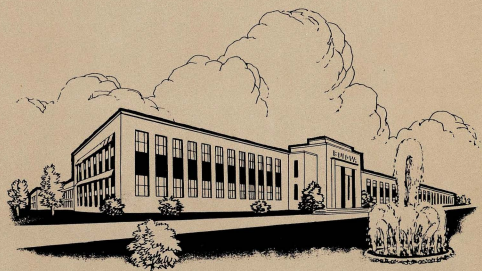


Annual Report

FOR YEAR ENDED MARCH 31, **1959**

B U L O V A



Bulova Headquarters • Bulova Park • Long Island, New York

ONLY BULOVA

has the facilities to manufacture every part of every watch it markets



Woodside, N. Y.



Bienne, Switzerland



Providence, R. I.



Toronto, Canada



Sag Harbor, N. Y.



Woodside, N. Y.

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*Serving Industry and the National Defense
in Electronics, Micro-Miniaturization and Mass Precision Manufacture*

BULOVA

Bulova Watch Company, Inc.

DIRECTORS

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

OFFICERS

GENERAL OMAR N. BRADLEY, *Chairman of the Board*
HARRY D. HENSHEL, *Vice Chairman of the Board*
JOHN H. BALLARD, *President*
EMIL E. FACHON, *Executive Vice President*
HARRY B. HENSHEL, *Executive Vice President*
LORE SANDOZ, *Executive Vice President*
DAVID ANDERSON, *Vice President*
SIMON C. GERSHEY, *Vice President*
EMANUEL HOCHMAN, *Vice President*
TAD JEFFERY, *Vice President*
EVERETT M. PATTERSON, *Vice President*
DAVID C. STAMBAUGH, *Vice President*
R. HARVEY WHIDDEN, *Vice President*
ABRAHAM CARNOW, *Treasurer*
SOL E. FLICK, *Secretary and General Counsel*
ROLAND P. TALBOT, *Asst. Secretary*
FRANK B. SHEINBERG, *Asst. Treasurer and Asst. Secretary*
BENJAMIN H. NATCHEZ, *Controller*
JOHN C. CHIAPPE, *Asst. Controller*

TRANSFER AGENT

MORGAN GUARANTY TRUST COMPANY
140 Broadway, New York, New York

REGISTRAR

MANUFACTURERS TRUST COMPANY
55 Broad Street, New York, New York

Bulova Research & Development Laboratories, Inc.

DIRECTORS

GENERAL OMAR N. BRADLEY, *Chairman*
JOHN H. BALLARD
GEORGE M. BUNKER
EMIL E. FACHON
HARRY B. HENSHEL
HARRY D. HENSHEL
THOMAS A. MORGAN
EVERETT M. PATTERSON
WILLIAM E. WILLIAMS

OFFICERS

EVERETT M. PATTERSON, *President*
OSCAR BROCKMEYER, JR., *Vice President*
JOHN J. CARPENTER, *Vice President*
EMIL E. FACHON, *Vice President*
HARRY B. HENSHEL, *Vice President*
DAVID C. STAMBAUGH, *Vice President*
DR. THEODORE K. STEELE, *Vice President and Asst. Secretary*
ABRAHAM CARNOW, *Treasurer and Asst. Secretary*
SOL E. FLICK, *Secretary and General Counsel*

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*

Highlights

YEAR ENDED MARCH 31, 1959

| | Year Ended March 31 | |
|--|---------------------|--------------|
| | 1959 | 1958 |
| NET SALES | \$58,446,574 | \$63,806,094 |
| *PROFIT BEFORE INCOME TAXES | \$ 4,337,168 | \$ 4,157,738 |
| *NET PROFIT AFTER INCOME TAXES Per share | \$ 1.30 | \$ 1.15 |
| CASH DIVIDENDS Per share | \$.65 | \$ 1.05 |
| CURRENT ASSETS | \$40,239,642 | \$41,809,071 |
| CURRENT LIABILITIES | \$ 7,072,689 | \$10,111,498 |
| CURRENT ASSET RATIO | 5.7 to 1 | 4.1 to 1 |
| WORKING CAPITAL | \$33,166,953 | \$31,697,573 |
| SHARES OUTSTANDING | 1,949,286 | 1,949,286 |
| STOCKHOLDERS' EQUITY Per share | \$ 18.74 | \$ 18.08 |

*Including Special Items

BULOVA WATCH COMPANY, INC.

BULOVA PARK
FLUSHING 70, N. Y.

TO OUR STOCKHOLDERS:

THE fiscal year ended March 31, 1959 produced far better results for the Bulova Watch Company than were foreseeable a year ago. Net sales amounted to \$58,446,574. The net profit of \$2,527,168 was equivalent to \$1.30 per share of the common stock. The earnings figure includes special non-recurring profit items amounting to 52 cents per share.

The year was a period of significant accomplishment in terms of acceleration of volume of consumer sales and defense projects, internal organization for greater effectiveness in management functions, and development of new products that should contribute importantly to future growth and earnings. In accordance with our usual policy the heavy costs incurred in the development and reproduction tooling for these several new products were charged against profit from operations.

Of great interest is the change that occurred at mid-year in the trend of the company's business. By the end of the year, total sales of watches had risen to the approximate level of fiscal 1958, and radio sales were ahead by an impressive margin.

The company not only maintained but improved its position as the world leader in sales of jeweled-lever watches. The increase in radio sales was in sharp contrast to a general downturn in that industry. The business has continued to gather momentum in the first quarter of the new fiscal year.

Achievement of the current volume of civilian product sales was the result of a decision made early in 1958 to provide adequate inventories and invest in aggressive advertising and merchandising to take full advantage of the improving economic atmosphere.

Orders for the manufacture of defense products have maintained that area of our business at approximately the same level as the preceding year.

There was a gratifying increase in research and development contracts and subcontracts for defense projects, and the volume of work has continued to grow since the year's end. Follow-on production contracts from these research projects and sales of proprietary products now in development or in the pre-production stage could add substantially to the company's future volume and earnings.

It will be noted from the highlights on page 4 that despite the reduced earnings of the last two years the company is in a stronger financial position than before the business recession. It was to insure this position that our dividend rate was reduced in the first quarter of fiscal 1958 to a 60-cent annual basis. This rate was maintained in fiscal 1959. The last quarterly payment of the year was our 89th consecutive regular quarterly dividend.

The ratio of current assets to current liabilities at the year's end was 5.7 to 1, compared with 4.1 a year ago and 2.9 for fiscal 1957. Total liabilities have been further reduced and working capital increased. A summary statement of the source and use of funds will be found on page 16 of this report.

Our planning is toward a broader base through development of new products, as well as through expansion of our existing lines and studied diversification in the fields of the organization's unique skills and facilities for miniaturization mass precision manufacture and marketing.

Our watch lines will be extended in two directions. We are working toward a greater share of the profitable upper price market with improvements in engineering, thinness and styling of all of our fine watches. We plan to develop new business by penetrating the area below our present price range with the finest watches ever offered in their price bracket, to appeal to the burgeoning youth market and to stimulate "second-watch" sales to those who already own fine watches.

In our last report to stockholders we told of our work on a totally new concept of time measurement — which can be described at present only as a truly electronic timekeeping device. This revolutionary development has now progressed to the stage of pre-production tooling. Tests and continuing performance of shop-made models have convinced us that the accuracy of this timepiece will surpass that of any existing watch, whether energized by spring or battery. We expect to be able within the current year to make a definite announcement of the date of its public introduction.

Bulova continues to maintain a wide margin of leadership in Canada and increased attention is being given to the development of watch sales abroad.

We have successfully test marketed an ultra-miniature transistor radio which we expect to introduce in the near future.

Another new product, to be marketed this summer, is a line of portable, high-fidelity, 4-speed, stereophonic phonographs which we believe will gain for Bulova a substantial share of the growing stereophonic market.

Two achievements of the Research and Development Laboratories are particularly worthy of mention.

The most significant company-sponsored research and development project substantially completed during the year was the Bulova direct-reading servo-altimeter, a model of which was publicly demonstrated on April 8, 1959. Representing the most important improvement in altimetry design in 40 years and setting new

standards for accuracy and ease of reading, it has been highly appraised by experts and pilots in every phase of aviation. The United States Air Force has ordered several units for use in continued evaluation and flight testing.

In June of 1958 Bulova was made the subcontractor for development of the complete safety and arming system and fuze mechanism of the solid fuel Pershing missile for which the Martin Company is prime contractor.

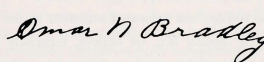
In several respects fiscal 1959 was a year of transition for our company.

A most important accomplishment was the implementation of a plan to improve the breadth and depth of the management organization. This was designed to take full advantage of the capabilities of a management team developed by long experience under the genius and leadership of the late Arde Bulova, or brought into the company in recent years to round out and strengthen its increasingly diversified activities. With clear definition of areas of responsibility and greater delegation of authority, this closely knit and smoothly functioning group is geared to maintain Bulova's standards of business integrity, continue its leadership in mass precision manufacture, and accomplish its growth objectives.

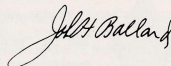
Although our research investment in the company's future and extensive tooling for new products will continue, for the present, to impose a burden on profits, we anticipate improvement in net earnings in the fiscal year ending March 31, 1960. It is indicated now that with an extension of the current trend and with initial benefits in the last half of fiscal 1960 from newly marketed products, total sales this year should be substantially above those of fiscal 1959 and there is sound reason for confidence that within the not far distant future we can reach beyond our former dimensions.

On behalf of the officers and directors of our company, we wish to express to all of Bulova's employees our appreciation of the talents, energy and sincerity of purpose that have inspired their confidence. We wish also to thank our stockholders and our customers for their continued cooperation and support.

Respectfully submitted,



OMAR N. BRADLEY
Chairman of the Board



JOHN H. BALLARD
President

Consumer Products Advertising - Merchandising

WATCHES

Bulova continues to outsell all other watchmakers in every category of fine jeweled-lever watches.

Featured new watches successfully marketed during the year were the "His Excellency" group of very thin 23-jewel waterproof dress watches for men, retailing at \$59.50 to \$135, and the "Goddess of Time" 17-jewel series for women, in the popular \$39.75 to \$59.50 price range.

The featured watch for the spring of 1959 is the 17-jewel "Sea King," the thinnest waterproof watch Bulova has ever made. Ranging in price from \$39.50 to \$59.50, it is shock resistant and anti-magnetic, with an unbreakable mainspring, luminous dial and sweep-second hand. The shadow slinness was made possible by Bulova's development of a new one-piece seal or gasket requiring less space than former seals. The Sea King is certified waterproof by the United States Testing Company, Inc., as are all Bulova waterproof watches.

The introduction of our newest, improved, streamlined 23-jewel, waterproof, automatic watch, the finest automatic ever produced, is a definite bid for a greater share of the profitable upper price business.

The pricing, the styling, and increased attention to the youth market and the "second watch" appeal are, we believe, especially timely. These markets have lacked a fine quality watch in the popular price range. In all likelihood therefore we will create the watch news of the year as we introduce new models in our line making available to the public the finest watches of their kind ever to bear the Bulova name.

An interesting insight into the scope and potential of the American watch market is given by the following quotation from a study completed in November of 1958 by Nowland and Company for the Swiss Federation of Watch Manufacturers:



Bulova "23"

La Petite

The U. S. Watch Market:

"The U. S. watch market is truly a mass market. In 1956 . . . the total amount paid by the public for watches was approximately \$500,000,000.

The total unit volume of watches sold in the American market has been increasing rapidly over the past several years.

It is estimated that 31 per cent of people over fourteen years of age do not use a wrist watch. This is a total of 35 million Americans not using wrist watches. One-third of present owners are using watches which are at least ten years old.

It is estimated that the number of young people in the 18-24 year old group will rise very sharply within the coming decade, creating many new young married couples — an excellent potential market for gift watches.

Almost 90 per cent of consumers believe that it is important for a man or woman to own a good watch and that they want to own a watch they can be proud of.

In brief, the potential market is large and healthy, numerically and motivationally."

RADIOS

Bulova will also make news in the radio market with its new ultra-miniature transistor radio. The first of several models now being considered, retailing at \$39.95, will be on the market in the near future.

STEREOPHONIC PHONOGRAPH

Bulova will also present for the fall selling season a line of four completely self-contained portable stereophonic phonographs. These high-fidelity record players have been styled in the Bulova tradition and are being manufactured to Bulova quality standards. It is expected that the new line will contribute importantly to the volume of the Special Products Division.

ELECTRIC RAZORS

Bulova's electric shaver, first marketed in fiscal 1958, quickly gained a reputation as a quality product. Its introduction, however, coincided with chaotic conditions and severe price competition in the small appliance field. Pending improvement of this atmosphere, it was not considered practical to invest in a program to broaden its present distribution. Our plans are flexible while careful study is being made of the market.



ADVERTISING

Bulova advertising continues to reach more potential watch buyers than does the total effort of all other makers of fine watches.

The company's watch advertising program during the year was marked by a return to print advertising through the use of large space in major magazines and by expanded use of minute-long commercials within network television programs.

The distinctive format of Bulova's magazine advertisements and the fine quality of our TV commercials created a most favorable reaction among dealers and consumers. The TV commercials won a Certificate of Merit in connection with the 38th Annual National Exposition of Advertising and Editorial Art Design of the Art Directors Club of New York.

The success of our advertising of the past year has influenced the direction of the current year's spring campaign, the most extensive in the recent history of the company and the watch industry. Fourteen full pages in color appeared in the Saturday Evening Post, Life, Look and Ebony from April 21 to June 16, and 64 network television commercials were booked to feature the Sea King and other new spring watches on five outstanding programs — The Bob Cummings Show, M-Squad, Cimarron City, NBC News and the Garroway Show.

A special spring advertising campaign to promote Bulova radios places maximum emphasis in major metropolitan markets that have shown the greatest acceptance and sales potential. The program utilized space in Sunday supplements of 35 newspapers in 25 states.

All of Bulova's consumer advertising is reinforced by a continuing sales and merchandising program supplied to the retail jewelry trade.

Bulova advertising continues to reach more potential watch buyers than does the total effort of all other makers of fine watches.



Industrial And Defense Operations

The company's industrial and defense business derives from production of electronic components by the Electronics Division; ordnance and missile fuzes, gear boxes, and timing mechanisms by the Providence and Jackson Heights plants, research on specialized military cameras by the Photographic Division, and from the work of the Bulova Research and Development Laboratories, Inc.

Bulova Electronics

In the area of industrial and government sales, the Electronics Division, sparked by its own product development effort, continued its growth as a manufacturer of precision electronic components with a sales increase of approximately 50 per cent over the preceding year.

Bulova frequency control components, the electronic timekeepers of complicated missile and communications equipment, are finding wide acceptance. A number of operational missiles are using Bulova oscillators, crystals, and other electronic devices.

Research and Development

The Research and Development Laboratories staff was expanded during the year to keep pace with broadened areas of interest in research and development for military and commercial customers.

The engineering staff of the Laboratory was doubled and its total personnel increased by 72 per cent.

Both billings on completed projects and new business contracted for during the year showed a marked increase.

Coincident with development of the new Bulova altimeter described in another section of this report were several other programs now being given added attention by the Laboratory. Chief among these programs is a new highly accurate master servo-barometer for which there is a wide military, industrial and commercial need. Studies are advancing toward development of other aircraft precision measuring instruments.

Another proprietary development accomplished during the year, which is now in production, is a high-temperature transistorized servo-amplifier. It was designed by the Laboratory's Electronics Department primarily to become a "standardized" component for many types of Army electronic systems that will require this type of amplifier to drive small precision motors under adverse environmental conditions. This is being manufactured and marketed by the Electronics Division. Orders have been received from several Army sub-contractors. The amplifier weighs only 8 ounces, has a maximum power output of 12 watts, and maintains its specified operating conditions at temperature ranges of minus 55 to plus 125 degrees centigrade.



The Bulova Direct Reading Servo Altimeter

Development of safety and arming systems and fuze mechanisms for Navy and Army missiles was, as it has been for the past several years, the principal program area at the Laboratory. The largest such program during the year was for the Army's new solid-propellant Pershing missile, also discussed on a previous page. Bulova is one of four subcontractors to the Martin Company in the Pershing project. The other companies to whom important components of Pershing were assigned are Bendix Aviation's Eclipse-Pioneer Division, Thompson Products' Accessories Division and the Thiokol Chemical Corporation.

Other current missiles for which the Laboratory has developed safety and arming systems and fuze mechanisms include the Terrier, Talos, Tartar, Sidewinder, Sparrow, Corvus and Dart.

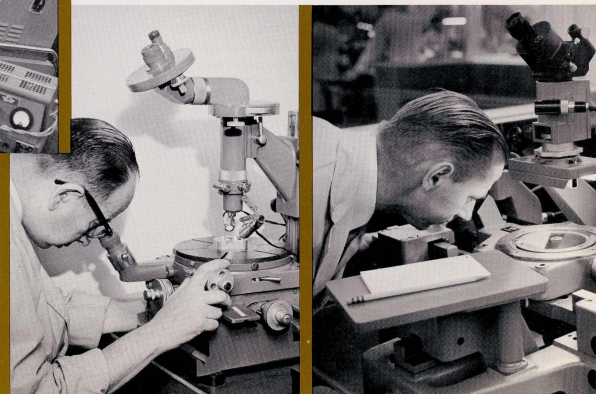
The Automation Group at the Laboratory is nearing completion of the development of 24 specially designed machines for establishing a fully automated prototype production system for the manufacture of frequency standard quartz crystals. The pilot plant, being developed for the Army Signal Corps, will perform all the manufacturing steps needed to convert raw materials to finished, sorted and tested crystals. The Laboratory also has been developing a machine for automatic manufacture of glass beads needed in certain precision manufacturing.

Infrared components and systems, an area of continuous study at the Laboratory for several years — especially in conjunction with the Sidewinder missile program — are being adapted now to a unique remote-controlled gunnery hit-detecting system. Small arms ammunition and larger projectiles are aimed literally at a "hole in the air" formed by crossing a pair of infrared beams. Projectiles are automatically scored as "hits" as they pass through a well-defined area where the beams overlap because the infrared sensors detect the heat of the bullet or shell as it "strikes" the crossed-beam area.



Electrical, electronic, and electro-mechanical tasks for industry and government.

Bulova employs the art of fine watchmaking in the development of subminiature mechanisms reliable for high accuracy under abnormal abuse.



Typical of devices under development at the Laboratory for unique aspects of the missile program is an accelerometer monitor used for ground check-out of a ballistic missile before launching. The company's monitor has jewel bearings and includes a subminiature gear train that has a 36,000 to 1 ratio.

Many of the Laboratory's unique techniques and capabilities are proving valuable to the civilian and military space exploration programs. These have been responsible for the processing of special timing mechanisms, electronic check-out and launching equipment, servo systems, and precision gear trains. Research and development in such areas as photoconductors, radar, microwave, infrared, optics, impulse steering and photographic reconnaissance have been utilized for rocket and satellite programs during the year, and are being developed and adapted for newer programs.

In all of this work the Bulova Laboratories have established a reputation for reliability — for the design and production of precision products that will withstand abnormal usage and maintain a high degree of accuracy and performance. In the missile field, Bulova works to a million-to-one reliability factor in contrast to the hundred-thousand-to-one ratio commonly observed. Designing, engineering and manufacturing are all done with the Bulova reliability concept as the governing factor.

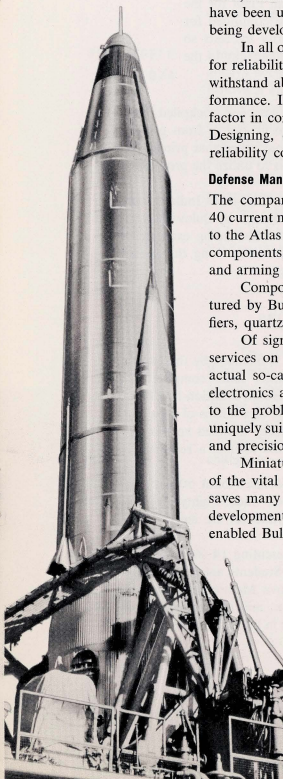
Defense Manufacturing

The company's products during the year were used on 17 of the nation's 40 current missile programs, ranging in size from the small Sidewinder missile to the Atlas ICBM. Product complexity ranged from subminiature electronic components, such as filters and oscillators, to extremely complicated safety and arming systems for missile warheads.

Components developed by the Laboratories and now being manufactured by Bulova for various applications include transistorized servo-amplifiers, quartz crystal oscillators, subminiaturized transducers, and others.

Of significance for the future is the increasing emphasis by the armed services on more dollars in design and development, and fewer dollars in actual so-called mass production. In line with this change in the areas of electronics and precision instrument procurement, Bulova has adapted itself to the problems of manufacturing highly complex devices. The company is uniquely suited to this type of operation because of its history in watchmaking and precision instrument manufacture.

Miniaturization has figured uppermost in the missile warhead because of the vital importance of the fact that elimination of one pound of weight saves many pounds of fuel. Employing the art of fine watchmaking to the development of subminiature mechanisms of microscopic tolerances has enabled Bulova to figure importantly in this program.



Safety and arming devices and fuze mechanisms for missiles — Bulova contributions to defense.

JEWEL BEARINGS FOR DEFENSE

Since 1952 Bulova has operated an instrument jewel bearing plant for the United States Government at Rolla, North Dakota.

The Rolla plant is the only jewel bearing manufacturing facility in the United States and is considered essential to the nation's preparedness and national defense programs. The following excerpt from the new contract covering the Bulova operation indicates the awareness in top government circles of this importance of the Rolla plant:

"WHEREAS, the appropriate Defense Mobilization authorities of the Federal Government have determined that the operation of the Turtle Mountain Plant for the manufacture of jewel bearings should be continued for the protection of essential national-security interests so as to assure the availability of productive capacity in the United States . . ."

Until this year, production of the Rolla plant has been stockpiled. Now jewel bearings produced at Rolla are being used to fill orders from government contractors, and the Department of Defense has asked that prime contractors and their subcontractors make special efforts to utilize the production of the plant.

Two-thirds of the employees at the facility are Chippewa Indians from the nearby Turtle Mountain Reservation who were trained by Bulova personnel. Government officials consider the operation an outstanding example of ways in which industry can help solve the problem of making the Indian population self-sustaining.

THE JOSEPH BULOVA SCHOOL OF WATCHMAKING

The Joseph Bulova School of Watchmaking which is financed by the Bulova Watch Company Foundation and the Bulova family fund, completed its fourteenth year of training the physically handicapped on a tuition-free basis.

The school was conceived during World War II as a means of repaying, in small measure, the sacrifice and service of returning disabled veterans by teaching these men a useful trade so that they could assume a responsible, productive place in their own communities.

The school has graduated a total of 590 students. About 50 per cent of the graduates are now engaged in the watch repair trade. Eighty-five have their own businesses. About 40 per cent of the graduates are employed in related industries in skilled and semi-skilled jobs.

The student body currently numbers 87, representing 14 states from as far south as Alabama and as far west as Nevada. Students are both veteran and civilian — all with disabilities. The Arde Bulova Memorial Dormitory, opened in February, 1958, now houses 34 students, and it is expected that its maximum capacity of 40 students will be utilized in the latter part of 1959.

Joseph Bulova School of Watchmaking and the new Arde Bulova Memorial Dormitory, Woodside, L. I., N. Y.



EDUCATION FOR JEWELERS

Bulova has continued to co-sponsor with the New York University School of Retailing courses in Jewelry Store Management and Merchandising. The students are jewelers, sons of jewelers and managers of jewelry stores.

They participate in an intensive two-week program in which they receive up-to-the-minute ideas on financial control, sales promotion, merchandising, store operation, credit selling and customer service. They emerge better business men and better representatives of Bulova.

More than 425 jewelers have taken the Bulova-NYU courses. They have come from forty-five different states, eight provinces of Canada, Hawaii, Trinidad and Denmark. The program is recognized throughout the industry as a splendid means of upgrading jeweler performance and service and as an outstanding example of Bulova's leadership in the industry.

THE PEOPLE OF BULOVA

Employment with the Bulova Watch Company and its subsidiaries has always been considered desirable by the people in our plant communities. Bulova is known as "a good place to work." It has been the company's policy to pay good wages, to provide precise training in the skills of our industry and to maintain good working conditions in a pleasant industrial atmosphere. The broad program of employee benefits includes a long established and substantial pension plan to provide the security of comfortable retirement. These are reasons why we are able to attract outstanding people and why so many have worked with us through long terms of service.

We take pride in the fact that hundreds of our employees have been with us for many years, and that their skill and experience contribute largely to the fine quality of the products on which the Bulova reputation has been built.

90 of our employees have been with us for twenty-five years or more.
173 have been part of the company for twenty years.
396 have fifteen years of service.
579 are ten-year veterans.

The scholarship program — financed by the Bulova Watch Company Foundation to provide funds for the education of employees' children — awarded twelve college scholarships to sons and daughters of employees during the past year. Every child of every employee with more than five years of service is eligible to apply for a scholarship under this program. In addition to the scholarship award, a \$500 a year grant is made to each private college or university in which one of our scholarship students is enrolled.

Source of Funds

| | Year Ended March 31 | |
|---|---------------------|--------------------|
| | 1959 | 1958 |
| From operations: | | |
| Net income for year | \$2,527,168 | \$2,232,738 |
| Charges against income not requiring funds: | | |
| Depreciation | 1,099,760 | 1,050,835 |
| Deferred Federal taxes on income | (83,031) | 229,128 |
| | <u>3,543,897</u> | <u>3,512,701</u> |
| Disposal of real estate — land | — | 1,143,559 |
| Recovery of cash surrender value from insurance on life of officer | — | 290,612 |
| Proceeds from sales of capital assets, excluding gains reported in net income | 61,436 | 69,452 |
| | <u>3,605,333</u> | <u>5,016,324</u> |
| Dividends to stockholders | 1,233,422 | 1,991,925 |
| Additions to plant property | 441,933 | 861,176 |
| Instalment paid on 3½% sinking fund notes | 449,625 | 450,375 |
| Miscellaneous items | 10,973 | 130,276 |
| Increase in working capital | 1,469,380 | 1,582,572 |
| | <u>\$3,605,333</u> | <u>\$5,016,324</u> |

Use of Funds

| | | |
|---|--------------------|--------------------|
| Dividends to stockholders | 1,233,422 | 1,991,925 |
| Additions to plant property | 441,933 | 861,176 |
| Instalment paid on 3½% sinking fund notes | 449,625 | 450,375 |
| Miscellaneous items | 10,973 | 130,276 |
| Increase in working capital | 1,469,380 | 1,582,572 |
| | <u>\$3,605,333</u> | <u>\$5,016,324</u> |

BULOVA WATCH COMPANY, INC. AND SUBSIDIARIES

Consolidated Statement of Income and Earned Surplus

YEAR ENDED MARCH 31, 1959 WITH COMPARATIVE FIGURES FOR 1958

| | Year Ended March 31 | |
|--|---------------------|------------------|
| | 1959 | 1958 |
| NET SALES | \$58,446,574 | \$63,806,094 |
| COST OF GOODS SOLD | 40,825,069 | 43,397,447 |
| GROSS PROFIT FROM SALES | 17,621,505 | 20,408,647 |
| SELLING, GENERAL AND ADMINISTRATIVE EXPENSES | 12,054,877 | 14,129,211 |
| PROFIT FROM OPERATIONS (after deducting depreciation: 1959 — \$1,099,760; 1958 — \$1,050,835) | 5,566,628 | 6,279,436 |
| INCOME CHARGES (net): | | |
| Taxes, other than income taxes | 1,160,266 | 1,207,140 |
| Interest paid (less interest earned: 1959 — \$59,623; 1958 — \$22,842) | 328,386 | 702,468 |
| Contributions to employees' retirement plans | 723,334 | 784,323 |
| Contributions to charities | 62,516 | 20,034 |
| Dividend income | (36,567) | (36,567) |
| | <u>2,237,935</u> | <u>2,677,398</u> |
| INCOME BEFORE INCOME TAXES | 3,328,693 | 3,602,038 |
| U.S. AND FOREIGN INCOME TAXES (NOTE B) | 1,810,000 | 1,925,000 |
| NET INCOME BEFORE SPECIAL ITEMS | 1,518,693 | 1,677,038 |
| SPECIAL ITEMS: | | |
| Gain on disposal of real estate, less taxes payable thereon | 440,351 | 348,500 |
| Refund of prior years' income taxes, including interest, net of taxes and expenses in connection therewith | 568,124 | — |
| Proceeds of insurance on life of an officer, net of cash surrender value previously recorded | — | 207,200 |
| | <u>1,008,475</u> | <u>555,700</u> |
| NET INCOME FOR THE YEAR INCLUDING SPECIAL ITEMS | 2,527,168 | 2,232,738 |
| DEDUCT DIVIDENDS PAID — 65¢ per share in 1959; \$1.05 per share in 1958 | 1,233,422 | 1,991,925 |
| | 1,293,746 | 240,813 |
| EARNED SURPLUS AT BEGINNING OF THE YEAR | 25,493,078 | 25,252,265 |
| EARNED SURPLUS AT END OF THE YEAR (retained for use in the business) — (NOTE C) | \$26,786,824 | \$25,493,078 |

(See Notes to Financial Statements)

Consolidated Balance Sheet

MARCH 31, 1959 WITH COMPARATIVE FIGURES AT MARCH 31, 1958

| | March 31 | | March 31 | |
|--|---------------------|---------------------|----------|------|
| | 1959 | 1958 | 1959 | 1958 |
| Assets | | | | |
| CURRENT ASSETS: | | | | |
| Cash | \$ 2,957,766 | \$ 2,547,103 | | |
| Marketable securities at cost and accrued interest (quoted value \$4,240,497) | 4,240,062 | — | | |
| Customers' accounts and notes receivable (less allowance for doubtful accounts and notes: 1959 — \$821,989; 1958 — \$811,006) | 16,369,775 | 15,910,576 | | |
| Other receivables | 1,206,872 | 924,957 | | |
| Inventories, at cost or less | 10,563,282 | 13,635,152 | | |
| U. S. Government contracts: | | | | |
| Accounts receivable | 934,929 | 1,570,721 | | |
| Inventories | 860,781 | 648,349 | | |
| Reimbursable expenditures | 2,601,308 | 5,889,467 | | |
| | <u>4,397,018</u> | <u>8,108,537</u> | | |
| Prepaid expenses: | | | | |
| Pension costs | 303,216 | 319,597 | | |
| Other prepayments | 201,651 | 363,149 | | |
| | <u>504,867</u> | <u>682,746</u> | | |
| Total current assets | <u>40,239,642</u> | <u>41,809,071</u> | | |
| OTHER ASSETS: | | | | |
| Investment in capital stock of Tiffany and Company, at cost (book equity Jan. 31, 1959 — \$2,508,475; Jan. 31, 1958 — \$2,456,000) | 2,240,400 | 2,240,400 | | |
| Sundry notes and accounts receivable | 695,678 | 620,453 | | |
| Capital stock, at less than cost, held for resale to officers and employees (NOTE G) | 842,596 | 875,548 | | |
| | <u>3,778,674</u> | <u>3,736,401</u> | | |
| PLANT PROPERTY, AT COST (NOTE B): | | | | |
| Land, buildings and improvements | 7,566,385 | 7,644,901 | | |
| Machinery and equipment | 4,351,948 | 4,888,268 | | |
| Furniture, fixtures and leasehold improvements | 521,780 | 466,599 | | |
| | <u>12,440,113</u> | <u>12,999,768</u> | | |
| Less accumulated depreciation | 4,840,632 | 4,681,024 | | |
| | <u>7,599,481</u> | <u>8,318,744</u> | | |
| DEFERRED CHARGES | | | | |
| | 21,125 | 52,425 | | |
| | <u>\$51,638,922</u> | <u>\$53,916,641</u> | | |
| <i>(See Notes to Financial Statements)</i> | | | | |
| Liabilities | | | | |
| CURRENT LIABILITIES: | | | | |
| Accounts payable | \$ 2,780,420 | \$ 2,348,909 | | |
| Accrued salaries, wages, commissions and expenses | 1,671,174 | 2,035,182 | | |
| Accrued domestic and foreign taxes | 2,171,095 | 1,777,407 | | |
| Instalment on 3½% sinking fund notes due within one year (NOTE C) | 450,000 | 450,000 | | |
| Unsecured notes payable | — | 3,500,000 | | |
| Total current liabilities | <u>7,072,689</u> | <u>10,111,498</u> | | |
| 3½% SINKING FUND NOTES DUE MAY 1, 1969 — less instalment due within one year (NOTE C) | 6,650,000 | 7,099,625 | | |
| DEFERRED FEDERAL TAXES ON INCOME — principally tax on accelerated amortization of emergency facilities (NOTE B) | | | | |
| | 1,382,979 | 1,466,010 | | |
| STOCKHOLDERS' EQUITY: | | | | |
| Common stock, \$5 par value: | | | | |
| Authorized | 3,000,000 shares | | | |
| Outstanding | 9,746,430 | 9,746,430 | | |
| Earned surplus (retained for use in the business) — (NOTE C) | 26,786,824 | 25,493,078 | | |
| Total stockholders' equity | <u>36,533,254</u> | <u>35,239,508</u> | | |
| | <u>\$51,638,922</u> | <u>\$53,916,641</u> | | |
| <i>(See Notes to Financial Statements)</i> | | | | |

Notes to Financial Statements

NOTE A:

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

| | 1959 | 1958 |
|----------------------|-------------|-------------|
| SWITZERLAND: | | |
| Current assets | \$1,245,080 | \$1,798,743 |
| Other assets | 426,765 | 222,130 |
| Total assets | \$1,671,845 | \$2,020,873 |
| Liabilities | \$ 786,242 | \$ 734,239 |
| CANADA: | | |
| Current assets | \$2,612,205 | \$2,971,304 |
| Other assets | 110,038 | 120,223 |
| Total assets | \$2,722,243 | \$3,091,527 |
| Liabilities | \$ 276,692 | \$ 288,761 |

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

NOTE B:

Property covered by certificates of necessity became fully amortized for tax purposes during the year ended March 31, 1959. Deferred Federal taxes on income set up in prior years to provide for the temporary tax benefit arising from the excess of tax amortization over normal depreciation are being returned to income to offset taxes related to normal depreciation recorded in the accounts not deductible for tax purposes.

NOTE C:

The parent company is obligated to pay \$450,000 against the 3½% sinking fund notes on May 1, 1959 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, 1959 to \$2,145,218 plus subsequent earnings, less annual sinking fund payments of \$450,000.

NOTE D:

Federal income tax returns for the years ended March 31, 1955 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 three years ended March 31, 1959.

NOTE F:

During the year the employees' retirement plan was amended to provide for liberalized pensions. The unpaid cost as of March 31, 1959 of past services in connection with the company's current retirement plan as determined by independent actuaries is \$3,867,545, 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 33 and ½ years.

NOTE G:

At March 31, 1958 options to purchase 58,710 shares of the parent company's stock at prices ranging from \$11.67 to \$17.50 per share were held by certain officers and employees. During the year ended March 31, 1959 options to purchase 300 shares were exercised at \$11.67 per share, options for 8,200 shares were cancelled when the employees concerned terminated their employment, and options for 13,000 additional shares were granted at prices of \$10.50 and \$12.50 per share. At March 31, 1959 there remained 63,210 shares under option at prices ranging from \$10.50 to \$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).

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, 1959 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, the accompanying consolidated financial statements present fairly the financial position of Bulova Watch Company, Inc. and subsidiaries at March 31, 1959 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.

PEAT, MARWICK, MITCHELL & CO.

New York, N. Y.
June 11, 1959

