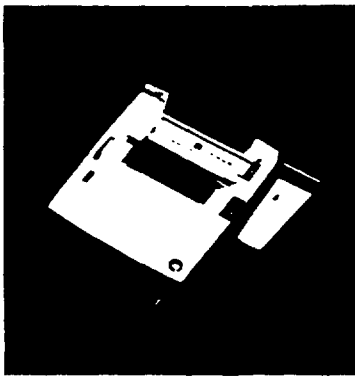
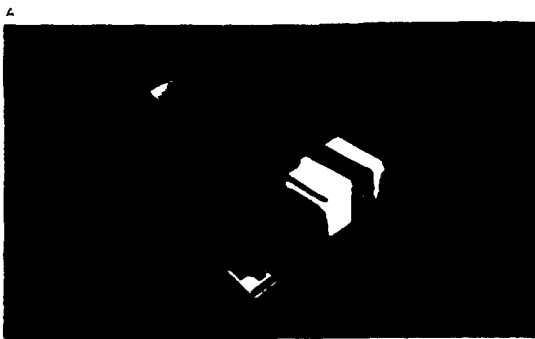
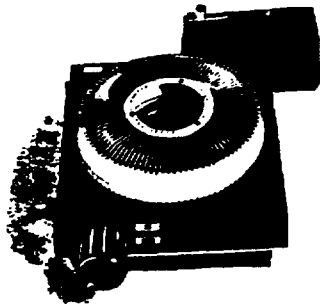
The pigments in the printing inks used in this report and the dyes, brighteners, and certain other chemicals in the paper are products of the Dyestuff & Chemical Division.



A. New diazo coating and converting facility at Johnson City, N. Y., part of GAF's expansion in the Triple Cities area.
 B. GAF plant at Sint-Niklaas, Belgium, is expanded to meet growing demand for GAF Super Viewers and slide projectors.
 C. Capacity of chlorine-caustic plant at Linden, N. J., is being doubled.
 D. New lens grinding facility at Portland, Ore., GAF consumer photo products plant.
 E. A new plant press for quality business forms went into production in 1966 at the Rock Hill, S.C. plant of GAF subsidiary.
 F. In the area of Texas City chemical plant, a new ammonia stream in 1966. Inset shows ammonia output by the new plant of GAF subsidiary to be used for soybean crop.



GAF 12429



- A. GAF projector, Anscochrome 980Z, with horizontal film selector access.
- B. Sawyers' Projection Viewer lets the show go in so to 30-in. sq. to the audience.
- C. GAF mobile camera, Anscomatic 67, 110 offers professional features for everyday photography.
- D. GAF composite display unit uses 6-hour magnetic film, easy to make and file.
- E. GAF wood and synthetic floor felt are used for decorative automotive, industrial and aerospace applications.
- F. Engineers examine a new GAF interior material used in the Ford automobile interior.
- G. A designer-decorated bathroom with GAF resilient flooring, cork pattern.



GAF 12430