

BULOVA 1975 ANNUAL REPORT



DIRECTORS



Harry B. Henshel
(Chairman)



Sol E. Flick
(Vice Chairman)



Gen. Omar N. Bradley
(Hon. Chairman)



David Anderson



R. Mark Bourquin



Benjamin H. Dorsey



Rodney C. Gott




John W. Rutledge



John L. Weinberg

ANNUAL MEETING

Tuesday, July 22, 1975
11:30 A.M. (EDST)
Bulova Park, 75-20 Astoria Blvd.
Jackson Heights, New York

The following are trademarks of Bulova Watch Company, Inc. or its subsidiaries: Accuquartz, Accutron, Bulova, Caravelle, Micro Handler, Mini Accutron, Mini Handler, Universal Geneve, WatchMaster, .

ANNUAL REPORT FORM 10-K

The corporation will provide to any of its stockholders, without charge, upon written request to its Secretary, a copy of the Corporation's Annual Report on Form 10-K for the fiscal year 1975.

ANNUAL REPORT OF THE BULOVA WATCH COMPANY, INC.

Year Ended March 31, 1975

CONTENTS

- 1 Financial Highlights
- 2 Stockholders' Letter
- 4 Worldwide Operations
- 11 Management's Discussion & Analysis of the Summary of Operations
- 12 Five Year Financial Review
- 13 Business Description & Selected Common Stock Data
- 14 Consolidated Balance Sheets
- 16 Consolidated Statements of Income
- 17 Consolidated Statements of Stockholders' Equity
- 18 Consolidated Statements of Changes in Financial Position
- 19 Notes to Financial Statements
- 22 Report of Independent Certified Public Accountants
- 23 Products & Plant Facilities
- 24 Centennial Tribute
- 25 Directors & Officers

FINANCIAL HIGHLIGHTS

Years Ended March 31	1975	1974
Net Sales	\$228,172,000	\$213,773,000
Income Before Income Taxes And Minority Interests	\$ 3,114,000	\$ 13,477,000
Net Income	\$ 2,328,000	\$ 7,102,000
Net Income Per Share*	\$.62	\$ 1.90
Net Income Per Share Assuming Full Dilution	\$.62	\$ 1.78
Cash Dividends Per Share	\$.70	\$.67½
Current Assets	\$240,169,000	\$192,354,000
Current Liabilities	\$118,840,000	\$ 71,764,000
Working Capital	\$121,329,000	\$120,590,000
Stockholders' Equity Per Share**	\$ 21.56	\$ 21.64

* Based on the average number of shares outstanding during each period.
 ** Based on number of shares outstanding at the end of each period.

TO OUR STOCKHOLDERS:



Although our U.S. consumer product sales remained about the same in fiscal 1975 compared to the previous year, new sales records were attained in overseas markets. Nevertheless, costs soared and industrial-defense sales declined due to our government's reduced purchasing. Regrettably, worldwide economic conditions that left their mark on our performance for the fiscal year ended March 31, 1975, will continue to do so in the present fiscal year.

Earnings for the fiscal year ended March 31, 1975 were \$2.3 million, down from \$7.1 million a year ago, on worldwide sales of \$228.2 million, up from \$213.8 million last year. At mid-point in our fourth fiscal quarter, we forecast that reduced purchasing by our U.S. retailers coupled with other recessionary and inflationary pressures would undoubtedly produce a loss quarter. As a result, our fiscal year generated earnings of \$.62 per share, down from \$1.78 fully diluted, for the prior year.

Here are the economic factors that most

affected our Company's operations and what we are doing about them:

As we entered the 1975 fiscal year, we were cautiously confident based upon a strong early demand for our products in the face of mixed economic forecasts. Even the gloomiest of the forecasts turned out to be too optimistic.

This strong early demand, coupled with the worldwide fears of raw material shortages, led to longer range commitments than are customary in the watch business, where long lead times are traditional.

Due to the seasonal nature of our business, the drop in demand did not come as early as in other consumer businesses and our reaction time was again necessarily slower due to the long lead times involved in our manufacturing and foreign supply areas.

The above factors significantly increased our working capital requirements, thereby greatly increasing our short-term borrowings at the time that interest rates were skyrocketing.

In addition, during the same period both our capital requirements and our costs were adversely affected by the sharp rise in the Swiss franc versus the dollar and most other currencies. During the fiscal year, the franc rose 19% against the dollar—an unprecedented rise.

These factors, which began to show their effects during our December quarter, accelerated dramatically in our last fiscal quarter as the U.S. market experienced its sharpest decline in 20 years. As a result, the production and commitment cutbacks initiated in late 1974 proved to be insufficient in the face of such a serious turndown in business, prompting us to far stronger measures, including the reduction of our manufacturing work force in Switzerland and the United States.

We are embarked upon a number of programs designed to improve our short-term liquidity to pave the way for the realization of our longer term potential. The short-term effects of these steps will definitely affect our current earnings potential. Even with a reversal in the current sales trend domestically, it will be well into the

next fiscal year before we can expect to see significant results from the measures in progress. Our primary objective is to reduce our inventories on a world-wide basis, thereby reducing our current high level of short-term debt.

Obviously, the recent reduction in the quarterly dividend to 5¢ from 17½¢ will also have a positive effect in this respect. We are mindful of our forty-year history of unbroken quarterly cash dividend payments and hope to maintain that enviable record. We look forward to restoring higher dividends as soon as circumstances permit.

Meanwhile, we will be consolidating our various manufacturing facilities and sources of supply to effect the most significant economies possible. We will concentrate on markets that we feel are already profitable or in which the short-term potential merits the employment of capital.

We are confident that our current products and those planned for introduction give us the flexibility which will enable us to reap the benefits from opportunities that our research and development and improved world economies will create. We have developed new Accutron products to be sold in the middle price ranges (\$75 and up) which should substantially enlarge the market for these products. We will depend on our buying power to purchase the lower priced products we need to re-establish ourselves in the lower priced segments of the watch market where a vacuum has been created.

In the higher quality electronic watch product area, complementing our present Bulova Accutron and Bulova Accuquartz brands, we have currently in the final stages of development an analog quartz movement that should compete favorably in quality, size, and price with anything on the market today in the medium and higher price range for both men and women.

At the very top of the high quality and luxury watch market (\$350 and up), our subsidiary, Universal-Geneve, has developed and is now marketing a quartz-based analog watch with a movement only 3.45 millimeters in height—

easily the thinnest quartz watch in the world. It has been an instant success worldwide and reinforces Universal-Geneve's identity with prestige and quality timepieces.

Our policy throughout any period of technological change has been to introduce only carefully tested and proven timepieces. As a result, I am pleased to advise that Bulova Accuquartz solid-state digital watches have earned themselves and your Company most favorable comments. We are following the same approach in the engineering and design of our newest solid-state products which will begin to enter the marketplace in 1976.

Thus, Bulova will be ready to take full advantage of any upsurge in the economy with the right products, at the right price, at the right time. In the meantime, each of our brands, Accutron, Bulova and Caravelle, continues to be the leader in sales volume in its respective price classification in America. We are ready for the economic upturn whenever it occurs, and to return to our pattern of increased sales and profits that we had so successfully maintained for more than four decades. This is your Company's pledge to Bulova's devoted employees and loyal stockholders, as we move through an eventful Centennial year.

John W. Rutledge resigned as president, effective May 23, 1975, to devote more time to several personal and business matters. He will however, continue to serve as a director of the Company.

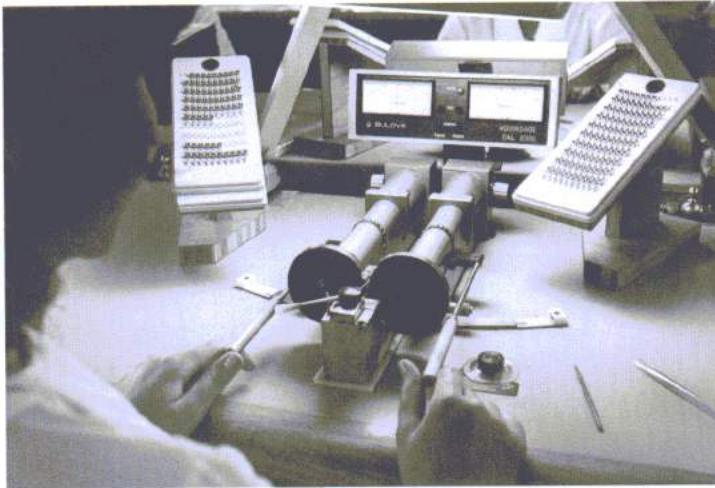
The board of directors joins me in noting with sadness the passing on January 3, 1975 of Gen. James McCormack, a Bulova director for many years, and a very distinguished American.



Harry B. Henshel
Chairman of the Board

June 17, 1975

WORLDWIDE OPERATIONS



FOR MINI—Electronic equipment measures frequency of tiny mini Accutron tuning fork, permitting technician to assure exact frequency performance.

JEWEL INSPECTION—Microscope is used to examine tiny synthetic ruby jewels mounted on gold-plated pillar plate of a Bulova watch movement. Gold-plating is anti-corrosion measure also used in U.S. space program and electronics industry.



Despite the worldwide economic climate, Bulova's consumer product sales worldwide reached a record \$192.9 million, up more than 10 per cent from the \$174.4 million a year earlier. Our consumer product sales, moreover, accounted for 85 per cent of gross sales for the year.

Operational highlights for the year include:

The first Bulova solid-state digital watches were introduced under the Bulova Accuquartz brand in late 1974; they were welcomed by retailers and by the public, generating demand far exceeding production.

The Bulova Accutron brand, which continues to be the U.S. bestseller among all watches retailing from \$95, increased its sales worldwide.

The Bulova brand continues as the bestselling U.S. quality watch brand in *dollar* volume, while

the Caravelle brand continues as the bestselling quality (jewel lever) low-priced watch brand in the United States in *unit* volume.

These results, achieved in the face of adverse economic conditions that seriously affected consumers, reflect Bulova's outstanding leadership position among America's nearly 20,000 retail jewelers, and the respect earned by our brand names among both jewelry and department store retailers and the public. No other watch marketer serves the American consumer through nearly as many qualified retailers, and no other retailer network offers the public either as broad a choice of watch products or as complete a range of in-store service.

In brief, Bulova's sales organization—by far the largest in the U.S. jewelry industry—has once again proved that it works effectively in



DIE CUTTING—To achieve electronic watch-part tolerances ranging to one ten-thousandth of an inch, engineer uses digital readout electrical discharge machine.

FOR ACCUQUARTZ—Technician at Bulova Electronics Division compares tiny quartz crystal used as an Accuquartz time standard with larger crystal produced for voice transmission systems. Watch crystal vibrates 32,768 times a second.

the consumer marketplace through the professional jeweler. And the U.S. jeweler, in turn, remains the largest marketer of quality wrist-watches in the United States.

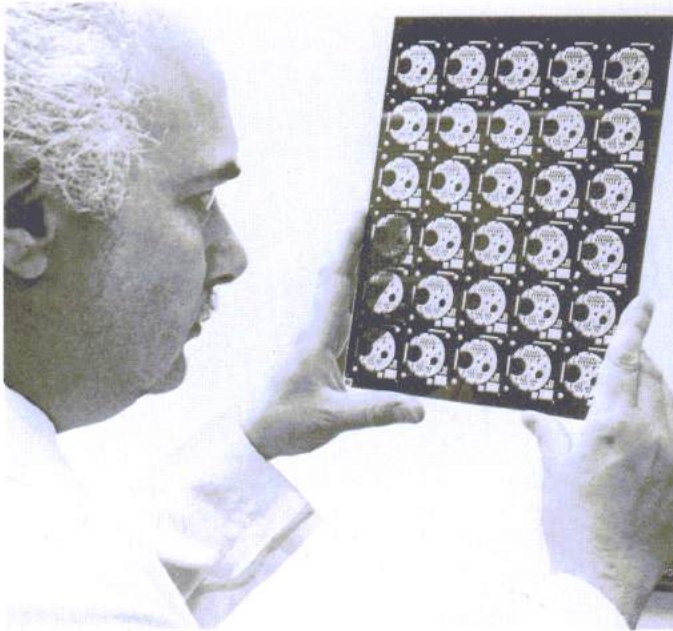
Aggressive national advertising in the Spring and Fall supported retailer marketing with the largest national magazine advertising program in the watch industry and with an extensive network TV campaign. Television spot commercials for our Accutron, Bulova and Caravelle brands, reaching every major U.S. market and an estimated 95 per cent of all TV households before Christmas, utilized prime time shows on all three major networks.

Abroad, in more than 120 markets, our consumer product sales rose more than 38 per cent to a record \$64.0 million, from \$46.4 million the previous year. Although part of this increase

reflected higher values in foreign currencies when translated into dollar value, there was an increase in operating profit before interest charges, over the prior year.

This achievement abroad reflects the strength of Bulova's reputation as a leader among watch retailers as well as the growing recognition accorded our brand names by consumers who only ten years ago were not familiar with our Company or its products.

In summary, our marketing performance abroad last year was impressive, sales increases were markedly stronger than in the United States, and as noted in the accompanying *Letter To Stockholders*, we will in the future be concentrating our efforts on markets which are profitable or in which short-term potential merits the employment of capital.



CIRCUITS— Senior technician (above) examines multiple photo masks for printed circuit boards used in solid-state watches. Photo mask is reproduced photographically from giant ruby-lith master (right) inspected by (l. to r.) Robert Sagarino, manager, Product Engineering Department, Dr. Dale R. Koehler, manager of the Advanced Research Laboratory, and William Salmre, senior staff engineer.



Solid-State Digital Watches

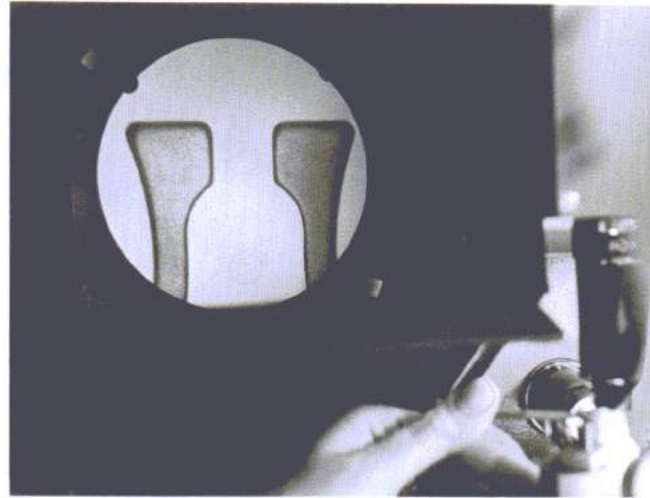
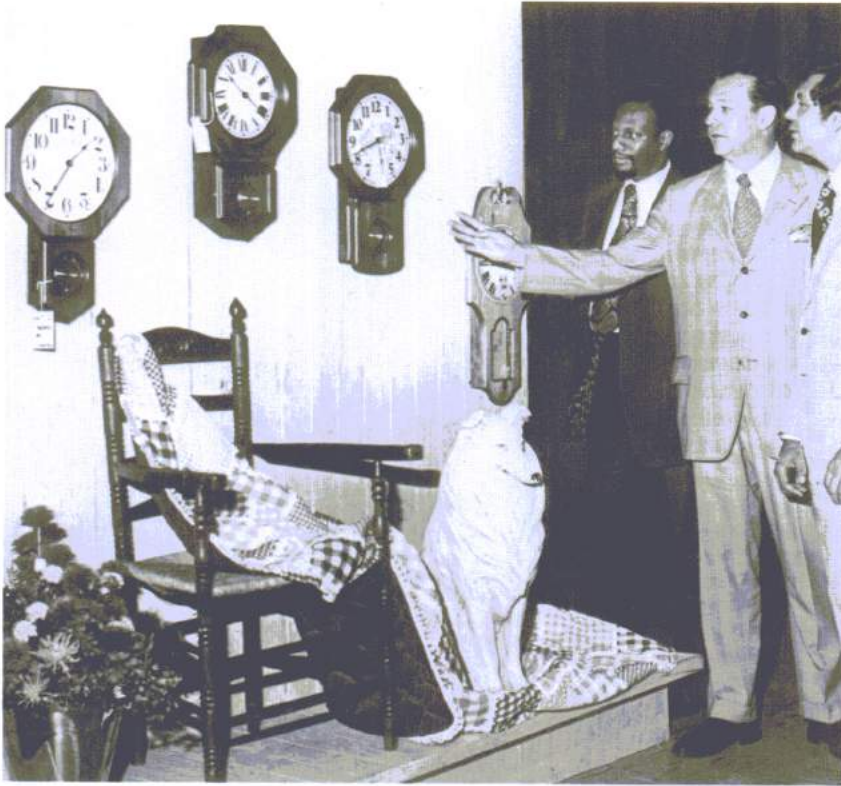
Bulova's policy on solid-state watches was first publicly stated in 1972. Namely, we would not introduce such watches until their reliability had been proven over a period of time under conditions of actual use.

Bulova's research with experimental solid-state watches with various electronic display systems (including light emitting diodes and liquid crystal displays) began well before 1972. Throughout the fiscal year, our research and development outlays were at record levels.

Your Company introduced the first Bulova Accuquartz solid-state watches, with light emit-

ting diode digital display, in November, 1974, after extensive testing in the laboratory and after a complete "in-use" program.

Bulova feels that even the most reliable solid-state watches require much more careful handling than either Bulova Accutron electronic watches or conventional mechanical wristwatches. The jeweler, as the public's most qualified watch specialist, has, therefore, in our opinion, an essential and unique role to play in the marketing of solid-state watches. Our field training programs and related seminars conducted nationwide have been well attended and should assist significantly in strengthening the quality of service to consumers.



CLOSE UP—Tines of an Accutron tuning fork are magnified 50 times for the assembly technician responsible for positioning electro-magnets.

CLOCK SHOP—Bulova sales team, (from l.) Donald Fulton, New York City representative, Frank Rogers, director of Department Store Sales and Larry Lich, field sales manager, checks the Bulova Clocks featured in the Gift Department of Macy's 34th Street.

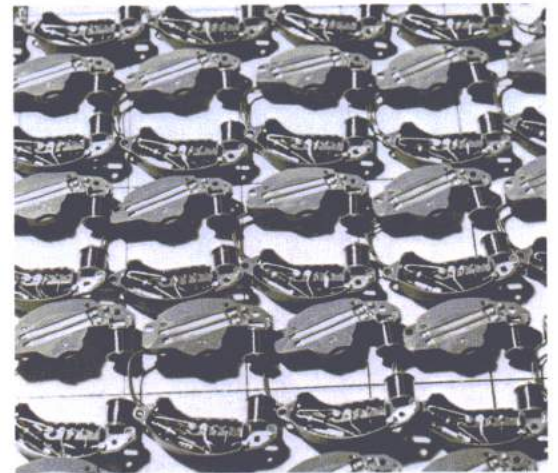
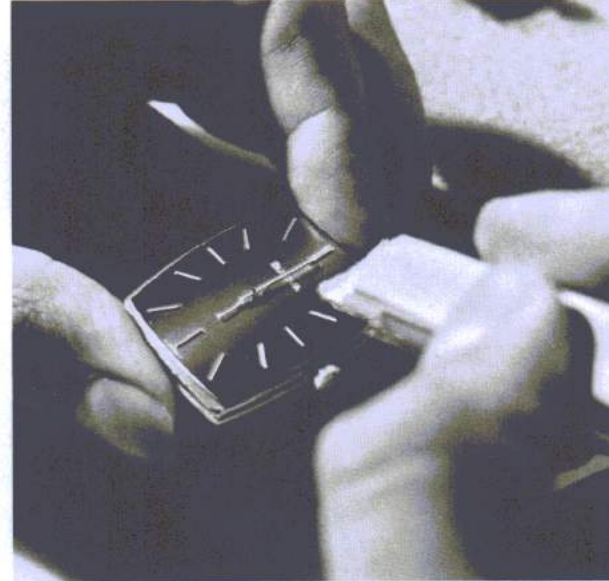
Bulova plans to introduce its first Accuquartz solid-state watches with *liquid-crystal* digital readout late in 1975 in selected markets. Product engineering and development were completed in 1974, but, again, we are following a cautious policy that will only permit the distribution of products with proven reliability.

We are also continuing our long range research, incorporating patents granted your Company, on nuclear-based timepieces.

One of Bulova's most impressive strengths is our ability to manufacture our own quality watch cases. Our Providence Division, with four plants, makes it the largest producer of fine-quality watch cases in the United States. Our unique

case design, case part manufacturing and case assembly operations make Bulova the only watch manufacturer in this country with complete watch case production staffs and facilities. This is a distinct competitive advantage in our business. In contrast, other watch marketers, including new marketers of solid-state digital watches, must rely on outside suppliers for watch cases, or initiate their own production without a base of experience.

The *Bulova Technical Sales & Services Division* reported that sales to jewelers of watch materials increased 20 per cent over the previous fiscal year and sales of electronic and other watchmaker equipment to jewelers by the Divi-



ALL ELECTRONIC—A selection from over 300 electronic watch styles sold worldwide in celebration of Bulova's 100th year.

INSPECTION—A buff stick is used to inspect newly assembled color dials, and to remove any smudge on the surface.

ACCUTRON—Transistorized assemblies with twin coils that electro-magnetically drive the tuning fork. (right)

sion's *WatchMaster Products* Department also rose 20 per cent. WatchMaster Products continued development of quartz watch-rating equipment suitable for a wide range of timepieces.

The Division also conducted extensive technical seminars and produced and distributed a complete range of technical literature to enhance the quality of field service on watches.

The *Bulova Electronics Division* increased its manufacture of quartz crystals used in quartz-based wristwatches manufactured by Bulova. In

addition, the Division started marketing watch quartz crystals to other manufacturers. As a result, total quartz crystal sales increased to almost \$3.0 million during 1974-75.

The Electronics Division's discrete element filter business, which was experiencing obsolescence was dropped, and the remaining inventory sold to another company, to free resources for production of monolithic type crystals. A monolithic filter is a quartz wafer with a pair of thin-film electrodes formed to provide input-output resonators. Currently, the Division is un-



ALL POSITIONS—Bank of electronic machines uses continuous tape to record accuracy of new watches, simulating performance in actual use.

FIRST PRIZE—The coveted 1974 Diamonds International Award was won by this unique covered watch designed by Bulova Design Center in Geneva, Switzerland.



dertaking the development of these crystals for a variety of applications in communications.

The *Presentation & Incentive Division*, which serves the corporate awards, sales incentives and intra-company gift market with complete programs featuring our Bulova Accutron, Bulova and Caravelle watch and clock lines, enjoyed a record year. More than 1,600 U. S. jewelers in all 50 states now work with the Division on a list of 10,000 "target corporations." During the past year, the Division's sales passed \$9 million, with jewelers accounting for nearly \$3 million.

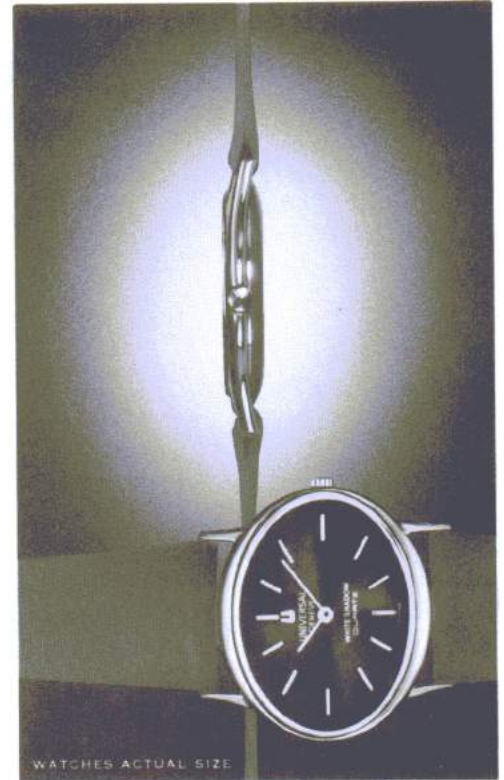
Industrial-defense sales slipped to \$35.3 million for the fiscal year, down 11 per cent from \$39.4 million for the previous fiscal year as a result of sharply reduced purchasing by the U.S. Government. This accounted for 15 per cent of the Company's annual sales for the fiscal year, compared to 18 per cent for the year before. The backlog of industrial-defense business at the end of the fiscal year stood at \$26.0 million, down from \$37.1 million at the end of the previous year.

Worldwide employment by Bulova, which



IN FRANCE—The Bulova Accutron digital time display has become popular landmark in Place de l'Opera at the center of Paris.

ULTRA THIN—The new 18K Golden Shadow™ quartz watch from Universal Geneve, a wholly owned Bulova subsidiary, introduced at the 1975 European Watch, Clock & Jewelry Fair in Basle, Switzerland, is the world's slimmest quartz wristwatch. Its movement is only 3.45 mm high, battery included.



stood at 8,200 on March 31, 1974, was cut more than 10 per cent to 7,300. Production cut-backs were ordered anticipating the lag in jewelers orders which occurred after January 1, 1975.

Education

Bulova has been a leader in the continuing education of the jeweler and the watchmaker, with the Joseph Bulova School of Watchmaking and with New York University's Institute of Retail Management. Its past support of the Bulova-NYU course in jewelry store management and marketing, unique in the industry, has resulted in more than 850 jewelers from 42 States having graduated from this program.

The Bulova School, which is celebrating its 30th anniversary during the Company's Centennial year, specializes in the rehabilitation and training of physically handicapped veterans and other adults. It is now recognized, also, as

the leading watchmaker school in the United States.

The School offers individualized instruction, permitting even the most seriously disabled person to progress as slowly as is necessary. Vocational counselors help the educational process to make available remedial reading, mathematics and communication, and later provide job placement assistance prior to graduation. Its diagnostic vocational evaluation program offers practical work experience in the area of precision mechanics and facilitates early adjustment to the School for persons who arrive directly from hospitals or rehabilitation centers.

More than 90 per cent of the School's more than 1300 graduates have led active business and social lives, as is documented in the award-winning educational film *To Live On*, which describes the advances in rehabilitation training pioneered at the School.

MANAGEMENT'S DISCUSSION & ANALYSIS OF THE SUMMARY OF OPERATIONS

Fiscal 1975 compared to Fiscal 1974

Total sales rose by 7% over 1974 reflecting principally gains in international sales as consumer product sales in the U.S. remained stable and industrial-defense sales decreased by 11%. Profit from operations dropped 25% mainly due to lower profit margins on watch sales and higher operating expenses. Increases in the Swiss franc rate and in other foreign currencies relative to the U.S. dollar substantially increased costs in the U.S. of watches manufactured in our factories in those countries.

A very substantial increase in interest costs which resulted from higher total borrowings as well as the higher interest rates in effect during the year, and a reduction in royalty income were the two major factors causing the further decline in pretax income to \$3.1 million from \$13.5 million in 1974. The provision for income taxes reduced by the tax carryback of losses in the U.S. company resulted in a net effective tax rate of 19%, offsetting in part the reduction in pretax income, leaving net income of \$2.3 million in 1975 compared to \$7.1 million in 1974.

The decline which began in the U.S. market in the fall of 1974 was sharply accelerated in the March 1975 quarter causing a steep decline in operating profit for the last quarter of our fiscal year. Although there was a substantial increase in foreign market sales, (in part reflecting higher values for foreign currencies when translated into dollar values) higher non-operating costs were experienced and special provisions for possible losses in certain foreign subsidiaries resulted in a loss in international operations in the fiscal quarter. This was only partially offset by an increase in industrial-defense operating profit for the quarter.

Fiscal 1974 compared to Fiscal 1973

Total sales increased by 21% over fiscal 1973, with each of the three major areas of the Company's business showing gains: domestic consumer, international consumer, and industrial-defense. Profit from operations rose by 37% principally from United States watch and clock sales and from international markets, as industrial-defense profits increased very slightly.

A significant increase in interest costs, due to higher total borrowing as well as higher rates, partially offset the rise in operating profit, making pretax income \$13.5 million compared to \$11.5 in 1973, or 17% higher.

After income taxes, at an effective tax rate of 45% compared to 42% in 1973, net income was \$7.1 million in 1974, compared to \$6.5 million, an increase of 9%.

Shipments in the March 1974 quarter in the U.S. market were quite strong as incoming business was booked and shipped earlier than in prior years. The effect of these shipments in part accounted for the increase in receivables at year end.

For the year, U.S. consumer product sales rose by 19% with dollar volume ahead for each watch brand. International Consumer sales increased 40% with all major markets showing good gains, in part reflecting higher values for foreign currencies when translated into dollar values. Industrial-defense sales increased 9% to \$39 million, with the entire gain coming in the first half of the fiscal year. Backlogs were \$37.1 million in 1974, compared to \$37.8 million the prior year.

FIVE YEAR FINANCIAL REVIEW
Bulova Watch Company, Inc. and Subsidiaries

Fiscal Years Ended March 31 (in thousands except for per share data)

	1975	1974	1973	1972	1971
Net sales	\$228,172	\$213,773	\$176,650	\$146,638	\$145,265
Cost of goods sold	160,429	148,043	123,221	99,598	93,425
Gross profit from sales	67,743	65,730	53,429	47,040	51,840
Selling, general and administrative expenses	53,494	46,708	39,509	35,766	36,827
Profit from operations	14,249	19,022	13,920	11,274	15,013
Income charges (credits):					
Interest on long-term debt	4,391	3,236	2,015	2,203	2,781
Other interest charges	7,922	4,099	1,950	1,440	612
Royalties, interest and other income	(1,178)	(1,790)	(1,588)	(1,728)	(1,628)
	11,135	5,545	2,377	1,915	1,765
Income before income taxes and minority interests in net income (loss) of subsidiaries	3,114	13,477	11,543	9,359	13,248
Income taxes	607	6,113	4,852	5,555	7,077
Income before minority interests in net income (loss) of subsidiaries	2,507	7,364	6,691	3,804	6,171
Minority interests in net income (loss) of subsidiaries	179	262	188	(146)	(19)
Net income for the year	\$ 2,328	\$ 7,102	\$ 6,503	\$ 3,950	\$ 6,190
Net income per average common share (1)	\$.62	\$ 1.90	\$ 1.74	\$ 1.06	\$ 1.69
Net income per share assuming full dilution (1)	\$.62	\$ 1.78	\$ 1.64	\$ 1.06	\$ 1.57
Average outstanding shares (2)	3,749	3,740	3,741	3,728	3,665
Dividends per share—cash	\$.70	\$.675	\$.60	\$.60	\$.60

Notes:

- (1) Refer to note 1(h) of notes to financial statements, which describes the method of computation.
(2) Excluding stock held for resale.

BUSINESS DESCRIPTION & SELECTED COMMON STOCK DATA

Bulova manufactures and sells, throughout the world, watches and clocks for consumer use and sells power cells, watch parts, and service, repair and testing equipment to the trade.

Bulova also sells nonconsumer products for defense and industrial use, including timing and similar devices, quartz crystals, servo amplifiers, tuning-fork oscillators, optical choppers and scanners, crystal filters and oscillators, stepper motors, automation systems, special recording cameras, and components for polaroid cameras.

The foregoing describes essentially one line of business consisting of consumer and non-consumer products.

For each of the past five fiscal years, the Company's products contributed the following percentages of total sales:

	Fiscal years ended March 31				
	1975	1974	1973	1972	1971
Consumer	85%	82%	79%	86%	82%
Nonconsumer	15%	18%	21%	14%	18%

Market Prices (New York Stock Exchange)

Fiscal years ended March 31

1975	High	Low	1974	High	Low
Quarter			Quarter		
First	11¾	9¼	First	15	10½
Second	9⅞	7½	Second	19⅞	11⅞
Third	9½	6¾	Third	20⅞	10½
Fourth	9⅞	7	Fourth	13	10¼

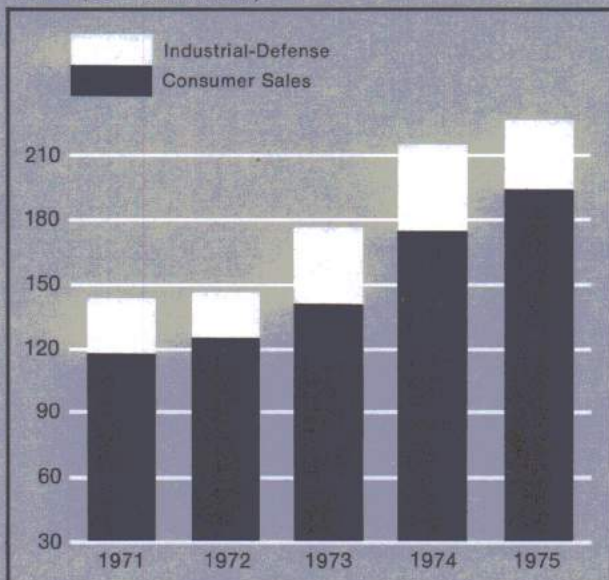
Dividends Paid

Fiscal years ended March 31

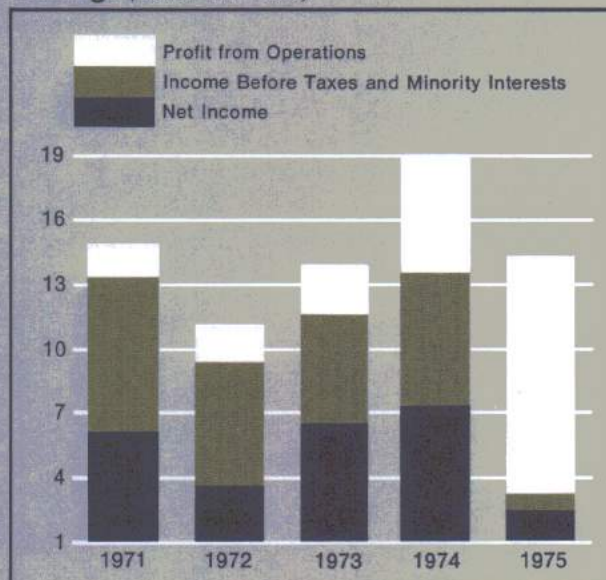
1975	1974
Quarter	Quarter
First	First
Second	Second
Third	Third
Fourth	Fourth

First	\$.17½	First	\$.15
Second	.17½	Second	.17½
Third	.17½	Third	.17½
Fourth	.17½	Fourth	.17½

Sales (dollars in millions)



Earnings (dollars in millions)



CONSOLIDATED BALANCE SHEETS

Bulova Watch Company, Inc. and Subsidiaries

<i>March 31, 1975 and March 31, 1974</i>	1975	1974
ASSETS		
Current assets:		
Cash (note 3)	\$ 12,064,593	\$ 7,875,969
Receivables:		
Customers' accounts	55,887,399	59,368,567
Customers' notes	14,659,610	13,987,617
Other	3,172,123	2,468,950
	<u>73,719,132</u>	<u>75,825,134</u>
Less allowance for doubtful receivables	2,460,516	1,883,190
	<u>71,258,616</u>	<u>73,941,944</u>
Inventories:		
Watch materials, including finished parts	124,867,170	89,129,104
Industrial and defense materials (note 2)	16,598,081	12,978,019
Precious metals	4,869,001	3,912,083
Other	3,119,230	1,520,797
	<u>149,453,482</u>	<u>107,540,003</u>
Income tax refunds receivable	3,871,875	—
Prepaid expenses	3,520,488	2,996,213
Total current assets	<u>240,169,054</u>	<u>192,354,129</u>
Other assets	3,635,481	3,920,044
Plant property, at cost:		
Land, buildings and improvements	17,863,675	17,220,561
Machinery and equipment	22,312,765	19,953,627
Furniture, fixtures and leasehold improvements	4,463,833	3,848,324
	<u>44,640,273</u>	<u>41,022,512</u>
Less accumulated depreciation	21,720,119	19,241,301
	<u>22,920,154</u>	<u>21,781,211</u>
Deferred charges	629,736	769,783
	<u>\$267,354,425</u>	<u>\$218,825,167</u>

See Notes to Financial Statements

March 31, 1975 and March 31, 1974

1975

1974

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities:

Unsecured notes payable:

Banks [note 3]	\$ 85,457,895	\$ 40,320,025
Others	736,427	988,046

Current installments of long-term debt (note 5)	785,354	520,255
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Accounts payable	13,436,610	13,654,222
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Defense contract progress collections	5,976,291	1,091,434
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Accrued expenses:

Salaries, wages and commissions	5,435,068	6,019,347
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Other	4,433,374	3,866,042
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Accrued Federal and foreign income taxes	2,579,193	5,304,787
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Total current liabilities	<u>118,840,212</u>	<u>71,764,158</u>
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Long-term debt (note 5):

8% Serial Notes due September 15, 1979-1993	34,280,000	34,280,000
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4½% Convertible Subordinated Debentures due August 1, 1984 .	1,208,700	1,343,000
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6% Convertible Subordinated Debentures due February 1, 1990 .	21,179,300	21,179,300
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Mortgages and other loans payable	3,591,500	3,701,585
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	<u>60,259,500</u>	<u>60,503,885</u>
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Other liabilities	1,796,701	927,289
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Deferred taxes on income	1,194,236	1,048,007
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Deferred income	803,302	897,655
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Reserve for foreign operations	2,470,132	1,561,227
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Minority interests in net assets of subsidiaries	1,142,790	1,043,407
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Stockholders' equity (notes 5 and 6):

Common stock, \$5 par value:

Authorized: 7,500,000 shares.

Issued: 1975 and 1974—3,751,254 shares.	18,756,270	18,756,270
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Capital surplus	3,719,761	3,719,761
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Retained earnings	58,390,663	58,687,823
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	<u>80,866,694</u>	<u>81,163,854</u>
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Deduct common stock, at cost, held for resale to officers

and employees: 1975—1,381 shares; 1974—6,083 shares	19,142	84,315
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Total stockholders' equity	<u>80,847,552</u>	<u>81,079,539</u>
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	<u>\$267,354,425</u>	<u>\$218,825,167</u>
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See Notes to Financial Statements

CONSOLIDATED STATEMENTS OF INCOME

Bulova Watch Company, Inc. and Subsidiaries

<i>Years Ended March 31, 1975 and March 31, 1974</i>	1975	1974
Net sales	\$228,171,693	\$213,773,009
Cost of goods sold	160,428,226	148,043,082
Gross profit from sales	67,743,467	65,729,927
Selling, general and administrative expenses	53,494,141	46,707,654
Profit from operations	<u>14,249,326</u>	<u>19,022,273</u>
Income charges (credits):		
Interest on long-term debt	4,390,842	3,236,066
Other interest charges	7,921,985	4,099,378
Royalties, interest and other income	(1,177,555)	(1,789,696)
	<u>11,135,272</u>	<u>5,545,748</u>
Income before income taxes and minority interests in net income of subsidiaries	3,114,054	13,476,525
Income taxes (note 4)	606,663	6,112,740
Income before minority interests in net income of subsidiaries	2,507,391	7,363,785
Minority interests in net income of subsidiaries	179,641	261,560
Net income for the year	<u>\$2,327,750</u>	<u>\$7,102,225</u>
Net income per average common share	\$.62	\$ 1.90
Net income per share assuming full dilution	<u>\$.62</u>	<u>\$ 1.78</u>

See Notes to Financial Statements

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Bulova Watch Company, Inc. and Subsidiaries

Years Ended March 31, 1975 and March 31, 1974

	Number of Common Shares		Stockholders' Equity				
	Issued	In Treasury	Total	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock
Balance March 31, 1973	3,742,273	672	\$76,440,587	\$18,711,365	\$3,627,392	\$54,110,818	\$(8,988)
Net income	—	—	7,102,225	—	—	7,102,225	—
Shares issued upon conversion of \$139,500 of convert- ible debentures net of related deferred debt expense	8,981	—	137,274	44,905	92,369	—	—
Purchase of common stock at cost	—	10,000	(138,612)	—	—	—	(138,612)
Shares distributed for employee service awards	—	(4,589)	63,285	—	—	—	63,285
Cash dividends (67½¢ per share) ...	—	—	(2,525,220)	—	—	(2,525,220)	—
Balance March 31, 1974	3,751,254	6,083	81,079,539	18,756,270	3,719,761	58,687,823	(84,315)
Net income	—	—	2,327,750	—	—	2,327,750	—
Shares distributed for employee service awards	—	(4,702)	65,173	—	—	—	65,173
Cash dividends (70¢ per share)	—	—	(2,624,910)	—	—	(2,624,910)	—
Balance March 31, 1975	<u>3,751,254</u>	<u>1,381</u>	<u>\$80,847,552</u>	<u>\$18,756,270</u>	<u>\$3,719,761</u>	<u>\$58,390,663</u>	<u>\$(19,142)</u>

See Notes to Financial Statements

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

Bulova Watch Company, Inc. and Subsidiaries

Years Ended March 31, 1975 and March 31, 1974	1975	1974
WORKING CAPITAL WAS PROVIDED FROM:		
Operations:		
Net income	\$ 2,327,750	\$ 7,102,225
Charges (credits) to income which did not involve working capital:		
Depreciation	2,792,029	2,365,581
Deferred income taxes	146,229	230,715
Decrease in deferred income	(94,353)	(129,062)
Working capital provided from operations	5,171,655	9,569,459
Transactions in the Company's capital stock	65,173	61,947
Proceeds from long-term financing	149,794	35,050,472
Other liabilities	869,412	927,289
Reserve for foreign operations	908,905	713,803
Minority interests in net assets of subsidiaries	99,383	265,752
Disposals of plant property	238,087	151,032
Other assets	284,563	328,013
Deferred charges	140,047	(87,120)
	7,927,019	46,980,647
WORKING CAPITAL WAS REQUIRED FOR:		
Dividends to stockholders	2,624,910	2,525,220
Additions to plant property	4,169,059	4,826,601
Reduction of long-term debt	394,179	8,493,689
Deferred taxes on income	—	448,141
	7,188,148	16,293,651
INCREASE IN WORKING CAPITAL	\$ 738,871	\$30,686,996
INCREASES (DECREASES) IN COMPONENTS OF WORKING CAPITAL:		
Current assets:		
Cash	\$ 4,188,624	\$ 1,468,100
Receivables	(2,683,328)	12,376,183
Inventories	41,913,479	23,467,266
Income tax refunds receivable	3,871,875	—
Prepaid expenses	524,275	223,548
	47,814,925	37,535,097
Current liabilities:		
Unsecured notes payable and current installments of long-term debt	45,151,350	1,163,202
Accounts payable and defense contract progress collections	4,667,245	913,391
Accrued expenses	(16,947)	1,308,980
Accrued Federal and foreign income taxes	(2,725,594)	3,462,528
	47,076,054	6,848,101
INCREASE IN WORKING CAPITAL	\$ 738,871	\$30,686,996

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

March 31, 1975 and March 31, 1974

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

(a) Principles of Consolidation:

The consolidated financial statements include the accounts of Bulova Watch Company, Inc. and all significant subsidiaries. To avoid delays in preparing the March 31 consolidated financial statements, the Company includes the accounts of most foreign subsidiaries as of the preceding December 31. Investments in unconsolidated subsidiaries are carried at equity. All significant intercompany transactions and profits are eliminated in consolidation.

(b) Translation of Foreign Currencies:

The general policy followed in the translation of foreign currency items is to state assets (except plant property), liabilities and reserves at rates of exchange prevailing at the end of the period. Plant property is translated at the rates in effect on the dates of acquisition of the related assets. Income and expense accounts are translated at the average rates prevailing during the year with the exception of depreciation which is translated at historic rates. Unrealized gains and losses (net gain \$909,000 in 1975; and \$714,000 in 1974) arising from the translation are credited and charged to the reserve for foreign operations. The reserve was established in 1972 because of unsettled conditions in world currency markets and the increasing importance of international operations.

(c) Inventories:

Substantially all of the inventories are computed on a first-in, first-out basis and are valued at lower of cost or replacement market. The inventory quantities are determined for the most part from perpetual inventory records, which are checked by physical inventories taken from time to time during the year, principally at December 31 of each year. Provisions for loss because of age or condition are made as required.

(d) Plant Property:

Plant property is stated at cost. Depreciation is calculated on the straight-line method for financial statement purposes, and on accelerated methods for U.S. tax purposes. Leasehold improvements are amortized over the life of the lease. Additions, betterments and renewals are capitalized, and expenditures for maintenance and repairs are charged to income. When facilities are retired from service or are otherwise

disposed of, the general policy is to remove the cost and accumulated depreciation from the respective asset and reserve accounts, and where applicable, to charge or credit the difference, after the application of sales proceeds or other realization, to income.

(e) Income Taxes:

The provision for income taxes is based on elements of income and expense as reported in the statement of income. Deferred income tax expense is provided for differences in the timing of certain items for accounting and tax purposes. No provision is required for additional taxes which may become payable if undistributed earnings of subsidiaries are paid as dividends to the Company, since substantially all of these earnings may be remitted with little or no tax becoming payable.

The investment tax credit is taken into income in the year in which income taxes are reduced by the credit.

(f) Research and Development:

Research and development costs relating to the development of new products or the improvement of existing products are charged against income in the year in which such costs are incurred.

(g) Long-Term Contracts:

Original maturities of government and industrial contracts are mainly one year. However, usually at the convenience of the Government, final deliveries have been extended to periods as long as three years.

Sales under government and industrial contracts are recorded as deliveries are made on fixed-price contracts, and at the time of billing on cost-reimbursement type contracts. Any anticipated losses on these contracts are provided for.

(h) Earnings per Share:

Primary earnings per share are computed on the basis of the average number of shares of common stock outstanding during the period.

Fully diluted earnings per share represent primary earnings per share adjusted to reflect the assumed conversion as of the beginning of the year of debentures outstanding at any time during the year and the elimination of debenture interest charges, net of taxes.

Shares issuable upon the exercise of stock options also are used in the computations if the

assumed issuance thereof would reduce earnings per share.

NOTE 2. INDUSTRIAL-DEFENSE INVENTORIES:

Industrial and defense inventories include costs of \$3,200,000 at March 31, 1975 (\$1,700,000 at March 31, 1974) subject to recovery through negotiations of contract modifications in progress. Management is of the opinion that such costs at March 31, 1975 will be recovered in one year.

NOTE 3. UNSECURED NOTES PAYABLE:

Unsecured notes payable to banks reflected in the accompanying balance sheets were issued under various informal short-term borrowing arrangements with domestic and foreign banks, including overseas branches of domestic banks. The average interest rate for borrowing under such arrangements at March 31, 1975 was 8.33% (9.55% at March 31, 1974) and the maximum borrowings outstanding at any month end during 1975 were \$90,093,000 (\$54,176,000 during 1974). The average balance of unsecured notes payable to banks during 1975 was \$66,311,000 (\$44,251,000 during 1974) (calculated by averaging daily average balances for each month of the year) and the average interest rate was 11.12% (8.00% for 1974) (calculated by dividing total short-term interest expense by the average balances).

At March 31, 1975 unused lines of credit under the informal borrowing arrangements amounted to \$20,000,000 (\$21,652,000 at March 31, 1974). Substantially all of the arrangements require the Company to maintain on deposit an average cash compensating balance based upon lines of credit and outstanding borrowings, or in some cases a fee may be paid in lieu of such balances. Based upon unused lines and borrowings outstanding at March 31, 1975, compensating balances of \$11,195,000 would have been required. These balances, which are based on collected bank balances, are maintained on an average basis and bear no direct relationship to the cash balances (\$8,179,000 at March 31, 1975) reflected in the balance sheet, nor are they legally restricted. During the years ended March 31, 1975 and 1974 the Company was in compliance with its compensating balance requirements.

NOTE 4. INCOME TAXES:

The provision for income taxes consists of the following:

	(dollars in thousands)	
	1975	1974
Currently payable:		
U.S. Federal before investment credit	\$(2,633)	\$3,261
Investment credit	(86)	(96)
U.S. territories	2,112	2,022
State and local	(293)	602
Foreign	1,027	1,603
	<u>127</u>	<u>7,392</u>
Deferred:		
U.S. Federal and territories	480	(1,279)
	<u>\$ 607</u>	<u>\$6,113</u>

The provision for deferred taxes includes the tax effect of the following:

	(dollars in thousands)	
	1975	1974
Intercompany profit eliminations not deductible for income tax purposes	\$ 334	\$(1,510)
Excess of tax over book depreciation ..	54	167
Other	92	64
	<u>\$ 480</u>	<u>\$(1,279)</u>

Effective income tax rates are 19% for 1975 and 45% for 1974. These rates differ from the 48% U.S. Federal ordinary income tax rate for the following reasons:

	(dollars in thousands)			
	1975		1974	
Tax computed at 48% of pre-tax income	\$1,495	48%	\$6,469	48%
Increase (decrease) in taxes resulting from:				
State and local taxes	(152)	(5)	313	2
Income of overseas components taxed at less than 48%	(691)	(22)	(832)	(6)
Investment credit	(86)	(3)	(96)	(1)
Other	41	1	259	2
Actual expense	<u>\$ 607</u>	<u>19%</u>	<u>\$6,113</u>	<u>45%</u>

Federal income tax returns of the parent Company for the years ended March 31, 1971 and prior have been examined by the Treasury department or are no longer subject to examination and all taxes for such years have been paid.

The Federal income tax returns for calendar years 1971 and 1972 of one of the Company's

U.S. territories subsidiaries have been audited by the Treasury Department and deductions for certain import duties have been disallowed. If the Treasury Department is sustained in its position, the proposed deficiencies for 1971-1972 and projected deficiencies for 1973-1974 would approximate \$465,000. The Company proposes to litigate the issue and has received a letter from counsel expressing the opinion that the taxpayer should prevail, subject of course to the inevitable uncertainties of litigation.

NOTE 5. LONG-TERM DEBT:

(a) *8% serial notes due September 15, 1979-1993:*

In September 1973, \$34,280,000 of 8% serial notes were issued. On September 15, 1979 and annually thereafter to September 15, 1992, \$2,285,000 of the 8% notes mature and on September 15, 1993 the balance of \$2,290,000 is payable. The Company may prepay the notes in whole or in part at any time, generally upon payment of an additional charge and subject to restrictions on the use of refinanced funds for prepayment purposes.

(b) *4½% convertible subordinated debentures due August 1, 1984:*

The indenture relating to the 4½% debentures provides for a sinking fund for the redemption at par on August 1 in each year, beginning August 1, 1975, of not less than 10% or more than 20% of the total principal amount of debentures outstanding on July 31, 1975. Additional debentures may be redeemed at any time at stipulated premium prices. Debentures converted into shares of common stock, or otherwise cancelled or redeemed (but not through the sinking fund, except in excess of the minimum annual requirement) on or after August 1, 1975, may be credited against subsequent sinking fund requirements.

The debentures are convertible into common stock at the rate of 6.44 shares for each \$100 principal amount of debentures, subject to anti-dilution provisions.

(c) *6% convertible subordinated debentures due February 1, 1990:*

The indenture relating to the 6% debentures provides for a sinking fund for the redemption at par on February 1 in each year, beginning February 1, 1981, of not less than \$2,100,000 or

more than \$4,200,000 principal amount of debentures. Additional debentures may be redeemed at any time at stipulated premium prices. Debentures converted into common stock or otherwise cancelled or redeemed (including any debenture redeemed through the sinking fund in excess of the minimum requirements) may be credited against such sinking fund requirements.

The debentures are convertible into common stock at the rate of 2.62 shares for each \$100 principal amount of debentures, subject to anti-dilution provisions.

(d) Terms of the Company's agreements relating to long-term debt place restrictions on certain corporate actions, including minimum working capital requirements and restrictions on the creation of additional indebtedness and payment of dividends other than stock dividends. At March 31, 1975, retained earnings not restricted as to payment of dividends, under the most restrictive of these agreements, amounted to approximately \$8,600,000.

NOTE 6. STOCKHOLDERS' EQUITY:

In addition to the common stock, 500,000 shares of preferred stock are authorized for issuance.

Under the 1971 Stock Option Plan for Key Employees approved by the stockholders, any eligible employee may be granted a qualified option, a non-qualified option or a combination of both to purchase common stock at an option price not less than 100% of market value at the date of the grant. A qualified option must expire not later than five years from the date of the grant. A non-qualified option may extend up to ten years from the date of the grant. Any option may include a provision which permits the option holder, in effect, to sell the option back to the Company, in whole or in part, by exchanging it for common stock equal in value to the excess over the option price of the current fair market value of the common stock covered by the portion of the option exchanged. All options granted through March 31, 1975 are exercisable at date of grant provided the recipient has no outstanding option at a higher price. There were no charges to income during the two years ended March 31, 1975 with respect to stock options. The following options were outstanding at March 31, 1975:

(A): Former president, John H. Ballard honored at testimonial dinner. (Top left to right) H.D. Henshel, M. Biow, A. Bulova, J.H. Ballard, S.P. Epstein, R. Warren. (1940)

(B): Early photo showing Joseph Bulova founder. (1877)

(C): J. Bulova at former Fifth Avenue office. (1927)

(D): Jewelry center of the world. (1878)

(E): Bulova Accutron timer emplaced on moon (1969)



(A)



(B)



(C)



MAIDEN LANE, NEW YORK.

(D)

*Heritage & Memories
from a
Century of Growth*



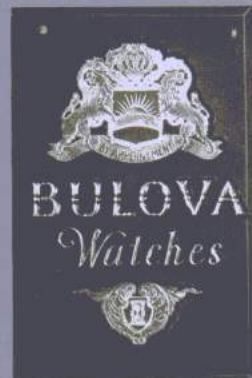
(E)



Early patented ring ad. (1895)



'Goddess of Time' symbol.



Window franchise insignia.



Early trade advertisement.

DIRECTORS

(Other affiliations in part)

Harry B. Henshel
(Chairman)

Trustee & Chairman, Development Committee, Member, Executive Committee, Adelphi University; Director: United Nations Association of the United States of America; American Society for Technion

Sol E. Flick

(Vice Chairman and General Counsel) Advisory Counsel, Booth Memorial Medical Center; Vice-President, Brooklyn College Fund

Gen. Omar N. Bradley

(Honorary Chairman) Chairman Emeritus, The George C. Marshall Research Foundation; Trustee, Freedoms Foundation at Valley Forge, Inc.

David Anderson

(Executive Vice President) Director, The Jewelers Board of Trade, Providence, R.I.

R. Mark Bourquin

(Executive Vice President) Chairman, Bulova Watch Company Ltd. (Toronto); Director: Canadian Jewellers Association; Canadian Jewellers Institute, Toronto

Benjamin H. Dorsey

An attorney practicing in Washington, D.C.; Trustee, Washington Real Estate Investment Trust, Washington, D.C.

Rodney C. Gott

Chairman and Chief Executive Officer, AMF Incorporated; Director: The Black & Decker Mfg. Co.; Associated Dry Goods Corp.; Trustee, Franklin Savings Bank, American Museum of Natural History

John W. Rutledge

Private investor; Vice Chairman, Board of Trustees of Nazareth College; Director: Hanover Planning Co.; Hornblower-Weeks Growth and Equity Funds

John L. Weinberg

Partner, Goldman, Sachs & Co.; Director: Cluett, Peabody & Co., Inc.; Cowles Communications, Inc.; The B. F. Goodrich Company; Kraftco Corporation; Knight-Ridder Newspapers, Inc.; U.S. Financial, Inc.; Trustee, Teachers College, Columbia University; Governor, New York Hospital; Director, M. Lowenstein & Sons, Inc.

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R. Mark Bourquin

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Lawrence F. Codraro

Secretary and Associate Counsel

John B. Cline

Assistant Controller

Dale O. Hiestand

Assistant Controller

Isidore Roberts

Assistant Treasurer

* Resigned May 23, 1975

Transfer Agent

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30 West Broadway,
New York, New York 10015

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Manufacturers Hanover Trust Company
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New York, New York 10015

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