



JANUARY 12, 2010

INITIATING COVERAGE

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**BULOVA TECHNOLOGIES. (OTC: BLVT.PK)**

INDUSTRY: DEFENSE

DISCLOSURES: 1, 10

RATING: BUY

RISK: HIGH

CLOSING PRICE 01/12/10	TRAILING P/E (TTM, EST)	SHARES OUT (MILS.)	MARKET CAP (MILS.)	3-5 YEAR REV. GROWTH	PRICE TARGET (PROJECTED)
\$0.20	2.8*	72.0	\$14.4	100%	\$1.10

ANNUAL DATA – SEPT YEAR END			
	2009E*	2010E	2011E
EPS	\$ 0.07	\$ 0.14	\$ 0.31
P/E	2.9x	1.4x	0.6x
REVENUE (MIL.)	\$32.8	\$71.0	\$159.9
P/S	0.4	0.2	0.1

EARNINGS					
	Q1	Q2	Q3	Q4	ANNUAL
2011E	N/A	N/A	N/A	N/A	\$0.31
2010E	N/A	N/A	N/A	N/A	\$0.14
2009E*	--	N/A	N/A	N/A	\$0.07

\*Represents estimates for 'Stub' year.

**Recommendation:**

We are recommending the shares of Bulova Technologies Group as a strong **BUY** for both Short- and Intermediate-term capital appreciation and growth-oriented accounts. The shares have been wholly left undetected (except for a wild price spike in the first quarter of 2009) by investors despite its brand name and 100-year heritage. Conversely, three major occurrences have transpired—or are due to transpire—that should significantly alter BLVT's valuation and on-going story: 1) Management announced FY2010 backlog of approximately \$69 million<sup>1</sup> just before the close of the December, 2009, first fiscal quarter. 2) New management is adamant that complete and audited financials for the business, from their arrival through the end of the September, 2009 "Stub Fiscal Year-end," will be released in January, 2010. 3) The November decision to increase US Afghanistan troop levels means that several more billions of dollars of munitions and arms will also be needed to be procured for the allies assisting us there... This potentially translates into a major revenue enhancement opportunity for BLVT as it continues to flush-out its other technology-based and/or legacy operations.

**INVESTMENT THESIS: THIS TIME MAYBE IT WINS THE BATTLE AND THE WAR**

Nobody has more respect for the original management team of Force Protection, Inc. (NASDAQ: FRPT--\$5.45) than I do. I did not experience the very beginning of the start-up or the manufacturing transformation, but I was there early enough in the Company's development of the Cougar and the MRAP start-up to observe a lot of the original problems as well as the makeover of the manufacturing process for FRPT to become the "salvation" (yes, SALVATION) of the Iraqi conflict. It was their trucks—or their designs (at the time, two out of every three Allied casualties were caused by IEDs and mines)—that turned the tide on the combat situation. Unluckily, a mishmash of early manufacturing missteps, a poor grasp of Washington DC politics and top-floor ego allowed the "winner to become the loser" in the end.

Bulova Technologies Group may have the right combination of positive factors that just may permit a more lasting and much longer-term growth-stock story to emerge from its defense origins than the "trading"

<sup>1</sup> Our analysis suggests that our FY2009 revenue estimate should be about half of the stated backlog number. Since BLVT's business ships all within a quarter or two, it is a good inference that FY'10 revenue could exceed \$85 mil.

experience we suffered with FRPT. Here is the methodology we used to formulate our investment argument when considering this recommendation:

1. The BLVT stock idea has really come out of no-where! Although anyone over the age of 40 has to be very familiar with the watchmaker's name, it is the combination of the same brand name and military technology systems is unheard of let alone ever associated with an investment idea that could generate capital appreciation returns. This means the shares may potentially produce 10-bagger-sized increases without BLVT needing to win a single, \$2 or \$3 billion contract award (like FRPT) to generate a multiple-fold return. This lack of "playing in the land of mega-contracts" should help limit competitors vying for access to the same arena...a real plus...and ultimately limit the ultimate risk of downside disappointment.
2. As we mentioned in Point #1, the Company does have a long heritage of working with the military and a well-established brand name. Despite its relative obscurity now on Wall Street, the mystery about the Company and its shares can be quickly resolved with the right mixture of work and operating returns.
3. There is a foundation of value already being established that makes the shares attractive on a current basis: We understand from our investigation of the data that Revenues for the Company for FY2009 (September) should approach \$32 million to \$33 million and generate nearly \$8 million in pre-tax income. Given that there are currently 72 million shares and 40% tax rate, investors should witness an after-tax earnings per share figure of approximately \$0.07 for the 2009 "Stub Fiscal Year." Now that Calendar 2009 is passed, we are estimating that the top-line should approach \$40 million and pre-tax profit of nearly \$10 million. Given the same math adjustment, we made for the "Stub Fiscal Year," a "calendarized" estimate for 2009 would approach \$0.08 making the shares sell right now for about 2½--times their current earnings.
4. Although growth can never be considered a "foregone" conclusion with a defense contractor (with or without the backdrop a military engagement,) BLVT has the "advantage" of its Chairman qualifying for the Service-Disabled Veteran-Owned Small Business (SDVO) classification. An Executive Order, signed by President Bush in 2004, sets aside 3% of the GSA procurement dollars as a goal for SDVOs in order to help expand private business opportunities for our Vets as an important way to help honor the men and women who served the US Military. Despite the Company being public, CEO John Stanton, by virtue of his >51% ownership of BLVT shares and his decorated and disabled Vietnam Vet status, has helped make the business a SDVO thereby advancing the Company's standing when being considered for defense contracts. It places BLVT on top of DOD contract piles as well as actually in-line for allocated allotments.
5. There are other real managerial attributes to the executive team. Mr. Stanton was previously with the international professional services firm now doing business as Ernst & Young as well as an award winning CPA. He has also served as a strategic leader and operational exec for numerous public and private companies. COO Stephen Gurba has over 30 years of experience in the development and production of complex systems for the defense ammunitions industry with various executive positions at General Defense, Olin Ordnance, Valentec Int'l. as well as Bulova. Stephen Steckel, CFO brings 20 years of banking and finance experience while at National City, Key Banks, Mitsubishi Trust, Cantor Fitzgerald and Weil, Gotshal&Manges.
6. Management appears to have arranged several growth paths for 2010 and 2011. In late calendar 2009, the Company announced a \$41 million contract for Booby Trap Simulators. About \$10 million of this makes up BLVT's \$69 million in backlog for FY2010.
7. Management reports that the Balance Sheet has been mostly repaired. The last time there was an official announcement regarding the June 30, 2009 Balance Sheet it showed \$2.4 million in long-term debt. We understand that the indebtedness is being negotiated away and eliminated as this report is being written and

that any major account receivable problems are also being resolved. The point is that BLVT's Balance Sheet is either in decent shape by the time investors see the September Stub Year figures or it will be by the December, First Quarter 2010, release.

8. Lastly, in order to make sure that BLVT was established as a SDVO, Stanton contributed personal asset holdings of other business ventures into this Company to make sure the 51% threshold was achieved and maintained. So, there is the potential of several companies gestating into more significant concerns and then being spun-out to BLVT shareholders six quarters to two years out. I have learned from past experiences not to depend too much on "the parts being worth more than the whole," but my due diligence surfaced a few of these half-dozen contributed companies which might prove to be worth something some day. One that was mentioned in the Company's own releases was Pangenex (OTC: PGCX.pk--\$0.22.) My understanding is that BLVT owns about 60% of PGCX and if that alone were to be distributed to current shareholders in a tax-free distribution (at the current price), it would represent about nearly the price of Bulova shares (about \$0.165 per share) alone, not including any value for BLVT attributed to the earnings thrown-off from the operations. Seemingly, there is some intrinsic value in the asset holdings of BLVT that is not properly ascribed for in the price in the market value of the common stock.

Investors! We have an inefficiently priced stock of the grandest kind in which to invest. Our target is \$1.10.

#### **COMPANY BACKGROUND: IT TAKES A LICKING AND IT EXPLODES!**

This Clearwater-based Company has its origins stemming from the well-known 1875 watch maker, US-based Bulova Watch Company. Many of us older investors remember the original timepiece company started by a Czech immigrant, who may have started a small jewelry shop on Maiden Lane in New York, but we remember the Company far more vividly for the far more numerous firsts that the same Company produced as the years rolled by. Remarkable achievements like the Phototime, a unique combination of photo-finish camera and precision electric timing instrument; the Accutron electronic watch that would keep time within 2 seconds a day; and the Accutron watch movement which was placed on the moon by Apollo 11 astronauts to control the transmission of data.

Between the World Wars, all the watch companies were sought by the US Defense Department to help produce detonating fuzes for artillery shells, mortar rounds, torpedoes, bombs (and they are now even used for armaments such as small caliber and infantry weapons). The reasoning was simple: At the time microelectronics had not been discovered and fuze technology was either a combination of miniaturized mechanical movements (similar to the mechanical time complexities of watch movements or a combination of electro-mechanical movements, which again depended on the manufacture of mechanical movements with fine tolerances). Having produced military watches and perfected the skill of creating specialized timepieces, aircraft instruments, critical torpedo mechanisms and fuzes, Bulova created Bulova Tech, which then operated as a defense contractor and systems contract manufacturer since WWII.

After nearly thirty-five years, from 1940 to 1975, of growth and operating independently, a series of corporate and operating transitions occurring in the last thirty-five years have brought the Company to where it is today. In the mid-70s, Bulova formally established a subsidiary for its defense operations, naming it Bulova Systems & Instruments Corp. Then in 1979, Tisch-run Loews Corporation acquired Bulova Watch and its subsidiaries. Under the watch of the Tisch management structure, the Systems & Instrument division grew substantially and became nicely profitable in 1982. Later that same decade, it accounted for as much as 30% of the entire Company's top-line.

In 1989, the Systems & Instruments Corporation acquired Hamilton Technologies, Inc., Bulova's chief competitor in the defense arena. The two entities merged becoming Bulova Technologies of the Bulova Corp. As a result, Bulova Technologies has been a world leader in fuzes, safes and arming devices.

Now this is where some of the current management comes into the story. In 1995, COO Steve Gurba, then head of National Defense Company, LLC, acquired Bulova Technologies from Bulova Corp. Under his guidance and during the following decade, BSIC purchased the electronic manufacturing services division of Dictaphone Corporation. It eventually came to be known BT Manufacturing LLC. As recently as 2005, the Company also acquired the ordnance capability for load, assemble and packing of munitions from Lance Ordnance in Mayo, Florida. This was named Bulova Technologies Ordnance Systems.

Mr. Stanton and other recently added, lead members of the BLVT team became involved with the current business with the 2008 transaction where BT Acquisition Company, LLC purchased the operating assets of Bulova Technologies, LLC (those properties and activities relating primarily to printed circuit board manufacturing, ordnance design, production and combat systems.) Later that same year Bulova Technologies Group, Inc. acquired BT Acquisition and also came public via a reverse merger with 3Si Holdings, Inc. This is when they adopted the ticker symbol “BLVT” and ended-up listed in the Pink Sheets. As part of the reverse merger process, a 15-to-1 reverse stock split occurred. Lastly in May, 2009, BLVT created a new, wholly-owned subsidiary named BulovaTech Labs (LABS), which is engaged in the technological development of nutraceuticals, alternative energy and other expansion areas. We mentioned in our introductory comments that a number of non-cash assets were contributed by Stanton to make sure BLVT qualified for the US Government, SDVO contract award classification. Besides a direct investment of cash, it is also via the LABS assets that Stanton’s ownership requirement was achieved.

#### **OPERATING DIVISIONS AND PRODUCTS: RIGHT NOW, A THREE-JEWEL MECHANISM**

Amazingly, the operations of BLVT are a little “bass-akwards” at this time. What was the main, namesake operating business when the Company was originally organized—Bulova Technologies Ordnance Systems—has taken somewhat of a backseat position to the “upstart” operation, to the procurement and supply business (Combat Systems). More astonishingly, manufacturing, which was the big, heavy hitter, operation, is considerably behind the curve from where it should be partly due to the new management’s decision to close the operation in Pennsylvania and relocate those activities to Florida as well as refocus on business that would A) be more appropriate for the kind of work that the Company is suited to perform, and B) generate profit margins that are commensurate with the capabilities that BLVT’s organizational structure should be able to derive from military contract opportunities.

So for today, the businesses are a little reversed as far as the size and contributions are concerned.

#### ***BULOVA TECHNOLOGIES ORDNANCE SYSTEMS***

As was the situation before the reverse merger and some of the various corporate changes, Bulova Tech Ordnance is still a load, assembly and pack facility specializing in fuzes, safe arming devices and explosive simulators. If you have ever read **Charlie Wilson’s War**, by George Crile (and I recommend the book not only as an amusing read but also as an insightful explanation as to many of the problems we are having within the Middle East right now,) it explains why we, as the United States Arms Services, do not want to depart those territories we are now patrolling leaving behind the most advanced weaponry in our military armamentarium. The reason is quite simple: We will undoubtedly need to return and will then have to face the “new enemy” factions with whatever arsenal remnants we’ve left behind to the detriment of our own soldiers and equipment. Therefore, it is always best to leave good equipment, but not the latest and the greatest supplies and munitions behind and therefore keep the best and most effective material for our own use.

For example, when the Afghans (known then as the Mujahideen) were fighting the Soviet Army in the early 1980’s, it was only when the “freedom fighters” were supplied with Stinger surface-to-air rockets---supplied by the US (General Dynamics/Raytheon)---that helped them genuinely turn the tide against the invaders. Fortunately for us 20-years later, the limited battery-life of the rockets helped to make sure the shoulder-

mounted missiles were essentially inoperable against their own makers after only a couple of years and thus lessened the threat to our troops and aircraft.

Bulova Technology Ordnance Systems produces a variety of pyrotechnic devices, ammunition and energetic material for the US Government, prime contractors and other allied nations. As my previous paragraph conveys, the subsidiary does not make the latest and fanciest of detonations and guidance equipment. It does make munitions that are effective and still enjoy considerable demand.

Operating as a defense contractor since 1962, Ordnance Systems is situated on 261 remote acres in Lafayette County, Florida which include 116 acres of timbered land and 145 acres of land that contain the manufacturing facilities. There are 35 buildings on the improved space consisting of warehouses, steel container storage buildings (with special double-hooded locking mechanisms), storage buildings and buildings used for the manufacture of explosive devices. All buildings are designed in accordance with all explosive codes and guidelines and include explosive proof, piped high-pressure hydraulic air to operate pneumatic tools and underground power.

Bulova is registered and licensed to manufacture its products with both the US Department of State as a broker and maintains the necessary licenses with Bureau of ATF and Explosives. Overtime, the Company has distinguished itself from competitors with capabilities in loading, assembling and packing small explosives and military fuzes. Moreover, many of its competitors in the defense industry here in the US have gotten out of the fuze and small explosive device business leaving Bulova more of the arena to itself.

This last point is an important one. As the major defense contractors have moved up the scale to more sophisticated arming, guidance, and detonation systems, the production of small explosive arming devices and fuzes, like BLVT manufactures, are being abandoned leaving a greater portion of the pedestrian arming and detonation system supply pie available to companies, particularly like Bulova, which have expertise in these kinds of older fashion systems. Management believes that just their type of the ordnance business is now approaching \$100 million of demand, and this requirement is from both the US Military and foreign governments. Since the number of these chemical/mechanical explosive device manufacturers is dwindling, it places BLVT in a very advantageous competitive position as a licensed, qualified and responsible producer to meet the current demand.

As we indicated, the Company has gone through some reorganizational reforms and belt-tightening. Although this is the original and core operating business, it should not have to have had much in the way of corrective action. We are projecting that Ordnance Systems should produce reasonable growth going forward particularly since this subsidiary has already announced a \$41+ million, multi-year contract that should reel out over the next four years. This contract is for the production and delivery of a series of Booby Trap Simulators to support training of the U.S. Armed Forces. The hardware being produced by BLVT simulates booby trap devices by explosively generating flare, whistle, and flash-bang outputs. These different simulating devices produce the various types of booby trap explosions that may be found in a wartime environment but these are used in training environments. The addition of this long-term contract, and something better than \$10 million per year in business, helps us build our case for our BLVT Ordnance System model. Our model for the three years is as follows:

***Bulova Technology Ordnance Systems***  
(\$ figures in millions)

<u>Sept. FY</u>	<u>2009e</u>	<u>2010e</u>	<u>2011e</u>
Revenues	\$ 5.50	\$ 19.75	\$ 55.20
Gross Profit Margin	32.8%	35.1%	36.0%
Gross Profit	\$ 1.80	\$ 6.93	\$ 19.87

**BT MANUFACTURING**

After closing down the original facilities in Lancaster, Pennsylvania, it has transferred all equipment and operations to its Melbourne, Florida facilities. There, the subsidiary produces and assembles in its new, \$50 million, top-secret facility a wide range of printed circuit boards, including single-sided through 14-layer, through-hole, surface mount and mixed technology electronic board circuitry. Besides electronic system guts, EMS also produces and assembles a wide range of cable assemblies and sub-systems that require the same level of specialization and qualifications (ISO 9001:2000), possibly the security of a top secret/ classified (security cleared) facility, and possibly the flexibility of a facility that can “spool-up and spool-down” manufacturing capability to handle smaller production runs needed for military projects.

In a nutshell, Bulova EMS is the kind of electronics manufacturing facility that produces those kind of defense and security products that “we” (the normal folks on the street) may not want to know about, but that the major defense contractors, (like Boeing, General Dynamics, Lockheed, Raytheon and the like,) are far too large and cumbersome to become involved with. Bulova is well situated to deal with smaller projects, orders or contract runs.

When the Company was still located back in Lancaster, EMS provided contract manufacturing and engineering services to a variety of non-military electronic customers. It is our understanding that EMS has chosen not to have many of its former customer re-start their manufacturing programs with the Company now that it has relocated to Florida. On the other hand, the customers were satisfied with the service and production quality that was provided. Indeed, some considered EMS a preferred provider and quality manufacturer. As an example, BLVT supplied intricate microcircuits used to monitor and control Thoratec’s circulatory assist pumps. During the re-location transition, Thoratec bought supplies and paid BLVT employees in order to continue an uninterrupted supply of control circuits.

With the numerous defense systems that the US Military has already deployed, the new President’s desire to make due with a lot more of what we have (essentially see that we can have the same systems better “work with one-another”) and with the major defense contractors still focused on major contracts and the big ticket approach to solving defense needs, it appears there may be a growing opportunity for EMS to fill the void in helping disparate systems become integrated. Projections for EMS for the next couple of years appear to show that revenue growth for the subsidiary should expand nicely...tripling from 2009’s stub-year level of \$2.3 million to \$9.7 million in Fiscal 2010 and about doubling in FY2011. A more complete outline of our top-line and gross profit thoughts estimates are as follows:

<b>BT MANUFACTURING</b>			
(\$ figures in millions)			
<u>Sept. FY</u>	<u>2009e</u>	<u>2010e</u>	<u>2011e</u>
Revenues	\$ 2.30	\$ 9.70	\$ 21.20
Gross Profit Margin	40.0%	45.0%	50.0%
Gross Profit	\$ 0.92	\$ 4.37	\$ 10.60

**BULOVA TECHNOLOGIES COMBAT SYSTEMS**

The last operation is essentially a legal “arms dealer.” It gives our soldiers in a combat zone an overwhelming military edge when compared to the enemy forces by providing a local country’s military forces, police or militia sufficient weapons to become armed, and therefore involved, in the conflict. These activities are typically funded though the DoD but negotiated, purchased and delivered by a third, US-based party such as BT Combat Systems.

Combat Systems is registered with the US Department of State Directorate of Defense Trade Controls as a broker. This allows the Company to provide for the movement of military articles across friendly borders to support our soldiers throughout the world. The subsidiary is comprised of experienced people that have many years of experience in Government contracting to bid, and bid successfully, on International Traffic in Arms Regulations compliant transactions. The team is also best known for their knowledge of non-standard ammunition, weapons and weapons systems, items highly sought by the US Government for use by our allies in Iraq, Afghanistan, Philippines, Republic of Georgia as well as use by both our covert operations and counter-narcotics efforts.

Typically, this activity involves the negotiation, purchase and delivery of weapons and munitions from Eastern Block manufacturers to those “customers” listed above. BLVT acts purely as a middle-man. It is the intent of management to expand its current role in this arena into manufacturing some of the weapons and armaments that it procures for this role. The reasons are obvious: Instead of just acting as a middleman, the expansion would allow the company to not only capture a larger portion of the total gross margin associated with the sale of the deals but also run a tighter reign on the quality of manufacture and delivery schedules.

As we mentioned in our introduction, there are a number of opportunities that may afford Combat Systems some unprecedented growth over the next couple of years. Already the backlog reflects a nice stair-step growth pattern in the Company’s revenue trajectory for this fiscal year, but with President Obama’s decision to add troops to Afghanistan there is a possibility that this number could become multiple-fold in size. Using the more cautious approach to our initial attempt at projections, we are going to present the following table as the case we believe is “most probable” and most presentable. On the other hand if BLVT catches a little luck, can secure some small and reasonable capital, and wins a contract, the “guesstimate” for 2010/2011 Combat System revenues could be one-third of the number that is really won.

***BULOVA TECHNOLOGY COMBAT SYSTEMS***

(\$ figures in millions)

<u>Sept. FY</u>	<u>2009e</u>	<u>2010e</u>	<u>2011e</u>
Revenues	\$ 25.00	\$ 41.50	\$ 83.50
Gross Profit Margin	34.0%	36.0%	36.0%
Gross Profit	\$ 8.50	\$ 14.94	\$ 31.7

**INCOME STATEMENT THOUGHTS: NUMBERS FROM TRULY A HODGEPODGE OF CONVERSATIONS AND NEWS MEMOS**

When I first heard this “story,” I wanted to get the report written and out before the formal earnings announcement was made. The reason was just the \$0.05 of EPS reported for the first six months made in September was enticing enough to be exciting. This is because as with most governmental contracting organizations, companies try to front-load a lot of the costs in the beginning of the contract and overstate overhead loads so to make sure the ending quarters are securely profitable or back-end loaded....They take a more “conservative stance” to accounting principles in the beginning. But then when you add to that philosophy that BLVT’s gross margin should grow due to the way the contracts flow and SG&A should decline as costs are continually trimmed, the Company ought to become even more interesting from an earnings standpoint when the fourth quarter is reported and we see the “stub year” completed.

I've pretty much gone over the narrative of the operation...there's plenty left out I'm sure, I'd like to touch on the numbers and give them my best shot at what I believe will be produced for the Stub 2009 ending September and fiscal 2010 and 2011. The cautionary warning of... PLEASE BE AWARE, THESE ARE REALLY RUDIMENTARY GUESSES AT BLVT'S OPERATING FIGURES...is included with heartfelt concern.

To explain what was done for 2009 regarding the Income Statement Projections, the following estimate is a conglomeration of the conversations on which I have been permitted to listen in, the one publically released, operating statement (which was very sketchy) and some semblance of logical order. From these I have built a "true guess" for 2009's year-end figure. For 2010 and 2011, the same process was used adding a dose of business knowledge. I have also shown a marked increase in the Company's taxes to reflect the changes in what I think we will see in policy affecting the bottom line of companies.

<b>Bulova Technology Group, Inc. Annual Income Statement Projections</b>						
(Dollar Figures in Millions)						
	<u>2009E</u>	<u>% Margn</u>	<u>2010E</u>	<u>% Margn</u>	<u>2011E</u>	<u>% Margn</u>
Revenues	\$ 32,800	100.00%	\$ 70,950	100.00%	\$ 159,900	100.00%
Cost of goods sold	\$ 21,580	65.79%	\$ 44,710	63.02%	\$ 99,370	62.15%
Gross profit	\$ 11,220	34.21%	\$ 26,240	36.98%	\$ 60,530	37.85%
Selling, Gen'l, Admin	\$ 3,297	10.05%	\$ 6,455	9.10%	\$ 14,455	9.04%
Operating Profit	\$ 7,923	24.16%	\$ 19,785	27.89%	\$ 46,075	28.81%
Net financing costs	\$ -	0.00%	\$ 350	0.49%	\$ 675	0.42%
Net before taxes	\$ 7,923	24.16%	\$ 19,435	27.39%	\$ 45,400	28.39%
Taxes (NB % Tax Rate)	\$ 3,090	39.00%	\$ 8,454	43.50%	\$ 20,430	45.00%
Net Income	\$ 4,833	14.74%	\$ 10,981	15.48%	\$ 24,970	15.62%
Earning per share	\$ 0.07		\$ 0.14		\$ 0.31	
Shares Outstanding	\$ 72,000		\$ 76,415		\$ 79,835	

There are a couple more thoughts that should be included in this discussion of our model:

- As we will discuss below, BLVT's Balance Sheet has little debt and a fairly strong working capital structure. We believe that management wants to expand the pace of growth at a rate faster than the Balance Sheet can support on its own. That said, the Company will have to both raise additional capital through a small equity offering as well as a debt deal later in its fiscal 2010. We reflect those activities by both showing an increase in the share count and in an increase in the interest costs.
- We believe that the Company will be able to experience an improvement in the overall gross profit margin as it is able to find more electronics and ordnance business compared to just the addition of "Combat Systems" arms sales over the next two years. Yes, this does swell gross margin. We are also

betting that BLVT is also able to keep a lid on operating costs. But, there is a limit to just how much both profit can be had and cost savings that can be wrung-out of the operations.

**BULOVA’S BALANCE SHEET AT THE END OF JUNE, 2009**

By the time you read this Balance Sheet (the last public disclosure on the Company’s financials), it will be really out-of-date. We understand that management has been negotiating to get the bank that Chairman Stanton and the other “Buy-out” partners dealt with to arrange a fairly reasonable deal on the remaining debt given that the Webster Bank received all the Company’s Accounts Receivable at the time new management took control as part of the deal.

**Bulova Technologies Group, Inc**  
Abbreviated Balance Sheet – June 30, 2009

<b>Assets</b>		<b>Liabilities</b>	
Cash	\$ 252	Accounts Payables	\$ 2,094
Accounts Receivable	\$ 7,644	Deferred Revenue	\$ 2,460
Inventory	\$ 5,375	Accruals	\$ 2,668
Total Current Assets	\$ 13,272	Total Current Liabilities	\$ 18,310
Real Estate	\$ 4,762		
Equipment	\$ 8,512	Long-term Debt	\$ 2,398
Investments and Other Asse	\$ 5,035	Capital Leases	\$ 2,460
Total Non-Current Asset	\$ 18,310	Total Non-Current Liabilities	\$ 3,690
<b>Total Assets</b>	<b><u>\$ 31,582</u></b>		
		<b>Equity</b>	
		Contributed Capital	\$ 16,665
		Retained Earnings	\$ 4,003
		<b>Total Equity</b>	<b><u>\$ 20,665</u></b>
		<b>Liabilities and Equity</b>	<b><u>\$ 31,582</u></b>

As we stated in the introduction, the debt should be paid off by the time the final numbers are presented for the year. A combination of sale and leaseback of capital equipment financings should have facilitated the financing of those transactions. Lastly, we have expected the use of Accounts Relievable financing. This is essentially due on a government contract where the active ingredient shipped by the DOD to Bulova was problematic and the work had to be re-done, causing the final steps of the contract to be re-performed. We understand that this remnant of a contract/receivable was part of the very recently announced financing transaction which was made a couple of weeks ago. Again this helped to smooth the final problems with cash timing troubles.

**STOCK VALUATION THOUGHTS AND PRICE TARGET**

I was told once by the eminent, small-cap manager—Binkley Shorts of Wellington Management—that investing in our sphere of companies “always involves trade-offs.” I believe that it also involves an ability of “anticipating change” that management can catalyze to occur. Combined, these are two aspects of the investment pursuit which our professional brethren either are unwilling to accept or cannot tolerate taking the time to endure. The wonderful quality of Bulova is that the Company is up, running, and making profits...investors have little in the way of which to “anticipate.” There are trade-offs, however:

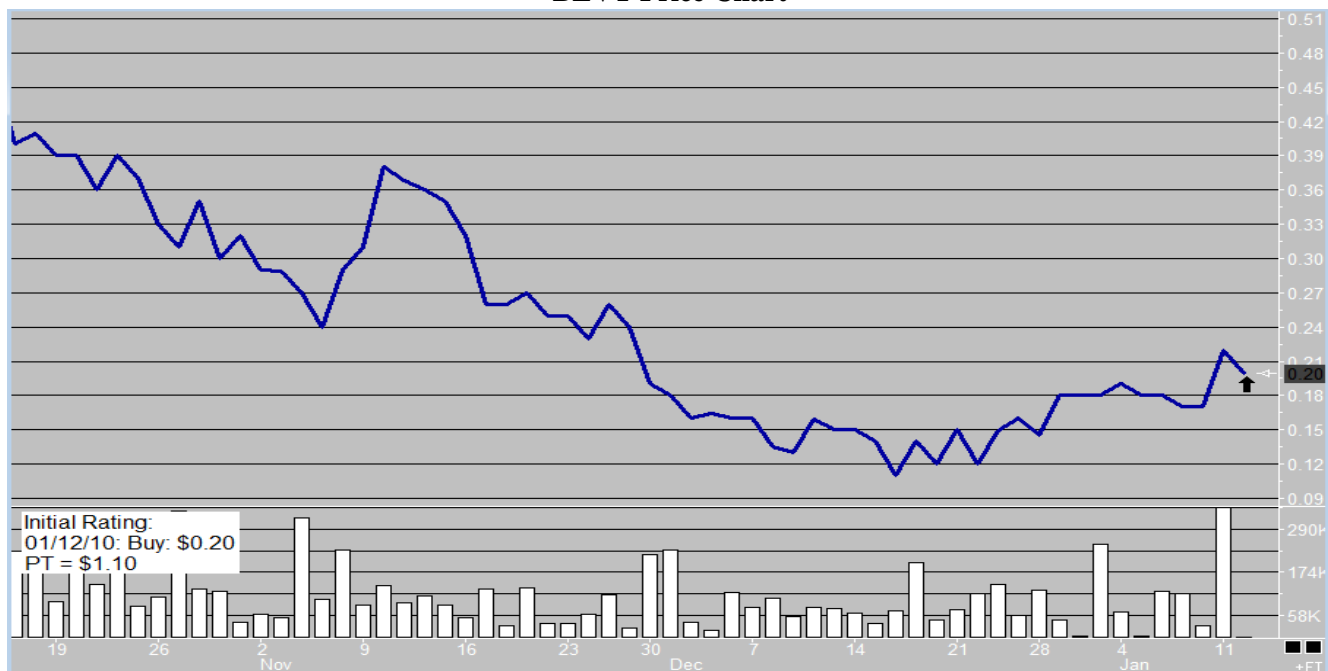
- It is listed in the “Pink Sheets,” which provides a very difficult and “rough & tumble” market in with which to deal;
- The Company has no real audited financials (that should be taken care of within a week to ten days);
- The information gap is tremendous about the Company and opportunity (we are working on that as you read!);
- Growth appears to be secured for the next year or two with the Obama troop “surge” for Afghanistan.

Based on our thoughts for the earnings, one might first jump to the conclusion that such a fast growing operation should enjoy a P/E-multiple reflective of the earnings growth rate...20 to 30-times PE multiple. This is fallacious thinking since A) it is a military equipment supplier; and B) the trade-offs listed above work against the use of such a nose-bleed multiples.

My feeling is that based on the \$0.14, which is our initial estimate for 2010 and a risky, ‘stab in the dark guess at that,’ let’s use an 8 PE multiple to start. It makes sense: it was this PE multiple figure that was common for defense companies when they were the most out-of favor back in the 1980’s (let’s be conservative here for a change.) Moreover, we don’t know a lot about management’s ability to perform; so presenting a chance to function as a public company allows us to increase our valuation standard as the numbers are generated. And again, we have a lot of baggage to wade through during the beginning of the year. This valuation standard provides a 2010 target of \$1.10 (\$0.14 times an 8 PE multiple) for this calendar year, which from a \$0.20 per share price tag is certainly a sufficiently attractive price appreciation to invite the most reluctant small-cap hedge funds and appeal to the most squeamish of individual investors as participants.

Lastly, we have heard anecdotes that there are other business opportunities where BLVT is using its contacts and special status to lever-up its top- and gross margin lines. If this is so, we should not have a problem advancing the rate of the trajectory for growth, and therefore the PE multiple, because of the increased rate of earnings expansion. But until we have real concrete signs of added businesses or aspects of the business that expand BLVT into new lines of activities, let’s maintain valuations in the realm of reasonableness.

**BLVT Price Chart**



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