

The Gruen Watch Company Annual Reports 1936 to 1956



ANNUAL REPORT



YEAR ENDED MARCH 31, 1936

THE GRUEN WATCH COMPANY



Time Hill, Cincinnati, U. S. A.
May 7, 1936

To the Stockholders of
The Gruen Watch Company:

Submitted herewith is the Annual Report of your company for the fiscal year ended March 31, 1936, as certified by the auditors.

You will note this statement shows, for the fiscal year, a net profit of \$4,745.94 after all charges, which compares with a net loss of \$277,282.23 before adjustments, in the previous fiscal year.

In considering results for the year just ended, please remember that the reorganization of your company was not completed until the latter part of July, 1935. This did not permit sufficient time to organize and systematize all manufacturing facilities to properly take advantage of the fall business. In spite of these difficulties, however, your company increased its sales in both dollars and units.

Our plants are being reorganized and equipped with the most modern machinery. The maintenance of traditional Gruen quality and the attainment of even higher standards of excellence in product are being accomplished with improved production methods that reflect economies, making it possible to price our watches more competitively.

This, together with the re-styling and modernizing of the line and greater advertising support, has accounted in large measure for the fine reception and confidence Gruen Watches have been accorded by jewelers throughout the country.

Many problems pertaining to manufacturing methods and personnel still remain and the management is devoting its entire energy to their solution. I am surrounding myself with an efficient, hard-working organization, the results of which I feel confident will be reflected in the forthcoming years.

I want to express my deep, personal appreciation to both the stockholders and our entire organization for their loyal support.



President

THE GRUEN WATCH COMPANY

TIME HILL
CINCINNATI, OHIO



DIRECTORS

GEORGE A. DIETERLE . . .	Treasurer, The Ohio National Life Insurance Company
FRED G. GRUEN . . .	Chairman
GEO. J. GRUEN . . .	Vice-President
BENJ. S. KATZ . . .	President and Treasurer
WARREN E. KEPLINGER . .	President, The Cincinnati Morris Plan Bank
ROBERT A. TAFT . . .	Taft, Stettinius & Hollister
CLIFFORD R. WRIGHT . . .	Director, Union Central Life Insurance Company



OFFICERS

FRED G. GRUEN . . .	Chairman
BENJ. S. KATZ . . .	President and Treasurer
GEO. J. GRUEN . . .	Vice-President
WM. C. BLACKHAM . . .	Vice-President and Comptroller
TEVIAH SACHS . . .	Vice-President
GEORGE T. GRUEN . . .	Secretary
ALFRED T. REIS . . .	Assistant Comptroller
GEORGIA HUBBELL . . .	Assistant Secretary



THE GRUEN WATCH COMPANY

CONDENSED BALANCE SHEET — AT MARCH 31, 1936

ASSETS

CURRENT:

Cash in Banks and Cash Funds.....	\$ 106,337.56
Notes and Accounts Receivable—Customers— Net of Reserve.....	619,085.91
Account Receivable—Subsidiary.....	1,833.46
Inventory—Merchandise and Materials.....	501,699.14
Movements and Parts in Transit.....	<u>25,868.55</u>
<i>Total Current Assets</i>	1,254,824.62

Notes Receivable — Customers — Maturity after March 31, 1937.....	2,186.12
Notes and Accounts Receivable — Personal and Other — Net of Reserve.....	1,395.41
Account Receivable—Subsidiary— Net of Reserve..	9,400.10
Investment in Subsidiary Companies.....	288,274.70
Investment in Other Companies.....	112,713.65
Plant and Property Investment.....	\$476,108.18
Less—Reserve for Depreciation.....	<u>145,210.26</u>
<i>Plant and Property Investment — Net...</i>	330,897.92
Deferred Charges	9,281.54
Patents, Watch Models, and Good Will.....	1.00
 <i>Total Assets</i>	 <u>\$2,008,975.06</u>

NOTE:

- Contingent Liability amounting to \$109,000.00 exists at March 31, 1936 for possible additional assessment of Taxes and Interest.
- Cumulative Dividends on Class A Preferred Stock amounting to \$7,275.00 were unpaid at March 31, 1936.
- Contingent Liability amounting to \$354,289.70 exists at March 31, 1936, for Customer's Notes and Acceptances Receivable discounted.

CERTIFICATE: We have made an examination of the Balance Sheet of The Gruen Watch Company as at March 31, 1936, and of the statements of Profit and Loss and Deficiency for the year ended that date. In connection therewith, we examined or tested accounting records of the Company and other supporting evidence and obtained information and explanations from officers and employees of the Company; we also made a general review of the accounting records.

In our opinion, based upon such examination, the accompanying Balance Sheet and related statements of Profit and Loss and Deficiency fairly present, in accordance with accepted principles of accounting, its position at March 31, 1936, and the results of its operations for the year.

Cincinnati, Ohio, May 6, 1936.

LIABILITIES AND NET WORTH

CURRENT LIABILITIES:

Accounts Payable — Trade	\$ 32.54
Accounts Payable — Subsidiaries	52,62
Credit Balances — Accounts Receivable Ledger..	6,82
Accrued Expenses	<u>44,60</u>
<i>Total Current Liabilities</i>	136,59
Registered Debentures — Authorized and Issued....	727,50

NET WORTH:

Class A Preferred Stock— \$100.00 Par Authorized and Issued	7,275	Shares	\$727,500.00
Class B Convertible Non-Vot- ing Preferred Stock \$1.00 Par Authorized and Issued..	363,750	Shares	363,750.00
Class B Convertible Voting Preferred Stock \$1.00 Par Authorized and Unissued....	<u>363,750</u>	Shares
Class C Preferred Stock \$25.00 Par—Authorized	20,000	Shares	500,000.00
Less—In Treasury.....	387	Shares	<u>9,675.00</u>
	<u>19,613</u>	Shares	490,325.00
Common Stock \$1.00 Par Authorized	500,000	Shares	500,000.00
Less—Unissued	382,213 1/2	Shares	<u>382,213.50</u>
In Treasury	2,582 1/2	Shares	<u>2,582.50</u>
	<u>384,796</u>	Shares	384,796.00
	<u>115,204</u>	Shares	<u>115,204.00</u>
Deficiency Account	551,901.40		
<i>Net Worth</i>			<u>1,144,87</u>
<i>Total Liabilities and Net Worth</i>			<u>\$2,008,97</u>

CONDENSED DEFICIENCY ACCOUNT

Deficiency Balance as of March 31, 1935, as shown in Balance Sheet accompanying "Plan of Re- organization"	\$ 571.32
Deduct —	
Net Adjustments applying to prior period....	\$ 14,678.42
Net Gain for Year ended March 31, 1936..	<u>4,745.94</u>
Deficiency Balance March 31, 1936.....	<u>\$ 551,90</u>

GAHO & CHERRINGTON,
Certified Public Accountants.



Annual Report

FISCAL YEAR ENDED MARCH 31, 1937



THE GRUEN WATCH COMPANY

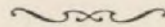
TIME HILL
CINCINNATI, OHIO



THE GRUEN WATCH COMPANY
TIME HILL, CINCINNATI, OHIO

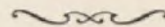
DIRECTORS

- GEORGE A. DIETERLE *Treasurer, The Ohio National Life Insurance Co.*
FRED G. GRUEN *Chairman*
GEO. J. GRUEN *Vice-President*
DAVID C. JONES *First Vice-President, The Lunkenheimer Co.*
BENJAMIN S. KATZ *President and Treasurer*
ROBERT A. TAFT *Taft, Stettinius & Hollister*
CLIFFORD R. WRIGHT *Director, Union Central Life Insurance Co.*



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BENJAMIN S. KATZ *President and Treasurer*
GEO. J. GRUEN *Vice-President*
WILLIAM C. BLACKHAM *Vice-President and Comptroller*
TEVIAH SACHS *Vice-President*
GEORGE T. GRUEN *Secretary*
ALFRED T. REIS *Assistant Comptroller*
GEORGIA HUBBELL *Assistant Secretary*



Transfer Agent—The Fifth Third Union Trust Co., Cincinnati, Ohio

Registrar—The Central Trust Co., Cincinnati, Ohio

Escrow Agent (For Stock Warrants)—The Central Trust Co., Cincinnati, Ohio



PRESIDENT'S REPORT

To the Stockholders of The Gruen Watch Company:

THERE is submitted herewith the Annual Report of your company for the fiscal year ended March 31, 1937, as certified by the auditors which shows a net profit of \$606,685.95 as compared with a net profit of \$4,745.94 for the previous fiscal year. Earnings for this year, which are after the deduction of Federal Taxes on Income in the amount of \$122,569.53, include a non-recurring profit of \$57,204.45 on foreign exchange.

The year just ended has witnessed substantial progress toward the accomplishment of the objectives which the management set for itself at the time of the reorganization in 1935 and it is important to note that the number of units manufactured and sold and the net profit earned were the largest in the entire history of your company.

The net earnings of \$606,685.95 have wiped out the deficit in the Surplus Account of \$551,901.40 which existed at March 31, 1936. The Surplus Account, after certain adjustments as shown in this report, has a credit balance of \$12,554.05 at March 31, 1937. All dividends accrued and payable to March 31, 1937, on \$727,500 Class A Preferred Stock have been paid and on or before June 1, 1937, your company will make principal payments of \$427,707.83 on its Registered Debentures. Debentures outstanding after this payment will amount to \$286,064.32.

According to the terms under which the Debentures and the Class A Preferred Stock were issued, all of the Debentures and Class A Preferred Stock must be retired out of earnings before any dividends can be paid on the Class B Preferred, Class C Preferred, and the Common Stock.

It is the hope of the management that the remainder of the Debentures and a substantial part of the Class A Preferred Stock can be retired out of the current year's earnings and thus hasten the time when your company can resume the payment of dividends to all classes of stockholders.

The manner in which our products have been received by our dealers throughout the country and the success these dealers have had with same has been most gratifying and I take this opportunity of expressing to them our sincere thanks for their splendid support and cooperation.

Your company has in this past year purchased the balance of the capital stock of its subsidiaries formerly held by individuals so that it now has complete ownership of these companies. These companies made a net profit of \$114,383.40 for the fiscal year ended March 31, 1937. Of this amount only \$18,068.55 was received by your company in the form of dividends and included in its net earnings.

While our sales for the year just ended were still limited by our manufacturing capacity, the reorganization of our manufacturing facilities is proceeding along very satisfactory lines and from present indications your company will show a still further increase in production this coming year.

In reviewing the year just ended, I feel a deep sense of obligation to stockholders, directors, officers, and employees for their untiring efforts and loyal support and to them I express my sincere gratitude.

By Order of The Board of Directors,

Respectfully submitted,

BENJAMIN S. KATZ,

President.

Time Hill, Cincinnati, U. S. A.

April 30, 1937.



THE GRUEN WATCH CO.

Condensed Balance Sheet

ASSETS

CURRENT:

Cash in Banks and Cash Funds.....	\$ 166,804.70
Notes and Accounts Receivable—Customers—Net of Reserve.....	1,157,105.97
Account Receivable—Subsidiary.....	359.59
Inventories at the lower of cost or market.....	583,000.41
<i>Total Current Assets</i>	<u>\$1,907,270.67</u>
Cash Surrender Value of Life Insurance Policies.....	5,078.65
Notes Receivable—Customers—Maturity after March 31, 1938.....	716.35
Notes and Accounts Receivable—Personal and Other—Net of Reserve...	17,560.38
Account Receivable—Subsidiary—Net of Reserve.....	41,732.46
Investment in Subsidiary Companies.....	416,314.14
Investment in Other Companies.....	112,713.65
PLANT AND PROPERTY INVESTMENT.....	\$493,465.23
<i>Less</i> —Reserve for Depreciation.....	<u>146,832.52</u>
<i>Plant and Property Investment—Net</i>	346,632.71
Deferred Charges.....	5,693.50
Patents, Trademarks, Copyrights, Watch Models, and Good Will.....	1.00

TOTAL ASSETS

\$2,853,713.51

NOTE (1) *Contingent Liabilities existing at March 31, 1937:*

Possible additional assessment of Taxes and Interest of \$115,000.00.

Customers' Notes discounted amounting to \$581,057.77.

Endorsement of Acceptance of Affiliated Company of \$11,400.00.



WATCH COMPANY

Sheet At March 31, 1937

LIABILITIES AND NET WORTH

CURRENT LIABILITIES:

Accounts Payable—Trade	\$	13,878.36
Account Payable—Subsidiary		182,195.06
Principal of Registered Debentures payable on or before June 1, 1937		427,707.83
Federal Taxes on Income of Year ended March 31, 1937		122,569.53
Note Payable		5,000.00
Credit Balances—Accounts Receivable Ledger		2,954.08
Accrued Expenses		65,070.28

Total Current Liabilities \$ 819,375.14

Note Payable—with maturity subsequent to March 31, 1938		40,000.00
Registered Debentures		286,064.32

NET WORTH:

Class A Preferred Stock—\$100.00 Par Authorized and Issued 7,275	Shares	\$727,500.00
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Class B Convertible Non-voting Preferred Stock \$1.00 Par— Outstanding 357,794	Shares	357,794.00
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Class B Convertible Voting Pre- ferred Stock \$1.00 Par Authorized 363,750	Shares	363,750.00
Less—Unissued 363,650	Shares	363,650.00
		<u>100</u>
	Shares	<u>100.00</u>

Class C Preferred Stock \$25.00 Par Authorized 20,000	Shares	500,000.00
Less—In Treasury 425	Shares	10,625.00
		<u>19,575</u>
	Shares	<u>489,375.00</u>

Common Stock \$1.00 Par Authorized 500,000	Shares	500,000.00
Less—Unissued 376,357½	Shares	376,357.50
In Treasury 2,691½	Shares	2,691.50
		<u>379,049</u>
	Shares	<u>379,049.00</u>
		<u>120,951</u>
	Shares	<u>120,951.00</u>

Surplus		12,554.05
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NET WORTH 1,708,274.05

TOTAL LIABILITIES AND NET WORTH \$2,853,713.51

NOTE (2) No provision has been made herein for liability for Federal Surtax on Undistributed Profits. Due to contractual restrictions on the payment of Dividends, it is believed the Company is not subject to such tax, which opinion is concurred in by Counsel for the Company.



ACCOUNTANTS' CERTIFICATE

*The Gruen Watch Company,
Cincinnati, Ohio.*

We have made an examination of the Balance Sheet of The Gruen Watch Company as at March 31, 1937, and of the statements of Profit and Loss and Surplus for the year ended that date. In connection therewith, we examined or tested accounting records of the Company and other supporting evidence and obtained information and explanations from officers and employees of the Company; we also made a general review of the accounting methods.

In our opinion, based upon such examination, the accompanying Balance Sheet and related statements of Profit and Loss and Surplus, fairly present, in accordance with accepted principles of accounting consistently maintained during the year under review, the position of the Company at March 31, 1937, and the results of its operations for the year ended that date.

GANO & CHERRINGTON,
Certified Public Accountants.

Cincinnati, Ohio, April 27, 1937.



GRUEN



THE PROUDEST NAME IN TIME

In 1874, when the first Gruen watch was made, America was crossing the threshold into the era of physical miracles. At the turn of the century, the Gruen ideal of precision time-keeping already had crystallized into a solid tradition.

Today, Gruen craftsmen defend that tradition with the priceless experience gained in sixty-three years of scientific research and invention. Facing the temptation of an ever mounting demand, Gruen stubbornly maintains precision standards that are unique even in this age of almost infinite mechanical perfection.

It is true that Gruen regards watchmaking as a very special art . . . as well as an industry. That's why in every Gruen watch there is the touch of the master workman . . . with a lifetime of experience in his eyes and in his fingertips.

[Gruen Watches Are Priced From
\$24.75 to \$2500]

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THE GRUEN WATCH COMPANY · TIME HILL
CINCINNATI, U. S. A.



East View . . . The Gruen Watch Company
Time Hill . . . Cincinnati, Ohio, U. S. A.



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The Gruen Watch Company

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Annual Report

FISCAL YEAR ENDED MARCH 31, 1938

THE GRUEN WATCH COMPANY

TIME HILL • CINCINNATI, OHIO



MRB
Corp. File



1874 — 1938

The Gruen Watch Company

T I M E H I L L

C I N C I N N A T I , O H I O



EAST VIEW—THE GRUEN WATCH PLANT, TIME HILL, CINCINNATI, O.



≡ President's Report ≡

To the Stockholders of

The Gruen Watch Company:

THERE is submitted herewith the Annual Report of your Company and its subsidiary companies for the fiscal year ended March 31, 1938 as certified by our auditors and approved by your Board of Directors, which shows a consolidated net profit of \$726,141.87 as compared with consolidated net profit of \$636,926.17 after the elimination of a non-recurring profit on Foreign Exchange of \$57,204.45 for the year ended March 31, 1937.

Sales throughout the watch industry decreased greatly beginning in October 1937 but despite this decline in general business and in our industry the sales and profits of your company were again the greatest in its history.

The past year has seen the fulfillment of a program inaugurated three years ago. The re-equipping of your factory with the latest and most modern precision machinery designed by our own technical staff provides what is now unquestionably one of the best equipped watch plants in the world devoted to the manufacture of the highest quality precision watches. A further tribute to your technical staff—the finest in the watch industry—is their creation of six entirely new watch movements during the past three years, each one of which is generally considered to be an outstanding contribution to the art of watch making, once more re-affirming your company's leadership in the production of the highest quality watches.

Early in 1938 your company again affirmed its leadership in the watch industry by introducing to the public a new Curvex watch named "The Gruen Ristside Curvex". This newest watch is worn on the side of the wrist for greater convenience and safety and it represents the first change in watch wearing habits since the original introduction of wrist watches. The Gruen Ristside Curvex has been acclaimed by the industry as the greatest fine watch improvement since the introduction of Gruen's now famous Curvex line. This utterly new watch confirms the style leadership of your company.

We are indeed gratified at the continued success enjoyed by our authorized Gruen jewelers in their handling of Gruen watches. The excellent support and cooperation ex-

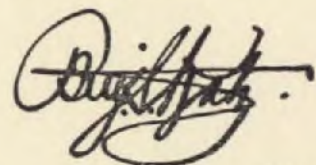
tended to us by these Gruen dealers is one of our most valued assets, and I am glad to have this opportunity of expressing to them our sincere appreciation and of pledging to them your company's continued best efforts in their behalf.

It is my pleasure to advise you that the balance of \$286,064.32 shown as due on your company's debentures has been paid on May 6, 1938. In addition to the retirement of all of the outstanding debentures, 20 per cent of the Class A Preferred stock amounting to \$145,500.00 has also been retired. Both of these payments have been made out of your company's earnings and the management will continue its best efforts to provide earnings in order that the balance of the Class A Preferred stock may be retired. On retirement of the balance of the Class A Preferred stock, your company will then be in a position to consider the payment of dividends to all remaining classes of stockholders.

I wish to point out to you that an assessment of \$24,183.69 for excise taxes and interest for prior years has been paid under protest and this amount charged to Surplus. The Surplus Account has also been charged with a loss of \$68,477.65 resulting from the sale of an unprofitable investment which had been on the books of the company. The proceeds from the sale of this investment have been invested in the Gruen Watch Company of Canada, Ltd., a wholly owned subsidiary of your company, which began doing business on April 1, 1937, showing a small profit for the year ended March 31, 1938.

In reviewing the year just ended, I feel a deep sense of obligation to stockholders, directors, officers, and employees for their untiring efforts and loyal support and to them I express my sincere gratitude.

Sincerely yours,



President

Time Hill, Cincinnati, U. S. A.
May 7, 1938.



LYBRAND, ROSS BROS. & MONTGOMERY
ACCOUNTANTS AND AUDITORS
CINCINNATI

*The Gruen Watch Company,
Cincinnati, Ohio.*

We have made an examination of the consolidated balance sheet of THE GRUEN WATCH COMPANY and its Subsidiary Companies as at March 31, 1938, and of the related statement of income and surplus for the year then ended. In connection therewith, we examined or tested accounting records of the Companies and other supporting evidence and obtained information and explanations from officers and employees of the Companies; we also made a general review of the accounting methods and of the operating and income accounts for the year, but we did not make a detailed audit of the transactions.

In our opinion, based upon such examination, the accompanying consolidated balance sheet and related statement of income and surplus fairly present, in accordance with accepted principles of accounting consistently maintained by the Companies during the year under review, the consolidated position of the Companies as at March 31, 1938, and the results of their consolidated operations for the year then ended.

LYBRAND, ROSS BROS. & MONTGOMERY

May 7, 1938



and SUBSIDIARY COMPANIES

Sheet, March 31, 1938

LIABILITIES:

Notes payable, banks.....	\$ 113,491.04
Notes payable, trade.....	58,440.76
Registered debentures, payable on or before June 1, 1938 (Note 3).....	286,064.32
Accounts payable	97,164.43
Accrued expenses	115,490.51
Provision for domestic and foreign income taxes (Note 4).....	155,875.17
<i>Total current liabilities</i>	<u>\$ 826,526.23</u>

Mortgage payable of subsidiary company, payable in annual instalments of \$458.56 or in full ninety days after demand or notice.....	55,485.28
Unrealized profits on conversion of net assets of foreign subsidiary companies.....	4,939.17

Contingent liabilities (Note 5)

CAPITAL:

Capital stock:

Class A preferred stock, \$100 par value; 7,275 shares authorized and issued (Note 3).....	\$ 727,500.00
Class B convertible non-voting preferred stock, \$1.00 par value; 363,750 shares authorized and issued, less 96,496½ converted and cancelled, outstanding 267,253½ shares.....	267,253.50
Class B convertible voting preferred stock, \$1.00 par value; 363,750 shares authorized, 100 shares issued, converted and cancelled; balance reserved for conversion of Class B non-voting preferred stock.....	— —
Class C preferred stock, \$25 par value; 20,000 shares authorized and issued, less 425 shares in treasury, outstanding 19,575 shares	489,375.00
Common stock, \$1.00 par value; 650,000 shares authorized, 214,283 shares issued, less 2,900½ shares in treasury (267,253½ shares reserved for conversion of Class B convertible stocks), outstanding 211,382½ shares.....	211,382.50
Earned surplus, as annexed.....	665,056.39
	<u>2,360,567.39</u>
<i>Less</i> , Net excess of cost of shares of subsidiaries, acquired in prior years, over equities in net worth at dates of acquisition.....	80,862.45
	<u>2,279,704.94</u>
	<u><u>\$ 3,166,655.62</u></u>

ing page are an integral part of this balance sheet.



NOTES TO BALANCE SHEET

1. Conversion of foreign accounts: The current assets and liabilities of the foreign subsidiary companies have been converted into dollars at the Federal Reserve rates of exchange at March 31, 1938. Capital assets and non-current liabilities of foreign subsidiary companies have been converted, substantially, at rates of exchange prevailing when respectively acquired or incurred.
2. Intercompany profits have been eliminated from the consolidated accounts.
3. Under the terms of a Plan of Reorganization adopted June 25, 1935, The Gruen Watch Company is required to apply 75 per cent of its net earnings, as defined in the Plan, each year to the payment of its debentures until they have been paid in full; to the payment of dividends on Class A preferred stock and thereafter to the retirement of Class A preferred stock. Under the terms of the Plan, The Gruen Watch Company is required, subsequent to March 31, 1938, to apply \$286,064.32 to retirement of its debentures and \$88,423.12 to retirement of its Class A preferred stock. Prior to May 7, 1938 all debentures had been paid and Class A preferred stock aggregating \$145,500 had been retired.
No dividends may be paid on any other class of stock until all of the Class A preferred stock has been retired.
4. No provision has been made for federal surtax on undistributed profits. It is the opinion of counsel for the Company, that the Company is not subject to such tax because of contractual restriction of dividend payments. It is believed that no additional United States taxes would result from the transfer to the parent company of accumulated surplus in foreign subsidiaries.
5. Contingent liabilities at March 31, 1938 consisted of customers' notes and acceptances discounted of \$996,922.44; and proposed additional assessment of federal excise taxes for prior years including interest, estimated at \$85,000 which is being contested by the Company.

NOTES TO INCOME AND EARNED SURPLUS ACCOUNT

No provision has been made for federal surtax on undistributed profits. It is the opinion of counsel for the Company that the Company is not subject to such tax because of contractual restriction of dividend payments.

Income accounts of foreign subsidiary com-

panies have been converted at the average rates of exchange on transactions between the parent company and its foreign subsidiary companies during the current fiscal year.

Intercompany profits have been eliminated from the consolidated income account.



CONSOLIDATED INCOME and EARNED SURPLUS ACCOUNT

For The Fiscal Year Ended March 31, 1938

Gross profit from sales.....	\$ 2,310,490.12
Selling, administrative and general expenses.....	1,420,421.60
Profit before other income and expenses and income taxes.....	890,068.52
Other income	84,198.24
	974,266.76
Interest and other expenses.....	97,117.50
	877,149.26
Provision for domestic and foreign income taxes.....	151,007.39
Net income	726,141.87
Surplus, April 1, 1937.....	53,400.86
	779,542.73
 Deductions:	
Loss on disposal of shares of an affiliated company, acquired in prior years.....	\$ 68,477.65
Federal excise taxes and interest applicable to prior years, paid under protest.....	24,183.69
	92,661.34
	686,881.39
Cash dividend of 3 per cent on Class A preferred stock, paid March 28, 1938.....	21,825.00
Surplus, March 31, 1938.....	\$ 665,056.39

*The accompanying notes on preceding page are an integral part of this
Income and Earned Surplus Account.*



The Gruen Watch Company

TIME HILL, CINCINNATI, OHIO

— SALES OFFICES —

CHICAGO	NEW YORK	LOS ANGELES
Pittsfield Building 55 E. Washington Street	International Building 630 Fifth Avenue	Jewelry Trades Building 220 W. Fifth Street

— DIRECTORS —

FRED G. GRUEN *Chairman*
GEO. J. GRUEN *Vice-Chairman*
DAVID C. JONES *First Vice-President, The Lunkenheimer Co.*
BENJAMIN S. KATZ *President and Treasurer*
TEVIAH SACHS *Vice-President and Assistant Treasurer*
ROBERT A. TAFT *Taft, Stettinius & Hollister*
CLIFFORD R. WRIGHT *Director, Union Central Life Insurance Co.*

— OFFICERS —

FRED G. GRUEN *Chairman*
GEO. J. GRUEN *Vice-Chairman*
BENJAMIN S. KATZ *President and Treasurer*
TEVIAH SACHS *Vice-President and Assistant Treasurer*
GEORGE T. GRUEN *Secretary*
ALFRED T. REIS *Comptroller*
THOMAS F. JEARY *Auditor*

Counsel—Taft, Stettinius & Hollister, Cincinnati, Ohio
Transfer Agent—The Fifth Third Union Trust Co., Cincinnati, Ohio
Registrar—The Central Trust Co., Cincinnati, Ohio
Escrow Agent (For Stock Warrants)—The Central Trust Co., Cincinnati, Ohio







ANNUAL REPORT

FISCAL YEAR ENDED MARCH 31, 1939



THE GRUEN WATCH COMPANY

TIME HILL • CINCINNATI, OHIO



1874

65

1939

YEARS OF FINE WATCHMAKING

THE GRUEN WATCH COMPANY



East View—The Gruen Watch Plant, Time Hill, Cincinnati, Ohio



THE GRUEN WATCH COMPANY

TIME HILL, CINCINNATI, OHIO

SALES OFFICES

CHICAGO
Pittsfield Building
55 E. Washington St.

NEW YORK
International Bldg.
630 Fifth Ave.

LOS ANGELES
Jewelry Trades Bldg.
220 W. Fifth St.

DIRECTORS

FRED G. GRUEN *Chairman*
GEO. J. GRUEN *Vice-Chairman*
DAVID C. JONES *First Vice-President, The Lunkenheimer Co.*
BENJAMIN S. KATZ *President and Treasurer*
TEVIAH SACHS *Vice-President and Assistant Treasurer*
HON. ROBERT A. TAFT *United States Senator from Ohio*
CLIFFORD R. WRIGHT *Director, Union Central Life Insurance Co.*

OFFICERS

FRED G. GRUEN *Chairman*
GEO. J. GRUEN *Vice-Chairman*
BENJAMIN S. KATZ *President and Treasurer*
TEVIAH SACHS *Vice-President and Assistant Treasurer*
GEORGE T. GRUEN *Secretary*
ALFRED T. REIS *Comptroller*
THOMAS F. JEARY *Auditor*

Counsel—Taft, Stettinius & Hollister, Cincinnati, Ohio
Transfer Agent—The Fifth Third Union Trust Co., Cincinnati, Ohio
Registrar—The Central Trust Co., Cincinnati, Ohio
Escrow Agent (For Stock Warrants)—The Central Trust Co., Cincinnati, Ohio

PRESIDENT'S REPORT

TO THE STOCKHOLDERS OF THE GRUEN WATCH COMPANY:

ON behalf of the Board of Directors, I am pleased to present the Annual Report of your Company, consisting of Consolidated Balance Sheet of The Gruen Watch Company and Subsidiary Companies at March 31, 1939 and Consolidated Income and Earned Surplus Account for the fiscal year ended March 31, 1939 as certified by our auditors, Lybrand, Ross Bros. and Montgomery.

Notwithstanding the general decline in the watch industry for the year 1938 as compared with 1937, your Company shows a consolidated net income of \$540,669.23 after deduction of \$121,955.19 for Income Taxes.

The above profit in comparison with the major watch companies who have thus far reported to their stockholders is most gratifying.

In view of the fact that the consolidated net income of the Company and its subsidiaries for the first full three-year operation amounts to \$1,946,815.21, the question may be in the minds of many stockholders as to why there have been no dividends paid. In answer to this, a short history of the Company since the early part of 1935 may be appropriate.

In the early part of 1935 your Company had a bank indebtedness of \$1,818,750 which was past due and could not be met. Because of this condition, I was invited to become associated with the Company and was elected President. A general reorganization of the Company was approved by the stockholders on June 25, 1935.

Out of the above profits of \$1,946,815.21, as provided by the Plan of Reorganization, \$1,047,600 has been applied to the retirement of all debentures (aggregating \$727,500) and of 3,201 shares of the \$100 par value Class A Preferred Stock. The retirement of 1,746 of these 3,201 shares of Class A Preferred Stock was effected on May 15, 1939, and so is not reflected on the accompanying balance sheet. In addition to the retirement of this part of the securities issued to the Banks in lieu of the Company's indebtedness to them as of the date of the reorganization, the Company has also caused the retirement of a mortgage of its foreign subsidiary in the amount of \$55,485.28.

On March 31, 1935, the Consolidated Balance Sheet of the Company and its subsidiaries showed a deficit of \$576,097.80. Since that date, additional charges applicable to the period prior to March 31, 1935 have aggregated \$198,384.51.

However, the earnings of the Company during this period have been sufficient to eliminate the deficit, plus subsequent charges applicable to the period prior to March 31, 1935, pay the required Class A Preferred dividends, and leave a surplus of \$1,102,834.89 at March 31, 1939.

At the time of the Reorganization, Common Stock had no book value and Class C Preferred Stock only a nominal value, whereas on March 31, 1939, the book value of Class C Preferred Stock is \$25.00 per share, its par value, and Common Stock has a book value of \$4.01, Class B remaining at par value, \$1.00 per share.

After allowing for dividends on Class A and Class C stock outstanding at March 31, 1939, the annual earnings on the combined 478,636 shares of Class B Convertible Preferred and Common Stock outstanding at March 31, 1939, averaged \$1.23 per share during the past three years.

Because of market conditions then existing, the sale of 150,000 additional shares of Common Stock as authorized and approved by the shareholders at the last annual meeting, was not completed. It is the hope of the management however, now that only \$407,400 of Class A stock remains unpaid, to retire same out of earnings in the near future, thereby eliminating the dividend restriction, at which time the Board of Directors will be in a position to consider the payment of dividends to all classes of stockholders, out of earnings.

After many years of research, the technical staff of your Company succeeded in developing and perfecting what is unquestionably the most revolutionary wrist watch of all time. This watch was introduced to the industry in January of this year under the trade mark VERI-THIN which trade mark has long been established with this Company, and became an immediate success. The wide acclaim given this latest Gruen product by the jewelers and the public throughout the country is further indication to the industry of Gruen's determination and ability to continue its leadership in the art of fine watchmaking.

To our authorized Gruen Jewelers, whom I consider our greatest asset, I want to express on behalf of our entire organization, our sincere thanks and appreciation for their loyal support, and pledge to them your Company's continued best efforts in their behalf.

I also want to express my deepest gratitude to stockholders, directors, officers, executives and employees, who have shown such untiring efforts and loyal support.

Sincerely yours,
BENJ. S. KATZ,
President

Time Hill, Cincinnati, U. S. A., May 23, 1939.



THE GRUEN WATCH COMPANY AND SUBSIDIARY COMPANIES

Consolidated Balance Sheet, March 31, 1939

ASSETS:

Cash on hand and demand deposits	\$ 236,840.18
Notes and accounts receivable, trade, less allowance for doubtful notes and accounts	1,118,444.85
Inventories, at the lower of cost or market	<u>1,147,059.43</u>
<i>Total current assets</i>	\$2,502,344.46
Cash surrender value of life insurance policies	8,283.22
Other notes and accounts receivable, less allowance for doubtful notes	1,761.23
Sundry investments, at cost or nominal values	788.28
Land, buildings and equipment, at cost except the Company's Cincinnati plant which includes appreciation amounting to \$106,610.74 arising from appraisal of land and buildings in 1922	\$ 872,718.45
<i>Less, Allowance for depreciation (including depreciation on appreciation \$24,473.29)</i>	<u>347,610.59</u>
	525,107.86
Prepaid expenses and deferred charges	45,378.37
Patents, trade-marks, copyrights, and goodwill	1.00
	<u><u>\$3,083,664.42</u></u>

LIABILITIES:

Due to banks by foreign subsidiary	\$ 204,219.26
Accounts payable	58,586.93
Accrued expenses	117,447.56
Provision for domestic and foreign income taxes (Note 4)	<u>131,427.23</u>
<i>Total current liabilities</i>	\$ 511,680.98
<i>Contingent liabilities</i> (Note 5)	

CAPITAL:

Capital stock (Note 3):	
Class A preferred stock, \$100 par value; redemption and liquidating values \$100 per share and accrued dividends; 7,275 shares authorized and issued, less 1,455 shares redeemed, outstanding 5,820 shares	\$ 582,000.00
Class B convertible non-voting preferred stock, par, redemption and liquidating values \$1.00 per share; 363,750 shares authorized and issued, less 224,886 converted and cancelled, outstanding 138,864 shares	138,864.00
Class B convertible voting preferred stock, par, redemption and liquidating values, \$1.00 per share; 363,750 shares authorized, 100 shares issued, converted and cancelled; balance reserved for conversion of Class B non-voting preferred stock	— —
Class C preferred stock, par and liquidating values \$25 per share; 20,000 shares authorized and issued, less 425 shares in treasury, outstanding 19,575 shares	489,375.00
Common stock, \$1.00 par value; 650,000 shares authorized, 342,672½ shares issued, less 2,900½ shares in treasury, outstanding 339,772 shares (138,864 shares reserved for conversion of Class B convertible stocks and 15,000 shares reserved for sale to certain officers and employees) (Note 6)	339,772.00
Earned surplus, as annexed (Note 3)	<u>1,102,834.89</u>
	2,652,845.89
<i>Less, Net excess of cost of shares of subsidiaries, acquired in prior years, over equities in net worth at dates of acquisition</i>	<u>80,862.45</u>

2,571,983.44
\$3,083,664.42

The accompanying notes Nos. 1 to 6 on the following page are an integral part of this balance sheet.



NOTES TO BALANCE SHEET

1. Conversion of foreign accounts: The current assets and liabilities of the foreign subsidiary companies have been converted into dollars at the Federal Reserve rates of exchange at March 31, 1939. Capital assets have been converted, substantially, at rates of exchange prevailing when acquired. The conversion of net current assets into dollars resulted in a loss in excess of unrealized profits on conversion at March 31, 1938; the amount of such excess is not significant and is included in the income account.
2. The estimated amounts of intercompany profits in inventory items purchased from companies whose accounts are consolidated have been eliminated in the preparation of the consolidated balance sheet.
3. Under the terms of a Plan of Reorganization adopted June 25, 1935, The Gruen Watch Company is required to apply seventy-five per cent of its net earnings, as defined in the Plan, subsequent to the close of each fiscal year, to the payment of dividends on Class A preferred stock and thereafter to the retirement of such stock. Under the terms of the Plan, The Gruen Watch Company is required, subsequent to March 31, 1939, to apply \$167,320.28 to retirement of its Class A preferred stock. From April 1, 1939 dividends are payable on Class A preferred stock at the rate of five per cent per annum.

No dividends may be paid on any other class of stock until all of the Class A preferred stock has been retired.
4. It is believed that no additional United States taxes would result from transfers to the parent company of accumulated surplus in foreign subsidiaries. It is estimated that additional foreign taxes (based on present laws) on transfers to the parent company of accumulated surplus of foreign subsidiaries would not exceed \$30,000.
5. Contingent liabilities at March 31, 1939 consisted of customers' notes and acceptances discounted of \$907,309.55.
6. Options granted to certain officers and employees to purchase common stock of the Company at \$5 per share aggregated 14,800 shares at March 31, 1939. Of this amount, options to purchase 7,200 shares expire May 26, 1939; options to the remaining shares are exercisable at different times to March 31, 1941.

CONSOLIDATED INCOME and EARNED SURPLUS ACCOUNT

For The Fiscal Year Ended March 31, 1939

Gross profit from sales	\$1,875,438.62
Selling, administrative and general expenses	<u>1,167,703.50</u>
Profit before other income and expenses and income taxes	707,735.12
Other income	<u>74,096.59</u>
	781,831.71
Interest and other expenses	<u>119,207.29</u>
	662,624.42
Provision for domestic and foreign income taxes	<u>121,955.19</u>
Net income	540,669.23
Surplus, April 1, 1938	<u>665,056.39</u>
	1,205,725.62
Less, Federal excise taxes and interest applicable to prior years	<u>79,028.73</u>
	1,126,696.89
Cash dividend at the rate of 4 per cent per annum on Class A preferred stock	<u>23,862.00</u>
Surplus, March 31, 1939	<u><u>\$1,102,834.89</u></u>
Income accounts of foreign subsidiary companies have been converted, substantially, at the average rates of exchange on transactions between the parent company and its foreign subsidiary companies during the current fiscal year.	
Intercompany sales and estimated intercompany profits have been eliminated in the preparation of the consolidated income account.	



LYBRAND, ROSS BROS. & MONTGOMERY
ACCOUNTANTS AND AUDITORS
CINCINNATI

*The Gruen Watch Company,
Cincinnati, Ohio.*

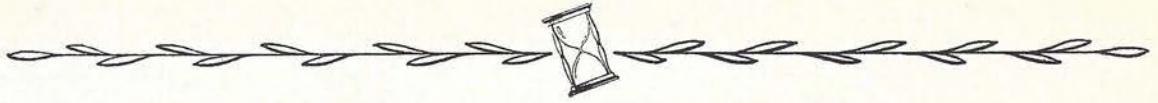
We have made an examination of the consolidated balance sheet of THE GRUEN WATCH COMPANY and its Subsidiary Companies as at March 31, 1939, and of the related statement of income and surplus for the year then ended. In connection therewith, we examined or tested accounting records of the Companies and other supporting evidence and obtained information and explanations from officers and employees of the Companies; we also made a general review of the accounting methods and of the operating and income accounts for the year, but we did not make a detailed audit of the transactions.

In our opinion, based upon such examination, the accompanying consolidated balance sheet and related statement of income and surplus fairly present, in accordance with accepted principles of accounting consistently maintained by the Companies during the year under review, the consolidated position of the Companies as at March 31, 1939, and the result of their consolidated operations for the year then ended.

LYBRAND, ROSS BROS. & MONTGOMERY

*Cincinnati, Ohio.
May 3, 1939.*





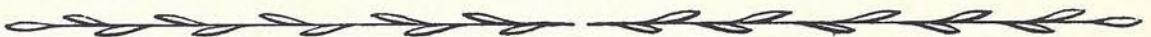
Annual Report

FISCAL YEAR ENDED MARCH 31, 1940



The Gruen Watch Company

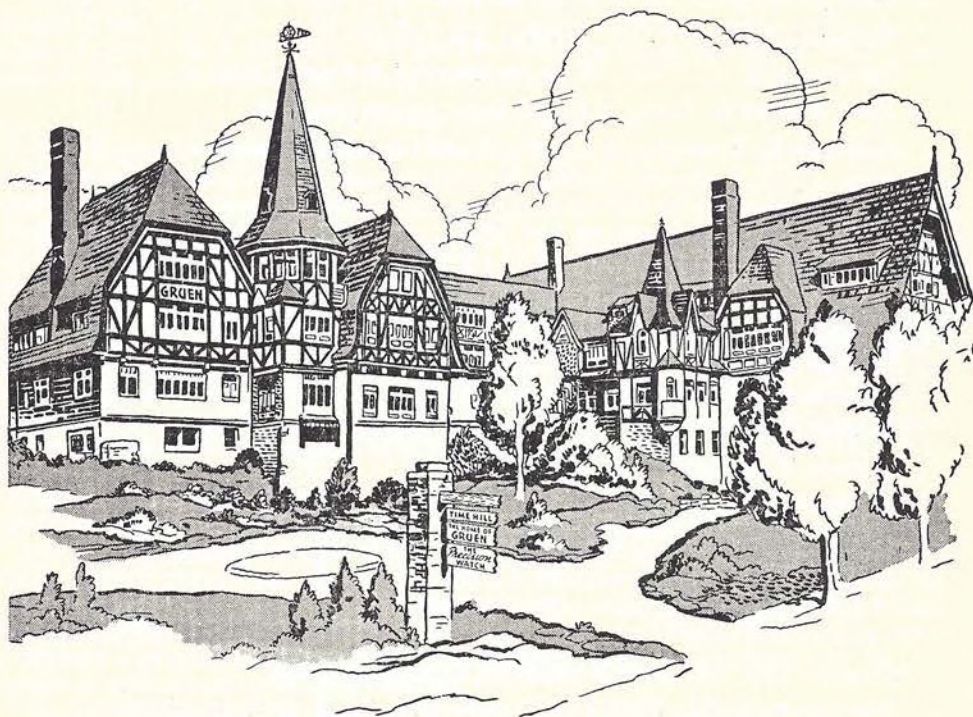
TIME HILL - - - CINCINNATI, OHIO



The Gruen Watch Company

TIME HILL - - - CINCINNATI, OHIO

1874 - 1940



EAST VIEW—THE GRUEN WATCH PLANT, TIME HILL, CINCINNATI, OHIO



The Gruen Watch Company

TIME HILL, CINCINNATI, OHIO

— Sales Offices —

CHICAGO	NEW YORK	LOS ANGELES
Pittsfield Building	International Building	Jewelry Trades Building
55 E. Washington Street	630 Fifth Avenue	220 W. Fifth Street

— Directors —

STERLING B. CRAMER . . . *First Vice-President, The Fifth Third Union Trust Co.*
FRED G. GRUEN . . . *Chairman*
GEO. J. GRUEN . . . *Vice-Chairman*
BENJAMIN S. KATZ . . . *President and Treasurer*
TEVIAH SACHS . . . *Vice-President and Assistant Treasurer*
HON. ROBERT A. TAFT . . . *United States Senator from Ohio*
CLIFFORD R. WRIGHT . . . *Director, Union Central Life Insurance Co.*

— Officers —

FRED G. GRUEN . . . *Chairman*
GEO. J. GRUEN . . . *Vice-Chairman*
BENJAMIN S. KATZ . . . *President and Treasurer*
TEVIAH SACHS . . . *Vice-President and Assistant Treasurer*
GEORGE T. GRUEN . . . *Secretary*
ALFRED T. REIS . . . *Comptroller*
THOMAS F. JEARY . . . *Auditor*

Counsel—Taft, Stettinius & Hollister, Cincinnati, Ohio
Transfer Agent—The Fifth Third Union Trust Co., Cincinnati, Ohio
Registrar—The Central Trust Co., Cincinnati, Ohio



President's Report

TO THE STOCKHOLDERS OF THE GRUEN WATCH COMPANY:

The year ended March 31, 1940, was the most successful in the history of your Company. In many respects it was also the most trying since its reorganization, if not in its entire history. The outbreak of the European war, with its rapid and amazing developments, has brought many problems. Thus far, we have been able to meet each of these as it arose, and we look forward to the ensuing year with the hope of successfully continuing to meet these problems. However, because of unprecedented conditions now prevailing, I have decided to submit to stockholders a rather detailed explanation of the present situation.

OPERATING RESULTS OF PAST YEAR

On behalf of the Board of Directors I am pleased to submit herewith the annual report of this Company and subsidiaries for the fiscal year ended March 31, 1940, as certified by our auditors, Lybrand, Ross Bros. & Montgomery, and approved by your Board of Directors. This report shows a consolidated net profit of \$745,267.87 after all charges and taxes, as compared with a consolidated net profit of \$540,669.23 for the year ended March 31, 1939.

After allowing for dividends on the Class C Preferred Stock, earnings on the combined 422,267½ shares of Class B Convertible Preferred and Common Stock outstanding at March 31, 1940, amounted to \$1.69 per share; and for the four years ended March 31, 1940, averaged \$1.52 per share.

THE MANUFACTURING SITUATION

I am happy to advise you that the Research Department of your Company which has produced a number of new movements since the reorganization of this Company, some of which have been the most revolutionary in the history of the entire industry, has again developed a new movement which will be introduced during the fall of this year. In addition to the CURVEX patent and many other valuable patents owned by this Company, patents have now been granted to this Company on the "VERITHIN" movement which was introduced to the industry early in 1939.

Since the reorganization in 1935 GRUEN, which has devoted more than sixty-five years to the art of fine watchmaking, has increased its prestige to such an extent that it is today considered one of the finest watches in the world. This reputation has been earned by a strict adherence to precision timekeeping quality and style in which your Company is considered the leader today. This leadership it is pledged to maintain.

Despite the European war and mobilization in Switzerland, where the finest watch movements and movement parts in the world are manufactured and exported to the leading watch manufacturers in America and elsewhere, the Company's wholly owned subsidiary, the Gruen Watch Manufacturing Company S. A. of Switzerland, one of the most modern watch movement factories in the world which produces the fine movements and movement parts used in all Gruen Watches, reached its highest degree of efficiency during the past year and manufactured the largest number of movements in its entire history.

Although The Gruen Watch Company has foreign subsidiaries, it is an American company in every sense of the word, having been established in the United States in 1874 and its securities are owned by more than 2500 Americans.



As compared with Swiss and Canadian taxes of \$117,609.83, income, social security, duty and other miscellaneous American taxes amounted to a total of \$1,041,726.14.

THE WAR SITUATION

As already pointed out, the war situation has not prevented your Company from reaching its greatest efficiency and in spite of an additional expenditure for the year ending March 31, 1940, of more than \$100,000 due entirely to the war condition, its increased sales and efficiency enabled your Company to show for the year, the largest profit in its history.

It would of course, be impossible to predict what may ensue in the future. During the World War your Company continued bringing in movements and movement parts from its Swiss plant. Unless Switzerland is actually invaded, your officers do not expect to encounter insurmountable difficulties. However, they are doing everything in their power to guard against any emergencies. Even prior to the time of the Munich conference, your Company began to speed up its manufacturing operations in Switzerland. These operations have been increased to the greatest possible degree so that your Company has been successful in building up a reserve inventory of movements in this country. Funds for the accumulation of this inventory have been provided for by a million dollar term loan as shown in the accompanying balance sheet. This inventory will enable the Company to operate for some time but should shipments of movements and movement parts from our Swiss plant be seriously curtailed or suspended, the results of future operations would be materially affected. However, in spite of the present chaotic conditions abroad, every effort is being made to keep the operations of the Swiss plant at its maximum.

YOUR COMPANY'S CAPITALIZATION

The story of the reorganization of the Company in 1935 is a familiar one to all of you. You likewise know that the capitalization resulting from the reorganization was most complicated. Debentures, Class A Preferred Stock, Class B Convertible Non-voting Preferred Stock, Class B Convertible Voting Preferred Stock, Class C Preferred Stock, Escrow Warrants and Common Stock presented a picture which was most confusing, if not entirely incomprehensible to the average stockholder. This involved Plan of Reorganization appeared to be the only way your Company could be saved at that time and the experience of the past five years has fully justified this belief. In May, 1938, the last of the debentures were retired and in February of this year the Company retired the last of its Class A Preferred Stock. Thereafter, in accordance with the Escrow Agreement, the Escrow Warrants were eliminated and during the past year the Company purchased from the Escrow Agent, 67,118½ shares of Class B Preferred Stock which were converted into Common Stock and are held in the Treasury. These changes have simplified the capitalization considerably. There are now outstanding 19,575 shares \$25.00 par Class C Preferred Stock, 395,041¼ shares of Common Stock, and 27,226¼ shares of Class B Preferred Stock, convertible, share for share, into Common Stock. The Class B shares if not converted into Common Stock by February 1, 1941, are callable by the Company at \$1.00 per share.

THE DIVIDEND SITUATION

On April 1, 1940, through the action of your Board of Directors, your Company paid the first dividend on the Class C Preferred Stock. This action of the Board put the Class C \$25.00 par value Preferred Stock on a Dividend basis at the rate of \$1.50 per share or 6% per annum. At the same time a dividend at the rate of 6%



per annum was paid on the Class B \$1.00 par value Stock which, as earlier stated, will undoubtedly be exchanged for Common Stock of the Company.

In view of the fact that the Consolidated net income of the Company and its subsidiaries for the four years ending March 31, 1940, amounted to \$2,692,083.08, the question may arise in the minds of many stockholders as to why no dividends have been paid on the Common Stock before now. I should like to explain this situation and to state the viewpoint of your directors.

Prior to the time of retirement of all the Class A Preferred Stock in February of this year, the Company was prohibited by reason of the Plan of Reorganization, from paying dividends on any of its securities except the Class A Preferred Stock. This restriction has now been removed and the question of payment of dividends becomes entirely an operating one. Of the profits of \$2,692,083.08 for the four years ended March 31, 1940, slightly more than two-thirds have gone to retire the securities given to the banks in lieu of the Company's indebtedness to them at the time of the reorganization, and to absorb additional charges of \$198,384.51 applicable to the period prior to the reorganization.

At the time of the reorganization the working capital of your Company was exhausted and there was a consolidated deficit of \$576,097.80. Instead of this deficit the Company and its subsidiaries now have a surplus of \$1,704,949.14. This has directly benefited the stockholders inasmuch as the book value of the Common shares has increased from less than nothing at the time of the reorganization, to \$5.11 per share based on 395,041 $\frac{1}{4}$ shares outstanding at March 31, 1940; the book value of Class C Preferred Stock has increased from a nominal value to \$25.00 per share, its par value, and the book value of the Class B Preferred Stock remains at \$1.00 per share, its par value.

It is the present feeling of your directors and officers that the surplus accumulated from earnings in the past four years should not now be used for dividends, and further that the working capital must, in the interest of stockholders, be built up out of future earnings of the Company. However, if earnings continue at the present rate, and if the effect of the European situation on our Company does not become worse, your directors will give serious consideration the latter part of this year to the question of Common Stock dividends.

CONCLUSION

In concluding this report, I desire to express to my fellow officers, directors and employees, my personal appreciation of their untiring efforts in the past year; to our host of Gruen dealers, whom I consider the Company's greatest asset, I want to express our heartfelt thanks for their confidence and good will; and to all stockholders, I want to express the sincere appreciation of the management for their patience during the past years and their confidence in our ability to work out of a trying situation. While we cannot predict as to the future, I want to assure each stockholder that your management is determined to expend every effort to meet any problems that may arise so that the progress made since the reorganization may continue.

Sincerely yours,



Time Hill, Cincinnati, U. S. A., May 31, 1940.

President.



The Gruen Watch Company

Consolidated Balance

ASSETS:

Cash on hand and demand deposits	\$ 478,491.74
Notes and accounts receivable, trade, less allowance for doubtful notes and accounts.	1,641,171.91
Inventories, at the lower of cost or market (Note 2).	<u>1,567,612.42</u>
<i>Total current assets</i>	\$3,687,276.07
Cash surrender value of insurance on lives of officers aggregating \$580,000 (Note 3).	16,074.28
Other notes and accounts receivable, less allowance for doubtful notes	12,323.33
Sundry investments, at cost or nominal values	788.28
Land, buildings and equipment, (Note 1) at cost except the Company's Cincinnati plant which includes appreciation amounting to \$106,610.74 arising from appraisal of land and buildings in 1922 \$ 892,134.98	
<i>Less</i> , allowance for depreciation (including depreciation on appreciation \$25,835.56)	<u>374,255.44</u>
	517,879.54
Prepaid expenses and deferred charges	51,138.65
Patents, trade-marks, copyrights, and goodwill	1.00

\$4,285,481.15

The accompanying notes Nos. 1 to 7



and Subsidiary Companies

Sheet, March 31, 1940

LIABILITIES:

Due to Swiss banks by foreign subsidiary	\$ 167,141.98
Accounts payable	123,227.08
Accrued expenses	174,828.99
Dividends payable	5,178.67
Provision for domestic and foreign taxes on income (Note 5)	279,375.24
<i>Total current liabilities</i>	\$ 749,751.96
Notes payable, banks (due 1941-44, Note 3)	1,000,000.00
<i>Contingent liabilities:</i> (Note 6)	

CAPITAL:

Capital stock: (Note 4)

Class A preferred stock, \$100 par value; redemption and liquidating values \$100 per share and accrued dividends; 7,275 shares authorized and issued, redeemed prior to March 31, 1940, none outstanding	\$ —
Class B 6 per cent cumulative convertible non-voting preferred stock, par, redemption and liquidating values \$1.00 per share; 363,750 shares authorized and issued, less 269,517 ³ / ₄ converted and cancelled, and 67,118 ¹ / ₂ purchased by company, converted and cancelled; outstanding 27,113 ³ / ₄ shares	27,113.75
Class B 6 per cent cumulative convertible voting preferred stock, par, redemption and liquidating values, \$1.00 per share; 363,750 shares authorized, 218 ¹ / ₂ shares issued, less 106 converted and cancelled; balance reserved for conversion of Class B non-voting preferred stock; outstanding 112 ¹ / ₂ shares	112.50
Class C 6 per cent preferred stock, par and liquidating values \$25. per share; 20,000 shares authorized and issued, less 425 shares in treasury, outstanding 19,575 shares	489,375.00
Common stock, \$1.00 par value; 650,000 shares authorized, 465,060 ¹ / ₄ shares issued, less 70,019 shares in treasury, outstanding 395,041 ¹ / ₄ shares (27,226 ¹ / ₄ shares reserved for conversion of Class B convertible stocks and 3,850 shares reserved for sale to certain officers and employees) (Note 7)	395,041.25
Earned surplus, as annexed (Notes 4 and 5)	1,704,949.14
	\$2,616,591.64
<i>Less</i> , net excess of cost of shares of subsidiaries, acquired in prior years, over equities in net worth at dates of acquisition	80,862.45
	<u>2,535,729.19</u>
	<u>\$4,285,481.15</u>

are an integral part of this balance sheet.

NOTES TO CONSOLIDATED BALANCE SHEET

Note 1—The consolidated balance sheet includes assets of Gruen Watch Manufacturing Company of Switzerland aggregating \$275,110.87, of which land, buildings and equipment, less depreciation are stated at \$148,324.05 and inventories and other current assets at \$125,237.83. In the event that present war conditions in Europe involve Switzerland the possible loss of \$275,110.87 may be materially reduced or entirely offset by the cancellation of certain liabilities of the Swiss company. As The Gruen Watch Company owed to its Swiss subsidiary at March 31, 1940, an amount in excess of the recorded investment in that company no loss could be incurred which could affect the stockholders of The Gruen Watch Company in an amount in excess of \$275,110.87. The effect of the European war on the companies is discussed in the president's report and reference is made thereto.

The consolidated balance sheet also includes assets located in Canada aggregating \$177,120.81, of which current assets are \$174,791.77.

The Federal Reserve rates of exchange prevailing at March 31, 1940, have been applied in the conversion of foreign current assets and liabilities. Capital assets have been converted, substantially, at rates of exchange prevailing when acquired.

Note 2—The estimated amounts of intercompany profits in inventory items purchased from companies whose accounts are consolidated have been eliminated in the preparation of the consolidated balance sheet.

Note 3—Insurance policies on the life of Benjamin S. Katz, President, aggregating \$500,000 have been assigned as collateral to notes payable, banks, aggregating \$1,000,000.

At the option of the bank the notes become due and payable on demand if Switzerland becomes involved in war or if for any other reason the supply of movements is seriously curtailed for a period of four months.

Note 4—Under the terms of a Plan of Reorganization, adopted June 25, 1935, The Gruen Watch Company has been required to apply seventy-five per cent of its net earnings each year, as defined in the Plan, to the payment of dividends on Class A preferred stock and thereafter to the retirement of such stock. In accordance with the terms of the Plan the Company has retired during the fiscal year ended March 31, 1940, the remainder of the Class A preferred stock.



NOTES TO CONSOLIDATED BALANCE SHEET

—Continued

Dividends at the rate of six per cent per annum on Class B preferred stock became cumulative from February 1, 1940, the date of final retirement of Class A preferred stock, and such dividends have been declared to March 31, 1940, payable April 1, 1940.

Note 5—It is believed that no additional United States taxes would result from transfers to the parent company of accumulated surplus in foreign subsidiaries. It is estimated that additional foreign taxes (based on present laws) on transfers to the parent company of accumulated surplus of foreign subsidiaries would not exceed \$22,000.

Note 6—Contingent liabilities at March 31, 1940, consisted of customers' notes and acceptances discounted of \$1,035,872.50.

Note 7—Options granted to certain officers and employees to purchase common stock of the Company at \$5 per share aggregated 3,850 shares at March 31, 1940. These options are exercisable to March 31, 1941.

CONSOLIDATED STATEMENT OF PAID-IN SURPLUS

For the Fiscal Year Ended March 31, 1940

Premium received on sale of 10,750 shares common stock to officers and employees under option.....	\$	43,000.00
Excess of cost over par value of 67,118½ shares common stock held in treasury, acquired by conversion of 67,118½ shares Class B non-voting preferred stock purchased from escrow agent in accordance with terms of escrow agreement dated as of March 31, 1935.....	\$	134,237.00
Less, amount charged to earned surplus.....		91,237.00
		<u>\$ 43,000.00</u>



CONSOLIDATED STATEMENT OF INCOME AND EARNED SURPLUS

For the Fiscal Year Ended March 31, 1940

Gross profit from sales	\$2,436,693.46	
Selling, administrative and general expenses	1,373,916.83	<u>1,373,916.83</u>
<i>Profit before other income and expenses and income taxes</i>	\$1,062,776.63	
Other income	68,963.47	<u>68,963.47</u>
		\$1,131,740.10
Interest and other expenses	98,667.73	<u>98,667.73</u>
		\$1,033,072.37
Provision for domestic and foreign income taxes	287,804.50	<u>287,804.50</u>
<i>Net income</i>		\$ 745,267.87
Surplus, April 1, 1939	1,102,834.89	<u>1,102,834.89</u>
		\$1,848,102.76
Deduct:		
Provision for loss on foreign exchange	\$ 28,671.70	
Portion of excess of cost over par value of 67,118½ shares common stock held in treasury charged to earned surplus	91,237.00	<u>119,908.70</u>
		\$1,728,194.06
Dividends paid:		
Class A preferred stock, cash dividend at rate of five per cent per annum	\$ 18,066.25	
Class B preferred stock, one per cent cash dividend from February 1, 1940	304.17	
Class C preferred stock, one per cent cash dividend from February 1, 1940	4,874.50	<u>23,244.92</u>
Surplus, March 31, 1940		<u>\$1,704,949.14</u>

The accompanying notes are an integral part of this statement.



NOTES TO CONSOLIDATED STATEMENT OF INCOME AND EARNED SURPLUS

For the Fiscal Year Ended March 31, 1940

Note 1 to Consolidated Balance Sheet March 31, 1940, is incorporated herein by reference.

Income accounts of foreign subsidiary companies have been converted substantially at the average monthly rates of exchange prevailing during the fiscal year ended March 31, 1940. The net unrealized loss of \$28,671.70 arising from declines in conversion value of net current assets of foreign subsidiaries has been charged to earned surplus.

Intercompany sales and estimated intercompany profits have been eliminated in the preparation of the consolidated statement of income.

Dividends received from a foreign subsidiary by the parent company during the fiscal year were in excess of net income of foreign subsidiaries of \$190,376.92 included in Consolidated net income.



LYBRAND, ROSS BROS. & MONTGOMERY
ACCOUNTANTS AND AUDITORS
CINCINNATI

*To the Board of Directors,
The Gruen Watch Company,
Cincinnati, Ohio.*

We have examined the consolidated balance sheet of The Gruen Watch Company and its subsidiary companies as at March 31, 1940, and the consolidated statements of income and surplus for the year then ended. In connection therewith, we reviewed the system of internal control and the accounting procedures of the companies and, without making a detailed audit of the transactions, examined or tested accounting records and other supporting evidence of the companies, by methods and to the extent we deemed appropriate.

In our opinion, the accompanying consolidated balance sheet and related consolidated statements of income and surplus present fairly the consolidated position of The Gruen Watch Company and its subsidiary companies at March 31, 1940, and the consolidated 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.

LYBRAND, ROSS BROS. & MONTGOMERY

Cincinnati, Ohio, May 28, 1940.







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CORPORATION FILE

Annual Report

THE GRUEN WATCH COMPANY

FISCAL YEAR ENDED MARCH 31, 1941

TIME HILL • CINCINNATI, OHIO





THE GRUEN WATCH COMPANY

TIME HILL • CINCINNATI, OHIO

1874 • 1941



EAST VIEW—THE GRUEN WATCH PLANT, TIME HILL, CINCINNATI, OHIO



THE GRUEN WATCH COMPANY

TIME HILL • CINCINNATI, OHIO

Sales Offices

CHICAGO
Pittsfield Building
55 E. Washington Street

NEW YORK
International Building
630 Fifth Avenue

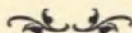
LOS ANGELES
Jewelry Trades Building
220 W. Fifth Street

Directors

STERLING B. CRAMER . . . *First Vice-President, The Fifth Third Union Trust Co.*
FRED G. GRUEN . . . *Retired*
GEO. J. GRUEN . . . *Chairman of the Board*
BENJAMIN S. KATZ . . . *President and Treasurer*
TEVIAH SACHS . . . *Vice-President and Assistant Treasurer*
HON. ROBERT A. TAFT . . . *United States Senator from Ohio*
CLIFFORD R. WRIGHT . . . *Director, Union Central Life Insurance Co.*

Officers

GEO. J. GRUEN . . . *Chairman of the Board*
BENJAMIN S. KATZ . . . *President and Treasurer*
TEVIAH SACHS . . . *Vice-President and Assistant Treasurer*
GEORGE T. GRUEN . . . *Secretary*
ALFRED T. REIS . . . *Comptroller*
THOMAS F. JEARY . . . *Auditor*



Counsel—Taft, Stettinius & Hollister, Cincinnati, Ohio
Transfer Agent—The Fifth Third Union Trust Co., Cincinnati, Ohio
Registrar—The Central Trust Co., Cincinnati, Ohio



PRESIDENT'S REPORT

TO THE SHAREHOLDERS OF THE GRUEN WATCH COMPANY:

The fiscal year ended March 31, 1941 concludes the fifth complete year since the introduction of the present management and the reorganization of the Company in 1935. It also represents the completion of the sixty-seventh continuous year of the business itself.

I am indeed happy to advise you that the year just ended was the most successful in the sixty-seven year history of your company. Despite production and shipping difficulties and increased taxes and costs, both sales and profits exceeded by a considerable margin those of any previous year.

I advised you last year that conditions facing your Company were at that time unprecedented, and you of course are fully familiar with the number and importance of changes that have taken place in Europe since that time. In accordance with the practice of last year, I am submitting a rather detailed explanation of the present situation as it affects the Company.

OPERATING RESULTS

On behalf of the Board of Directors there is submitted herewith the annual report of this Company and subsidiaries for the fiscal year ended March 31, 1941. This report shows a consolidated net profit of \$903,401.73 after all charges and taxes, as compared with a consolidated net profit of \$745,267.87 for the year ended March 31, 1940. After allowing for dividends on the Class C Preferred Stock, earnings this year on the 426,298- $\frac{1}{4}$ shares of outstanding Common Stock amounted to \$2.05 a share, as compared to \$1.69 a share last year, and an average for the five years ended March 31, 1941 of \$1.62.

In accordance with usual practice, the report includes a consolidated balance sheet as of March 31, 1941, a consolidated statement of income and earned surplus for the fiscal year ended March 31, 1941, and a consolidated statement of paid-in surplus for the fiscal year ended March 31, 1941, as reported on by our auditors, Lybrand, Ross Bros. & Montgomery, and approved by your Board of Directors.

There are also included with this report a condensed comparison of consolidated financial position of the Company and its subsidiaries as of March 31, 1936 and as of March 31, 1941, and a consolidated statement of earned surplus for the five year period ended on March 31, 1941. In this comparative statement you will notice that the equity of the Class C Preferred and Common shareholders at March 31, 1941 amounts to \$3,257,921.34, which is an increase of more than \$3,000,000.00 over March 31, 1936. The statement of surplus for the five years ended March 31, 1941



shows net profits during this period of \$3,595,484.81. These earnings have been used in part for the following purposes:

To pay off the Registered Debentures.....	\$727,500.00	
To redeem Class A Preferred Stock.....	727,500.00	
To purchase or redeem Class B Stock:		
67,118-1/2 shares at \$3.00.....	\$201,355.50	
28-1/4 shares at \$1.00.....	28.25	
	<u>201,383.75</u>	
Charged Paid-in Surplus.....	43,000.00	
		158,383.75
To purchase the interest of minority stockholders in subsidiary companies.....		128,039.44
To pay dividends		<u>226,598.98</u>
		\$1,968,022.17

From the above it is obvious that the Company has used a very substantial amount of the funds derived from earnings to pay off and redeem the various securities issued under the Plan of Reorganization to the eight bank creditors in lieu of the Company's indebtedness to the banks of \$1,818,750.00. The remaining funds from earnings were used to provide working capital to finance the Company's increasing volume of business. On March 31, 1936 the Common Stock had no book value and the Class C Preferred Stock had only a nominal book value. On March 31, 1941, the book value of the Class C Preferred Stock was \$25 per share, its par value, and the Common Stock had a book value on that date of \$6.49 per share.

In your examination of the balance sheet, attention should be given to the notes and the explanation of your Company's foreign investments. At this point, I should like again to emphasize what I stated in last year's report, that while the movements used in Gruen watches are manufactured in Switzerland, where we believe the finest movements have always been made, this Company is, in every sense of the word, an American company. During the five years ended March 31, 1941, this Company has paid Federal income and Social Security taxes, customs duties and other miscellaneous American taxes totaling \$4,443,346.45 as compared to the taxes of \$319,730.67 paid to Switzerland during this same period. As I pointed out last year, the securities of this Company are owned practically entirely by United States residents, and all watches are regulated and assembled at the Time Hill plant, Cincinnati, Ohio.

THE MANUFACTURING SITUATION

In making this report, I want to pay special tribute to Mr. Henri Thiebaud, Director General of our wholly-owned subsidiary, the Gruen Watch Manufacturing Company, S. A. of Bienne, Switzerland, who, in collaboration with his staff of executives, technicians and employees, designed and produced eight completely new



types of movements since the reorganization. These new movements include the famous custom-built, patented Gruen Curvex and the patented Gruen Veri-Thin. The quality and design of these new movements are recognized as the finest in the industry and all Gruen watches produced today use these movements. Our movement factory has been completely re-equipped with modern machinery and tools, incorporating therein all of the scientific and technical advancements of the last decade and enabling for the first time in the history of the industry the full application of quantity production methods without sacrificing any of the fine qualities of workmanship for which the Company has always been known. This complete change in our manufacturing facilities has enabled your Company to produce for the year ended March 31, 1941, more than twice the number of movements produced in the biggest year in the history of the Company prior to the reorganization, and more than six times the number of movements produced in the year 1935 prior to the introduction in 1936 of the new manufacturing methods.

THE WAR SITUATION

Last year I told you that the outbreak of the war with its amazing developments, brought many problems, and I expressed the hope that we should be able to continue to meet these problems. It should be pointed out that the changes that have taken place since then, with the surrender of France, and the threat of possible invasion of Spain, as well as the possible entry of this country into war, today make the situation more unpredictable than ever. During the World War of 1914, your Company was successful in continuing importation of movements and movement parts from its factory in Switzerland, with little interruption, but while we hope this same situation will continue to prevail in the future, no one can give definite assurance as to this.

Your Company is continuing the practice of building up inventory. Although our ever-increasing sales have made the rate of increase necessarily less than we should desire, our inventory of movements today is larger than at any time in the past. It is impossible in this report, even briefly, to discuss the entire situation. Your Directors and officers are doing everything in their power to prepare the Company for any emergencies, but it is of course impossible to say just what, if any, particular emergency will arise.

TAXES

The war in Europe and our Defense Program call for added taxes. For the fiscal year just ended, Swiss and Canadian taxes amounted to \$101,601.20, while income, social security, import duties, and other miscellaneous American taxes amounted to a total of \$1,281,622.96. These taxes totaling \$1,383,224.16, compared with a total of \$1,159,335.97 for the fiscal year ended March 31, 1940, and a total of \$682,860.42 for the fiscal year ended March 31, 1937. Undoubtedly the taxes for the current year now begun will again be materially increased. In addition to these regular taxes, you are familiar with the discussions of possible excise or sales taxes on jewelry and watches. All of these taxes must of necessity have a serious effect on



the earnings of the Company. However, increased business activity points to a considerably improved purchasing power for the coming year. If we can continue to manufacture and bring in movements from our Swiss factory in amounts to meet the demands this year, it is possible that increased revenues will, in large part at least, enable us to offset this heavier tax burden.

EMPLOYEE RELATIONSHIP

I am happy to advise you that the same friendly relations which have always existed between the Company and its employees have been continued. The Company has continued its practice of sponsoring various social and athletic activities among its employees, has instituted the publication of a house organ "Gruen Time", and has continued its practice of giving vacations with pay for employees. It has also in recent years adopted a plan of hospitalization and group insurance for its employees. By authorization of the Board of Directors, employees entering military service receive a portion of their regular salaries, and in addition their group life insurance and hospitalization premiums are paid by the Company.

YOUR COMPANY'S CAPITALIZATION

In reviewing my letters to the shareholders of the last few years, I notice that I have felt it necessary each year to explain the complicated capitalization which arose from adoption of the Plan of Reorganization. It is with a great deal of pleasure that I now report that all securities, other than the Class C Preferred Stock and the Common Stock, have now been retired. I feel certain that the shareholders will authorize the amendment of Articles of Incorporation required to eliminate all reference on our balance sheet to Class A and Class B Preferred Stock. I also feel quite certain that the shareholders will agree with the opinion of the Directors that it is for the shareholders' best interests and will therefore vote for the proposed change in the Articles of Incorporation as set forth in the notice of the meeting to substitute for the present Class C Preferred Stock a new 5% Cumulative Preferred Stock callable at \$26 a share. Under this proposal, Class C Preferred shareholders will receive one share of new Preferred Stock and one-half share of Common Stock in exchange for each present share of Class C Preferred Stock.

THE DIVIDEND SITUATION

Heretofore in my annual reports to shareholders I explained why it was impossible to pay any dividends on the Company's Common Stock because of the provisions of the Plan of Reorganization and the necessity of paying off the prior securities. Last year I reported the initial dividend on the Class C and Class B Preferred Stocks and stated that since all Debentures and Class A Preferred Stock issued to the banks had been retired, the payment of dividends on the Common Stock thenceforth would be purely an operating question.

During the year just ended your Directors authorized an initial dividend of 12½ cents a share on the Common Stock, which was paid to shareholders on



January 2, 1941, and an additional 12½ cents which was paid on April 1, 1941. I am happy to be able to announce now that your Board has declared a quarterly dividend of 12½ cents to be paid on July 1, and in addition has declared an extra dividend of 12½ cents to be paid on the same date.

It has been the position of your Directors and officers that the payment of dividends should be on a conservative basis until the working capital is built up sufficiently to take care of the increasingly large volume of business that the Company is doing. I am hopeful, however, that if the progress that your Company has made in the last five years is maintained, your Company can continue paying quarterly dividends of 12½ cents a share on the Common Stock and supplement these occasionally by extra dividends.

CONCLUSION

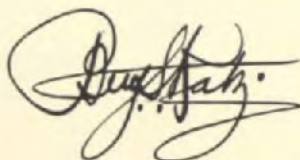
In concluding this report, I again want to thank all officers, directors and employees for their loyal, wholehearted and untiring efforts of the past year.

I also want to pay special tribute to Mr. Fred G. Gruen, who, after fifty years' service with the Company, has retired as Chairman of the Board of Directors, to which position, his brother, Mr. George J. Gruen, who has been actively associated with the Company for forty-five years, was elected. The heritage of fine workmanship of Gruen watches, derived from Dietrich Gruen, the founder of the business and father of Fred G. and George J. Gruen, will always remain one of the most valuable possessions of the Company.

The sincere appreciation of the Company goes out to the ever-increasing host of Gruen dealers for their continued confidence and good will, which, in a great measure, has been responsible for the phenomenal growth of your company in the past five years.

To the shareholders, who have placed their confidence in the management during the trying years since the reorganization, I want to express the appreciation of the entire organization, and to assure them that we shall make every effort to continue in the future the progress of the past five years.

Sincerely yours,



President

Time Hill, Cincinnati, U. S. A.

June 4, 1941



THE GRUEN WATCH COMPANY

CONSOLIDATED BALANCE

ASSETS:

Cash on hand and demand deposits.....	\$ 557,774.55
Notes and accounts receivable, trade, less allowance for doubtful notes and accounts..	3,310,234.65
Inventories, at the lower of cost or market (Note 2).....	<u>1,810,466.91</u>
<i>Total current assets</i>	5,678,476.11
Cash surrender value of insurance aggregating \$830,000 on lives of officer and director (Note 3).....	23,851.34
Other notes and accounts receivable, less allowance for doubtful notes.....	11,418.05
Sundry investments, at cost or nominal values.....	6,532.68
Land, buildings and equipment, at cost.....	\$821,061.71
<i>Less, allowance for depreciation</i>	<u>374,787.21</u>
	446,274.50
Prepaid expenses and deferred charges.....	59,552.90
Patents, trade-marks, copyrights, and goodwill.....	1.00
	\$6,226,106.58

The accompanying notes Nos. 1 to 4 a



AND SUBSIDIARY COMPANIES

HEET, MARCH 31, 1941

LIABILITIES:

Notes payable, Swiss banks.....	\$ 489,199.46
Accounts payable	200,300.97
Accrued expenses	232,705.12
Dividends payable	60,498.42
Provision for domestic and foreign taxes on income (Note 4).....	485,481.27
<i>Total current liabilities</i>	<u>\$1,468,185.24</u>
Notes payable, bank, \$250,000 due annually beginning May 27, 1942 (Note 3).....	1,500,000.00

CAPITAL:

Capital stock:

Class A preferred stock, \$100 par value; redemption and liquidating values \$100 per share and accrued dividends; 7,275 shares authorized, issued and redeemed; none outstanding	\$ —
Class B 6 per cent cumulative, convertible non-voting preferred stock, par, redemption and liquidating values \$1.00 per share; 363,750 shares authorized and issued, 296,603 $\frac{1}{4}$ converted and cancelled, 28 $\frac{1}{4}$ redeemed, and 67,118 $\frac{1}{2}$ purchased by company, converted and cancelled; none outstanding	—
Class B 6 per cent cumulative, convertible voting preferred stock, par, redemption and liquidating values, \$1.00 per share; 363,750 shares authorized, 218 $\frac{1}{2}$ shares issued, converted and cancelled; balance reserved for conversion of Class B non-voting preferred stock; none outstanding..	—
Class C 6 per cent cumulative preferred stock, par and liquidating values \$25 per share; 20,000 shares authorized and issued, less 425 shares in treasury, outstanding 19,575 shares	489,375.00
Common stock, \$1.00 par value; 650,000 shares authorized, 496,108 $\frac{1}{4}$ shares issued, less 69,810 shares in treasury, outstanding 426,298 $\frac{1}{4}$ shares.....	426,298.25
Earned surplus, as annexed (Notes 1 and 4).....	2,342,248.09
	<u>3,257,921.34</u>
	<u><u>\$6,226,106.58</u></u>

an integral part of this balance sheet.



NOTES TO CONSOLIDATED BALANCE SHEET

Note 1—The consolidated balance sheet includes assets of Gruen Watch Manufacturing Company of Switzerland aggregating \$307,420.58, of which land, buildings and equipment, less depreciation are stated at \$142,947.31 and inventories and other current assets at \$157,139.10. Inasmuch as The Gruen Watch Company owed to its Swiss subsidiary at March 31, 1941 an amount in excess of the recorded investment in that company, it is believed that no loss could be incurred which could affect the shareholders of The Gruen Watch Company in an amount in excess of \$307,420.58. In the event that present war conditions in Europe involve Switzerland the possible loss of \$307,420.58 may be materially reduced or entirely offset by the cancellation of certain liabilities of the Swiss Company. The effect of the European war on the companies is discussed in the president's report and reference is made thereto.

The consolidated balance sheet also includes assets located in Canada aggregating \$194,839.24, of which current assets are \$193,532.47.

The Federal Reserve rates of exchange prevailing at March 31, 1941, have been applied in the conversion of foreign current assets and liabilities. Capital assets have been converted, substantially, at rates of exchange prevailing when acquired.

Note 2—The estimated amounts of intercompany profits in inventory items purchased from companies whose accounts are consolidated have been eliminated in the preparation of the consolidated balance sheet.

Note 3—Insurance policies on the life of Benjamin S. Katz, President, aggregating \$750,000 have been assigned as collateral to notes payable, bank, aggregating \$1,500,000.

At the option of the bank the notes may become due and payable on demand if Switzerland becomes involved in war or if for any other reason the supply of movements is seriously curtailed for a period of four months, or in the event of the retirement of Benjamin S. Katz as an executive of the Company.

Note 4—It is estimated (based on present laws) that additional foreign taxes on transfers to the parent company of accumulated surplus of foreign subsidiaries will approximate \$44,000 and that Federal excess profits taxes may be payable on such transfers. The amounts, if any, of such United States taxes are not presently determinable.



CONSOLIDATED STATEMENT OF INCOME AND EARNED SURPLUS

For the Fiscal Year Ended March 31, 1941

Gross profit from sales.....		\$3,065,807.09
Selling, administrative and general expenses.....		<u>1,665,417.39</u>
<i>Profit before other income and expenses and income taxes.....</i>		<i>\$1,400,389.70</i>
Other income.....	89,787.64	
		<u>\$1,490,177.34</u>
Interest and other expenses.....	137,452.22	
		<u>\$1,352,725.12</u>
Provision for domestic and foreign income taxes (including Federal excess profits taxes \$85,055.80).....		<u>449,323.39</u>
<i>Net income</i>		<i>\$ 903,401.73</i>
Surplus, April 1, 1940.....	1,704,949.14	
		<u>\$2,608,350.87</u>
Add, partial recovery of unrealized losses on foreign exchange, charged to earned surplus in the preceding year.....	15,976.91	
		<u>\$2,624,327.78</u>
Deduct:		
Appreciation arising from appraisal in 1922, included in land and buildings as at March 31, 1940	\$ 80,775.18	
Balance of excess of cost of shares of subsidiaries over equities in net worth at dates of acquisition	<u>65,462.45</u>	<u>146,237.63</u>
		<u>\$2,478,090.15</u>
Dividends, cash:		
Class B preferred stock to February 2, 1941, date of redemption of remaining shares.....	620.39	
Class C preferred stock to March 31, 1941.....	29,256.03	
Common stock, 25c per share.....	<u>105,965.64</u>	<u>135,842.06</u>
Surplus, March 31, 1941.....		<u><u>\$2,342,248.09</u></u>

The accompanying notes are an integral part of this statement.



NOTES TO CONSOLIDATED STATEMENT OF INCOME AND EARNED SURPLUS

Notes 1 and 4 to Consolidated Balance Sheet March 31, 1941 are incorporated herein by reference.

The provisions for depreciation included in the consolidated statement of income amount to \$34,818.93.

Income accounts of foreign subsidiary companies have been converted substantially at the average monthly rates of exchange prevailing during the fiscal year ended March 31, 1941. The unrealized profit of \$15,976.91 arising from changes in conversion value of net current assets of foreign subsidiaries is included in consolidated earned surplus.

Intercompany sales and estimated intercompany profits have been eliminated in the preparation of the consolidated statement of income.

Consolidated net income includes net income of foreign subsidiaries aggregating \$264,468.21 which is \$26,383.10 in excess of dividends received from foreign subsidiaries during the year.

CONSOLIDATED STATEMENT OF PAID-IN SURPLUS

For the Fiscal Year Ended March 31, 1941

Premium received on sale of 3,850 shares common stock to officers and employees under options.....	\$15,400.00
Excess of cost of shares of subsidiaries, acquired in prior years, over equities in net worth at dates of acquisition	\$80,862.45
<i>Less</i> , amount charged to earned surplus.....	<u>65,462.45</u>
	<u><u>\$15,400.00</u></u>



LYBRAND, ROSS BROS. & MONTGOMERY
ACCOUNTANTS AND AUDITORS
CINCINNATI

*To the Board of Directors,
The Gruen Watch Company,
Cincinnati, Ohio.*

We have examined the consolidated balance sheet of The Gruen Watch Company and its subsidiary companies as at March 31, 1941, and the consolidated statements of income and surplus for the year then ended, except with respect to the statements of the Swiss subsidiary which were examined by other accountants whose report has been furnished us.

In connection with the examinations, the systems of internal control and the accounting procedures of the companies were reviewed and, without making detailed audits of the transactions, the accounting records of the companies and other supporting evidence were examined or tested by methods and to the extent deemed appropriate.

In our opinion, based upon such examinations and upon the report of other accountants furnished us, the accompanying consolidated balance sheet and related consolidated statements of income and surplus present fairly the consolidated position of The Gruen Watch Company and its subsidiary companies at March 31, 1941, and the consolidated 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.

LYBRAND, ROSS BROS. & MONTGOMERY

Cincinnati, Ohio, May 28, 1941



THE GRUEN WATCH COMPANY AND SUBSIDIARY COMPANIES
CONDENSED COMPARISON OF CONSOLIDATED FINANCIAL POSITION
at March 31, 1941 as Compared to March 31, 1936

	<i>March 31, 1941</i>	<i>March 31, 1936</i>	Increase Decrease
Total Current Assets.....	\$5,678,476.11	\$1,608,839.86	\$4,069,636.25
Total Current Liabilities.....	1,468,185.24	403,094.98	1,065,090.26
Net Current Assets.....	4,210,290.87	1,205,744.88	3,004,545.99
Term Loan From Bank.....	1,500,000.00		1,500,000.00
Net Current Assets in Excess of Term Loan from Bank.....	2,710,290.87	1,205,744.88	1,504,545.99
Land, Buildings and Equipment, at Cost.....	821,061.71	711,643.48	109,418.23
Allowance for Depreciation of Cost.....	*374,787.21	*261,891.56	*112,895.65
Appraisal Appreciation Included in Property Accounts		85,316.07	*85,316.07
Investments	6,532.68	113,022.42	*106,489.74
Other Assets	94,823.29	12,663.65	82,159.64
Net Assets of Companies Applicable to Debenture Holders and Shareholders	\$3,257,921.34	\$1,866,498.94	\$1,391,422.40
Registered Debentures Issued in Part Settlement of Liabilities to Banks.....		\$ 727,500.00	*\$ 727,500.00
Equities of Minority Shareholders in Subsidiaries		142,105.46	*142,105.46
		\$ 869,605.46	*\$ 869,605.46
Equities of Shareholders of The Gruen Watch Company.....	\$3,257,921.34	\$ 996,893.48	\$2,261,027.86
Capital Stock Issued in Settlement of Balance of Liabilities to Banks:			
Class A Preferred Stock.....		\$ 727,500.00	*\$ 727,500.00
Class B Preferred Stock.....		363,750.00	*\$ 363,750.00
		\$1,091,250.00	*\$1,091,250.00
Equity of Class C Preferred and Common Shareholders	\$3,257,921.34	*\$ 94,356.52	\$3,352,277.86
Represented by:			
Class C Preferred Stock.....	\$ 489,375.00	\$ 490,325.00	*\$ 950.00
Common Stock	426,298.25	114,995.00	311,303.25
Surplus or <i>Deficit</i> , as annexed.....	2,342,248.09	*600,599.46	2,942,847.55
Excess of Cost of Shares of Subsidiaries Over Equities in Net Worth at Acquisition		*99,077.06	99,077.06
Equity of Class C Preferred and Common Shareholders	\$3,257,921.34	*\$ 94,356.52	\$3,352,277.86

*Italics denote red figures



CONSOLIDATED STATEMENT OF EARNED SURPLUS

For the Five Year Period Ended March 31, 1941

Deficit April 1, 1936.....	\$ 600,599.46	
Net income for the five years ended March 31, 1941.....	3,595,484.81	
		<u>\$2,994,885.35</u>
Deductions:		
Additional charges for losses and expenses applicable to period prior to March 31, 1936.....	175,868.86	
		<u>\$2,819,016.49</u>
Other charges to adjust valuation of assets:		
Appraisal increases remaining in property ac- counts at March 31, 1940.....	\$ 80,775.18	
Excess of cost of shares of subsidiaries ac- quired in prior years over equities in net worth at dates of acquisition, less \$15,400 charged Paid-in Surplus	65,462.45	
Provision for losses on foreign exchange.....	12,694.79	
Excess of cost over par value of 67,118½ shares Common Stock held in treasury, less \$43,000 charged Paid-in Surplus.....	91,237.00	
		<u>250,169.42</u>
		<u>\$2,568,847.07</u>
Dividends Paid:		
Class A Preferred Stock.....	85,578.25	
Class B Preferred Stock.....	924.56	
Class C Preferred Stock.....	34,130.53	
Common Stock	105,965.64	
		<u>226,598.98</u>
Surplus Balance March 31, 1941.....	\$2,342,248.09	
		<u><u>\$2,342,248.09</u></u>









GRUEN
WATCHES





Skilled Hands for War Work

The skilled hands of Gruen craftsmen, trained in traditional standards of precise workmanship, are engaged in the manufacture of War instruments that meet vital needs of every branch of the armed forces.

Full speed in the production of these War instruments is the order of the day . . . to this end Gruen resources, plant facilities, and trained personnel are all pledged . . . and maximum cooperation in this War effort is considered a high privilege by Gruen.

Consistent with this full cooperation in War instrument production, Gruen will continue to manufacture only such quantities of watches as will not interfere with Gruen's aid to the government in the War program.

* * *

I want to assure you that such production as is possible, and is consistent with our War effort, will be supplied to each of our Gruen dealers on a fair and equitable proportionate basis.

President

THE GRUEN WATCH COMPANY, TIME HILL, CINCINNATI, OHIO, U. S. A.
IN CANADA: TORONTO, ONT.

**SELL GRUEN WATCHES
BUT SELL WAR BONDS FIRST**



Annual Report

THE GRUEN WATCH COMPANY

FISCAL YEAR ENDED MARCH 31, 1942



TIME HILL • CINCINNATI, OHIO



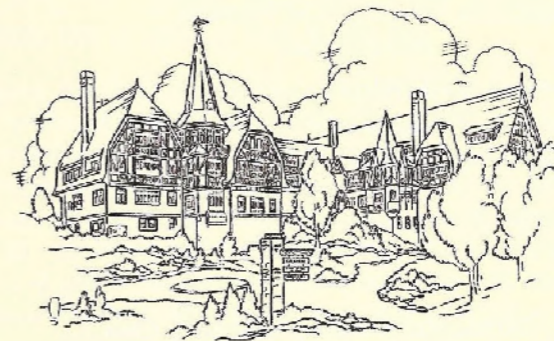
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All Gruen All the Time

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THE GRUEN WATCH COMPANY

TIME HILL • CINCINNATI, OHIO

1874-1942



EAST VIEW — THE GRUEN WATCH PLANT, TIME HILL, CINCINNATI, OHIO

THE GRUEN WATCH COMPANY

TIME HILL • CINCINNATI, OHIO

Sales Offices

CHICAGO	NEW YORK	LOS ANGELES
Pittsfield Building	International Building	Jewelry Trades Building
55 E. Washington Street	630 Fifth Avenue	220 W. Fifth Street

Directors

JOHN R. BULLOCK . . . *Attorney*
STERLING B. CRAMER . . . *First Vice-President, The Fifth Third Union Trust Co.*
E. W. EDWARDS . . . *Chairman of the Board, The Edwards Mfg. Co.*
FRED G. GRUEN . . .
GEO. J. GRUEN . . . *Chairman of the Board*
BENJAMIN S. KATZ . . . *President and Treasurer*
CLIFFORD R. WRIGHT . . . *Director, Union Central Life Insurance Co.*

Officers

GEO. J. GRUEN . . . *Chairman of the Board*
BENJAMIN S. KATZ . . . *President and Treasurer*
JOSEPH KANE . . . *Vice-President*
GEORGE T. GRUEN . . . *Secretary*
ALFRED T. REIS . . . *Comptroller*
THOMAS F. JEARY . . . *Auditor*

Counsel — Taft, Stettinius & Hollister, Cincinnati, Ohio
Transfer Agent — The Fifth Third Union Trust Co., Cincinnati, Ohio
Registrar — The Central Trust Co., Cincinnati, Ohio

PRESIDENT'S REPORT

TO THE SHAREHOLDERS OF THE GRUEN WATCH COMPANY:

On behalf of the Board of Directors, there is submitted herewith the annual report of your Company and subsidiaries for the fiscal year ended March 31, 1942. This report shows a consolidated net profit of \$899,415.02 after all charges and taxes, as compared with a consolidated net profit of \$903,401.73 for the year ended March 31, 1941. After allowing for dividends on the Preferred Stock, earnings this year on the 430,767-1/4 shares of outstanding Common Capital Stock amounted to \$2.04 a share, as compared to \$2.05 a share last year.

The net profit before Federal and foreign income and excess profits taxes for the fiscal year ended March 31, 1942, was the greatest in the history of the Company, amounting to \$1,775,305.27 showing an increase of \$422,580.15 or 31.24% over the year ended March 31, 1941. However, domestic and foreign income and excess profits taxes for the fiscal year just ended amounted to \$875,890.25 as compared to \$449,323.39 for the preceding fiscal year so that the net earnings after all taxes for the fiscal year just ended show a decrease of \$3,986.71 from the preceding year.

Included in this report is a Consolidated Balance Sheet as of March 31, 1942, and a Consolidated Statement of Income and Earned Surplus for the fiscal year ended March 31, 1942, as reported on by our auditors, Lybrand, Ross Bros. & Montgomery and approved by your Board of Directors.

The Notes and Accounts Receivable at March 31, 1942, amounted to \$2,958,626.93 as compared with \$3,310,234.65 at March 31, 1941, despite the fact that the sales for the fiscal year ended March 31, 1942, were considerably in excess of those for the previous year. Attention is also called to the reduction in Notes Payable to Swiss Banks, which at the end of this year amounted to \$71,115.24, as compared with \$489,199.46 at March 31, 1941. In addition to this reduction in its bank indebtedness of more than \$400,000 the Company anticipated the first payment of \$250,000 due against its term loan thereby reducing it to \$1,250,000.

During the past fiscal year the Company was faced with numerous and complex problems as the sphere of war expanded and as the United States became more involved therein, culminating on December 7, when we became direct participants. While these problems were of a type never before faced by the Company, they were insignificant as compared with the problems facing your Company at this present time. I am sure you agree with me that the first duty of your Company is to aid our country in every way that it possibly can in the war effort. At the same time, your directors and officers are fully cognizant of their duty to shareholders in preserving their investment.

In line with the practice of the past few years, I shall endeavor to present in detail the present situation of the Company, the results of the past year, and the



prospects of the future insofar as anyone can hazard a prediction as to what the future may hold for your Company.

GRUEN'S WAR EFFORTS

As earlier indicated, it is the belief of your directors and management that the first effort of the Company must be to assist in every way possible in the war effort. This of course is not only a patriotic duty, it is the exercise of the soundest business judgment. The Company has acted and will continue to act on this basic decision. To this end, for many months a considerable portion of the Company's advertising efforts has been directed to the furtherance of the sale of war savings bonds and stamps and the Company has received a citation from the Treasury Department for its efforts. Employees of the Company subscribed 100% to the purchase of war bonds, 60% gave blood for the Red Cross blood bank, and a number of our employees have entered active military service.

It has been the earnest desire of your Company to participate directly in the nation's war effort and for the past year a great portion of the time of the executives of your Company has been expended in discussions with officials of the Office of Production Management, the War Production Board, and other Governmental Agencies, and with holders of prime governmental contracts with the view of utilizing machinery and employees' skill in direct manufacture of war instruments. On April 15, 1942, the Company entered into a contract for the manufacture of a large quantity of precision instruments that are used in every branch of the armed service. Gruen engineers are devoting every effort humanly possible to complete the tools and dies necessary for the manufacture of these instruments and it is the sincere hope of the management that these instruments will be in production by early August.

MANUFACTURE AND SALE OF WATCHES DURING THE WAR

It is the belief of your directors and management that the manufacture and sale of watches is not a minor part in the war effort. Gruen watches are sold to and treasured not only by men in every branch of the armed services, but also by doctors and nurses, as well as defense workers and civilians. As you know from the statements and speeches of responsible governmental officials, production of commodities for civilian use and consumption will be cut drastically. Watches, as such, are not of prime necessity for the preservation of life such as food or clothes, but obviously they are far more essential for civilian use, than numerous non-essential items. To what extent the manufacture and sale of watches will be permitted will be decided by governmental authorities, and may be based upon a number of factors that develop in the future. I shall discuss the situation briefly under the following headings of Manufacture and Importation of Movements, Manufacture of Cases, and the Sales Situation.

MANUFACTURE AND IMPORTATION OF MOVEMENTS

In my letter of last year I pointed out that during the World War of 1914 your Company was successful in continuing importation of movements and movement parts

from its factory at Switzerland with little interruption. While I expressed the hope that the same situation would continue to prevail in the future, I pointed out that no one could give any definite assurances as to this.

You of course will understand that movements must be exported through controls of several nations now at war. Switzerland, as a neutral, has been able to accomplish this thus far and all of us hope that this situation will continue in the future. There is, however, no assurance that all shipments leaving Switzerland will reach Cincinnati despite the fact that since the beginning of the war only one of our shipments, of approximately 20,000 movements has been lost, that occurring when a Portuguese boat was sunk last September. However, the merchandise so lost was covered by insurance.

MANUFACTURE OF WATCH CASES

Due to the shortage of all of the critical materials that go into the alloying of gold and other metals used in the manufacture of gold filled and other metal watch cases which represent more than 90% of the present watch sales, it is entirely possible that watch cases during the present emergency will have to be manufactured entirely of gold or sterling silver or a combination of both, or possibly from some other material that is not now being used. This question is now receiving the most serious study of the industry generally, the Government agencies directly concerned with this question and your officials.

Because the amount of critical materials used by this Company in its manufacturing is negligible and in view of the fact that all of the Company's equipment and personnel is not of such nature that it can devote its entire facilities to the manufacture of war instruments, it is the sincere hope of the management that the Company may be permitted to continue its manufacturing program at least on some curtailed basis in order to enable it to continue the manufacture of instruments of war in both an efficient and economical manner.

THE SALES SITUATION

The management sincerely regrets that it was impossible to meet the demand for its product by both consumers and Gruen jewelers in the past year during which time it was unable to fill some millions of dollars of orders without seriously reducing its reserve inventory. While a shortage of watches prevailed in the industry generally, it is my sincere belief that the unprecedented demand for Gruen watches was primarily due to the reputation of your Company for producing fine watches for almost seventy years and its consistent and effective national advertising program.

In the past few months certain restrictions on consumer credit purchases have been placed in effect. While it is our belief that these restrictions will not prevent the sale of all the Gruen watches that can be produced under the present conditions, it is, however, too early to tell the effect of these restrictions on our jewelers.



Difficult as it is, I will try to cover in this letter the possibility of future profits and dividends.

I do not believe that it is possible for your Company to show the profits next year that were shown during the past two years. This situation prevails, I assume, in most companies today. Earlier I spoke of the tremendous increase in taxes during the fiscal year just ended. Perhaps even more graphic than a discussion of the increase in dollars, which of course depends in part on volume, is a consideration of the question from a percentage point of view. For the fiscal year just ended, 49.3% of the net earnings of your Company are payable for Federal and foreign income and excess profits taxes. For the fiscal year ended March 31, 1941, the percentage was 33.2%, and for the fiscal year ended March 31, 1937, this percentage was only 17.4%. I think there can be little question that the rates for the fiscal year ending March 31, 1943, will be a great deal higher.

Increased taxes, increased raw material costs and war risk insurance are only a few of the factors which tend to reduce earnings. Labor costs generally have risen and probably will continue to rise unless there is a general freezing of wages. Due to the present chaotic conditions and the fact that our movement plant is located in Switzerland, it is necessary for your Company to maintain an unusually large inventory with the additional expense involved therein.

As mentioned above, the shortage of certain metals and materials may require the Company in the future to expand to a large extent the use of other metals and materials which to some degree took place during the past year and the cost of manufacture may be further increased. Despite any increase in costs of manufacture, the present price freezing order of course prohibits us from increasing any of our prices. Under the present conditions it seems certain that the volume of business in watches will decrease and as I have earlier pointed out there is some possibility that if the war continues long enough this volume may be diminished to a negligible amount.

Against this most discouraging point of view is, of course, the fact that your Company is getting into war production. If and as we expand our war production, I am hopeful that we may show a small profit thereon, although if we are required to entirely discontinue the manufacture and sale of watches, I do not believe that profits of any consequence would be shown. This is not only because the margin of profit on instruments of war is small of necessity, and as it should be, but also because your Company is not equipped to undertake a tremendous volume of war business. However, I am hoping that the situation will not develop to this point at least for some time and that we will be permitted to manufacture and sell some watches and to earn some profits at least for the next year or so. If the war continues for a considerable period of time and if it is intensified to the extent of the stoppage of manufacture of everything but those things absolutely vital for the war effort or preservation of civilian life, it would of course be impossible for anyone to attempt to prophesy what might then take place.

In regard to future dividends, I think it will be clear to all of you that this question must be decided by future events. Your directors and officers are primarily concerned with the protection of your investment. In order to build up an adequate amount of working capital, the dividend policy of the Company heretofore has been conservative. As a result of this policy and should future earnings not show too great a decline, we hope to continue to pay some dividends on the Common Stock as well as the regular dividends on the Preferred Stock.

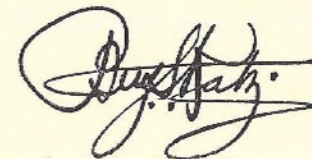
CONCLUSION

In conclusion, I want to express my very deepest appreciation of the efforts of all directors, officers and employees of both the parent company and its subsidiaries. My seven years of working with our employees since the reorganization gives me every confidence in their loyalty to the Company and their ability to adjust themselves to meet the problems facing us today and those that will certainly arise during the months ahead. The credit for the success of your Company during the years since its reorganization in 1935 is due to each and every one of these employees, and I am sure that you as shareholders are as appreciative of their efforts as I, who am in closer contact with their daily work.

The more than five thousand dealers scattered throughout this country continue to be Gruen's fine friends and constitute one of our greatest assets. We have had to disappoint many of them due to our inability to fill all of their orders, but we have assured them that in the future, as in the past, we shall continue to supply them with all the Gruen watches possible on a fair, proportionate basis. I therefore look forward to a continuation of their friendship and loyalty to Gruen.

I again want to express to the shareholders of the Company my sincere appreciation of their cooperation and understanding of the problems facing the Company.

Sincerely yours,



President

Time Hill, Cincinnati, U. S. A.
June 3, 1942



THE GRUEN WATCH COMPANY
CONSOLIDATED BALANCE

ASSETS:

Cash on hand and demand deposits.....	\$ 523,255.97
\$100,000 United States Savings Bonds, Series G, at cost.....	100,000.00
Notes and accounts receivable, trade, less allowance for doubtful notes and accounts..	2,958,626.93
Inventories, at the lower of cost or market (Note 2).....	2,426,396.32
<i>Total current assets</i>	6,008,279.22
Cash surrender value of insurance aggregating \$876,700 on lives of officers and director (Note 3).....	45,924.96
Other notes and accounts receivable, less allowance for doubtful notes.....	6,988.70
Sundry investments, at cost or nominal values.....	15,219.39
Land, buildings and equipment, at cost.....	\$839,524.44
<i>Less, allowance for depreciation</i>	407,494.00
	432,030.44
Prepaid expenses and deferred charges.....	61,941.36
Patents, trade-marks, copyrights, and goodwill.....	1.00
	\$6,570,385.07

The accompanying notes Nos. 1 to 4 are

AND SUBSIDIARY COMPANIES
SHEET, MARCH 31, 1942

LIABILITIES:

Notes payable, Swiss bank.....	\$ 71,115.24
Accounts payable	242,634.50
Accrued expenses	262,294.37
Dividends payable	59,397.55
Provision for domestic and foreign taxes on income (Note 4).....	892,560.21
<i>Total current liabilities</i>	1,528,001.87
Notes payable, bank, \$250,000 due annually beginning May 27, 1943 (Note 3).....	1,250,000.00

CAPITAL:

Capital stock:	
Preferred stock, 5 per cent cumulative, \$25.00 par value; entitled to \$26.00 per share plus accrued dividends upon voluntary liquidation or redemption; authorized 20,000 shares, 18,459 shares issued, less 425 shares in treasury, outstanding 18,034 shares	\$ 450,850.00
Common stock, \$1.00 par value; 650,000 shares authorized, 505,337 ³ / ₄ shares issued, less 74,570 ¹ / ₂ shares in treasury, outstanding 430,767 ¹ / ₄ shares.....	430,767.25
Earned surplus, as annexed (Notes 1 and 4).....	2,910,765.95
	3,792,383.20
	\$6,570,385.07

an integral part of this balance sheet.



NOTES TO CONSOLIDATED BALANCE SHEET

Note 1—The consolidated balance sheet includes assets of Gruen Watch Manufacturing Company of Switzerland aggregating \$344,958.32 (exclusive of intercompany receivables aggregating \$550,284.08) of which current assets are \$202,153.16, and liabilities of \$332,751.92.

The consolidated balance sheet also includes net assets of Gruen Watch Company of Canada, Ltd., aggregating \$212,235.52 of which net current assets are \$210,774.73.

Current assets and liabilities of the Canadian company have been converted into dollars at the Federal Reserve rates prevailing at March 31, 1942. In the absence of such rates current assets and liabilities of the Swiss company have been converted at currently quoted buying rates at March 31, 1942.

Non-current assets have been converted, substantially, at rates of exchange prevailing when acquired.

The effect of the war on the companies is discussed in the President's report and reference is made thereto.

Note 2—The estimated amounts of intercompany profits in inventory items purchased from companies whose accounts are consolidated have been eliminated in the preparation of the consolidated balance sheet.

Note 3—Insurance policies on the life of Benjamin S. Katz, President, aggregating \$750,000 have been assigned as collateral to notes payable, bank, aggregating \$1,250,000.

At the option of the bank the notes may become due and payable on demand if Switzerland becomes involved in war or if for any other reason the supply of movements is seriously curtailed for a period of four months, or in the event of the retirement of Benjamin S. Katz as an executive of the company.

Note 4—It is estimated (based on present laws) that additional foreign taxes on transfers to the parent company of accumulated surplus of foreign subsidiaries will approximate \$42,500 and that Federal excess profits taxes may be payable on such transfers. The amounts, if any, of such United States taxes are not presently determinable.

NOTES TO CONSOLIDATED STATEMENT OF INCOME AND EARNED SURPLUS

Notes 1 and 4 to Consolidated Balance Sheet, March 31, 1942, are incorporated herein by reference.

The provisions for depreciation included in the consolidated statement of income amount to \$36,625.24.

Income accounts of foreign subsidiary companies have been converted substantially at the average monthly rates of exchange prevailing during the fiscal year ended March 31, 1942. The unrealized profit of \$2,636.55 arising from changes in conversion value of net current assets of foreign subsidiaries is included in consolidated earned surplus.

Intercompany sales and estimated intercompany profits have been eliminated in the preparation of the consolidated statement of income.

Consolidated net income includes net income of foreign subsidiaries aggregating \$247,387.44 which is \$11,397.07 less than dividends received from foreign subsidiaries during the year.

CONSOLIDATED STATEMENT OF INCOME AND EARNED SURPLUS

for the fiscal year ended March 31, 1942

Gross profit from sales.....		\$3,701,267.50
Selling, administrative and general expenses.....		1,906,915.71
<i>Profit before other income and expenses and income taxes.....</i>		<u>\$1,794,351.79</u>
Other income	125,234.88	
		<u>\$1,919,586.67</u>
Interest and other expenses.....	144,281.40	
		<u>\$1,775,305.27</u>
Provision for domestic and foreign income taxes (including Federal excess profits taxes \$401,400.00).....	875,890.25	
<i>Net income</i>	<u>899,415.02</u>	
Surplus, April 1, 1941.....	2,342,248.09	
		<u>\$3,241,663.11</u>
Add, partial recovery of unrealized losses on foreign exchange, charged to earned surplus in a prior year.....	2,636.55	
		<u>\$3,244,299.66</u>
Deduct:		
Par value of 9,229½ shares common stock issued to holders of Class C, 6 per cent cumulative, preferred stock, less 212½ shares held in treasury..\$	9,017.00	
Excess of cost over par value of 4,548 shares common stock purchased and held in treasury.....	18,192.00	
Excess of amounts paid over par value of 1,541 shares Class C, 6 per cent cumulative preferred stock acquired and retired.....	12,507.00	39,716.00
		<u>\$3,204,583.66</u>
Dividends, cash:		
Preferred stock to March 31, 1942.....	23,161.24	
Common stock, 62½¢ per share.....	270,656.47	293,817.71
		<u>\$2,910,765.95</u>

The accompanying notes are an integral part of this statement

LYBRAND, ROSS BROS. & MONTGOMERY
Accountants and Auditors
CINCINNATI

*To the Board of Directors,
The Gruen Watch Company,
Cincinnati, Ohio.*

We have examined the consolidated balance sheet of The Gruen Watch Company and its subsidiary companies as at March 31, 1942, and the consolidated statements of income and surplus for the year then ended, except with respect to the statements of the Swiss subsidiary which were examined by other accountants whose report has been furnished us.

In connection with the examinations, the systems of internal control and the accounting procedures of the companies were reviewed and, without making detailed audits of the transactions, the accounting records of the companies and other supporting evidence were examined or tested by methods and to the extent deemed appropriate. The examinations were made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures considered necessary.

In our opinion, based upon such examinations and upon the report of other accountants furnished us, the accompanying consolidated balance sheet and related consolidated statements of income and surplus present fairly the consolidated position of The Gruen Watch Company and its subsidiary companies at March 31, 1942, and the consolidated 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.

LYBRAND, ROSS BROS. & MONTGOMERY

Cincinnati, Ohio, May 28, 1942.





ANNUAL REPORT



THE GRUEN WATCH COMPANY

FISCAL YEAR ENDED MARCH 31, 1943



TIME HILL
CINCINNATI, OHIO





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THE GRUEN WATCH COMPANY

TIME HILL • CINCINNATI, OHIO



THE GRUEN WATCH COMPANY

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Sales Offices

CHICAGO
Pittsfield Building
55 E. Washington Street

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BENJAMIN S. KATZ . . . *President and Treasurer*
CLIFFORD R. WRIGHT . . . *Chairman of the Investment Committee,
Union Central Life Insurance Co.*

Officers

GEO. J. GRUEN . . . *Chairman of the Board*
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JOSEPH KANE . . . *Vice President*
GEORGE T. GRUEN . . . *Secretary*
ALFRED T. REIS . . . *Comptroller*
THOMAS F. JEARY . . . *Auditor*

Counsel—Taft, Stettinius & Hollister, Cincinnati, Ohio

Transfer Agent—The Fifth Third Union Trust Co., Cincinnati, Ohio

Registrar—The Central Trust Co., Cincinnati, Ohio



PRESIDENT'S REPORT

TO THE SHAREHOLDERS OF THE GRUEN WATCH COMPANY:

On behalf of the Board of Directors, I am happy to present herewith the annual report of your Company and its subsidiaries for the fiscal year ended March 31, 1943. This report shows consolidated net profits of \$908,078.79 after all charges and taxes, as compared with consolidated net profits of \$899,415.02 for the year ended March 31, 1942. After allowing for dividends on the preferred stock, earnings this year were equal to \$2.30 a share on the 384,256 $\frac{1}{4}$ shares of common stock outstanding at March 31, 1943, exclusive of treasury shares, as compared with earnings of \$2.04 a share for the fiscal year ended March 31, 1942 on the 430,767 $\frac{1}{4}$ shares of common stock then outstanding. You will recall that last March the Board of Directors, with the overwhelming approval of shareholders, consummated the purchase of 46,511 shares of common stock at a net price of \$5.10 a share.

While I stated in last year's report that I did not believe it was possible for the Company to show as great a profit for the year just ended, as it did in previous years, the increase in operating profit for the year just ended was made possible despite increased material and labor costs and despite no increase in its selling prices because it manufactured and sold a greater percentage of higher priced watches.

In accordance with the usual practice, the report here submitted includes a consolidated balance sheet as of March 31, 1943 and a consolidated statement of income and earned surplus for the fiscal year ended March 31, 1943, as certified to by our auditors, Messrs. Lybrand, Ross Bros. & Montgomery, and approved by the Board of Directors.

Due both to the tremendous amount of money now being earned by the consuming public and to the governmental regulation calling for a minimum down payment of one-third on installment purchases in the jewelry industry, most of our customers paid cash for the merchandise shipped to them instead of issuing notes to us as heretofore. The Notes and Accounts Receivable at March 31, 1943 were the lowest in the past five years, amounting to \$736,450.37 as compared with \$2,958,626.93 at March 31, 1942. The Companies' cash balances and government obligations on hand amount to \$2,500,916.56 at March 31, 1943 as compared with cash balances and government obligations of \$623,255.97 at March 31, 1942. In addition to building up these large cash balances, the Company was also able to anticipate on September 10, 1942 the payment of \$250,000 which was due on May 27, 1943, thereby reducing its term bank loan to \$1,000,000.

In my two previous annual letters, and especially my letter of last year, I commented at some length on the uncertainties facing the Company in these war years. No one can predict, with any degree of certainty, future developments. However, the accomplishments during the past year under the difficulties encountered encourage us to look forward with confidence to the immediate future as well as the post-war period. As to the immediate future, I have reasonable hope that we will be able to continue to manufacture and sell watches, at least on a curtailed basis, as well as to manufacture all of the instruments of war within



the limits of our facilities. The post-war period should find Gruen's trade and consumer relations in excellent shape for your Company has, in its post-war policy planning, always kept in mind the utmost necessity of maintaining both its dealer and consumer relations through constant cooperation and promotion.

INCREASING TAXES

Obviously, this expensive war must be paid for out of taxes if we are to avoid repudiation or wild inflation. It is reasonable therefore that we will have a continuation of high taxes during the war and possibly for some time thereafter. With increased taxes, net profits have decreased greatly in comparison with operating earnings. The effect of these increased taxes is graphically illustrated in the following table showing net earnings before and after taxes for the five years ending March 31, 1943:

Year Ended	Profit Before Taxes	Provision for Domestic and Foreign Income Taxes		Net Profit
		Amount	%	
Mar. 31, 1939	\$ 662,624.42	\$ 121,955.19	18	\$540,669.23
Mar. 31, 1940	1,033,072.37	287,804.50	28	745,267.87
Mar. 31, 1941	1,352,725.12	449,323.39	33	903,401.73
Mar. 31, 1942	1,775,305.27	875,890.25	49	899,415.02
Mar. 31, 1943	2,076,366.86	1,168,288.07	56	908,078.79

Of the \$1,168,288.07 Provision for Domestic and Foreign Income Taxes for the year ended March 31, 1943, a total of \$1,063,091.89, or 91% was for Domestic Taxes, and of this amount the Federal Excess Profits Taxes were \$816,110.33, less credits for debt retirement and post-war refund totaling \$81,611.04.

GRUEN'S DIRECT WAR EFFORT

You were advised last year that the Company had undertaken the manufacture of electrical measuring instruments which are used by every branch of the armed forces. I think all of us can take pride in the fact that with our limited facilities for the manufacture of a product of this type, we were able to manufacture these instruments so urgently needed by both the armed forces of our nation and those of our Allies. In addition to making in our own plant, all the tools and dies required for these instruments, our engineers designed and had built a new type of electrical hardening furnace which has been of assistance in speeding up the hardening of magnets used in such instruments. In addition to manufacturing complete instruments, we are also using this electrical hardening furnace to produce some parts for other instrument manufacturers.

While a very large percentage of your Company's employees at the Time Hill plant, Cincinnati, Ohio, is now engaged in the manufacture of these instruments of war, the operation of the Instrument Division produced only a small portion of the gross income and the net results were on practically a break-even basis.

Nevertheless, I am sure that you are as pleased as I am with the fine contribution that our Company has made to the war effort in converting so much of



our facilities and so many of our employees to the manufacture of these imperatively needed instruments of war. Our Company is especially well represented in the United States armed forces by having approximately one-third of its male personnel in the Army, Navy and Marines.

In addition, Gruen was privileged to fly the first ten percent flag in the United States authorized by the Treasury Department as recognition for participation in the payroll allotment plan to the extent of ten percent of total wages and salaries for the purchase of War Bonds.

MANUFACTURE AND SALE OF WATCHES DURING WAR

Last year I stated that your Directors and management felt that the manufacture and sale of watches was not a minor part in the national war effort. We have not changed our belief. Gruen Watches continue to be given to, purchased and relied on by Soldiers, Sailors, Marines, Air Forces, Waves, Waacs, Spars and members of other branches of the armed services. Increasing numbers of doctors, nurses and war workers are also relying on Gruen Watches.

Your Company has been particularly helpful in supplying the present urgent need for watches without using for movements the critical materials so vitally needed in this war effort, because our movements are manufactured in Switzerland by our wholly-owned Swiss subsidiary. While we have been forced to curtail to some extent our production due to the shortage of critical materials, we have been fortunate in being able to manufacture a sufficient quantity of watches to enable us to supply at least part of the tremendous demand of our customers.

Shipments of movements from Switzerland are now being made exclusively on Swiss boats. I am glad to report that not a shipment was lost at sea in the past year.

I feel sure all of you join with me in appreciation of the fine work that has been done, and is being done, in Switzerland by Mr. Henri Thiebaud, our Director General, and his staff under most trying conditions, by continuing to manufacture the large quantities of movements that they do without any sacrifice of the fine quality for which this Company enjoys a world-wide reputation.

MANUFACTURE OF GRUEN WATCH CASES

The Gruen National Watch Case Company, despite all the critical material and labor shortages facing it last year, and with absolute insistence by the parent company that first precedence be given to the manufacture of tools and parts for electrical measuring instruments, manufactured for the parent company a sufficient number of cases which, with the cases purchased from independent case company manufacturers, were sufficient for such movements as could be manufactured.

At the beginning of the fiscal year just ended, the Case Company was fortunate in having on hand a fair supply of partly fabricated alloyed materials customarily used in the manufacture of gold and gold filled watch cases which the government permitted it to complete. However, this material is practically exhausted and the Case Company is now manufacturing its cases from a new pre-



cious metal alloy with the permission of the Government, which permission it is hoped will be continued because of the small amount of material required in the manufacture of cases.

THE DEMAND FOR GRUEN WATCHES

While the demand for Gruen Watches in the past year by both consumers and Gruen jewelers, exceeded the supply by many times, your Company faced a problem of considerable difficulty.

Because of a sincere desire to retain and further cement the good will of its more than 5,000 jewelers, your Company in the fall of 1941 adopted a policy of fair and equal distribution of such watches as it could manufacture and ship without interfering with its war effort, to all of its customers on a quota basis in accordance with each customer's previous purchases. That your Company has been successful in doing this is evidenced by the thousands of letters, telegrams and telephone calls from many customers expressing their appreciation of the fair treatment that the Company has given each and every customer regardless of size. This fair and equitable policy of equal distribution has also received recognition and praise from many of the leaders in the industry.

GRUEN QUALITY

Regardless of the pressure being brought to bear on our Company for the manufacture and delivery of the greatest number of watches possible, we intend to continue our policy of manufacturing only such watches as come up to the high standard of quality for which the Company enjoys such an enviable reputation.

As a further indication of the acceptance of Gruen Watches by both consumers and the industry, we are particularly proud that PAN-AMERICAN AIRWAYS, by far the largest air line in the world, has recently designated Gruen as its official watch.

GRUEN WATCH ADVERTISING

Despite the tremendous demand for Gruen Watches referred to several times in this report, your Company is continuing its intensive advertising campaign in the sincere belief that it must do so in order to protect the millions of dollars that it has invested in the name Gruen. The advertising campaign conducted in the past two years has been largely along institutional lines. During these two years, however, the Company has devoted a great part of its magazine and radio advertising to its war effort and to aid the Government in the sale of War Bonds. Your Company has been publicly recognized by the Treasury Department for these advertisements. Our slogan "BUY A GRUEN WATCH BUT BUY A WAR BOND FIRST" has been cited by the Treasury Department as an outstanding slogan in the War Bond Drives.

Public reaction to Gruen advertising, dealing with your Company's war effort, has been splendid. Many complimentary letters, quite a few from service men, were received. Two of the advertisements in our 1942 fall campaign brought



an especially pleasing response,—our annual Christmas advertisement titled "Tonight I leaned across 10,000 miles and kissed you" appearing in Life, Esquire, and The American Weekly reached more than twenty-eight million readers. A number of requests for copies came from men and women in all walks of life throughout the United States as well as from members of the armed forces both here and abroad. Its theme served as the inspiration for several songs and poems. Our advertisement titled "The life-saver that was waiting in Honolulu Dec. 7, 1941" describing the Berman locator, appeared in Life and Fortune last fall and was read by more people than any other war ad appearing in Life Magazine during 1942, according to a survey of the L. M. Clark Readership Reports. Both of these ads are reproduced on the back page of this report.

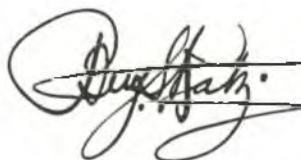
A jury of Art Directors deemed the illustrations in all of Gruen's 1942 advertisements depicting our war efforts to be of such high professional appeal that they were selected for the annual exhibit of the best advertising illustrations of 1942.

CONCLUSION

It is with a great deal of pleasure that I express once more my deepest appreciation to our more than five thousand loyal jewelers, scattered throughout this country and Canada, who are Gruen's greatest friends and constitute its greatest asset, for their patience and understanding and assure them that our Company will continue to deliver every watch possible that does not interfere with the Company's war effort.

I also want to express my sincere appreciation for the loyalty and efforts under the most trying conditions, of all Directors, Officers and employees of both the parent company and its subsidiaries which have made possible the completion of the most successful year in the history of your Company. I am certain that you, as shareholders, are as appreciative of their efforts as I am.

Sincerely yours,



President

*Time Hill, Cincinnati, Ohio
June 7, 1943*



THE GRUEN WATCH COMPANY

CONSOLIDATED BALANCE

ASSETS:

Cash on hand and demand deposits.....	\$1,750,916.56
United States Government Obligations, at cost:	
\$250,000 Savings Bonds, Series G.....	\$250,000.00
\$500,000 Tax Anticipation Notes, Series C.....	500,000.00
	750,000.00
Notes and accounts receivable, trade, less allowance for doubtful notes and accounts.....	736,450.37
Inventories, at the lower of cost or market (Note 2).....	3,024,943.24
	6,262,310.17
<i>Total current assets</i>	
Cash surrender value of insurance aggregating \$876,700 on lives of offi- cers and director (Note 3).....	69,798.34
Other notes and accounts receivable, less allowance for doubtful notes..	12,795.01
Sundry investments, at cost or nominal values.....	15,557.68
Post-war refunds of excess profits taxes.....	4,678.85
Land, buildings and equipment, at cost.....	892,817.57
<i>Less, allowance for depreciation</i>	448,079.11
	444,738.46
Prepaid expenses and deferred charges.....	94,786.12
Patents, trade-marks, copyrights, and goodwill.....	1.00
	\$6,904,665.63

The accompanying notes Nos. 1 to 4 are



AND SUBSIDIARY COMPANIES

SHEET, MARCH 31, 1943

LIABILITIES:

Accounts payable.....	\$ 303,297.38
Accrued expenses.....	327,701.22
Dividends payable.....	5,636.90
Provision for domestic and foreign taxes on income (Note 4).....	1,209,999.01

Total current liabilities..... 1,846,634.51

Notes payable, bank, (\$250,000 due annually beginning May 27, 1944) (Note 3).....	1,000,000.00
---	--------------

CAPITAL:

Capital stock:

Preferred stock, 5 per cent cumulative, \$25.00 par value;
entitled to \$26.00 per share plus accrued dividends
upon voluntary liquidation or redemption; author-
ized 20,000 shares, 18,459 shares issued, less 425
shares in treasury, outstanding 18,034 shares... \$ 450,850.00

Common stock, \$1.00 par value; 650,000 shares author-
ized, 505,337 $\frac{3}{4}$ shares issued, less 121,081 $\frac{1}{2}$
shares in treasury, outstanding 384,256 $\frac{1}{4}$ shares. 384,256.25

Earned surplus, as annexed (Notes 1 and 4)..... 3,222,924.87

4,058,031.12

\$6,904,665.63

an integral part of this balance sheet.



NOTES TO CONSOLIDATED BALANCE SHEET

Note 1—The consolidated balance sheet includes assets of Gruen Watch Manufacturing Company of Switzerland aggregating \$341,857.62 (exclusive of intercompany receivables aggregating \$703,239.54) of which current assets are \$207,090.18, and liabilities of \$246,060.48.

The consolidated balance sheet also includes net assets of Gruen Watch Company of Canada, Ltd. aggregating \$250,020.88 of which net current assets are \$238,842.10.

Current assets and liabilities of the Canadian company have been converted into dollars at the Federal Reserve rates prevailing at March 31, 1943. In the absence of such rates, current assets and liabilities of the Swiss company have been converted at currently quoted buying rates at March 31, 1943.

Non-current assets have been converted, substantially at rates of exchange prevailing when acquired.

The effect of the war on the companies is discussed in the President's report and reference is made thereto.

Note 2—The estimated amounts of intercompany profits in inventory items purchased from companies whose accounts are consolidated have been eliminated in the preparation of the consolidated balance sheet.

Note 3—Insurance policies on the life of Benjamin S. Katz, President, aggregating \$750,000 have been assigned as collateral to notes payable, bank, aggregating \$1,000,000.

At the option of the bank the notes may become due and payable on demand if Switzerland becomes involved in war or if for any other reason the supply of movements is seriously curtailed for a period of four months, or in the event of the retirement of Benjamin S. Katz as an executive of the company.

Note 4—It is estimated (based on present laws) that additional foreign taxes on transfers to the parent company of accumulated surplus of foreign subsidiaries will approximate \$71,000 and that Federal excess profits taxes may be payable on such transfers. The amounts, if any, of such United States taxes are not presently determinable.

NOTES TO CONSOLIDATED STATEMENT OF INCOME AND EARNED SURPLUS

Notes 1 and 4 to Consolidated Balance Sheet, March 31, 1943 are incorporated herein by reference.

The provisions for depreciation included in the consolidated statement of income amount to \$44,079.55.

Income accounts of foreign subsidiary companies have been converted substantially at the average monthly rates of exchange prevailing during the year ended March 31, 1943. The unrealized profit of \$8,812.94 arising from changes in conversion value of net current assets of foreign subsidiaries is included in consolidated earned surplus.

Intercompany sales and estimated intercompany profits have been eliminated in the preparation of the consolidated statement of income.

Consolidated net income includes net income of foreign subsidiaries aggregating \$244,473.53. No dividends were received from foreign subsidiaries during the year.



CONSOLIDATED STATEMENT OF INCOME AND EARNED SURPLUS

for the year ended March 31, 1943

Gross profit from sales	\$3,779,292.12
Selling, administrative and general expenses	<u>1,649,083.89</u>
<i>Profit before other income and expenses and income taxes</i>	2,130,208.23
Other income	<u>104,398.59</u>
	2,234,606.82
Interest and other expenses	<u>158,239.96</u>
	2,076,366.86
Provision for domestic and foreign income taxes (including Federal excess profits taxes \$816,110.33 less credit for debt retirement \$76,932.19 and post-war refund \$4,678.85)	<u>1,168,288.07</u>
<i>Net income</i>	908,078.79
Surplus, April 1, 1942	<u>2,910,765.95</u>
	3,818,844.74
Add, partial recovery of unrealized losses on foreign exchange charged to earned surplus in a prior year	<u>8,812.94</u>
	3,827,657.68
Deduct, excess of cost over par value of 46,511 shares common stock purchased and held in treasury	<u>209,299.50</u>
	3,618,358.18
Dividends, cash:	
Preferred stock to March 31, 1943	\$ 22,547.62
Common stock, 92½¢ per share	<u>372,885.69</u>
	395,433.31
Surplus, March 31, 1943	<u>\$3,222,924.87</u>

The accompanying notes are an integral part of this statement.



LYBRAND, ROSS BROS. & MONTGOMERY
Certified Public Accountants
CINCINNATI

*To the Board of Directors,
The Gruen Watch Company,
Cincinnati, Ohio.*

We have examined the consolidated balance sheet of The Gruen Watch Company and its subsidiary companies as at March 31, 1943, and the consolidated statements of income and surplus for the year then ended. Except with respect to the Swiss subsidiary, we have reviewed the systems of internal control and the accounting procedures of the companies and, without making detailed audits of the transactions, have examined or tested accounting records of the companies and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures considered necessary. We have received the report of other accountants who examined the financial statements of the Swiss subsidiary.

In our opinion, based upon such examination and upon such report of other accountants, the accompanying consolidated balance sheet and related consolidated statements of income and surplus present fairly the consolidated position of The Gruen Watch Company and its subsidiary companies at March 31, 1943, and the consolidated 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.

LYBRAND, ROSS BROS. & MONTGOMERY.

Cincinnati, Ohio, June 1, 1943





The advertisement reproduced to the right appeared in Life and Fortune, reaching more than nine million readers. It was read by more people than any other war advertisement appearing in Life Magazine during 1942, according to a survey of the L. M. Clark Readership Reports.



The Life Saver that was waiting in Honolulu, Dec. 7, 1941!

ALL A GOOD WATCH... ALL THE WAY... ALL THE TIME!

GRUEN
THE PRECISION WATCH.

"Tonight I leaned across 10,000 miles and kissed you!"

GRUEN
THE PRECISION WATCH.



The advertisement reproduced to the left appeared in Life, Esquire, and The American Weekly, reaching more than twenty-eight million readers. Requests for reprints of this advertisement came from men and women in all walks of life throughout the United States, as well as from members of the armed forces both here and abroad.



Annual Report

THE GRUEN WATCH COMPANY

FISCAL YEAR ENDED MARCH 31, 1944

Time Hill



Cincinnati, Ohio



THE
GRUEN WATCH
COMPANY
TIME HILL
CINCINNATI, OHIO



EAST VIEW
THE GRUEN WATCH PLANT
TIME HILL - CINCINNATI, OHIO



THE GRUEN WATCH COMPANY

TIME HILL • CINCINNATI, OHIO

Sales Offices

CHICAGO
Pittsfield Building
55 E. Washington Street

NEW YORK
International Building
630 Fifth Avenue

LOS ANGELES
Jewelry Trades Building
220 W. Fifth Street

Directors

JOHN R. BULLOCK *Attorney*
STERLING B. CRAMER *First Vice-President, The Fifth Third Union Trust Co.*
E. W. EDWARDS *Chairman of the Board, The Edwards Mfg. Co.*
FRED G. GRUEN
GEO. J. GRUEN *Chairman of the Board*
BENJAMIN S. KATZ *President and Treasurer*
CLIFFORD R. WRIGHT *Chairman of the Investment Committee,
Union Central Life Insurance Co.*

Officers

GEO. J. GRUEN *Chairman of the Board*
BENJAMIN S. KATZ *President and Treasurer*
SIMON C. GERSHEY *Vice President*
ERNEST A. TUPPER *Vice President*
GEORGE T. GRUEN *Secretary*
ALFRED T. REIS *Comptroller*
THOMAS F. JEARY *Auditor*

Counsel—Taft, Stettinius & Hollister, Cincinnati, Ohio

Transfer Agent—The Fifth Third Union Trust Co., Cincinnati, Ohio

Registrar—The Central Trust Co., Cincinnati, Ohio



PRESIDENT'S REPORT

TO THE SHAREHOLDERS OF THE GRUEN WATCH COMPANY:

On behalf of the Board of Directors, I present herewith the annual report of your Company and its subsidiaries for the fiscal year ended March 31, 1944. This report shows consolidated net profits of \$2,530,243.93 before taxes and \$940,705.93, after all charges and taxes, as compared with consolidated net profits of \$2,076,366.86 before taxes and \$908,078.79 after taxes for the preceding fiscal year. After allowing for dividends on the preferred stock, earnings this year were equal to \$2.39 a share on the 384,256 $\frac{1}{4}$ shares of common stock outstanding at March 31, 1944, exclusive of treasury shares, as compared with earnings of \$2.30 a share for the preceding year.

Of the \$1,589,538.00 Provision for Domestic and Foreign Income Taxes for the year ended March 31, 1944, a total of \$1,472,100.04 or 92.6% was for Domestic Taxes, and of this amount the Federal Excess Profits Taxes were \$1,298,174.50, less credits for post-war refund totaling \$129,817.45.

In accordance with the usual practice, the report here submitted includes a consolidated balance sheet as of March 31, 1944, and a consolidated statement of income and earned surplus for the fiscal year ended March 31, 1944, as certified to by our auditors, Messrs. Lybrand, Ross Bros. & Montgomery, and approved by the Board of Directors.

As in previous annual reports, I should like to take this occasion to tell you something of the problems and achievements of the past year and to give you our thinking as to the outlook for the near future.

GRUEN'S WAR EFFORT

First and foremost in the minds of all of us is, of course, the question of what we, as a Company and as individuals, can do to assist in bringing to a victorious conclusion the present war. I am glad to be able to report that during the past year your Company and its employees have done the following:

Manufactured Thousands of Precision Instruments for War.

As you know, these electrical precision measuring instruments are used by all branches of the Armed Forces. Last year, I outlined the action taken by us in developing this Instrument Division. During the past year, we met and bettered all contract schedules and thus materially assisted in relieving the shortage of these important implements of war. Not only was our production materially increased over the preceding year, but perhaps even more important, the high



quality of the instruments on which we have insisted from the beginning was maintained, and perhaps even improved. At the close of the fiscal year under review, production of instruments was at a rate 80 per cent higher than twelve months earlier and at the highest rate yet attained.

While even a larger percentage than heretofore of our employees at Time Hill was engaged in the manufacture of these instruments, nevertheless, the operations of the Instrument Division produced only a small percentage of our entire gross income and the net results were little better than on a break-even basis.

Delivered Tens of Thousands of Watches to the Armed Forces as Well as to Civilians.

In addition to the watches supplied to the Armed Forces through our regular jewelry outlets, large quantities of watches were supplied to the Armed Forces through government agencies.

Inaugurated a Course of Training in Watchmaking.

This undertaking was designed primarily for handicapped war veterans who may thus not only learn a useful and highly-paid trade but will at the same time be making a definite and essential contribution to civilian life by relieving the acute shortage of trained horological workers. Among those who entered our first training class were veterans who had recently been mustered out of service because of disabilities.

Participated in All War Drives.

During the fiscal year your Company increased its holdings of United States Government securities to \$1,240,000 on March 31, 1944, as compared with \$750,000 on March 31, 1943. Individual employees have continued their purchases of War Bonds through the payroll allotment plan. The aggregate of their purchases is in excess of 10 per cent of total wages and salaries. Gruen employees contributed generously to the Red Cross, Community Chest and War Fund Drive, to the Red Cross Blood Bank and other patriotic drives. Gruen employees in the Armed Forces now number approximately 35 per cent of the total male personnel of the Company at the time of the inception of the war.

MANUFACTURING, IMPORTING AND OPERATING PROBLEMS

Like all manufacturers, we experienced numerous difficulties in obtaining materials and in retaining manpower. Despite these difficulties the volume of business for the year just ended was the greatest in the seventy years' history of your Company. This result however, was only possible by further reducing our reserve movement inventory which we had built up prior to the war for this emergency.

Throughout the year, we were able to import movements from our factory



in Switzerland. Obviously, no one can give assurance that such importation may not sometime be cut off. But in view of the fact that such importations from Switzerland, transported to this country on Swiss and other neutral ships, have been permitted for the two and one-half years that we have been at war, we are encouraged to believe that such importations will continue, although perhaps on a temporarily reduced basis.

In making this report to you, I cannot over-emphasize the importance of the fine work that has been done by the heads of your Technical and Manufacturing Departments. Under extremely difficult and at times discouraging circumstances, they have succeeded in manufacturing a sufficient number of watch movements and cases to supply, at least partially, the unprecedented demand for Gruen watches in this past most difficult year.

GRUEN ADVERTISING

To protect the millions of dollars invested in the quality name of Gruen, and to cement our very valuable Gruen dealer relationships, your Company has continued its large scale advertising and merchandising program during the past fiscal year. As in the past years since Pearl Harbor, your Company devoted a considerable portion of its magazine and radio advertising to help the war effort and to further the sale of War Bonds.

The two War Bond advertisements which Gruen ran during the past fiscal year, namely, "It was Necessary To Put Him Under Protective Custody" and "Tell Steve You Cashed Your War Bond," which appeared in *Time*, *Fortune*, and *Life* magazines, attracted considerable public attention and won official Governmental approval. Both these War Bond advertisements of your Company enjoyed an exceptionally high reading, as reported by an impartial research organization. The advertisement "It Was Necessary To Put Him Under Protective Custody" was selected as one of the 100 best war advertisements of the year by the War-time Advertising Council.

A great many jewelers reproduced these two Gruen War Bond magazine advertisements in their local newspapers at their own expense, using more than 175,000 lines of space for them. This advertising was in addition to the large amount of advertising space devoted to Gruen watches by Gruen jewelers in their regular newspaper advertising and accounted for approximately one million lines of newspaper advertising.

Gruen advertisements containing seasonal greetings to our Armed Services abroad were inserted at Christmas and Easter time in newspapers in Great Britain, Northern Ireland, Australia, India, the West Indies, Alaska, Egypt and other far away posts.

Looking forward to the post war period, your Company this year also placed



stronger emphasis in its general advertising and merchandising on Gruen Curvex and Gruen Veri-Thin watches, and on the new Gruen Pan American watch so named and registered in the U. S. Patent Office through an exclusive contract entered into between Pan American Airways System and your Company. Today, from one end of the globe to the other, the Captains of Pan American Airways are swiftly shuttling their Giant Clipper Ships with war-vital cargo and passengers. They are helping keep open aerial lifelines that are so necessary for Victory. These Clipper Captains are now wearing the twenty-four hour dial Gruen Pan American watch—the official watch of the Pan American Airways. Clocks bearing Gruen identity will be installed in Pan American Terminals throughout the United States, as well as abroad. Pan American timetables, travel folders, and other advertising material will mention Gruen as the official watch of the Pan American Airways.

CAPITALIZATION AND THE POST-WAR PERIOD

Since the reorganization, your directors have followed a conservative dividend policy in order to build up the working capital of the Company. Looking toward the future, it is the belief of your directors and management that increased working capital may well be needed in the immediate post-war period. Particularly is this true with the possible abandonment after the war, of Regulation "W" when it may again be necessary for our Gruen jewelers to obtain the liberal credit terms which were requested by the majority of them prior to the war and the inauguration of Regulation "W".

For the purpose of increasing working capital, your Company, with the approval of its directors, last September increased the long term bank loan of the Company from \$1,000,000.00 to \$2,000,000.00.

GRUEN'S FUTURE

Never have I been more hopeful as to the future of your Company. In saying this I do not refer entirely to net earnings, for with increased taxes these may well prove to be curtailed at least for the war period, but rather to the general operations of the Company, the quality of its product and its reputation with the jewelers and the public. Obviously, no one can foretell the events of the near future, the effects of the end of the war which all of us are so anxiously awaiting, nor the date of the final conquest of the enemy. It may be in the interim before world-wide peace is again restored that there will be periods of discouragement from the point of corporate operations, importations, manufacturing and sales, but even if this proves to be the case, such should be only temporary. Regardless of conditions, your management will continue to make every effort as it has in the past to maintain the fundamental policies which have been so largely responsible for the success Gruen has enjoyed in recent years.



APPRECIATION

I should like to express my sincere appreciation to our more than five thousand loyal Gruen jewelers who, in these trying war years, have proven themselves repeatedly as true friends. We value the goodwill, the understanding and wholehearted cooperation of these friendly Gruen jewelers as one of your Company's greatest assets. Again, I want to assure these loyal jewelers that we, at Gruen, will do everything possible to justify their splendid cooperation with us.

I also want to thank all the directors, officers, and employees of both the parent Company and its subsidiaries, for their part in making this past fiscal year the most successful of the seventy years your Company has been in business.

I, too, want to express our best wishes to the Gruen men and women now serving their country in the Armed Forces all around the world. Our fondest hope is that a quick victory will see them back soon to rejoin their families at home, as well as the Gruen family of employees at Time Hill.

Sincerely,

A handwritten signature in black ink, reading "Seymour S. Katz". The signature is written in a cursive style with a large, looping initial "S" and a stylized "Katz".

President

*Time Hill, Cincinnati, Ohio
May 25, 1944*



THE GRUEN WATCH COMPANY A

CONSOLIDATED BALANCE SHEET

ASSETS:

Cash:		
On hand and demand deposits	\$3,621,126.74	
Deposits, restricted (Note 2)	239,064.57	
		\$3,860,191.31
United States Government Obligations, at cost:		
\$250,000 Savings Bonds, Series G	250,000.00	
\$ 50,000 Certificates of Indebtedness	50,000.00	
		300,000.00
Notes and accounts receivable, trade, less allowance for doubtful notes and accounts		956,905.80
Inventories, at the lower of cost or market (Note 3)		2,684,737.66
<i>Total current assets</i>		7,801,834.77
Cash surrender value of insurance aggregating \$876,700 on lives of officers and directors (Note 4)		91,241.61
Other accounts receivable		8,299.76
Sundry investments, at cost or nominal values		15,476.68
Post-war refunds of excess profits taxes		134,404.35
Land, buildings, and equipment, at cost	940,237.93	
<i>Less, allowance for depreciation</i>	488,255.47	
		451,982.46
Prepaid expenses and deferred charges		128,897.34
Patents, trade-marks, copyrights, and goodwill		1.00
		\$8,632,137.97

The accompanying notes Nos. 1 to 6 are an integral part of this financial statement.



AND SUBSIDIARY COMPANIES

SHEET, MARCH 31, 1944

LIABILITIES:

Accounts payable	\$ 599,179.50
Accrued expenses	408,059.80
Dividends payable	5,636.88
Provision for domestic and foreign taxes on income, less U. S. Treasury Tax Savings Notes (at cost and accrued interest) \$944,233 (Note 5)	894,929.57
<i>Total current liabilities</i>	<u>1,907,805.75</u>
Notes payable, bank, due annually in varying amounts from April 30, 1945 through April 30, 1950 (Note 4)	2,000,000.00

CAPITAL:

Capital Stock:	
Preferred stock, 5 per cent cumulative, \$25.00 par value; entitled to \$26.00 per share plus accrued dividends upon voluntary liquidation or redemption; authorized 20,000 shares, 18,459 shares issued, less 425 shares in treasury, outstanding 18,034 shares	\$ 450,850.00
Common stock, \$1.00 par value; 650,000 shares authorized, 505,337 ³ / ₄ shares issued, less 121,081 ¹ / ₂ shares in treasury, outstanding 384,256 ¹ / ₄ shares	384,256.25
Earned surplus, as annexed (Notes 1, 5 and 6)	<u>3,889,225.97</u>
	<u>4,724,332.22</u>
	<u><u>\$8,632,137.97</u></u>

an integral part of this balance sheet.



NOTES TO CONSOLIDATED BALANCE SHEET

Note 1—The consolidated balance sheet includes assets of Gruen Watch Manufacturing Company of Switzerland aggregating \$791,590.27 (exclusive of intercompany receivables aggregating \$639,518.64) of which current assets are \$647,434.33, and liabilities of \$424,886.46.

The consolidated balance sheet also includes net assets of Gruen Watch Company of Canada, Ltd. aggregating \$226,037.32 of which net current assets are \$211,620.81.

Current assets and liabilities of the Canadian company have been converted into dollars at the Federal Reserve rates prevailing at March 31, 1944. In the absence of such rates, current assets and liabilities of the Swiss company have been converted at currently quoted buying rates at March 31, 1944.

Non-current assets have been converted, substantially at rates of exchange prevailing when acquired.

The effect of the war on the companies is discussed in the President's report and reference is made thereto.

Note 2—Deposits, restricted, represent balances of remittances by the parent company to the Swiss subsidiary in the regular course of business, on deposit in a Swiss bank, releases of which to the Swiss subsidiary are at present subject to regulation by the Swiss National Bank.

Note 3—The estimated amounts of intercompany profits in inventory items purchased from companies whose accounts are consolidated have been eliminated in the preparation of the consolidated balance sheet.

Note 4—Insurance policies on the life of Benjamin S. Katz, President, aggregating \$750,000 have been assigned as collateral to notes payable, bank, aggregating \$2,000,000.

At the option of the bank the notes may become due and payable on demand in the event of the retirement of Benjamin S. Katz as an executive of the company.

Note 5—It is estimated (based on present laws) that additional foreign taxes on transfers to the parent company of accumulated surplus of foreign subsidiaries will approximate \$216,000 and that Federal excess profits taxes may be payable on such transfers. The amounts, if any, of such United States taxes are not presently determinable.

Note 6—Contracts of the Company, subject to renegotiation, for the year ended March 31, 1943, have been reviewed by the Price Adjustment Section, Army Air Forces, and no refund was required.

The Company had contracts during the current year which may be subject to renegotiation, but on the basis of the settlement for the year ended March 31, 1943 it does not appear that a refund will be required.

NOTES TO CONSOLIDATED STATEMENT OF INCOME AND EARNED SURPLUS

Notes 1, 5 and 6 to Consolidated Balance Sheet, March 31, 1944, are incorporated herein by reference.

The provisions for depreciation included in the consolidated statement of income amount to \$59,402.91.

Income accounts of foreign subsidiary companies have been converted substantially at the average monthly rates of exchange prevailing during the year ended March 31, 1944. The unrealized loss of \$2,086.15 arising from changes in conversion value of net current assets of foreign subsidiaries has been charged to consolidated earned surplus.

Intercompany sales and estimated intercompany profits have been eliminated in the preparation of the consolidated statement of income.

Consolidated net income includes net income of foreign subsidiaries aggregating \$213,340.64. No dividends were received from foreign subsidiaries during the year.



CONSOLIDATED STATEMENT OF INCOME AND EARNED SURPLUS

for the year ended March 31, 1944

Gross profit from sales	\$4,653,879.99
Selling, administrative and general expenses	2,005,156.94
<i>Profit before other income and expenses and income taxes</i>	2,648,723.05
Other income	124,869.70
	2,773,592.75
Interest and other expenses	243,348.82
	2,530,243.93
Provision for domestic and foreign income taxes (including Federal excess profits taxes \$1,298,174.50 less post-war refund \$129,817.45)	1,589,538.00
<i>Net income</i>	940,705.93
Surplus, April 1, 1943	3,222,924.87
	4,163,630.80
Deduct, unrealized foreign exchange losses from conversion of foreign net assets to dollars	2,086.15
	4,161,544.65
Dividends, cash:	
Preferred stock, \$1.25 per share	\$ 22,547.55
Common stock, 65c per share	249,771.13
	272,318.68
Surplus, March 31, 1944	\$3,889,225.97

The accompanying notes are an integral part of this statement.



LYBRAND, ROSS BROS. & MONTGOMERY
Certified Public Accountants
CINCINNATI

*To the Board of Directors,
The Gruen Watch Company,
Cincinnati, Ohio.*

We have examined the consolidated balance sheet of The Gruen Watch Company and its subsidiary companies as at March 31, 1944, and the consolidated statements of income and surplus for the year then ended. Except with respect to the Swiss subsidiary, we have reviewed the systems of internal control and the accounting procedures of the companies and, without making detailed audits of the transactions, have examined or tested accounting records of the companies and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures considered necessary. We have received the report of other accountants who examined the financial statements of the Swiss subsidiary.

In our opinion, based upon such examination and upon such report of other accountants, the accompanying consolidated balance sheet and related consolidated statements of income and surplus present fairly the consolidated position of The Gruen Watch Company and its subsidiary companies at March 31, 1944, and the consolidated 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.

LYBRAND, ROSS BROS. & MONTGOMERY.

Cincinnati, Ohio, May 23, 1944.



A N N U A L
Report

THE GRUEN WATCH COMPANY

FISCAL YEAR ENDED MARCH 31, 1945

TIME HILL, CINCINNATI, OHIO





Awarded to War Instrument Division



THE
GRUEN WATCH COMPANY
Time Hill, Cincinnati, Ohio

1 8 7 4

1 9 4 5



EAST VIEW
THE GRUEN WATCH PLANT
TIME HILL • CINCINNATI, OHIO



THE GRUEN WATCH COMPANY

TIME HILL • CINCINNATI, OHIO

Sales Offices

CHICAGO
Pittsfield Building
55 E. Washington Street

NEW YORK
International Building
630 Fifth Avenue

LOS ANGELES
Jewelry Trades Building
220 W. Fifth Street

Directors

JOHN R. BULLOCK *Attorney*
STERLING B. CRAMER *First Vice-President, The Fifth Third Union Trust Co.*
E. W. EDWARDS *Chairman of the Board, The Edwards Mfg. Co.*
FRED G. GRUEN
GEO. J. GRUEN *Chairman of the Board*
BENJAMIN S. KATZ *President and Treasurer*
CLIFFORD R. WRIGHT *Chairman of the Investment Committee,
Union Central Life Insurance Co.*

Officers

GEO. J. GRUEN *Chairman of the Board*
BENJAMIN S. KATZ *President and Treasurer*
SIMON C. GERSHEY *Vice President*
ERNEST A. TUPPER *Vice President*
GEORGE T. GRUEN *Secretary*
ALFRED T. REIS *Comptroller*
THOMAS F. JEARY *Auditor*

Counsel—Taft, Stettinius & Hollister, Cincinnati, Ohio

Transfer Agent—The Fifth Third Union Trust Co., Cincinnati, Ohio

Registrar—The Central Trust Co., Cincinnati, Ohio



PRESIDENT'S REPORT

TO THE SHAREHOLDERS OF THE GRUEN WATCH COMPANY:

On behalf of your Board of Directors, it is my pleasure to submit herewith the annual report of your Company and its subsidiaries for the fiscal year ended March 31, 1945. Consolidated net profits for the year were \$664,883.20 and after allowing for dividends on preferred stock (retired January 1, 1945) amounted to \$1.69 a share on the 384,256 $\frac{1}{4}$ shares of common stock, exclusive of treasury shares. Before provision for domestic and foreign income taxes consolidated net profits amounted to \$1,426,985.67. The earnings for the year compare with consolidated net profits of \$2,530,243.93, before taxes, and \$940,705.93 after taxes, for the preceding fiscal year ended March 31, 1944.

These lower earnings were due almost entirely to the situation which developed in connection with the invasion of Europe. During almost all of a period of about seven months, extending from early in June 1944--the time of the invasion--to January 1945, the Swiss border was closed, and our wholly owned subsidiary, the Gruen Watch Manufacturing Company, S.A., of Bienne, Switzerland, was unable to ship us movements. Moreover, throughout the entire year, transportation from Switzerland to the seaboard, when it was not impossible, was extremely difficult. Consequently the acute shortage of merchandise which resulted was reflected in a sharp reduction in the volume of sales. The demand for Gruen watches, however, was larger than ever before in the history of the Company, and if this crisis had not arisen, sales and profits would probably have been greater than in any previous year. Although serious transportation difficulties still exist the situation has improved and movements are now being shipped to us in encouraging quantities.

It is my sincere belief that as a result of V-E Day, transportation conditions will further improve, and as the year progresses we will continue to receive increased quantities of movements. Thus for the year as a whole we should be able to reach, and perhaps even exceed, the largest sales volume in our history.

Because of the closing of the Swiss border your Board of Directors decided last fall to postpone the issuance and sale of 25,000 shares of preferred stock as authorized at a meeting of shareholders November 20, 1944.

Recently the Company has been offered and has now consummated a new long term bank loan of \$2,000,000 at reduced interest rates. Your Board does not believe that it would be advantageous to the Company or shareholders at this time at least, to substitute preferred stock for such loan. If conditions should change so as to make the issuance of preferred shares advisable, your Board of Directors will be prepared to act promptly.

In accordance with our usual practice, the report here submitted includes a consolidated balance sheet as of March 31, 1945 and a consolidated statement of income and earned surplus for the fiscal year ended March 31, 1945 as certified to by our auditors, Messrs. Lybrand, Ross Bros. & Montgomery.

In many ways, the year just ended has been a memorable one for the Company. Despite lessened sales, I feel that the accomplishments of the Company, under exceedingly difficult conditions, were significant and such as will materially add to the growth and prosperity of the Company in the post-war period, which we all hope



is not now too far distant. I should like to review our work of the past year and to comment on a few of the Company's problems and accomplishments.

AIDING THE NATIONAL WAR EFFORT

Since Pearl Harbor our primary aim, both as a Company and as individuals, has been to do everything possible to aid the national war effort. For our efforts in this direction we received high praise from a wide range of governmental and private agencies, from the press and from a large number of individuals.

Precision Instruments for Armed Forces

As the major part of our direct effort, we continued the manufacture of electrical precision measuring instruments which are used by all branches of the Armed Forces. During the fiscal year of 1945, shipments of electrical precision measuring instruments for a wide variety of war uses were slightly higher than in the preceding fiscal year.

In recognition of the high achievement of Gruen in producing materials needed for war, the Army and Navy on October 19, 1944, in a colorful and dramatic ceremony conferred on our War Instrument Division the Army-Navy E Production Award. In making the presentation Major Philip F. Murray, representing the War Department, paid glowing tribute to the workers and the Company, and in summation said, "Your courage in undertaking the impossible, your successful achievements in the past months, is a most inspiring example of patriotism."

Because of the fine job done by the instrument manufacturers of the country, it is understood that the need for these vital instruments has been met and a considerable reserve supply built up. Consequently, requirements for these instruments have tapered off in the past few months. Our Company went into the instrument business solely out of a desire to aid in the war effort without any thought of profit and we expect to discontinue this division as soon as it is certain that our services are no longer needed. Until then, we shall, of course, continue making precision instruments of war as we have for over seventy years made precision watches.

Although a large number of our Time Hill employees participated in the manufacture of these precision instruments of war, the operation represented only about one per cent of our net profit. This activity, however, has helped us to develop certain production methods which will be valuable to us in the post-war period.

Advertising Assistance to Governmental War Drives

As in the past three years, your Company continued to assist the government by devoting an important proportion of its advertising to war activities. A definite percentage of our radio advertising was contributed each week throughout the year to the Office of War Information for use in various drives which the OWI conducted. In addition, the majority of our radio messages throughout the year were signed off with our well-known slogan, "Buy a Gruen Watch—But Buy a War Bond First." This same slogan was featured in every advertisement which we ran in national consumer magazines throughout the past year. In the trade publications, we used the slogan, "Sell a Gruen Watch—But Sell a War Bond First."

Special full-page magazine advertisements were used by your Company to support the various War Bond Drives. A large number of Gruen jewelers used our War Bond radio commercials and reprinted at their own expense in local papers the Gruen War Bond Advertisements which appeared in the national publications. More than



400,000 lines of copy supplied by our Advertising Department have been used by jewelers in their local newspapers in an effort to make these bond drives successful.

In line with the Government's request to help maintain the morale of our men and women overseas in the Armed Forces, Gruen has continued its practice of sending seasonal greetings. Gruen advertisements containing these greetings were inserted at Christmas and Easter time in newspapers in most parts of the world where American troops were stationed. Many Gruen jewelers thought so well of these advertisements that they reproduced them under their own signatures in their local newspapers.

Other Contributions to the War Effort

In addition to the large number of watches going to servicemen through our regular Gruen jeweler outlets, your Company continued to furnish large quantities of watches direct to the military agencies.

During the year we continued our program inaugurated some time ago for the training of handicapped war veterans in the art of watchmaking. This program is being expanded through the establishment of The Gruen Watchmaking Institute.

A considerable number of additional employees left the Company during the course of the year for service with various branches of the Armed Forces. Those who remained at home to fight the battles of the home front not only met every challenge of the production lines, but those of the War Bond Drives, the Community Chest, the American Red Cross and the Blood Donor Service as well. Gatherings of servicemen were entertained on several occasions during the course of the year by the Gruen Glee Club. Through the Gruen Canteen Fund Committee employees gave generously of their time and money toward raising funds and supplying gifts to their fellow employees in Service.

PROBLEMS IN WARTIME PRODUCTION, IMPORTATION AND OPERATION

One of the most important and difficult problems your Company has had to face during the war has been the coordination of work between our wholly owned Swiss subsidiary and our plant at Time Hill. Throughout the war personal visits and telephone communications were impossible, the exchange of letters required months of time, and the exchange of cables was generally unsatisfactory. A great amount of ingenuity therefore had to be exercised by our executives, both here and abroad, in order to meet the variety of important and unusual situations which arose. Despite the remarkable job which was done a number of problems accumulated which could be solved only through personal contact between executives of the two companies.

I am delighted to advise you that we were able to make arrangements for Mr. Henri Thiebaud, Director General of the Gruen Watch Manufacturing Company, S. A. of Bienne, Switzerland, to come here via Clipper, for a full discussion of all these problems. After spending about six weeks at our Time Hill, Cincinnati plant, he returned to Switzerland about a month ago. Mr. Thiebaud and his executives have done a magnificent job under extraordinary handicaps during the three and one-half years since Pearl Harbor and are to be warmly congratulated on their accomplishments.

While Switzerland has remained at peace, mobilization of its manpower into the Armed Forces was on an extremely wide basis. Labor was therefore exceedingly scarce and the shortage of materials was even more acute. Nevertheless, our Swiss subsidiary, through excellent management, was able to manufacture Gruen watches without any sacrifice of the quality that has made Gruen the watch of discriminating Americans for more than seventy years.

With all their other problems Mr. Thiebaud and his technicians still were able to develop two entirely new movements which can now be put in production and



which I am hopeful will prove to be fitting supplements to the eight line movements, including the Curvex and Veri-Thin models, which they developed in the five years preceding the war. Since 1940 it has, of course, been impossible to produce new movements owing to war-time conditions.

We, of course, along with other manufacturers have also suffered acutely from shortages of manpower and materials. Similarly, substantially increased costs of practically all factors of production—increases which could not be recovered owing to the price stabilization program—likewise affected our operating results.

ADVERTISING CONTINUITY

To insure the continued consumer acceptance of Gruen watches and to protect your investment as a shareholder, your Company has continued its large scale advertising and merchandising program. Regular year-round radio time signal programs have been maintained in the major markets of the nation. Consistent magazine advertising schedules have been maintained in *Life*, *The Saturday Evening Post*, *The New Yorker*, *Vogue*, *Colliers*, *Liberty*, *Fortune*, *Time*, *Esquire*, *The American Magazine*, *Newsweek* and other leading publications.

Gruen radio advertising and publicity have been highly effective. Millions of radio listeners from coast to coast are hearing the famous Gruen time jingle which announces the correct time on the hour and half-hour. With its melodious chorus of voices the Gruen jingle has become so popular that sponsors of the outstanding radio shows and top-notch radio personalities such as Bob Hope, Jack Benny, Rudy Vallee, Jimmy Durante, Ken Murray, Fannie Brice, Kay Kyser and others have written the jingle into their script as a highlight of their shows. In addition, several hundred Gruen jewelers are using the jingle in their local radio advertising. It is estimated that an average of 30,000,000 listeners daily hear the Gruen time jingle, making it one of the most effective trade marks on the air today.

As post-war protection for our trade names of the individual Gruen lines of Curvex, Veri-Thin and Pan American watches, special attention was given to these lines in our general advertising and merchandising during the past fiscal year. Particular emphasis was placed upon the new Gruen Pan American Watch, which is the official timepiece of the Pan American Airways—the world's largest airline. It is our plan to release this watch for civilian use this coming fall.

PROFIT SHARING TRUST FOR EMPLOYEES

Your Board of Directors has long desired to provide additional incentive and reward for the efficient work and loyal service of all employees of the parent company and its wholly owned subsidiaries. I am happy to advise you that during the past fiscal year your Board approved, and there has now been created, The Gruen Employees' Profit Sharing Trust under which employees of the Watch Company and of the Case Company, participate in the profits of the Company after one year's service. Active consideration is being given to the establishment, as soon as possible, of a similar profit sharing plan for the employees of the Gruen Watch Manufacturing Company, S. A. of Bienne, Switzerland and the Gruen Watch Company of Canada, Limited, Toronto, Ontario, Canada.

Under the provisions of the plan established, the Company contributes annually 5 per cent of its consolidated earnings, before taxes, into the fund and employees are credited with their proportionate share as determined by their individual earnings and length of service. Employees with less than 5 years of service have their participation calculated on the basis of actual earnings, and employees with 5 years or more of service at 1½ times actual earnings. The Fifth Third Union Trust Company of



Cincinnati, as Trustee, invests the funds deposited with it by the Company, exclusively in government bonds, the proceeds of which are distributed to participants after ten years at the rate of one-tenth per year. The Plan has been approved by all interested government agencies.

AFTER THE WAR

Last year, in my annual report, I stated that I had never been more hopeful as to the future of the Company. I stated that in the interim before world peace was restored net earnings might be curtailed and there might be temporary periods of discouragement from the point of view of operations, importation, manufacturing and sales. As earlier set forth in this letter, we did have such periods of discouragement during the past year when the Swiss border was closed for about seven months and importation of movements was temporarily stopped. However, with the collapse of Germany, the whole outlook is greatly changed and from now on conditions should continue to improve.

I am convinced that Gruen's position during the past year has been materially strengthened in the technological field, in design, in customer appeal and in every way that adds to the prestige of the Company and its prospects for the future. Important in this connection have been the strong and successful efforts we have made to maintain and even improve the quality of our product. Likewise, important has been the steadfast way in which we maintained throughout the European war, our policy of fair and equal distribution of our supply of watches, far below the demand, to our more than 5,000 loyal Gruen jewelers. Further we have given our jewelers every possible assistance in the way of powerful national advertising programs, and extensive and valuable dealer helps and services. I am confident that as a result of all this we have strengthened the friendship which has existed between them and ourselves over a period of many, many years. I therefore feel justified in repeating my statement of last year, that there has never been a time when I have been more hopeful regarding the Company's future, particularly now that the terrible war in Europe has ended.

APPRECIATION

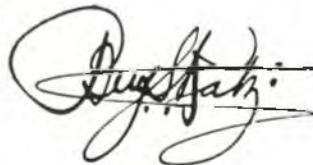
I once more consider it a real privilege to express my sincere thanks to all these loyal Gruen jewelers who in these trying war years have continued to give us their wholehearted cooperation and understanding and I wish again to assure these loyal jewelers, whose good will we consider our greatest asset, that we will continue to do everything in our power to justify their confidence in us.

I also want to take this opportunity to express my heartfelt thanks to all the directors, officers and employees of both the parent Company and all its subsidiaries for their fine efforts in behalf of your Company.

In concluding this report I want to pay tribute to the men and women of your Company who have been serving in the Armed Forces to whom we owe an eternal debt of gratitude for the sacrifices which they have made and are still making.

It is my sincere hope that before long they will have achieved complete victory and that we and their families soon will be welcoming them back home and to Time Hill.

Sincerely,



President

Time Hill, Cincinnati, Ohio
May 29, 1945



THE GRUEN WATCH COMPANY

CONSOLIDATED BALANCE

ASSETS:

Cash on hand and demand deposits.....	\$3,435,695.35
\$250,000 United States Savings Bonds, Series G, at cost.....	250,000.00
Notes and accounts receivable, trade, less allowance for doubtful notes and accounts	646,899.26
Inventories, at the lower of cost or market (Note 2).....	2,785,900.45
<i>Total current assets</i>	<u>7,118,495.06</u>
Cash surrender value of insurance aggregating \$876,700 on lives of officers and directors (Note 3).....	112,783.87
Cash deposits restricted, net (Note 4).....	91,235.35
Other accounts receivable.....	12,605.50
Sundry investments, at cost or nominal values.....	26,277.68
Post-war refunds of Federal excess profits taxes (including bonds of \$4,586.90)	169,739.16
Land, buildings, and equipment, at cost.....	\$981,704.91
<i>Less, allowance for depreciation</i>	<u>550,705.36</u>
	430,999.55
Prepaid expenses and deferred charges.....	91,461.53
Patents, trade-marks, copyrights, and goodwill.....	1.00
	<u>\$8,053,598.70</u>

The accompanying notes Nos. 1 to 6 are



and SUBSIDIARY COMPANIES

SHEET, MARCH 31, 1945

LIABILITIES:

Accounts payable	\$ 516,877.34
Accrued expenses.....	489,825.12
Dividends payable	76,736.20
Provision for domestic and foreign taxes on income, less U. S. Treasury Tax Savings Notes (at cost and accrued interest) \$249,940 (Note 5).....	623,353.06
<i>Total current liabilities</i>	<u>1,706,791.72</u>
Notes payable, bank, due annually in varying amounts from April 30, 1946 through April 30, 1950 (Note 3).....	1,750,000.00

CAPITAL:

Capital stock:

Preferred stock, 4½ per cent cumulative; \$100.00 par value; authorized 25,000 shares, issued and outstanding, none

Common stock, \$1.00 par value; 650,000 shares authorized, 505,337¾ shares issued, less 121,081½ shares in treasury, outstanding 384,256¼ shares (Note 3) \$ 384,256.25

Earned surplus, as annexed (Notes 1, 3, 5 and 6).....	<u>4,212,550.73</u>
	<u>4,596,806.98</u>
	<u><u>\$8,053,598.70</u></u>

an integral part of this balance sheet.



NOTES TO CONSOLIDATED BALANCE SHEET

Note 1. The consolidated balance sheet includes assets of Gruen Watch Mfg. Co., S. A. aggregating \$431,462.06 (exclusive of intercompany receivables aggregating \$1,167,777.04) of which current assets are \$190,676.86, and liabilities of \$373,635.95.

The consolidated balance sheet also includes net assets of Gruen Watch Company of Canada, Ltd. aggregating \$251,321.37 of which net current assets are \$221,056.44.

Current assets and liabilities of the Canadian Company have been converted into dollars at the Federal Reserve rates prevailing at March 31, 1945. In the absence of such rates, current assets and liabilities of the Swiss company have been converted at currently quoted buying rates at March 31, 1945.

Noncurrent assets have been converted, substantially at rates of exchange prevailing when acquired.

Note 2. The estimated amounts of intercompany profits in inventory items purchased from companies whose accounts are consolidated have been eliminated in the preparation of the consolidated balance sheet.

Note 3. Insurance policies on the life of Benjamin S. Katz, President, aggregating \$750,000 have been assigned as collateral to notes payable, bank, aggregating \$1,750,000.

At the option of the bank the notes may become due and payable on demand in the event of the retirement of Benjamin S. Katz as an executive of the company.

In accordance with an employment agreement between the company and Benjamin S. Katz, the company is obligated to purchase, if requested within 120 days from the date of his death, common stock of the company held by his personal representatives, widow, children, or trustee, for an amount not in excess of \$500,000. The price per share to be paid shall be the consolidated book value per share as of the day following his death.

The company has agreed to continue the \$750,000 insurance in force during the period that the employment agreement is in effect and it is expected that, subject to the pledging of the policies as collateral to the bank loan, the proceeds of such policies will be held by the company to the extent of \$500,000 to be used in the purchase of said stock, if offered.

Note 4. Cash deposits restricted, represent balances of remittances by the parent company to the Swiss subsidiary in the regular course of business, which have been subjected to exchange regulations, less advances by a Swiss bank of \$1,051,190.88. The company is informed that at the time of the release of such restricted deposits any expenses, taxes and other losses that may have been incurred by the Swiss Government and the Swiss National Bank in connection with remittances which have been subjected to exchange regulations will be deducted from restricted deposits aggregating \$191,814.31. An allowance of \$100,578.96 for such expenses, taxes and other losses is included in the accompanying financial statements.

Note 5. It is estimated (based on present laws) that additional foreign taxes on transfers to the parent company of accumulated surplus of foreign subsidiaries will approximate \$315,000 and that Federal excess profits taxes may be payable on such transfers. The amounts, if any, of such United States taxes are not presently determinable.

Note 6. Contracts of the company, subject to renegotiation, for the year ended March 31, 1944, have been reviewed by the Price Adjustment Section, Army Air Forces, and no refund was required.

The company had contracts during the current year which may be subject to renegotiation, but on the basis of the settlement for the year ended March 31, 1944 it does not appear that a refund will be required.



CONSOLIDATED STATEMENT OF INCOME AND EARNED SURPLUS

for the year ended March 31, 1945

Gross profit from sales.....	\$3,826,871.12
Selling, administrative, and general expenses.....	2,135,956.78
<i>Profit before other income and expenses and income taxes</i>	1,690,914.34
Other income.....	111,150.46
	1,802,064.80
Interest, provision for losses, etc., on restricted deposits and other expenses....	375,079.13
	1,426,985.67
Provision for domestic and foreign income taxes (including Federal excess profits taxes \$353,348.10, less post-war refund \$35,334.81).....	762,102.47
<i>Net income</i>	664,883.20
Surplus, April 1, 1944.....	3,889,225.97
	4,554,109.17
Add, partial recovery of unrealized losses on foreign exchange charged to earned surplus in a prior year.....	787.51
	4,554,896.68
Deduct, premium on 18,034 shares 5 per cent cumulative preferred stock, redeemed and cancelled.....	18,034.00
	4,536,862.68
Dividends, cash:	
Preferred stock, 93¾¢ per share.....	\$ 16,910.50
Common stock, 80¢ per share.....	307,401.45
	324,311.95
Surplus, March 31, 1945.....	\$4,212,550.73

The accompanying notes are an integral part of this statement.



NOTES TO CONSOLIDATED STATEMENT OF INCOME AND EARNED SURPLUS

Notes 1, 5 and 6 to Consolidated Balance Sheet, March 31, 1945 are incorporated herein by reference.

The provisions for depreciation included in the consolidated statement of income amount to \$66,082.46.

During the year a Profit Sharing Plan was adopted for the benefit of employees of The Gruen Watch Company and The Gruen National Watch Case Company. The provisions for contributions to the profit sharing fund included in the consolidated statement of income amount to \$77,262.40.

Income accounts of foreign subsidiary companies have been converted substantially at the average monthly rates of exchange prevailing during the year ended March 31, 1945. The unrealized profit of \$787.51 arising from changes in conversion value of net current assets of foreign subsidiaries is included in consolidated earned surplus.

Intercompany sales and estimated intercompany profits have been eliminated in the preparation of the consolidated statement of income.

Consolidated net income includes net income of foreign subsidiaries aggregating \$220,550.56. No dividends were received from foreign subsidiaries during the year.

LYBRAND, ROSS BROS. & MONTGOMERY

Certified Public Accountants

CINCINNATI

*To the Board of Directors,
The Gruen Watch Company,
Cincinnati, Ohio.*

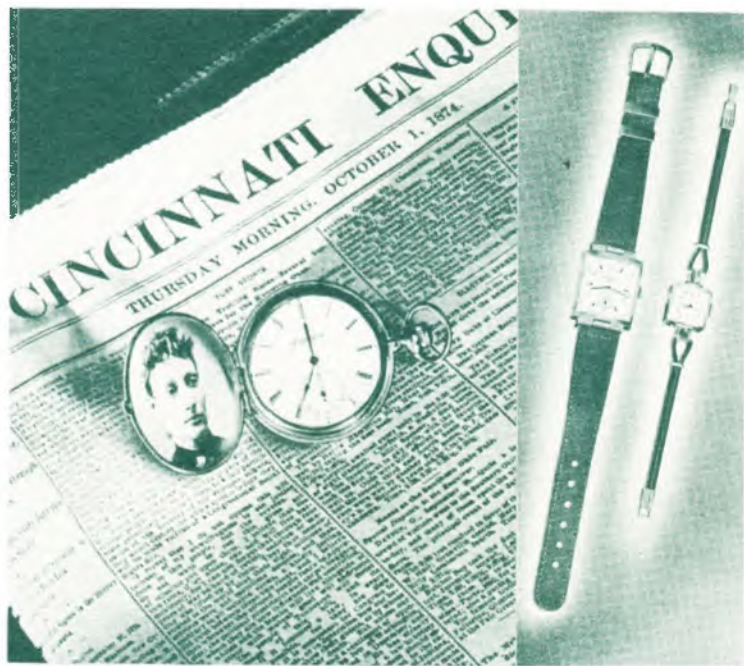
We have examined the consolidated balance sheet of The Gruen Watch Company and its subsidiary companies as at March 31, 1945, and the consolidated statements of income and surplus for the year then ended. Except with respect to the Swiss subsidiary, we have reviewed the systems of internal control and the accounting procedures of the companies and, without making detailed audits of the transactions, have examined or tested accounting records of the companies and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures considered necessary. We have received the report of other accountants who examined the financial statements of the Swiss subsidiary.

In our opinion, based upon such examination and upon such report of other accountants, the accompanying consolidated balance sheet and related consolidated statements of income and surplus present fairly the consolidated position of The Gruen Watch Company and its subsidiary companies at March 31, 1945, and the consolidated 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.

LYBRAND, ROSS BROS. & MONTGOMERY.

Cincinnati, Ohio, May 28, 1945.





Let's go back to October 1st, 1874, at 7 A.M.!

A few weeks ago, someone mentioned we'd soon be celebrating our 75th Anniversary. Now, 70 years is a long time... and it goes as to thinking. It's been a remarkable 70 years... and it's been a wonderful country to work and grow in. And we still get a glow of pride when we think about some things we've done... Like pioneering with the first anti-windup watch... the first 16 size wristwatch... Like inventing the revolutionary patented Gruen Curvex, the first and the only watch in which the movement actually curves to fit the wrist (from case)! Like inventing the amazing patented Gruen Veri-Thin... which combines "big watch precision" with water thin style and luxury!

Takes us to see making at Gruen's Precision Watches as we used to... (except we're here right pretty hair making steel precision instruments for you... and that's on 5' height!)

THE PRECISION WATCH

Gruen Watches from \$25.75 to \$170. With precision movement to \$400. Prices include Federal Tax. The Gruen Watch Company, 1000 N. 2nd St., Columbus, Ohio, U.S.A. In Canada Toronto, Ontario.



GRUEN... MAKERS OF THE PRECISION WATCH... AMERICA'S CHOICE SINCE 1874

There are many fine watchmakers in the world, but only Gruen has the tradition, the skill, the experience, and the resources to make watches that are truly precision instruments.

GET A GRUEN WATCH... GET BETT & SAVE MORE MONEY!

GRUEN'S PRECISION WATCHES ARE MADE IN THE U.S.A. AND CANADA.

Reproduced from the Saturday Evening Post

70 Years of Progress...

No industry is so rich in tradition as the watchmaking industry. And, we sincerely believe, no watch company has done more for the fine tradition of the watchmaking art than Gruen. Despite many world upheavals during the past 70 years, Gruen has not only preserved its tradition for precision watches but has paced the industry with outstanding achievements... headed by two "miracles" of fine watchmaking... the patented Gruen Curvex and patented Veri-Thin. It is this pioneering spirit, this constant search for improvement, that has earned for Gruen its enviable reputation as a leader in the world of fine watchmaking.





Annual Report

FISCAL YEAR ENDED MARCH 31, 1946

THE GRUEN WATCH COMPANY • TIME HILL • CINCINNATI 6, OHIO





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Annual Report

THE GRUEN WATCH COMPANY

For the Year Ended March 31, 1946



President's Report

To the Shareholders of The Gruen Watch Company:

On behalf of your Board of Directors, I am very happy to advise you that the fiscal year ended March 31, 1946 which concludes the tenth complete year under the present management and seventy-two years of your Company's continuous operation, was the most successful in the Company's entire history.

Operating Results

Consolidated net profits for the year amounted to \$2,531,552.76 before taxes and \$1,071,837.38 after all charges and taxes, as compared with consolidated net profits of \$1,426,985.67 before taxes and \$664,883.20 after taxes for the preceding fiscal year. Based on the 384,256- $\frac{1}{4}$ shares of Common stock outstanding at March 31, 1946, exclusive of treasury shares, earnings this year equal \$2.79 per share, and after allowing for Preferred dividends compare with earnings of \$1.69 per share for the preceding year, and an average per share of \$2.05 for the ten years ended March 31, 1946, and an average per share of \$2.29 for the five years ended March 31, 1946. Of the \$1,459,715.38 provision for domestic and foreign income taxes for the year ended March 31, 1946, a total of \$1,277,883.96 or 87.54% was for domestic taxes and of this amount the Federal Excess Profits taxes were \$858,391.06.

Elsewhere in this report is a condensed comparison of the consolidated financial position of the Company and its subsidiaries as of March 31, 1936; March 31, 1941; and March 31, 1946.

Financial Achievements

From a humble beginning as a one-man enterprise, with most limited capital, your Company has grown to an enterprise of approximately 2700 shareholders, with an invested capital represented by net worth of more than \$5,300,000. It might be interesting to show a few comparative consolidated figures for the past ten years.

<i>Year Ended March 31st</i>	<i>Profit Before Taxes</i>	<i>Domestic and Foreign In- come Taxes</i>	<i>Net Income</i>	<i>Dividends Paid on Common Shares</i>
1937	\$ 828,326.63	\$ 143,929.25	\$ 684,397.38	
1938	872,755.99	151,007.39	721,748.60	
1939	662,624.42	121,955.19	540,669.23	
1940	1,033,072.37	287,804.50	745,267.87	
1941	1,352,725.12	449,323.39	903,401.73	\$105,965.64
1942	1,775,305.27	875,890.25	899,415.02	270,656.47
1943	2,076,366.86	1,168,288.07	908,078.79	372,885.69
1944	2,530,243.93	1,589,538.00	940,705.93	249,771.13
1945	1,426,985.67	762,102.47	664,883.20	307,401.45
1946	2,531,552.76	1,459,715.38	1,071,837.38	345,831.18



You will note that for the ten year period ended March 31, 1946 profits before taxes amounted to \$15,089,959.02, which were used in part as follows:

To pay domestic and foreign income taxes (including Federal excess profits taxes)	\$ 7,009,553.89
To pay dividends	1,858,311.81
To pay off Registered Debentures	727,500.00
To redeem Class A Preferred Stock	727,500.00
To purchase or redeem Class B Stock 67,146 $\frac{3}{4}$ shares	\$201,383.75
Charged Paid-in Surplus	<u>43,000.00</u>
	158,383.75
To purchase the interest of minority stockholders in subsidiary companies	128,039.44
To purchase 51,059 shares Common Stock to be held in Treasury	278,550.50
To purchase and retire 1,541 shares Class C Preferred Stock	51,032.00
To redeem 18,034 shares 5 per cent Preferred Stock	468,884.00
	<u>\$11,407,755.39</u>

The balance of the accumulated profits of the past ten years has been retained in the business, thus increasing the working capital so essential for efficient operation, especially in view of the present sales volume.

To obtain the above results especially during the war years, there had to be overcome a number of serious obstacles and difficulties, including shortage of materials and manpower, both here and in Switzerland, difficulty in importing movements from our factory in Bienne, Switzerland, and increasing costs of material and labor. In achieving these results and the overcoming of these difficulties, every executive and employee deserves the highest praise for the hard work, individual effort and team work displayed.

The greatest events of the past year were, of course, V-E Day and V-J Day. The ending of the war permitted us to close, with honor, our War Instrument Division. Likewise, it opened the way for resumption of normal business by ourselves as well as by other watch companies which, in varying degrees, had devoted their facilities partly or exclusively to war production. Your Company has already begun to put into effect its postwar plans and we face the present and the future competitive situation with confidence.

As occurred after the First World War, we are today faced with a problem of some seriousness—an attempt on the part of a few individuals and companies to discredit, as un-American, watches containing Swiss movements. I want to talk about this in more detail later but at the moment I want to re-emphasize what I am sure you realize, namely, that your Company is an American Company in every way; its stock is owned by Americans; its subsidiary, the Gruen Watch Manufacturing Company, S. A. at Bienne, Switzerland, which manufactures the precision Gruen movements, is entirely owned by the American Company and its cases are made largely by our wholly-owned subsidiary, The Gruen National Watch Case Company at Time Hill, Cincinnati.

During the past ten years, your Company has paid taxes and customs duties in the United States in the sum of \$14,866,272.46 and for the past year paid the sum of \$2,525,054.84 which, on the basis of present outstanding shares, amounted to an average of \$3.87 per share per year for the ten years ended March 31, 1946.

I would like to point out that approximately 90% of the average retail selling price of our watches remains in this country. The balance of approximately 10% which is paid to your Swiss subsidiary, goes largely to pay the wages of the skilled, loyal Swiss workmen employed by your plant at Bienne, Switzerland.



We feel justly proud of the progress that has been made by your Company in the seventy-two years of its history and especially in the past decade. Before telling you in more detail of the present situation and the outlook for this year, I should like to review briefly the history and accomplishments of the Company.

Industry Leadership

Your Company was incorporated on January 3, 1908, as the successor to a business originally established by Dietrich Gruen in 1874. Mr. Gruen had his original plant at Columbus, Ohio, and for a period manufactured movements there, used in Gruen watches. Later, he was joined in business by his two sons, Mr. George J. Gruen, Chairman of our Board of Directors, and the late Mr. Fred G. Gruen. The Company early established itself as a leader in the watch industry.

Quality and style leadership in the watch industry was continued with the introduction in 1935 of the Curvex—the world's first true wristwatch, a full-size patented movement that is actually curved to fit the wristform case. A year later followed the Curvex wristwatch for ladies. Here again, Gruen ingenuity had fashioned a full-size, patented movement to fit within a dainty curved case exquisitely designed for feminine tastes. In 1939 came the Veri-Thin wristwatch for men with its revolutionary new, full-size, patented movement that permitted the case to be made nearly 50% thinner at sides and ends than any other popularly priced wristwatch. Shortly thereafter, your management introduced the Veri-Thin wristwatch for ladies.

Other recent outstanding Gruen firsts have been the 24-hour dial Gruen Pan American which is the official watch of the mighty Pan American World Airways, and the diamond dial Gruen Curvex Executive.

Aggressive and Continuous Advertising

In the past decade your Company has continued its vigorous and consistent national advertising campaign. It has maintained regular advertising schedules in *Life*, *Saturday Evening Post*, *Collier's*, *Fortune*, *Time*, *Newsweek*, *Esquire*, and other leading publications. In addition, we have inaugurated the popular Gruen time jingle and year-round radio time signal promotion programs in the major markets of America. We also have begun to establish Gruen advertising in television. It is our sincere belief that this investment in advertising continuity has paid real dividends in building a very definite consumer acceptance for Gruen watches.

Trade Recognition

The policy of selective, controlled distribution inaugurated in 1935 has been consistently adhered to despite multiple sales opportunities, particularly during the past five years when we distributed to our more than 6,500 loyal Gruen jewelers such watches as we were able to manufacture under the most critical conditions, on a fair and equal allotment basis apportioned according to their previous purchases. Because of this fair-dealing policy with our loyal Gruen jewelers throughout the tense war years, I am certain that in the postwar years to come, Gruen trade acceptance will be greater than ever before in the Company's long history.

The War Effort

Like all industries, and individuals, your Company is most happy to close its books on its war efforts. Immediately after Pearl Harbor, we offered all our facilities to the Government for whatever use could be made of them and from then until V-J Day we were steadfast in our determination that war efforts should take precedence over any other activity of the Company. We are proud of the work of our War Instrument Division, which produced many thousands of electrical precision measuring instruments. Even more than the quantity produced,



we are proud of the quality of the new type precision instruments of war which were manufactured under the supervision of our skilled technicians who formerly devoted their energies to the making of precision watches. We are proud of the award to our Company of the Army-Navy "E" and we are particularly proud of our employees who entered the armed services and the remainder, who devoted their energies at home not only to the manufacture of war instruments but to insuring the successful outcome of every War Bond Drive, Red Cross Drive, Blood Donation Drive and other war contributions. We are proud of our privilege to assist in relieving the war devastation by helping handicapped war veterans to learn the art of watchmaking through our intensive training program in The Gruen Watchmaking Institute which has been established primarily for their use.

Our Subsidiaries

Any reference to past accomplishments would not be complete without recognition of the wonderful job done by our wholly-owned subsidiary at Bienne, Switzerland and its most able Director General, Henri Thiebaud. I visited the plant this Spring and the accomplishments of Mr. Thiebaud and his executive staff in modern technology and production were incredible to me. A number of leading watch industrialists that I have talked with have advised me that they consider the Gruen watch factory in Bienne, Switzerland the most modern watch movement plant in the entire industry.

Likewise the highest praise should be given to The Gruen National Watch Case Company and its Vice President in Charge of Production, Carl W. Bieser, and the Gruen Watch Company of Canada, Limited, and Charles S. Ballard, its Manager, for the excellent jobs done by them especially in the last few trying years.

Profit Sharing Plan

You will recall that in our report last year, I mentioned that the Gruen employees Profit Sharing Trust had been established. The provision for contribution to the Profit Sharing Trust for the benefit of the employees of The Gruen Watch Company and The Gruen National Watch Case Company included in the consolidated statement of income amounts to \$135,493.18 for the year ended March 31, 1946. This amount, added to the \$77,262.40 deposited in the Profit-Sharing Trust last year, brings the total to \$212,755.58 now held in the Trust for the benefit of the employees.

In lieu of a Profit Sharing Plan, your wholly-owned subsidiary the Gruen Watch Manufacturing Company, S. A. of Bienne, Switzerland, has established the Gruen Foundation to assist its employees in illness, accidents, invalidity, old age and unemployment.

Studies are being continued regarding a plan for the Canadian Company.

The Present Outlook

It is my sincere belief that we are gradually shifting from a period in which *any* watch could be easily sold to a period when watches again will be sold and purchased on the basis of quality, design and reputation. I very much doubt if during the coming year, or perhaps even during the coming two years, enough watches can be produced to satisfy the tremendous demand but certainly within a reasonable period of time this situation will be changed.

The demand for watches in America during the past few years has been the greatest in the history of the watch industry and from present indications should continue for several years. The condition that this unprecedented demand created has not in all respects been a healthy one for the industry. A very few companies manufacture their movements in this country but even they import from Switzerland varying percentages of completed parts for their movements. Such companies did not commercially sell any watches during a period of several years until last year. Other well-established American companies import completed movements from



Switzerland but assemble them in their own plants in this country. Some of these companies, like ourselves, devoted all facilities useful for the war effort to the manufacture of instruments of war but were enabled, during the war, to continue on a limited scale, the commercial sale of watches.

However, the demand was so great, that many new importers of Swiss movements entered the field. According to reports, the number of importers of Swiss movements increased from less than 100 in 1941 to approximately 500 by 1945. Among these new importers were a few opportunists who sold their watches in many instances, at very high prices and in certain instances above ceiling prices resulting in fines because of violations of O. P. A. regulations.

It is unfortunate that the quality of some of the watches brought into this country by these newly established importers, was far from the high standard of Swiss workmanship in Gruen and many other movements. One of the reasons for the many millions of movements that were permitted to be imported by certain newly established importers direct from Switzerland and through other countries, was because of the anxiety of certain of the United States Governmental agencies to obtain watches to meet the tremendous need for both military and civilian watches. It is my belief that when conditions return to normal, a very large percentage of these new importers will go out of business and the major watch companies of which Gruen is one of the most important, will again sell approximately 50% of the total watches sold in the United States.

It is also unfortunate that the head of an independent labor union representing, according to his statement, about 8,000 employees in certain watch factories, has received considerable national publicity through demanding that there be imposed a strict quota on the importation of Swiss-made movements and watches in order to protect the American watch industry. Such a quota in my opinion is unfair to the more than 20,000 American retail jewelers and the consuming public because as most students of horology know, the finest, most accurate watch movements have been produced by the Swiss with whom watchmaking has been a top profession for centuries.

Through this labor organization, not affiliated with either the American Federation of Labor, or the Congress of Industrial Organization, considerable pressure has been placed on the State Department and on members of Congress to take action toward the limitation of importation of Swiss watches and movements.

Thus far, our national authorities in the main have recognized the true facts of the situation, namely, that the 8,000 employees claimed as members of such labor organizations represent but a very small percentage of the total employees in the watch and jewelry industries; that the old established watch assemblers, especially those like Gruen which owns its own Swiss plant, are in every sense of the word American companies; and that the future peace of the world rests on importing as well as exporting and through reciprocal trade agreements.

Under the Reciprocal Trade Agreement of 1936, the United States cannot place any quantitative limitation on the importation of Swiss watches and movements. However, because of the pressure on the State Department on which I have already commented, there was an exchange of notes between the State Department and the Swiss Government in April, at which time the Swiss Government voluntarily agreed to limit this year's exportation of watches and movements to the United States to the same number that was "directly" imported in 1945. The Swiss also agreed to try to control the "indirect" shipments—those passing through South America, Mexico, Canada, etc. This would allow direct imports of about 7,700,000.

Despite the fact that your Company should receive at least as many movements this year as last year, I am personally opposed on general economic principles to the setting of any quotas. It is my belief that such measures are not internationally sound or practical and work to America's disadvantage, rather than to its advantage.

It is my personal opinion that even if Switzerland exported ten million watches to this country this year, every watch that could possibly be manufactured in this country could easily be sold because the present



demand for watches far exceeds the supply. This is emphasized by the fact that several manufacturers who make their movements in this country announced tremendous expansion plans in 1945 prior to the exchange of notes between the Swiss Government and our State Department.

The present market situation offers unlimited possibilities. Material and labor still remain scarce but, barring any unforeseen governmental action here and abroad and unforeseen further curtailment of labor and material, we believe we can do approximately as much and perhaps more business this year than was done during the past year. Our labor and material costs are constantly rising and while the Office of Price Administration has removed all price controls on watches having movements made in this country, it has not up to the present time taken such action with regard to watches using Swiss movements. We are hopeful that measures will be taken to adjust this inequitable condition. Insofar as profits are concerned, no one can make a definite prediction at this time. However, regardless of the question of immediate profits, my belief in the future growth of this Company continues stronger than ever. We have a fine product and a tremendous good will built up over the years; we have more than 6,500 loyal Gruen jewelers, we have a staff of conscientious employees and executives and we have merchandising and advertising programs which, I believe, should prove successful.

Expansion Plans

Because of the increase in our production and sales of more than 500% from 1935 to 1941 and the subsequent crowded working conditions and resulting increased costs, we started plans in 1941 for an expansion program to insure a more efficient and economical operation for our factories both in Bienne, Switzerland and Cincinnati, Ohio, which plans had to be abandoned because of the outbreak of the war.

I am happy to advise you that the addition to our manufacturing plant at Bienne, Switzerland has already been started and plans are now being completed for the addition to our Time Hill plant in Cincinnati, as well as a new building to house our wholly-owned subsidiary, The Gruen National Watch Case Company and additional floors for the possible manufacture of movements in this country augmenting our production in Bienne, Switzerland.

The expansion program in Cincinnati depends entirely on our ability to obtain a permit for the construction of the addition to the present building and the new building; and the ability to get materials.

In Memoriam

It is with great sorrow that we announce the passing on September 15, 1945, of Mr. Fred G. Gruen. Mr. Gruen served as President of the Company and as Chairman of its Board of Directors. He early joined his father, Dietrich Gruen, the founder of the business, and spent more than fifty years with the Company. During his lifetime, Mr. Gruen made some notable technical achievements in the watch industry. We, at Time Hill, were deeply grieved at his passing and miss his kindly, friendly presence.

Conclusion

In concluding this report, I want to take this opportunity once more to express my deepest thanks to all the officers, directors and employees for their continued loyalty and untiring efforts.

I should like to pay special tribute to Mr. George J. Gruen, Chairman of our Board of Directors, who is celebrating his fiftieth anniversary with the Company which he has served honorably and faithfully ever since he first became associated with his father, Dietrich Gruen and his brother, Fred G. Gruen, in this fine old Company.

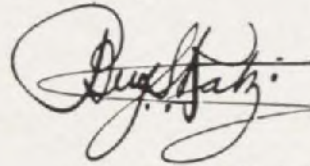


In behalf of our shareholders, directors and employees I should again like to express to our more than 6,500 loyal Gruen jewelers in America and Canada, whose good will we consider our greatest asset, and who have contributed so much to the success of our Company, our sincere appreciation for their continued confidence and understanding especially during the past decade and to assure them that our Company will constantly endeavor to supply them with the finest watches that the finest watchmakers in the world know how to make.

At this time I should also like to extend our thanks to our suppliers in America, Canada and Switzerland for their excellent cooperation especially during the difficult war years, when we were so dependent on them for the production and sales of our watches.

To you shareholders who have exhibited your confidence in the management, I want to convey the gratitude of the entire organization and to pledge to you our constant efforts toward the continuous progress of the Company.

Sincerely yours,



Benjamin S. Katz
President

Time Hill, Cincinnati, Ohio

June 5, 1946



The Gruen Watch Company

CONSOLIDATED BALANCE

ASSETS

Cash on hand and demand deposits	\$4,144,228.60
\$350,000 United States Savings Bonds, Series G, at cost	350,000.00
Notes and accounts receivable, trade, less allowance for doubtful notes and accounts	491,689.35
Inventories, at the lower of cost or market (Note 2)	3,485,938.27
<i>Total current assets</i>	<u>8,471,856.22</u>
Cash surrender value of insurance aggregating \$1,166,840 on lives of officers and directors (Note 3)	111,836.87
Cash deposits restricted, net (Note 4)	169,038.39
Other accounts receivable	40,368.94
Sundry investments, at cost or nominal values	35,591.88
Land, buildings, and equipment, at cost	\$1,005,371.72
<i>Less, allowance for depreciation</i>	<u>549,860.56</u>
	455,511.16
Prepaid expenses and deferred charges	98,521.31
Patents, trade-marks, copyrights, and goodwill	1.00
	<u><u>\$9,382,725.77</u></u>

The accompanying notes Nos. 1 to 6 are



and Subsidiary Companies

SHEET, MARCH 31, 1946

LIABILITIES

Accounts payable.....	\$ 703,040.48
Accrued expenses.....	721,448.92
Dividends payable.....	95,926.83
Provision for domestic and foreign taxes on income, less, U. S. Treasury Tax Savings Notes (at cost and accrued interest) \$1,092,368 (Note 6).....	477,953.67
<i>Total current liabilities</i>	<u>1,998,369.90</u>
Notes payable, bank, due annually in varying amounts from July 1, 1947 through July 1, 1955 (Note 5).....	2,000,000.00

CAPITAL

Capital stock:

Preferred stock, 4½ per cent cumulative; \$100.00 par value; authorized 25,000 shares, issued and outstanding, none.....	\$ — —
Common stock, \$1.00 par value; 650,000 shares authorized, 505,337¾ shares issued, less 121,081½ shares in treasury, outstanding 384,256¼ shares (Note 3).....	384,256.25
Earned surplus, as annexed (Notes 1, 3, and 6).....	<u>5,000,099.62</u>
	5,384,355.87
	<u><u>\$9,382,725.77</u></u>

an integral part of this balance sheet.



Notes

TO CONSOLIDATED BALANCE SHEET

NOTE 1. The consolidated balance sheet includes assets of Gruen Watch Mfg. Co., S. A. aggregating \$1,151,809.94 (exclusive of intercompany receivables aggregating \$770,016.14) of which current assets are \$802,491.10 and liabilities of \$472,937.75.

The consolidated balance sheet also includes net assets of Gruen Watch Company of Canada, Ltd. aggregating \$478,360.22 of which net current assets are \$420,838.36.

Current assets and liabilities of the Canadian Company have been converted into dollars at the Federal Reserve rates prevailing at March 31, 1946. In the absence of such rates, current assets and liabilities of the Swiss company have been converted at currently quoted buying rates at March 31, 1946.

Noncurrent assets have been converted substantially at rates of exchange prevailing when acquired.

NOTE 2. The estimated amounts of intercompany profits in inventory items purchased from companies whose accounts are consolidated have been eliminated in the preparation of the consolidated balance sheet.

NOTE 3. In accordance with an employment agreement between the company and Benjamin S. Katz, President, the company is obligated to purchase, if requested within 120 days from the date of his death, common stock of the company held by his personal representatives, widow, children, or trustee, for an amount not in excess of \$500,000. The price per share to be paid shall be the consolidated book value per share as of the day following his death.

The company recently increased the insurance on the life of Benjamin S. Katz to \$1,000,000 and of this amount has agreed to continue \$750,000 insurance for the period that the employment agreement is in effect and it is expected that the proceeds of such policies will be held by the company to the extent of \$500,000 to be used in the purchase of said stock, if offered.

NOTE 4. Cash deposits restricted, represent balances of remittances by the parent company to the Swiss subsidiary in the regular course of business, which have been subjected to exchange regulations, less advances by a Swiss bank of \$2,195,382.00. The company is informed that at the time of the release of such restricted deposits any expenses, taxes, and other losses that may have been incurred by the Swiss Government and the Swiss National Bank in connection with remittances which have been subjected to exchange regulations will be deducted from restricted deposits aggregating \$303,784.18. An allowance of \$134,745.79 for such expenses, taxes, and other losses is included in the accompanying financial statements.

NOTE 5. In the event of the retirement, voluntary or otherwise, of Benjamin S. Katz from the position of an executive of the company, other than by death, the notes payable, bank, become immediately due and payable on demand.

NOTE 6. It is estimated (based on present laws) that additional foreign taxes on transfers to the parent company of the accumulated surplus of foreign subsidiaries would approximate \$386,000.



Consolidated Statement

OF INCOME AND EARNED SURPLUS for the year ended March 31, 1946

Gross profit from sales	\$5,599,129.28
Selling, administrative, and general expenses	2,783,008.15
<i>Profit before other income and expenses and income taxes</i>	2,816,121.13
Other income	141,031.17
	<u>2,957,152.30</u>
Interest, provision for losses, etc. on restricted deposits and other expenses	425,599.54
	<u>2,531,552.76</u>
Provision for domestic and foreign income taxes (including Federal excess profits taxes \$858,391.06)	1,459,715.38
<i>Net income</i>	1,071,837.38
Surplus, April 1, 1945	4,212,550.73
	<u>5,284,388.11</u>
Excess of proceeds of director's life insurance over cash surrender value	57,579.35
Partial recovery of unrealized losses on foreign exchange charged to earned surplus in a prior year	3,963.34
	<u>5,345,930.80</u>
Dividends paid, common stock, 90c per share	345,831.18
Surplus, March 31, 1946	<u><u>\$5,000,099.62</u></u>

The accompanying notes are an integral part of this statement.



Notes to Consolidated Statement

OF INCOME AND EARNED SURPLUS

NOTES 1 and 6 to Consolidated Balance Sheet, March 31, 1946 are incorporated herein by reference.

The provisions for depreciation included in the consolidated statement of income amount to \$60,283.02.

The provisions for contributions to the profit sharing fund, for the benefit of the employees of The Gruen Watch Company and The Gruen National Watch Case Company, included in the Consolidated Statement of Income, amount to \$135,493.18.

Income accounts of foreign subsidiary companies have been converted substantially at the average monthly rates of exchange prevailing during the year ended March 31, 1946. The unrealized profit of \$3,963.34 arising from changes in conversion value of net current assets of foreign subsidiaries is included in consolidated earned surplus.

Intercompany sales and estimated intercompany profits have been eliminated in the preparation of the consolidated statement of income.

Consolidated net income includes net income of foreign subsidiaries aggregating \$250,921.92. No dividends were received from foreign subsidiaries during the year.

LYBRAND, ROSS BROS. & MONTGOMERY

Certified Public Accountants

CINCINNATI

To the Board of Directors, The Gruen Watch Company, Cincinnati, Ohio.

We have examined the consolidated balance sheet of The Gruen Watch Company and its subsidiary companies as at March 31, 1946, and the consolidated statements of income and surplus for the year then ended. Except with respect to the Swiss subsidiary, we have reviewed the systems of internal control and the accounting procedures of the companies and, without making detailed audits of the transactions, have examined or tested accounting records of the companies and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures considered necessary. We have received the report of other accountants who examined the financial statements of the Swiss subsidiary.

In our opinion, based upon such examination and upon such report of other accountants, the accompanying consolidated balance sheet and related consolidated statements of income and surplus present fairly the consolidated position of The Gruen Watch Company and its subsidiary companies at March 31, 1946 and the consolidated 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.

LYBRAND, ROSS BROS. & MONTGOMERY

Cincinnati, Ohio.
May 21, 1946



1936-1946

*Comparison and Surplus
For Ten-Year Period*

Accomplishment



The Gruen Watch Company and Subsidiary Companies

CONDENSED COMPARISON OF CONSOLIDATED FINANCIAL POSITION

at March 31, 1936, March 31, 1941 and March 31, 1946

	Mar. 31, 1936	Mar. 31, 1941	Mar. 31, 1946
Total Current Assets	\$1,608,839.86	\$5,678,476.11	\$8,471,856.22
Total Current Liabilities	403,094.98	1,468,185.24	1,998,369.90
Net Current Assets	1,205,744.88	4,210,290.87	6,473,486.32
Term Loan From Bank		1,500,000.00	2,000,000.00
Net Current Assets in Excess of Term Loan from Bank . . .	1,205,744.88	2,710,290.87	4,473,486.32
Cash surrender value of insurance on lives of officers and directors		23,851.34	111,836.87
Cash deposits, restricted			169,038.39
Land, Buildings and Equipment, at Cost	711,643.48	821,061.71	1,005,371.72
Allowance for Depreciation of Cost	*261,891.56	*374,787.21	*549,860.56
Appraisal Appreciation Included in Property Accounts	85,316.07		
Investments	113,022.42	6,532.68	35,591.88
Other Assets	12,663.65	70,971.95	138,891.25
Net Assets of Companies Applicable to Debenture Holders and Shareholders	\$1,866,498.94	\$3,257,921.34	\$5,384,355.87
Registered Debentures Issued in Part Settlement of Liabilities to Banks	\$ 727,500.00		
Equities of Minority Shareholders in Subsidiaries	142,105.46		
	\$ 869,605.46		
Equities of Shareholders of The Gruen Watch Company . . .	\$ 996,893.48	\$3,257,921.34	\$5,384,355.87
Capital Stock Issued in Settlement of Balance of Liabilities to Banks:			
Class A Preferred Stock	\$ 727,500.00		
Class B Preferred Stock	363,750.00		
	\$1,091,250.00		
Equity of Class C Preferred and Common Shareholders	*\$ 94,356.52	\$3,257,921.34	\$5,384,355.87
Class C Preferred Stock	490,325.00	489,375.00	
Equity of Common Shareholders	*\$ 584,681.52	\$2,768,546.34	\$5,384,355.87
Represented by:			
Common Stock	\$ 114,995.00	\$ 426,298.25	\$ 384,256.25
Surplus or Deficit, as annexed	*600,599.46	2,342,248.09	5,000,099.62
Excess of Cost of Shares of Subsidiaries Over Equities in Net Worth at Acquisition	*99,077.06		
Equity of Common Shareholders	*\$ 584,681.52	\$2,768,546.34	\$5,384,355.87

*Italics denote red figures.



Consolidated Statement of Earned Surplus

For the Ten Year Period Ended March 31, 1946

Deficit, April 1, 1936		\$ 600,599.46*
Net income for the ten years ended March 31, 1946		8,080,405.13
		<u>7,479,805.67</u>
Additions:		
Excess of proceeds of director's life insurance over cash surrender value \$	57,579.35	
Unrealized foreign exchange gains from conversion of foreign net assets to dollars	<u>1,419.40</u>	58,998.75
		<u>7,538,804.42</u>
Deductions:		
Additional charges for losses and expenses applicable to period prior to March 31, 1936		175,868.86
		<u>7,362,935.56</u>
Other charges to adjust valuation of assets:		
Appraisal increases remaining in property accounts at March 31, 1940	80,775.18	
Excess of cost of shares of subsidiaries acquired in prior years over equities in net worth at dates of acquisition, less \$15,400 charged Paid-in Surplus	65,462.45	
Par value of 9,229½ shares common stock issued to holders of Class C 6 per cent cumulative, preferred stock less 212½ shares held in treasury ..	9,017.00	
Excess of cost over par value of 1,541 shares Class C, 6 per cent cumulative, preferred stock acquired and retired	12,507.00	
Premium on 18,034 shares 5 per cent cumulative, preferred stock, redeemed and cancelled	18,034.00	
Excess of cost over par value of 118,177½ shares common stock held in treasury, less \$43,000 charged Paid-in Surplus	<u>318,728.50</u>	504,524.13
		<u>6,858,411.43</u>
Dividends Paid:		
Class A preferred stock	85,578.25	
Class B preferred stock	924.56	
Class C preferred stock	34,130.53	
Preferred stock	85,166.91	
Common stock	<u>1,652,511.56</u>	1,858,311.81
		<u>\$5,000,099.62</u>
Surplus, March 31, 1946		<u>\$5,000,099.62</u>

*Deficit.



1874-1946

*72 Years of Producing
America's Fine Watches*

Highlights



The Gruen tradition of



Dietrich Gruen's great ambition was to create a truly fine watch. Imbued with a love for his profession which required the utmost in skill and precision craftsmanship, his every thought and effort were turned toward producing watches of proud and admirable quality.

Thus, in the very beginning in 1874 when Dietrich Gruen established this business with the modest capacity of ten watches per day, did he set the high standards that were to become sacred traditions with this Company—traditions which have been maintained throughout the seventy-two years of Gruen history and progress.

Coming to America in 1867 after years of tedious and patient apprenticeship in Switzerland and other countries in Europe, Mr. Gruen was engaged in Columbus, Ohio,

as a watch repairman. In this capacity he declined even to work on any except the finest watches brought to him.

In 1874, Dietrich Gruen, believing that a very fine watch would find a ready market, established his own watch factory in Columbus. Because careful search revealed to Mr. Gruen that there were then few, if any, watchmakers in America who could meet his standards, he returned to Switzerland, the source of the world's finest watchmakers, designed the first Gruen movement made and brought to Columbus the plans and a small organization.

By the 1880's, Gruen watches were so well received that the market always exceeded the capacity to produce and it was then that Dietrich Gruen inaugurated a bold expansion program. He established the company's own movement factory in Switzerland to augment American production and after a few years moved from Columbus to Cincinnati. To fulfill a desire to market a complete watch, the Gruen Company purchased a case manufacturing organization.

Gruen Firsts

The present picturesque Time Hill plant was completed and occupied in 1917.

Along with the unwavering standards of quality, Dietrich Gruen and his two sons, George J. and Fred G. Gruen who joined the firm in the 1890's, were to establish numerous progressive innovations both in watch manufacture and merchandising.

Gruen watches were the first sold with movement and case as one unit, the first sold in a box, the first nationally advertised, the first retailed with price established by the manufacturer. Among the revolutionary innovations in manufacture were production of: the first stem-wind watch in America, the first size sixteen pocket watch, the first Pentagon pocket watch and Veri-Thin, the first accurate thin watch.



giving America fine watches



Gruen Contributions

Below are part of the Gruen contributions to the art of fine watchmaking, an art which has made Gruen America's choice since 1874:

1874—Gruen patented the safety pinion, a technical achievement in general use today.

1878—Gruen made the first sixteen size watch which became the standard size railroad watch in America.

1896—The first watch company to sell completely cased watches in beautiful boxes with retail price established by manufacturer.

1902—The Gruen Veri-Thin, the first accurate thin pocket watch.

1908—Introduction on a wide scale of wrist watches for ladies.

1910—The first watch company to advertise on nationwide scale.

1915—Presentation of first platinized dials with numerals applied in solid gold.

1918—Wrist watches for men introduced on nationwide scale.

1921—The first Cartouche, representing notable advance in movement manufacture in that an oval movement was manufactured and fitted inside an oval case.

1922—The Pentagon Veri-Thin. Manufactured to remain upright in the pocket.

1924—The Ultra Veri-Thin introduced in the Fiftieth Anniversary watch.

1925—The patented Gruen Quadron, the first rectangular movement.

1930—Gruen contributed the baguette movement to the science of watchmaking.



Sample case first used at turn of century.



Complete cased and boxed watches were first sold by Gruen in 1896. These were first boxes used in industry.



Gruen's Modern Miracles

IN FINE WATCHMAKING



Master craftsmen have produced watches in Switzerland for hundreds of years and in America for the last century, but it remained for Gruen to create the two movements which can justly be called modern miracles—the Gruen Curvex and the Veri-Thin.

The Curvex, most famous of the Company's advances, is the most revolutionary development in watchmaking in the last 300 years. Far ahead of the industry, Curvex was created by Henri Thiebaud, since 1935 director general of your Company's factories in Switzerland. For the first time in history of watchmaking, a timepiece had been designed in which both the movement and the case were curved top and bottom to fit the wrist. Protected by patents, the Curvex principle remains the exclusive property of your Company until 1959. At top right, is the Curvex blueprint which simply, yet graphically, illustrates the extent of the improvement of the Curvex movement over the old-type movement.

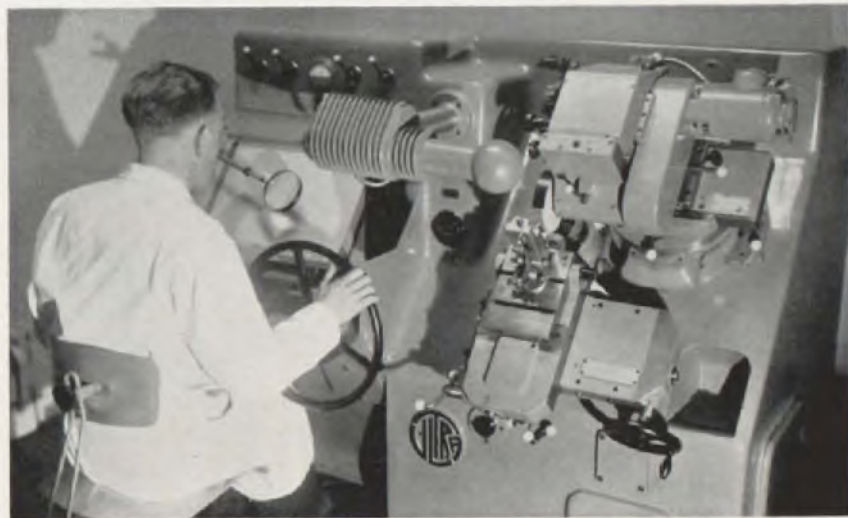
Already an outstanding accomplishment, the Gruen Veri-Thin was made still thinner by Thiebaud, with extreme accuracy and dependability. The lower illustration at right shows the fundamental principle of the Veri-Thin and demonstrates its superiority over ordinary movements.

Below is a photograph of Gruen's Precision Plant at Bienne, Switzerland, one of the very finest watch manufacturing plants in the entire world.



Where Precision Prevails

These photographs are a few scenes from Gruen's wholly-owned manufacturing plant in Switzerland. This is one of the finest and most complete watch manufacturing plants in the world. The ultimate in cleanliness, and with superb conditions of light and ventilation, the interior is conducive to excellent work. At right is an ultra-precision grinding machine which works to within 4/100,000ths of an inch for complete accuracy. Below, left, the ebauche manufacturing department is shown at top and beneath that, the final assembly department. At right, below, is the inspection control department.



Why Gruen is



1935 . . . *Curvex—the most famous Gruen “first”*

Most famous of all Gruen “firsts” is the Gruen Curvex, originated in 1935 and announced in 1936, with patented movement curved to fit the wrist. The first really new watch in 300 years, the Curvex was accepted by the public as a truly great innovation resulting in tremendous recognition for your company.



1936 . . . *Curvex for Women is Tremendous Hit*

In 1936, Gruen brought forth the feminine counterpart of the man’s Curvex, the Curvex for women! Despite its dainty, feminine design and small case, the Curvex for women was a tremendous hit with ladies throughout America with smart tastes and the desire for the distinctive.



1937 . . . *A New and Greater Curvex*

Even more revolutionary than the original was the advanced Gruen Curvex presented to the public in 1937! Labeled “the custom-curved watch,” its movement arc was twenty-five per cent greater than that of its predecessor, allowing more space for working parts . . . producing greater Precision accuracy!



1938 . . . *Gruen Creates the Wrist-side Curvex*

Far ahead of the times was the practical Wrist-Side Curvex, to be worn on the side of the wrist! The public was not quite ready for such a functional model, and Gruen put this model away for subsequent re-introduction.



America's Choice



1939 . . . A New and Thinner Veri-Thin

Another Gruen watchmaking miracle . . . the new patented Veri-Thin based on a different principle than the original Veri-Thin pocket watch, with sides and ends much slimmer! Its working parts full-sized for maximum accuracy, Gruen Veri-Thin is the thinnest popular priced watch today.



1940 . . . Demand Exceeds Capacity to Produce

Although in each successive year since 1936, the demand for Gruen watches had exceeded the capacity to produce, the merchandise deficit became so great in 1940, the last pre-war year, that it was necessary to establish a quota system for distribution of Gruen watches to our jewelers. The quota plan still is in effect.



1941 . . . Gruen Goes to War

During the war years Gruen devoted its skill and knowledge to the manufacture of precision instruments for the Armed Forces. During these same years, Gruen designers created the 24-hour dial Pan American watch, which was adopted by Pan American World Airways as official watch, used by the Armed Forces, then, after the war, made available to the buying public.



1946 . . . And What of the Future?

This year will bring forth still more innovations which will keep your Company in the forefront of the industry. Developments already far along are to be presented to the public this fall—watch for them. New watches and greater service will keep Gruen watches in their enviable position—America's Choice.”



The Hands of

Almost incomprehensible to the average layman is the minuteness of the parts that make up a watch movement. Shown here, many times its actual size is a balance wheel, containing infinitesimal screws and washers, some almost invisible to the naked eye. Small wonder that the watchmaker's most valuable assets include unlimited patience and skillful, steady hands.



A Gruen watch is a modern example of Precision accuracy in the smallest mechanism for general use the world has ever known. Each of its 125 or so infinitesimal parts is a miracle of skilled craftsmanship—a product of painstaking technique . . . its assembled movement the end result of the watchmaker's patience, skill, love of his craft, and far-reaching technical knowledge.



Hands skillfully trained in the fine art of watchmaking fashion springs, jewels and wheels into a miracle of precision accuracy. Every wheel perfectly balanced . . . every carefully cut ruby or sapphire mounted precisely . . . every tiny screw in place . . . a Gruen watch begins its active life rich in the tradition—and practice—of Gruen Precision craftsmanship.



Precision Time

One of the most important parts of a watch—and one of the smallest—is the balance staff found in the center of the balance wheel. It, like every other single element in a Gruen watch, must be constructed without a flaw. Only the patient skill of master craftsmen working with highest quality material can meet the rigid standards set up by Gruen in creating Precision Watches.



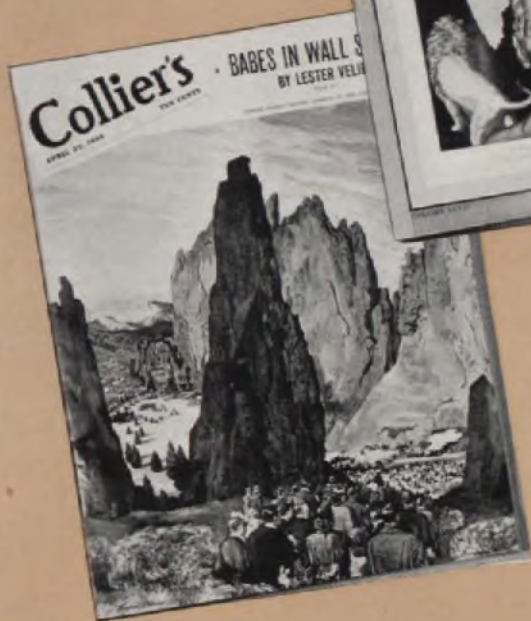
In the creation of beautiful watches, the dial plays an important part. Its color, its style, lend much to the distinction and beauty of a timepiece. Numerals are put on with care—some are engraved, some embossed—some stamped on or enameled. Others have solid gold figures or diamonds in place of the numerals. Dials are subjected to the same careful inspection as movements.



The crystal is the “window” of a watch. It must be flawlessly clear, perfectly shaped, and of a faultless fit to meet the high Gruen standards. From the initial cutting operation to the grinding and polishing steps, each crystal is individually treated, shaped and finished by highly trained and skilled workmen. Gruen makes the greater portion of its own crystals.



Gruen—the first watch in



National Advertising

Gruen was the first watch to be advertised in magazine campaigns with nation-wide scope.

Since establishing that precedent, your Company has endeavored to maintain the position of leadership in watch advertising in order to increase constantly the wide public acceptance of Gruen watches. For example, Gruen has been consistently advertised in the *Saturday Evening Post* since 1910, with a total of 220 Gruen ads having been published in that one magazine during those thirty-five years. Since the 1910 beginning, all the leading national magazines such as *Life*, *Time*, *Newsweek*, *Collier's*, *American Weekly*, *Fortune*, *Esquire*, *National Geographic*, *Vogue*, *Mademoiselle*, and many others, have been used to create Gruen prestige and acceptance.

The value of consistency and continuity is emphasized by the fact that independent readership surveys made by the prominent Starch organization prove that Gruen ads each year reach a larger number of people than in preceding years. The Christmas, 1945 four-color, full page ad had the highest readership rating of any ad ever published in the watch industry.

Radio, too, is most important in creating consumer goodwill. Your Company's schedule of Time Signals is carried on radio stations from coast to coast, reaching an estimated audience of 30,000,000 persons daily.

Supplementing this, Gruen has been accorded the widest recognition and acclaim through numerous publicity media. Sponsors of more than twenty trans-continental network shows, recognizing the value of the Gruen name and its seventy-two year reputation, broadcast the Gruen identity to millions upon millions of listeners each week.

Dozens of full-length feature motion pictures and newsreel sequences will display the Gruen identity to untold millions in 1946 as they have heretofore.

Further, an exceptional recognition came to Gruen watches when they were selected by globe circling Pan American World Airways, as the official watch of all the airline's extensive operations.

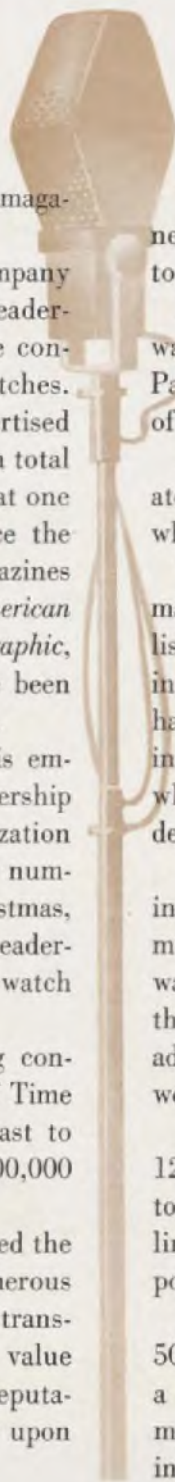
All these powerful national forces combine to create the widest acceptance of Gruen—an acceptance which actually is a tremendous potential market.

To assist Gruen jewelers to convert this potential market into actual sales, your Company has established the only 50/50 Newspaper Advertising Plan in the watch industry. Under this plan, Gruen pays half the cost of local dealer newspaper advertising in which Gruen is the only watch advertised and in which at least seventy-five per cent of the space is devoted to Gruen.

Announced in July, 1945, the 50/50 Plan was an instantaneous success, and tripled in the first six months the newspaper space devoted to Gruen watches. Under its operation jewelers purchased through December 31, 1945, approximately 5,000 ads totaling 1,500,000 lines in which Gruen watches were advertised exclusively.

In addition to the 5,000 exclusive ads, more than 12,000 other advertisements featured Gruen in space totaling 650,000 lines for a grand total of 2,150,000 lines, equal to the entire space in an average metropolitan daily paper during a fifty-day period.

Supplementing ad-mat books provided under the 50/50 Plan, your Company furnishes jewelers with a most comprehensive array of point-of-sale promotional material, which is illustrated on the following page.



Gruen's Advertising Service

TO JEWELERS IS OUTSTANDING IN THE INDUSTRY



WHERE THERE ARE CROWDS

there's Gruen Watch Time



Wherever huge crowds gather at the nation's leading sports events, there you'll find "Gruen Watch Time" clocks creating prestige for the Gruen name and making added millions Gruen-conscious. Nearly all of the major league baseball parks and most of the major horse-racing establishments, which attract millions each year, are "timed" by Gruen. Huge Gruen clocks atop the scoreboards or odds boards, frequently catch the "eye" of newsreel cameras, and thereby the Gruen identity is placed before multitudinous theatre audiences. Other clock installations are in air terminals, college and municipal stadia, the New York Metropolitan opera, etc.



The people behind



the finest watches



Great organizations are *founded* on gold stock, cash reserves, property. Without these they could not exist.

Great organizations are *built* of flesh and blood—the life work of men and women. For gold stock, cash reserves and property cannot *make* an organization great—cannot keep it on the pinnacle of success. That job goes to its employees—the men and women who make an inanimate organization come alive—make it progress and grow—with hard work, good management and a fund of ideas.

To the employees of The Gruen Watch Company belongs much credit for Gruen's outstanding place in industry. The employees of Gruen are the heart and soul, the very vital center of its activities. Each and every man or woman, no matter what his or her job, is responsible for Gruen's prestige and reputation, her amazing growth to a place of enviable eminence in the business world.

Loyalty, industry, adaptability, outstanding skill—these are the qualities which Gruen employees possess—these are the qualities that have made the name Gruen great.



Gruen's Greatest



Early in August, 1945, an Army Air Force B-29 dropped the world-startling atom bomb on Hiroshima. A few days later another hit Nagasaki. Two were enough. Shortly thereafter, Japan surrendered and the allies' joyous victory was attained.

After revelation of the atom bomb to the world, and the "Manhattan Project" was stripped of its secrecy, your Company was advised by R. B. Sproul, president of the University of California which operated the Los Alamos Scientific Laboratory which did much in the development of the bomb, that Gruen precision instruments played their part in the creation of the atom bomb.

"You and your associates are entitled to feel that you have had a share in this important work," Mr. Sproul advised.

Instrument Work Wins Army-Navy "E"

This information added to the justifiable pride your Company already had taken in having been awarded the Army-Navy "E" for efficiency in production of Precision instruments for war used by all branches of the Armed Forces.

Beginning shortly after Pearl Harbor, Gruen technicians and the best of the Company's watchmaking experts, entering a field completely foreign to their experience and background, successfully and rapidly established the War Instrument Division. Production, which got under way more than three months earlier than promised or anticipated, was sufficient throughout the war years to more than meet the requirements our Government asked of Your Company.

In fact, engineers at Time Hill developed techniques and manufacturing processes which were revolutionary in the instrument industry, and were adopted by "old-line" instrument manufacturers to speed up their own production.

War instrument production, rewarded with the Army-Navy "E", and contributing to the defeat of our tyrannical enemies is regarded as truly Gruen's greatest achievement.

In addition to precision instruments, an ample quantity of watches were received by the Armed Forces throughout the war from your Company.

The number of men from Time Hill who served in the Armed Forces in defense of our country is equal to forty-three per cent of the total men employed on Pearl Harbor day. Gruen's women employees also were well represented in the Armed Forces. They served well in every theatre of



Achievement

operations, with a notable percentage having become officers of high rank. Their accumulated total of awards and decorations, including the Purple Heart, is most impressive. Of all the Gruen personnel who went into the Armed Forces, there was one, John Steffen of the Horological Department, who gave his life for his country. This loss is deeply regretted, and there is a feeling of thankfulness that the fates of war spared your Company other losses.

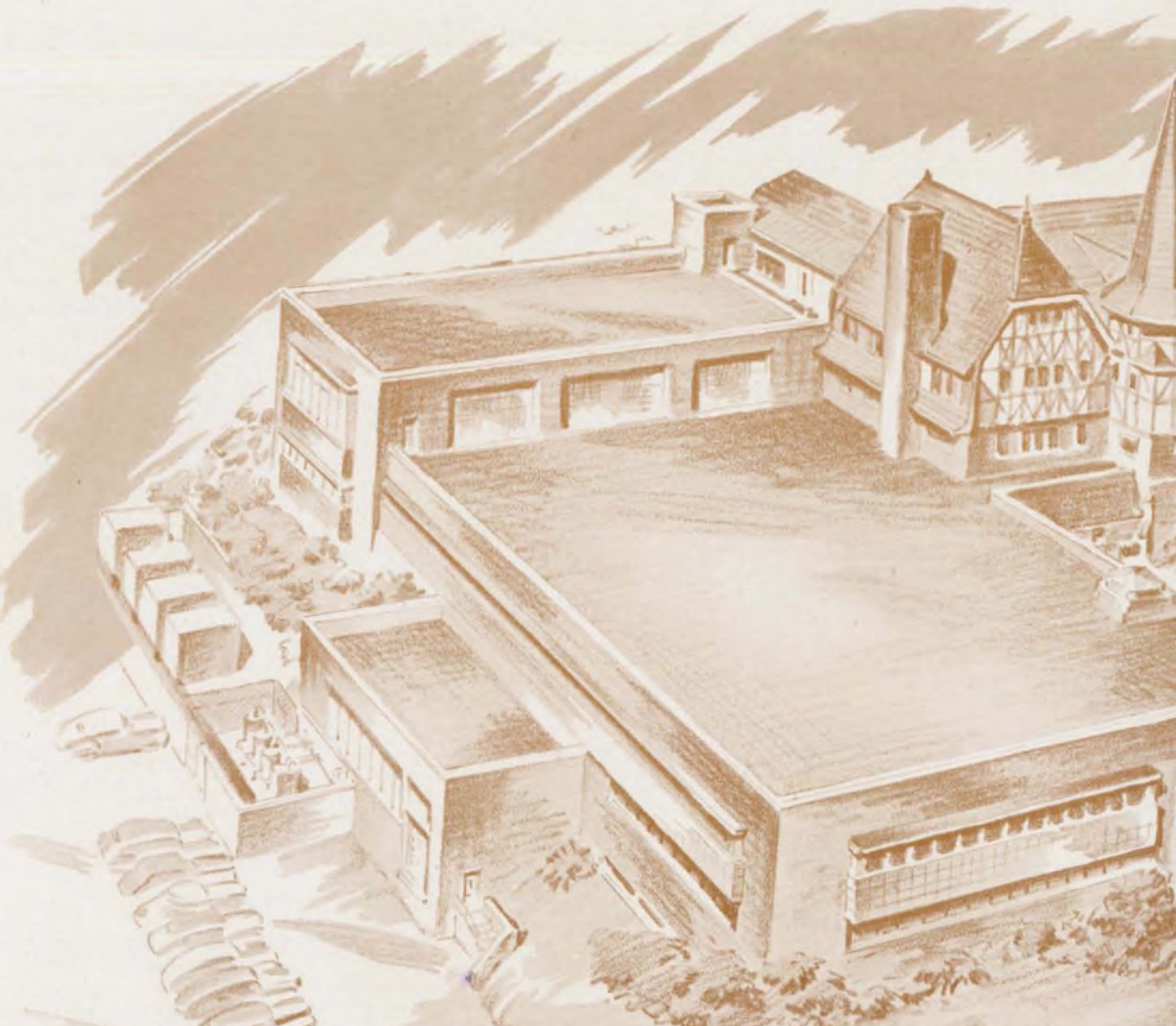
Gruen's returning veterans are welcomed back to their jobs, and, as a token of cordiality, your Company presents each one with a Victory Bond.

Advertising Supports War Efforts

From one week after Pearl Harbor until past V-J Day, a large portion of the powerful Gruen advertising campaigns on the radio and in magazines, was used exclusively to support various governmental war efforts, such as War Bond Drives, salvage campaigns, etc. Three full-page Gruen ads, published in several leading national magazines, were awarded citations by the Wartime Advertising Council as being outstanding among all war effort ads published throughout the country by hundreds of industries.



Gruen prepares



Uncompromising faith in the future of this country, the American jewelers, and the ability of your Company to hold its position of leadership is behind the decision of the management, with the approval of your Board, to enter into a million-dollar expansion program which will increase the facilities at Time Hill by at least fifty per cent. A similar fifty per cent expansion program is under way at our factory at Time Hill, Bienne, Switzerland.

In Cincinnati, an addition to the present building and a completely new building are anticipated in the architect's drawing shown above. Additional manufacturing and office space will be provided along with a cafeteria for all personnel and new quarters for The Gruen Watchmaking Institute. Work will be started as soon as possible.



for the future



Large Expansion Is Planned By Gruen Watch Company; Addition To Cost Million

Plans for immediate expansion of plant and production facilities of The Gruen Watch Co. by at least 50 per cent were announced yesterday by Benjamin S. Katz, President.

Work on construction of the additions to the Time Hill plant, to cost an estimated \$1,000,000, will get under way as soon as possible, Katz said, and will be completed, it is hoped, during this year.

See Real Estate section for sketch of project.

The additions will include new manufacturing and office facilities, a cafeteria to accommodate the entire personnel, as well as new quarters for The Gruen National Watch Case Co., a subsidiary.

All present facilities will be redecorated and remodeled, with the entire structure to be air-conditioned.

Further, new space will be provided for the Gruen Watchmaking Institute, a school in which young men, especially veterans of World War II, are being taught watchmaking.

Plans for additional work are being completed by A. M. Kinney & Co., architects, Enquirer Building. Bids will be asked as soon as completed.

The new

"Most of the watch companies produced fine instruments during the war, reducing or virtually halting their watch production. Our war instrument manufacture, incidentally, was done without profit to the company. We made instruments not only for the armed forces, but our product also was used in research for the arming of the atom bomb," Katz said. "Meanwhile, the watch shortage became acute just as did shortages in other commodities."

Referring to the Watchmaking Institute, Katz expressed the conviction that American industry, if it gives some thought and attention to the matter, could provide training and gainful employment to every man wounded in World War II. He pointed out that a man who has lost a leg, or both legs, can become a watchmaker.

"This occupation requires intelligence, steady nerves and flexible fingers," Katz said, "and it is an occupation in which a man with a handicap can earn a good living and, at the same time, maintain his self-respect and value as a citizen."

Reprint from page one
Cincinnati Enquirer
January 20, 1946



GRUEN AMONG FIRST TO EMPLOY AND TRAIN

Returning Veterans



Gruen's Obligation

Early in 1943 when still a comparatively few men had been discharged from the Armed Forces, your Company, realizing its obligation to render as much assistance as possible to veterans of World War II, established The Gruen Watchmaking Institute. This institute offers an opportunity to veterans to learn one of the world's most skilled and honored arts—the art of watchmaking. Although for the first few months of 1943 the government agency supplying candidates for the institute had difficulty in procuring all the men we could train, the school is now filled to capacity and has a waiting list of several hundred. Among the first establishments in the nation to train veterans of World War II, the institute has received much praise and credit through the press and radio and has served as an example for other training institutions.

Plans of Study

After six months' training, a veteran can elect to continue his training or accept employment with your Company. At the end of twelve months study, a veteran is qualified to accept employment as an apprentice watchmaker with your Company or in any other watch factory, jewelry store or trade shop.



Profitable Careers for War-Wounded

Among the trainees in the institute are men who, because of war injuries, would not be able to accept employment requiring more physical activity. Watchmaking, therefore, offers a splendid opportunity to disabled men to earn an excellent livelihood in an interesting occupation. More than half the 24,000 jewelry stores in America today are owned by men who made modest starts as watch repairmen and gradually expanded into successful jewelry merchants. Inevitably, part of the veterans in The Gruen Watchmaking Institute today will someday be successful and prosperous jewelers.



The Gruen Watch Company

TIME HILL, CINCINNATI, OHIO

SALES OFFICES

NEW YORK	International Bldg. 630 Fifth Ave.
CHICAGO	Pittsfield Bldg. 55 E. Washington St.
LOS ANGELES	Jewelry Trades Bldg. 220 W. Fifth St.

DIRECTORS

John R. Bullock	Attorney
Sterling B. Cramer	First Vice President, The Fifth Third Union Trust Company
E. W. Edwards	Chairman of the Board, The Edwards Manufacturing Company
Geo. J. Gruen	Chairman of the Board
Benjamin S. Katz	President and Treasurer
Clifford R. Wright	Chairman of the Investment Committee, Union Central Life Insurance Company

OFFICERS

Geo. J. Gruen	Chairman of the Board
Benjamin S. Katz	President and Treasurer
Simon C. Gershey	Vice President
George T. Gruen	Secretary
Alfred T. Reis	Comptroller
Thomas F. Jeary	Auditor

Counsel	Taft, Stettinius & Hollister, Cincinnati, Ohio
Transfer Agent	The Fifth Third Union Trust Company, Cincinnati, Ohio
Registrar	The Central Trust Company, Cincinnati, Ohio





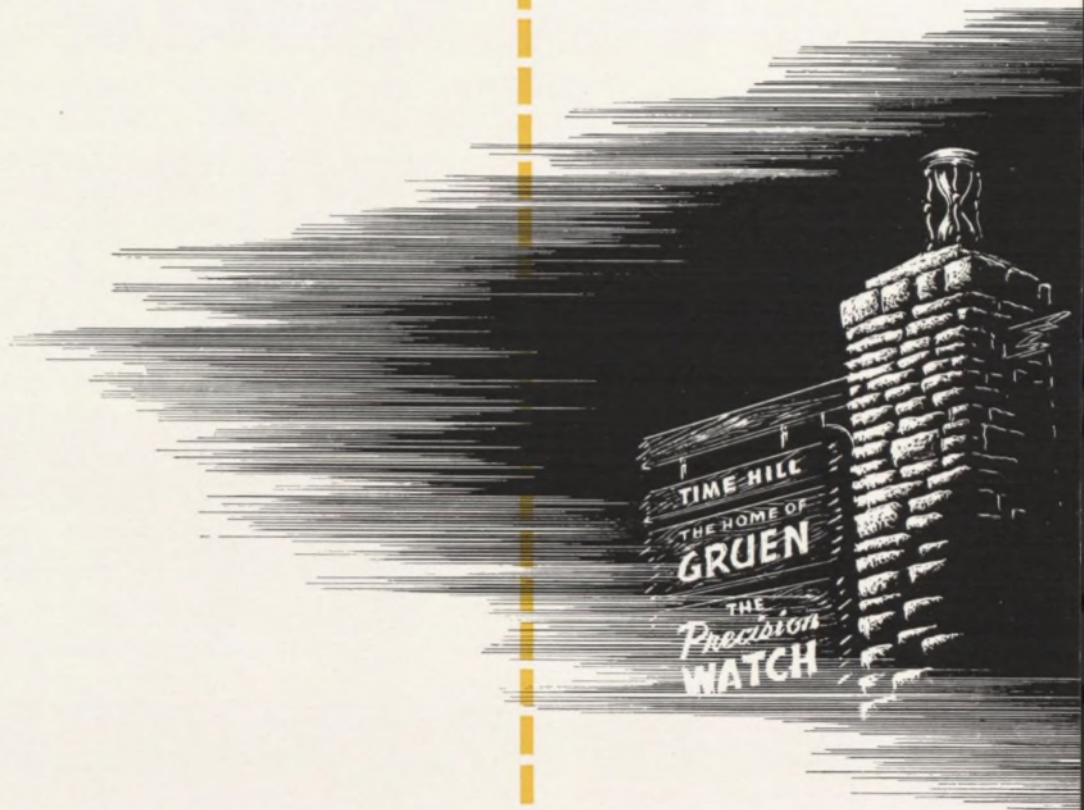
*Annual
Report*

FISCAL YEAR ENDED MARCH 31, 1947

THE GRUEN WATCH COMPANY
TIME HILL • CINCINNATI 6, OHIO



Annual Report



THE GRUEN WATCH COMPANY
for the year ended March 31, 1947





President's Report

To the Shareholders of The Gruen Watch Company:

On behalf of your Board of Directors, I am happy to present this report of the operations of your Company for the fiscal year ended March 31, 1947, which once again was the most successful in the history of your Company.

Operating Results

Consolidated net profit for the year amounted to \$2,640,375.68 before taxes, and \$1,552,228.37 after all charges and taxes, as compared with consolidated net profit of \$2,531,552.76 before taxes, and \$1,071,837.38 after taxes, for the preceding fiscal year. Based on the 384,256 $\frac{1}{4}$ shares of Common Stock outstanding at March 31, 1947, exclusive of treasury shares, earnings this year equal \$4.04 per share, as compared with net earnings of \$2.79 per share for the fiscal year ended March 31, 1946. During the period from March 31, 1936 to March 31, 1947 your Company has paid out \$2,319,416.16 in dividends and the per share book value has increased from nothing to \$16.84.

Included in this report is a consolidated balance sheet as of March 31, 1947, and a consolidated statement of income and earned surplus for the fiscal year ended March 31, 1947, reported on by our auditors, Messrs. Lybrand, Ross Bros. & Montgomery.

Despite the fact that your Company had a cash balance on March 31, 1947 of \$3,865,994.09, it anticipated payment of only \$400,000 on its term loan for the following reasons: (1) The tendency today on the part of the consumer to request time payments instead of paying cash for purchases which change will undoubtedly result in jewelers requiring longer terms from your Company than they have during the past five years; (2) Because there is a possibility that conditions in the building industry may correct themselves sufficiently in the very near future to enable us to proceed with our building program referred to in another part of this letter.

The Year's Business

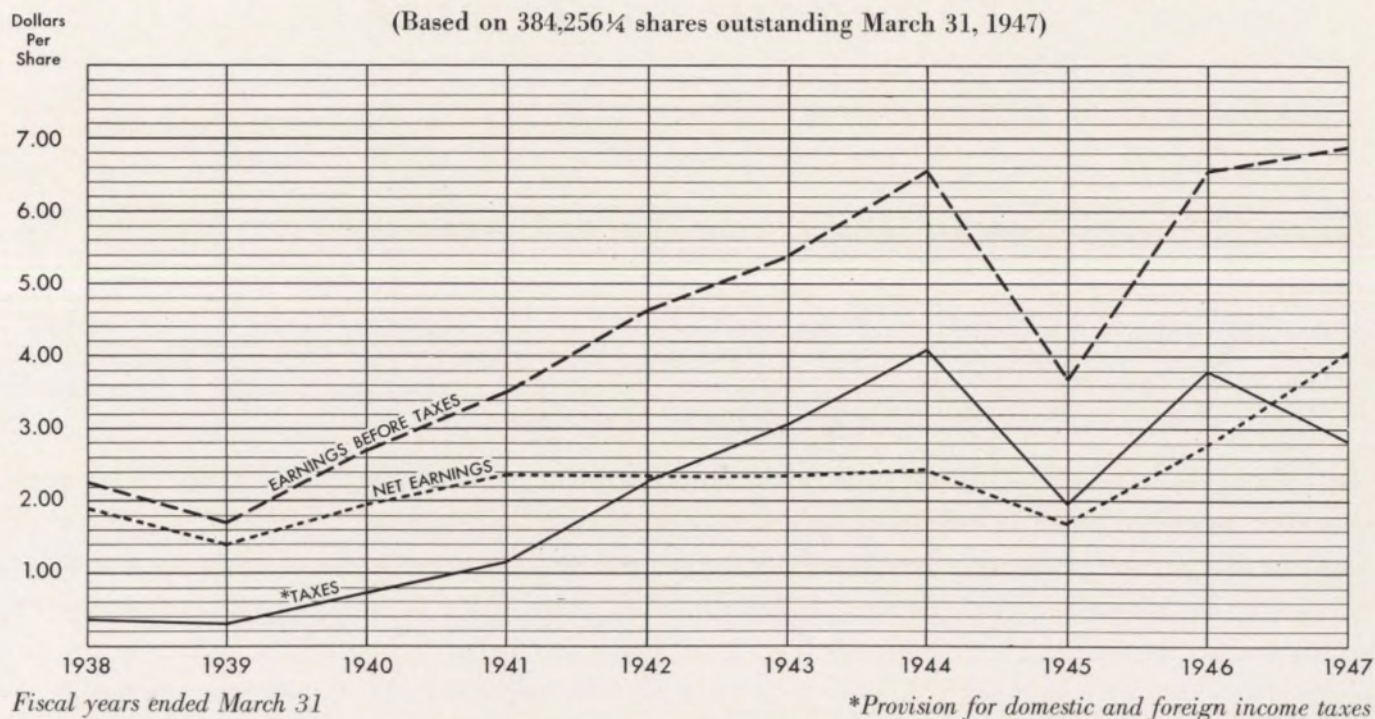
Last year the demand for Gruen watches again far surpassed our production capacity, which was handicapped by a severe scarcity of skilled labor and material. The exceptional results obtained during the fiscal year just ended can be attributed largely to the greater demand for Gruen's high-styled solid gold watches and diamond watches. The number of units we were able to produce and deliver last year was not as great as the number produced and delivered the preceding year due to the above mentioned scarcities, but because of the large proportion of unit sales of our solid gold and diamond watches our dollar sales volume was the greatest in the history of the Company. Despite the fact that both our labor and material costs were increased in the past year, our increased dollar sales enabled us to show slightly higher earnings, before taxes, than for the previous fiscal year and, of course, considerably higher net profits, after taxes, because of the elimination of the excess profits tax.

That we manufactured as large a number of movements as we did under the conditions that prevailed last



Earnings Before Taxes, Taxes, and Net Earnings

(Based on 384,256 $\frac{1}{4}$ shares outstanding March 31, 1947)



year was due to the excellent management of Henri Thiebaud, Director General of our wholly-owned Swiss factory and the efficiency of his entire technical staff.

As I reported to you last year, there existed through March 31, 1947 a unit quota limiting the importation of Swiss watch movements into the United States to 7,700,000. This quota, in existence for one year, was permitted to lapse at its expiration.

Building Program

For the past several years we had hoped to expand our manufacturing facilities both in Cincinnati and Bienne in order to permit more efficient and economical operations. I am happy to report that during the last year we were able to complete our building program in Bienne. We were disappointed however, in that our building program for Time Hill, Cincinnati had to be deferred due to the high costs and scarcity of materials. Final estimates for this building program were two and one half times the original estimate and the program was therefore deferred because we believed that a considerable savings could be effected by deferring the program until conditions are more favorable.

Personnel Relations

The successful operation of your Company during the last year can be attributed in large part to the complete loyalty and high degree of efficiency of the entire personnel of the organizations in the United States, Switzerland and Canada. Special tribute should be paid to Simon C. Gershey, Vice President and Director of Sales; Henri Thiebaud, Director General of the Gruen Watch Manufacturing Company, S. A. Bienne, Switzerland; Carl W. Bieser, Vice President of The Gruen National Watch Case Company, and Charles S. Ballard, Manager



of the Gruen Watch Company of Canada, Ltd., for their direction of selling and manufacturing operations. In recognition of their fine services, Henri Thiebaud, and Aaron Thorne, Western Sales Manager, have been elected Vice Presidents of your Company.

I have mentioned in previous reports the Profit Sharing Trust established two years ago as an added incentive and added reward for our personnel. As of March 31, 1946 the amount held in trust in this fund for employees of The Gruen Watch Company and The Gruen National Watch Case Company was \$212,755.58. In accordance with the Trust agreement, contribution of \$143,265.09 was provided for in the consolidated statement of income for the current year, bringing the total contributions to \$356,020.67.

In lieu of a profit sharing plan, our wholly-owned subsidiary, the Gruen Watch Manufacturing Company, S. A. of Bienne, has established the Gruen Foundation to assist its employees in illness, accidents, invalidity, old age and unemployment.

Recently it was my pleasure to inaugurate the Gruen Ten Year Club for members of the personnel at Time Hill whose service records with your Company exceed ten years. More than twenty-five per cent of the personnel have been with the Company for periods ranging from ten years to more than fifty years. Such loyalty on the part of our employees not only is a compliment to the management, but represents one of the Company's most valuable assets.

Watchmaking Institute

In previous reports I have mentioned the Gruen Watchmaking Institute which was established several years ago to help rehabilitate veterans of World War II and primarily handicapped men who are unable to pursue some of the other occupations. I am happy to report that a goodly number of these men have graduated from the Institute and many of them have come to work in our Time Hill plant, relieving to some degree the acute shortage of skilled personnel. A few of the graduates have opened watch repair shops or small jewelry stores of their own and I am confident that because of the initiative and resourcefulness demonstrated by these men in our school, they will be successful.

The Present Situation in the Industry

For the greater part of the past year, as during the preceding war years, the demand for watches of all makes and types greatly exceeded the supply. Toward the end of 1946, however, there began to be noted some drop in the combined volume of all watch sales, accompanied by a change in the buying pattern. This is reflected in the fact that the public is again demanding only nationally-known brands. Gruen, however, along with a few of the other fine and nationally-known watch companies, was not able to meet the demand for its product. Deliveries to Gruen jewelers had to be made on a quota basis last year just as they have every year since the beginning of the war.

In the tightening of competition among the major watch companies, a few companies who have plants only in this country, have sought to bring about legislative and administrative restrictions on the number of movements which can be imported from Switzerland each year. This effort, characterized by considerable propaganda and agitation in Washington, has been based on the premise that these few companies are losing their markets to watch manufacturers using movements manufactured in Switzerland. This "loss of market" plea



is proved false, however, by the fact that the watch companies having plants only in this country have been unable to supply the demand for watches despite their increased production and increased facilities.

The Outlook for Gruen

As above stated, there is every indication that the total number of watches sold in the United States in the next twelve months will be smaller than in the preceding twelve months. There is also some indication that there may be a decrease in the demand for solid gold and diamond watches so that the unit price of watches sold by all manufacturers may show a considerable decrease.

However, the demand for Gruen watches remains strong, and based on present economic conditions, we view the major operating problem of the current year as one of production. Our physical facilities both at the movement plant of our wholly-owned factory at Bienne, Switzerland, and at our Time Hill, Cincinnati plant are limited. These limited facilities along with the scarcity of material and skilled labor, may make it difficult to produce and consequently sell more units than were manufactured and sold during the past year, and with a reduced unit average may make it impossible to reach the record sales and profits of the past year.

Gruen has attained a position of leadership in the industry and we shall use every effort during the coming years to protect and strengthen this position, which has been built up by:

1. **GRUEN QUALITY.** The quality of our watches has in a great measure been responsible for the success of your Company. In the seventy-three years that Gruen has been manufacturing watches, the ultimate objective in all operations was superb quality, and the skills of some of the world's finest craftsmen have been combined with the most modern engineering and scientific knowledge to maintain Gruen's recognized leadership for quality watches. The reputation that your Company enjoys with the public after having sold many many millions of Gruen watches substantiates this statement. The great engineering advantages of the patented Gruen Curvex and Veri-Thin movements still are unmatched by other manufacturers.

2. **GRUEN STYLING.** Because of the extraordinary features of the famous patented Gruen Curvex and Veri-Thin movements, we are able to give our watches exceptional styling which isn't attainable with the ordinary flat, thick movement. The Curvex movement is curved both top and bottom and thereby allows great latitude in case designing. The Veri-Thin movement also permits ingenious styling. These exclusive features and the styling which they permit has brought to Gruen recognition from the jeweler and the public as the best styled watches in the industry. I pledge to the jewelers and to you that we will do everything in our power to maintain this style leadership.

3. **GRUEN ADVERTISING.** Gruen being one of the first national advertisers in the watch industry, has invested millions of dollars in creating the utmost public acceptance for its watches and we plan to continue this aggressive advertising. The national magazine campaign which has been scheduled for this fall will be the most extensive that has been undertaken by any company in the industry, and this will be supplemented by a continuation of our powerful radio advertising. An example of the acceptance which our advertising has created for our watches is the story of the introduction of the famous patented Gruen Curvex Executive, illustrated on the front cover and elsewhere in this report. This watch, retailing at \$200.00, was introduced to the public in full page advertisements in LIFE and other national magazines before we were able to make



substantial deliveries of the watch to our jewelers. Shortly after the advertisements appeared, our offices received many checks and money orders direct from consumers for this watch. Some of the orders were from other countries. All, of course, were turned over to retail jewelers in the areas in which the requests originated. Many jewelers reported numerous sales before they had received a single watch. This example is a great tribute to the prestige of the Gruen name, the styling of its product and its advertising.

4. GRUEN JEWELER GOOD WILL. Gruen watches are sold throughout this country and Canada only by the leading recognized jewelers in each community. This character of our outlets, plus our plan for equitable distribution of output throughout the war years, among our 6500 loyal Gruen jewelers in the United States and Canada, has created the greatest asset that your Company has, the tremendous good will of these jewelers.

Conclusion

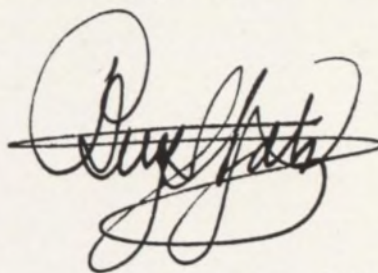
In concluding this report I want to again deeply thank all the officers, directors and employees for their continued loyalty and untiring efforts.

In behalf of our shareholders, directors and employees I would like to express once more our utmost appreciation to our 6500 Gruen jewelers for their cooperation and support and to express the wish for their continued success.

At this time I should also like to extend our thanks to our suppliers in America, Canada and Switzerland, on whom we are so dependent for the production of our watches, for their continued excellent cooperation.

In behalf of the entire organization I want to express to you shareholders our deepest gratitude for your confidence in the management and to pledge to you a continuation of our efforts in behalf of your Company.

Sincerely yours,



Benjamin S. Katz
President

Time Hill, Cincinnati, Ohio

May 28, 1947



The Gruen Watch Company

CONSOLIDATED BALANCE

ASSETS

Cash on hand and demand deposits	\$ 3,865,994.09
\$350,000 United States Savings Bonds, Series G, at cost	350,000.00
Notes and accounts receivable, trade, less allowance for doubtful notes and accounts	893,672.25
Inventories, at the lower of cost or market (Note 2)	3,933,373.70
<i>Total current assets</i>	<u>9,043,040.04</u>
Cash surrender value of insurance aggregating \$1,166,840 on lives of officers and directors (Note 3)	133,535.62
Cash deposits restricted, net (Note 4)	211,854.50
Other accounts receivable	34,172.88
Sundry investments, at cost	759.70
Land, buildings, and equipment, at cost	\$1,157,303.85
<i>Less, allowance for depreciation</i>	<u>593,105.13</u>
	564,198.72
Prepaid expenses and deferred charges	174,191.19
Patents, trade-marks, copyrights, and goodwill	1.00
	<u><u>\$10,161,753.65</u></u>

The accompanying notes Nos. 1 to 6 are



and Subsidiary Companies

SHEET, MARCH 31, 1947

LIABILITIES

Due foreign bank	\$ 374,868.90
Accounts payable	464,114.25
Accrued expenses	743,643.85
Dividends payable	115,109.22
Provision for domestic and foreign taxes on income, less, U. S. Treasury Tax Savings Notes (at cost and accrued interest) \$748,888 (Note 6)	393,767.24
<i>Total current liabilities</i>	<u>2,091,503.46</u>
Notes payable, bank, due annually in varying amounts from July 1, 1949 through July 1, 1955 (Note 5)	1,600,000.00

CAPITAL

Capital stock:

Preferred stock, 4½ per cent cumulative; \$100.00 par value; authorized 25,000 shares, issued and outstanding, none	\$ — —
Common stock, \$1.00 par value; 650,000 shares authorized, 505,337¾ shares issued, less 121,081½ shares in treasury, outstanding 384,256¼ shares (Note 3)	384,256.25
Earned surplus, as annexed (Notes 1, 3, and 6)	<u>6,085,993.94</u>
	<u>6,470,250.19</u>
	<u>\$10,161,753.65</u>

an integral part of this balance sheet.



Notes

TO CONSOLIDATED BALANCE SHEET

NOTE 1. The consolidated balance sheet includes foreign net assets aggregating \$1,114,354.46 in United States currency of which net current assets were \$582,454.42.

Current assets and liabilities of the Swiss subsidiary have been converted into dollars at the current official rate for the Swiss franc at March 31, 1947.

Current assets and liabilities of the Canadian subsidiary have been converted into dollars at substantially the free rate of exchange prevailing at March 31, 1947.

Noncurrent assets recorded in foreign currencies have been converted substantially at rates of exchange prevailing when acquired.

NOTE 2. The estimated amounts of intercompany profits in inventory items purchased from companies whose accounts are consolidated have been eliminated in the preparation of the consolidated balance sheet.

NOTE 3. In accordance with the employment agreement (effective April 1, 1947) between the company and Benjamin S. Katz, President, the company is obligated, in event of his death during the term of the agreement, to purchase for cash, if requested within 120 days from the date of his death, common stock of the company held by the personal representative of his estate, widow, children, grandchildren or trustee, for an amount not in excess of \$1,000,000. The price per share to be paid shall be the consolidated book value per share as of the day following his death.

The company carries insurance aggregating \$1,000,000 on the life of Benjamin S. Katz and has agreed to continue this insurance for the period that the employment agreement is in effect. It is expected that the proceeds of such insurance will be held by the company to be used in the purchase of said stock, if offered.

NOTE 4. Cash deposits restricted, represent balances of remittances by the parent company and the Canadian subsidiary to the Swiss subsidiary in the regular course of business, which have been subjected to exchange regulations, less advances by a Swiss bank of \$2,538,508.08. The company is informed that at the time of the release of such restricted deposits any expenses, taxes, and other losses that may have been incurred by the Swiss Government and the Swiss National Bank in connection with remittances which have been subjected to exchange regulations will be deducted from restricted deposits aggregating \$346,510.90. An allowance of \$134,656.40 for such expenses, taxes, and other losses is included in the accompanying financial statements.

NOTE 5. In the event of the retirement, voluntary or otherwise, of Benjamin S. Katz from the position of an executive of the company, other than by death, the notes payable, bank, become immediately due and payable on demand.

NOTE 6. It is estimated (based on present laws) that additional foreign taxes on transfers to the parent company of the accumulated surplus of foreign subsidiaries would approximate \$458,000.



Consolidated Statement

OF INCOME AND EARNED SURPLUS for the year ended March 31, 1947

Gross profit from sales.....	\$ 5,843,132.96
Selling, administrative, and general expenses.....	2,989,640.72
<i>Profit before other income and expenses and income taxes.....</i>	<u>2,853,492.24</u>
Other income.....	213,247.95
	<u>3,066,740.19</u>
Interest and other expenses.....	426,364.51
	<u>2,640,375.68</u>
Provision for domestic and foreign income taxes.....	1,088,147.31
<i>Net income.....</i>	<u>1,552,228.37</u>
Surplus, April 1, 1946.....	5,000,099.62
	<u>6,552,327.99</u>
Unrealized foreign exchange losses from conversion of foreign net assets to dollars.....	5,229.70
	<u>6,547,098.29</u>
Dividends paid, common stock, \$1.20 per share.....	461,104.35
Surplus, March 31, 1947.....	<u><u>\$ 6,085,993.94</u></u>

The accompanying notes are an integral part of this statement.



Notes to Consolidated Statement

OF INCOME AND EARNED SURPLUS

NOTES 1, 3, and 6 to consolidated balance sheet, March 31, 1947 are incorporated herein by reference.

The provisions for depreciation included in the consolidated statement of income amount to \$60,746.37.

The provisions for contributions to the profit sharing fund, for the benefit of the employees of The Gruen Watch Company and The Gruen National Watch Case Company, included in the consolidated statement of income, amount to \$143,265.09.

Income accounts of foreign subsidiary companies have been converted substantially at the average monthly rates of exchange prevailing during the year ended March 31, 1947. The unrealized loss of \$5,229.70 arising from changes in conversion value of net current assets of foreign subsidiaries has been charged to consolidated earned surplus.

Intercompany sales and estimated intercompany profits have been eliminated in the preparation of the consolidated statement of income.

Consolidated net income includes net income of foreign subsidiaries aggregating \$277,020.08. No dividends were received from foreign subsidiaries during the year.

LYBRAND, ROSS BROS. & MONTGOMERY

Certified Public Accountants

CINCINNATI

To the Board of Directors, The Gruen Watch Company, Cincinnati, Ohio.

We have examined the consolidated balance sheet of The Gruen Watch Company and its subsidiary companies as at March 31, 1947, and the consolidated statements of income and surplus for the year then ended. Except with respect to the Swiss subsidiary we have reviewed the systems of internal control and the accounting procedures of the companies and, without making detailed audits of the transactions, have examined or tested accounting records of the companies and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures considered necessary. We have received the report of other accountants who examined the financial statements of the Swiss subsidiary.

In our opinion, based upon such examination and upon such report of other accountants, the accompanying consolidated balance sheet and related consolidated statements of income and surplus present fairly the consolidated position of The Gruen Watch Company and its subsidiary companies at March 31, 1947 and the consolidated 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.

LYBRAND, ROSS BROS. & MONTGOMERY

*Cincinnati, Ohio
May 16, 1947*



The Gruen Watch Company and Subsidiary Companies

CONDENSED COMPARISON OF CONSOLIDATED FINANCIAL POSITION

at March 31, 1936, March 31, 1941, March 31, 1946 and March 31, 1947

	Mar. 31, 1936	Mar. 31, 1941	Mar. 31, 1946	Mar. 31, 1947
Total Current Assets	\$1,608,839.86	\$5,678,476.11	\$8,471,856.22	\$9,043,040.04
Total Current Liabilities	403,094.98	1,468,185.24	1,998,369.90	2,091,503.46
Net Current Assets	1,205,744.88	4,210,290.87	6,473,486.32	6,951,536.58
Term Loan From Bank		1,500,000.00	2,000,000.00	1,600,000.00
Net Current Assets in Excess of Term Loan from Bank	1,205,744.88	2,710,290.87	4,473,486.32	5,351,536.58
Cash surrender value of insurance on lives of officers and directors		23,851.34	111,836.87	133,535.62
Cash deposits, restricted			169,038.39	211,854.50
Land, Buildings and Equipment, at Cost	711,643.48	821,061.71	1,005,371.72	1,157,303.85
Allowance for Depreciation of Cost	*261,891.56	*374,787.21	*549,860.56	*593,105.13
Appraisal Appreciation Included in Property Accounts	85,316.07			
Investments	113,022.42	6,532.68	35,591.88	759.70
Other Assets	12,663.65	70,971.95	138,891.25	208,365.07
Net Assets of Companies Applicable to Debenture Holders and Shareholders	\$1,866,498.94	\$3,257,921.34	\$5,384,355.87	\$6,470,250.19
Registered Debentures Issued in Part Settlement of Liabilities to Banks	\$ 727,500.00			
Equities of Minority Shareholders in Subsidiaries	142,105.46			
	\$ 869,605.46			
Equities of Shareholders of The Gruen Watch Company	\$ 996,893.48	\$3,257,921.34	\$5,384,355.87	\$6,470,250.19
Capital Stock Issued in Settlement of Balance of Liabilities to Banks:				
Class A Preferred Stock	\$ 727,500.00			
Class B Preferred Stock	363,750.00			
	\$1,091,250.00			
Equity of Class C Preferred and Common Shareholders	*\$ 94,356.52	\$3,257,921.34	\$5,384,355.87	\$6,470,250.19
Class C Preferred Stock	490,325.00	489,375.00		
Equity of Common Shareholders	*\$ 584,681.52	\$2,768,546.34	\$5,384,355.87	\$6,470,250.19
Represented by:				
Common Stock	\$ 114,995.00	\$ 426,298.25	\$ 384,256.25	\$ 384,256.25
Surplus or Deficit, as annexed	*600,599.46	2,342,248.09	5,000,099.62	6,085,993.94
Excess of Cost of Shares of Subsidiaries Over Equities in Net Worth at Acquisition	*99,077.06			
Equity of Common Shareholders	*\$ 584,681.52	\$2,768,546.34	\$5,384,355.87	\$6,470,250.19

*Italics denote red figures.





*Precision
is Gruen
tradition...*



GRUEN has a great heritage. The precision craftsmanship, the character of extra fine work passed on by father to son from the days of mediaeval watchmakers to those of the nineteenth century —were brought to this company by Dietrich Gruen when he founded it in 1874. Now, under the inventive genius of Henri Thiebaud, these great skills are combined with exclusive engineering miracles in machinery and the latest scientific developments in materials. These exclusive facilities and these stores of knowledge make Gruen The Precision Watch. Precision is Gruen tradition.





Gruen Styling... America's Choice

If two watches of identical quality and price were placed side by side on a jeweler's counter, the consumer inevitably would choose the better looking watch. Styling often is the factor which determines whether a sale is made or not made and is therefore of equal importance with production pricing and advertising. Gruen, realizing this years ago, was the first to stress styling as a major factor in watch merchandising and has acquired the reputation as the industry's style leader. Therefore, producing only the best styled watches in America shall continue as a major objective.





Gruen Curvex Success Story...

Since its introduction in 1935, the patented Gruen Curvex, the only watch in the world with the movement curved both top and bottom, has been an outstanding success. The public acceptance has been excellent and the contribution by Curvex watches to our sales and profit volume has increased year by year, finally attaining in 1946 the spectacular pinnacle exemplified by the Curvex Executive. In the eighteen months from 1945 through April 1947, there were sold at retail prices more than *three and a half million dollars* worth of the Curvex Executive—only one of about twenty Curvex men's models. This is possibly the largest retail volume ever attained on one model of one watch.



leader
the years...

1947

New!
GRUEN VERI-THIN
...thin as a shadow

Veri-Thin Bagline \$20.50
Veri-Thin Brace \$17.75
Veri-Thin Jessica \$29.50
Veri-Thin Shadow \$21.50
Veri-Thin First Lady \$485.00
Veri-Thin Manhattan \$210.00

World's thinnest popular-priced wrist watch—a miracle of accuracy
PRICED FROM \$33.75 to \$6000
(including jewelry cost)

NEW! Shadow thin! Only watch in the world with the exclusive, patented Veri-Thin® movement. By an ingenious arrangement of the wheel train each part is larger, therefore sturdier and more accurate—yet the parts occupy less space than in an ordinary watch. Precision and beauty combined! Gruen—the official timepiece of Pan American World Airways.

GRUEN... THE PRECISION WATCH... AMERICA'S CHOICE

GRUEN VERI-THIN
THE PRECISION WATCH

© 1947 Gruen, Inc.

THIS FALL Gruen's thirty-seventh annual advertising campaign will bring the most extensive national magazine coverage in its history, with our campaign being the greatest yet published by any watch company. We shall have at least one national ad appearing every week from September through December, with the campaign building up to numerous ads appearing simultaneously at the Christmas buying season—October through December—in such magazines as *Life*, *Saturday Evening Post*, *Collier's*, *Fortune*, *Esquire*, etc. Our national radio spot announcement campaign will be continued with coverage intensified in major markets.





Advertising Support given to Gruen

There is far more to a good advertising job than the publishing of beautiful national ads or the reading of good copy on radio stations. In order to realize the full value of money invested in the national media, a manufacturer must follow-up the national ads with complete material for a thorough merchandising job at the point of sale.

National ads, at best, can create an acceptance or desire for the product. Local follow-up ads can complete the sale at the jeweler's counter.

To accomplish the most comprehensive job possible, the Gruen advertising department creates and dis-

tributes to our jewelers material for use in every local medium, thereby gaining for our product hundreds of thousands of dollars worth of *additional* advertising annually with the cost to Gruen being only a small fraction of the actual value.

For example, last fall, jewelers used five thousand of the Gruen Christmas billboards, a national campaign itself. The story on car cards is the same. Gruen postal cards are mailed each year to *millions* of consumers on the mailing lists of the various retail stores.

Five million match folders, each an ad for Gruen watches will be distributed in the next few months.





Jewelers . . .

The Gruen 50/50 Plan

Tens of thousands of placement clocks have been hung by our jewelers in restaurants, theatres, bowling alleys, parking garages and other advantageous sites from coast to coast.

And, then there is the major element in our dealer-help material, one in which we take much pride, the very successful 50/50 Newspaper Cooperative Plan. During the calendar year 1946, our retailers used the impressive total of twenty-thousand ads totaling two million lines of space.

Our advertising department will continue to take advantage of all opportunities in this field.

Twenty Thousand Newspaper Ads . . .
two million lines of space . . . in
hundreds of newspapers from
coast to coast.





Gruen Publicity . . .

Last year, Gruen had more national publicity than any other brand name in the jewelry industry. Network radio shows, feature motion pictures each showing to millions, baseball and football stadia, race tracks and publications all were utilized in publicity tieups to exploit the name of Gruen.

Gruen had tieups throughout 1946 with an average of twenty network shows, ten of which were weekly and ten were five times per week. This gave Gruen mention on more than *three thousand* network broadcasts during the year—and each broadcast was heard on an average of one hundred stations. This means that the Gruen name was used on radio stations 300,000 times last year.

About fifty feature-length motion pictures, some of them multi-million dollar productions, exposed the Gruen identity to theatergoers.

Practically all the important race tracks, most of the important baseball parks, and many football stadia have "Gruen Watch Time" clocks, with some of the race tracks having as many as thirty-five clocks in strategic points.

One motion picture magazine with two million circulation devoted a page of each monthly issue to the awarding of a Gruen watch to some up-and-coming young star.

Whenever and wherever there is desirable publicity to be had, Gruen will get it.



The Gruen Watch Company

TIME HILL, CINCINNATI, OHIO

SALES OFFICES

NEW YORK	International Bldg. 630 Fifth Ave.
CHICAGO	Pittsfield Bldg. 55 E. Washington St.
LOS ANGELES	Pershing Square Bldg. 448 S. Hill St.

DIRECTORS

John R. Bullock	Attorney
Sterling B. Cramer	First Vice President, The Fifth Third Union Trust Company
E. W. Edwards	Chairman of the Board, The Edwards Manufacturing Company
Geo. J. Gruen	Chairman of the Board
George T. Gruen	Secretary
Benjamin S. Katz	President and Treasurer
Clifford R. Wright	Chairman of the Investment Committee, Union Central Life Insurance Company

OFFICERS

Geo. J. Gruen	Chairman of the Board
Benjamin S. Katz	President and Treasurer
Simon C. Gershey	Vice President and Director of Sales
Henri Thiebaud	Vice President in Charge of Manufacturing
Aaron Thorne	Vice President and Western Sales Manager
George T. Gruen	Secretary
Alfred T. Reis	Comptroller
Thomas F. Jeary	Auditor

Counsel	Taft, Stettinius & Hollister, Cincinnati, Ohio
Transfer Agent	The Fifth Third Union Trust Company, Cincinnati, Ohio
Registrar	The Central Trust Company, Cincinnati, Ohio








GRUEN
THE PRECISION WATCH



GruenWristwatches.com
All Gruen All the Time



Annual Report

FISCAL YEAR ENDED MARCH 31, 1948

THE GRUEN WATCH COMPANY • TIME HILL, CINCINNATI 6, OHIO



Annual Report

THE GRUEN WATCH COMPANY
FISCAL YEAR ENDED MARCH 31, 1948



President's Report

To the Shareholders of The Gruen Watch Company:

On behalf of your board of Directors, I am very happy to report the most successful year's operations in Gruen history. Both sales volume and net earnings for the fiscal year ended March 31, 1948 surpassed all previous years.

Consolidated net profit for the year amounted to \$2,812,458.08 before taxes, and \$1,764,326.73 after all charges and taxes, as compared with \$2,640,375.68 before and \$1,552,228.37 after taxes for the preceding fiscal year. Based on 384,256 shares of Common Stock outstanding at March 31, 1948, earnings for this year equal \$4.59 per share, as compared with earnings of \$4.04 per share for the fiscal year ended March 31, 1947, and \$2.60 per share average for the ten year period ended March 31, 1948. The book value per share is now \$20.19, the highest in company history based on present 384,256 shares outstanding. During the year ended March 31, 1948, dividends amounted to \$1.30 per share, the rate of quarterly dividends being increased from thirty cents to thirty-five cents per share with the payment made January 1, 1948.

Elsewhere in this report is a consolidated balance sheet as of March 31, 1948, and a consolidated statement of income and earned surplus for the fiscal year ended March 31, 1948, as reported by our auditors, Messrs. Lybrand, Ross Bros. & Montgomery.

THE YEAR'S BUSINESS

Sales for the year just ended were the greatest in Gruen history, the increase being shown in a period when the total sales of jewelled watches in America declined from the preceding year in an amount estimated to be close to twenty per cent. This overall decline did not affect your company, or some of the other major companies because it was accompanied by an insistence on the part of the watch buying public for nationally known and advertised watches.

While materials and labor were still scarce in the year just ended, thus requiring us to continue during the year the limitation of purchases by our jewelers on a quota basis, nevertheless conditions are gradually approaching a more normal situation.

For the coming year, Gruen again anticipates a very large unit sale; however, a



slackening demand for diamond and solid gold models gives an indication that dollar volume may show some consequent decrease. It appears certain also that the cost of operation will be higher and, based on these conditions, it is doubtful that earnings will equal the record sum achieved for the year just ended.

EXPANSION PLANS

To increase its manufacturing facilities, your Company purchased during the year, certain machinery and assets of the Mt. Vernon Watch Company and established a small movement plant at Mt. Vernon, New York. Here, for the present and foreseeable future, we expect to experiment with new production methods, train personnel and manufacture a few 21-jewel movements, on which customs duties are exceedingly high. Ultimately, we hope to establish this movement plant as part of our operation in Cincinnati. We expect to continue to manufacture the great majority of our movements in Switzerland where the finest watch movements in the world are produced.

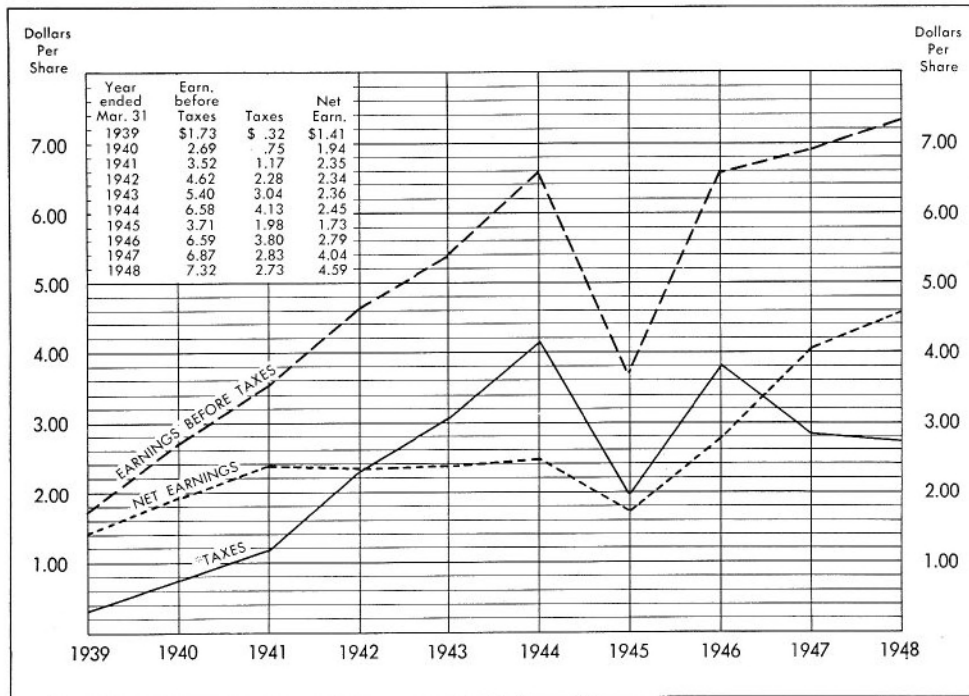
As you know from previous reports, our facilities at Time Hill—office, horological, case manufacturing, are far too limited. With our plan to move the Mt. Vernon plant to Cincinnati, and with our plans for constantly increasing sales, the space situation has become more acute. We had hoped that it would be possible to expand our present facilities at Time Hill, but the land limitation there makes this impracticable. Therefore, I am pleased to advise you that the Company has acquired a beautiful sixty-three-acre tract of land in Amberley Village on the outskirts of Cincinnati. Architects have also prepared certain preliminary drawings. As you know, however, building conditions today are most difficult and expensive. Your management and Board of Directors are carefully considering the situation, but definite plans for actual beginning of construction have not as yet been made. I am hopeful that our plans may be crystallized and an actual beginning made during the coming year.

GRUEN PERSONNEL

Obviously no company can grow or succeed beyond the ability and spirit of its employees. During the years, we in the management of the Company have been particularly gratified because of the eagerness and ability of our personnel at Time Hill, Cincinnati, and also at Time Hill, Switzerland and Toronto, Canada. Employee relationship during the year, as in past years, has been very excellent indeed and I am most appreciative of the loyalty and cooperation shown by all of our employees. Over thirty per cent of our employees have been with the Company for periods ranging from ten years upward to fifty years. This group comprises the membership of our Ten Year Club whose function is entertainment, recreation and good fellowship at such events as parties, baseball games, etc. Now in its second year,

EARNINGS BEFORE TAXES, TAXES, and NET EARNINGS

(Based on 384,256 shares outstanding March 31, 1948)



Fiscal years ended March 31

**Provision for domestic and foreign income taxes*

the Club engenders a good spirit of friendship which contributes to a close-working organization such as ours.

In the past three reports I have mentioned the Employees Profit Sharing Trust Fund established by your Company for all personnel of The Gruen Watch Company and The Gruen National Watch Case Company. One year ago, the total contributions held in the Trust was \$356,020.67. This year's contribution of \$151,998.80 by your Company brings the total to \$508,019.47. This Profit Sharing Trust, to which employees make no contribution, is providing an excellent means of saving and, therefore, an incentive to the employees. Listed below are sample figures to show amounts accumulated in Trust for persons at various salary ranges, provided they have been continuously employed during the four years the plan has been in operation:

<i>Earnings Per Year</i>	<i>Under Five Year Employees</i>	<i>Over Five Year Employees</i>
\$2,500	\$1,047.50	\$1,375.25
3,000	1,257.00	1,650.30
4,000	1,676.00	2,200.40
5,000	2,095.00	2,750.50

A substantial number of our new watchmaker employees come from our Gruen Watchmaking Institute which is dedicated to the training and rehabilitation of disabled war veterans. Other graduates of the Institute have opened jewelry stores of their own or are working as trained and valued employees of others.

PLANS FOR THE COMING YEAR

I think you will be interested in our plans for the coming year to help strengthen your Company in every way possible. Among these perhaps the more important are the following.

NEW PRODUCTS—This spring Gruen introduced the Autowind, another notable innovation by your Company. The Autowind is the first self-winding watch presented by a major nationally-known company. This watch, developed on the principle of the famous Veri-Thin, is not only substantially thinner than other automatic winding watches, but is composed of fewer parts. We are quite confident it will prove to be the best and most satisfactory watch of its type on the market.

After years of laboratory work and experimentation, the well-known Director General of our Swiss subsidiary, Henri Thiebaud and his technical staff have perfected the Curvametric movement, a new development which is to be introduced this fall. We predict an enthusiastic reception for this movement, an even further extension of the famous patented Curvex principle of a completely curved movement fitting the natural curve of the wrist.

NEW STYLES—Since your Company made the styling of a watch an important factor in its sale, Gruen has been recognized as the style leader. In following this tradition, Gruen this spring brought out, among many other new styles, its Veri-Thin Bride and Veri-Thin Groom models, sponsored by the famous Bride and Groom program heard over the ABC radio network, by an audience of thirty million per week. These watches have already gained great popularity. Many other striking new models are being designed—with equally interesting opportunities—for introduction this fall.

NEW SALES PROMOTION EFFORTS—In the past it has been customary in the industry to place the major emphasis of national magazine advertising of watches on the promotion of their sale as gifts for Christmas and Graduation. We believe that watches can be sold just as successfully as gifts for Mother's Day, Father's Day, Weddings and Anniversaries. Toward this end, we are publishing this year full page, national magazine campaigns to create gift sales for these special occasions, as well as Christmas and Graduation. We are also putting the largest advertising campaign in our history behind "Curvametric" and, at the same time, continuing our regular year-round national magazine and radio advertising campaign supplemented with complete merchandising material for the jeweler.

NEW PUBLICITY—Your Company has perhaps the most extensive publicity



program in the watch or jewelry industries, with activities embracing network radio, motion pictures, outdoor clocks and signs and other special promotions. This program will be continued and intensified during the coming year. For example, we have an arrangement under which full-screen blowups of Gruen watches in technicolor will be shown daily in 1,000 theatres for the last six months of 1948. A section elsewhere is devoted to the publicity program.

NEW MARKETS—You are familiar with our Canadian subsidiary and the fine job it has done. During the coming year, we hope to open a few outlets in Mexico and South America in preparation for the day when our production is sufficient to really open these new markets on a large scale.

IN CONCLUSION

In concluding this report, I want to thank all the officers, directors and employees for their loyalty and efforts which contribute so much to our success.

In behalf of our shareholders, directors, and employees, I express my deep appreciation to our 6500 Gruen jewelers for their fine cooperation and loyal support and wish for them the continued success they so richly deserve.

I want also to extend our sincere thanks to our suppliers in America, Canada, and Switzerland for their excellent cooperation which has made it possible to continue the production of our fine watches, very often under the most trying circumstances.

To you shareholders who have exhibited your confidence in the management, I want to convey the gratitude of the entire organization and to pledge to you our constant efforts toward the continuous progress of your Company.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Benjamin S. Katz". The signature is written in a cursive, flowing style with a large initial "B" and "K".

Benjamin S. Katz
President

Time Hill, Cincinnati, Ohio

May 28, 1948



THE *Gruen* **WATCH COMPANY**
CONSOLIDATED BALANCE

ASSETS

Cash on hand and demand deposits	\$ 2,777,665.68
\$1,350,000 United States Government securities, at cost	1,349,915.83
Notes and accounts receivable, trade, less allowance for doubtful notes and accounts	1,171,996.29
Inventories, at the lower of cost or market (Note 2)	4,416,462.11
<i>Total current assets</i>	9,716,039.91
Cash surrender value of insurance aggregating \$1,166,840 on lives of officers (Note 3)	165,284.88
Other notes and accounts receivable	83,885.59
Sundry investments, at cost	759.70
Land, buildings, and equipment, at cost	\$ 1,666,184.03
<i>Less, allowance for depreciation</i>	690,300.33
	975,883.70
Prepaid expenses and deferred charges	306,240.26
Patents, trade-marks, copyrights, and goodwill	1.00
	\$11,248,095.04

The accompanying notes Nos. 1 to 5 are

AND SUBSIDIARY COMPANIES

SHEET, MARCH 31, 1948

LIABILITIES

Accounts payable	\$ 603,745.75
Accrued expenses	721,667.82
Dividends payable	134,300.87
Provision for domestic and foreign taxes on income, less, U. S. Treasury Tax Savings Notes (at cost and accrued interest) \$757,948 (Note 5)	431,477.05
<i>Total current liabilities</i>	<u>1,891,191.49</u>
Notes payable, bank, due annually in varying amounts from July 1, 1949 through July 1, 1955 (Note 4)	1,600,000.00

CAPITAL

Capital stock:

Preferred stock, 4½ per cent cumulative; \$100.00 par value; authorized 25,000 shares, issued and outstanding, none	\$ — —
Common stock, \$1.00 par value; 650,000 shares authorized, 505,337¾ shares issued, less 121,081¾ shares in treasury, outstanding 384,256 shares (Note 3)	384,256.00
Earned surplus, as annexed (Notes 1, 3, and 5)	<u>7,372,647.55</u>
	<u>7,756,903.55</u>
	<u><u>\$11,248,095.04</u></u>

an integral part of this balance sheet.

NOTES TO CONSOLIDATED STATEMENT OF INCOME AND EARNED SURPLUS

NOTES 1, 3, and 5 to consolidated balance sheet, March 31, 1948 are incorporated herein by reference.

The provisions for depreciation included in the consolidated statement of income amount to \$105,877.14.

The provisions for contributions to the profit sharing fund, for the benefit of the employees of The Gruen Watch Company and The Gruen National Watch Case Company, included in the consolidated statement of income, amount to \$151,998.80.

Income accounts of foreign subsidiaries were converted substantially at the official rates of exchange. The unrealized gain of \$21,859.30 arising from changes in conversion value of net current assets of foreign subsidiaries was credited to consolidated earned surplus.

Intercompany sales and estimated intercompany profits were eliminated in the preparation of the consolidated statement of income.

Consolidated net income includes net income of foreign subsidiaries aggregating \$307,926.07. No dividends were received from foreign subsidiaries during the year.

LYBRAND, ROSS BROS. & MONTGOMERY

Certified Public Accountants

CINCINNATI

To the Board of Directors, The Gruen Watch Company, Cincinnati, Ohio.

We have examined the consolidated balance sheet of The Gruen Watch Company and its subsidiary companies as at March 31, 1948, and the consolidated statements of income and surplus for the year then ended. Except with respect to the Swiss subsidiary we have reviewed the systems of internal control and the accounting procedures of the companies and, without making detailed audits of the transactions, have examined or tested accounting records of the companies and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards and included all procedures which we considered necessary in the circumstances. We have received the report of other accountants who examined the financial statements of the Swiss subsidiary.

In our opinion, based upon such examination and upon such report of other accountants, the accompanying consolidated balance sheet and related consolidated statements of income and surplus present fairly the consolidated position of The Gruen Watch Company and its subsidiary companies at March 31, 1948 and the consolidated 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.

*Cincinnati, Ohio
May 17, 1948*

LYBRAND, ROSS BROS. & MONTGOMERY

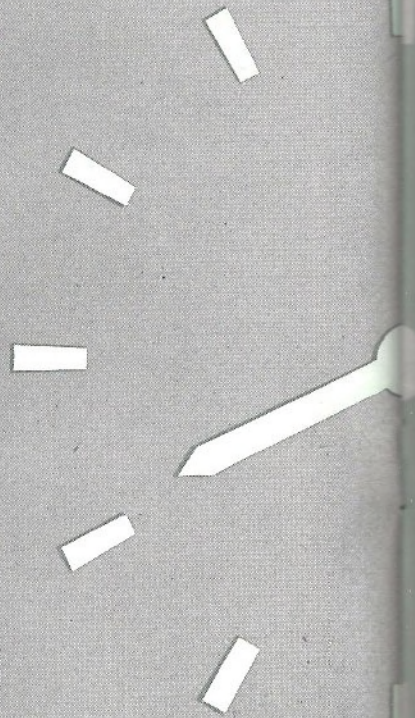


THE GRUEN WATCH COMPANY AND SUBSIDIARY COMPANIES
CONDENSED COMPARISON OF CONSOLIDATED FINANCIAL POSITION
at March 31, 1937, 1942, 1947 and 1948

	<i>Mar. 31, 1937</i>	<i>Mar. 31, 1942</i>	<i>Mar. 31, 1947</i>	<i>Mar. 31, 1948</i>
Total Current Assets.....	\$2,162,208.68	\$6,008,279.22	\$9,043,040.04	\$9,716,039.91
Total Current Liabilities.....	488,381.43	1,528,001.87	2,091,503.46	1,891,191.49
Net Current Assets.....	1,673,827.25	4,480,277.35	6,951,536.58	7,824,848.42
Term Loan From Bank.....		1,250,000.00	1,600,000.00	1,600,000.00
Net Current Assets in Excess of Term Loan from Bank.....	1,673,827.25	3,230,277.35	5,351,536.58	6,224,848.42
Cash Surrender Value of Insurance on Lives of Officers and Directors.....	5,078.65	45,924.96	133,535.62	165,284.88
Cash Deposits, Restricted.....			211,854.50	
Land, Buildings and Equipment, at Cost....	762,348.07	839,524.44	1,157,303.85	1,666,184.03
Allowance for Depreciation.....	*297,107.09	*407,494.00	*593,105.13	*690,300.33
Appraisal Appreciation Included in Property Accounts.....	84,407.90			
Investments.....	113,022.42	15,219.39	759.70	759.70
Other Assets.....	29,503.92	68,931.06	208,365.07	390,126.85
Net Assets of Companies Applicable to Debenture Holders and Shareholders.....	2,371,081.12	3,792,383.20	6,470,250.19	7,756,903.55
Registered Debentures Issued in Part Settlement of Liabilities to Banks.....	713,772.15			
Equities of Shareholders of The Gruen Watch Company.....	\$1,657,308.97	\$3,792,383.20	\$6,470,250.19	\$7,756,903.55
Capital Stock Issued in Settlement of Balance of Liabilities to Banks:				
Class A Preferred Stock.....	\$ 727,500.00			
Class B Preferred Stock.....	357,894.00			
	\$1,085,394.00			
Equity of Preferred (Class C and 5 per cent Cumulative) and Common Shareholders.....	\$ 571,914.97	\$3,792,383.20	\$6,470,250.19	\$7,756,903.55
Preferred Stock (Class C and 5 per cent Cumulative).....	489,375.00	450,850.00		
Equity of Common Shareholders.....	\$ 82,539.97	\$3,341,533.20	\$6,470,250.19	\$7,756,903.55
Represented by:				
Common Stock.....	\$ 120,742.00	\$ 430,767.25	\$ 384,256.25	\$ 384,256.00
Surplus.....	46,809.01	2,910,765.95	6,085,993.94	7,372,647.55
Excess of Cost of Shares of Subsidiaries Over Equities in Net Worth at Acquisition.....	*85,011.04			
Equity of Common Shareholders.....	\$ 82,539.97	\$3,341,533.20	\$6,470,250.19	\$7,756,903.55

*Italics denote red figures.





PRODUCT

STYLES

*New
at Gruen...*

SALES PROMOTIONS

PUBLICITY

DEALER COOPERATION



here come the *Bride* and *Groom*





THE BRIDE

THE GROOM

specially designed gift watches . . . \$49.75 inspired by the Bride and Groom Radio Program

Wedding Bells in your circle? Start their sentimental journey with a gift that says "best wishes" in the grand manner . . . a "Bride" watch or a "Groom" watch by Gruen. Inspired by the famous Bride and Groom radio program, these distinguished new watches reflect the finest in modern watch design and craftsmanship. Other models from \$33.75 to \$4000 including federal tax. Gruen is the official timepiece of Pan American World Airways. The Gruen Watch Company, Time Hill, Cincinnati 6, Ohio. In Canada: Toronto.

• For cherished gifts, consult your jeweler.

Time in on the "BRIDE and GROOM" Radio Program broadcast over the ABC network, Monday through Friday.

GRUEN
THE *Precision* WATCH

In addition to the usual big selling effort at Graduation season, Gruen engaged this Spring in three special advertising campaigns, illustrated on these pages. Mother's and Father's day ads are the first full pages devoted especially to selling watches as gifts for these occasions. The widespread Bride and Groom promotion is a special arrangement with the Bride and Groom radio show which, in turn, advertises these models five days each week (reaching thirty million per week) over the 265-station network of ABC.



DEALER COOPERATION...



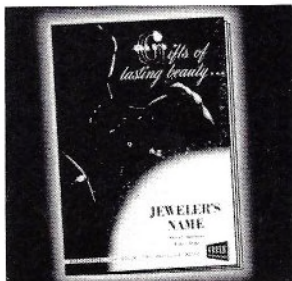
The full value of national advertising cannot be received unless it is backed up with complete point-of-sale material—newspaper ad mats, window displays, car cards, mailing pieces, clocks, etc. More jewelers utilized more Gruen material last year than ever before.

Under the terms of our 50/50 Cooperative Advertising Plan, Gruen jewelers last year purchased 25,519 newspaper advertisements, totaling 3,250,000 lines of space in newspapers from coast to coast, a one-third increase over the previous year



40,000 "Gruen Watch Time" clocks which also incorporate the name of a jeweler are in use in public places such as office buildings, restaurants, theatres, etc., throughout the country, reminding the public of Gruen.

Jewelers are furnished several permanent-type window displays each year as well as other window and counter cards. Many thousands of car cards and billboards are posted annually, each posting lasting at least a month.

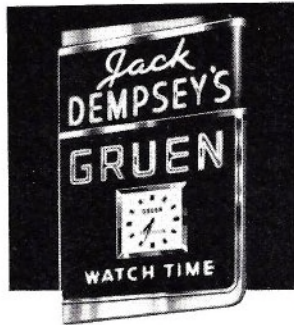
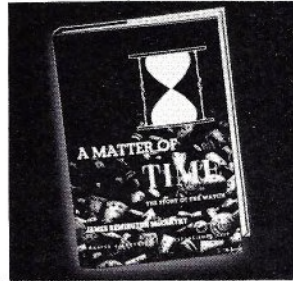


Direct mail material created by Gruen—postal cards and brochures—were mailed by jewelers into 5,000,000 homes last year. 8,000,000 Gruen match folders were distributed over jewelry store counters.



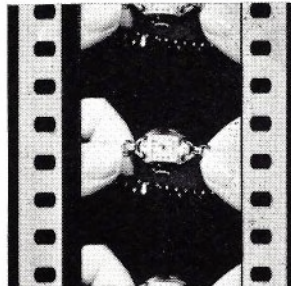
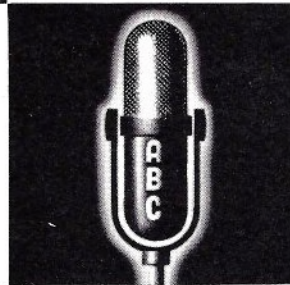
PUBLICITY...

A new book, *A Matter of Time*, an informal history of timepieces, published by Harper & Bros., chooses Gruen as the best example of modern watches. The last 25,000 words are on the Gruen factories and product.



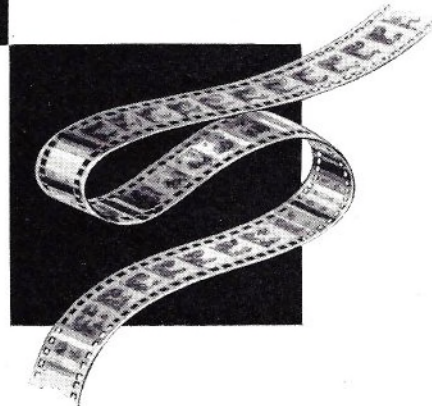
This Company has more than 250 neon "Spectaculars" in major cities, mostly in tie-ins with nationally-known establishments as shown here. Also there are clock installations wherever huge crowds gather, such as Metropolitan Opera, many airports, baseball parks, and all important race tracks.

Currently fifteen network radio shows with a total of twenty-four broadcasts per week transmit the Gruen identity to huge audiences daily. This, in addition to our own spot announcements, gives intense national coverage.



Twenty-one feature motion pictures and six newsreels last year presented the Gruen identity to theatre audiences across the nation. A new arrangement will show Gruen watches in technicolor in 1000 theatres constantly for the last half of 1948.

Gruen has recently produced two sixteen millimeter films in technicolor, of highest professional caliber, which are being circulated on a national basis to audiences in schools, churches, civic clubs, and to jewelers and watchmakers.



Officers

THE GRUEN WATCH COMPANY
TIME HILL, CINCINNATI, OHIO

SALES OFFICES

NEW YORK	International Bldg. 630 Fifth Ave.
CHICAGO	Pittsfield Bldg. 55 E. Washington St.
LOS ANGELES	Pershing Square Bldg. 448 S. Hill St.

DIRECTORS

John R. Bullock	Attorney
Sterling B. Cramer	First Vice President, The Fifth Third Union Trust Company
E. W. Edwards	Chairman of the Board, The Edwards Manufacturing Company
Geo. J. Gruen	Chairman of the Board
George T. Gruen	Secretary
Benjamin S. Katz	President and Treasurer
Clifford R. Wright	Chairman of the Investment Committee, Union Central Life Insurance Company

OFFICERS

Geo. J. Gruen	Chairman of the Board
Benjamin S. Katz	President and Treasurer
Simon C. Gershey	Vice President and Director of Sales
Henri Thiebaud	Vice President in Charge of Manufacturing
Aaron Thorne	Vice President and Western Sales Manager
George T. Gruen	Secretary
Alfred T. Reis	Comptroller
Thomas F. Jeary	Auditor

Counsel	Taft, Stettinius & Hollister, Cincinnati, Ohio
Transfer Agent	The Fifth Third Union Trust Company, Cincinnati, Ohio
Registrar	The Central Trust Company, Cincinnati, Ohio





GRUEN

THE *Precision* WATCH



75th year

G R U E N

A M E R I C A ' S C H O I C E S I N C E 1 8 7 4

Annual Report

Fiscal Year Ended March 31, 1949

The Gruen Watch Company

Time Hill, Cincinnati 6, Ohio



Annual Report



THE GRUEN WATCH COMPANY

Fiscal year ended March 31, 1949

SALES OFFICES

NEW YORK	International Bldg., 630 Fifth Ave.
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Thomas F. Jeary	Auditor

Counsel	Taft, Stettinius & Hollister, Cincinnati, Ohio
Transfer Agent	The Fifth Third Union Trust Company, Cincinnati, Ohio
Registrar	The Central Trust Company, Cincinnati, Ohio



highlights of the year...

FINANCIAL

Year Ended March 31	1949	1948	War Years' Average 1942-1946	Last Prewar Year 1941
Net Profit after Taxes	1,391,217.95	1,764,326.73	896,984.06	903,401.73
Net Profit Per Share*	3.62	4.59	2.33	2.35
Dividends Per Share*	1.40	1.30	.80	.28
Federal Income Taxes	882,387.51	1,048,131.35	1,171,106.84	449,323.39
Ratio: Current Assets to Current Liabilities	4.2	5.1	4.0	3.9
Average Number of Domestic Customers	7,213	6,763	5,332	5,123
Accumulated Profit Sharing of Average \$3000 a year employee with 5 years' or more service	1,961.10	1,650.30	758.40**	-----

*Based on 384,256 shares outstanding

**Accumulated amount for years ended March 31, 1945 and March 31, 1946

ADMINISTRATIVE

Personnel

Insurance and health plans improved
Testing, training programs expanded
3-week vacations for 25-year people

Promotions

Curvamic campaign biggest ever supporting one series of watches

Products

Curvamic, an improved Curvex, marketed
Autowind introduced, reception excellent

Plants and Productions

Production increased
Manufacture consolidated at Norwood factory



President's Report to the Shareholders

It is with a deep sense of pride, shared by the entire organization, that I present to you the report of the seventy-fifth year of your Company's operations. I know that you too will share the pride we derive from reviewing in this report your Company's seventy-five years of progress and achievements. We shall observe the passing of our seventy-fifth anniversary by making the most vigorous and energetic efforts to continue our progress into the future.

Financial Results

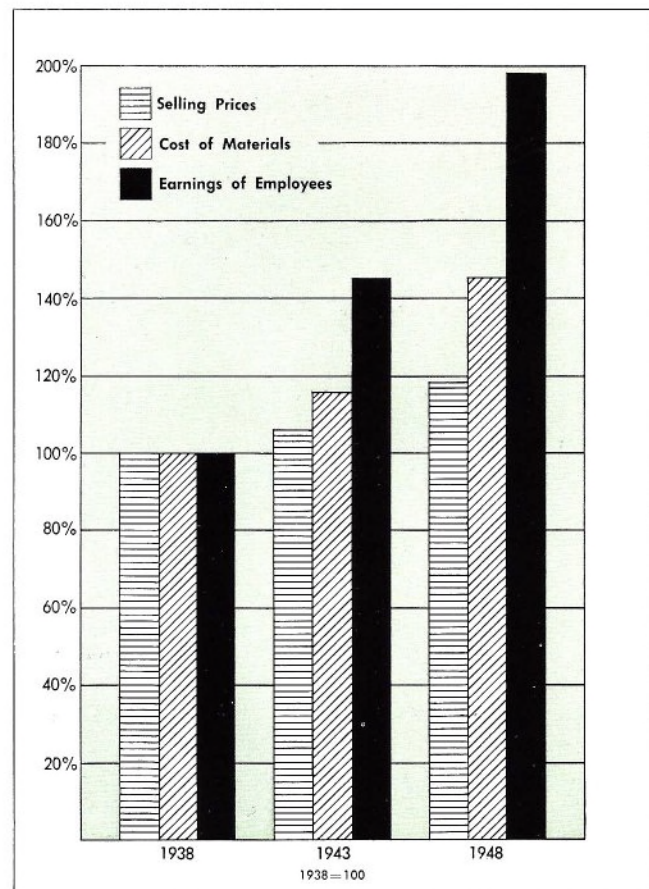
Consolidated profit for the year ended March 31, 1949 amounted to \$2,273,605.46 before taxes, and \$1,391,217.95 after all charges and taxes, as compared with \$2,812,458.08 before and \$1,764,326.73 after taxes for the preceding fiscal year. Based on 384,256 shares of Common Stock outstanding at March 31, 1949 earnings for this year equal \$3.62 per share, as compared with earnings of \$4.59 per share for the fiscal year ended March 31, 1948 and \$2.82 per share average for the ten year period ended March 31, 1949. During the year ended March 31, 1949, dividends amounted to \$1.40 per share as compared with \$1.30 for the preceding year.

The past year was primarily one of readjustment for your Company to more normal conditions of both production and sales. Some of the difficulties that we faced in Switzerland that had limited our production so substantially in the past years were overcome late in the year, with a resultant production increase. This increase, along with the very small production of our newly established American movement division was sufficient to enable us to sell the greatest number of watches in Gruen history.

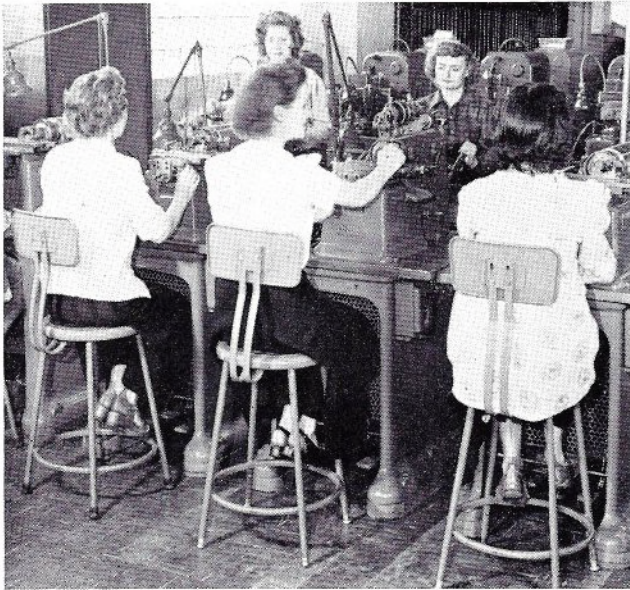
You will remember that last year I told you Gruen anticipated selling a larger number of watches this year but that a slackening demand for diamond and solid gold models indicated a dollar sales volume decrease. I also pointed out that increased operating costs made it doubtful that earnings would equal those of the year then ended. The sale of our expensive watches held up better than expected, and our dollar

sales volume was our greatest, surpassing that of last year by a small margin. Despite this sales increase however, earnings were, as anticipated, less than last year.

The decrease in your Company's net profit from last year's record high is explained by four factors. First, you may remember last year's income statement reflected non-recurring profits of \$126,102.13, consisting of an excess profits tax refund to the Canadian Company, and an adjustment of excess provision for expenses on cash deposits previously blocked by the Swiss government. Second, as anticipated, operating costs increased but your management deemed it advisable not to raise prices in view of the trend of



This chart indicates comparative increases in selling prices, cost of materials and average earnings of employees, 1938-48.



A step in ebauche' manufacture at Long Island

Our American movement production program has moved along very satisfactorily. Since completing our first American made movement during the past year, we have established a modest flow of this production and expect to increase it steadily. Although this program has been very expensive, it is considered most essential as a protection, when completed, against both prohibitive increases in tariff rates and a possible conflict in Europe that would cut us off from Switzerland.

Plant Expansion Program

Since the last report, several developments have taken place in our domestic expansion program. The movement plant at Mt. Vernon, N. Y., outgrew its quarters and was moved to a new, rented building at Long Island City. Here in Cincinnati, we completed plans for the ultimate in efficient, modern watch factories to be erected on the land we had acquired on the outskirts of Cincinnati, and to house all domestic production. When final bids on the project were received, it was decided to hold the plans intact until building costs become more reasonable. Meanwhile, we have rented in Norwood, Ohio, adjacent to Cin-

cinnati, an entire building of 90,000 square feet to help consolidate operations. We will move into this building The Gruen National Watch Case Company and the Long Island movement operation, and we have already moved there The Gruen Watchmaking Institute (our school composed largely of disabled veterans) and most of our assembly operations. This means that all our American operations will be housed in two buildings rather than five as during the last year. We believe this will fulfill space needs until reasonable costs permit our new building program to proceed.

Marketing Program

Last year I reported that total sales of jeweled movement watches had declined almost twenty percent during the preceding year, but, because of consumer insistence for nationally known and advertised brands, major companies had not been affected. Also, throughout most of the past year these companies were not affected. However, the downward trend in total sales has continued, and has been felt in recent months by all companies, including your own. Watches are becoming more difficult to sell and your Company is reexamining and shifting its marketing and promotion policies to fit the times. Present programs are being changed and expanded and new programs are being launched to help your Company maintain and improve its position of leadership in the industry.

As an example, the promotional program behind the Gruen Autowind, our self-winding watch, will be a very much expanded one because surveys conducted this year show real consumer preference for an automatic watch, and because Gruen is still the only major watch company that makes one. We hope that taking advantage of these two factors will enable your Company to build up a consumer acceptance of and demand for Autowind possibly as great as that built up for Curvex.

Increased production gives us the opportunity to broaden distribution, an impossibility during the wartime watch shortage. We have recently granted the Gruen franchise to a moderate number of repre-

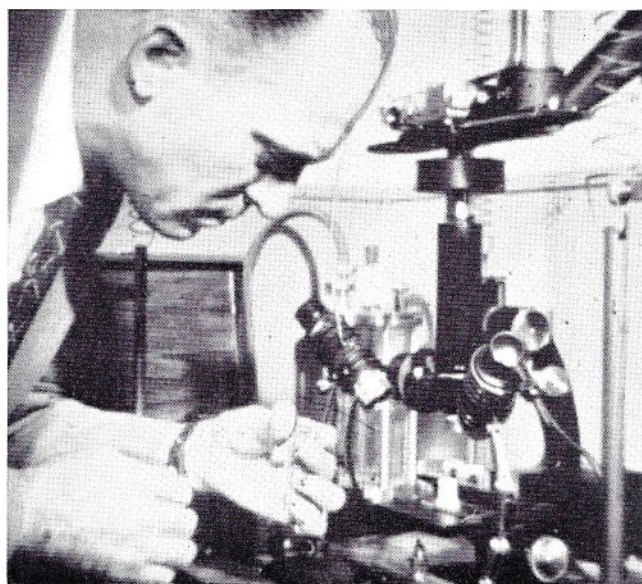
sentative jewelry stores, and thereby increased the total number of authorized Gruen distributors in the United States from 6500 last year to approximately 7200 today. These jewelers, added in accordance with our policy of selective distribution, will provide additional watch sales.

Our new export division, mentioned last year as having made a modest start, has continued to grow during the past year although the progress has been necessarily slow. Our new marketing program calls for increasing emphasis on exports, the potential for which seems very substantial. In any future planning however, it must be realized that foreign exchange restrictions and quotas may seriously impede our progress. It is sincerely hoped that through the International Trade Organization, in which our country is so interested, trade barriers and restrictions will be broken down and a broader international trade understanding will result.

Research and Development Program

Your Company's programs of market research and product research have become more and more active in recent years. During the past year a series of market surveys was conducted. An example is one just completed and mentioned above to determine consumer and dealer acceptance of the Autowind. We found a stronger preference for self-winding watches than even we, firm believers in Autowind's future, had expected. Specific consumer wants in automatic watches were also uncovered, and product research is being conducted toward fulfilling these. We are most enthusiastic about the results of this research program and hope to expand it in the future.

In the extremely important product research in Switzerland, we constantly seek improvements of quality, production methods, movement design, and engineering. Only through this research, under the direction of Mr. Thiebaud, were such outstanding developments as the Veri-Thin, the Curvex, the Autowind and the Curvametric made possible. A new Autowind, thinner and greatly improved, is now being developed with the aid of a new, heavy metal alloy, which permits a smaller rotator (the part that



Technician photomicrographs a tiny watch part

winds the watch) without of course any sacrifice of quality or dependability.

With the establishment of the American movement plant, we are expanding our domestic research laboratory substantially, and hope eventually to make it the finest in the entire industry.

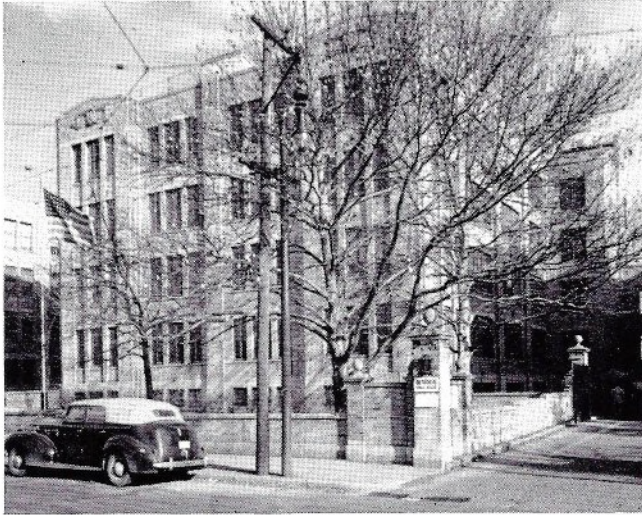
One of the most important projects is the design and development of watchmaking machinery for our American movement production. As another of our projects, in cooperation with a prominent independent laboratory, we have been conducting research on a new synthetic watch oil. The oil has already been subjected to more than two million hours of laboratory operating tests, and we hope soon to be able to use it in all our watches.

Your Company will continue to expand its overall program of research and development so important in maintaining its quality, style and value leadership.

Your Company and Reciprocal Trade

Your Company both directly and as a member of the American Watch Assemblers' Association has been an important factor in one of the most vital economic issues of today, reciprocal trade. Since





Exterior view of the Norwood, Ohio plant

part of the watch industry makes all its movements here, part makes some movements here and some in Switzerland, and part makes or buys all its movements in Switzerland, a discussion of how high tariffs will be is vital to all three groups. The watch industry is usually brought in with many other industries on discussions of reciprocal trade matters. This year however, the watch industry was vaulted into the spotlight of the reciprocal trade discussions because of the petition for reorganization in bankruptcy of one of the wholly domestic manufacturers, the Waltham Watch Company.

Swiss watch imports and the reciprocal trade agreements have been blamed by Waltham, and other high tariff advocates, for Waltham's trouble. It is said that the cost of Swiss-made movements is so low that the tariff is not enough to equalize costs and thus the domestically-made movements cannot compete. That this statement is not based on fact is easily proven. First, the 1948 showing of the Hamilton and Elgin watch companies (the only other two exclusively domestic producers) both sales-wise and profit-wise were their greatest in more than eighteen years. In fact Hamilton more than doubled its 1947 profits. Second, a great deal of Waltham's trouble, as admitted by officials of the Company, was due to its outmoded plant, equipment, and sales and mer-

chandising policies, and not reciprocal trade. Third, the costs of producing a fine jeweled movement here and in Switzerland are not greatly different and with the present duty added are within a few cents of each other.

I am confident that the extension of the Reciprocal Trade Agreements Act will be passed and that no prohibitive tariff or American quotas will be imposed on the imports of your Company or other users of Swiss watch movements.

Your Employees

During the past year the employees of your Company worked at the highest wage rates and had the highest earnings of any period in the Company's history. Your Company has long recognized the importance of people and knows that to prosper and expand it must provide for its employees many of the little things and big things that they desire from life. The first step in such a program is to treat and deal with each employee as an individual who is contributing to Gruen's success. This principle has been basic with your Company and it has been most gratifying to see the excellent relationships among employees, and between each employee and the management, expressed in the loyalty and spirit of the entire organization.

Many of the benefits provided for employees are described in the Highlights and in the Personnel section in the report.

Your Customers

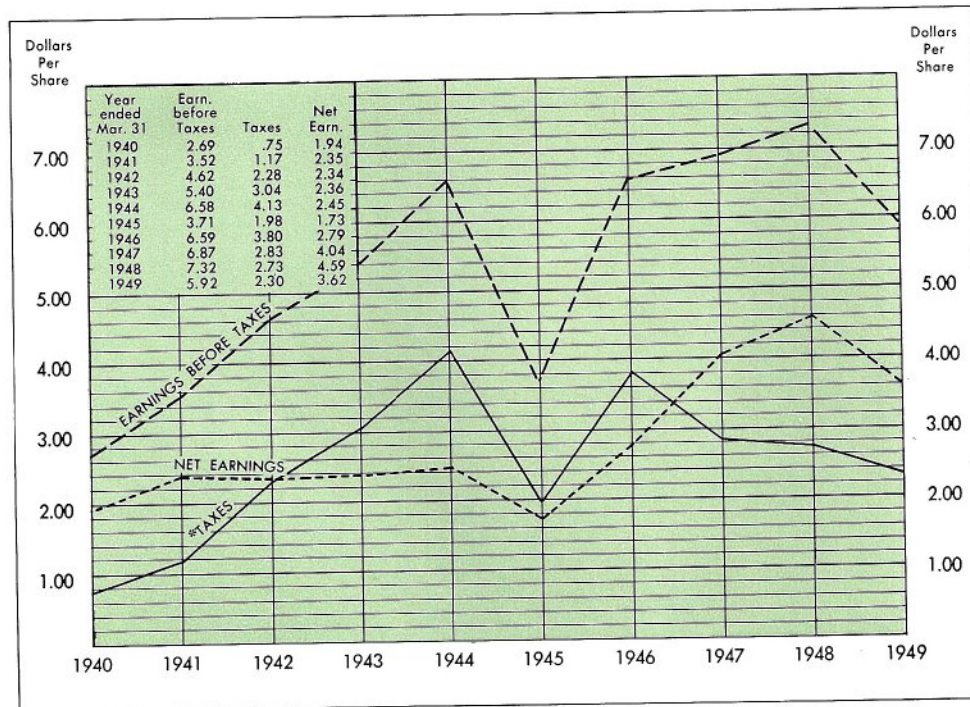
We now have approximately 8000 retail jewelers throughout all forty-eight states, Canada, Hawaii, Alaska, Puerto Rico and Panama. In addition, we sell large and financially strong distributors in the foreign countries now covered by our export division.

These customers are representative of all kinds of people, located in every kind of community from the largest metropolis to the smallest village. Regardless of community however, they are all reputable and representative merchants, and they have established with your Company strong ties based on



EARNINGS BEFORE TAXES, TAXES, and NET EARNINGS

(Based on 384,256 shares outstanding March 31, 1949)



Fiscal years ended March 31

*Provision for domestic and foreign income taxes

mutual confidence. We are proud of and thankful for our customers' good will.

Your Fellow Shareholders

Your Company is owned by 2967 shareholders—men, women and children in all walks of life. Below is a summary showing the classifications of your fellow shareholders. Note especially the large number of women and the large interest they hold.

Class	Number	%	Number of Shares	% of Shares
Men	1380	47	181,271	47
Women	1557	52	177,399	46
Corporate and Trust Accounts	30	1	25,586	7
Totals	2967	100	384,256	100

Another important fact is that 85.4% of the shareholders own 100 or fewer shares, an unusually high percentage, showing a wide diversification of ownership. This diversification shows that people of all economic groups have had the confidence to invest in your Company and we are most appreciative of this confidence.

Your Management

Perhaps the only other person in your Company with whom you are at all acquainted through the reading of my annual letters is Mr. Thiebaud, about whom there is usually something interesting to recount. I wish I could tell you of the many achievements of all the officers, executives and employees in the organization; unfortunately, space limitation pre-



THE GRUEN WATCH COMPANY

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

MARCH 31, 1949

Current assets:

Cash on hand and demand deposits	\$ 2,220,617.09
United States Government securities, at cost	850,000.00
Notes and accounts receivable, trade, less allowance for doubtful notes and accounts	1,880,246.58
Inventories, at the lower of cost or market (Note 2)	4,971,033.49
<i>Total current assets</i>	9,921,897.16

Less:

Current liabilities:

Loan payable, foreign bank	\$ 386,817.14
Accounts payable	661,097.18
Accrued items	739,865.79
Dividends payable	134,333.29
Provision for domestic and foreign taxes on income, less, \$500,000 U.S. Treasury Tax Savings Notes, at cost (Note 4)	428,773.18

Total current liabilities 2,350,886.58

Net working capital	7,571,010.58
Cash surrender value of insurance aggregating \$2,166,840 on lives of officers (Note 3)	196,182.48
Other notes and accounts receivable	141,953.73
Sundry investments, at cost	10,759.70
Land, buildings, and equipment, at cost, less allowance for depreciation of \$842,308.87	1,585,301.98
Prepaid expenses and deferred charges	504,882.59
Patents, trademarks, copyrights and goodwill	1.00
Total assets less current liabilities	10,010,092.06
Notes payable, bank, due annually in varying amounts from July 1, 1950 through July 1, 1955	1,400,000.00
Excess of assets over liabilities	\$ 8,610,092.06

Capital:

Capital stock:

Preferred stock, 4½ per cent cumulative; \$100 par value; authorized 25,000 shares, issued and outstanding, none	—
Common stock, \$1.00 par value; 650,000 shares authorized, 505,337¾ shares issued, less 121,081¾ shares in treasury, outstanding 384,256 shares (Note 3)	\$ 384,256.00
Earned surplus, as annexed (Notes 1, 2, 3 and 4)	8,225,836.06
<i>Total</i>	\$ 8,610,092.06

The accompanying notes are an integral part of this consolidated statement of financial position.



ANY AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF INCOME AND EARNED SURPLUS FOR FISCAL YEAR ENDED MARCH 31, 1949



Gross profit from sales	\$ 5,750,680.69
Selling, administrative, and general expenses	3,389,919.99
<i>Profit before other income and expenses and income taxes</i>	<u>2,360,760.70</u>
Other income	240,414.58
	<u>2,601,175.28</u>
Interest and other expenses	327,569.82
	<u>2,273,605.46</u>
Provision for domestic and foreign taxes on income	882,387.51
<i>Net income</i>	<u>1,391,217.95</u>
Earned surplus, April 1, 1948	7,372,647.55
	<u>8,763,865.50</u>
Loss arising from conversion of foreign net assets to dollars	70.11
	<u>8,763,795.39</u>
Dividends, common stock \$1.40 per share	537,959.33
	<u>8,225,836.06</u>
Earned surplus, March 31, 1949	<u><u>\$ 8,225,836.06</u></u>

The accompanying notes are an integral part of this consolidated statement of income and earned surplus.

NOTES TO FINANCIAL STATEMENTS

OF FINANCIAL POSITION AND INCOME AND EARNED SURPLUS

NOTE 1. The consolidated statement of financial position includes foreign net assets aggregating \$1,480,206.17, stated in United States currency, of which net current assets were \$1,004,262.47.

Current assets and liabilities of foreign subsidiaries included in the consolidated statement of financial position were converted into U. S. dollars at official rates of exchange.

Noncurrent assets recorded in foreign currencies were converted substantially at rates of exchange prevailing when acquired.

Income accounts of foreign subsidiaries were converted substantially at the official rates of exchange.

NOTE 2. The estimated amounts of intercompany profits in inventory items purchased from companies whose accounts are consolidated were eliminated in the preparation of these consolidated financial statements.

NOTE 3. In accordance with the employment agreement between the company and Benjamin S. Katz, President, the company is obligated, in event of his death during the term of the agreement, to purchase for cash, if requested within 120 days from the date of his death, common stock of the company held by the personal representative of his estate, widow, children, grandchildren or trustee, for an amount not in excess of \$1,000,000. The price per share to be paid shall be the consolidated book value per share as of the day following his death.

The company carries insurance aggregating \$1,800,000 on the life of Benjamin S. Katz. The company has agreed to continue \$1,000,000 of this insurance for the period that the employment agreement is in effect and it is expected that the proceeds of such insurance will be held by the company to be used in the purchase of said stock, if offered.

NOTE 4. It is estimated (based on present laws) that additional foreign taxes on transfers to the parent company of the accumulated surplus of foreign subsidiaries would approximate \$584,000.

NOTE 5. Consolidated net income includes net income

of foreign subsidiaries aggregating \$278,134.15. No dividends were received from foreign subsidiaries during the year.

NOTE 6. The provisions for depreciation included in the consolidated statement of income amount to \$169,541.57.

NOTE 7. The provisions for contributions to the profit sharing fund, for the benefit of the employees of The Gruen Watch Company and The Gruen National Watch Case Company, included in the consolidated statement of income, amount to \$122,456.44.

LYBRAND, ROSS BROS. & MONTGOMERY
Certified Public Accountants
CINCINNATI

*To the Board of Directors,
The Gruen Watch Company, Cincinnati, Ohio.*

We have examined the consolidated statement of financial position of The Gruen Watch Company and its subsidiaries as of March 31, 1949 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 of the companies (except the Gruen Watch Mfg. Co., S. A.) and such other auditing procedures as we considered necessary in the circumstances. Financial statements of the Gruen Watch Mfg. Co., S. A., a consolidated subsidiary, for the year ended March 31, 1949, together with a report thereon of other public accountants, were submitted to us.

In our opinion, based upon our examination and upon the above-mentioned report of other public accountants, the accompanying statement of financial position and statement of income and earned surplus present fairly the consolidated financial position of The Gruen Watch Company and its subsidiaries at March 31, 1949, 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.

Cincinnati, Ohio. LYBRAND, ROSS BROS. & MONTGOMERY
June 3, 1949.



FINANCIAL SUMMARY FOR THE PAST TEN YEARS

(Fiscal Years Ended March 31)

ACCOUNTS FROM STATEMENT OF FINANCIAL POSITION

	1949	1948	1947	1946	1945	1944	1943	1942	1941	1940
Total Current Assets	\$9,921,897	\$9,716,040	\$9,043,040	\$8,471,856	\$7,118,495	\$7,801,835	\$6,262,310	\$6,008,279	\$5,678,476	\$3,687,276
Total Current Liabilities	2,350,886	1,891,191	2,091,503	1,998,370	1,706,792	1,907,806	1,846,635	1,528,002	1,468,185	749,752
Net Current Assets	7,571,011	7,824,849	6,951,537	6,473,486	5,411,703	5,894,029	4,415,675	4,480,277	4,210,291	2,937,524
Plant and Equipment Net	1,585,302	975,884	564,199	455,511	431,000	451,982	444,738	432,030	446,275	517,880
Term Loan From Bank	1,400,000	1,600,000	1,600,000	2,000,000	1,750,000	2,000,000	1,000,000	1,250,000	1,500,000	1,000,000
Earned Surplus	8,225,836	7,372,648	6,085,994	5,000,100	4,212,551	3,889,226	3,222,925	2,910,766	2,342,248	1,624,087
Net Worth	8,610,092	7,756,904	6,470,250	5,384,356	4,596,807	4,724,332	4,058,031	3,792,383	3,257,921	2,535,729
(1) Book Value—										
Common Stock	22.41	20.19	16.84	14.01	11.96	11.12	9.39	7.76	6.49	5.11

ACCOUNTS FROM STATEMENT OF INCOME

Gross Profit	\$5,750,681	\$6,113,041	\$5,843,133	\$5,599,129	\$3,826,871	\$4,653,880	\$3,779,292	\$3,701,268	\$3,065,807	\$2,436,694
Profit Before Income Taxes	2,273,605	2,812,458	2,640,375	2,531,552	1,426,985	2,530,244	2,076,367	1,775,306	1,352,725	1,033,072
Provision For Income Taxes	882,387	1,048,131	1,088,147	1,459,715	762,102	1,589,538	1,168,288	875,891	449,323	287,804
Net Profit	1,391,218	1,764,327	1,552,228	1,071,837	664,883	940,706	908,079	899,415	903,402	745,268
(2) Earnings Per Share—										
Common Stock	3.62	4.59	4.04	2.79	1.73	2.45	2.36	2.34	2.35	1.94
Dividends—										
Common Stock	537,959	499,532	461,104	345,831	307,401	249,771	372,885	270,656	105,965
(2) Dividends Per Share	1.40	1.30	1.20	.90	.80	.65	.97	.70	.28

(1)—Based on actual shares outstanding on dates shown.

(2)—Based on 384,256 shares common stock outstanding March 31, 1949.



75 years

75

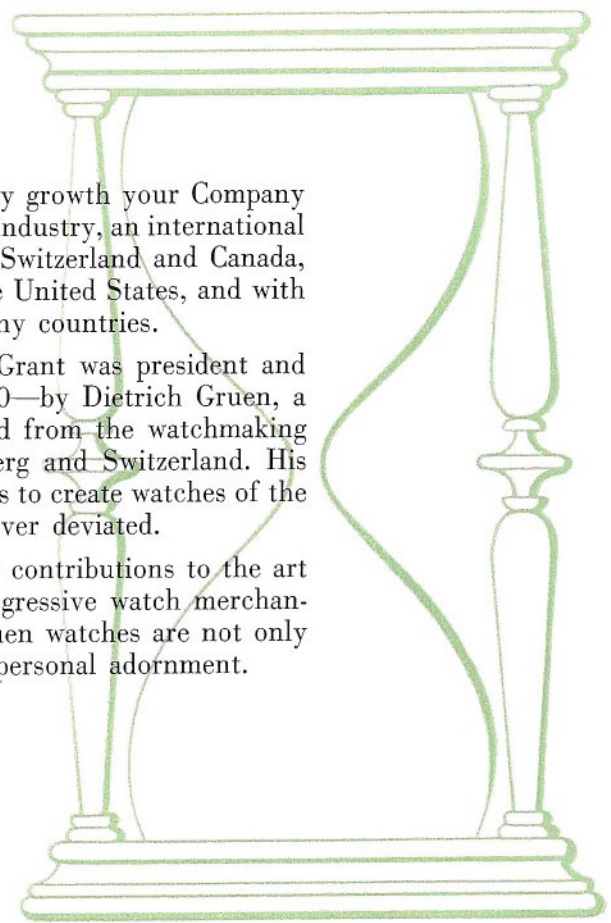


of PROGRESS...

AFTER three quarters of a century of steady growth your Company stands today as a recognized leader in the watch industry, an international corporation with wholly-owned subsidiaries in Switzerland and Canada, with movement factories in Switzerland and the United States, and with an international reputation and markets in many countries.

This firm was founded in 1874—Ulysses S. Grant was president and Cincinnati was a bristling river city of 220,000—by Dietrich Gruen, a young engineer and horologist newly graduated from the watchmaking schools and stern apprenticeships of Nuremberg and Switzerland. His skill was great and the force that moved him was to create watches of the finest quality. From this, the Company has never deviated.

The Gruen Watch Company has made many contributions to the art of fine watchmaking and to the science of progressive watch merchandising and styling. Today, more than ever, Gruen watches are not only excellent timepieces, but beautiful articles of personal adornment.



horological progress...

FROM the days when watch cases were made of tortoise shell and all parts of the movement were patiently hand-tooled, ingenious inventions and technological improvements have contributed to the evolution of watches and their manufacture. Here are a few of the contributions made by your Company.

1874...GRUEN PATENTED SAFETY PINION

This was a notable Gruen invention which was subsequently used on pocket watches of many brands for more than fifty years. It was a device to prevent broken mainsprings from recoiling with force and damaging the movement.



1878...CREATED SIZE-16, THE RAILROAD STANDARD

Nineteenth century watches were quite bulky, and Gruen strove to reduce size and increase efficiency. Toward this goal, Gruen accomplished the first Size-16, which was then accepted and still is used as standard for railroads.



1896...FIRST TO SELL COMPLETE WATCHES, CASED AND BOXED

Previously, one company sold movements, another cases and the retailer fitted them together. Gruen first took the logical step, from technical and merchandising standpoints of selling part of its output as completed watches, beautifully boxed.



1902...CREATION OF VERI-THIN POCKET WATCH

A new principle of movement manufacture was devised in order to create thinner, more attractive men's watches. The new Veri-Thin watches compared to other watches of the time as sleek, modern fighter planes do to Lindbergh's Spirit of St. Louis.



1908...FIRST TO MARKET LADIES' WRISTWATCHES

Women's watches had been worn on a ribbon around the neck or pinned onto the front of the dress. Never satisfied with the status quo, Gruen introduced, on a nationwide scale, wristwatches for the ladies. This started a new vogue and opened a new market.



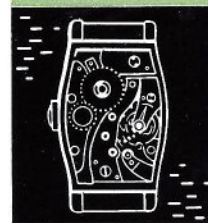
1918...INTRODUCED MEN'S WRISTWATCHES

A revolutionary step in watch marketing was taken, despite a belief in the industry that men would never wear wristwatches. The new Gruen line, backed by a national advertising campaign was a success—now 95 per cent of men's watches are for the wrist.



1925...PATENTED QUADRON MOVEMENT

Until about 1925, only round movements had been widely used, which meant that space was wasted with a round movement in a shaped case. After extensive research, Gruen re-arranged the operating mechanism so that efficient shaped movements could be produced.



1935...CURVEX—MOST FAMOUS INNOVATION

To combine styling and precision, a patented curved movement was introduced. A curved case permits better styling. Using a curved movement in that curved case means larger parts and greater accuracy than if a flat movement were used.



1939...CREATION OF VERI-THIN WRISTWATCH

In constant efforts to make beautiful watches, this new movement principle was created. The movement grows slimmer toward sides and ends (like a slice off a tennis ball). Gruen Veri-Thin is the thinnest popular priced watch on market.



advertising progress...

to Dad... for outstanding service

And outstanding service is what you get when you buy a Gruen watch. Gruen is a famous name in the watch industry, and you know it. You know it because you know the name. You know it because you know the quality. You know it because you know the reliability. You know it because you know the precision. You know it because you know the accuracy. You know it because you know the beauty. You know it because you know the value. You know it because you know the name. You know it because you know the Gruen watch.

GRUEN
THE Precision WATCH

*the thinner the watch
the greater its beauty*

*thin, thin Veri-Thin**

GRUEN
THE Precision WATCH

Gruen has the longest history in the watch industry as a national advertiser, with an aggressive advertising record of forty years. Our magazine campaigns are always among the two or three largest in the industry, and are supplemented by nation-wide radio. For this fall, we have a colorful, attention-getting advertising plan which we believe will impress the Gruen name upon the buying public, and be of tremendous value to Gruen jewelers. Here are but a few samples of the spring program.

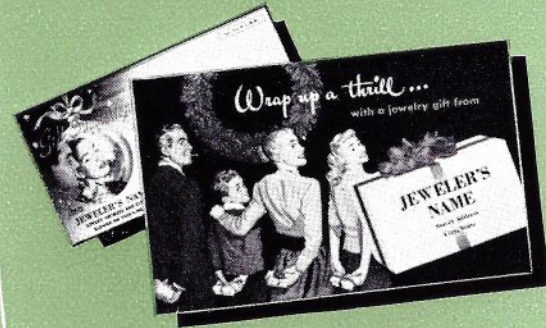
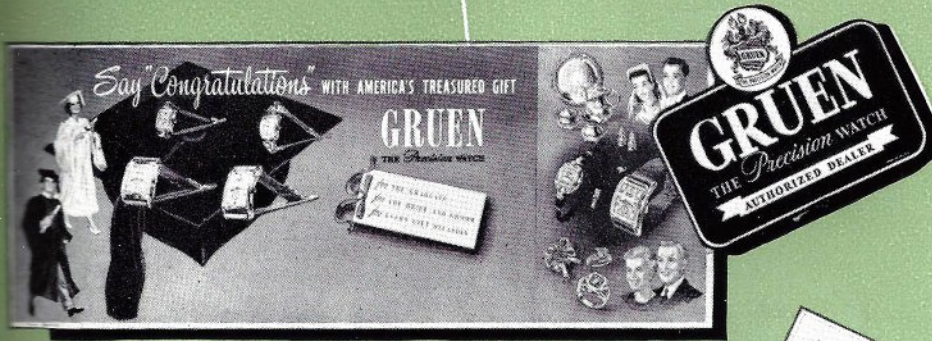
on every graduate's mind...

...the gift of a Gruen watch

This is the best gift, the greatest gift — the gift that keeps its promise. The name Gruen on the dial is a pledge of beauty that will endure long past the first bright recollections. It is a pledge of dependability, too, that will remain steadfast through the years. It matters not whether you choose the famous Chrono with the revolutionary Curvilinear movement, the beautiful Veri-Thin, or the self-starting Automatic. Your choice will be proudly made — proudly assisted, because every fine watch bearing the Gruen name is as the hand of its time in watchmaking.

\$53.75 up. Including Federal tax. Gruen, the Precision Watch, is the official timepiece of Trans World Airline and has long been "America's Choice" for three-quarters of a century. The Gruen Watch Company, Time Hill, Cincinnati, U.S.A. In Canada: Toronto, Ontario. For cherished gifts, consult your jeweler.

GRUEN
THE Precision WATCH



Dealer Material Increases Value of National Advertisements

A national advertiser cannot realize the total potential of dollars used unless he capitalizes fully upon all the local point-of-sale opportunities and dealer cooperations that are available. We are practically partners with the jeweler in point-of-sale advertising in that we cooperate in providing all types of material for local use under the terms of our 50/50 Cooperative Advertising Plan. It is the belief of Gruen that this program doubles the effectiveness of the national magazine and radio campaigns.



PROFIT SHARING

Since March 31, 1945, five per cent of profit before taxes as provided by the Profit Sharing Trust, has been divided among all qualifying personnel in proportion to their earnings. Trust Fund balance is \$644,553.37.

VACATION PLAN

All employees with more than six months' service receive paid vacations of varying duration dependent upon length of service. Twenty-five year personnel are granted three weeks each year.

SICK BENEFITS

A liberal sick benefit plan is in effect to relieve an ill employee of financial worry. Annual benefits received vary in accordance with length of service.

ORTHO-RATER EXAMINATION

Scientific equipment tests vision qualities of eyes to determine if requirements for a specific job are met. Result of this plan is reduction of fatigue and increase in efficiency and earnings.

PICNIC AND PARTY

Because good fellowship is important, all personnel are invited to a gala Christmas party and (with their families) to an annual all-day picnic as the guests of the company.



TUITION PLAN

To permit those so desiring to continue their education, the Company pays half the tuition costs of any evening school courses related to work of the employee.

HOLIDAY PAY

Six holidays are observed annually with all employees being fully paid. They are New Year's, Memorial Day, July 4, Labor Day, Thanksgiving and Christmas.

INSURANCE

To assist personnel in obtaining maximum insurance protection, a group plan is made available at a very modest cost with the Company bearing an important share of the expense.

EYE CARE PLAN

If an employee's eyesight is deficient or in need of professional attention, he may go to an oculist or ophthalmologist for needed care with the Company bearing the expense.

SERVICE AWARDS

Long, loyal service is a valuable asset which is recognized by Gruen in many ways, including company-supported Ten Year Club, pin awards, watch awards, and ring awards for various periods.





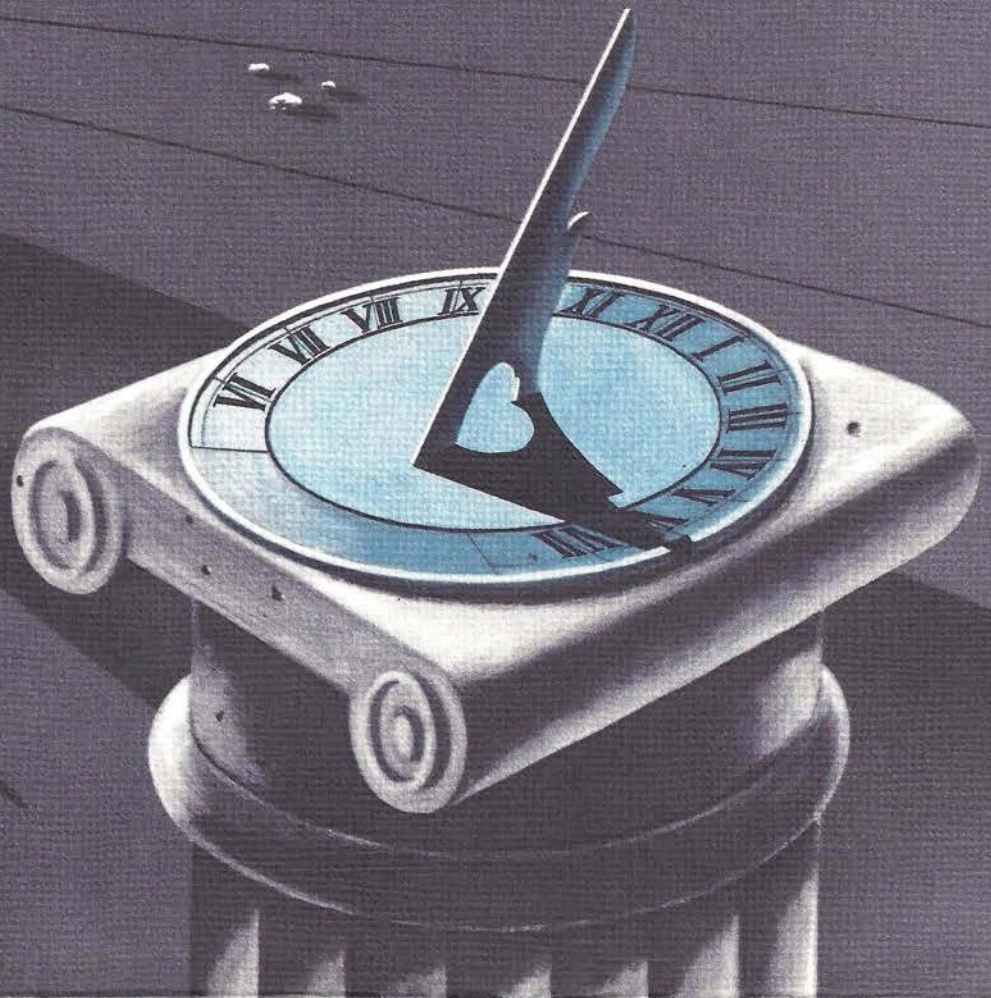
GRUEN
THE *Precision* WATCH



FISCAL YEAR ENDED MARCH 31, 1950

annual report

THE GRUEN WATCH COMPANY • TIME HILL, CINCINNATI 6, OHIO



*F*inancial summary of the year

Y E A R E N D E D M A R C H 3 1	1 9 5 0	1 9 4 9
Income Before Federal Taxes	1,299,104	2,273,605
Federal Taxes On Income	533,356	882,387
Net Income	765,748	1,391,218
Net Income Per Share	1.99	3.62
Dividend Per Share	1.30	1.40
Earnings Retained In The Business	.69	2.22
Ratio: Current Assets To Current Liabilities	3.7	4.2
Number of Stockholders	3,034	2,967
Book Value Per Share of Common Stock	22.97	22.41
Average Number of Domestic Customers	8316	7213
Accumulated Profit Sharing of \$3000 A Year Employee With Five Years Service at Start of Plan	2,133	1,961

President's report...



To the Shareholders of The Gruen Watch Company:

On behalf of your Board of Directors, I am presenting herewith the 76th annual report of the operations of your Company. Included in this report is a consolidated balance sheet as of March 31, 1950, and a consolidated statement of income and earned surplus for the year ended March 31, 1950, as reported by the auditors for your Company, Messrs. Lybrand, Ross Bros. & Montgomery.

Net income for the year just ended was the lowest earned by your Company in five years. This net income amounted to \$1,299,104 before taxes, and \$765,748 after all charges and taxes, as compared with \$2,273,605 before and \$1,391,218 after taxes, for the preceding fiscal year. Based on 384,256 shares of Common Stock outstanding at March 31, 1950, the earnings per share, after taxes, for the year just ended were \$1.99, as compared to per share earnings of \$3.62 for the year ended March 31, 1949, and an average of \$2.83 per share earnings for the ten-year period ended March 31, 1950.

In view of the substantial decrease in net income, the questions which must most concern you and all of us as shareholders are:

WHAT CAUSED THIS DECREASE? WHAT IS BEING DONE TO IMPROVE THE SITUATION? WHAT ARE THE PROSPECTS FOR THIS YEAR AND THE YEARS TO COME?

Because of their importance and interest, I will devote the first part of my letter to these three questions, and I will try to explain in turn the conditions both in the Company and the industry that caused the decrease; the specific things your Company is doing to increase its earnings this year; and the prospects for your Company in the future which, despite the temporarily depressed earnings, I feel are very good. Later in my report I will tell you, in accordance with my usual practice, about the other phases of your Company and its operation which I feel it is important for you as shareholders to know.

What caused the decrease in net income this past year?

The year just ended was one of major readjustment in the operations of your Company to meet

competitive conditions of the present and future. The decrease in earnings in this year of readjustment and intense competition was caused by a decrease in sales, a decrease in gross profit, a proportionate increase in overhead expense, and the absorption of a number of heavy non-recurring expenses, all of which I will explain herein.

Even though available data shows we again increased our share of the declining total watch market, sales in number of watches decreased. The average price per unit also decreased due to customer preference for watches in lower price ranges. Because of both these factors, our sales in dollars declined for the first time in five years.

The number of watches sold decreased because: (1) The extreme consumer shortage of Gruen watches has to a great extent been overcome. (2) Legislative discussions and proposals during the past year regarding the removal of the excise tax has caused many consumers to postpone their purchase of a watch. (3) Half-price sales of little known brands has also affected the market for nationally advertised watches. (4) The tremendous upsurge of television sales plus the major strikes of last fall and this spring have seriously curtailed the business of all jewelers.

Our percentage of gross profit on sales decreased both because we were required to sell more watches in lower price ranges on which we make a smaller percentage of gross profit; and because, as a result of the shift in demand to these lower price ranges, we accumulated some excess of higher priced inventory which had to be written down.

Overhead expenses did not decrease in proportion to the sales decrease because substantial operating efficiencies that have been made could not be completed until late in the year and will not show their effect until the current fiscal year. Also an increased emphasis was placed on sales and advertising during the year because of more highly competitive conditions.

The year just ended saw a consolidation of the Company's Cincinnati plant and offices into its own Time Hill plant and its leased factory in Norwood. Although expensive, this consolidation should enable your Company to operate more efficiently and





Our own automatic watch making machines designed and manufactured by Gruen for precision facing and recessing operations, at Norwood.

more economically in the future. Extensive leasehold improvements at Norwood and remodeling at Time Hill involved a considerable non-recurring expense for moving, installing, and rearranging, which is reflected in the income statement. Included in this cost of expanding production facilities was the continued and even greater expense incurred during the year in connection with the establishment of our American movement manufacturing plant. I am happy to be able to report to you, however, that such costs are now decreasing and I am hopeful during the current year they will be reduced to a point where our American Movement Manufacturing operations can be conducted on a break-even basis, (earlier than originally expected) despite our scheduled limited production for the current year.

What is being done to increase earnings?

In order to increase earnings your Company is making every effort to increase its percentage of gross profit over last year, decrease its overhead, and increase its sales.

I am extremely hopeful that we will be able to increase our gross profit this year because of a newly devised control system which will help us to eliminate case changes, dial changes, and to a substantial degree, inventory write-downs. This production and inventory control will enable us to move even more quickly with changes in buying trends.

Your Company will make substantial overhead decreases in the current year, many of them due directly to expenditures made last year. The extensive remodeling at Norwood and Time Hill will enable all departments, because of less crowding and a more efficient arrangement of space, to operate more economically. Also, as a result of industrial engineering studies which are being continued, decreases in factory and office labor costs have been effected. A study is also being made now to enable us to further reduce distribution costs.

The largest decrease will be in the cost of the operation of the American Movement Division, because a substantial part of this cost (that involved in the move to Norwood) was non-recurring, and because improved production is now to a point where we are getting a moderate but steady flow of high quality 21-Jewel movements from our Norwood plant. Despite its high cost, your Management and Board of Directors have felt that this American supplement to our Swiss movement production is essential as a protection, when completed, against prohibitive increases in tariff rates and a possible conflict in Europe that would cut us off from Switzerland. Now the first and most difficult phase of this American movement production program is virtually completed and, for the first time in its history, your Company can see in the future the time when it will be fully prepared for any eventuality.

Whether or not your Company can actually increase its sales, depends upon general economic conditions and a number of other external factors. Your Company is, however, doing a great many things to help increase both its unit and dollar sales, and thus its net income.

The most important of these things include: (1) a further expansion of the sales force in order to obtain a more thorough coverage of territories; (2) a fully

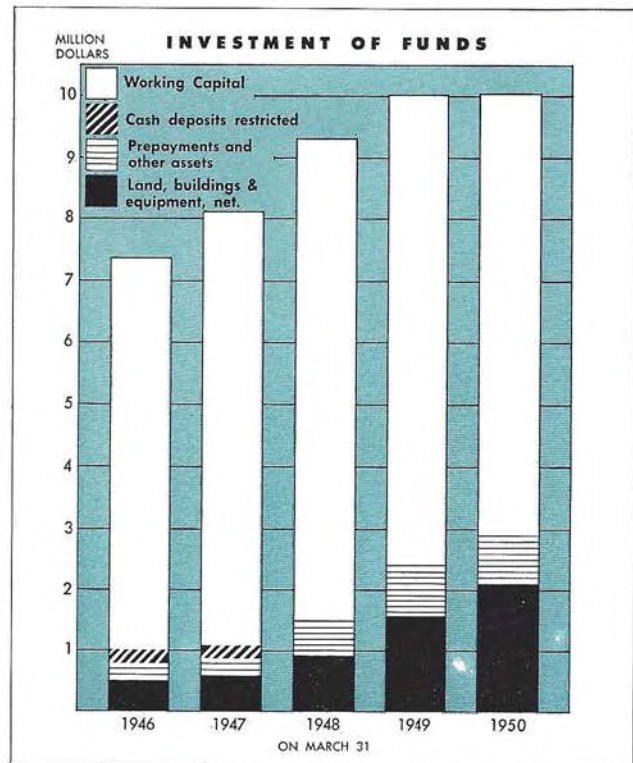


maintained or perhaps even increased expenditure for advertising to obtain more dealer backing and consumer interest; (3) a greater emphasis on television advertising in major markets which now finally have large enough audiences to make the use of this medium worthwhile; (4) a stronger program than ever of dealer helps and dealer education; (5) the introduction of the most beautifully styled line in the history of your Company, which as you know has always been considered the style leader of the industry; and (6) a more intense program of market research than ever before to keep your Company's marketing program well ahead of competition.

What are the prospects for this year and the years to come?

I believe, as I always have, that the long run outlook for your Company is extremely good, and that Gruen will continue to maintain and improve its industry leadership. Needless to say, I am hopeful that this improvement will be reflected in the earnings of your Company. To what extent, if any, the improvement in earnings will be achieved in the current year's operations, is dependent not only on the success of the plans that I have outlined to you above, but also to a considerable extent on general business conditions, Congressional action on excise taxes, and the extent of future half price sales of little known watches. Generally, sales of jewelry and watches have been off materially for the past three years, and more especially for the past six or eight months. The total volume of your Company's sales will, in some part, be measured and limited by these total jewelry and watch sales. If the above mentioned factors of general business conditions, etc. are all favorable, it is possible that dollar sales of your Company for the current year might even exceed sales of the year just ended.

I do not expect *all* of these factors to be favorable however, and we have made our plans on the basis of an estimated slight decrease in the sale of units and a slightly greater decrease in dollar sales. Even on this basis, we are hopeful that earnings for the year may show some small increase over earnings of



the year just ended. Of course, if there should be a material drop in business generally, or if unfavorable action should be taken during the year on tariffs or importations of watch movements, such conditions would be reflected in our immediate earnings. I am quite confident however that these conditions will not develop.

I have tried to give you as clear, complete, and objective an answer as is possible to the three questions that I know most concern all of us as shareholders; and now as is my custom, I would like to tell you in some detail about the other phases of your Company, both financial and operational.

Financial Information

Fixed and Working Capital

Land, Buildings and Equipment, after allowance for depreciation, have increased by \$506,443 over the preceding year (See chart above). Almost the



entire amount of the increase relates to the American movement operation. Part is in equipment purchased and built for our American movement production program. Another large part is in leasehold improvements at our Norwood plant, and still another is in an additional parcel of land purchased in Amberley Village for our contemplated future building program. Even though this building program was postponed, it was considered advisable to protect the Company for the future should it go ahead, especially in view of the scarcity of good industrial property in this city. A smaller part of the increase is in remodeling of the Time Hill plant where operations, formerly spread throughout the city, are now consolidated. Although these capital expenditures have been very heavy for the past three years, the major expenditures necessary at this time in connection with our American movement production program have been completed and capital expenditures will be very much smaller during the current fiscal year.

The decrease in working capital which was due primarily to the capital expenditures of the past year is shown in the schedule at the right.

Cash Requirements

Cash on hand at the end of the year was likewise lower than a year ago and, in addition, your Company had an increase in its current loans outstanding of \$555,579. Both of these changes were caused by the above mentioned capital expenditures and by our higher receivables. Our receivables have increased by \$1,119,438 over the previous year because it has become necessary to liberalize terms to an even greater extent than in the previous year. We are rapidly getting closer to our prewar credit terms. This liberalization has been necessary to meet competitive terms, as far as feasible, and to enable our customers to order advantageously, but, these receivables are constantly watched and the reserve for bad debts is kept considerably in excess of our loss experience.

Since the close of our fiscal year on March 31st, we have made a significant change in the balance sheet which will, of course, not show up in the

SOURCE OF NET CURRENT ASSETS

Year ended March 31, 1950

Additions to Net Current Assets	
Net income.....	\$ 765,748.20
Depreciation and amortization on plant and equipment.....	230,789.61
Fixed assets sold or scrapped... ..	76,356.32
Decrease in miscellaneous assets.....	21,701.38
	<u>1,094,595.51</u>
Reductions of Net Current Assets	
Dividends.....	499,532.93
Additions—land, buildings and equipment.....	765,572.65
Long term notes paid.....	200,000.00
Prepaid expenses and deferred charges.....	21,116.44
Loss from conversion of foreign net assets to dollars.....	49,395.33
	<u>1,535,617.35</u>
Decrease in Net Current Assets... ..	441,021.84
Net current assets at beginning of period.....	7,571,010.58
Net current assets at end of period.....	<u><u>\$7,129,988.74</u></u>

financial statements of this report. Your Board of Directors, in recognition of the fact that more liberal credit terms have again become a normal part of this industry, authorized an increase of \$1,300,000 in our long term loan. This brought the total amount outstanding to \$2,500,000 and enabled us to eliminate all current domestic loans outstanding at March 31, 1950. The final payment on the long term loan is now due on July 1, 1958. Both your Board and your Management feel that this is an advantageous loan for your Company at a very favorable interest rate.



Dividend Policy

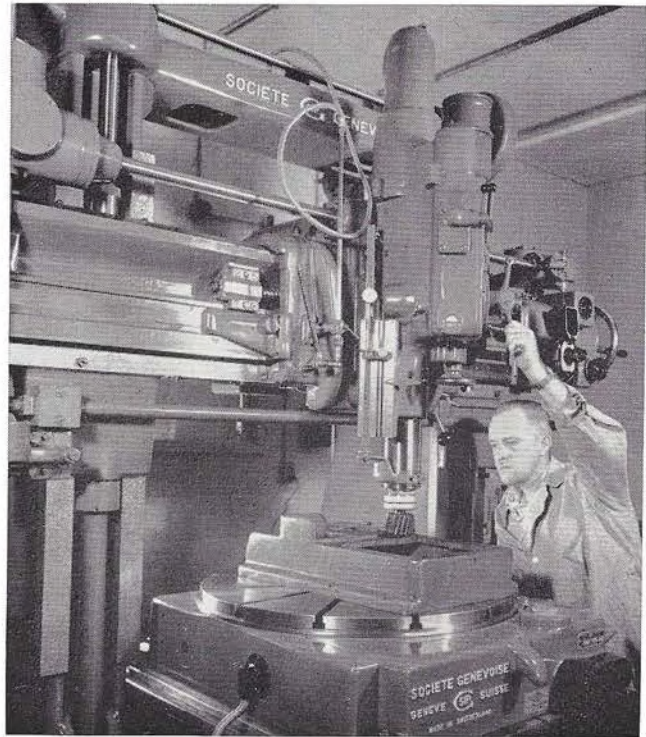
With the dividend paid on April 1, your Board of Directors reduced to 25c a share the quarterly dividend, which for a period of about two years had been 35c a share. This reduction was considered necessary because of the decreased earnings of the past year, the decreased working capital and the increased need for cash, explained above. Of course, future dividends must depend upon operating results and needs of cash in the business. Certainly, however, at the present time there is no intention of reducing the quarterly dividend below the 25c rate. It is hoped that operations and conditions will be such that this dividend can be continued and, in the years ahead, increased or supplemented by extras.

Operations

I would like in this last section of my report to tell you about the operations of our various subsidiaries and divisions, the tariff question which affects all these operations, and our customer and employee relationships upon which our operations are so dependent.

The Gruen Watch Manufacturing Company, S. A., Switzerland

Your Company received during the past fiscal year from its Swiss subsidiary 4% fewer movements than it received the year before, with a greater percentage being in the lower price ranges. The result has been that Swiss Company sales were down somewhat and net income of this subsidiary was also down slightly. Production and costs of production in this plant have been extremely satisfactory due primarily to the most capable leadership and technical genius of its Director General, Mr. Henri Thiebaud. Among many other things, Mr. Thiebaud developed for us during the year two new movements to be used in our lower priced watches. These are technically superior to the movements they are replacing and are produced at a lower cost because of technological improvements. Our Swiss subsidiary continues to be the outstanding watch factory in the world and has been so acclaimed by almost everyone who has seen it.



Norwood's New Hydroptic Jig Borer—the finest of its kind in the world—used in producing high precision watchmaking machinery.

The Gruen National Watch Case Company

Sales in units of this subsidiary for the year just past were down about 10% from the preceding year, but because this subsidiary was required to produce mostly lower priced cases, its dollar sales were down about 25%. Earnings were down substantially more than the 25% decrease in sales because of the fixed expenses which could not be reduced and the non-recurring expenses involved in this subsidiary's move to Norwood. Despite the lower earnings, your management feels that Mr. Carl Bieser, Vice-President of this subsidiary, has done a good job under trying conditions.

With the greater efficiency in operation because of the improved layout and facilities that your Case Company now has in Norwood, its showing in the



future, providing it enjoys a sufficient volume of business, should be much improved.

The Gruen Watch Company of Canada, Limited

I am happy to report that both sales and net income of the Canadian Company in Canadian dollars, were greater than the previous year during which time this subsidiary operated under a quota restriction. The sales increase in units was about 37%, but the increase in dollars was only about 28%, due to increased preference in Canada also for watches in the lower price ranges. Although the net income of the Canadian Company was higher than the preceding year, the per cent of net income was slightly lower because of increased manufacturing costs; and, due to adjustments caused by the Canadian devaluation in September, 1949, actual net income in U.S. dollars was substantially the same as in the previous year. I would like to tell you that Mr. C. S. Ballard, the Vice-President and General Manager of our Canadian Company, deserves a great deal of credit for the excellent job he has done with this subsidiary.

Export Division

Despite the tremendous potential export market for Gruen watches, if and when trade barriers are lifted, and the fact that your Company hopes in the years ahead to develop this market, the past year showed very little progress in our export program. The foreign exchange restrictions and quotas which limited our volume in the previous year did not ease up at all in the year just past; and as a result, volume continues to be small. There is nothing to indicate that the foreign exchange or quota situation will improve materially in the near future, and our export volume for the current year should be substantially the same as it was in the year just ended.

Gruen Watchmaking Institute

The Gruen Watchmaking Institute (Gruen's school for watchmakers) is now completing its fifth year in existence. During this time your Company has learned a great deal from teaching the young, intelligent veterans (many disabled) who make up the school. It is interesting to note that 21% of the graduates of the school have become employees of

the Company upon graduation, and 41% have started businesses of their own. A number of these have already become Gruen jewelers and, as can be imagined, very loyal Gruen jewelers.

Your Company and the United States Tariff Program

Since my last report to you, the Extension of the Reciprocal Trade Agreements Act was passed; however, there has still been considerable agitation in Washington for a higher tariff or a quota of some kind.

This tariff question has taken up a great deal of the time of the Company's executives during the past several years. About a year and a half ago, I was required to spend a number of days in Washington in order to testify before Senate and House committees and considerable time before that preparing my testimony. The subject continues to be time-consuming but this time must and is being given by all executives because the subject is one of such vital importance.

It is important to explain what the effect of either a higher tariff or a quota would be, not only on Gruen's operations, but on the retail and wholesale jewelers of the country, the consumers of watches such as the average shareholder, and the federal government.

If the tariff were increased or a quota were established, the prices of *all* watches sold in this country would increase. If only higher priced watches were to be sold in this country, many people would be unwilling or unable to buy a watch. Such market restrictions as these will affect all consumers; all jewelers; and all manufacturers and assemblers, including the wholly domestic producers. They would also affect the federal government in both reduced customs duties and excise taxes collected.

It seems only sound economics to keep the law of supply and demand operating in as natural a way as possible. The wholly domestic manufacturers produce a fine product which they sell at a fair price and they do not need any higher tariffs or restrictive quotas to help keep them in business. As a matter of fact, this past year operating under the present tariff, both of the wholly domestic companies showed



a better picture both sales and profit-wise compared to their own previous year than did any of the major companies which import their movements.

Despite the efforts of the wholly domestic companies, I feel reasonably sure there will be no change in the watch tariffs during the coming year, or any imposition of quota restrictions either here on imports, or in Switzerland on exports.

Your Customers

The friendly relationship that has existed between this Company and its dealers for three-quarters of a century is today closer than it has ever been. Your Company has consistently backed its customers in the resale of Gruen watches through national advertising and local dealer helps and these promotional efforts have been intensified during the past and current year to further cement this close relationship. I am also happy to report that the number of our dealers has increased by 1086 during the year and now totals more than 9000 strong, aggressive and loyal Gruen dealers in the United States and Canada.

Your Employees

I am happy to be able to report to you that the same friendly relationship that has always existed between the Company and its employees has continued. In previous years, I have told you of various activities undertaken for employees, including installation of the profit sharing plan, the group insurance plan,

the Ten Year Club, the testing and training program, and a recreational program, both athletic and non-athletic, sponsored by the Gruen Activities Committee which in turn is run entirely by the employees themselves. The total paid to The Gruen Employees' Profit Sharing Trust, including this year's contribution by the Company is \$699,506, an average of \$116,584 per year since the inception of the plan in 1945.

All these activities, of course, continue and have, I believe, succeeded in making our many new employees, who have come with the Company since the start of our American movement manufacturing operations, a real part of the Gruen family.

In summary I cannot emphasize too strongly the confidence that I have, and always have had, in the long run future of your Company. We have the best styled product in the industry of a quality second to none. We have the continued good-will and confidence of our more than nine thousand loyal Gruen jewelers, for which at this time I would like to thank them. It is these jewelers who are the backbone of our business. We have the good-will and confidence of all of our employees. We have a group of able, intelligent executives. It is these, our greatest assets, that justify my confidence in the continued success of your Company.

I want, on behalf of your Management and Board of Directors, to thank you, our shareholders, for your confidence and cooperation which we will continue to do everything within our power to merit.

Sincerely yours,

Benjamin S. Katz
President

Time Hill, Cincinnati, Ohio

June 16, 1950



THE GRUEN WATCH COMPANY

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

MARCH 31, 1950

Current assets:

Cash on hand and demand deposits	\$ 1,333,611.23
United States Government securities, at cost	350,000.00
Notes and accounts receivable, trade, less allowance for doubtful notes and accounts	2,994,208.39
Inventories, at the lower of cost or market (Note 2)	5,055,084.43
<i>Total current assets</i>	<u>9,732,904.05</u>

Less:

Current liabilities:

Note payable, bank	\$500,000.00
Loan payable, foreign bank	442,395.94
Accounts payable	409,845.61
Accrued items	589,503.23
Dividends payable	95,980.28
Provision for domestic and foreign taxes on income (Note 4)	565,190.25

Total current liabilities 2,602,915.31

Net working capital	7,129,988.74
Cash surrender value of insurance aggregating \$2,166,840 on lives of officers (Note 3)	235,631.15
Notes receivable, trade, with maturity subsequent to March 31, 1951	5,475.70
Other notes and accounts receivable	75,327.98
Sundry investments, at cost	10,759.70
Property, plant, improvements to leased property, and equipment, at cost, less allowances for depreciation and amortization of \$1,016,752.45	1,975,689.44
Equipment not in use, at estimated realizable value	116,056.04
Prepaid expenses and deferred charges	477,982.25
Patents, trademarks, copyrights and goodwill	1.00
Total assets less current liabilities	<u>10,026,912.00</u>
Notes payable, bank, due annually in varying amounts from July 1, 1951 through July 1, 1955	1,200,000.00
Excess of assets over liabilities	<u>\$ 8,826,912.00</u>

Capital:

Capital stock:

Preferred stock, 4½ per cent cumulative; \$100 par value; authorized 25,000 shares, issued and outstanding, none	
Common stock, \$1.00 par value; 650,000 shares authorized, 505,337¾ shares issued, less 121,081¾ shares in treasury, outstanding 384,256 shares (Note 3)	384,256.00

Earned surplus, as annexed (Notes 1, 2, 3 and 4)	8,442,656.00
<i>Total</i>	<u>\$ 8,826,912.00</u>

The accompanying notes are an integral part of this consolidated statement of financial position.



AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF INCOME AND EARNED SURPLUS FOR FISCAL YEAR ENDED MARCH 31, 1950

Gross profit from sales	\$ 4,685,604.11
Selling, administrative, and general expenses	3,187,868.29
<i>Profit before other income and expenses and income taxes</i>	<u>1,497,735.82</u>
Other income	153,682.07
	<u>1,651,417.89</u>
Interest and other expenses	352,313.93
	<u>1,299,103.96</u>
Provision for domestic and foreign taxes on income	533,355.76
<i>Net income</i>	<u>765,748.20</u>
Earned surplus, April 1, 1949	8,225,836.06
	<u>8,991,584.26</u>
Loss arising from conversion of foreign net assets to dollars	49,395.33
	<u>8,942,188.93</u>
Dividends, common stock, \$1.30 per share	499,532.93
Earned surplus, March 31, 1950	<u><u>\$ 8,442,656.00</u></u>

The accompanying notes are an integral part of this consolidated statement of income and earned surplus.



Notes to financial statements...

OF FINANCIAL POSITION AND INCOME AND EARNED SURPLUS

NOTE 1. The consolidated statement of financial position includes foreign net assets aggregating \$1,126,082, stated in United States currency, of which net current assets were \$666,803.

Current assets and liabilities of the Swiss subsidiary included in the consolidated statement of financial position were converted into U.S. dollars at the March 31, 1950 current quoted buying rate of exchange for the Swiss franc.

Current assets and liabilities of the Canadian subsidiary included in the consolidated statement of financial position were converted into U. S. dollars at the official rate of exchange.

Noncurrent assets recorded in foreign currencies were converted substantially at rates of exchange prevailing when acquired.

Income accounts of the Swiss and Canadian subsidiaries were converted, substantially, at the March 31, 1950 current quoted buying rate of exchange for the Swiss franc, and at the official rate of exchange for the Canadian dollar.

NOTE 2. The estimated amounts of intercompany profits in inventory items purchased from companies whose accounts are consolidated were eliminated in the preparation of these consolidated financial statements.

NOTE 3. In accordance with the employment agreement between the company and Benjamin S. Katz, President, the company is obligated, in the event of his death during the term of the agreement, to purchase for cash, if requested within 120 days from the date of his death, common stock of the company held by the personal representative of his estate, widow, children, grandchildren or trustee, for an amount not in excess of \$1,000,000. The price per share to be paid shall be the consolidated book value per share as of the day following his death.

The company carries insurance aggregating \$1,800,000 on the life of Benjamin S. Katz. The company has agreed to continue \$1,000,000 of this insurance for the period that the employment agreement is in effect and it is expected that the proceeds of such insurance will be held by the company to be used in the purchase of said stock, if offered.

NOTE 4. It is estimated (based on present laws) that additional foreign taxes on transfers to the parent company of the accumulated surplus of foreign subsidiaries would approximate \$646,000.

NOTE 5. Consolidated net income includes net income of foreign subsidiaries aggregating \$270,545. No dividends

were received from foreign subsidiaries during the year.

NOTE 6. The provisions for depreciation and amortization included in the consolidated statement of income amount to \$230,790.

NOTE 7. The provisions for contributions to the profit sharing fund, for the benefit of the employees of The Gruen Watch Company and The Gruen National Watch Case Company, included in the consolidated statement of income, amount to \$69,030.

LYBRAND, ROSS BROS. & MONTGOMERY
Certified Public Accountants
CINCINNATI

*To the Board of Directors,
The Gruen Watch Company, Cincinnati, Ohio*

We have examined the consolidated statement of financial position of The Gruen Watch Company and its subsidiaries as of March 31, 1950 and the related consolidated 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 of the companies (except the Gruen Watch Mfg. Co., S.A.) and such other auditing procedures as we considered necessary in the circumstances. Financial statements of the Gruen Watch Mfg. Co., S.A., a consolidated subsidiary, for the year ended March 31, 1950, together with a report thereon of other public accountants, were submitted to us.

In our opinion, based upon our examination and upon the above-mentioned report of other public accountants, the accompanying consolidated statement of financial position and consolidated statement of income and earned surplus present fairly the consolidated financial position of The Gruen Watch Company and its subsidiaries at March 31, 1950, and the consolidated 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.

LYBRAND, ROSS BROS. & MONTGOMERY

*Cincinnati, Ohio
June 5, 1950.*





FINANCIAL SUMMARY FOR THE PAST TEN YEARS

(Fiscal Years Ended March 31)

ACCOUNTS FROM STATEMENT OF FINANCIAL POSITION

	1950	1949	1948	1947	1946	1945	1944	1943	1942	1941
Total Current Assets.....	\$9,732,904	\$9,921,897	\$9,716,040	\$9,043,040	\$8,471,856	\$7,118,495	\$7,801,835	\$6,262,310	\$6,008,279	\$5,678,476
Total Current Liabilities.....	2,602,915	2,350,886	1,891,191	2,091,503	1,998,370	1,706,792	1,907,806	1,846,635	1,528,002	1,468,185
Net Current Assets.....	7,129,989	7,571,011	7,824,849	6,951,537	6,473,486	5,411,703	5,894,029	4,415,675	4,480,277	4,210,291
Plant and Equipment—Net ...	2,091,745	1,585,302	975,884	564,199	455,511	431,000	451,982	444,738	432,030	446,275
Term Loan From Bank.....	1,200,000	1,400,000	1,600,000	1,600,000	2,000,000	1,750,000	2,000,000	1,000,000	1,250,000	1,500,000
Earned Surplus.....	8,442,656	8,225,836	7,372,648	6,085,994	5,000,100	4,212,551	3,889,226	3,222,925	2,910,766	2,342,248
Net Worth.....	8,826,912	8,610,092	7,756,904	6,470,250	5,384,356	4,596,807	4,724,332	4,058,031	3,792,383	3,257,921
(1) Book Value—										
Common Stock.....	22.97	22.41	20.19	16.84	14.01	11.96	11.12	9.39	7.76	6.49

ACCOUNTS FROM STATEMENT OF INCOME

Gross Profit.....	\$4,685,604	\$5,750,681	\$6,113,041	\$5,843,133	\$5,599,129	\$3,826,871	\$4,653,880	\$3,779,292	\$3,701,268	\$3,065,807
Profit Before Income Taxes....	1,299,104	2,273,605	2,812,458	2,640,375	2,531,552	1,426,985	2,530,244	2,076,367	1,775,306	1,352,725
Provision For Income Taxes....	533,356	882,387	1,048,131	1,088,147	1,459,715	762,102	1,589,538	1,168,288	875,891	449,323
Net Profit.....	765,748	1,391,218	1,764,327	1,552,228	1,071,837	664,883	940,706	908,079	899,415	903,402
(2) Earnings Per Share—										
Common Stock.....	1.99	3.62	4.59	4.04	2.79	1.73	2.45	2.36	2.34	2.35
Dividends—										
Common Stock.....	499,532	537,959	499,532	461,104	345,831	307,401	249,771	372,885	270,656	105,965
(2) Dividends Per Share.....	1.30	1.40	1.30	1.20	.90	.80	.65	.97	.70	.28

(1)—Based on actual shares outstanding on dates shown.

(2)—Based on 384,256 shares common stock outstanding March 31, 1950.

A dvertising and promotion...

SUPPORTS GRUEN JEWELERS EVERYWHERE

Gruen has long been noted as one of the most consistent and aggressive advertisers in the watch industry. It is proud of a record of over 50 years of consistent advertising in national media, which today includes extensive use of television and radio, as well as magazines such as Life, Saturday Evening Post, etc. Supplementing this consumer

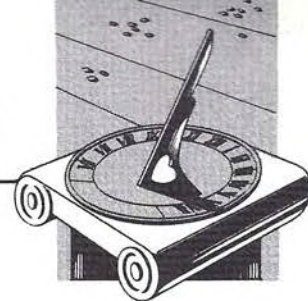
advertising program is Gruen's outstanding Retail Promotion Service which supplies jewelers with a comprehensive array of point-of-sale material, some of which is illustrated below.

Great public acceptance and goodwill has been a priceless heritage of Gruen jewelers for over seventy-six years.



The Gruen Watch Company

TIME HILL, CINCINNATI 6, OHIO



SALES OFFICES

NEW YORK	International Bldg., 630 Fifth Ave.
CHICAGO	Pittsfield Bldg., 55 E. Washington St.
LOS ANGELES	Pershing Square Bldg., 448 S. Hill St.

DIRECTORS

John R. Bullock	Attorney
Sterling B. Cramer	First Vice President, The Fifth Third Union Trust Company
Geo. J. Gruen	Chairman of the Board
George T. Gruen	Secretary
Benjamin S. Katz	President and Treasurer
Ira R. Katz	
Clifford R. Wright	President, Cincinnati Equitable Fire Insurance Company

OFFICERS

Geo. J. Gruen	Chairman of the Board
Benjamin S. Katz	President and Treasurer
Simon C. Gershey	Vice President
Henri Thiebaud	Vice President
George T. Gruen	Secretary
Alfred T. Reis	Comptroller
Thomas F. Jeary	Auditor

Counsel	Taft, Stettinius & Hollister, Cincinnati, Ohio
Transfer Agent	The Fifth Third Union Trust Company, Cincinnati, Ohio
Registrar	The Central Trust Company, Cincinnati, Ohio





THE GRUEN WATCH COMPANY • TIME HILL, CINCINNATI, OHIO • U.S.A.



GruenWristwatches.com
All Gruen All the Time



GRUEN

THE PRECISION WATCH

annual report

fiscal year ended March 31, 1951

GruenWristwatches.com



GruenWristwatches.com
All Gruen All the Time



GRUEN IMPERIAL \$135.00

CURVEX EXECUTIVE \$200.00



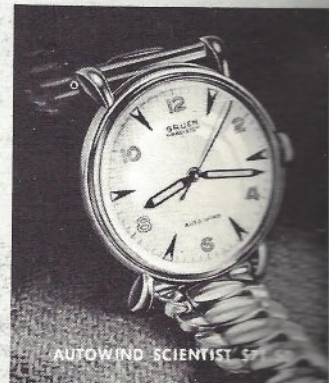
AUTOWIND CHEVRON \$71.50



GRUEN CALIENTE \$71.50

MARQUISE \$150.00

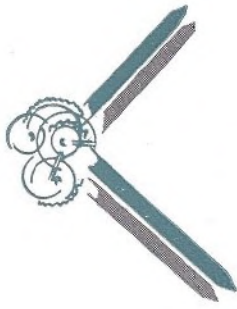
MORITZ \$1250.00



AUTOWIND SCIENTIST \$71.50

GruenWristwatches.com





PRESIDENT'S REPORT

To the Shareholders of THE GRUEN WATCH COMPANY

On behalf of your Board of Directors, I am pleased to present this report of your Company for the fiscal year ended March 31, 1951. Included is a consolidated balance sheet as of March 31, 1951, and a consolidated statement of income and earned surplus for the fiscal year ended March 31, 1951, as reported by our auditors, Messrs. Lybrand, Ross Bros. & Montgomery.

In accordance with the practice of the past few years, I would like to comment first on the operating results of the year and then tell you about various aspects of the Company's business and the problems facing it.

Operating Results

Consolidated net profit for the year amounted to \$1,908,833, before taxes, and \$1,086,746 after all charges and taxes, as compared with consolidated net profit of \$1,299,104 before taxes, and \$765,748 after taxes, for the preceding fiscal year. Based on 396,956 shares of common stock outstanding on March 31, 1951, exclusive of treasury shares, earnings this year equal \$2.74 per share, as compared with net earnings of \$1.99 per share for the fiscal year ended March 31, 1950, based on 384,256 shares then outstanding. Quarterly dividends of 25c per share, or a total of \$1 per share, were paid during the year.

Long Term Loan

As I reported in my letter last year, a long term loan of \$2,500,000 was made in May, 1950 which, of course, did not show in last year's balance sheet. This loan has enabled us to eliminate all current domestic loans that

were outstanding at March 31, 1950, and has increased our working capital. \$200,000 that was due in July 1951 was anticipated and paid in January 1951, leaving a balance owing as of March 31, 1951 of \$2,300,000 which is payable annually in varying amounts from July 1, 1952 through July 1, 1958.

The Year's Business

Sales of the Company for the year just ended were the greatest in its history. While our prediction at this time last year mentioned a *possible* increase in sales, I did not expect the large increase we did have which was caused entirely by the unexpected outbreak of the Korean conflict. Jewelers, fearing wartime shortages which they experienced in World War II, placed large orders for all watches, particularly brand name watches. Watch sales to consumers, while improved over the preceding year, did not increase in proportion to watch manufacturers' sales to jewelers. Despite every effort on the part of your Company to prevent overstocking by its customers, we were unable to supply the demand for Gruen Watches during the last half of our fiscal year and, thus far, orders for the current season are far ahead of the preceding year. It is obvious that jewelers and other retailers cannot continually increase their own inventories unless consumer demand warrants it. If overstocking occurs on a large scale, sales of all watch manufacturers, including your Company, are bound to suffer.

Late last summer when it became apparent that jewelers' inventories were going to be much too large in relation to potential retail sales, Gruen realized the need for greater and more powerful advertising to increase



consumer demand, thereby, helping jewelers clear their overstocked shelves. For this reason, your Company spent more money for advertising for the last fiscal year than in any previous year. Because of this intensive promotion campaign and the fine reputation Gruen has achieved in its 77-year history, we believe the demand for Gruen Watches today is greater than ever before.

Increased Operating Costs

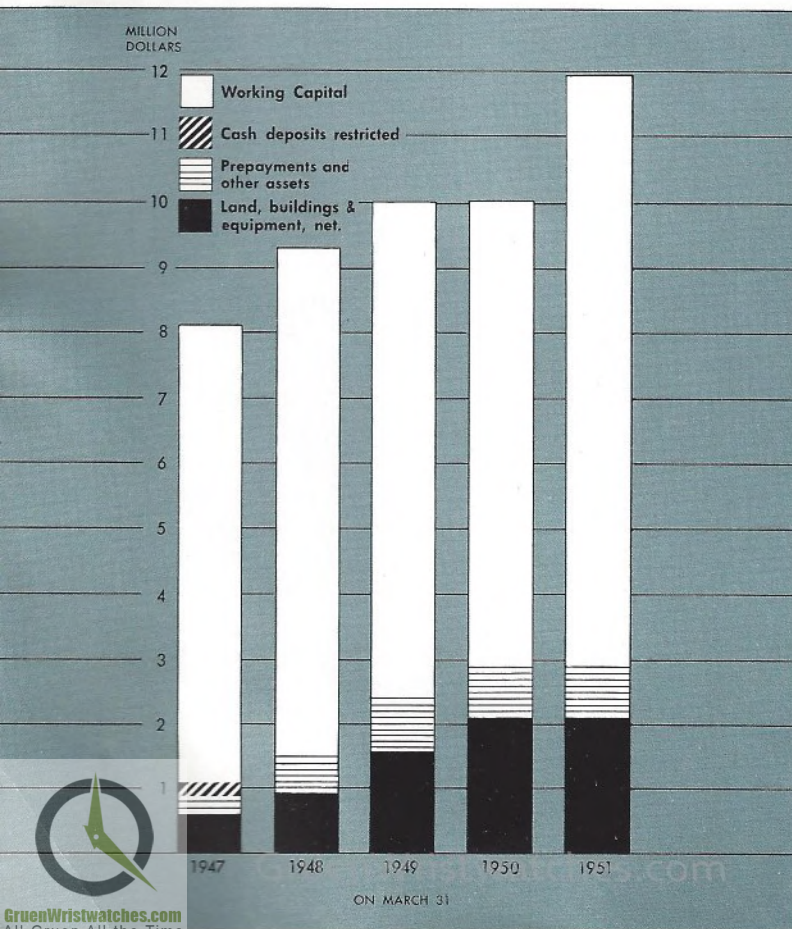
While the net profits, after all charges and taxes, for this past fiscal year were \$320,998 greater than for the preceding year, they were not as large as we had hoped they would be based on our increased sales, due to the increase in taxes, increased expenditures for advertising as explained above, and substantial increases in material costs. If these costs continue to increase, with retail price controls presently in effect, it cannot help but affect our profits for the current year.

American Movement Division

Your Company, as you know, has been planning and working for more than ten years to establish an American movement division to protect us against prohibitive increases in the tariff or a war in Europe which would make it impossible for us to receive movements from our Swiss plant. Developments this year in both the tariff and world situation have proved that our concern and subsequent establishment of this American Movement Division were well justified.

I am very happy to advise you that during this past fiscal year costs were very greatly reduced. We are now producing our American-made 21-jewel movements at a cost that enables us to properly merchandise this series of watches. Further expansion of this movement manufacturing project depends on our government's defense program, since our movement division is now heavily engaged in production of material for our armed forces.

INVESTMENT OF FUNDS



Defense Contracts

We now have contracts for the manufacture of essential precision instruments, amounting to approximately \$7,500,000. The making of these instruments is well suited to our plant and is closely related to our normal watch production methods. I have every confidence that the Company will execute these contracts efficiently and creditably as it did its war contracts during World War II.

During the current year the foremost task in our movement division will be the performance of these defense orders. We hope to maintain the current level in 21-jewel movement production, but increasing this production will be deferred until government orders are completed. We feel certain you will agree with us that these contracts, which are of such vital importance to our country's defense effort, should receive our first consideration. Personnel working on these defense contracts will be well qualified for movement manufacturing operations when our government no longer requires our facilities for its defense effort.

REPORT

The Tariff Situation

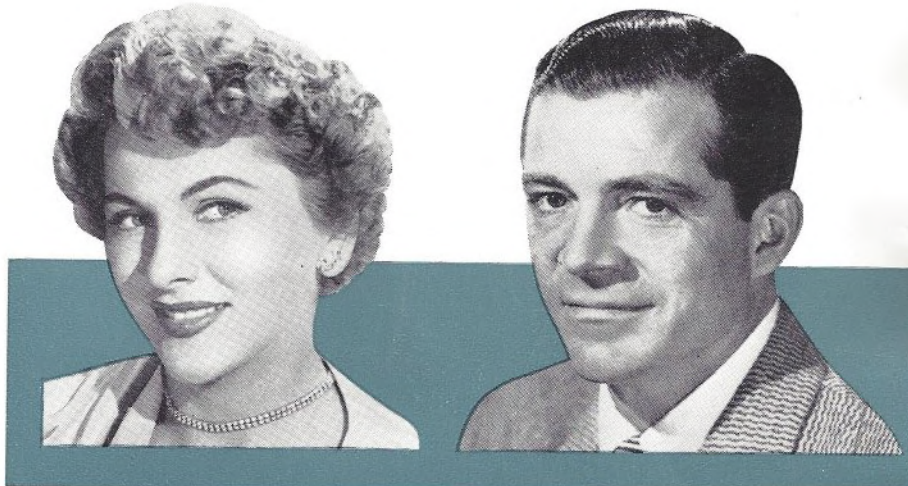
You may recall that in my report last year I mentioned there was considerable agitation for a higher tariff or quota of some kind on the importation of watches and watch movements. On October 13, 1950, the wholly-domestic watch manufacturers succeeded in having an escape clause included in the United States-Switzerland tariff agreement. Shortly thereafter they applied for relief under this clause by requesting a tariff increase. The Tariff Commission held hearings from May 15 through May 24 on such application. If a tariff increase is put through, it will result in an increase to the American public on the price of Gruen, and other watches using imported

movements, as much as \$5.00 a watch or a total of \$20 million to \$40 million annually.

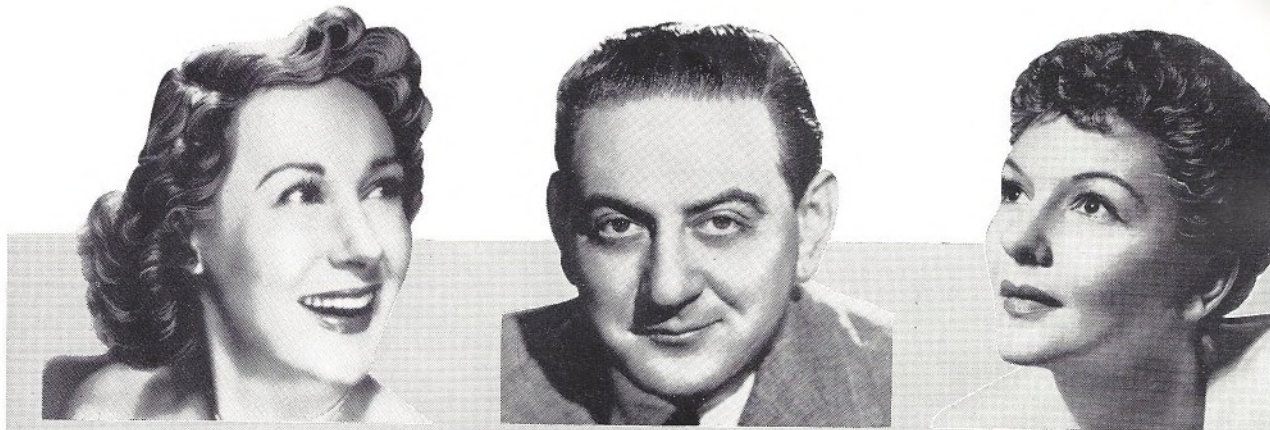
I am unalterably opposed to an increase in watch tariffs. The domestic manufacturers have been enjoying the largest profits in the past few years that they have made in many, many years. To me, it seems not only unnecessary but entirely unreasonable to impose this large increase in cost on the ultimate consumer, simply for the purpose of permitting the domestic manufacturers to make larger profits. Your executives are taking a very active part in opposition to this application to increase tariff rates but as this letter is written, it is impossible to predict whether or not a tariff increase will be put into effect.

Gruen is the Choice of
Distinguished Personalities

Joan Fontaine
Dana Andrews



Arlene Francis
Guy Lombardo
Mary Martin



Gruen Personnel

I have said before that our Company's personnel policy is based on the principle that great organizations are built of flesh and blood—the life work of men and women. Money, machinery, land and buildings do not make an organization great. Only people can do that. It is the men and women who make an inanimate organization come alive—make it progress and grow. Because we value so highly the loyalty and industry of our employees, we are constantly striving to help them lead happier, more productive lives. Gruen benefits for its personnel include profit sharing, vacation plans, periodic eye examinations, group insurance, service awards, sick benefit plans and recreational activities.

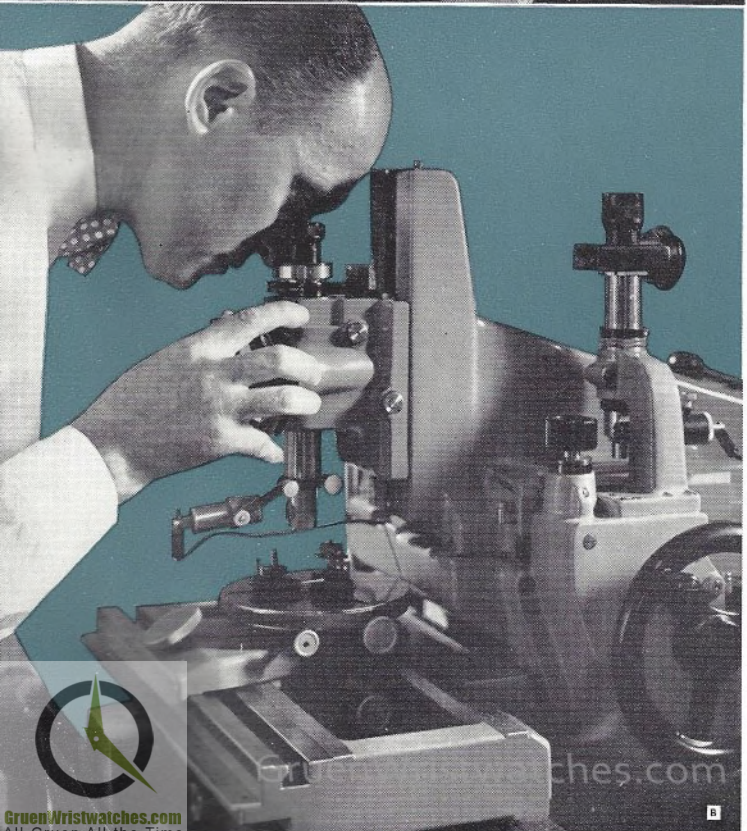
This year the employee's profit sharing plan was substantially revised to include a savings and a retirement feature. There are two main reasons for the changes and the form that they took. (1) Your Company was worried about the fact that the former profit sharing plan made no provision for the retirement of loyal employees who had been with the Company for many years; (2) After seeing many studies on savings, your Company was concerned about the very small savings all working people are able to accumulate during their working lives.

The three basic provisions of the new plan are as follows: (1) Employees must contribute from two to five per cent of their salaries. The option within this range is theirs. This provides the savings feature of the plan. (2) The Company contributes 5% of its consolidated net profit before taxes. This is exactly the same provision as in the former plan. (3) Distribution to the retired employees starts at sixty-five.

During the past fiscal year, pursuant to authoriza-

A — To electronically test each watch, Gruen technicians use the oscillograph, an instrument, comparable to a cardiograph, which records the "heart beat" of the movement.

B — Infinitesimal measures, invisible to the naked eye, are made with this high precision machine. On it readings can be made to 1/100,000 of an inch.



REPORT

tion of your Board of Directors, 12,700 shares of common stock of the Company were sold to employees at the then market price of \$10 a share, with payments spread over a six-year period. None of this stock was offered to any officer who was a director of the Company so that all such shares were sold to some 22 executives and junior executives of the Company and its subsidiaries. I believe that these executives are most appreciative of the action of your Board and that this acquisition of further ownership in the Company will provide increased incentives for them.

Gruen Subsidiaries

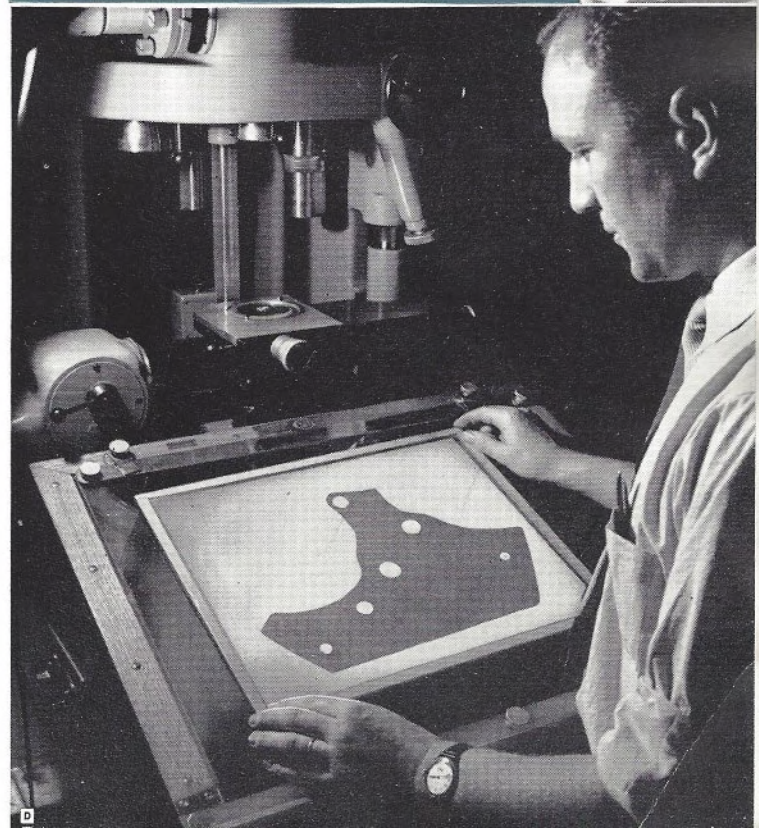
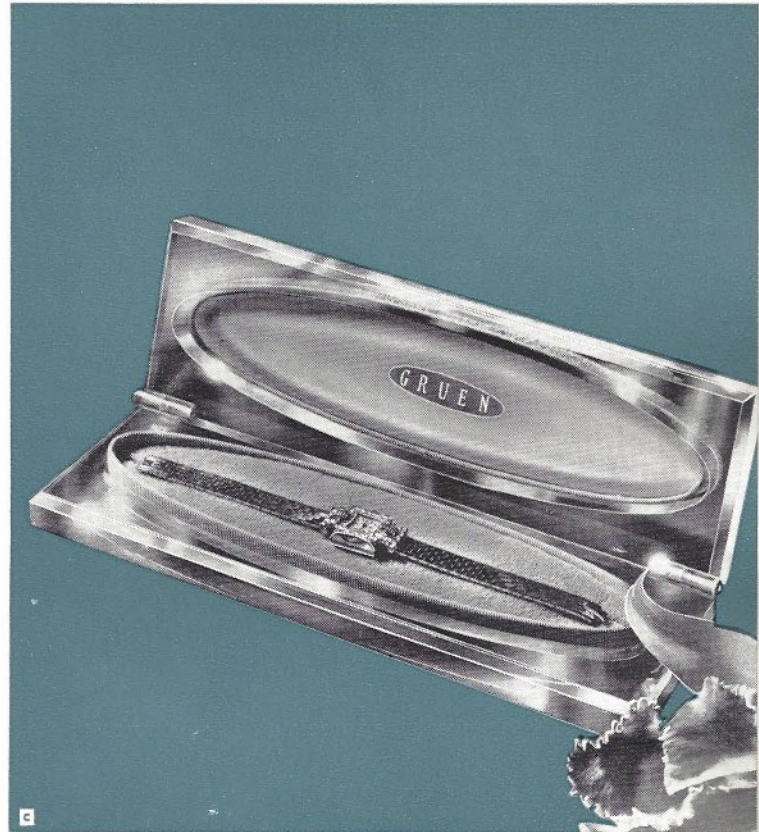
The Gruen Watch Manufacturing Company, S.A., Bienne, Switzerland

In order to supply the tremendous demand for Gruen Watches in the past year, this wholly-owned subsidiary, under the able leadership of Mr. Henri Thiebaud, its Director General, has developed and installed many new machines, a number of which are Mr. Thiebaud's own invention. These innovations in the watch industry will assure your Company increased production in the coming year.

It is with a great deal of pleasure that I also report the development of a new movement by Mr. Thiebaud during that same period. This new movement is a man's automatic movement smaller than our present automatic movement being sold under the trade-mark Autowind which is today considered the finest automatic watch in this country. This new automatic movement has many features which have been patented and which are not now incorporated in any other movement. It is Mr. Thiebaud's opinion that this new movement, which is being introduced to Gruen customers this Fall, will be the finest automatic watch ever offered to the consuming public.

C — *This luxurious, new watch box made of jeweled lucite and turquoise satin is one of a series of re-designed presentation packages introduced by Gruen this year.*

D — *To maintain extremely high precision standards, the Profile Projector is used to determine accuracy of workmanship. The part to be examined is projected on a glass screen and magnified 100 times its normal size.*



PRESIDENT'S REPORT

The Gruen National Watch Case Company

I am happy to report that sales and profits of this subsidiary were substantially increased over last year. Lower operational costs have been achieved by improved facilities since its establishment in our new Norwood Plant. Mr. Carl Bieser, vice president of this subsidiary, deserves special credit for his efficient management of its operation.

The Gruen Watch Company of Canada, Limited

It is with pleasure that I can again report a continued increase in net sales under the splendid guidance of Mr. C. S. Ballard, vice president and general manager. This Canadian subsidiary has made rapid strides forward during the last few years and has achieved a position of real importance in the Canadian watch industry.

The Gruen Watch Export Company, S.A., Geneva, Switzerland

To overcome numerous exchange restrictions which have limited our operation in previous years, the Gruen Watch Export Company, S. A., was organized in December, 1950 to replace our Export Division. This company is a wholly-owned subsidiary of the Gruen Watch Manufacturing Company, S. A., Bienne, Switzerland. It is

under the direction of Mr. Jacques Leal, former head of our Export Division.

Gruen Watchmaking Institute

This highly accredited school for watchmakers, which has during the past six years trained hundreds of disabled veterans to become self-supporting members of their communities, is making a valuable contribution to the nation's supply of skilled craftsmen needed for its defense program. Many graduates of the school are making use of their training in fine, precision work for Gruen and other essential industries. This school is very ably headed by Mr. George T. Gruen.

Before closing this report on your Company's operations, I would like, on behalf of our shareholders, directors and employees, to express my sincere appreciation to the more than 9000 Gruen jewelers whom we consider our greatest asset, for their continued cooperation and loyal support.

To you, our shareholders, I extend my deepest gratitude for your confidence and pledge to you our untiring efforts toward the continued progress of your Company.

Sincerely yours,



Benjamin S. Katz
President

Time Hill, Cincinnati, Ohio
June 15, 1951



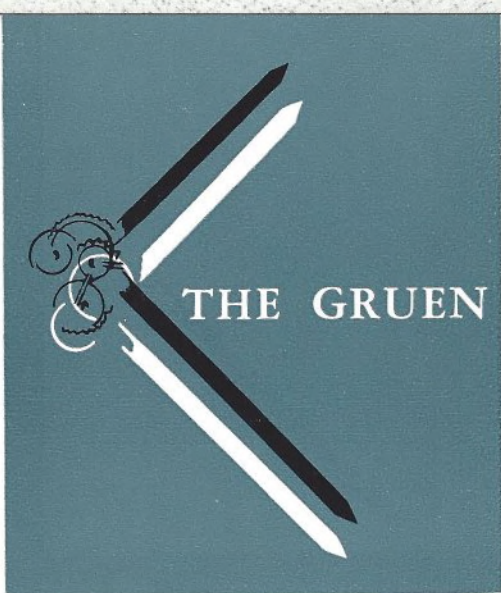


FINANCIAL SUMMARY

Year
 Ended
 March 31 ----- 1951 ----- 1950

Income Before Federal Taxes	1,908,833	1,299,104
Federal Taxes On Income	822,087	533,356
Net Income	1,086,746	765,748
Net Income Per Share	2.74	1.99
Dividends Per Share	1.00	1.30
Earnings Retained In The Business	1.74	.69
Ratio: Current Assets To Current Liabilities	3.7	3.7
Number of Shareholders	2,968	3,034
Book Value Per Share of Common Stock	24.34	22.97
Average Number of Domestic Customers.....	8735	8316





THE GRUEN WATCH COMPANY

Consolidated Statement of Financial Position March 31, 1951

Current assets:	
Cash on hand and demand deposits.....	\$ 1,698,163.81
United States Government securities, at cost.....	350,000.00
Notes and accounts receivable, trade, less allowance for doubtful notes and accounts.....	4,871,194.64
Inventories, at the lower of cost or market (Note 2).....	5,479,026.93
In process costs accumulated under U. S. Government contract.....	122,449.78
Total current assets.....	12,520,835.16
Less:	
Current liabilities:	
Loan payable, foreign bank.....	\$864,825.70
Accounts payable	911,333.40
Accrued items	718,919.90
Dividends payable	98,957.47
Provision for domestic and foreign taxes on income (Note 4).....	836,212.55
Total current liabilities.....	3,430,249.02
Net working capital.....	9,090,586.14
Cash surrender value of insurance aggregating \$2,166,840 on lives of officers (Note 3).....	291,408.85
Other notes and accounts receivable.....	142,050.01
Sundry investments, at cost.....	10,759.70
Property, plant, improvements to leased property, and equipment, at cost, less allowances for depreciation and amortization of \$1,204,125.54.....	1,999,287.09
Emergency facilities purchased, to be acquired by U. S. Government upon approval.....	95,671.47
Prepaid expenses and deferred charges.....	333,750.07
Patents, trademarks, copyrights and goodwill.....	1.00
Total assets less current liabilities.....	11,963,514.33
Notes payable, bank, due annually in varying amounts from July 1, 1952 through July 1, 1958.....	2,300,000.00
Excess of assets over liabilities.....	\$ 9,663,514.33
Capital:	
Capital stock:	
Preferred stock, 4½ per cent cumulative; \$100 par value; authorized 25,000 shares, issued and outstanding, none	
Common stock, \$1.00 par value; 650,000 shares authorized, 505,337¾ shares issued, less 108,381¾ shares in treasury, outstanding 396,956 shares (Note 3).....	396,956.00
Paid-in surplus, premium received on sale of 12,700 shares of common capital stock to officers and employees.....	114,300.00
Earned surplus, as annexed (Notes 1, 2, 3 and 4).....	9,152,258.33
Total	\$ 9,663,514.33

The accompanying notes are an integral part of this consolidated statement of financial position.



AND SUBSIDIARY COMPANIES

Consolidated Statement of Income and Earned Surplus For Fiscal Year Ended March 31, 1951

Gross profit from sales.....	\$ 6,074,518.47
Selling, administrative, and general expenses.....	<u>3,946,896.83</u>
Profit before other income and expenses and income taxes.....	2,127,621.64
Other Income	<u>150,013.08</u>
	2,277,634.72
Cash discount allowed, interest and other deductions.....	<u>368,802.17</u>
	1,908,832.55
Provision for domestic and foreign taxes on income (no provision made or believed required for Federal excess profits tax).....	<u>822,086.88</u>
Net income	1,086,745.67
Earned surplus, April 1, 1950.....	<u>8,442,656.00</u>
	9,529,401.67
Unrealized gain arising from conversion of foreign net assets to dollars.....	<u>16,638.26</u>
	9,546,039.93
Dividends, common stock, \$1.00 per share.....	<u>393,781.60</u>
Earned surplus, March 31, 1951.....	<u>\$ 9,152,258.33</u>

The accompanying notes are an integral part of this consolidated statement of income and earned surplus.

NOTES TO FINANCIAL STATEMENTS

of Financial Position and Income and Earned Surplus

Note 1. The consolidated statement of financial position includes foreign net assets aggregating \$622,540 stated in United States currency, of which net current assets were \$213,864.

Current assets and liabilities of the Swiss and Canadian subsidiaries included in the consolidated statement of financial position were converted into U. S. dollars at the March 31, 1951 current quoted buying rates of exchange for the Swiss franc, and the Canadian dollar. Noncurrent assets recorded in foreign currencies were converted substantially at rates of exchange prevailing when acquired.

Income accounts of the Swiss and Canadian subsidiaries were converted, substantially, at the March 31, 1951 current quoted buying rates of exchange for the Swiss franc, and the Canadian dollar.

Note 2. The estimated amounts of intercompany profits in inventory items purchased from companies whose accounts are consolidated were eliminated in the preparation of these consolidated financial statements.

Note 3. In accordance with the employment agreement between the company and Benjamin S. Katz, President, the company is obligated, in the event of his death during the term of the agreement, to purchase for cash, if requested within 120 days from the date of his death, common stock of the company held by the personal representative of his estate, widow, children, grand-

children or trustee, for an amount not in excess of \$1,000,000. The price per share to be paid shall be the consolidated book value per share as of the day following his death.

The company carries insurance aggregating \$1,800,000 on the life of Benjamin S. Katz. The company has agreed to continue \$1,000,000 of this insurance for the period that the employment agreement is in effect and it is expected that the proceeds of such insurance will be held by the company to be used in the purchase of said stock, if offered.

Note 4. It is estimated (based on present laws) that additional foreign taxes on transfers to the parent company of the accumulated surplus of foreign subsidiaries would approximate \$692,000.

Note 5. Consolidated net income includes net income of foreign subsidiaries aggregating \$213,826. No dividends were received from foreign subsidiaries during the year.

Note 6. The provisions for depreciation and amortization included in the consolidated statement of income amount to \$239,350.

Note 7. The provisions for contributions to the profit sharing fund, for the benefit of the employees of The Gruen Watch Company and The Gruen National Watch Case Company, included in the consolidated statement of income, amount to \$102,458.

*To the Board of Directors,
The Gruen Watch Company, Cincinnati, Ohio*

We have examined the consolidated statement of financial position of The Gruen Watch Company and its subsidiaries as of March 31, 1951 and the related consolidated 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 of the companies (except the Gruen Watch Mfg. Co., S. A.) and such other auditing procedures as we considered necessary in the circumstances. Financial statements of the Gruen Watch Mfg. Co., S. A., a consolidated subsidiary, for the year ended March 31, 1951, together with a report thereon of other public accountants, were submitted to us.

In our opinion, based upon our examination and upon the above-mentioned report of other public accountants, the accompanying consolidated statement of financial position and consolidated statement of income and earned surplus present fairly the consolidated financial position of The Gruen Watch Company and its subsidiaries at March 31, 1951, and the consolidated 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.

LYBRAND, ROSS BROS. & MONTGOMERY,
Cincinnati, Ohio

June 4, 1951



Financial Summary for the Past Ten Years

fiscal years ended March 31

ACCOUNTS FROM STATEMENT OF FINANCIAL POSITION

	1951	1950	1949	1948	1947	1946	1945	1944	1943	1942
Total Current Assets	\$12,520,835	\$9,732,904	\$9,921,897	\$9,716,040	\$9,043,040	\$8,471,856	\$7,118,495	\$7,801,835	\$6,262,310	\$6,008,279
Total Current Liabilities	3,430,249	2,602,915	2,350,886	1,891,191	2,091,503	1,998,370	1,706,792	1,907,806	1,846,635	1,528,002
Net Current Assets	9,090,586	7,129,989	7,571,011	7,824,849	6,951,537	6,473,486	5,411,703	5,894,029	4,415,675	4,480,277
Plant and Equipment—Net	2,094,959	2,091,745	1,585,302	975,884	564,199	455,511	431,000	451,982	444,738	432,030
Term Loan From Bank	2,300,000	1,200,000	1,400,000	1,600,000	1,600,000	2,000,000	1,750,000	2,000,000	1,000,000	1,250,000
Earned Surplus	9,152,258	8,442,656	8,225,836	7,372,648	6,085,994	5,000,100	4,212,551	3,889,226	3,222,925	2,910,766
Net Worth	9,663,514	8,826,912	8,610,092	7,756,904	6,470,250	5,384,356	4,596,807	4,724,332	4,058,031	3,792,383
(1) Book Value— Common Stock	24.34	22.97	22.41	20.19	16.84	14.01	11.96	11.12	9.39	7.76

ACCOUNTS FROM STATEMENT OF INCOME

Gross Profit	\$6,074,518	\$4,685,604	\$5,750,681	\$6,113,041	\$5,843,133	\$5,599,129	\$3,826,871	\$4,653,880	\$3,779,292	\$3,701,268
Profit Before Income Taxes	1,908,833	1,299,104	2,273,605	2,812,458	2,640,375	2,531,552	1,426,985	2,530,244	2,076,367	1,775,306
Provision For Income Taxes	822,087	533,356	882,387	1,048,131	1,088,147	1,459,715	762,102	1,589,538	1,168,288	875,891
Net Profit	1,086,746	765,748	1,391,218	1,764,327	1,552,228	1,071,837	664,883	940,706	908,079	899,415
(1) Earnings Per Share— Common Stock	2.74	1.99	3.62	4.59	4.04	2.79	1.69	2.39	2.30	2.04
Dividends— Common Stock	393,782	499,532	537,959	499,532	461,104	345,831	307,401	249,771	372,885	270,656
(1) Dividends Per Share	1.00	1.30	1.40	1.30	1.20	.90	.80	.65	.92½	.62½

(1)—Based on shares outstanding on dates shown.





The Gruen Watch Company • Time Hill, Cincinnati, Ohio

SALES OFFICES

New York
Chicago
Los Angeles

International Bldg., 630 Fifth Ave.
Pittsfield Bldg., 55 E. Washington St.
Pershing Square Bldg., 448 S. Hill St.

DIRECTORS

John R. Bullock
Sterling B. Cramer
Geo. J. Gruen
George T. Gruen
Benjamin S. Katz
Ira R. Katz
Clifford R. Wright

Attorney
First Vice President, The Fifth Third Union Trust Company
Chairman of the Board
Secretary
President and Treasurer
Vice President
President, Cincinnati Equitable Fire Insurance Company

OFFICERS

Geo. J. Gruen
Benjamin S. Katz
Henri Thiebaud
Ira R. Katz
Maurice Merz
George T. Gruen
Alfred T. Reis
Thomas F. Jeary

Chairman of the Board
President and Treasurer
Vice President
Vice President
Vice President
Secretary
Comptroller
Auditor

Counsel
Transfer Agent
Registrar

Taft, Stettinius & Hollister, Cincinnati, Ohio
The Fifth Third Union Trust Company, Cincinnati, Ohio
The Central Trust Company, Cincinnati, Ohio



*Fashion Center
of the watch world*



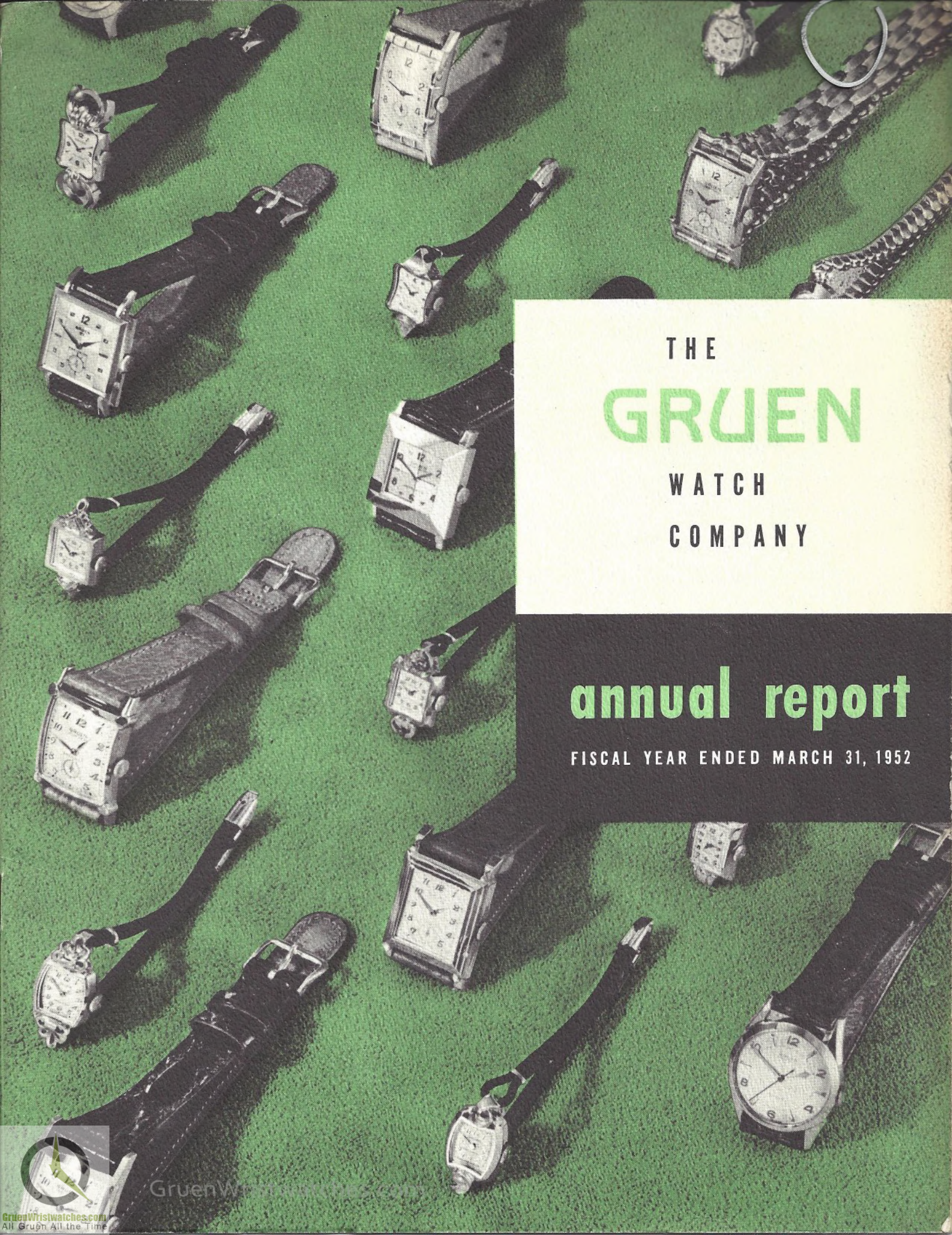
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HOME OF GRUEN • THE PRECISION WATCH



GruenWristwatches.com

GruenWristwatches.com
All Gruen All the Time



THE
GRUEN

WATCH
COMPANY

annual report

FISCAL YEAR ENDED MARCH 31, 1952



GruenWhistwatches.com

All Gruen All the Time

Table of Contents

Financial Summary of the Year
President's Report to Shareholders
Consolidated Statement of Financial Position
Consolidated Statement of Income and Earned Surplus
Notes to Financial Statements

Financial Summary Year Ended March 31, 1952

Income Before Federal Taxes	2,022,318
Federal Taxes On Income	1,069,184
Net Income	953,134
Net Income Per Share	2.40
Dividends Per Share	1.00
Earnings Retained In The Business	1.40
Ratio: Current Assets To Current Liabilities	2.1
Number of Shareholders	2,925
Book Value Per Share of Common Stock	26.03
Average Number of Domestic Customers	8878

To the Shareholders of

THE GRUEN WATCH COMPANY



On behalf of your Board of Directors, I am pleased to present this report of your Company for the fiscal year ended March 31, 1952. Included is a consolidated statement of financial position as of March 31, 1952, and a consolidated statement of income and earned surplus for the fiscal year ended March 31, 1952, as reported by our auditors, Messrs. Lybrand, Ross Bros. & Montgomery.

Consolidated net profit, before taxes, for the year amounted to \$2,022,318.36, as compared to \$1,908,832.55 for the fiscal year ended March 31, 1951. However, because of higher tax rates, net profits, after taxes, for the year just ended amounted to \$953,134.31, as compared to \$1,086,745.67 net earnings, after taxes, for the year ended March 31, 1951. As you will see by the chart shown on Page 4 in this report indicating the amount of payroll, taxes and profit related to each common share for the year ended March 31, 1952, taxes for the year just ended consumed more dollars than were earned for the shareholders.

Based on 396,956 shares of common stock outstanding on March 31, 1952, exclusive of treasury shares, earnings for the year just ended were equal to \$2.40 per share as compared with net earnings of \$2.74 per share for the fiscal year ended March 31, 1951. Quarterly dividends of 25c per share, or a total of \$1 per share, were paid during the past year.

During the year just ended, as shown on the consolidated statement of income and earned surplus, the Company also received as partial recovery of federal excess profits taxes of the war years, a refund of \$166,841.93.

The Year's Business

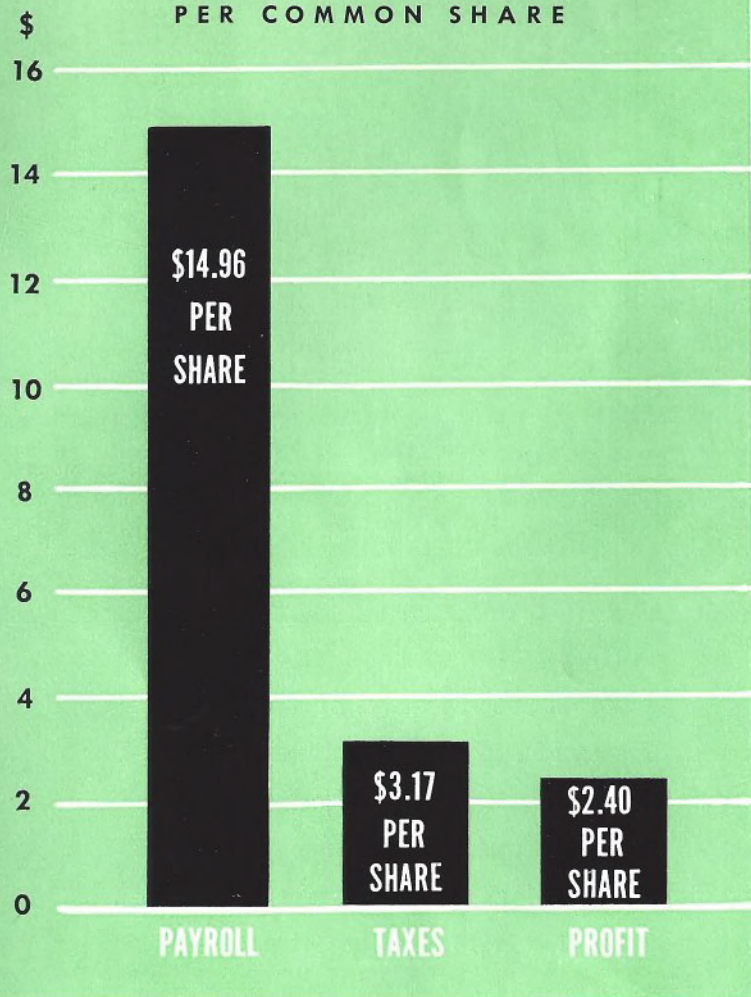
Total watch sales for the year just ended were the greatest in Gruen's history, and in many respects, the year just ended was one of the most interesting in the Company's history. Among the more outstanding events are the following:

1. Increase in dollar volume of watch sales despite a number of handicaps, such as the continuance, during a good part of the year, of an



PAYROLL • TAXES • PROFIT

PER COMMON SHARE



over-stocked condition in jewelry stores caused by large scale buying after the outbreak of the Korean War; innumerable clearance and other cut-price sales, particularly of lesser known brand name watches; and the decision of the Supreme Court, which for practical purposes nullified the minimum resale price maintenance acts of the individual states as applied to interstate commerce.

2. Production, delivery, and acceptance by the Government of the first sizable production runs of defense items which the Company is producing. These were completed near the end of the fiscal year and are just the initial deliveries under our very substantial defense contracts.

3. Steady improvement in manufacturing techniques and lowering of costs in our own American Movement Division, in which we produce Gruen 21-jewel movements.

4. Acquisition of all the outstanding capital stock of William B. Ogush, Inc., of New York, the foremost manufacturer in the United States of fine watch cases. In acquiring the company we were exceedingly fortunate in obtaining the services of William B. Ogush, one of the best known and best liked men in the jewelry industry which he has served for over thirty years.

5. Continuance of the extremely pleasant relationship that has always existed between the Company and its executives, and other employees. Since the close of the fiscal year, the Company has elected two additional vice presidents, namely, Mr. Harold H. Jeske, Vice President in Charge of Manufacturing, who since September has been in charge of our American production, and Mr. James A. Marohn, Vice President in Charge of Finance.

Defense Contracts

Last year, I reported we had certain contracts for the manufacture of essential precision instruments. During the year just ended, additional contracts were obtained and I am happy to be able to report that your Company is now producing these defense items in sizable quantities, and as of March 31 more than thirty million dollars of such defense orders remain unfilled.

During the year ended March 31st, tooling up was practically completed and, as earlier stated, at the year-end we had just begun to deliver



president's report

these defense items in quantities. I have every confidence that during the current year the Company will continue its creditable performance record and should show a reasonable profit on these contracts.

Employee Relationship

The Gruen organization has expanded quite rapidly. During the year just ended, the number of employees in the United States, Canada, and Switzerland increased by approximately 100%. Most of the new employees are engaged in defense production. All of us at Time Hill and at our Norwood Plant are exceedingly proud of our new employees and particularly of the fact that they very rapidly are absorbed into and become integral parts of the Gruen family.

Your Company is continuing and increasing the benefits to which our employees are entitled as visible proof that management appreciates their sincere cooperation. Most important is the new profit sharing and retirement plan which has just completed its first year and which I described in detail in last year's report. Enthusiastically re-

ceived by our personnel for its more liberal features, the retirement fund now contains \$1,011,995.70.

The Tariff Situation

In my report last year, I advised you that the Tariff Commission held hearings from May 15th through May 24, 1951, on the application of certain wholly-domestic watch manufacturers for an increase in tariff rates on watches. To date, the Tariff Commission has not acted on such application, and for the reasons set forth in my report letter of last year, I certainly trust that the Tariff Commission will not grant this application, as we sincerely believe an increase in tariff rates is not justified.

Fair Trade Legislation

On May 21, 1951, the United States Supreme Court handed down its decision in the case of *Schwegmann Brothers vs. Calvert Distillers Corp.*, which held that state fair trade or minimum resale price maintenance contracts would not be enforceable in interstate commerce against retailers who did not actually sign such agreements.

GRUEN Autowind

is the acknowledged leader in the field of Self-Winding watches, both in variety of styles and in beauty of design. And every year since the introduction of Gruen Autowind this leadership has been strengthened and increased.

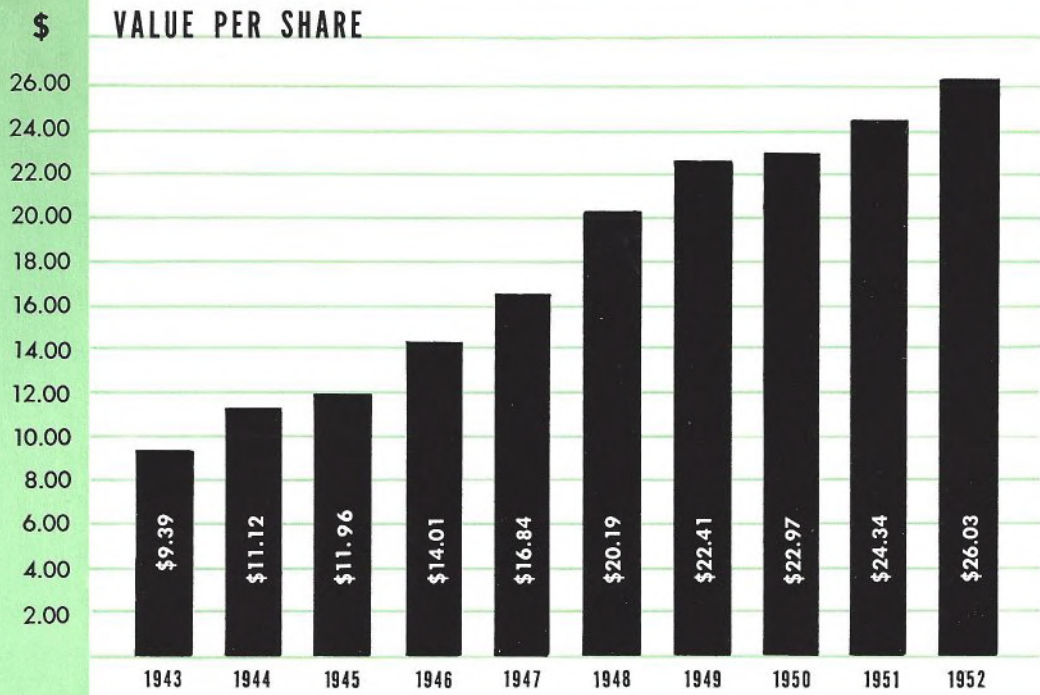


GruenWristwatches.com



BOOK VALUE PER SHARE

Years ended March 31



The decision was unexpected as it was generally accepted that under the Miller-Tydings Act such fair trade agreements could be enforced under the statutes in forty-five states against all retailers dealing in the particular brand name commodity. However, the Supreme Court held that under the federal anti-trust laws such agreements were not enforceable against retailers in the state who had not actually signed the agreements, even though under the state laws such non-signer retailers had been notified of the existence of such agreements.

The decision of the Supreme Court for practical purposes rendered ineffective the fair trade legislation of the individual states and has led to innumerable instances of undesirable trade practices and indiscriminate price cutting. Bills have been introduced in Congress to correct this situation, but at this moment it is impossible to tell whether or not such legislation will be enacted this year. This Company, along with most of the companies manufacturing brand name items in

active competition with similar items of other brand name manufacturers, sincerely believes that reasonable minimum price maintenance at the retail level is good and desirable from the point of view of the manufacturer, the retailer, and the consumer. We hope Congress and the President will see to the prompt enactment of proper legislation to this end.

Gruen Subsidiaries

*Gruen Watch Manufacturing Company, S.A.
Bienne, Switzerland*

Under the able direction of Mr. Henri Thiebaud, the Director General of our Swiss plant, the production for the last year was the greatest in its entire history. This increased production was brought about by the development under Mr. Thiebaud's able direction, of a number of new methods and new machines never before used in the watch industry. It is this continuous research and development work of Mr. Thiebaud, always of prime importance in your Company's overall program,



that has enabled us to stay at the head of the industry design-wise and production-wise. We look forward to a continuance of the outstanding record of this watch factory, which we believe to be the finest in the world.

The Gruen National Watch Case Company

Sales and profits of this subsidiary were substantially increased over the preceding year. Mr. Carl W. Bieser continues to do an outstanding job in the management of this extremely efficient and fine watch case manufacturing company.

William B. Ogush, Inc.

I have earlier told you of the acquisition of this foremost producer of fine watch cases and fine jewelry. While Mr. William B. Ogush as President of this subsidiary, will continue to supervise its operation, he will also devote a large part of his time assisting me in the administrative end

of the overall Company's affairs.

Gruen Watch Company of Canada, Limited

Because of credit restrictions and the imposition of high consumer taxes, sales of our Canadian subsidiary dropped considerably in the year just ended. However, I believe this Company, under the capable management of Mr. C. S. Ballard, gained position-wise among the watch companies in Canada. At the beginning of May of this year, credit restrictions were relaxed and our sales showed an immediate upturn. We are now looking forward to a considerable increase in sales this year and in the years ahead in this very important market.

Gruen Watch Export Company, S.A.

Geneva, Switzerland

Last year, I advised you of the formation in December, 1950 of this Company, which re-

A section of the new American movement division.





Part of the new production line in the Fuze division, at the Norwood Plant.

placed the Export Division of The Gruen Watch Company. I am happy to advise you that our Export Company, under the able direction of Mr. Jacques Leal, its President, has shown a small profit in the first full year of its operation.

Gruen Watchmaking Institute

This highly accredited school for watchmakers, organized some seven years ago by Mr.

George T. Gruen and directed by him since then, continues to do an outstanding job in training applicants, particularly disabled veterans, to become excellent watchmakers.

In Memoriam

Mr. George J. Gruen

As this letter is written, all of us are greatly saddened by the passing of Mr. George J.



Illustrating precision watchmaking in the Gruen factory at Switzerland.



Gruen. While for several years his health had not been good, this did not upset his cheerful disposition nor interfere with his very great interest in the Company, which continued up until the date of his sudden death, June 3, 1952.

During his 53 years with the Company, Mr. George J. Gruen acquired an outstanding reputation in the watchmaking industry. While he was not active in the daily management of the Company during the last years of his life, his general counsel and service as Chairman of the Board of Directors was of inestimable value to the Company. His death is a great and irreplaceable loss.

Conclusion

In closing this report, I would like to once again reiterate a statement that I have made repeatedly during the seventeen years that I have been President of this Company, and that is that our greatest asset is our more than eight thousand jewelers who have given us their continued cooperation and loyal support. To them I would like to express the sincere appreciation of all our shareholders, directors and employees for that coopera-

tion and support, which has been responsible for this Company's fine growth during that period. It is these jewelers who in a great measure are responsible for the increase in the book value of the Gruen common shares from 68c on March 31, 1937 to \$26.03 on March 31, 1952 as shown in the chart in this report on Page 6.

I would also like to take this opportunity to express to all our executives and employees, my personal gratitude for their continued help and loyalty which I value so highly.

To you our shareholders, I want to express the sincere appreciation of your management and Board of Directors for your confidence and cooperation, and pledge to you our untiring efforts toward continued progress of your Company.

Sincerely yours,



*Benjamin S. Katz,
President*

*Time Hill, Cincinnati, Ohio
June 17, 1952*



THE GRUEN WATCH COMPANY

and Subsidiary Companies

Consolidated Statement of Financial Position March 31, 1952

Current assets:

Cash on hand and demand deposits.....	\$ 2,289,221.10
United States Government securities, at cost.....	350,000.00
Notes and accounts receivable, trade, less allowance for doubtful notes and accounts.....	5,191,350.02
Inventories, at the lower of cost or market and in process costs accumulated under U. S. Government subcontracts, less progress payments (Note 2).....	9,032,434.91
Emergency facilities purchased, to be acquired by U. S. Government.....	737,159.10
Total current assets.....	<u>17,600,165.13</u>

Less:

Current liabilities:

Notes payable, banks.....	\$3,475,000.00
Loans payable, foreign banks.....	1,138,168.33
Accounts payable	1,594,667.78
Accrued items	901,454.58
Dividends payable	99,044.84
Provision for domestic and foreign taxes on income (Note 4).....	1,060,255.99
Total current liabilities	<u>8,268,591.52</u>
Net working capital.....	9,331,573.61
Cash surrender value of insurance aggregating \$2,266,840 on lives of officers (Note 3).....	376,627.41
Notes receivable, trade, with maturity subsequent to March 31, 1953.....	7,508.83
Other notes and accounts receivable.....	172,929.12
Sundry investments, at cost.....	11,678.10
Property, plant, improvements to leased property and equipment, at cost, less allowances for depreciation and amortization of \$1,511,842.81.....	2,221,780.62
Prepaid expenses and deferred charges.....	310,282.96
Patents, trademarks, copyrights and goodwill.....	1.00
Total assets less current liabilities.....	<u>12,432,381.65</u>
Notes payable, bank, due annually in varying amounts from July 1, 1953 through July 1, 1958....	2,100,000.00
Excess of assets over liabilities.....	<u>\$10,332,381.65</u>

Capital:

Capital stock:

Preferred stock, 4½ per cent cumulative; \$100 par value; authorized 25,000 shares, issued and outstanding, none	
Common Stock, \$1.00 par value; 650,000 shares authorized, 505,337¾ shares issued, less 108,381¾ shares in treasury, outstanding 396,956 shares (Note 3).....	\$396,956.00
Paid-in surplus, premium received on sale of 12,700 shares of common capital stock to officers and employees.....	114,300.00
Earned surplus, as annexed (Notes 1, 2, 3 and 4).....	9,821,125.65
Total	<u>\$10,332,381.65</u>

The accompanying notes are an integral part of this consolidated statement of financial position.



Consolidated Statement of Income and Earned Surplus for Fiscal Year Ended March 31, 1952

Gross profit from sales.....	\$ 6,546,546.06
Selling, administrative, and general expenses.....	4,285,880.49
Profit before other income and expenses and income taxes.....	2,260,665.57
Other Income	212,659.09
	2,473,324.66
Cash discount allowed, interest and other expenses.....	451,006.30
	2,022,318.36
Provision for domestic and foreign taxes on income (Note 8).....	1,069,184.05
Net income	953,134.31
Special Item:	
Prior years' Federal income taxes refunded under relief provisions of the Internal revenue code.....	166,841.93
Net income and special item.....	1,119,976.24
Earned surplus, April 1, 1951.....	9,152,258.33
	10,272,234.57
Excess of cost over equity in net book assets of subsidiary acquired during the year ended March 31, 1952.....	79,005.01
	10,193,229.56
Unrealized gain arising from conversion of foreign net assets to dollars.....	24,852.58
	10,218,082.14
Dividends, common stock, \$1.00 per share.....	396,956.49
Earned surplus, March 31, 1952.....	\$ 9,821,125.65

The accompanying notes are an integral part of this consolidated statement of income and earned surplus.

Notes to Financial Statements

OF FINANCIAL POSITION AND INCOME AND EARNED SURPLUS

Note 1. The consolidated statement of financial position includes foreign net assets aggregating \$606,428 stated in United States currency, of which net current assets were \$214,162.

Current assets and liabilities of the Swiss and Canadian subsidiaries included in the consolidated statement of financial position were converted into U. S. dollars at the March 31, 1952 current quoted buying rates of exchange for the Swiss franc, and the Canadian dollar. Noncurrent assets recorded in foreign currencies were converted substantially at rates of exchange prevailing when acquired.

Income accounts of the Swiss and Canadian subsidiaries were converted, substantially, at the March 31, 1952 current quoted buying rates of exchange for the Swiss franc, and the Canadian dollar.

Note 2. The estimated amounts of intercompany profits in inventory items purchased from companies whose accounts are consolidated were eliminated in the preparation of these consolidated financial statements.

Note 3. In accordance with the employment agreement between the company and Benjamin S. Katz, President, the company is obligated, in the event of his death during the term of the agreement, to purchase for cash, if requested within 120 days from the date of his death, common stock of the company held by the personal representative of his estate, widow, children, grandchildren or trustee, for an amount not in excess of \$1,000,000. The price per share to be paid shall be the consolidated book value per share as of the day following his death.

The company carries insurance aggregating \$1,800,000 on the life of Benjamin S. Katz. The company has agreed to continue \$1,000,000 of this insurance for the period that the employment agreement is in effect and it is expected that the proceeds of such insurance will be held by the company to be used in the purchase of said stock, if offered.

Note 4. It is estimated (based on present laws) that additional foreign taxes on transfers to the parent company of the accumulated surplus of foreign subsidiaries would approximate \$139,000. No provision has been made for such foreign taxes or United States taxes, as may be paid if and when accumulated earnings of subsidiaries are distributed to the parent company, since such taxes may never accrue.

Note 5. Consolidated net income includes net income of foreign subsidiaries aggregating \$354,079 after elimination of intercompany profit. A dividend of \$362,526 was received from the Swiss subsidiary during the year.

Note 6. The provisions for depreciation and amortization included in the consolidated statement of income amount to \$296,887.

Note 7. The provisions for contributions to the profit sharing fund, for the benefit of the employees of The Gruen Watch Company and The Gruen National Watch Case Company, included in the consolidated statement of income, amount to \$110,000.

Note 8. The consolidated statement of income includes \$9,646 provision for Federal excess profits tax of a subsidiary. It appears that the parent company has no liability for Federal excess profits tax.

Note 9. The company had contracts during the year ended March 31, 1952 subject to renegotiation. The amount of net renegotiation refund, if any, which may be required is believed not to be material.

Note 10. The parent company was contingently liable as a guarantor for loans aggregating \$43,780 at March 31, 1952 in connection with U. S. Government contract.

Lybrand, Ross Bros. & Montgomery
Certified Public Accountants
Cincinnati

*To the Board of Directors,
The Gruen Watch Company, Cincinnati, Ohio.*

We have examined the consolidated statement of financial position of The Gruen Watch Company and its subsidiaries as of March 31, 1952 and the related consolidated 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 of the companies (except the Gruen Watch Mfg. Co., S. A.) and such other auditing procedures as we considered necessary in the circumstances. It was not practicable for us to confirm certain accounts receivable from United States Government departments and agencies as to which we have satisfied ourselves by other auditing procedures. Financial statements of the Gruen Watch Mfg. Co., S. A., a consolidated subsidiary, for the year ended March 31, 1952, together with a report thereon of other public accountants, were submitted to us.

In our opinion, based upon our examination and upon the above-mentioned report of other public accountants, the accompanying consolidated statement of financial position and consolidated statement of income and earned surplus present fairly the consolidated financial position of The Gruen Watch Company and its subsidiaries at March 31, 1952, and the consolidated 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.

LYBRAND, ROSS BROS. & MONTGOMERY
Cincinnati, Ohio
June 12, 1952



Financial Summary for the Past Ten Years

FISCAL YEARS ENDED MARCH 31

ACCOUNTS FROM STATEMENT OF FINANCIAL POSITION

	1952	1951	1950	1949	1948	1947	1946	1945	1944	1943
Total Current Assets.....	\$17,600,165	\$12,520,835	\$9,732,904	\$9,921,897	\$9,716,040	\$9,043,040	\$8,471,856	\$7,118,495	\$7,801,835	\$6,262,310
Total Current Liabilities....	8,268,591	3,430,249	2,602,915	2,350,886	1,891,191	2,091,503	1,998,370	1,706,792	1,907,806	1,846,635
Net Current Assets.....	9,331,574	9,090,586	7,129,989	7,571,011	7,824,849	6,951,537	6,473,486	5,411,703	5,894,029	4,415,675
Plant and Equipment—Net..	2,221,781	2,094,959	2,091,745	1,585,302	975,884	564,199	455,511	431,000	451,982	444,738
Term Loan From Bank.....	2,100,000	2,300,000	1,200,000	1,400,000	1,600,000	1,600,000	2,000,000	1,750,000	2,000,000	1,000,000
Earned Surplus	9,821,126	9,152,258	8,442,656	8,225,836	7,372,648	6,085,994	5,000,100	4,212,551	3,889,226	3,222,925
Net Worth	10,332,382	9,663,514	8,826,912	8,610,092	7,756,904	6,470,250	5,384,356	4,596,807	4,724,332	4,058,031
(1) Book Value— Common Stock	26.03	24.34	22.97	22.41	20.19	16.84	14.01	11.96	11.12	9.39

ACCOUNTS FROM STATEMENT OF INCOME

Gross Profit	\$6,546,546	\$6,074,518	\$4,685,604	\$5,750,681	\$6,113,041	\$5,843,133	\$5,599,129	\$3,826,871	\$4,653,880	\$3,779,292
Profit Before Income Taxes.	2,022,318	1,908,833	1,299,104	2,273,605	2,812,458	2,640,375	2,531,552	1,426,985	2,530,244	2,076,367
(2) Provision For Income Taxes	1,069,184	822,087	533,356	882,387	1,048,131	1,088,147	1,432,299	721,988	1,555,945	1,135,588
(2) Net Profit	953,134	1,086,746	765,748	1,391,218	1,764,327	1,552,228	1,099,253	704,997	974,299	940,779
(1) (2) Earnings Per Share—Common Stock ..	2.40	2.74	1.99	3.62	4.59	4.04	2.86	1.79	2.48	2.39
Dividends— Common Stock	396,956	393,782	499,532	537,959	499,532	461,104	345,831	307,401	249,771	372,885
(1) Dividends Per Share...	1.00	1.00	1.30	1.40	1.30	1.20	.90	.80	.65	.92½

(1)—Based on shares outstanding on dates shown.

(2)—Adjusted for Federal income taxes refunded under relief provisions of the Internal revenue code.

BUILDING THE GRUEN FRANCHISE

Advertising

Close to 20 million interested Americans receive the impact of powerful and continuous television advertising. Gruen Television Playhouse has become one of the standards of Television entertainment and serves as an appropriate background for the Hollywood stars who deliver the specific selling messages for the feature Gruen watches being advertised. Many millions more see the frequent dominant printed advertisements featuring Gruen watches at the year's important selling seasons, in America's most powerful and best liked magazines.

Promotion

To create a well-balanced selling plan, carefully integrated promotional material is developed in complete programs that give the retail jeweler action-provoking displays, retail advertising material, and printed literature which helps him use the power of Gruen national advertising to bring business to his own counters. Only carefully planned, well-rounded programs of this type can help the jeweler capitalize fully and directly on the advertising investment Gruen makes on his behalf.



TELEVISION

MAGAZINES



DISPLAYS

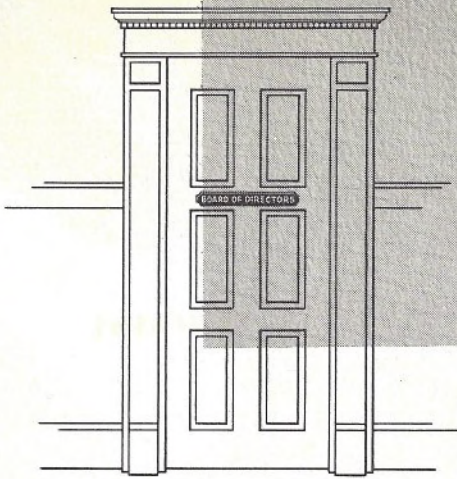
FOLDERS

AD MATS



GruenWristwatches.com





THE GRUEN WATCH COMPANY

Time Hill
Cincinnati, Ohio

SALES OFFICES

New York	International Bldg., 630 Fifth Ave.
Chicago	Pittsfield Bldg., 55 E. Washington St.
Los Angeles	Statler Center Bldg., 900 Wilshire Blvd.

DIRECTORS

John R. Bullock	Attorney
Sterling B. Cramer	First Vice President, The Fifth Third Union Trust Company
Geo. J. Gruen*	Chairman of the Board
George T. Gruen	Secretary
Benjamin S. Katz	President and Treasurer
Ira R. Katz	Vice President
Clifford R. Wright	President, Cincinnati Equitable Fire Insurance Company

OFFICERS

Geo. J. Gruen*	Chairman of the Board
Benjamin S. Katz	President and Treasurer
William B. Ogush	Senior Vice President
Henri Thiebaud	Vice President
Ira R. Katz	Vice President
Maurice Merz	Vice President
George T. Gruen	Secretary
Alfred T. Reis	Comptroller
Thomas F. Jeary	Auditor

*Deceased, June 3, 1952

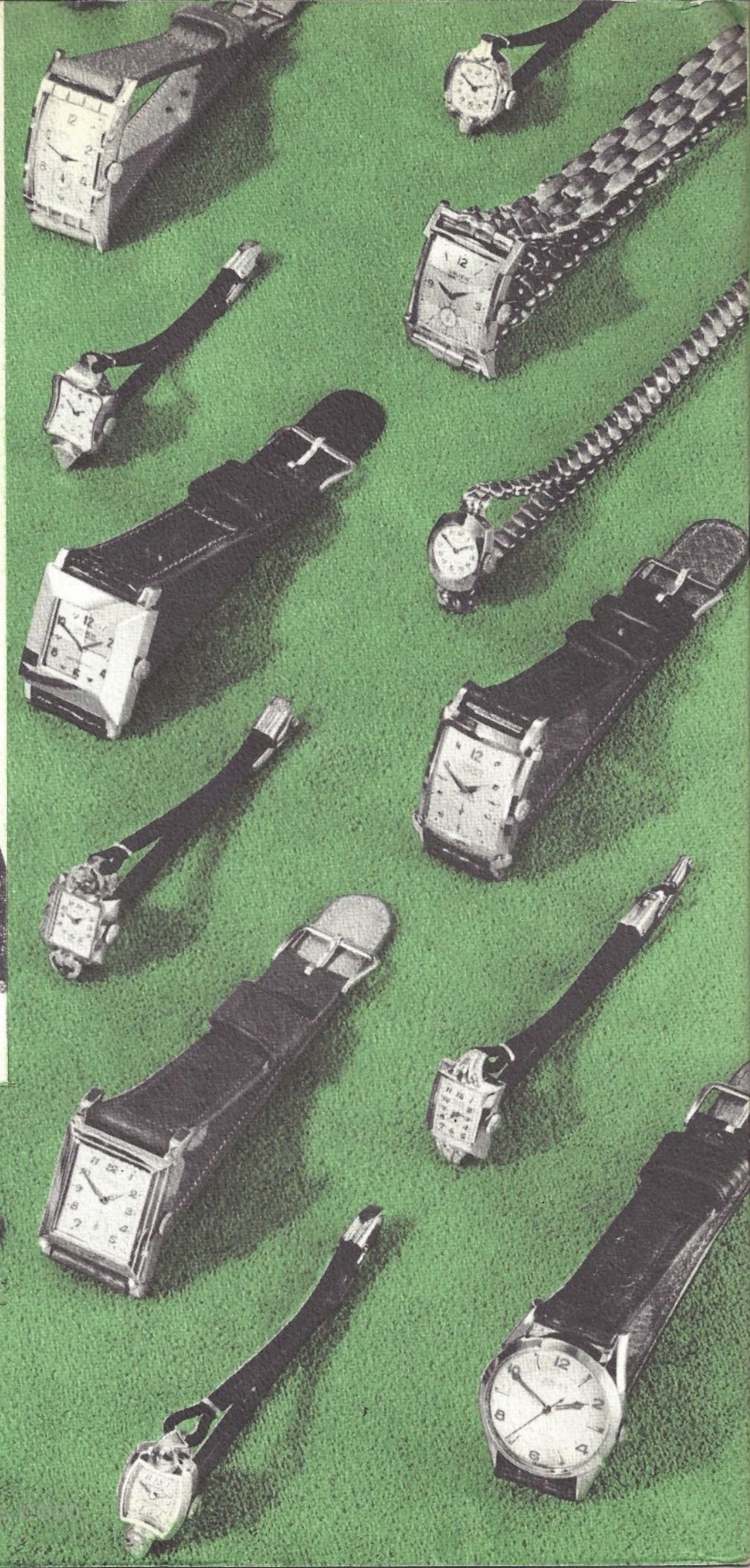
Counsel	Taft, Stettinius & Hollister, Cincinnati, Ohio
Transfer Agent	The Fifth Third Union Trust Company, Cincinnati, Ohio
Registrar	The Central Trust Company, Cincinnati, Ohio



Fashion Center
of the Watch
World

TIME HILL
CINCINNATI

Home of GRUEN
the Precision Watch



GruenW

GruenWristwatches.com
All Gruen All the Time

THE GRUEN WATCH COMPANY

annual report

fiscal year ended March 31, 1953

seventy-ninth year



GruenWristwatches.com
All Gruen All the Time

GruenWristwatches.com

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 President's Report to Shareholders
 Consolidated Statements of Income and Earned Surplus
 Consolidated Balance Sheets
 Notes to Financial Statements
 Accountants' Certificate
 Ten Year Financial Statistics

COMPARATIVE FINANCIAL SUMMARY

	YEAR ENDED MARCH 31	
	<u>1953</u>	<u>1952</u>
Income Before Taxes.....	\$3,273,988	\$2,022,318
Domestic And Foreign Taxes On Income.....	\$1,585,000	\$1,069,184
Net Income.....	\$1,688,988	\$ 953,134
Net Income Per Share.....	\$4.25	\$2.40
Dividends Per Share.....	\$1.00	\$1.00
Earnings Per Share Retained In The Business.....	\$3.25	\$1.40
Ratio: Current Assets To Current Liabilities.....	2.8	2.1
Number of Shareholders.....	2,880	2,925
Book Value Per Share of Common Stock.....	\$29.37	\$26.03



president's report

to the
Shareholders
of

THE GRUEN WATCH COMPANY



Once again on behalf of the Board of Directors of your Company, it is my pleasure to report to you that sales and profits before income taxes in the fiscal year ended March 31, 1953 were the greatest in the 79-year history of your Company. Consolidated profits, before United States and foreign income taxes, amounted to \$3,273,988, as compared to \$2,022,318 for the previous year. Net profits after taxes this year amounted to \$1,688,988 or \$4.25 per share, as compared to \$953,134 or \$2.40 per share for the fiscal year ended March 31, 1952 on 396,956 shares outstanding at the end of each period.

There is included with this report a consolidated balance sheet of your Company as of March 31, 1953, and a consolidated statement of income and earned surplus for the fiscal year ended March 31, 1953, together in both instances, with comparable figures for the fiscal year ended March 31, 1952, as reported by our auditors, Messrs. Lybrand, Ross Bros. & Montgomery.

In accordance with the practice of past years, the following report will tell you more about the operating results and the general financial position of your Company, and also something of the general and specific conditions affecting your Company in the past year and for the future.

Results of the Year's Operation

As stated at the beginning of this letter, sales and profits, before income taxes, were the greatest in the history of the Company. However, due to the impact of higher Federal income taxes, the profits after taxes this year did not equal the profits after taxes of one of the eighteen years I have had the good fortune to head

your Company. On the other hand, in spite of the largest watch sales in our history, the percentage of profit is considerably smaller than we have usually made.

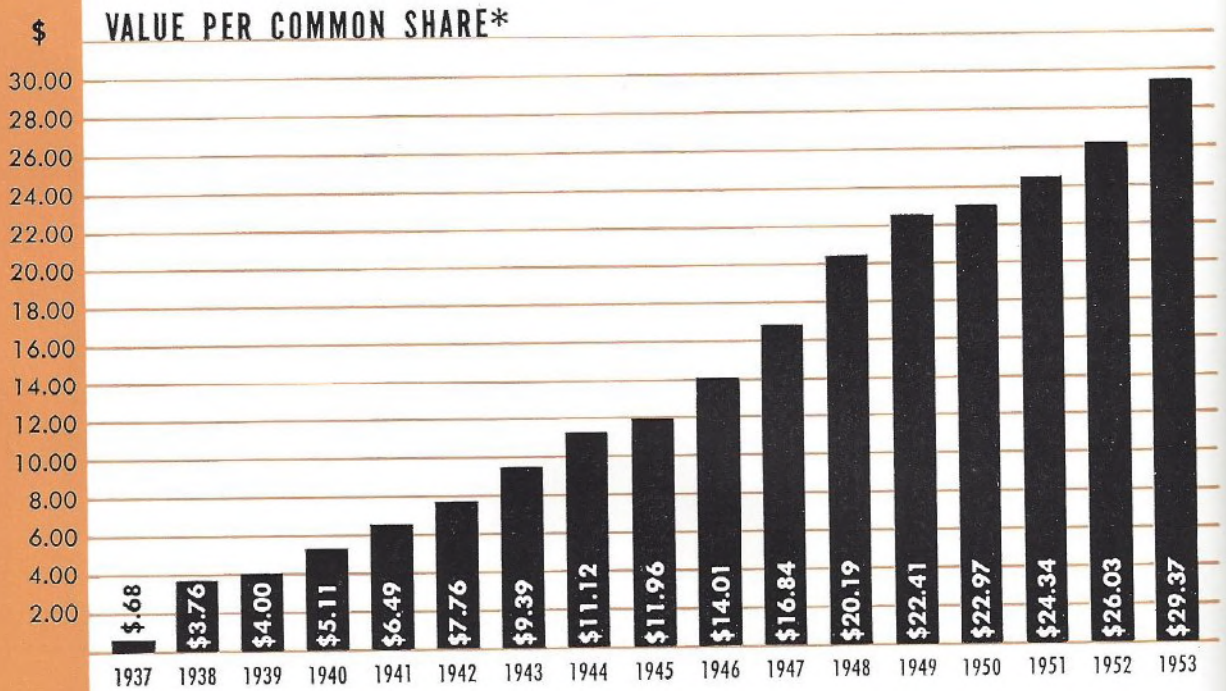
Many factors contributed to this situation. First, in regard to the manufacture and sale of watches, which after all is our normal and permanent business, the year just closed was probably the most competitive of any your Company has ever experienced. In our never ceasing effort to improve our volume and profit position in comparison with that of the other major watch companies, we incurred certain additional expenses, particularly in advertising and sales promotion. While this had the immediate effect of lessening our normal profits, it did accomplish its objective in increased sales as far as the year just ended was concerned and will, I am sure, have beneficial results in the current year and the years ahead in both volume and profits. It must be pointed out, however, as in the case of so many manufacturing companies today, our "break-even" point of operations has been materially increased in the years immediately past and, secondly, and perhaps more importantly, the watch industry, like many other manufacturing industries in which there is keen competition, has continually decreased its percentage of profit on each item sold.

As to defense items, last year our report indicated that we had a very sizable backlog of defense work and at the end of that fiscal year we were beginning to make sizable deliveries to the Government. I am happy to report that our Defense Products Division in Norwood did an outstanding production job during the year just ended under the able direction of Mr. Harold Jeske, Vice President in charge of Manufacturing. Despite our



BOOK VALUE PER COMMON SHARE*

Years ended
March 31



*Based on shares outstanding on dates shown.

consistently large deliveries during the past year, our backlog of unfilled defense orders at the end of the fiscal year was very substantial due to the fact that we received the award of three sizable additional prime contracts. From a financial point of view, our defense work is profitable although the profit per item, and as a percentage to sales, is considerably smaller than we customarily earn in our regular business. In this connection it should perhaps be pointed out that all of our defense contracts call for price redetermination and renegotiation. In the opinion of your management, however, the profits on defense contracts included in the accompanying financial statements represent only a very reasonable profit and therefore no adjustment thereon in final settlement of these matters should be necessary.

Financial Position and Dividend Policy

Our financial position is a healthy one and as shown on the comparative consolidated balance sheet has improved over last year. Working capital at March 31, 1953 amounted to \$10,556,365, an increase of \$1,224,791 over the previous year end, which increase was derived largely from earnings retained in the business. We have had and probably will in the future have materially greater investment in our defense work than at the year end. At one time during the year just ended in order to carry our very sizable investment in Government inventory, receivables and equipment, we owed \$5,250,000 on current loans to our American banking connections, all of which were paid at March 31, 1953. With our larger volume of watch business, there is also an increase in receivables from customers and in inventories during peak periods.

Our requirements for capital expenditures will be materially increased in the current year by reason of the enlargement of our Time Hill Plant, Cincinnati, by approximately 35%, which is now nearing completion, and by an addition to our Time Hill Plant, Bienne, Switzerland, by approximately 45%, and the obtaining of additional machinery for our expanded operations there. The enlargement of our Swiss Factory is in the early stages and may not be fully completed during the year ahead.

In view of the tremendous financial requirements of our defense work and expanded watch operations, your Board of Directors has felt it unwise at this time to increase the regular quarterly dividend rate of 25c. We have felt that these expenditures must be made to assure the continued growth and successful operation of your Company and that the large borrowings that have been made in the past and will unquestionably have to be made in the future require the support of a large amount of equity capital represented primarily, in the case of your Company, by earned surplus retained to meet the operating needs of the business. In the meanwhile, the equity of every shareholder is constantly increasing as shown by the increase in book value per share for the past seventeen years on the chart made a part of this report. However, because of the larger profits earned during the year just ended, your Board of Directors did declare on June 1, 1953 an extra dividend of 20c per share payable July 1 to stockholders of record June 15, 1953.

Legislation and Government Action

There were two items of particular interest and



president's report

help to your Company in the year just ended. These were the rejection by the President of the recommendation of the Tariff Commission for an increase in tariffs on watch movements imported from Switzerland, and, secondly, the enactment by Congress and approval by the President of the McGuire Act reestablishing the legality of enforcing minimum resale price contracts against all persons selling Gruen watches and other trademarked products in violation of the Fair Trade Acts of the individual states.

You will perhaps recall both of these points were discussed in last year's report. As far as tariffs are concerned, as I have repeatedly discussed with you in previous years, this Company is of the firm belief that the present tariffs are fair and in the best interests of the country, the watch industry, and particularly the American retail jeweler who receives more than 25% of his income from watches alone. We are naturally pleased that the President reached the same decision and denied an increase in tariffs on watch movements and parts. As for the McGuire Act, you will perhaps recall that our report last year advised you that the Supreme Court on May 21, 1951, in the case of *Schwegmann Brothers vs. Calvert Distillers Corp.*, held that state fair trade or minimum resale price maintenance contracts would not be enforceable in interstate commerce against retailers who did not actually sign such agreements and that for practical purposes this decision rendered ineffective the fair trade legislation of the individual states and had led to innumerable instances of undesirable trade practices and indiscrimin-

ate price cutting. From the legal point of view, the McGuire Act cured this situation and reinstated the previously generally accepted interpretation of the Miller-Tydings Act. Since enactment of the McGuire Act last July, your Company has continued to pursue its long standing policy of enforcing Fair Trade for the benefit of its thousands of retail jewelers and resulting guarantee of quality merchandise to the public.

There still remains, however, a serious handicap to the continued successful growth and prosperity of your Company in the Federal excise tax of 10% on the retail selling price of watches retailing for \$65 or less and 20% on watches retailing for more than \$65. As I have repeatedly advised you, we believe the excise tax is a discriminatory and improper one. Many economists and Governmental legislators and officials agree with this opinion, but whether or not Congress will remove or even reduce this tax in the near future is something only time will tell.

Other Highlights of the Year

The financial results of a particular year are only one aspect in the life and growth of a corporation. I view these other aspects of the year just ended with considerable pleasure and satisfaction. Many problems were encountered and the year was far from an easy one but your Company made considerable forward strides in styling, research, public acceptance, engineering and product techniques, and employee relationships, factors each of which has a most important connection with the ultimate prosperity of any company, at least in a



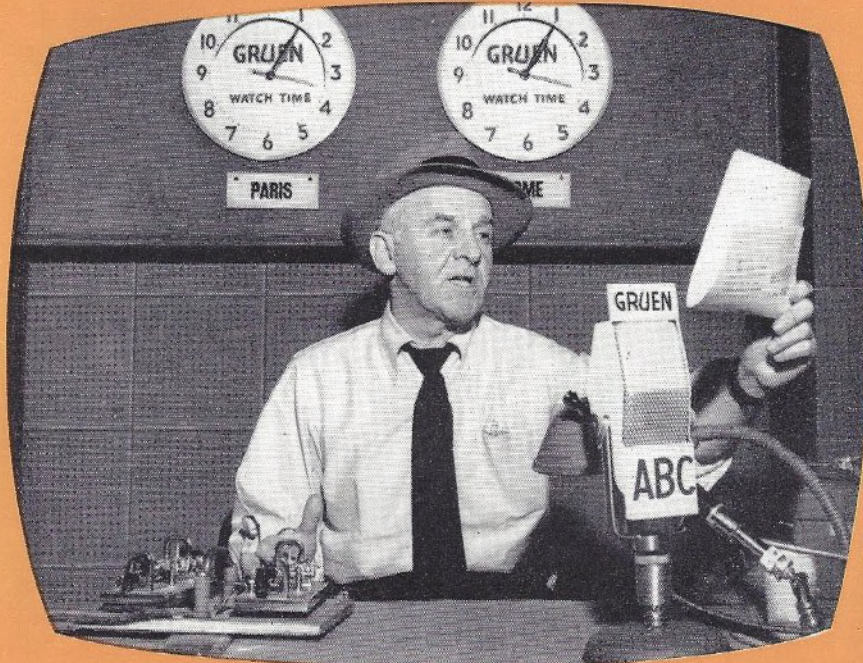
Defense Products
Division Final Assembly

GruenWristwatches.com



GruenWristwatches.com
All Gruen All the Time

The exciting Gruen Television and Radio Show on the air.



field such as ours.

Styling and design are the very foundation upon which the Gruen name has been built. Particularly since fashion has been a steadily increasing factor in the importance of jewelry, our constant goal has always been to maintain the reputation for style leadership in the industry that has long been Gruen's proud achievement. The increase in consumer desire and purchase of Gruen Watches is obvious evidence in your Company's ability to set style standards the public appreciates and wants.

In the ever-growing self-winding field, Gruen Autowind maintains its acknowledged leadership, because of superior quality and the vast range of outstanding styles found exclusively in the Gruen Autowind line.

The complexities of modern business demand facts and assurance which can be secured only through a comprehensive program of research. Steadily throughout the year, continuing programs of surveying both the retail and consumer markets are engaged in by your Company's own Research Department as well as that of our advertising agency. Such continual reference to the actual wants and needs expressed by both jeweler and consumer helps point the way towards more intelligent programs, more desirable styling, more effective selling and greater acceptance by both the trade and the general public.

National advertising has always been one of the primary cornerstones of the Company's progress. This year Gruen made tremendous impact in its consumer

advertising by buying the Walter Winchell radio and television show, reaching close to 20 million people each week. This is a vitally interested audience who, whether they agree with all Mr. Winchell says or not, know that for as long as they can remember he has been America's No. 1 newspaperman and No. 1 radio commentator, and is important to any American interested in what is happening in the world today.

With twenty-five television stations covering about 80% of the nation's television sets, and 353 radio stations in every part of the country, Gruen advertising coverage is more consistent and more thorough than at any time in the Company's history. Particularly gratifying has been the enthusiasm of retail jewelers to the excitement and great public appeal of this dynamic advertising medium.

Another very important factor is the Gruen Cooperative Advertising Program. With this aid, realistically based on jewelers' purchases, Gruen dealers have run many millions of lines of local Gruen newspaper advertising. Similarly, the Gruen advertising department has set up local television programs, featuring Gruen Watches, with more jewelers than any other company in the industry.

During this past year, Gruen has established itself more strongly than ever as a source of selling help to the retail jeweler at the consumer level. The power of the jewelry industry's outstanding national advertising program has been matched by consistent "year-round" promotional selling help which jewelers recognize as the most important source of helping them solve their



GruenWristwatches.com

president's report

local sales problems. A steady, planned calendar of vigorous promotional ideas and the material that helps jewelers use these ideas has steadily developed a more dynamic and closer knit partnership with the retailer. This policy of selling FOR the jeweler . . . not just TO him . . . has been one of the most vital reasons for the steadily increasing stature of the Gruen position in a growing number of the country's most important retail jewelers.

Last year my report commented on the increase in production of our Swiss Plant and particularly of the new methods and new machines never before used in the watch industry, which were developed by Mr. Henri Thiebaud, our very capable Director General of Gruen Watch Manufacturing Co., S. A., of Bienne, Switzerland. With a year's additional experience in the use of these developments and machines and with the introduction of other new and improved methods, all of us are particularly pleased with the results of the year's manufacturing operations in Switzerland. Consistent advances and improvements have also been shown in our American watch movement manufacturing operations here at Cincinnati.

Our employee relationship continues good and as was the case last year we are particularly pleased and proud of our new employees and of the speed with which they have become absorbed into and become integral parts of the Gruen family. The number of em-

ployees at Cincinnati and Norwood is approximately four times what it was only two years ago but the same fine spirit of cooperation is just as evident in our enlarged family as it was in the days when we comprised a smaller group.

The activities and interest of our employees continues at a very enthusiastic pace. The Employees' Profit Sharing Retirement Plan, into which during the year just past, the Company and its Cincinnati subsidiary, The Gruen National Watch Case Company, contributed \$177,302.00 and the employees contributed \$90,532.24, continues in popularity and growth. The total now held in the fund after payments made during the year is \$1,194,181.17.

Since the close of the fiscal year, the Company has elected three additional vice presidents. Abraham S. Braude, Director of Sales, who has been an outstanding force in the increasingly progressive sales policies that are being so well received by retail jewelers, has been elected Vice President in charge of Sales. Traveling widely throughout the country and in constant touch with jewelers from Coast to Coast, after eight years with the Company Mr. Braude has become one of the leading sales figures in the industry.

Henry Dorff, Director of Advertising, who has played an important part in the intensified Gruen program of national and trade promotions has been elected Vice President in charge of Advertising. Mr. Dorff's



Section of Parts
Manufacturing Division

GruenWristwatches.com



All Gruen All the Time

president's report

broad professional background is matched by a thorough knowledge of jewelry promotion and his frequent personal field contacts has helped strengthen the Gruen ties with leading jewelers.

Alexander M. Fekula, recently joining the Company, has been elected Vice President in charge of Styling. Well-known throughout the industry for the outstanding work he has already achieved in styling, Mr. Fekula's addition to the Company will strengthen the style leadership Gruen enjoys. With many years of wide experience, both in the retail and manufacturing sides of the jewelry field, Mr. Fekula's ability is respected throughout the industry.

Lastly, I am sure we all get a great deal of happiness out of the continued excellent work of The Gruen Watchmaking Institute in its training of disabled veterans for the profession of watchmaking. Our school, which Mr. George T. Gruen has so ably directed since its inception, was one of the first in the country to be approved by the Federal Government for the training of Korean veterans. During the past year, with only one year's training, students with exceptional ability have taken and passed the certified watchmaking examination of the Horological Institute of America. Many graduates of the school have entered our em-

ploy, with a number having advanced to key positions, while others have opened their own businesses or are working for jewelers or in the expanding field of instrument repair and manufacture. Letters received frequently and particularly at Christmas time from former students telling us how well they are getting along and expressing appreciation for the training they received leave very warm spots in the hearts of all of us.

In Memoriam

On April 22, 1953 Edwin C. Brunst died. Mr. Brunst had been credit manager of the Company since November 19, 1923, and in point of service was the oldest executive of the Company. All of us sadly miss his pleasant smile and cheerful disposition, as well as his exceptional ability.

Conclusion

Once again in closing this account of a very interesting year's operations, I want to express my personal appreciation, as well as the appreciation of your other executives and directors, of the loyal support of our more than 8,000 jewelers whom we consider our greatest asset, of our many reliable suppliers, our faithful employees in the United States, Switzerland and Canada, and to each of you shareholders.

Sincerely yours,



Benjamin S. Katz, President

Time Hill, Cincinnati, Ohio

June 15, 1953



consolidated statements of income and earned surplus

	<u>Year ended March 31</u>	
	<u>1953</u>	<u>1952</u>
Gross profit from sales.....	\$ 9,295,916	\$ 6,546,546
Selling, advertising, administrative, and general expenses.....	5,665,178	4,285,881
Profit before other income and expenses and income taxes.....	3,630,738	2,260,665
Other income.....	225,124	212,659
	<u>3,855,862</u>	<u>2,473,324</u>
Cash discount allowed, interest and other expenses.....	581,874	451,006
	<u>3,273,988</u>	<u>2,022,318</u>
Provision for domestic and foreign taxes on income.....	1,585,000	1,069,184
Net income.....	<u>1,688,988</u>	<u>953,134</u>
Special item:		
Prior years' Federal income taxes refunded under relief provisions of the Internal Revenue Code.....	—	166,842
Net income and special item.....	<u>1,688,988</u>	<u>1,119,976</u>
Earned surplus, beginning of year.....	9,821,126	9,152,258
	<u>11,510,114</u>	<u>10,272,234</u>
Excess of cost over equity in net book assets of subsidiary acquired during the year ended March 31, 1952.....	—	79,005
	<u>11,510,114</u>	<u>10,193,229</u>
Unrealized gain arising from conversion of foreign net assets to dollars	35,136	24,853
	<u>11,545,250</u>	<u>10,218,082</u>
Dividends, common stock, \$1.00 per share.....	396,956	396,956
Earned surplus, end of year.....	<u><u>\$11,148,294</u></u>	<u><u>\$ 9,821,126</u></u>

The accompanying notes are an integral part of these consolidated statements of income and earned surplus.

The Gruen Watch Company

CONSOLIDATED

ASSETS:

March 31

	<u>1953</u>	<u>1952</u>
Cash on hand and demand deposits	\$ 1,649,683	\$ 2,289,221
\$350,000 United States Government securities, at cost	—	350,000
Notes and accounts receivable, trade, less allowances for doubtful notes and accounts	6,742,937	5,191,350
Inventories, at the lower of cost or market, and in process costs accumulated under U. S. Government subcontracts, less progress payments (Note 2)	7,413,717	9,032,435
Emergency facilities purchased, to be acquired by U. S. Government	518,129	737,159
Total current assets	<u>16,324,466</u>	<u>17,600,165</u>
Cash surrender value of insurance aggregating \$2,266,840 (Note 3)	438,383	376,627
Other receivables and sundry investments, at cost	139,085	192,116
Property, plant, improvements to leased property, and equipment, at cost, less allowances for depreciation and amortization: 1953—\$1,906,572; 1952—\$1,511,843	2,094,246	2,221,781
Prepaid expenses and deferred charges	331,470	310,283
Patents, trade-marks, copyrights, and goodwill	1	1
	<u>\$19,327,651</u>	<u>\$20,700,973</u>

The accompanying notes are an integral part of these Consolidated Balance Sheets.



and Subsidiary Companies

BALANCE SHEETS

LIABILITIES:

	<u>March 31</u>	
	<u>1953</u>	<u>1952</u>
Notes payable, banks.....	\$ —	\$ 3,475,000
Loans payable, foreign banks.....	1,045,747	1,138,168
Accounts payable.....	1,501,091	1,594,668
Accrued items.....	1,533,580	901,454
Dividends payable.....	99,038	99,045
Provision for domestic and foreign taxes on income (Note 4).....	1,588,645	1,060,256
	<hr/>	<hr/>
Total current liabilities.....	5,768,101	8,268,591
	<hr/>	<hr/>
Notes payable, bank, installments due annually after one year in varying amounts through July 1, 1958.....	1,900,000	2,100,000
	<hr/>	<hr/>

CAPITAL:

Capital stock:

Preferred stock, 4 ½ per cent cumulative; \$100.00 par value; authorized 25,000 shares, issued and outstanding, none.		
Common stock \$1.00 par value; 650,000 shares authorized, 505,337 - ¾ shares issued, less 108,381 - ¾ shares in treasury, outstanding 396,956 shares (Note 3)	396,956	396,956
Paid-in surplus, premium received on sale of 12,700 shares of common capital stock to officers and employees.....	114,300	114,300
Earned surplus, as annexed (Notes 1, 2, 3 and 4).....	11,148,294	9,821,126
	<hr/>	<hr/>
	11,659,550	10,332,382
	<hr/>	<hr/>
	\$19,327,651	\$20,700,973
	<hr/> <hr/>	<hr/> <hr/>

The accompanying notes are an integral part of these Consolidated Balance Sheets.

notes to financial statements

1. The consolidated balance sheets include foreign net assets, stated in United States currency, aggregating \$774,245 at March 31, 1953 and \$606,428 at March 31, 1952, of which net current assets were \$385,321 and \$214,162, respectively.

Current assets and liabilities of the Swiss and Canadian subsidiaries included in the consolidated balance sheets were converted into U. S. dollars at the March 31, 1953 and 1952 current quoted buying rates of exchange for the Swiss franc, and the Canadian dollar.

Noncurrent assets recorded in foreign currencies were converted substantially at rates of exchange prevailing when acquired.

Income accounts of the Swiss and Canadian subsidiaries were converted, substantially, at the March 31, 1953 and 1952 current quoted buying rates of exchange for the Swiss franc, and the Canadian dollar.

2. The estimated amounts of intercompany profits in inventory items purchased from companies whose accounts are consolidated were eliminated in the preparation of these consolidated financial statements.

3. In accordance with the employment agreement between the company and Benjamin S. Katz, President, the company is obligated, in event of his death during the term of the agreement, to purchase for cash, if requested within 120 days from the date of his death, common stock of the company held by the personal representative of his estate, widow, children, grandchildren or trustee, for an amount not in excess of \$1,000,000. The price per share to be paid shall be the consolidated book value per share as of the day following his death.

The company carries insurance aggregating \$1,800,000 on the life of Benjamin S. Katz. The company has agreed to continue \$1,000,000 of this insurance for the period that the employment agreement is in effect and it is expected that the proceeds of such insurance will be held by the company to be used in the purchase of said stock, if offered.

4. It is estimated (based on present laws) that additional foreign taxes on transfers to the parent company

of the accumulated surplus of foreign subsidiaries would approximate \$165,000 at March 31, 1953 and \$139,000 at March 31, 1952. No provision has been made for such foreign taxes or United States taxes as may be paid if and when accumulated earnings of subsidiaries are distributed to the parent company since such taxes may never accrue.

5. Consolidated net income includes net income of foreign subsidiaries aggregating \$498,797 for 1953 and \$354,079 for 1952 after elimination of intercompany profits. No dividends were received from foreign subsidiaries during 1953. A dividend of \$362,526 was received from the Swiss subsidiary during 1952.

6. The provisions for depreciation and amortization included in the consolidated statements of income amount to \$436,886 for 1953 and \$296,887 for 1952.

7. The provisions for contributions to the profit sharing fund, for the benefit of the employees of The Gruen Watch Company and The Gruen National Watch Case Company, included in the consolidated statements of income, amount to \$177,302 for 1953 and \$110,000 for 1952.

8. The company had defense material contracts for the years ended March 31, 1953 and 1952 subject to renegotiation under the Renegotiation Act of 1951. The company has been informed by the Renegotiation Board that no refund will be required for the year ended March 31, 1952. Renegotiation data for the year ended March 31, 1953 has not yet been submitted.

Final billing prices under these contracts, which contain price redetermination clauses, have not yet been determined.

In the opinion of management, adequate effect has been given in the financial statements to provide for such adjustments as may result from final settlement of these matters.

9. The parent company was contingently liable as guarantor for loans aggregating \$32,971 at March 31, 1953 and \$43,780 at March 31, 1952 in connection with U. S. Government contracts.



LYBRAND, ROSS BROS. & MONTGOMERY
CERTIFIED PUBLIC ACCOUNTANTS

CAREW TOWER
CINCINNATI 2

To the Board of Directors,
The Gruen Watch Company,
Cincinnati, Ohio.

We have examined the consolidated balance sheet of The Gruen Watch Company and its subsidiaries as of March 31, 1953 and the related consolidated 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 of the companies (except the Gruen Watch Mfg. Co., S. A.) and such other auditing procedures as we considered necessary in the circumstances. It was not practicable for us to confirm certain accounts receivable from United States Government departments and agencies as to which we have satisfied ourselves by other auditing procedures. We made a similar examination for the year ended March 31, 1952. Financial statements of the Gruen Watch Mfg. Co., S. A., a consolidated subsidiary, for the years ended March 31, 1953 and 1952 together with reports thereon of other public accountants, were submitted to us.

In our opinion, based upon our examination and upon the above-mentioned reports of other public accountants, the accompanying consolidated balance sheets and consolidated statements of income and earned surplus present fairly the consolidated financial position of The Gruen Watch Company and its subsidiaries at March 31, 1953, and 1952 and the consolidated results of their operations for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Cincinnati, Ohio.
June 8, 1953.

Lybrand, Ross Bros & Montgomery



ten year financial statistics

FISCAL YEARS ENDED MARCH 31

STATISTICS FROM CONSOLIDATED BALANCE SHEETS

	1953	1952	1951	1950	1949	1948	1947	1946	1945	1944
Total Current Assets.....	\$16,324,466	\$17,600,165	\$12,520,835	\$9,732,904	\$9,921,897	\$9,716,040	\$9,043,040	\$8,471,856	\$7,118,495	\$7,801,835
Total Current Liabilities.....	5,768,101	8,268,591	3,430,249	2,602,915	2,350,886	1,891,191	2,091,503	1,998,370	1,706,792	1,907,806
Net Current Assets.....	10,556,365	9,331,574	9,090,586	7,129,989	7,571,011	7,824,849	6,951,537	6,473,486	5,411,703	5,894,029
Plant and Equipment—Net.....	2,094,246	2,221,781	2,094,959	2,091,745	1,585,302	975,884	564,199	455,511	431,000	451,982
Term Loan From Bank.....	1,900,000	2,100,000	2,300,000	1,200,000	1,400,000	1,600,000	1,600,000	2,000,000	1,750,000	2,000,000
Earned Surplus.....	11,148,294	9,821,126	9,152,258	8,442,656	8,225,836	7,372,648	6,085,994	5,000,100	4,212,551	3,889,226
Net Worth.....	11,659,550	10,332,382	9,663,514	8,826,912	8,610,092	7,756,904	6,470,250	5,384,356	4,596,807	4,724,332
(1) Book Value— Common Stock.....	29.37	26.03	24.34	22.97	22.41	20.19	16.84	14.01	11.96	11.12

STATISTICS FROM STATEMENTS OF INCOME

Gross Profit.....	\$9,295,916	\$6,546,546	\$6,074,518	\$4,685,604	\$5,750,681	\$6,113,041	\$5,843,133	\$5,599,129	\$3,826,871	\$4,653,880
Profit Before Income Taxes....	3,273,988	2,022,318	1,908,833	1,299,104	2,273,605	2,812,458	2,640,375	2,531,552	1,426,985	2,530,244
(2) Provision For Income Taxes.....	1,585,000	1,069,184	822,087	533,356	882,387	1,048,131	1,088,147	1,432,299	721,988	1,555,945
(2) Net Profit.....	1,688,988	953,134	1,086,746	765,748	1,391,218	1,764,327	1,552,228	1,099,253	704,997	974,299
(1) (2) Earnings Per Share—Common Stock.....	4.25	2.40	2.74	1.99	3.62	4.59	4.04	2.86	1.79	2.48
Dividends— Common Stock.....	396,956	396,956	393,782	499,532	537,959	499,532	461,104	345,831	307,401	249,771
(1) Dividends Per Share.....	1.00	1.00	1.00	1.30	1.40	1.30	1.20	.90	.80	.65

(1)—Based on shares outstanding on dates shown.

(2)—Adjusted for Federal income taxes refunded under relief provisions of the Internal Revenue Code.



the gruen watch company



Executive Offices **TIME HILL
CINCINNATI, OHIO**

FACTORIES

Cincinnati and Norwood, Ohio
Biemme, Switzerland

Toronto, Canada
Union City, New Jersey

SALES OFFICES

New York, N. Y.
Chicago, Ill.

Geneva, Switzerland
Toronto, Canada

Los Angeles, Calif.

DIRECTORS

Carl W. Bieser	Vice President, The Gruen National Watch Case Company
John R. Bullock	Attorney
Sterling B. Cramer	First Vice President, The Fifth Third Union Trust Company
George T. Gruen	Secretary
Benjamin S. Katz	President and Treasurer
Ira R. Katz	Vice President
Clifford R. Wright	President, Cincinnati Equitable Fire Insurance Company

OFFICERS

Benjamin S. Katz	President and Treasurer
Henri Thiebaud	Vice President
Harold Jeske	Vice President
Ira R. Katz	Vice President
James A. Marohn	Vice President
Maurice Merz	Vice President
George T. Gruen	Secretary
Alfred T. Reis	Comptroller
Thomas F. Jeary	Auditor

Counsel
Transfer Agent
Registrar

Taft, Stettinius & Hollister, Cincinnati, Ohio
The Fifth Third Union Trust Company, Cincinnati, Ohio
The Central Trust Company, Cincinnati, Ohio





FASHION CENTER OF THE WATCH WORLD

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HOME OF GRUEN THE PRECISION WATCH



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CORPORATION FILE

For Fiscal year ended March 31, **1954**



GRUEN

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*Annual
Report*

THE GRUEN WATCH COMPANY
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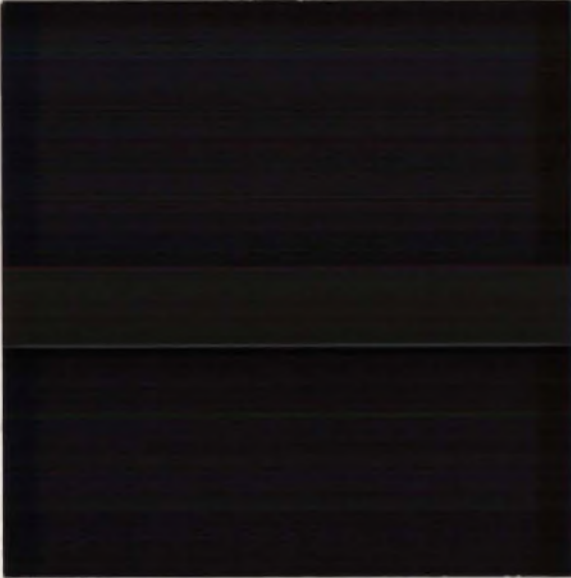


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 Consolidated Statements of Income and Earned Surplus
 Consolidated Balance Sheets
 Notes to Financial Statements
 Accountants' Certificate
 Ten Year Financial Statistics



Comparative Financial Summary

	YEAR ENDED MARCH 31	
	1954	1953
Income Before Taxes	\$1,709,537	\$3,273,988
Domestic And Foreign Taxes On Income	\$ 820,000	\$1,585,000
Net Income	\$ 889,537	\$1,688,988
Net Income Per Share (1)	\$2.88	\$4.25
Dividends Per Share (2)	\$1.20	\$1.00
Earnings Per Share Retained In The Business (1)	\$1.34	\$3.25
Ratio: Current Assets To Current Liabilities	2.0	2.8
Book Value Per Share of Common Stock (1)	\$32.24	\$29.37
Shares Outstanding at End of Year	308,726	396,956
Number of Shareholders	2,590	2,880

(1) Based on shares outstanding at end of fiscal year shown.

(2) Based on shares outstanding on record dates during years shown.



President's Report

to the
shareholders of
**THE GRUEN
WATCH COMPANY**



On November 13, 1953, as The Gruen Watch Company neared the beginning of its 80th year of continuous and successful existence, I was elected its President. In this first report, I want you to know how pleased I am to be associated with Gruen.

At the outset, I desire to assure you that all of us who comprise the management are doing and will do our utmost to further the interests of the Company and your interests as its owners.

There is presented with this report a consolidated balance sheet as of March 31, 1954, and a consolidated statement of income and earned surplus for the fiscal year ended March 31, 1954, together with comparable figures for the fiscal year ended March 31, 1953, as reported by the auditors, Messrs. Lybrand, Ross Bros. & Montgomery.

For the 1954 year, consolidated profits before United States and foreign income taxes, amounted to \$1,709,537. Such consolidated profits, after such taxes, amounted to \$889,537, or an earning per share of \$2.88 on each of the 308,726 shares, exclusive of treasury shares, which were outstanding on March 31, 1954. As of that date, the book value per share was \$32.24, or an increase of \$2.87 per share during the year. The increase in book value per share was due partly to earnings retained in the business and partly to the purchase by the Company of stock owned by Mr. Benjamin S. Katz and his family.

Results of the year just ended were somewhat disappointing. As this report is written the outlook for satisfactory operations for the current year is not good, primarily because of decisions and commitments by prior management, which have proved to be unrealistic in relation to present conditions. The watch industry generally faces a number of problems of substantial importance. Nevertheless, we in the management believe that the watch industry is basically a sound one and we

are convinced that the real values and potentialities of Gruen are great. Consequently, provided we can solve our immediate problems, as I am hopeful we can, and provided we are reconciled to a period, which I hope will be limited in time, of little earnings or possibly of some losses, the longer-range outlook is one of considerable promise.

The Watch Industry Situation

At best, the situation in the industry is confused and uncertain. Unit sales of watches have been at a seriously declining rate since the early fall months of 1953. There had been hope that this situation would be eased, if not brought back to normal, when the question of federal excise taxes was settled but, although the rate of federal tax was reduced on more expensive watches effective April 1, 1954, watch sales did not show the expected upturn.

This depression in sales, temporary as we hope it may be, has had very serious effects. One large competitor announced a flat 20% reduction in the price of all its watches. Other manufacturers have reduced prices. Certain dealers have slashed their prices to a level at which little profit, if any, can be shown by either manufacturer or retailer, and with considerable likelihood of actual losses being suffered by both. There is some hope that the situation may be stabilized this fall as fears of a more serious softening of general business are lessened.

The major portion of the American watch industry which imports movements from Switzerland has had several special problems raised during the past year in connection with customs duties. For the second time in the past two years, the Tariff Commission has presented to the President the question of the raising of duties on movements imported from Switzerland; as this is written, the President has not acted on this matter. We are hopeful that it will be decided again that the present duties are entirely adequate and should not be increased. An investigation by the Antitrust Division of the Department of Justice as to whether there are monopolistic practices in the Swiss watch industry which interfere with free



competition in the United States is in its preliminary stages and, I believe, it would be improper for us to comment at length on this subject at this time.

The Watch Situation at Gruen

Just as it has affected other companies in the industry, the unexpectedly sharp drop in watch sales has presented for Gruen problems of considerable seriousness. Our inventories are too large. We have had to reduce the prices of some of our watches. While we are directing every effort toward producing a considerable upturn in volume of unit sales this fall, none of us expects that dollar sales will return immediately to former levels, thus causing a decline in anticipated profits for Gruen along with other watch manufacturers. This re-pricing of watches in the Gruen line has caused a corresponding reduction in the value of inventory and this, in part, accounts for the reduced earnings for the year ended March 31, 1954.

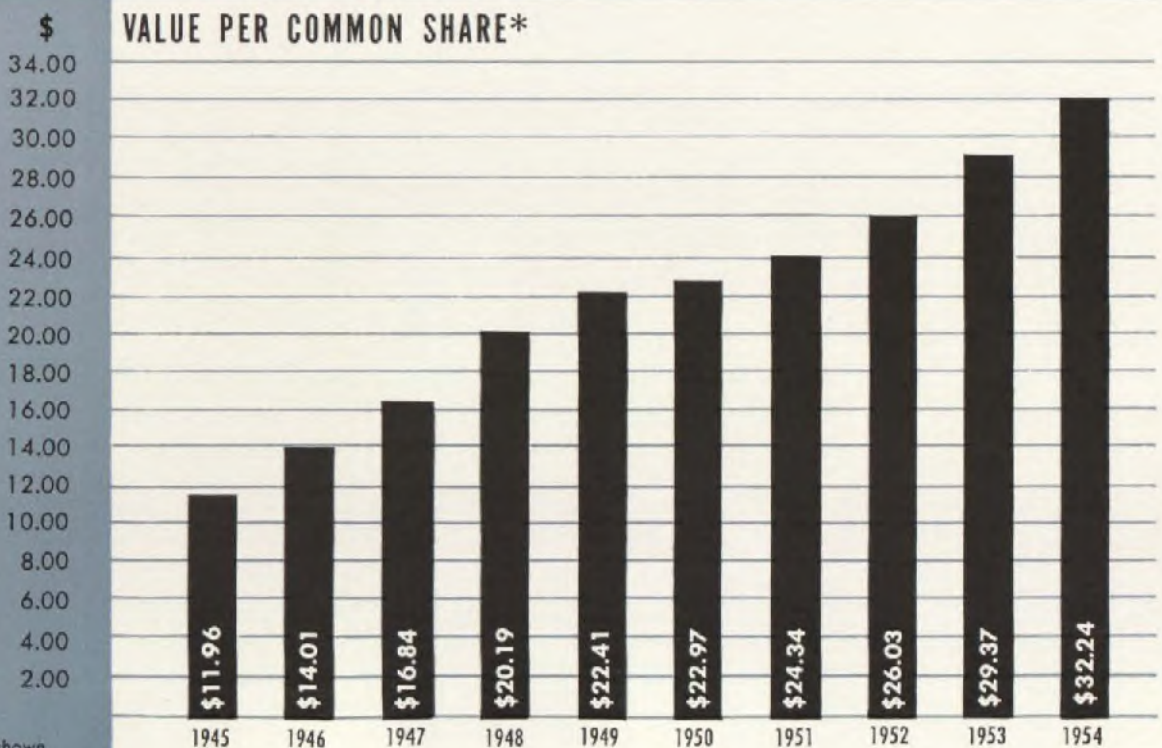
I want to tell you in somewhat more detail of the immediate problems of the Company and of the actions

we are taking to meet these problems. For the past few years, profits from the watch portion of the Company's business have shown a considerable decrease; this was true in the year ended March 31, 1953, even though the Company's total sales that year were the largest in its history. The increase in profits for that fiscal year was due entirely to the successful performance of defense work, which will be commented on later.

When the new management took over last Fall, it was confronted with the consequences of prior planning which had been far too optimistic. Even while watch sales were declining in the Fall months, plans had been laid and commitments made on the assumption of a large increase in watch sales in 1954. Throughout the preceding portion of 1953, firm orders had been placed by our wholly-owned Swiss subsidiary for materials and parts for a large increase in production of movements and with our domestic suppliers for quantities of cases and accessories running even beyond requirements for a volume of sales larger than had ever been achieved in any prior year.

BOOK VALUE PER COMMON SHARE*

Years ended
March 31



President's Report

After the resignation of Mr. Katz and even before I assumed the Presidency, these production orders were reduced. I have ordered substantial further reductions.

The production of a watch requires a long time from the issuance of the first orders for materials until completion of the finished watch; even with the sizable reductions in production which have been effected, the inventory problem of the Company will remain difficult and burdensome for some months ahead. Our able officers and the members of their staffs are working conscientiously, diligently and as an effective team to meet this problem.

It is our sincere conviction that the Gruen line to be presented this Fall will be, by a considerable margin, the best line we ever have produced. I am certain that it will be competitive in all respects. We all are looking forward to a gradual but certain improvement in the position of Gruen in the industry.

Changes in Management

As I think all of you know, during the past year Mr. Benjamin S. Katz, his son, Mr. Ira R. Katz, and his son-in-law, Mr. A. S. Braude, resigned their positions with the Company. In settlement of an employment contract with Mr. Katz and of all claims of himself and members of his family, and the acquisition of all stock owned by Mr. Katz and his family, the Company paid to him and his family a total of \$2,197,520. The stock

purchased amounted to 88,230 shares, which have been placed in the treasury of the Company, leaving outstanding in the hands of shareholders of the Company 308,726 shares as compared to 396,956 shares, which were outstanding on March 31, 1953.

With the completion of the settlement above outlined, the management and Board of Directors of your Company acted promptly to strengthen the organization. We were fortunate in obtaining the acceptances of Mr. Reuben B. Hays, President of The First National Bank of Cincinnati, and Mr. Willis D. Gradison, senior partner of W. D. Gradison & Company, as members of the Board of Directors.

Mr. Fred Smith, who had been Vice President in Charge of Industrial Relations of the Company, was placed in charge of American manufacturing operations.

Mr. Maury Ash, who came to the Company in September as Assistant Director of Sales has recently been elected Vice President and Director of Sales.

Earlier in the year, Mr. A. M. Fekula was elected Vice President of Styling.

In addition to being Vice President of Finance, Mr. James A. Marohn was also elected Treasurer.

Speaking individually, I am tremendously impressed with the ability, energy and determination of all executives and employees of the Company to surmount the obstacles which have come into view during



A section of the Screw Machine Department with its battery of automatic screw machines operated by trained personnel capable of performing the most intricate and accurate work.

this transitional period. The immediate problems have been attacked with vigor and imagination. We all are optimistic as to the long-range possibilities of the Company.

Defense Manufacturing

As this report is written, we have just received, on June 7, 1954, word of the cancellation by the Government of our major production contract.

We are informed that simultaneously the Government has cancelled similar production contracts with all other manufacturers making similar defense products.

As you know, for the past two years the defense business of the Company has been large and profitable. During that period of time, the Company has performed defense contracts aggregating many millions of dollars entrusted to it by the Government. Its products have met the most exacting tests, and we have been informed that the Company's performance has been highly satisfactory to the Government, as well as a source of justifiable pride to the Company itself.

As war pressures eased, the Government cut back the rate of production of our defense contracts by approximately 40% in January of this year. Our present production contract was scheduled to run through the early spring of 1955 on this reduced basis and we were hopeful that there would not be a further cut back or cancellation. The Government's decision to cancel our major

production contract along with similar contracts of other manufacturers came unexpectedly, with production to cease on June 30, 1954. Obviously, the cancellation of this contract presents serious operating problems but since receipt of the notice of cancellation, all of our executives have been devoting their energies to immediate solution of the problem.

The Company is continuing to work on several research and development contracts and one or two small production contracts. We shall, of course, endeavor to obtain further defense work and to study other items which we might manufacture.

Dividend Policy

During the fiscal year ended March 31, 1954, dividends of \$1.20 were paid and a quarterly dividend of 25c was paid on April 1st of the current fiscal year.

With the cancellation of our major defense contract, the poor spring season in watch sales, and our heavy bank loans, your management reluctantly recommended and the Board of Directors agreed that no quarterly dividend should be paid on July 1, 1954. If, as we confidently believe will prove to be the case, there is an improvement in the watch industry generally and if we are successful in meeting the problems facing the Company, as above outlined, we are hopeful that payment of dividends may be resumed in the relatively near future.

Again this past year Gruen strengthened its leadership in self-winding watches with new styling in both men's and women's models and with the most complete selection of self-winding watches in the industry.



President's Report

Our Subsidiaries Abroad

Based on personal observation and conferences in Switzerland, I am greatly encouraged by our situation there. I am assured by many of our friends, even by some of our competitors, that the plant of the Gruen Watch Manufacturing Company, S. A. at Bienne, Switzerland, is the finest and most modern in the world. There work is continually progressing on new watch inventions and improvements. Some of these give as great promise for the future as other achievements have given in the past, such as the Curvex, the Veri-Thin, the Autowind, and a number of other items that have made Gruen outstanding.

The Company's two subsidiaries for the conduct of selling operations in world markets other than the American market contributed welcome increments to total sales during the year just ended.

The older of these companies, the Gruen Watch Company of Canada, Ltd., has achieved a firm footing as an established enterprise in the expanding Canadian economy. Its line of watches, cases and attachments, designed to meet the tastes of the growing Canadian market, has been very well received.

The Gruen Watch Export Company, operating from its main office in Geneva, Switzerland, recorded increased sales during the year as it continued its systematic penetration of European, Asiatic and South American markets.

Appreciation

I want to recognize especially the loyalty and hard work of all our executives and, on behalf of the management and Board of Directors, to express our appreciation of the cooperation of all our customers and of all our employees. With this continued support, I believe the Company can and will achieve the objectives for which all of us are so earnestly striving.

Sincerely yours,

Morris Edwards
President

*Time Hill
Cincinnati, Ohio*

June 15, 1954



Consolidated Statements

of INCOME and EARNED SURPLUS

	Year ended March 31	
	1954	1953
Gross profit from sales.....	\$ 7,388,658	\$ 9,295,916
Selling, advertising, administrative, and general expenses.....	5,297,919	5,665,178
Profit before other income, expenses and income taxes.....	2,090,739	3,630,738
Other income.....	226,978	225,124
	2,317,717	3,855,862
Cash discount allowed, interest and other expenses.....	608,180	581,874
	1,709,537	3,273,988
Provision for domestic and foreign taxes on income.....	820,000	1,585,000
Net income	889,537	1,688,988
Earned surplus, beginning of year.....	11,148,294	9,821,126
Unrealized gain or (loss) arising from conversion of foreign net assets to dollars.....	(2,552)	35,136
	12,035,279	11,545,250
Excess of cost over par value of 88,230 shares of the company's common stock acquired and held in treasury, less \$114,300 charged to paid-in surplus.	1,914,990	
Dividends, common stock: 1954—\$1.20 per share; 1953—\$1.00 per share	476,347	396,956
	2,391,337	396,956
Earned surplus, end of year.....	\$ 9,643,942	\$11,148,294

Consolidated Statements of Paid-in Surplus

	Year ended March 31	
	1954	1953
Balance, beginning of the year.....	\$ 114,300	\$ 114,300
Excess of cost over par value of 88,230 shares of the company's common stock acquired and held in treasury, less \$1,914,990 charged to earned surplus.	114,300	—
Balance, end of the year.....	\$ —	\$ 114,300

The accompanying notes are an integral part of these consolidated statements of income and earned surplus and consolidated statements of paid-in surplus.



THE GRUEN WATCH COMPANY AND SUBSIDIARY COMPANIES

ASSETS

	<u>March 31</u>	
	<u>1954</u>	<u>1953</u>
Cash on hand and demand deposits.....	\$ 2,103,079	\$ 1,649,683
Notes and accounts receivable, trade, less allowance for doubtful notes and accounts.....	5,339,372	6,742,937
Inventories, at the lower of cost or market, and in process costs accumulated under U. S. Government contracts, less progress payments (Note 3).....	10,155,331	7,413,717
Emergency facilities purchased, to be acquired by U. S. Government.....	<u>331,528</u>	<u>518,129</u>
Current assets	17,929,310	16,324,466
Cash surrender value of life insurance aggregating: 1954—\$466,840; 1953—\$2,266,840	80,699	438,383
Other receivables and sundry investments, at cost.....	285,902	139,085
Property, plant, improvements to leased property, and equipment, at cost, less allowances for depreciation and amortization: 1954—\$2,287,736; 1953—\$1,906,572	1,989,878	2,094,246
Prepaid expenses and deferred charges.....	228,997	331,470
Patents, trade-marks, copyrights, and goodwill.....	<u>1</u>	<u>1</u>
	<u>\$20,514,787</u>	<u>\$19,327,651</u>

The accompanying notes are an integral part of these Consolidated Balance Sheets.



Consolidated Balance Sheets

LIABILITIES

	<u>March 31</u>	
	<u>1954</u>	<u>1953</u>
Notes payable, banks.....	\$ 4,700,000	\$ —
Loans payable, foreign banks.....	447,670	1,045,747
Accounts payable	2,014,309	1,501,091
Accrued items	796,074	1,533,580
Dividends payable	99,038	99,038
Provision for domestic and foreign taxes on income (Note 4).....	805,028	1,588,645
Current liabilities	<u>8,862,119</u>	<u>5,768,101</u>
Notes payable, bank, due annually after one year in varying amounts through July 1, 1958 (current portion included above).....	1,700,000	1,900,000

CAPITAL

Capital stock:		
Preferred stock, 4½ per cent cumulative; \$100 par value; authorized 25,000 shares, issued and outstanding, none.		
Common stock, \$1 par value; authorized 650,000 shares, issued 505,337¾ shares, less in treasury: 1954—196,611¾ shares; 1953—108,381¾ shares; outstanding: 1954—308,726 shares; 1953—396,956 shares.....	308,726	396,956
Paid-in surplus, as annexed.....	—	114,300
Earned surplus, as annexed (Notes 1, 4 and 6).....	9,643,942	11,148,294
	<u>9,952,668</u>	<u>11,659,550</u>
	<u>\$20,514,787</u>	<u>\$19,327,651</u>



Notes

to Financial Statements

1. The consolidated statements include the accounts of the Company and its wholly-owned domestic and foreign subsidiaries.

The difference between the investment in the consolidated subsidiaries and the company's equity in the net assets of such subsidiaries, as shown by their books, amounting to \$4,102,313 at March 31, 1954 and \$3,881,392 at March 31, 1953, less consolidating adjustments of \$101,733 and \$102,401, respectively, is included in consolidation in earned surplus.

2. With respect to the Company's consolidated Swiss and Canadian subsidiaries, the amounts of net non-current assets have been translated into United States currency generally at the approximate exchange rates in effect at the time of acquisition. Net current assets and net income have been translated generally at appropriate market rates of exchange at the respective dates.

Net assets of the Swiss and Canadian subsidiaries included in the consolidated balance sheets aggregated \$1,695,505 at March 31, 1954, and \$774,245 at March 31, 1953, of which net current assets were \$1,132,222 and \$385,321, respectively.

Net income of the Swiss and Canadian subsidiaries included in consolidated net income aggregated \$587,926 for 1954 and \$498,797 for 1953 after consolidating adjustments. A dividend of \$466,300 was received from the Swiss subsidiary during 1954. No dividends were received from foreign subsidiaries during 1953.

3. The estimated amounts of inter-company profits in inventory purchased from companies whose accounts are consolidated were eliminated in the preparation of these consolidated financial statements.

4. It is estimated (based on present laws) that additional foreign taxes on transfers to the parent company of the accumulated surplus of foreign subsidiaries would approximate \$171,000 at March 31, 1954, and \$165,000 at March 31, 1953. No provision has been made for such foreign taxes or United States taxes as may be paid if and when accumulated earnings of subsidiaries are distributed to the parent company since such taxes may never accrue.

Federal income tax returns of the Company have been examined and accepted by the Treasury Department through March 31, 1950.

5. During the year the Company acquired for its treasury 88,230 shares of its common stock, representing all of the Company's shares owned by the former president of the Company, Mr. Benjamin S. Katz, members of his family, the Benjamin S. Katz Family Foundation, and the Trustee under a trust created by Pearl M. Katz. The total cost of these shares to the Company, the settlement of an employment contract with Mr. Katz and claims of himself and members of his family, amounted to \$2,197,520.

Simultaneous with the acquisition of these shares the Company transferred to the sellers or other lineal descendants of members of the Katz family all life insurance policies owned by the Company on the life of Benjamin S. Katz, the face amount of all such policies aggregating \$1,800,000. The Company received as payment therefor the cash value of all such policies as of the date of transfer.

6. Certain sales of the Company and its consolidated subsidiaries have been subject to the Renegotiation Act of 1951. It is the opinion of management that no renegotiation refund will be required.

7. Contributions to the Gruen Employees' Savings and Profit Sharing Plan amounting to \$90,908 in 1954 and \$177,302 in 1953 are included in costs and expenses.

8. Depreciation and amortization amounting to \$506,348 in 1954 and \$436,886 in 1953 are included in costs and expenses.

9. Commitments of the Swiss consolidated subsidiary for plant construction and new equipment amounted to approximately \$400,000.

10. On June 7, 1954, the Company received notice of the cancellation of its major United States Government defense contract which would have provided the basis for defense operations until the early spring of 1955.

All inventories, receivables and purchase commitments pertaining to this contract on the books of the Company at the date of cancellation are recoverable in full either through the regular course of business or under the termination provisions of the contract.

Although it is recognized that the adverse effect of the above mentioned cancellation on the operations of this year will be substantial such effect cannot be approximated with any degree of accuracy at this time.



LYBRAND, ROSS BROS. & MONTGOMERY
CERTIFIED PUBLIC ACCOUNTANTS

CAREW TOWER
CINCINNATI 2

To the Board of Directors,
The Gruen Watch Company,
Cincinnati, Ohio.

We have examined the consolidated balance sheet of The Gruen Watch Company and its subsidiaries as of March 31, 1954 and the related consolidated statements of income and earned surplus and paid-in 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 of the companies (except the Gruen Watch Mfg. Co., S. A.) and such other auditing procedures as we considered necessary in the circumstances. It was not practicable for us to confirm certain accounts receivable from United States Government departments and agencies as to which we have satisfied ourselves by other auditing procedures. We made a similar examination for the year ended March 31, 1953. Financial statements of the Gruen Watch Mfg. Co., S. A., a consolidated subsidiary, for the years ended March 31, 1954 and 1953 together with reports thereon of other public accountants, were submitted to us.

In our opinion, based upon our examination and upon the above-mentioned reports of other public accountants, the accompanying consolidated balance sheets and consolidated statements of income and earned surplus and paid-in surplus present fairly the consolidated financial position of The Gruen Watch Company and its subsidiaries at March 31, 1954 and 1953 and the consolidated results of their operations for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Cincinnati, Ohio
June 14, 1954.

Lybrand, Ross Bros & Montgomery



Ten Year Financial Statistics

Fiscal Years Ended March 31

Statistics from Consolidated Balance Sheets

	1954	1953	1952	1951	1950	1949	1948	1947	1946	1945
Current Assets	\$17,929,310	\$16,324,466	\$17,600,165	\$12,520,835	\$9,732,904	\$9,921,897	\$9,716,040	\$9,043,040	\$8,471,856	\$7,118,495
Current Liabilities	8,862,119	5,768,101	8,268,591	3,430,249	2,602,915	2,350,886	1,891,191	2,091,503	1,998,370	1,706,792
Net Current Assets.....	9,067,191	10,556,365	9,331,574	9,090,586	7,129,989	7,571,011	7,824,849	6,951,537	6,473,486	5,411,703
Plant and Equipment—Net..	1,989,878	2,094,246	2,221,781	2,094,959	2,091,745	1,585,302	975,884	564,199	455,511	431,000
Term Loan From Bank.....	1,750,000	1,900,000	2,100,000	2,300,000	1,200,000	1,400,000	1,600,000	1,600,000	2,000,000	1,750,000
Earned Surplus	9,643,942	11,148,294	9,821,126	9,152,258	8,442,656	8,225,836	7,372,648	6,085,994	5,000,100	4,212,551
Net Worth	9,952,668	11,659,550	10,332,382	9,663,514	8,826,912	8,610,092	7,756,904	6,470,250	5,384,356	4,596,807
(2) Book Value— Common Stock	32.24	29.37	26.03	24.34	22.97	22.41	20.19	16.84	14.01	11.96

Statistics from Statements of Income

Gross Profit	\$7,388,658	\$9,295,916	\$6,546,546	\$6,074,518	\$4,685,604	\$5,750,681	\$6,113,041	\$5,843,133	\$5,599,129	\$3,826,871
Profit Before Income Taxes...	1,709,537	3,273,988	2,022,318	1,908,833	1,299,104	2,273,605	2,812,458	2,640,375	2,531,552	1,426,985
(1) Provision For Income Taxes	820,000	1,585,000	1,069,184	822,087	533,356	882,387	1,048,131	1,088,147	1,432,299	721,988
(1) Net Profit	889,537	1,688,988	953,134	1,086,746	765,748	1,391,218	1,764,327	1,552,228	1,099,253	704,997
(2) (1) Earnings Per Share—Common Stock	2.88	4.25	2.40	2.74	1.99	3.62	4.59	4.04	2.86	1.79
Dividends— Common Stock	476,347	396,956	396,956	393,782	499,532	537,959	499,532	461,104	345,831	307,401
(3) Dividends Per Share....	1.20	1.00	1.00	1.00	1.30	1.40	1.30	1.20	.90	.80

(1)—Adjusted for Federal income taxes refunded under relief provisions of the Internal Revenue Code.

(2)—Based on shares outstanding at end of fiscal year shown.

(3)—Based on shares outstanding on record dates during years shown.

THE GRUEN WATCH COMPANY

Executive Offices... TIME HILL
CINCINNATI, OHIO



Factories

Cincinnati and Norwood, Ohio
Bienna, Switzerland

Toronto, Canada
Union City, New Jersey

Sales Offices

New York, N. Y.
Chicago, Ill.
Los Angeles, Calif.

Geneva, Switzerland
Paris, France
Toronto, Canada

Directors

Carl W. Bieser	Vice President, The Gruen National Watch Case Company
John R. Bullock	Attorney and Chairman of The Board
Morris Edwards	President
Willis D. Gradison*	Managing Partner—W. D. Gradison & Co.—Brokers
George T. Gruen	Secretary
Reuben B. Hays*	President, The First National Bank of Cincinnati
Clifford R. Wright	President, Cincinnati Equitable Fire Insurance Company

**Elected April 1, 1954*

Officers

John R. Bullock	Chairman of The Board
Morris Edwards	President
Henri Thiebaud	Vice President and General Manager of Swiss Subsidiary
James A. Marohn	Vice President—Finance and Treasurer
Maury Ash	Vice President—Sales
Henry Dorff	Vice President—Advertising
A. M. Fekula	Vice President—Styling
Fred Smith	Vice President—Operations
George T. Gruen	Secretary
Alfred T. Reis	Comptroller
Thomas F. Jeary	Ass't Comptroller

Counsel
Transfer Agent
Registrar

Taft, Stettinius & Hollister, Cincinnati, Ohio
The Fifth Third Union Trust Company, Cincinnati, Ohio
The Central Trust Company, Cincinnati, Ohio



GRUEN



The Proudest Name in Time



*Annual Report
for the fiscal year
ended March 31, 1955*

The Gruen Watch Company





Factories

CINCINNATI AND NORWOOD, OHIO
BIENNE, SWITZERLAND
TORONTO, CANADA

Sales Offices

NEW YORK, NEW YORK
CHICAGO, ILLINOIS
LOS ANGELES, CALIFORNIA
GENEVA, SWITZERLAND
PARIS, FRANCE
TORONTO, CANADA

Directors

JAMES R. FAVRET, *Partner*
Rouse, Favret & Co.
Certified Public Accountants, Cincinnati
REUBEN B. HAYS, *Chairman of the Board*
The First National Bank of Cincinnati
VANDEL JOHNSON, *Senior Partner*
Johnson Motors Co., La Crosse, Wisconsin
BURTON M. JOSEPH,
Chairman of the Board
The Gruen Watch Company
President, I. S. Joseph Company, Inc.
Minneapolis, Minnesota
ROBERT P. MILLER, *President*
Manson-Gold-Miller, Inc., Minneapolis,
Minnesota
CARLYLE J. MOREY, *Senior Partner*
Forest Lake Motors, Forest Lake,
Minnesota
M. RIKLIS, *Securities Analyst*
Piper, Jaffray and Hopwood, Minneapolis,
Minnesota
EDMOND P. ROCHAT, *Senior Partner*
Grady-Berwald, Inc., New York, New York
WILLIAM A. SHEA, *Senior Partner*
Manning, Harnisch, Hollinger and Shea
Attorneys, New York, New York
EDWARD H. WEITZEN, *President*
The Gruen Watch Company
HARVEY WILENSKY, *Director and*
Sales Manager
Wilensky Auto Parts Company,
Minneapolis, Minnesota

Officers

*BURTON M. JOSEPH,
Chairman of the Board
EDWARD H. WEITZEN, *President*
*ARTHUR HANSEN,
Executive Vice President
MAURY ASH,
Vice President—Marketing
*JOSEPH A. BRANDT,
Vice President—Finance
*BRUCE ENDERWOOD,
Vice President—Advertising
HENRI THIEBAUD, *Vice President—*
Director-General of Swiss Plant
ALFRED T. REIS,
Treasurer—Comptroller
HOWARD GOULD, *Secretary*
*S. ARTHUR SPIEGEL, *Assistant Secretary*
*Elected after the close of the fiscal year.

General Counsel:

ROGER E. JOSEPH, Minneapolis, Minn.

Associate General Counsel:

GOULD AND SPIEGEL, Cincinnati, Ohio

Transfer Agent:

THE FIFTH THIRD UNION TRUST
COMPANY, Cincinnati, Ohio

Registrar:

THE CENTRAL TRUST COMPANY,
Cincinnati, Ohio

*Lobby of the Gruen plant in Bienne,
Switzerland. Constant development
and installation of new machinery
and equipment has made it the
world's most modern watch
manufacturing factory.*

*The lights are burning late at
Time Hill, Cincinnati—Gruen's
executive offices and principal factory
in the United States.*



Eighty-first year

The Gruen Watch Company

*Annual Report
for the fiscal year
ended March 31,*

1955



**Edward H. Weitzen,
Gruen's new President,
at his desk
in the Company's
New York office.**

A Letter



from the President

When I became president of your company on January 21, 1955, Gruen had been losing money since March, 1954. My first job was to find out why . . . and what we could do about it.

On April 22 I gave you a preliminary report of my findings and proposed solutions. I also gave you estimates of last year's operating and net losses. Contrary to the usual corporate practice, you were given these estimates before the annual audit was completed. We felt you were entitled to have the facts at the earliest possible moment.

Our loss for the fiscal year ended March 31, 1955 was \$225,000 less than the estimate given you. This difference is due to the fact that Section 462 of the Internal Revenue Code has since been repealed retroactively. Section 462 had permitted corporations to charge off certain expenses in the year before they were to be incurred, thus providing a tax advantage under circumstances such as ours.

For the fiscal year ended March 31, 1955, Gruen's consolidated net loss was \$2,487,562, after provision for taxes on our subsidiary companies of \$236,193. However, due to provisions of the 1954 Revenue Act which permit us to "carry back" our loss and to adjust it against our prior years' profits, the company's actual "out-of-pocket" loss was reduced to \$1,125,674. This result compares with a net profit after taxes of \$886,985 in the previous fiscal year which ended March 31, 1954.

Despite these losses, the company's financial position is sound. The ratio of current assets to current liabilities has been improved. The ratio was 2.52 to 1 on March 31, 1955, compared with 2.02 to 1 on March 31, 1954. Working capital of \$7,562,954 on March 31, 1955 was considered sufficient for the business we had in prospect on that date.

We reduced our bank loans from \$6,847,670 on March 31, 1954 to \$4,710,102 on March 31, 1955.



We reduced our inventories from \$10,155,331 on March 31, 1954 to \$3,649,985 on March 31, 1955.

The company has no unfilled commitments which could have any material adverse effect on its financial condition or future operations. There is an action pending which was brought in 1954 by the Department of Justice against 23 domestic watch manufacturers and importers of Swiss movements, including Gruen, charging violation of the anti-trust laws in connection with the production and sale of Swiss watches. The outcome of this suit is, of course, a matter of judicial determination, and the company is taking adequate legal steps to protect your interests.

At the 1954 fiscal year-end the company was owned by 1,965 shareholders.

Reasons for the Loss In the sixteen months prior to February, 1955, the company had developed a large, unbalanced inventory in the face of declining sales in the industry. The company's major defense production contract, which had made an important contribution to overall sales and profits, was terminated on June 7, 1954. Poor watch business, vanishing defense orders, and, finally, an increase in the tariff on Swiss movements contributed to Gruen's losses last year.

Planning for the Future I do not want to talk further of the past. My planning and thinking are directed toward assuring a profitable and secure future for Gruen.

An aggressive, forward-looking management team is fundamental to our basic program for restoring Gruen's leadership in the industry. Such a team is now complete, on the job, and hard at work. Gruen's top level operating officers (Messrs. Thiebaud, Hansen, Ash, Brandt, Enderwood and myself) average 39 years of age, yet their executive experience in the watch industry ranges from 8 to 20 years each. Their efforts are complemented by the very real contributions in administration and finance being made by Mr. Burton M. Joseph, who has been a director and chairman of the executive committee since January 21, 1955 and chairman of the board since April 22, 1955, and by the contributions of Colonel C. J. Morey who has been a director since January 12, 1955 and vice-chairman of the board since April 22, 1955.

The smooth integration of this new management team with the large body of devoted and loyal Gruen employees has been accomplished rapidly. Gruen employees recognize the need for unity of purpose on the part of all who work here and have cooperated with sincerity and intelligence. The company's relations with its employees, their families and the community have been constructive and unmarred by conflict since its founding in 1874.

I am happy to report that service records continue to grow



from the President

When I became president of your company on January 21, 1955, Gruen had been losing money since March, 1954. My first job was to find out why . . . and what we could do about it.

On April 22 I gave you a preliminary report of my findings and proposed solutions. I also gave you estimates of last year's operating and net losses. Contrary to the usual corporate practice, you were given these estimates before the annual audit was completed. We felt you were entitled to have the facts at the earliest possible moment.

Our loss for the fiscal year ended March 31, 1955 was \$225,000 less than the estimate given you. This difference is due to the fact that Section 462 of the Internal Revenue Code has since been repealed retroactively. Section 462 had permitted corporations to charge off certain expenses in the year before they were to be incurred, thus providing a tax advantage under circumstances such as ours.

For the fiscal year ended March 31, 1955, Gruen's consolidated net loss was \$2,487,562, after provision for taxes on our subsidiary companies of \$236,193. However, due to provisions of the 1954 Revenue Act which permit us to "carry back" our loss and to adjust it against our prior years' profits, the company's actual "out-of-pocket" loss was reduced to \$1,125,674. This result compares with a net profit after taxes of \$886,985 in the previous fiscal year which ended March 31, 1954.

Despite these losses, the company's financial position is sound. The ratio of current assets to current liabilities has been improved. The ratio was 2.52 to 1 on March 31, 1955, compared with 2.02 to 1 on March 31, 1954. Working capital of \$7,562,954 on March 31, 1955 was considered sufficient for the business we had in prospect on that date.

We reduced our bank loans from \$6,847,670 on March 31, 1954 to \$4,710,102 on March 31, 1955.



We reduced our inventories from \$10,155,331 on March 31, 1954 to \$3,649,985 on March 31, 1955.

The company has no unfilled commitments which could have any material adverse effect on its financial condition or future operations. There is an action pending which was brought in 1954 by the Department of Justice against 23 domestic watch manufacturers and importers of Swiss movements, including Gruen, charging violation of the anti-trust laws in connection with the production and sale of Swiss watches. The outcome of this suit is, of course, a matter of judicial determination, and the company is taking adequate legal steps to protect your interests.

At the 1954 fiscal year-end the company was owned by 1,965 shareholders.

Reasons for the Loss In the sixteen months prior to February, 1955, the company had developed a large, unbalanced inventory in the face of declining sales in the industry. The company's major defense production contract, which had made an important contribution to overall sales and profits, was terminated on June 7, 1954. Poor watch business, vanishing defense orders, and, finally, an increase in the tariff on Swiss movements contributed to Gruen's losses last year.

Planning for the Future I do not want to talk further of the past. My planning and thinking are directed toward assuring a profitable and secure future for Gruen.

An aggressive, forward-looking management team is fundamental to our basic program for restoring Gruen's leadership in the industry. Such a team is now complete, on the job, and hard at work. Gruen's top level operating officers (Messrs. Thiebaud, Hansen, Ash, Brandt, Enderwood and myself) average 39 years of age, yet their executive experience in the watch industry ranges from 8 to 20 years each. Their efforts are complemented by the very real contributions in administration and finance being made by Mr. Burton M. Joseph, who has been a director and chairman of the executive committee since January 21, 1955 and chairman of the board since April 22, 1955, and by the contributions of Colonel C. J. Morey who has been a director since January 12, 1955 and vice-chairman of the board since April 22, 1955.

The smooth integration of this new management team with the large body of devoted and loyal Gruen employees has been accomplished rapidly. Gruen employees recognize the need for unity of purpose on the part of all who work here and have cooperated with sincerity and intelligence. The company's relations with its employees, their families and the community have been constructive and unmarred by conflict since its founding in 1874.

I am happy to report that service records continue to grow



at Gruen, with 20 per cent of our employees now members of the ten-year club. Though no contributions could be made from company earnings to the employee retirement fund last year since the company had no earnings, this fund had assets of \$1,337,730 on March 31, 1955.

The first task of your new management is to regain and extend Gruen's former position of leadership in the watch business.

We are already making real progress. Our domestic distribution system is being revitalized. During the last three months, we have added almost one thousand new retail jewelry outlets making a total of 9,700. This intensive hard-hitting sales campaign to reacquaint jewelers everywhere with the sales and profit potential of a Gruen franchise has only just begun.

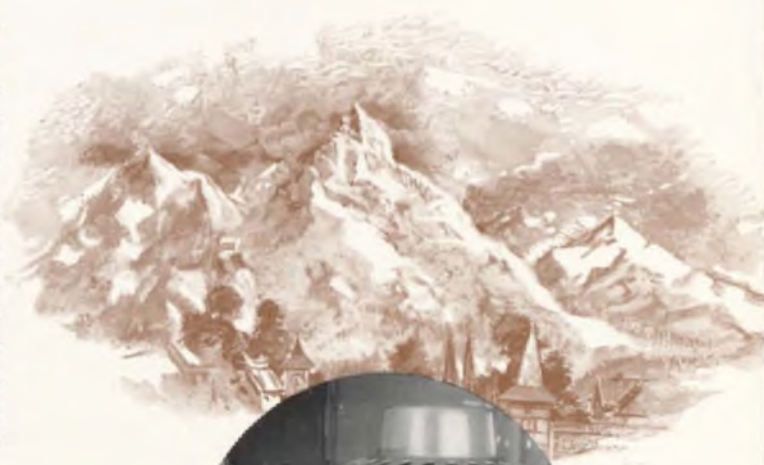
Within the next two months a comprehensive selling program aimed at the consumer will be initiated. In addition to offering the right merchandise at the right price, we will stress *styling* in our advertising and in all of our sales promotion. We believe that sufficient recognition has not been given the interest most Americans have in the design and the modern styling of the watches they buy. The Gruen line of fine watches is being completely restyled. Our nationwide network of dealers will be selling new dramatically styled Gruen watches this fall.

To make sure that the consumer is constantly reminded of the outstanding value and beauty of Gruen's new watches, our advertising expenditures will be highly concentrated in the fall months in a new imaginative advertising program which is highly productive per dollar of cost. All major media—television, radio, magazines and newspapers—will be used to reach an estimated combined audience of 250,000,000 persons with Gruen's continuing theme—Gruen—The Newest Look in Time.

In addition to increasing watch sales, we are striving to regain Gruen's position as a valued contributor to the defense needs of our country. Here, too, a planned program was needed, was formulated and put into action. This program is already bearing fruit. Last month we were awarded a United States Navy contract for \$1,400,000 worth of precision devices. This is the first important defense production contract awarded to Gruen since March, 1953.

Another phase of our programs is the reorganization of our domestic manufacturing facilities to emulate our efficient Swiss subsidiary and to achieve greater productivity and reduced costs in our civilian and defense operations.

Gruen's plant in Switzerland has the world's most modern watch and precision manufacturing facilities. At Gruen in Switzerland automation is a reality—not just a theory. With this productive capacity Gruen can and should take positive



steps to increase its share of the world market. In the past, Gruen has not obtained its fair share of this market and is determined to do so.

Diversification is another major part of our new Gruen program. We are seeking to broaden our operations to include growth products and industries serving both civilian and national defense needs.

To accomplish this, engineering laboratories for research and development are essential. Your board of directors has authorized me to establish these laboratories. We are doing so.

Out of Gruen's new laboratories will come tomorrow's new products and services to augment our company's income and to provide profits and dividends for stockholders and expanded employment for the community. The rare skills of watch production are the key requisites for the miniaturization and sub-miniaturization of present day and future mechanical and electro-mechanical devices. Through competent, persistent and painstaking engineering efforts we will open up new opportunities for applying these skills in the manufacture of the most advanced devices for use in electronics, in supplying motive power, and in harnessing, measuring and controlling new sources of energy resulting from the country's atomic program.

I am convinced that the steps we have taken and will take will be successful and that Gruen will grow. We are seeking to bring Gruen to new heights of production and prestige and, as soon as possible, to restore regular dividend payments from profitable operations. The future of Gruen merits your confidence.

Sincerely,

Edward H. Weitzel

June 20, 1955



Consolidated Statement of Income and Earned Surplus

	YEAR ENDED MARCH 31	
	1955	1954
Gross profit on sales.....	\$2,837,212	\$7,388,658
Selling, advertising, administrative, and general expenses.....	4,686,560	5,297,919
Operating (loss) income.....	(1,849,348)	2,090,739
Other income.....	131,070	226,978
	(1,718,278)	2,317,717
Cash discount allowed, interest, and other expenses.....	533,091	610,732
(Loss) income before taxes on income.....	(2,251,369)	1,706,985
Provision for taxes on income:		
Domestic (1955 amount represents estimated recovery under carry-back provisions) (Note 6).....	(1,361,888)	636,623
Foreign	236,193	183,377
	(1,125,695)	820,000
(Loss) net income.....	(1,125,674)	886,985
Earned surplus, beginning of year.....	9,643,942	11,148,294
	8,518,268	12,035,279
Excess of cost over par value of 88,230 shares of the company's common stock acquired and held in treasury, less \$114,300 charged to paid-in surplus	—	1,914,990
Dividends, common stock—\$1.20 per share	—	476,347
	—	2,391,337
Earned surplus, end of year (Notes 1, 3, 4).....	\$ 8,518,268	\$ 9,643,942

The accompanying notes are an integral part of this consolidated statement of income and earned surplus.



Consolidated

	MARCH 31	
	1955	1954
Assets		
Cash.....	\$ 2,534,784	\$ 2,103,079
Notes and accounts receivable, trade, less allowance for doubtful notes and accounts.....	5,059,653	5,339,372
Refundable Federal taxes on income resulting from carry-back provisions, estimated (Note 6).....	784,098	—
Inventories, at the lower of cost or market, and in process costs accumulated under U.S. Government contracts, less, in 1954, progress payment.....	3,649,985	10,155,331
Claims against the U.S. Government resulting from contract terminations at estimated realizable amounts, less partial payments.....	503,227	—
Emergency facilities purchased, to be acquired by U.S. Government.....	19,230	331,528
CURRENT ASSETS.....	12,550,977	17,929,310
Cash surrender value of life insurance aggregating \$466,840.....	92,221	80,699
Other receivables, less allowance for doubtful accounts.....	179,756	228,638
Sundry investments, at cost.....	136,264	57,264
Property, plant, improvements to leased property, and equipment, at cost, less allowances for depreciation and amortization: 1955—\$2,561,537; 1954—\$2,287,736.....	1,997,074	1,989,878
Prepaid expenses and deferred charges.....	158,724	228,997
Patents, trade-marks, copyrights, and goodwill.....	1	1
	<u>\$15,115,017</u>	<u>\$20,514,787</u>

The accompanying notes are an integral



Balance Sheet

	MARCH 31	
	1955	1954
Liabilities		
Notes payable, banks.....	\$ 3,050,000	\$ 4,700,000
Loans payable, foreign banks.....	351,102	447,670
Accounts payable.....	577,071	2,014,309
Accrued items.....	762,209	796,074
Dividends payable.....	—	99,038
Provision for domestic and foreign taxes on income (Notes 3, 6).....	247,641	805,028
CURRENT LIABILITIES.....	4,988,023	8,862,119
Notes payable, bank, due annually after one year in varying amounts through July 1, 1958 (current portion included above).....	1,300,000	1,700,000
Capital		
Capital stock:		
Preferred stock, 4-1/2 per cent cumulative; \$100 par value; authorized 25,000 shares, issued and outstanding, none		
Common stock, \$1 par value; authorized 650,000 shares; issued 505,337-3/4 shares, less in treasury 196,611-3/4 shares, outstanding 308,726 shares (Note 4).....		
	308,726	308,726
Earned surplus, as annexed (Notes 1, 3, 4).....	8,518,268	9,643,942
	<u>\$15,115,017</u>	<u>\$20,514,787</u>

part of this consolidated balance sheet.



Notes to Financial Statements

- 1 The consolidated statements include the accounts of the Company and its domestic and foreign subsidiaries, all of which are wholly-owned.

The difference between the investment in the consolidated subsidiaries and the Company's equity in the net assets of such subsidiaries, as shown by their books, amounting to \$4,253,928 at March 31, 1955 and \$4,102,313 at March 31, 1954, less consolidating adjustments of \$3,900 and \$101,733, respectively, is included in consolidation in earned surplus.

- 2 With respect to the Company's consolidated Swiss and Canadian subsidiaries, the amounts of net non-current assets have been translated into United States currency generally at the approximate exchange rates in effect at the time of acquisition. Net current assets and net income have been translated generally at appropriate market rates of exchange at the respective dates or at par.

Net assets of the Swiss and Canadian subsidiaries included in the consolidated balance sheet aggregated \$2,014,470 at March 31, 1955 and \$1,695,505 at March 31, 1954, of which net current assets were \$917,798 and \$1,132,222, respectively.

Net income of the Swiss and Canadian subsidiaries amounted to \$301,118 for 1955 and \$585,374 for 1954 after consolidating adjustments. No dividends were received from foreign subsidiaries during 1955. A dividend of \$466,300 was received from the Swiss subsidiary during 1954.

- 3 It is estimated (based on present laws) that additional foreign taxes on transfers to the parent company of the accumulated surplus of foreign subsidiaries would approximate \$186,000 at March 31, 1955, and \$171,000 at March 31, 1954. No provision has been made for such foreign taxes or United States taxes as may be paid if and when accumulated earnings of subsidiaries are distributed to the parent company since such taxes may never accrue.
- 4 The Company has entered into an employment contract with its President effective January 21, 1955 and continuing

until March 31, 1960. The contract provides, among other things, for options to purchase an aggregate of 30,000 shares of the common capital stock of the company held in its treasury, each option having a term of five years from the date granted. On February 25, 1955 the Company granted one option for 10,000 shares (unexercised at March 31, 1955) at a purchase price of \$14.36875 per share. Options for the remaining 20,000 shares shall be granted in varying amounts in subsequent years. Only one option may be granted in a single fiscal year and only when consolidated net profits reach a specified amount. In each instance, the purchase price shall be 95% of the fair market price at the date of grant.

- 5 At March 31, 1955 subcontractors' claims approximating \$2,500,000 have been either received by the Company and processed to the U.S. Government or filed direct by the subcontractor with the Government. In the opinion of management, no provision for loss on these claims is required. The above claims have not been included in the accompanying balance sheet.
- 6 The estimated recovery of \$1,361,888 of Federal taxes on income under the carry-back provisions of the Internal Revenue Code has been applied to reduce the liability previously recorded for 1954 and the remainder appears as a current asset in the accompanying balance sheet.
- 7 Certain sales of the Company and its subsidiaries made in the fiscal years ended March 31, 1955 and 1954 under contracts with the U.S. Government are subject to renegotiation. The fiscal years 1951 to 1953, inclusive, have been cleared with no refunds required and it is the opinion of management that none will be required for fiscal years 1955 and 1954.
- 8 No contributions were made to the Gruen Employees' Savings and Profit Sharing Plan during the fiscal year ended March 31, 1955. Contributions to the Plan during the fiscal year 1954 amounted to \$90,908.
- 9 Depreciation and amortization amounting to \$352,189 in 1955 and \$506,348 in 1954 are included in costs and expenses.

LYBRAND, ROSS BROS. & MONTGOMERY
 CERTIFIED PUBLIC ACCOUNTANTS
 CAREW TOWER
 CINCINNATI 2

To the Board of Directors,
 The Gruen Watch Company,
 Cincinnati, Ohio.

We have examined the consolidated balance sheet of The Gruen Watch Company and subsidiaries as of March 31, 1955 and the related consolidated statement of income and earned surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and the companies included such tests of the accounting records of other auditing procedures as we considered necessary for the year ended March 31, 1954. Financial statements of the Gruen Watch Mfg. Co., S.A., a consolidated subsidiary, for the years ended March 31, 1955 and 1954 together with reports thereon of other public accountants, were submitted to us.

In our opinion, based upon our examination and upon the above-mentioned reports of other public accountants, the accompanying consolidated balance sheet and consolidated statement of income and earned surplus present fairly the consolidated financial position of The Gruen Watch Company and subsidiaries at March 31, 1955 and 1954 and the consolidated results of their operations for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Cincinnati, Ohio.
 June 15, 1955.

Lybrand, Ross Bros. & Montgomery

NEW YORK
 PHILADELPHIA
 PITTSBURGH
 RICHMOND
 WASHINGTON
 BALTIMORE
 BOSTON
 CHICAGO
 CINCINNATI
 CLEVELAND
 DETROIT
 HOUSTON
 KANSAS CITY
 LOS ANGELES
 MEMPHIS
 MILWAUKEE
 MINNEAPOLIS
 MOBILE
 NEW ORLEANS
 OMAHA
 PHOENIX
 PORTLAND
 SAN FRANCISCO
 SEATTLE
 ST. LOUIS
 TAMPA
 WASHINGTON
 WICHITA



Gruen—The Newest Look in Time

LIFE

HOME

today

MONITOR

This description of the Gruen Line will be more appropriate than ever in the coming season. Though it is customary to illustrate a report of this kind with pictures of products, we are refraining this year, because current models don't begin to do justice to the breathtaking beauty and styling of our 1956 line. Gruen now has in production strikingly new models for national introduction to the public beginning in September.

Gruen's retail distribution network, strengthened by the addition of over one thousand new dealers to the eighty-seven hundred the company had on March 31, 1955, will be backed up by the hardest hitting, most comprehensive advertising campaign in Gruen history. National television and radio time, national magazine and newspaper space will be used to reach consistently and repetitively a combined audience of 250 million prospective owners of Gruen—The Newest Look in Time.



**At Fine
Jewelers Everywhere
Look for
the 1956 Gruen Watches
Gruen —
The Newest Look in Time**





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CORPORATION

Annual Report

for the fiscal year ended

March 31, 1956



The Gruen Watch Company



GRUEN

Corporate Offices

TIME HILL, CINCINNATI, OHIO

Executive and Sales Offices

630 FIFTH AVENUE
NEW YORK 20, NEW YORK

Directors

REUBEN B. HAYS,
Chairman of the Board
The First National Bank of Cincinnati

VANDEL JOHNSON, *Senior Partner*
Johnson Motors Co., La Crosse, Wisconsin

WILLIAM N. JOHNSON, SR., *Senior Vice President*
Northwestern National Bank, Minneapolis, Minnesota

BURTON M. JOSEPH, *Chairman of the Board*
The Gruen Watch Company
President, I. S. Joseph Company, Inc.
Minneapolis, Minnesota

ROGER E. JOSEPH,
Attorney
Minneapolis, Minnesota

BERNARD M. S. KEGAN, *Vice President*
Sealy Mattress Company
St. Paul, Minnesota

CARLYLE J. MOREY, *Senior Partner*
Forest Lake Motors, Forest Lake, Minnesota

EDMOND P. ROCHAT, *Senior Partner*
Grady-Berwald, Inc., New York, New York

WILLIAM A. SHEA, *Senior Partner*
Manning, Harnisch, Hollinger and Shea
Attorneys, New York, New York

EDWARD H. WEITZEN, *President*
The Gruen Watch Company

Officers

BURTON M. JOSEPH,
Chairman of the Board

CARLYLE J. MOREY,
Vice Chairman of the Board

EDWARD H. WEITZEN,
President

ARTHUR HANSEN,
Executive Vice President

MAURY ASH,
Vice President - Marketing

JOSEPH A. BRANDT,
Vice President

BRUCE ENDERWOOD,
Vice President - Advertising

CHESTER B. HANSEN,
Vice President - Administration

HENRI THIEBAUD,
Vice President - Director-General of Swiss Plant

HOWARD GOULD,
Secretary

WILLIAM S. MERSKY,
Assistant to the President for Finance

S. ARTHUR SPIEGEL,
Assistant Secretary

ADRIAN JACOBS,
Assistant Secretary

General Counsel:

ROGER E. JOSEPH, Minneapolis, Minnesota

Associate General Counsel:

GOULD AND SPIEGEL, Cincinnati, Ohio

Transfer Agent:

THE FIFTH THIRD UNION TRUST COMPANY,
Cincinnati, Ohio

Registrar:

THE CENTRAL TRUST COMPANY,
Cincinnati, Ohio

*Pictured on the cover is
the new Gruen ELDORADO, featured
as part of this year's
"Newest Look in Time."*



THE GRUEN WATCH COMPANY

and Subsidiaries

Eighty-second year

Letter from the President

In undertaking the reconstruction of Gruen in the early Spring of 1955, your management soon discovered that the difficulties of your company were both serious and deep-seated. Gruen had been operating at a deficit since March 1954. Sales were declining and the fall-off had not been checked. Dealer relationships had been permitted to deteriorate. Production of watch movements in Switzerland had been cut back. And the Norwood plant had been closed down by sudden termination of a major fuze production contract.

After analyzing the situation, I concluded that it could be repaired. But it was immediately evident that in the process of repair we would have a choice between two alternative methods of treatment.

The first alternative was the easier one; it involved a patch-up rather than remedial treatment. We could have written off Norwood. We could have retrenched altogether and directed our effort solely toward the sale of existing watch models for the single purpose of attempting to show a year-end fiscal profit.

In theory, this course appeared to offer a short-term solution. In reality, this solution would have been unfair to stockholders. For

while it held out the promise of short-term gain for a single year's operation, it ignored the critical and fundamental needs that would have to be resolved if Gruen were to survive. It ignored the need for restoration of dealer confidence through product improvement and more aggressive merchandising. It ignored the need for re-establishment of name identity. It ignored the need for improved stability. And it ignored the need for increased earning capacity.

The second alternative was the more difficult one; it called for major remedial treatment.

It involved not only reconstruction but reorganization of the company's total effort. From the outset, it was evident that this course would be difficult in accomplishment, demanding in patience, and costly as contrasted to the course of possible immediate short-term gain.

But in terms of eventual benefit to the company and its investors, this latter course offered Gruen the chance to regain health and build new strength for the future.

I joined Gruen, not as a promoter, but as a builder. I believe there is a place for Gruen in the watch market. And I believe that Gruen has the capacity to establish itself as an industry with diverse interests and ample opportunity for substantial capital growth.

As a consequence, we undertook, with the full approval of your Board, the second, the more difficult, but the more rewarding of these two courses. *Gruen is committed to long-term growth and gain; your company has undergone*

*The International Building, Rockefeller Center,
630 Fifth Avenue, New York City.*

*The new marketing headquarters of Gruen
in the jewelry center of the nation.*



full-scale remedial treatment for all the chronic ills that have so long afflicted it.

Turn of the trend

Our achievements in the accomplishment of this program during the last fiscal year are more evident than they would appear to be in the year-end fiscal statement. More illustrative of the healthy strides that have been made in the regeneration of your company are the unaudited records of accomplishment for the first quarter of the current 1956-57 fiscal year.

Dealer bookings on Gruen watches are up 142% over bookings for the comparable quarter last year.

Shipments are up 44% over shipments for the first three months of fiscal year 1955-56.

And the value of defense contracts has risen from \$766,993 at the end of fiscal year 1954-55 to a cumulative \$6,407,765 through the first quarter this year.

The period of regroupment and reorganization is behind us. Gruen has advanced into a profit-making position and into an era of real earning potential.

Fiscal situation

Gruen's consolidated statement for the last year shows a net loss for the period ended March 31, 1956. This loss was anticipated.

Loss before taxes for the year ended March 31, 1956 was \$1,330,463 compared to \$2,251,369 for the previous year.

The net loss after tax credit for March 31, 1956 amounted to \$965,799 compared with \$1,125,695 for the previous year.

Most significantly, however, Gruen's losses for 1954-55 were attributable to cancellation of defense contracts and deterioration of the watch business. By contrast, Gruen's losses for 1955-56 were incurred largely as the result of expenditure for product improvement, new name identity, overhaul of the company, and the establishment of a capability for long-term defense and industrial production.

Long range improvements

Less visible but more meaningful than the immediate fiscal indicators of your company's condition are the improvements that are manifest in (a) increased stability; (b) renewed jeweler acceptance, (c) enlarged earning capacity, and (d) realistic growth potential.

On each of these counts, the recovery of Gruen has been impressive.

Increased stability

To achieve increased long-range stability and lessen the dependence of Gruen upon as cyclic an industry as the manufacture and sale of watches, we have undertaken a program of diversification through production of defense and industrial equipment and the marketing of other consumer products. Four new operating divisions are engaged in versatile defense activities and Gruen has added Waterman pens to its consumer line.

Moreover, in the initiation of its defense activity, Gruen has enlarged its scientific capabilities well beyond those of competitive watch manufacturers to undertake advanced engineering and electronic projects. *During the last year Gruen has acquired a level of scientific proficiency that enables it to share in the development, the engineering, and production of complex technological equipment for a vast variety of applications.*

Improved jeweler acceptance

Jeweler acceptance of Gruen as a leading manufacturer of watches has been re-established and strengthened after a three-year period of eclipse. Dealer relationships have been repaired, name identity has been re-established with the consumer, and additional franchised jeweler outlets have been added to our channels of distribution throughout North America, and in thirty-five countries abroad.

Enlarged earning capacity

The enlarged earning capacity of Gruen is already evident both in its watch divisions and in its defense and industrial operations.



Watch earnings have improved materially during the first quarter of this new year and are expected to increase substantially as the result of imaginative merchandising concepts, lowered administrative overhead, automated production, standardization of movements, improved inventory control, and more effective management from the new New York executive headquarters of your company.

Most of the non-recurring starting costs of the defense and industrial operations have already been absorbed. *Development projects under contract will not only yield immediate profit but several may materialize into long-term industrial profit-makers because of their application to civilian industrial use.* The earning potential of these undertakings warrant considerable optimism in any projection of your company's earning capacities for the future.

Realistic growth potential

It is in growth potential that the recuperation of Gruen is most pronounced and encouraging.

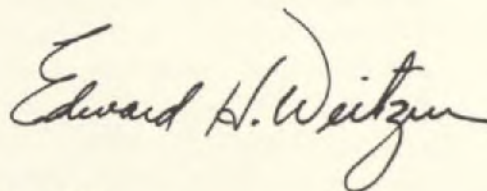
Among the projects currently underway in defense production is one which encompasses the possibility of a genuine scientific break-

through in the highly active field of inertial guidance.

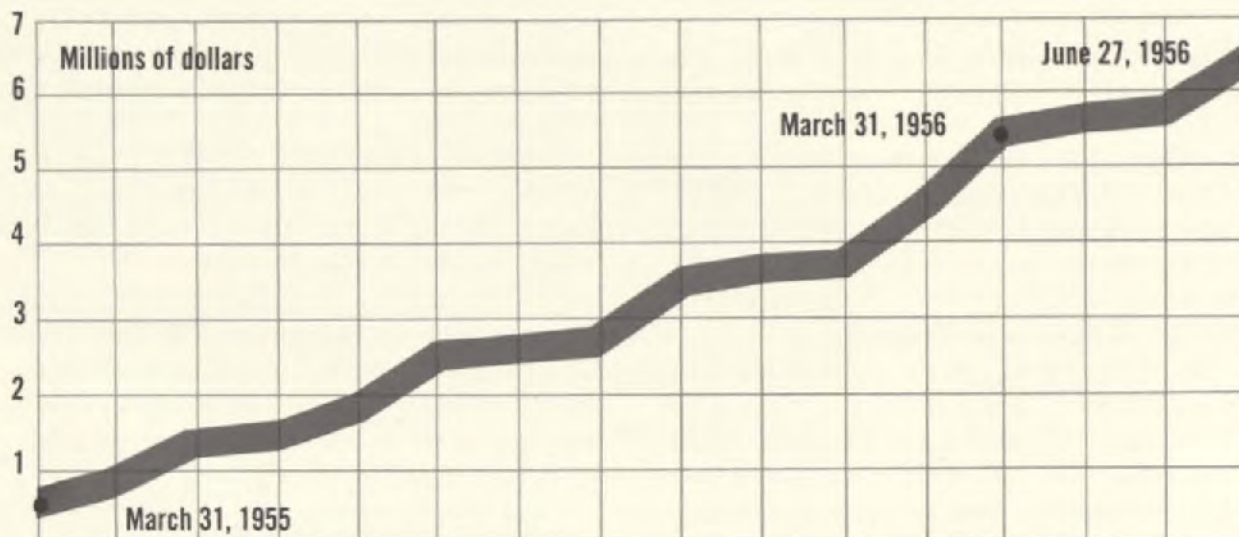
In the development of these programs, Gruen has acquired outstanding strength in the quality of its scientific and technical staffs. *With this capability for original and creative engineering, research, and development, Gruen has positioned itself for growth at a rate commensurate with the technological advances of this electronics air age.*

These things we believe to be the sound forerunners of increased annual earnings and the resumption of dividend payments. For the confidence which members of the Board of Directors, shareholders, and employees have shown on every occasion, management is grateful and heartened in its endeavor.

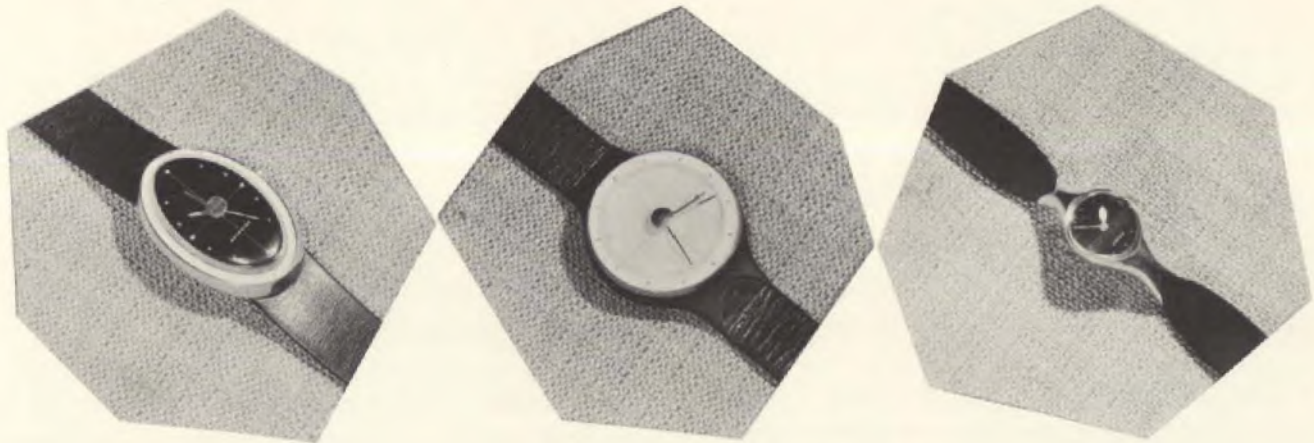
Sincerely,



June 27, 1956



Success of Gruen in the development and production of defense equipment is shown in this illustration. New contracts from March 31, 1955, total almost six million dollars.



Newest of Gruen's "Newest Look in Time" these contemporary-style watches, all of them Gruen originals and all styled by America's foremost industrial designers.

Watch Business

Fall and Christmas 1955 signalled the resurgence of Gruen as the watch of style-minded quality-conscious consumers.

Equally important, that same season marked the comeback in acceptance of Gruen among the nation's retail jewelers.

This improvement in acceptance has been sustained. *Sales for Spring 1956 are 44% higher than those of last year.* And the initial response of dealers to Gruen's new line for Fall 1956 warrants an optimistic increase in sales projections for the current fiscal year. Your company has achieved substantial recovery in its watch business; watch operations are now yielding profit.

Pacesetter on this revival was Gruen's "Newest Look in Time." The "Newest Look" is a concept which has keynoted your company's overall merchandising and advertising campaigns. Gruen introduced a wholly redesigned line for the Fall 1955 selling season. To complement this redesigned line, Gruen also undertook new

packaging, new advertising, and a new sales promotion campaign.

Jeweler response to "The Newest Look in Time" was both gratifying and revealing. By late October, heavy Fall buying on Gruen had outstripped production capabilities of your company's plants. Inventories were depleted and by November Gruen was sold out.

This sales momentum picked up a speedier pace in Spring. At the same time, franchised jeweler outlets have increased 12%.

Headlining the Gruen drive for Fall and Christmas 1956 will be Gruen's handsome new designer collection of contemporary-styled watches. These distinctive new watches, unlike any other in the trade, were created especially for Gruen. Each signifies a new trend in watch styling and each is exclusive with Gruen.

Price leader for Gruen's 1956 Fall campaign is Gruen's new Super-G line, featuring Power-Pak Autowind watches in see-through gift packages, factory sealed for consumer protection.



Super-G represents an innovation in popularly-priced watch merchandising as well as a new concept in packaging and display.

Last year's bookings on "The Newest Look in Time" exceeded your company's ability to make deliveries. This was due not only to the depletion of inventory as a result of liquidation sales during 1954 but to cutbacks in Swiss production during that same fiscal year. The time lag required for resumption of full production frustrated Gruen's attempts to make deliveries on new orders in 1955. However, production schedules for 1956-57 will provide sufficient in-

ventory for prompt shipment of projected sales. Credit for this encouraging upturn in production is due M. Henri Thiebaud, director of Gruen's wholly-owned manufacturing subsidiary in Switzerland. For many years an outstanding expert in watch technology and production, M. Thiebaud has reorganized Gruen's manufacturing processes in Switzerland to take advantage of advanced automated techniques.

To summarize the situation: watch sales are up; projections are encouraging, delays in production have been overcome. The outlook is for profit.

Waterman Pen Company

Acquisition of the 84 year-old Waterman Pen Company marks the start of Gruen's long-term program for further consumer product activity and growth.

For generations, a leader among makers of quality writing instruments, the Waterman Pen Company manufactures and markets fountain pens and pencils throughout North America and in sixty-five countries abroad.

Waterman's earning potential greatly exceeds that company's actual performance during the last several years. After a succession of business difficulties, Waterman turned the trend toward substantial recovery only to be struck with severe damage to its principal plant during the Connecticut floods of 1955. Production was halted, shipments delayed, and the upturn in sales arrested.

Fundamentally, however, Waterman possesses sufficient product strength to make a healthy recovery. Brand identification is good and Waterman's pens are acknowledged trade leaders in design, quality, and styling.

In the accomplishment of this task, we anticipate some difficulties for there is need to revive dealer relationships and greatly expand the company's base of distribution.

Signpost of the Waterman campaign will be "Waterman—The Newest Word in Writing."

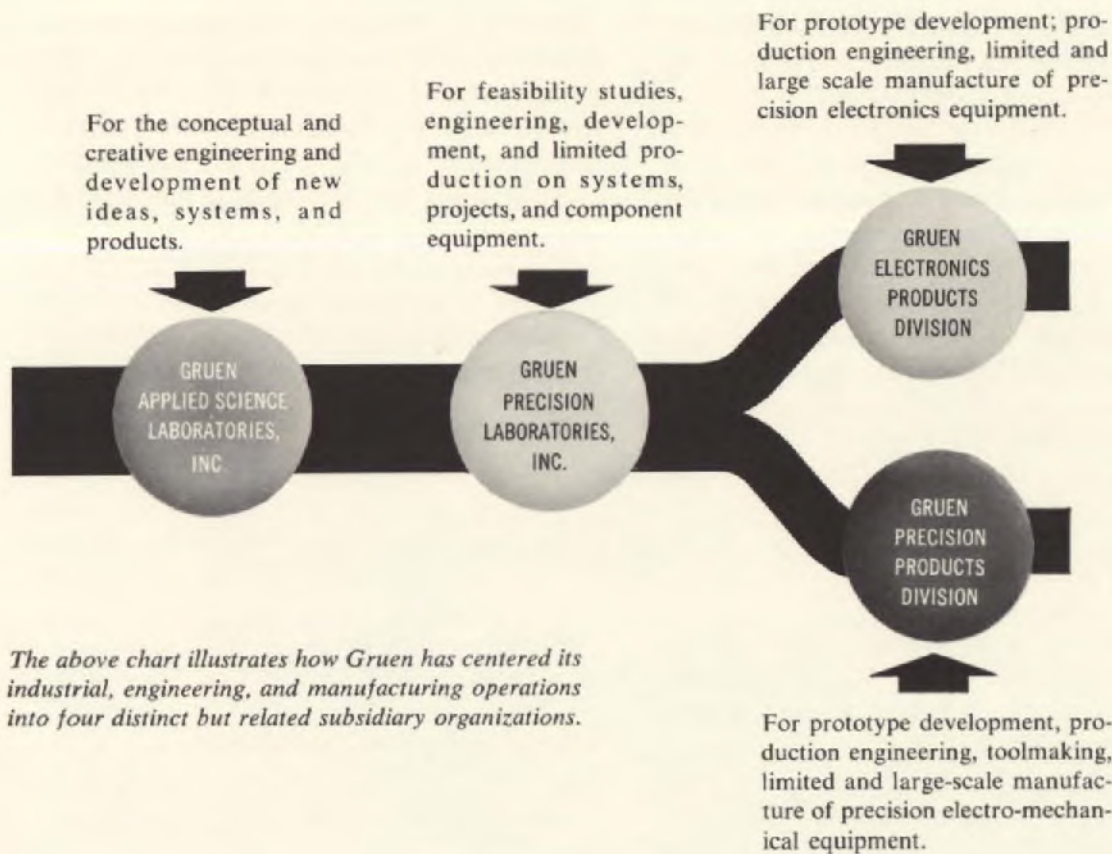
Full use will be made of the same ad media and devices that sold Gruen as "The Newest Look in Time."

In summary, we believe Waterman to be a potentially valuable asset. For the immediate future, there is work to be done.



First to introduce a cartridge-filled fountain pen, Waterman has put its strength behind the C/F pen with its disposable cartridge of ink.





The above chart illustrates how Gruen has centered its industrial, engineering, and manufacturing operations into four distinct but related subsidiary organizations.

Industrial and Defense

Since reorganization of Gruen in 1955, major emphasis has been directed toward the achievement of increased stability through diversification with first emphasis on the production of defense and industrial equipment.

Current value of orders in these areas now exceeds \$6,000,000.

Projects under contract include electro-mechanical devices, electronic equipment, sub-miniature relays, intercontinental missile test equipment, advanced gyroscopic systems, new jet instrumentation, anti-skid devices, potentiometers, accelerometers, oscilloscopes, and frequency meters.

Each of these undertakings is new and unique to Gruen. Most are unique to the watchmaking

industry. Several are altogether unique in that they represent genuine scientific advances.

Your company functions not only as a prime contractor but as a subcontractor on vital defense projects. Work is presently in progress for the Convair Division of General Dynamics, the Hughes Aircraft Company, General Electric, Minneapolis-Honeywell, Army Ordnance, the Army Signal Corps, Navy Bureau of Ships, the Navy Bureau of Ordnance, and others.

In most instances, these devices are applicable not only to a variety of military uses but to versatile employment in civilian industry. As a consequence, this program is geared to the long-term growth of Gruen as a manufacturer of critical industrial equipment.



In the accomplishment of this program, Gruen has centered its industrial engineering and manufacturing operations in four distinct but related subsidiary organizations. Each complements the specialized technological capabilities of the other. Individually, they enable Gruen to bid on separate phases of industrial and defense undertakings. Together, they constitute an integrated capability for the engineering, the development, and manufacture of a wide range of essential products. And each is linked to the other through coordinated management control.

To man these organizations, Gruen has acquired a scientific staff of demonstrated competence. Chief of The Planning Board is Dr.

Theodore von Karman, senior advisor on aeronautics to NATO and chairman emeritus of the Scientific Advisory Board of the United States Air Force. Other distinguished personnel include Major General Leslie E. Simon (ret.), former chief of Research and Development for United States Army Ordnance, as well as a corps of scientists with outstanding reputations in diverse areas and fields.

In undertaking this program, Gruen has greatly expanded its interests and opportunities for growth. Gruen is no longer just another American watch manufacturer with an occasional sideline in defense production. Gruen has hitched its future to progress in electronics to become part of the new frontier of American industry.

Corporate Activities

Gruen Industries, Inc.

In March 1956, shareholders authorized a change in name of The Gruen Watch Company to Gruen Industries, Inc. The change will be instituted later this year. Purpose of the change is to establish an identity which will better describe the expanding industrial, defense, and consumer activities of your company. Under the new corporate structure, The Gruen Watch Company will retain its identity as a division; Waterman will be listed as a subsidiary. Other divisions and subsidiaries will include manufacturing, casing, and marketing operations for watches; engineering, development, and production for defense and industrial equipment.

Common Stock Increase

Authorization of 650,000 additional shares of Gruen common stock was approved by shareholders on March 19th of this year. This act increased to 1,300,000 shares the authorized common stock of your company. A total of

Dr. Theodore Von Karman and Gruen engineering executives

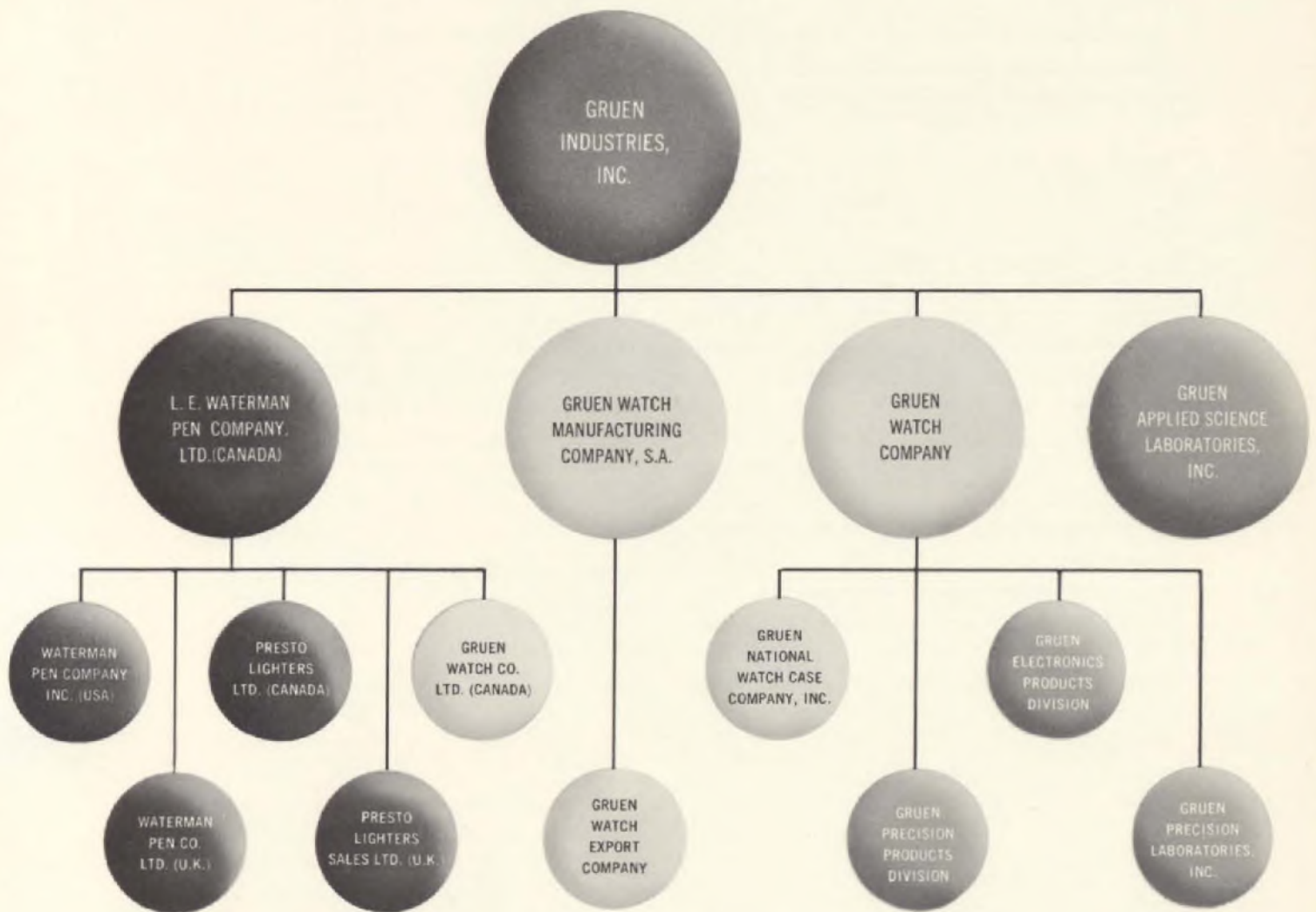


394,920 shares are currently outstanding. Purpose of the increased authorization is to make available an additional source of equity capital for use in strengthening your company and its profit-making potential.

New York Marketing Headquarters

Advertising, merchandising, marketing and finance activities are now located at 630 Fifth

Ave., Rockefeller Center, New York. This late Spring move to the mercantile center of the nation and the jewelry hub of the world has facilitated increased emphasis on Gruen watch sales. Corporate headquarters remain at Time Hill, Cincinnati. Space vacated by watch operations there is being utilized by defense and industrial divisions. Shareholders are cordially invited to visit the company's new offices in New York.



Illustrative of Gruen's expanded activity during the last fiscal year is this chart of subsidiary organizations.

THE GRUEN WATCH COMPANY
and Subsidiaries

**Consolidated Statement of
Income and Retained Earnings**

	YEAR ENDED MARCH 31	
	1956	1955
Gross profit on sales	\$3,262,869	\$2,837,212
Selling, advertising, administrative, and general expenses	<u>4,527,854</u>	<u>4,686,560</u>
Operating loss	1,264,985	1,849,348
Other income	<u>251,088</u>	<u>131,070</u>
	1,013,897	1,718,278
Cash discount allowed, interest, and other expenses	<u>316,566</u>	<u>533,091</u>
Loss before taxes on income	<u>1,330,463</u>	<u>2,251,369</u>
Provision for taxes on income:		
Domestic (represents estimated recovery under carry-back provisions)	(590,769)	(1,361,888)
Foreign	<u>226,104</u>	<u>236,193</u>
	<u>(364,665)</u>	<u>(1,125,695)</u>
Loss	965,799	1,125,674
Retained earnings, beginning of year	<u>8,518,268</u>	<u>9,643,942</u>
Retained earnings, end of year	<u>\$7,552,469</u>	<u>\$8,518,268</u>

The accompanying notes are an integral part of the financial statements.



THE GRUEN WATCH COMPANY
and Subsidiaries

Consolidated

Assets:	MARCH 31	
	1956	1955
Cash	\$ 845,419	\$ 2,534,784
Notes and accounts receivable, trade, less allowance for doubtful notes and accounts	4,874,965	5,059,653
Refundable Federal taxes on income resulting from carry-back provisions, estimated	599,514	784,098
Inventories, at the lower of cost or market, and in process costs accumulated under U. S. Government contracts	4,171,050	3,649,985
Claims against the U. S. Government resulting from contract terminations, at estimated realizable amounts, less partial payment	127,766	503,227
Emergency facilities purchased, to be acquired by U. S. Government	—	19,230
CURRENT ASSETS	10,618,714	12,550,977
Cash surrender value of life insurance	69,725	92,221
Other receivables, less allowance for doubtful accounts	137,928	173,681
Due from employees under stock purchase plans	420,300	6,075
Investments, at cost	236,264	136,264
Property, plant, improvements to leased property, and equipment, at cost, less allowances for depreciation and amortization: 1956—\$2,734,779; 1955—\$2,561,537	2,205,342	1,997,074
Prepaid expenses and deferred charges	241,025	158,724
Licenses, patents and trade-marks	30,001	1
	<u>\$13,959,299</u>	<u>\$15,115,017</u>

The accompanying notes are an integral



THE GRUEN WATCH COMPANY
and Subsidiaries

Balance Sheet

	MARCH 31	
Liabilities:	1956	1955
Notes payable, banks	\$ 3,244,093	\$ 3,050,000
Loans payable, foreign banks	543,049	351,102
Accounts payable	1,037,587	577,071
Accrued items	525,861	762,209
Provision for foreign taxes on income	297,514	247,641
CURRENT LIABILITIES	5,648,104	4,988,023
Notes payable, bank, converted during 1956 to short term note (current portion of 1955 balance included above)	—	1,300,000
 Shareholders' Equity:		
Capital stock:		
Preferred stock, 4-½ per cent cumulative; \$100 par value; authorized 25,000 shares, issued and outstanding, none		
Common stock, \$1 par value; authorized 650,000 shares; issued 505,337-¾ Shares, less in treasury: 1956—166,611-¾ shares; 1955—196,611-¾ shares; outstanding: 1956—338,726 shares; 1955—308,726 shares		
	338,726	308,726
Capital contributed in excess of par value for 30,000 shares of common stock issued under stock purchase plan		
	420,000	—
Retained earnings, as annexed	7,552,469	8,518,268
	\$13,959,299	\$15,115,017

part of the financial statements.



Notes to Consolidated Financial Statements

1 The consolidated statements include the accounts of the Company and its wholly-owned domestic and foreign subsidiaries.

The difference between the investment in the consolidated subsidiaries and the Company's equity in the net assets of such subsidiaries, as shown by their books, amounting to \$4,176,784 at March 31, 1956 and \$4,253,928 at March 31, 1955, less consolidating adjustments of \$3,200 and \$3,900, respectively, is included in consolidation in retained earnings.

2 With respect to the Company's consolidated Swiss and Canadian subsidiaries, the amounts of net non-current assets have been translated into United States currency generally at the approximate exchange rates in effect at the time of acquisition. Net current assets have been translated generally at appropriate market rates of exchange at the respective dates or at par.

3 It is estimated (based on present laws) that additional foreign taxes on transfers to the parent company of the retained earnings of foreign subsidiaries would approximate \$181,000 at March 31, 1956, and \$186,000 at March 31, 1955. The amount of United States taxes, if any, which may be payable on such transfers is not presently determinable.

No provision has been made in the accompanying financial statements for such foreign or United States taxes as may be payable if and when the earnings of the foreign subsidiaries are distributed to the parent company.

4 The Company has an employment contract with its President, which continues until March 31, 1960. The contract provides, among other things, for options to purchase an aggregate of 30,000 shares of the common stock of the Company held in its treasury, each option having a term of five years from the date granted. On February 25, 1955 the Company granted one option for 10,000 shares (unexercised at March 31, 1956) at a purchase price of \$13.89375 per share. Options for the remaining 20,000 shares shall be granted in varying amounts in subsequent years. Only one option may be granted in a single fiscal year and only when consolidated net profits reach a specified amount. In each instance, the purchase price shall be 95% of the fair market price at the date of grant.

5 In March 1956 the shareholders authorized an increase in the common capital stock of the Company to 1,300,000 shares. No application for the increase has yet been filed with the Secretary of State (Ohio).

The Company has reserved, for sale to employees, 45,000

shares of its common capital stock held in treasury, the sales price of such shares to be no less than market value at date of sale.

6 Certain sales of the Company made in the fiscal years ended March 31, 1956 and 1955 under contracts with the U. S. Government are subject to renegotiation. It is the opinion of management that no refund will be required.

7 No contributions were made to the Gruen Employees' Savings and Profit Sharing Plan during the fiscal years ended March 31, 1956 and 1955.

8 Depreciation and amortization amounting to \$305,002 in 1956 and \$352,189 in 1955 are included in costs and expenses.

9 Event subsequent to balance sheet date:

On April 30, 1956, the Company acquired by an exchange of securities, a sixty percent interest in the Waterman Pen Company Limited, a Canadian Corporation, (hereinafter called Waterman).

The agreement pertaining to the acquisition provides, among other things, as follows:

(a) For the transfer of 56,194 shares of the Company's common capital stock in exchange for 277,174 shares of Waterman's common capital stock.

(b) For the transfer of 500 shares (total outstanding) of common capital stock of Gruen Watch Company of Canada, Ltd. in exchange for 30,000 shares of Waterman's common capital stock.

(c) For the transfer of additional shares (not to exceed 74,051 in total) of the Company's common capital stock when Waterman earns consolidated net income. The number of shares transferred in any one year to be determined by formula in direct proportion to Waterman's consolidated net income for such year.

(d) For Waterman to contract with an underwriter for an offering of 68,261 shares of its common capital stock at an offering price of \$10 per share.

(e) For an option to the Company (may be exercised in whole or in part anytime within three years) to purchase 130,742 additional shares of Waterman's common capital stock at a price of \$10 per share. Option permits the Company to retain its sixty percent interest after issuance of above 68,261 shares and 18,900 shares on employee stock options.

LYBRAND, ROSS BROS. & MONTGOMERY

CERTIFIED PUBLIC ACCOUNTANTS

CAREW TOWER

CINCINNATI 2

To the Board of Directors
The Gruen Watch Company
Cincinnati, Ohio

We have examined the consolidated balance sheet of The Gruen Watch Company and subsidiaries as of March 31, 1956 and the related consolidated statement of income and retained earnings 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 of the companies and such other auditing procedures as we considered necessary in the circumstances. It was not practicable for us to confirm certain accounts receivable from United States government departments and agencies as to which we have satisfied ourselves by other auditing procedures.

In our opinion, the accompanying consolidated balance sheet and consolidated statement of income and retained earnings present fairly the consolidated financial position of The Gruen Watch Company and subsidiaries at March 31, 1956 and the consolidated 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.

Cincinnati, Ohio
June 25, 1956

LYBRAND, ROSS BROS. & MONTGOMERY





Factories and Laboratories

Time Hill, Cincinnati, Ohio

Norwood, Ohio

Reading, Ohio

Hempstead, Long Island, New York

Pasadena, California

Bienne, Switzerland

Sales Offices

New York, New York

Chicago, Illinois

Los Angeles, California

Geneva, Switzerland

Paris, France

Toronto, Canada



