

**BULOVA
WATCH
COMPANY
ANNUAL
REPORT**

MARCH 31, 1958



ARDE BULOVA

*With what do we measure
the stature of the man
whose life was time itself?*

To measure the contribution made by Arde Bulova is to recall that when he joined his father's small jewelry manufacturing shop some fifty years ago, it employed less than a dozen persons. His vision, his energy, his constant drive for perfection plus his instinct for precision . . . these are the qualities that activated the remarkable growth of this company to the position of world-leader in the production and selling of fine watches.

Yet his genius for all the facets of business was fully matched by his acute sensitivity to the desires and needs of his fellow-men. Arde Bulova was a truly great humanitarian . . . as demonstrated by his many civic and philanthropic activities, as well as his inspiration and practical assistance to the nation's disabled veterans.

Our company's hallmarks of intelligent and honest service assumed new significance under his guidance. Arde Bulova's legacy is the organization he leaves behind—an organization trained and dedicated to furthering our company's bright future.

LEADERSHIP FOR THE FUTURE

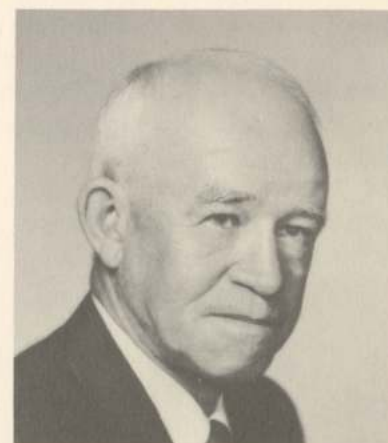
Mr. John H. Ballard, President and chief executive officer, started with the Bulova Watch Company 50 years ago, and has been its President for over 20 years. Together with Mr. Joseph Bulova, and later with Arde Bulova, Mr. Ballard has guided our Company through its years of dynamic growth.

Succeeding Mr. Bulova as Chairman of the Board, to coordinate the Bulova organization and its far-flung resources in men and material—our company is fortunate to have a man of international stature—General of the Army Omar N. Bradley—World War II leader, formerly Administrator of Veteran Affairs, Chief of Staff of the United States Army and Chairman of the Joint Chiefs of Staff. Since August, 1953, General Bradley has been Chairman of the Board of the Bulova Research and Development Laboratories, a wholly owned subsidiary of the Bulova Watch Company.

General Bradley's administrative talents, and the continuing leadership of Mr. Ballard, assure stockholders and employees of the continuance of the successful policies which have accounted for the company's progress.



JOHN H. BALLARD
*President and Chairman of the
Executive Committee*



GENERAL OMAR N. BRADLEY
Chairman of the Board

BULOVA WATCH COMPANY, INC.

DIRECTORS

GENERAL OMAR N. BRADLEY, Chairman
HARRY D. HENSHEL, Vice Chairman
JOHN H. BALLARD
EMIL E. FACHON
EMILY B. HENSHEL
HARRY B. HENSHEL
THOMAS A. MORGAN
BEARDSLEY RUMI
LORE SANDOZ

EXECUTIVE COMMITTEE

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GENERAL OMAR N. BRADLEY
EMIL E. FACHON
HARRY B. HENSHEL
HARRY D. HENSHEL
LORE SANDOZ

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EMIL E. FACHON, Executive Vice President
LORE SANDOZ, Executive Vice President
DAVID ANDERSON, Vice President
SIMON C. GERSHEY, Vice President
HARRY B. HENSHEL, Vice President and Secretary
EMANUEL HOCHMAN, Vice President
DAVID C. STAMBAUGH, Vice President
RAY H. WHIDDEN, Vice President
ABRAHAM CARNOW, Treasurer
SOL E. FLICK, Asst. Secretary
ROLAND P. TALBOT, Asst. Secretary
FRANK B. SHEINBERG, Asst. Treasurer and Asst. Secretary



BULOVA HEADQUARTERS • BULOVA PARK • LONG ISLAND, NEW YORK



WOODSIDE, N. Y.



BIENNE, SWITZERLAND



PROVIDENCE, R. I.



TORONTO, CANADA



VALLEY STREAM, N. Y.



SAG HARBOR, N. Y.



WOODSIDE, N. Y.

BULOVA RESEARCH & DEVELOPMENT LABORATORIES, INC.

DIRECTORS

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JOHN H. BALLARD
EMIL E. FACHON
HARRY B. HENSHEL
EVERETT M. PATTERSON
HARRY D. HENSHEL
THOMAS A. MORGAN
BEARDSLEY RUMI

OFFICERS

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OSCAR BROCKMEYER, JR., Vice President
HARRY B. HENSHEL, Vice President and Secretary
EMIL E. FACHON, Vice President
DAVID C. STAMBAUGH, Vice President
DR. THEODORE K. STEELE, Vice President
ABRAHAM CARNOW, Treasurer and Asst. Secretary
SOL E. FLICK, Asst. Secretary

BULOVA WATCH COMPANY, CANADA, LTD.

DIRECTORS

JOHN H. BALLARD, Chairman
ROBERT E. DAY
HARRY D. HENSHEL
R. DOUGLAS JENNINGS

OFFICERS

ROBERT E. DAY, President
FRED T. BAILEY, Vice President
HARRY B. HENSHEL, Vice President
MURIEL McCULLUM, Secretary
ABRAHAM CARNOW, Treasurer

TRANSFER AGENT

GUARANTY TRUST COMPANY
140 Broadway
New York, New York

REGISTRAR

MANUFACTURERS TRUST COMPANY
55 Broad Street
New York, New York

HIGHLIGHTS OF THE YEAR

	March 31	
	1958	1957
NET SALES	\$63,806,094	\$76,235,129
PROFIT BEFORE INCOME TAXES	\$ 4,157,738	\$ 7,081,068
NET PROFIT AFTER INCOME TAXES Per share	\$ 1.15	\$ 1.74
CASH DIVIDENDS Per share	\$ 1.05	\$ 1.40
CURRENT ASSETS	\$41,809,071	\$46,021,471
CURRENT LIABILITIES	\$10,111,498	\$15,906,470
CURRENT ASSET RATIO	4.1 to 1	2.9 to 1
WORKING CAPITAL	\$31,697,573	\$30,115,001
SHARES OUTSTANDING	1,949,286	1,949,286
STOCKHOLDERS' EQUITY Per share	\$ 18.08	\$ 17.95

THE PRESIDENT'S REPORT

TO THE STOCKHOLDERS AND EMPLOYEES:

It is my privilege to report to you on the operations and performance of our company for the fiscal year ended March 31, 1958. You can see from the financial highlights on the preceding page that there has been a decrease in net sales from about \$76 million to \$63 million, and a corresponding decrease in earnings.

Despite the generally disturbed conditions that have confronted all business and particularly our industry since the last report, our civilian business was off only slightly during this past fiscal year. Defense business, however, was seriously affected by last year's big defense cutbacks and was off substantially from the previous year. Reduced volume, as well as heavy development costs on new products — to be discussed later in this report — have taken their toll of earnings this year.

In recognition of reduced volume, firm steps have already been taken by your management to reduce overhead to a point consistent with current levels of civilian and defense business, without impairing our readiness for an upturn in business activity whenever it comes. However, to be realistic, any improvement in the 1958-59 earnings will be directly related to the speed with which our economy recovers. Similarly, although the outlook for our defense business is already improving, it should be noted that contracts for such work customarily require the time and expense of developmental work, and retooling, before they are reflected in earnings.

In spite of the current contraction of volume, the financial position of our company is improved over last year. For example, the ratio of current assets to current liabilities is better than four to one, with a substantial reduction in total liabilities. The reduction in our dividend rate was necessary to preserve our strong financial position during this period of reduced earnings.

Substantial Progress in

CONSUMER PRODUCTS AND PRODUCT DEVELOPMENT

Our company continues to be the world-leader in the sales of jeweled-lever watches. The policy of periodically introducing new lines of watches to maintain our position was continued successfully in the past year.

New watches introduced during 1957 were the American Girl group of bracelet watches and the Martha Washington series.

Similarly, we expanded the line of Bulova radios. Included among new models were several portable transistors, which have been conspicuously successful in capitalizing on the trend toward this type of radio. With high precision manufacturing standards and tasteful styling, Bulova radios have become the most popular line of radios sold by jewelers.

We are continuing to develop new radios of various types. New models being readied for introduction in the immediate future are among the most powerful pocket-size transistor sets ever produced.

In the past year, we expanded distribution of an improved Bulova Electric Razor for men. A subsequent survey made among a representative cross-section of the purchasers indicated virtually universal satisfaction.

However, the razor's introduction coincided with one of the most chaotic periods in retail history, which resulted in a severe deterioration in retail prices of all small appliances. This inhibited the rapid growth of a product which, we believe, deserves to be sold on the basis of its quality rather than price appeal.

We are preparing for the introduction of the new "Lady Bulova" Electric Shaver, a fit companion for the Bulova precision Electric Razor for men, aimed at the rapidly growing women's segment of the electric shaver market.

We are continuing our diversification program through the development of new products. Marked progress was made in several of these during 1957.

The development of a totally new concept — an Electronic Watch — has met with encouraging results. This timepiece will for the first time harness electronics to produce accuracy surpassing that of any mechanically energized watch, whether powered by spring or battery. Moreover it will provide durability never before possible.



ADVERTISING AND PROMOTION

I am pleased to report that the company's consumer advertising once again reached more people, more often, more effectively than all other watch advertising combined.

A nationwide strategy of television spot announcements — commercials placed between the most popular nighttime programs — contributed to the success of our advertising efforts. We added even greater impact during the Spring and pre-Christmas periods, the traditional peaks in consumer sales of watches, by our partial sponsorship of various network programs.

A national survey impressively confirmed the accomplishment of our advertising plan. Jewelers who were asked which watch manufacturer was doing the most effective advertising named Bulova . . . seven to one. Further, Bulova was named as doing the most effective job by about twice as many jewelers as all of the rest of the watch industry combined. In other words, our key to successful selling has been the pre-selling of consumers on Bulova even before they enter the retail store.

In addition, these Bulova sales messages to consumers are multiplied many times via the many merchandising aids offered to retailers. These include promotional material, point-of-sale displays, newspaper mats, films, radio scripts and more . . . all utilized to help the jeweler sell more Bulova watches, radios and razors.



<p>Administration Rejects U. S. Watch Industry's Plea for Import Curbs</p>	<p>U. S. DENIES CURBS ON WATCH IMPORTS</p>	<p>production or research. Furthermore, Mr. Gray told the industries, the precision skills and plant capabilities that used to be largely found in the United States are now being developed in other countries.</p>
<p>Defense Mobilizer Gray Rules That Imports Don't Threaten the National Security</p>	<p>O. D. M., in Reversal, Holds Domestic Industry Not Essential to Security</p>	<p>The watch case applies specifically to imports of jeweled watches and complete reversal were filed two years ago by the American Watch Manufacturers Association, the Bulova Watch Company and the Clock and Watch Manufacturers Association of America.</p>
<p>GOVERNMENT</p>	<p>ODM ACTION DRAWS COMMENTS:</p>	<p>U. S. Makes Secret Ruling</p>
<p>WASHINGTON — The Eisenhower Administration, already in trouble in Congress over its foreign trade program, provided new grist for the protectionist mill by squelching the domestic watch and clock industries' latest appeal for import curbs.</p>	<p>The recent finding of Defense Mobilizer Gordon Gray that the national security is not threatened by imports of watches and clocks drew this statement from Bulova Watch Company: "Now that the government has officially reached this conclusion, the Bulova Watch Company feels that it has fully discharged its national security responsibilities in raising and pressing this matter to the point of an official decision."</p>	<p>Imports said they were "deeply gratified" at the decision while domestic manufacturers said they were "regretful."</p>
<p>Defense Mobilizer Gordon Gray took the action by ruling that imports of pin-lever watches are not essential to national security. In the same way, the matter of protection for the domestic watch industry was also ruled. By ruling the administrative protectionist program's reciprocal extension of this year. Opponents on this score but to deeply slash his authority over administration of tariffs and foreign trade in general.</p>	<p>WASHINGTON, Feb. 28—The Government reversed its position today in a long-standing dispute on the question of protection for American industry against imports. The reversal came in a ruling by the Defense Mobilizer Gordon Gray.</p>	<p>U. S. Makes Secret Ruling</p>

Office of Defense Mobilization SPECIAL SUMMARY REPORT

In February of 1958 the office of Defense Mobilization ruled that "the level of imports of horological products" did not threaten the national security. This ruling was made in response to a request by the domestic watch manufacturers in December, 1955, that the ODM "initiate immediate action . . . to remove the continuing impairment to the national security."

In reaction to the ODM's decision, we stated our position in a press release, as follows:

"Ever since the outbreak of the Korean War, the Bulova Watch Company has been calling to the attention of the appropriate officials of the federal government this company's views with respect to the importance to national security of maintaining in the United States a jeweled watch industry of adequate size to meet our national defense needs.

"In calling for a decision on this matter by officials of the federal government, the Bulova Watch Company has stressed that, from the viewpoint of this particular company, which has extensive production facilities both in the United States and Switzerland, the question of import vs. domestic production is not a commercial issue, but is, instead, a national security issue, pure and simple.

"Congress, by enacting Section 7 of the Trade Agreements Extension Act of 1955, expressly provided that national security issues of this type should be presented to the Office of Defense Mobilization. The Bulova Watch Company, an American corporation whose stock is widely held throughout the United States, joined with the other domestic producers of jeweled watches in asking for appropriate action pursuant to Section 7. A major basis for this request was our knowledge of the contributions which were made by the industry during the Korean War, and the continuing contributions to national security — especially in the field of miniaturized components for guided missiles — which the industry is making today.

"The decision which the Office of Defense Mobilization has announced reaches the conclusion that 'there is no reason to believe that the level of imports of horological products threatens to impair the national security.' Now that the Government of the United States has officially reached this conclusion, the Bulova Watch Company feels that it has fully discharged its national security responsibilities in raising and pressing this matter to the point of an official decision."

I would like to re-emphasize that we are in the enviable position of having modern manufacturing facilities both in this country and Switzerland. Therefore, regardless of the Government's decision on imports, your company will be able to continue to produce its watches profitably.

CONTINUING ADVANCEMENT IN RESEARCH AND DEVELOPMENT

The Bulova Research and Development Laboratories have consolidated their position as one of the most authoritative groups in their specialized areas.

The Automation Group, in its work for the U. S. Army Signal Corps, has brought significantly closer the realization of a prototype mechanized manufacturing line for frequency standard quartz crystals. The particular skills of this group will be expanded to broaden the Laboratories' activities in the realm of Industrial Systems.

This group marked further advances in electronic research and development for the major sub-systems of long-range missiles. These are in the area of special, miniaturized servo computer monitors and complex electrical system designs.

The Applied Research Group has been progressing in its development of several novel aircraft instruments which go beyond the capabilities of those now in common use. The group has also established a pilot line for the fabrication of infrared sensing devices, including thermistor bolometers, lead sulfide and lead selenide photoconductors.

The Applied Science Group has broadened its activities to meet fully the challenge of the space age. Its work in general reconnaissance studies and applications of impulse steering systems has gained much favorable recognition throughout the country.

Leading and coordinating the endeavors of the Laboratories as a whole is Everett M. Patterson, President and member of the Board of Directors. In the fields of military research and development, Mr. Patterson is credited with many pioneering achievements in the engineering of jet engines and in rocket propulsion control devices.



INTENSIVE ACTIVITY FOR NATIONAL DEFENSE

The successful launching of Sputnik I reversed a severe downward trend in items delivered to the United States Army, Navy, and Air Force by our company. In contrast to the period of austerity characterizing the flow of orders from the Department of Defense throughout 1957, the last quarter of our fiscal year (the first quarter of 1958) was marked by intense activity in the defense sales area.

In this ninety-day period, sixty-three proposals were submitted to various agencies of the Department of Defense — some of which are now coming to fruition in the form of contracts. Our company is now engaged in producing components for most of the missiles being developed for our Armed Forces.

Electronics Division sales during the year increased 25% and profit showed a corresponding upward trend. This unit produces crystal units and electronic assemblies. Expansion continued with the addition of two new departments, producing a line of filters and precision packaged oscillators. Present planning includes further diversification of electronic products directed primarily at the missile market. Prospects for the coming year show every indication for continued growth of this division as a source of additional profit to the company.

The activities of the Photographic Division have broadened considerably. In its second year of operation, the division has been successful in procuring new contracts, which include a substantial systems development program for the Air Force. The division's backlog is presently at a level of approximately \$1,100,000, representing a 40% increase over the same period one year ago.

VITAL TO OUR SUCCESS . . . PEOPLE

Your company has always regarded employee relations as more than just good business. To us, it is a social and humanitarian obligation imposed on the stewardship of this company. Our progress along these lines is demonstrated by the length of service achieved by so many of our men and women.

81 have been a part of the company for 25 years or more

163 have been with us for 20 years or more

354 show 15 years of service

621 have seen 10 years of service with the company

Bulova offers an employee benefit program which includes a comprehensive pension plan, group insurance and a liberal schedule of sickness and accident benefits. The company provides the headquarters for a Credit Union, which our employees operate for their own benefit.

A College Scholarship award program, entirely financed by the Bulova Watch Company Foundation, provides funds for the higher education of employees' children. Forty-four sons and daughters of our employees are now receiving funds from this Scholarship Program. Every child of every Bulova 5-year employee is eligible to apply for a scholarship under this Program. In addition to the scholarship award, a \$500 a year grant is made by the Bulova Watch Company Foundation to each private college and university for each of our scholarship students registered.



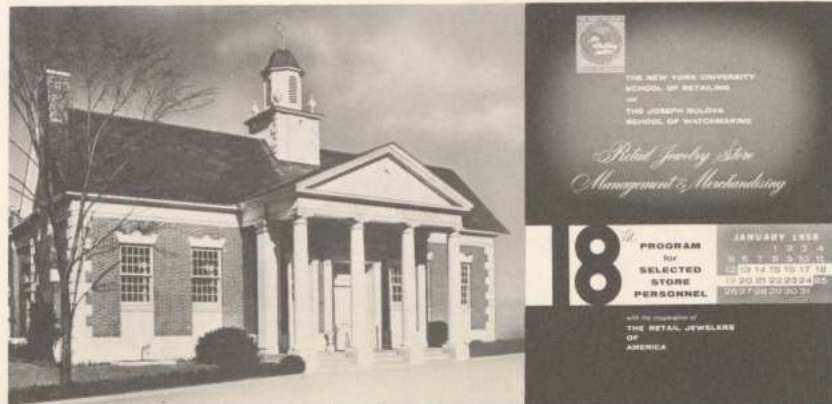
"HARNESSING THE SKILLS OF THE DISABLED"

EDUCATION

The Joseph Bulova School of Watchmaking, financed by the Bulova Watch Company Foundation and the Bulova family fund, trains the physically handicapped in watchmaking skills. Its current enrollment numbers eighty-one students . . . civilian and veteran disabled from 15 states. Last summer the School received a citation for its outstanding display at the International Society for the Welfare of Cripples' annual meeting in London, where 65 exhibits were shown.

A new dormitory providing living space for forty disabled students, has been completed at the School. Twenty of these accommodations are especially suited for wheel-chair cases and are equipped with the most modern devices that medical and scientific technology can provide. The dormitory will be formally dedicated as the Arde Bulova Dormitory at a brief ceremony on August 10th, 1958. As part of the program, General Bradley will accept the citation from the International Society for the Welfare of Cripples. All stockholders are cordially invited.

The Retail Jewelry Store Management and Merchandising Seminar conducted by the New York University School of Retailing continues to be one of our prime interests. This course, sponsored jointly by the University and our Company, offers jewelers two weeks of intensive study in various phases of jewelry store operation, such as financial control, sales promotion, merchandising, and store operation.



OUR OUTLOOK

Your company continues as the unquestioned world-leader in the manufacture and sale of jeweled lever watches. A strong consumer demand, solidly based on quality, styling, intensive advertising and fair pricing will continue to be our greatest asset in the market place.

From our present dominant position, we can capitalize fully on new opportunities which are appearing on our horizon. Here are some of the factors which support our feeling of optimism:

1. During the next ten to twenty years, the youth market will become the largest segment of the U. S. population and will contribute a wholly new watch-buying market.
2. Watches, although still strongly influenced by fluctuations in our economy, will through Bulova advertising and consumer education come more and more to be regarded as necessities, rather than luxuries.
3. The heavy competitive pressures on the retail jeweler must inevitably make him a stronger and more aggressive merchant, and thereby a better outlet for our products.
4. Although our prime market has until now been the Western Hemisphere, particularly the United States and Canada, we believe the time is ripe for expansion into other areas. In line with this, we have expanded our Swiss facilities and have begun a modest operation in Italy.

So, with firm confidence in the future and with the knowledge that we can rely upon a devoted and talented organization, this report is respectfully submitted. On behalf of the Directors of our Company, I wish to thank our officers and the entire Bulova personnel for their continuing dedication to maintaining our industry leadership.

John H. Ballard
President

BULOVA WATCH COMPANY, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET

March 31, 1958 with comparative figures at March 31, 1957

ASSETS	March 31	
	1958	1957
CURRENT ASSETS:		
Cash	\$ 2,547,103	\$ 3,143,022
U. S. Government securities, at cost and accrued interest (market value \$291,100)	—	298,557
Customers' accounts and notes receivable (less allowance for doubtful accounts and notes: 1958—\$811,006; 1957—\$931,250)	15,910,576	17,694,098
Other accounts receivable	924,957	108,993
Inventories, at cost or less (note I)	13,635,152	13,310,103
U. S. Government contracts:		
Accounts receivable	1,570,721	2,748,718
Inventories	648,349	1,811,585
Reimbursable expenditures	5,889,467	6,728,676
	<u>8,108,537</u>	<u>11,288,979</u>
Prepaid expenses:		
Pension costs	319,597	—
Other prepayments	363,149	177,719
	<u>682,746</u>	<u>177,719</u>
Total current assets	<u>41,809,071</u>	<u>46,021,471</u>
OTHER ASSETS:		
Investment in capital stock of Tiffany and Company, at cost (book equity Jan. 31, 1958—\$2,456,000; Jan. 31, 1957—\$2,424,000)	2,240,400	2,240,400
Cash surrender value of \$500,000 insurance on life of officer	—	290,612
Sundry notes and accounts receivable	597,147	485,949
Due from officers and employees under stock purchase plan (secured by shares of the company's capital stock: 1958—2,091 shares, market value \$21,171; 1957—4,635 shares, market value \$93,279)	23,306	55,541
Capital stock, at less than cost, held for resale to officers and employees (notes G and H)	875,548	719,385
	<u>3,736,401</u>	<u>3,791,887</u>
PLANT PROPERTY, AT COST (notes B and I):		
Land, buildings and improvements	7,644,901	7,640,624
Machinery and equipment	4,888,268	4,366,805
Furniture, fixtures and leasehold improvements	466,599	438,165
	<u>12,999,768</u>	<u>12,445,594</u>
Less accumulated depreciation	4,681,024	3,867,739
	<u>8,318,744</u>	<u>8,577,855</u>
REAL ESTATE — LAND	—	1,143,559
DEFERRED CHARGES	52,425	157,275
	<u>\$53,916,641</u>	<u>\$59,692,047</u>

(See Notes to Financial Statements)

LIABILITIES	March 31	
	1958	1957
CURRENT LIABILITIES:		
Unsecured notes payable	\$ 3,500,000	\$ 4,000,000
Accounts payable	2,348,909	4,409,696
Accrued salaries, wages, commissions and expenses	2,035,182	3,501,735
Accrued domestic and foreign taxes	1,777,407	3,545,039
Instalment on 3½% sinking fund notes due within one year (note C)	450,000	450,000
	<u>10,111,498</u>	<u>15,906,470</u>
3½% SINKING FUND NOTES DUE MAY 1, 1969—less instalment due within one year (note C)	7,099,625	7,550,000
DEFERRED FEDERAL TAXES ON INCOME—principally tax on accelerated amortization of emergency facilities (note B)	1,466,010	1,236,882
STOCKHOLDERS' EQUITY:		
Common stock, \$5 par value:		
Authorized	3,000,000 shares	
Outstanding	1,949,286 shares	9,746,430
Earned surplus (retained for use in the business)—(note C)	25,493,078	25,252,265
	<u>35,239,508</u>	<u>34,998,695</u>
Total stockholders' equity	<u>\$53,916,641</u>	<u>\$59,692,047</u>

(See Notes to Financial Statements)

BULOVA WATCH COMPANY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME AND EARNED SURPLUS

Year ended March 31, 1958 with comparative figures for 1957

	Year ended March 31	
	1958	1957
NET SALES	\$63,806,094	\$76,235,129
COST OF GOODS SOLD	43,397,447	48,006,212
GROSS PROFIT FROM SALES	20,408,647	28,228,917
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	14,129,211	18,298,684
PROFIT FROM OPERATIONS (after deducting depreciation: 1958—\$1,050,835; 1957—\$953,027) (note B)	6,279,436	9,930,233
INCOME CHARGES (net):		
Taxes, other than income taxes (in 1957 net of tax credit \$183,573)	1,207,140	1,341,666
Interest paid (less interest earned: 1958—\$22,842; 1957—\$52,721)	702,468	385,405
Contributions to employees' retirement plans	784,323	1,105,754
Contributions to charities	20,034	59,035
Dividend and other income	(36,567)	(42,695)
	2,677,398	2,849,165
INCOME BEFORE INCOME TAXES	3,602,038	7,081,068
U. S. AND FOREIGN INCOME TAXES (including deferred taxes relating to accelerated amortization of emergency facilities: 1958—\$247,687; 1957—\$304,436)	1,925,000	3,680,000
NET INCOME BEFORE SPECIAL ITEMS	1,677,038	3,401,068
SPECIAL ITEMS:		
Gain on disposal of land, less taxes payable thereon	348,500	—
Proceeds of insurance on life of an officer, net of cash surrender value previously recorded	207,200	—
	555,700	—
NET INCOME FOR THE YEAR INCLUDING SPECIAL ITEMS (note I)	2,232,738	3,401,068
DEDUCT DIVIDENDS PAID—\$1.05 per share in 1958; \$1.40 per share in 1957	1,991,925	2,685,600
	240,813	715,468
EARNED SURPLUS AT BEGINNING OF THE YEAR	25,252,265	24,536,797
EARNED SURPLUS AT END OF THE YEAR (retained for use in the business)—(note C)	\$25,493,078	\$25,252,265

(See Notes to Financial Statements)

NOTES TO FINANCIAL STATEMENTS

NOTE A:

The consolidated balance sheet includes assets and liabilities located in foreign countries as follows:

	1958	1957
SWITZERLAND:		
Current assets	\$1,798,743	\$1,888,495
Other assets	222,130	41,935
Total assets	\$2,020,873	\$1,930,430
Liabilities	\$ 734,239	\$ 945,223
Canada:		
Current assets	\$2,971,304	\$2,552,271
Other assets	120,223	135,940
Total assets	\$3,091,527	\$2,688,211
Liabilities	\$ 288,761	\$ 378,672

All foreign currency items have been converted at prevailing rates of exchange.

NOTE B:

Depreciation on property covered by certificates of necessity, having a gross asset value of \$4,160,032 at March 31, 1958 and \$4,416,843 at March 31, 1957, has been booked at normal rates used by the company, although for income tax purposes the accelerated amortization of 20% per annum has been deducted. The excess of tax amortization over normal depreciation has resulted in a temporary tax benefit of \$1,416,920 (\$247,687 arising in 1958 and \$304,436 in 1957) which has been charged against earnings and credited to deferred Federal taxes on income. The amount so deferred will be used in the years following the amortization period, when depreciation on property covered by certificates of necessity then being booked in the accounts will not be deductible for income tax purposes.

NOTE C:

The parent company is obligated to pay \$450,000 against the 3½% sinking fund notes on May 1, 1958 and on May 1 of each year thereafter. Additional payments may be made in any year but if such additional payments exceed \$450,000 in any one year a premium must be paid on the excess.

Under the terms of the notes the company has agreed not to permit its working capital to fall below certain prescribed limits, and has also agreed to restrictions on the creation of additional funded debt and on various other matters.

The terms of the notes place certain restrictions on the payment of dividends, other than stock dividends, and on the purchase or retirement of shares of the company's stock. The net effect of these restrictions is to limit the maximum amount which could be expended for dividends and stock purchases after March 31, 1958 to \$1,294,784 plus subsequent earnings, less annual sinking fund payments of \$450,000.

NOTE D:

Federal income tax returns for the years ended March 31, 1954 and prior have been examined by the Treasury Department and all taxes for such years have been settled.

NOTE E:

Profits under contracts with the United States Government subject to renegotiation have been cleared through the year ended March 31, 1956. Management is of the opinion that no excessive profits were realized for the years ended March 31, 1957 and 1958.

NOTE F:

The unpaid cost as at March 31, 1958 of past services in connection with the company's employees' retirement plan as determined by independent actuaries is \$607,660, subject, however, to termination or amendment as provided in the plan. It is expected that this amount will be charged to income over a period of 11 and ¾ years.

NOTE G:

At March 31, 1957 options to purchase 73,000 shares of the parent company's stock at prices ranging from \$11.00 to \$17.50 per share were held by certain officers and employees. During the year ended March 31, 1958 options to purchase 4,290 shares were exercised at prices ranging from \$11.00 to \$17.50 per share and options for 10,000 shares were cancelled when the officers and employees concerned terminated their employment. At March 31, 1958 there remained 58,710 shares under option of which 8,100 shares were optioned at a price of \$11.67 per share and the remaining 50,610 shares at a price of \$17.50 per share. All options have been granted at 85% of the quoted market value on the dates of grant. The difference between the option price and market value is credited to capital stock held for resale to officers and employees and the offsetting charge is deferred and written off to income over a two year period (the minimum period during which an optionee must remain in the company's employ to obtain clear title to any shares on which he has exercised his option).

NOTE H:

Capital stock held for resale to officers and employees is stated in the consolidated balance sheet at \$875,548, which is less than cost. The quoted market at March 31, 1958 for these shares aggregated \$525,600. The aggregate book value is \$938,533. No reserve has been provided for the difference (\$549,948) between carrying value and quoted market.

NOTE I:

During the year ended March 31, 1958 the company modified its policy regarding the capitalization of expenditures for plant property and included, for the first time, certain indirect manufacturing expenses in watch inventories, both of which changes have been approved by our independent public accountants. Net income was affected by the foregoing changes in accounting principles in an amount equivalent to 2.8% of inventories and 1.7% of net plant property.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Stockholders and Board of Directors
of Bulova Watch Company, Inc.:

We have examined the consolidated balance sheet of Bulova Watch Company, Inc. and subsidiaries as of March 31, 1958 and the related statement of income and earned surplus 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. It was not practicable to confirm by correspondence amounts due from the United States Government, but we satisfied ourselves as to such amounts by means of other auditing procedures.

In our opinion, subject to note H, the accompanying consolidated financial statements present fairly the financial position of Bulova Watch Company, Inc. and subsidiaries at March 31, 1958 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles. Except for the changes described in note I to the financial statements, which we approve, such principles have been applied on a basis consistent with that of the preceding year.

PEAT, MARWICK, MITCHELL & CO.

New York, N. Y.
June 12, 1958

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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New York, N. Y.
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BULOVA
WATCH COMPANY, INC.



annual report march 31, 1958

