

FOSSIL INC  
Form 10-Q  
May 10, 2012

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended: March 31, 2012

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from            to

Commission file number: 000-19848

**FOSSIL, INC.**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**75-2018505**  
(I.R.S. Employer  
Identification No.)

**901 S. Central Expressway, Richardson, Texas 75080**  
(Address of principal executive offices)

**(972) 234-2525**  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act (check one):

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The number of shares of the registrant's common stock outstanding as of May 4, 2012: 61,931,948.

## PART I FINANCIAL INFORMATION

## Item 1. Financial Statements

## FOSSIL, INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

## UNAUDITED

## IN THOUSANDS

	March 31, 2012	December 31, 2011
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 260,478	\$ 287,498
Securities available for sale	206	155
Accounts receivable net of allowances of \$74,749 and \$79,820, respectively	223,297	302,467
Inventories	512,087	488,983
Deferred income tax assets-net	48,694	45,803
Prepaid expenses and other current assets	112,532	110,496
<b>Total current assets</b>	<b>1,157,294</b>	<b>1,235,402</b>
Investments	7,666	7,520
Property, plant and equipment net of accumulated depreciation of \$228,061 and \$217,245, respectively	289,359	282,050
Goodwill	44,779	44,054
Intangible and other assets-net	72,262	73,896
<b>Total long-term assets</b>	<b>414,066</b>	<b>407,520</b>
<b>Total assets</b>	<b>\$ 1,571,360</b>	<b>\$ 1,642,922</b>
<b>Liabilities and Stockholders Equity</b>		
Current liabilities:		
Accounts payable	\$ 118,705	\$ 157,883
Short-term debt	12,854	9,009
Accrued expenses:		
Compensation	42,732	58,745
Royalties	23,535	48,807
Co-op advertising	11,272	21,287
Transaction taxes	15,005	23,086
Other	57,108	56,122
Income taxes payable	15,504	16,339
<b>Total current liabilities</b>	<b>296,715</b>	<b>391,278</b>
Long-term income taxes payable	17,348	17,194
Deferred income tax liabilities	90,361	86,328
Long-term debt	7,738	6,236
Other long-term liabilities	26,775	25,040
<b>Total long-term liabilities</b>	<b>142,222</b>	<b>134,798</b>
<b>Commitments and contingencies (Note 9)</b>		
Stockholders equity:		
Common stock, 61,811 and 68,370 shares issued at March 31, 2012 and December 31, 2011, respectively	618	684

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Treasury stock, at cost, 6,215 shares at December 31, 2011	0	(450,700)
Additional paid-in capital	129,555	149,243
Retained earnings	961,235	1,384,522
Accumulated other comprehensive income	30,952	22,180
Total Fossil, Inc. stockholders' equity	1,122,360	1,105,929
Noncontrolling interest	10,063	10,917
Total stockholders' equity	1,132,423	1,116,846
Total liabilities and stockholders' equity	\$ 1,571,360	\$ 1,642,922

See notes to the condensed consolidated financial statements.

## FOSSIL, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

## AND COMPREHENSIVE INCOME

## UNAUDITED

## IN THOUSANDS, EXCEPT PER SHARE DATA

	For the 13 Weeks Ended	
	March 31, 2012	April 2, 2011
Net sales	\$ 589,533	\$ 536,975
Cost of sales	260,553	235,163
Gross profit	328,980	301,812
Operating expenses:		
Selling and distribution	181,438	158,382
General and administrative	64,681	50,874
Total operating expenses	246,119	209,256
Operating income	82,861	92,556
Interest expense	814	225
Other income (expense)-net	2,549	(3,073)
Income before income taxes	84,596	89,258
Provision for income taxes	23,524	31,192
Net income	61,072	58,066
Less: Net income attributable to noncontrolling interest	2,932	2,244
Net income attributable to Fossil, Inc.	\$ 58,140	\$ 55,822
Other comprehensive income (loss), net of taxes:		
Currency translation adjustment	\$ 10,071	\$ 19,326
Unrealized gain (loss) on securities available for sale	50	(436)
Forward contracts hedging intercompany foreign currency payments change in fair values	(1,349)	(4,847)
Total other comprehensive income	8,772	14,043
Total comprehensive income	69,844	72,109
Less: Comprehensive income attributable to noncontrolling interest	2,932	2,244
Comprehensive income attributable to Fossil, Inc.	\$ 66,912	\$ 69,865
Earnings per share:		
Basic	\$ 0.94	\$ 0.87
Diluted	\$ 0.93	\$ 0.86
Weighted average common shares outstanding:		
Basic	61,859	64,093

Diluted

62,459

64,846

See notes to the condensed consolidated financial statements.

## FOSSIL, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

UNAUDITED

IN THOUSANDS

	For the 13 Weeks Ended	
	March 31, 2012	April 2, 2011
<b>Operating Activities:</b>		
Net income	\$ 61,072	\$ 58,066
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion	15,227	10,976
Stock-based compensation	3,144	1,190
Decrease in allowance for returns net of inventory in transit	(2,917)	(1,077)
Loss on disposal of assets	517	404
Equity in income of joint venture	(270)	(125)
(Decrease) increase in allowance for doubtful accounts	(1,396)	175
Excess tax benefits from stock-based compensation	(9,901)	(4,791)
Deferred income taxes and other	3,919	6,685
Changes in operating assets and liabilities:		
Accounts receivable	88,197	50,505
Inventories	(19,355)	(22,823)
Prepaid expenses and other current assets	(5,527)	(7,261)
Accounts payable	(45,310)	(15,416)
Accrued expenses	(60,930)	(42,586)
Income taxes payable	9,029	19,210
Net cash provided by operating activities	35,499	53,132
<b>Investing Activities:</b>		
Additions to property, plant and equipment	(10,029)	(9,932)
Increase in intangible and other assets	(27)	(2,049)
Purchase of securities available for sale	0	(164)
Sales/maturities of securities available for sale	0	82
Net change in restricted cash	(157)	0
Net cash used in investing activities	(10,213)	(12,063)
<b>Financing Activities:</b>		
Acquisition of common stock	(67,878)	(94,521)
Distribution of noncontrolling interest earnings	(3,786)	(3,772)
Excess tax benefits from stock-based compensation	9,901	4,791
Borrowings on notes payable	3,899	0
Payments on notes payable	(4)	(73)
Proceeds from exercise of stock options	4,352	3,502
Net cash used in financing activities	(53,516)	(90,073)
Effect of exchange rate changes on cash and cash equivalents	1,210	2,950
Net decrease in cash and cash equivalents	(27,020)	(46,054)
Cash and cash equivalents:		
Beginning of period	287,498	392,794
End of period	\$ 260,478	\$ 346,740

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See notes to the condensed consolidated financial statements.



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FOSSIL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

1. FINANCIAL STATEMENT POLICIES

**Basis of Presentation.** The condensed consolidated financial statements include the accounts of Fossil, Inc., a Delaware corporation, and its wholly and majority-owned subsidiaries (the Company). The condensed consolidated financial statements reflect all adjustments that are, in the opinion of management, necessary to present a fair statement of the Company's financial position as of March 31, 2012, and the results of operations for the thirteen week periods ended March 31, 2012 (First Quarter) and April 2, 2011 (Prior Year Quarter), respectively. All adjustments are of a normal, recurring nature.

These interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in the Annual Report on Form 10-K filed by the Company pursuant to the Securities Exchange Act of 1934, as amended (the Exchange Act), for the fiscal year ended December 31, 2011. Operating results for the First Quarter are not necessarily indicative of the results to be achieved for the full fiscal year.

The condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) which require the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the periods reported. Actual results could differ from those estimates. The Company has not made any changes in its significant accounting policies from those disclosed in its most recent Annual Report on Form 10-K.

**Business.** The Company is a global design, marketing and distribution company that specializes in consumer fashion accessories. Its principal offerings include an extensive line of men's and women's fashion watches and jewelry, handbags, small leather goods, belts, sunglasses, shoes, soft accessories and clothing. In the watch and jewelry product categories, the Company has a diverse portfolio of globally recognized owned and licensed brand names under which its products are marketed. The Company's products are distributed globally through various distribution channels, including wholesale in countries where it has a physical presence, direct to the consumer through its retail stores and commercial websites and through third-party distributors in countries where the Company does not maintain a physical presence. The Company's products are offered at varying price points to meet the needs of its customers, whether they are value-conscious or luxury oriented. Based on its extensive range of accessory products, brands, distribution channels and price points, the Company is able to target style-conscious consumers across a wide age spectrum on a global basis.

**Foreign Currency Hedging Instruments.** The Company's foreign subsidiaries periodically enter into foreign exchange forward contracts principally to hedge the future payment of intercompany inventory transactions denominated in U.S. dollars. If the Company's foreign subsidiaries were to settle their contracts designated as cash flow hedges that were denominated in Euros, British Pounds, Mexican Pesos, Australian Dollars, Canadian Dollars and Japanese Yen, the net result would be a gain of approximately \$1.5 million, net of taxes, as of March 31, 2012. Refer to Note 6 Derivatives and Risk Management in the notes to the condensed consolidated financial statements for additional disclosures about the Company's use of forward contracts. The tax benefit and tax expense of changes in fair value of hedging activities for the First Quarter and Prior Year Quarter was \$1.5 million and \$0.4 million, respectively.

**Fair Value Measurements.** The Company defines fair value as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date.

Accounting Standard Codification (ASC) 820, *Fair Value Measurement and Disclosures* (ASC 820), establishes a fair value hierarchy, which prioritizes the inputs used in measuring fair value into three broad levels as follows:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Inputs, other than quoted prices in active markets, that are observable either directly or indirectly.

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Level 3 Unobservable inputs based on the Company's assumptions.  
ASC 820 requires the use of observable market data if such data is available without undue cost and effort.

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The following table presents the fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of March 31, 2012 (in thousands):

	Fair Value at March 31, 2012			Total
	Level 1	Level 2	Level 3	
<b>Assets:</b>				
Securities available for sale:				
Investments in publicly traded equity securities	\$ 206	\$ 0	\$ 0	\$ 206
Foreign exchange forward contracts	0	4,983	0	4,983
Deferred compensation plan assets:				
Investment in publicly traded mutual funds	3,069	0	0	3,069
<b>Total</b>	<b>\$ 3,275</b>	<b>\$ 4,983</b>	<b>\$ 0</b>	<b>\$ 8,258</b>
<b>Liabilities:</b>				
Foreign exchange forward contracts	\$ 0	\$ 2,668	\$ 0	\$ 2,668
<b>Total</b>	<b>\$ 0</b>	<b>\$ 2,668</b>	<b>\$ 0</b>	<b>\$ 2,668</b>

The following table presents the fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of December 31, 2011 (in thousands):

	Fair Value at December 31, 2011			Total
	Level 1	Level 2	Level 3	
<b>Assets:</b>				
Securities available for sale:				
Investment in publicly traded equity securities	\$ 155	\$ 0	\$ 0	\$ 155
Foreign exchange forward contracts	0	10,614	0	10,614
Deferred compensation plan assets:				
Investment in publicly traded mutual funds	2,897	0	0	2,897
<b>Total</b>	<b>\$ 3,052</b>	<b>\$ 10,614</b>	<b>\$ 0</b>	<b>\$ 13,666</b>
<b>Liabilities:</b>				
Foreign exchange forward contracts	\$ 0	\$ 3,586	\$ 0	\$ 3,586
<b>Total</b>	<b>\$ 0</b>	<b>\$ 3,586</b>	<b>\$ 0</b>	<b>\$ 3,586</b>

The fair values of the Company's securities available for sale and deferred compensation plan assets are based on quoted prices. The deferred compensation plan assets are recorded within intangible and other assets-net in the Company's condensed consolidated balance sheets. The foreign exchange forward contracts are entered into by the Company's foreign subsidiaries principally to hedge the future payment of intercompany inventory transactions denominated in U.S. dollars. The fair values of the Company's foreign exchange forward contracts are based on published quotations of spot currency rates and forward points, which are converted into implied forward currency rates.

The Company has evaluated its short-term and long-term debt and believes, based on the interest rates, related terms and maturities, that the fair values of such instruments approximate their carrying amounts. As of March 31, 2012 and December 31, 2011, the carrying values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximated their fair values due to the short-term maturities of these accounts.

**Earnings Per Share ( EPS ).** Basic EPS is based on the weighted average number of common shares outstanding during each period. Diluted EPS adjusts basic EPS for the effects of dilutive common stock equivalents outstanding during each period using the treasury stock method.

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The following table reconciles the numerators and denominators used in the computations of both basic and diluted EPS (in thousands except per share data):

	For the 13 Weeks Ended	
	March 31, 2012	April 2, 2011
<b>Numerator:</b>		
Net income attributable to Fossil, Inc.	\$ 58,140	\$ 55,822
<b>Denominator:</b>		
<b>Basic EPS computation:</b>		
Basic weighted average common shares outstanding	61,859	64,093
Basic EPS	\$ 0.94	\$ 0.87
<b>Diluted EPS computation:</b>		
Basic weighted average common shares outstanding	61,859	64,093
Stock options, stock appreciation rights and restricted stock units	600	753
Diluted weighted average common shares outstanding	62,459	64,846
Diluted EPS	\$ 0.93	\$ 0.86

Approximately 237,000 and 178,000 weighted average shares issuable under stock-based awards were not included in the diluted EPS calculation at the end of the First Quarter and Prior Year Quarter, respectively, because they were antidilutive.

**Restricted Cash.** As of March 31, 2012 and December 31, 2011, the Company had restricted cash of \$6.6 million and \$5.9 million, respectively, primarily pledged as collateral to secure bank guarantees on behalf of the Company for payments related to prospective value-added tax liabilities. This restricted cash is reported in prepaid expenses and other current assets in the Company's condensed consolidated balance sheets as a component of current assets. The Company also had restricted cash of \$1.6 million and \$2.1 million as of March 31, 2012 and December 31, 2011, respectively, pledged as collateral to secure bank guarantees for the purpose of obtaining retail space. This restricted cash is reported in intangibles and other assets-net in the Company's condensed consolidated balance sheets as a component of long-term assets.

**Goodwill.** The changes in the carrying amount of goodwill, which is not subject to amortization, were as follows (in thousands):

	North America wholesale	Europe wholesale	Asia Pacific wholesale	Direct to consumer	Total
Balance at December 31, 2011	\$ 23,605	\$ 17,891	\$ 2,558	\$ 0	\$ 44,054
Foreign currency changes	163	519	43	0	725
Balance at March 31, 2012	\$ 23,768	\$ 18,410	\$ 2,601	\$ 0	\$ 44,779

**Recently Adopted Accounting Standards.** In May 2011, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) 2011-04, *Fair Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* ( ASU 2011-04 ). FASB intends the new guidance to achieve common fair value measurement and disclosure requirements in U.S. GAAP and International Financial Reporting Standards. The amended guidance changes certain fair value measurement principles and enhances the disclosure requirements, particularly for Level 3 assets and liabilities for which the Company will be required to disclose quantitative information about the unobservable inputs used in such fair value measurements. These changes became effective for the Company on January 1, 2012. The adoption of ASU 2011-04 did not have a material impact on the Company's condensed consolidated results of operations and financial position.

In June 2011, FASB issued ASU 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income* ( ASU 2011-05 ). ASU 2011-05 eliminates the option to report other comprehensive income and its components in the consolidated statement of shareholder's equity

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and comprehensive income and requires an entity to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement or in two separate but consecutive statements. The amendments in the update do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. This amendment also

required an entity to present on the face of the financial statements adjustments for items that are reclassified from accumulated other comprehensive income to net income. However, in December 2011, the FASB issued ASU 2011-12, *Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in ASU 2011-05* ( ASU 2011-12 ). ASU 2011-12 defers the specific requirement to present items that are reclassified from accumulated other comprehensive income to net income separately with their respective components of net income and other comprehensive income while FASB further deliberates this aspect of the proposal. ASU 2011-05, as amended by ASU 2011-12, became effective for the Company on January 1, 2012. The adoption of ASU 2011-05 did not have a material impact on the Company's condensed consolidated results of operations and financial position.

In September 2011, FASB issued ASU 2011-08, *Intangibles-Goodwill and Other (Topic 350): Testing Goodwill for Impairment* ( ASU 2011-08 ). ASU 2011-08 simplifies the assessment of goodwill for impairment by allowing companies the option to assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If a company concludes from the qualitative assessment that impairment is more likely than not, the entity is required to perform the two-step quantitative impairment test. These changes became effective for the Company on January 1, 2012. The adoption of ASU 2011-08 did not have a material impact on the Company's condensed consolidated results of operations and financial position.

## 2. INVENTORIES

Inventories consisted of the following (in thousands):

	March 31, 2012	December 31, 2011
Components and parts	\$ 42,085	\$ 37,482
Work-in-process	2,645	4,764
Inventory purchases in transit	49,740	57,474
Finished goods	417,617	389,263
<b>Inventories</b>	<b>\$ 512,087</b>	<b>\$ 488,983</b>

## 3. INCOME TAXES

The Company's income tax expense and related effective rate were as follows (in thousands except percentage data):

	For the 13 Weeks Ended March 31, 2012	For the 13 Weeks Ended April 2, 2011
Income tax expense	\$ 23,524	\$ 31,192
Income tax rate	27.8%	34.9%

The lower effective tax rate in the First Quarter was attributable to various discrete items and the release of \$2.8 million of deferred income tax liabilities associated with a change in management's plans; as a result, a portion of undistributed earnings of certain foreign subsidiaries will be indefinitely reinvested.

As of March 31, 2012, the total amount of unrecognized tax benefits, excluding interest and penalties, was \$18.0 million, of which \$12.7 million would favorably impact the effective tax rate in future periods, if recognized. The examination phase of the Internal Revenue Service ( IRS ) audit for tax years 2005 and 2006 was completed in 2010. The IRS proposed certain adjustments, and the Company filed a protest. This protest is under review by the IRS Office of Appeals, and it is possible that it may be resolved within the next twelve months. The Company is also subject to examinations in various state and foreign jurisdictions for the 2004-2010 tax years, none of which are individually significant. Audit outcomes and the timing of audit settlements are subject to significant uncertainty.

The Company has classified uncertain tax positions as long-term income taxes payable unless such amounts are expected to be paid within twelve months of the condensed consolidated balance sheet date. As of March 31, 2012, the Company has recorded unrecognized tax benefits of \$2.7 million, excluding interest and penalties, for positions that could be settled within the next twelve months. Consistent with its past practice, the Company recognizes interest and/or penalties related to income tax overpayments and income tax underpayments in income tax expense and income taxes receivable/payable, respectively. The total amount of accrued income tax-related interest included in the condensed consolidated balance sheet at March 31, 2012 was \$2.6 million. There were no penalties accrued in the condensed consolidated balance sheet at March 31, 2012. For the First Quarter, the Company accrued income tax-related interest expense of \$0.2 million.



#### 4. STOCKHOLDERS EQUITY AND BENEFIT PLANS

**Common Stock Repurchase Programs.** Purchases of the Company's common stock are made from time to time, subject to market conditions and at prevailing market prices, through the open market. Repurchased shares of common stock are recorded at cost and become authorized but unissued shares which may be issued in the future for general corporate and other purposes. The Company may terminate or limit its stock repurchase program at any time. In the event the repurchased shares are cancelled, the Company accounts for retirements by allocating the repurchase price to common stock, additional paid-in capital and retained earnings. The repurchase price allocation is based upon the equity contribution associated with historical issuances. These repurchase programs were conducted pursuant to Rule 10b-18 of the Exchange Act. During the period from the announcement of the Company's \$750 million buyback authorization in August 2010 until the end of the First Quarter, the Company has repurchased approximately \$509.4 million of its common stock, representing approximately 6.8 million shares.

During the First Quarter, the Company effectively retired 6.8 million shares of common stock repurchased under its repurchase programs during the 2010, 2011 and 2012 fiscal years. The effective retirement of common stock repurchased decreased common stock by \$68,000, additional paid in capital by \$28.5 million retained earnings by \$481.4 million and treasury stock by \$510.0 million.

The following table reflects the Company's common stock repurchase activity for the periods indicated (in millions):

Fiscal year authorized	Dollar value authorized	Termination date	For the 13 Weeks Ended March 31, 2012		For the 2011 Fiscal Year	
			Number of shares repurchased	Dollar value repurchased	Number of shares repurchased	Dollar value repurchased
2010	\$ 30.0	None	0.0	\$ 0.0	0.0	\$ 0.0
2011	\$ 750.0	December 2013	0.6	\$ 59.3	3.1	\$ 270.9

**Stock-Based Compensation Plans.** The Company accounts for stock-based compensation in accordance with the provisions of ASC 718, *Compensation-Stock Compensation* (ASC 718), using the Black-Scholes option pricing model to determine the fair value of stock options and stock appreciation rights at the date of grant. The Company's current stock-based compensation plans include: (i) stock options and restricted stock for its international employees, (ii) stock options and restricted stock units for its non-employee directors and (iii) stock appreciation rights, restricted stock and restricted stock units for its U.S.-based employees. There have been no significant changes to the Company's stock-based compensation plans since the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

The following table summarizes stock options and stock appreciation rights activity during the First Quarter:

Stock Options and Stock Appreciation Rights	Shares IN THOUSANDS	Weighted- Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value IN THOUSANDS
Outstanding at December 31, 2011	1,220	\$ 41.20	5.8	\$ 49,125
Granted	246	127.84		
Exercised	(263)	31.95		24,613
Forfeited or expired	(10)	54.52		
Outstanding at March 31, 2012	1,193	61.03	6.6	84,641
Exercisable at March 31, 2012	515	37.46	4.7	48,661
Nonvested at March 31, 2012	678	78.92	8.0	35,980
Expected to vest	612	\$ 78.92	8.0	\$ 32,655



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The aggregate intrinsic value in the table above is before income taxes and is based on (i) the exercise price for outstanding and exercisable options/rights at March 31, 2012 and (ii) the fair market value of the Company's common stock on the exercise date for options/rights that were exercised during the First Quarter.

**Stock Options and Stock Appreciation Rights Outstanding and Exercisable.** The following table summarizes information with respect to stock options and stock appreciation rights outstanding and exercisable at March 31, 2012:

Range of Exercise Prices	Stock Options and Stock Appreciation Rights Outstanding			Stock Options and Stock Appreciation Rights Exercisable		
	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Number of Shares	Weighted-Average Exercise Price	
	IN THOUSANDS			IN THOUSANDS		
\$11.66 - \$13.15	21	\$ 11.71	0.9	21	\$ 11.71	
\$13.15 - \$26.29	325	18.79	4.5	234	20.68	
\$26.29 - \$39.44	311	34.47	6.0	147	34.08	
\$39.44 - \$52.58	32	43.12	5.7	32	43.12	
\$65.73 - \$78.88	5	69.53	7.9	2	69.53	
\$78.88 - \$92.02	202	81.23	8.5	47	81.23	
\$92.02 - \$105.17	5	93.29	9.0	0	0.00	
\$118.31 - \$131.46	292	127.19	8.5	32	121.73	
<b>Total</b>	<b>1,193</b>	<b>\$ 61.03</b>	<b>6.6</b>	<b>515</b>	<b>\$ 37.46</b>	

**Restricted Stock and Restricted Stock Units.** The following table summarizes restricted stock and restricted stock unit activity during the First Quarter:

Restricted Stock and Restricted Stock Units	Number of Shares	Weighted-Average Grant-Date Fair Value
	IN THOUSANDS	
Nonvested at December 31, 2011	352	\$ 45.70
Granted	62	127.66
Vested	(138)	41.26
Forfeited	(7)	54.34
<b>Nonvested at March 31, 2012</b>	<b>269</b>	<b>66.60</b>
Expected to vest	243	\$ 66.60

The total fair value of restricted stock and restricted stock units vested during the First Quarter was approximately \$17.4 million.

## 5. SEGMENT INFORMATION

The Company manages its business primarily on a geographic basis. The Company's reportable operating segments are comprised of North America wholesale, Europe wholesale, Asia Pacific wholesale and Direct to consumer. The North America wholesale, Europe wholesale and Asia Pacific wholesale reportable segments do not include activities related to the Direct to consumer segment. The North America wholesale segment primarily includes sales to wholesale or distributor customers based in Canada, Mexico, the United States and countries in South America. The Europe wholesale segment primarily includes sales to wholesale or distributor customers based in European countries, the Middle East and Africa. The Asia Pacific wholesale segment primarily includes sales to wholesale or distributor customers based in Australia, China (including the Company's assembly and procurement operations), India, Indonesia, Japan, Malaysia, New Zealand, Singapore, South Korea, Taiwan and Thailand. The Direct to consumer segment includes Company-owned retail stores, e-commerce sales and catalog activities. Each reportable operating segment provides similar products and services.

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The Company evaluates the performance of its reportable segments based on net sales and operating income. Net sales for geographic segments are generally based on the location of the customers. Operating income for each segment includes net sales to third-parties, related cost of sales and operating expenses directly attributable to the segment. General corporate expenses, including certain administrative, legal, accounting, technology support costs, equity compensation costs, payroll costs attributable to executive management and amounts related to intercompany eliminations are not allocated to the various segments. Intercompany sales of products between segments are referred to as intersegment items.

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Summary information by operating segment was as follows (in thousands):

	For the 13 Weeks Ended March 31, 2012		For the 13 Weeks Ended April 2, 2011	
	Net Sales	Operating Income	Net Sales	Operating Income
North America wholesale:				
External customers	\$ 225,000	\$ 53,509	\$ 206,735	\$ 50,332
Intersegment	42,826		30,419	
Europe wholesale:				
External customers	152,950	31,098	151,831	38,112
Intersegment	34,561		35,133	
Asia Pacific wholesale:				
External customers	76,709	25,243	64,216	22,248
Intersegment	166,293		135,683	
Direct to consumer	134,874	8,382	114,193	8,151
Intersegment items	(243,680)		(201,235)	
Corporate		(35,371)		(26,287)
Consolidated	\$ 589,533	\$ 82,861	\$ 536,975	\$ 92,556

The following table reflects net sales for each class of similar products in the periods presented (in thousands except percentage data):

	For the 13 Weeks Ended March 31, 2012		For the 13 Weeks Ended April 2, 2011	
	Net Sales	Percentage of Total	Net Sales	Percentage of Total
Watches	\$ 418,432	71.0%	\$ 372,709	69.4%
Leathers	104,047	17.7	90,549	16.9
Jewelry	39,152	6.6	42,166	7.8
Other	27,902	4.7	31,551	5.9
Total	\$ 589,533	100.0%	\$ 536,975	100.0%

## 6. DERIVATIVES AND RISK MANAGEMENT

The Company is exposed to certain risks relating to its ongoing business operations, which it attempts to manage by using derivative instruments. The primary risks managed by using derivative instruments are the fluctuations in global currencies that will ultimately be used by non-U.S. dollar functional currency subsidiaries to settle future payments of intercompany inventory transactions denominated in U.S. dollars. Specifically, the Company projects future intercompany purchases by its non-U.S. dollar functional currency subsidiaries generally over a period of up to 18 months. The Company enters into foreign exchange forward contracts ( forward contracts ) generally for up to 65% of the forecasted purchases to manage fluctuations in global currencies that will ultimately be used to settle such U.S. dollar denominated inventory purchases. Forward contracts represent agreements to exchange the currency of one country for the currency of another country at an agreed-upon settlement date. The majority of the Company's forward contracts are designated as single cash flow hedges. Fluctuations in exchange rates will either increase or decrease the Company's U.S. dollar equivalent cash flows from these intercompany inventory transactions, which will affect the Company's U.S. dollar earnings. Gains or losses on the forward contracts are expected to offset these fluctuations to the extent the cash flows are hedged by the forward contracts. The Company also periodically enters into forward contracts to manage exchange rate risks associated with certain non-inventory intercompany transactions and to which the Company does not elect hedge treatment. All of the Company's outstanding forward contracts were designated as hedging instruments as of March 31, 2012 and December 31, 2011.

The forward contracts that the Company purchased to hedge exchange rate risk associated with intercompany inventory transactions meet the criteria for hedge eligibility, which requires that they represent foreign-currency-denominated forecasted intra-entity transactions in which (i) the operating unit that has the foreign currency exposure is a party to the hedging instrument and (ii) the hedged transaction is denominated in a currency other than the hedging unit's functional currency. At the inception of the hedge, the hedging relationship is expected to be highly effective in achieving offsetting cash flows attributable to the hedged risk. The Company assesses hedge effectiveness under the critical terms matched method at inception and at least quarterly throughout the life of the hedging relationship. If the critical terms (i.e., amounts, currencies and settlement dates) of the forward currency exchange contract match the terms of the forecasted transaction, the Company concludes that the hedge is effective.

The accounting for gains and losses that result from changes in the fair values of derivative instruments depends on whether the derivatives have been designated and qualify as hedging instruments. Changes in the fair value of derivatives not designated as hedging instruments are recognized in earnings when they occur. For a derivative instrument that is designated and qualifies as a cash flow hedge, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income (loss), net of taxes and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings. Due to the high degree of effectiveness between the hedging instruments and the underlying exposures being hedged, the Company's hedges resulted in no ineffectiveness in the condensed consolidated statements of income and comprehensive income, and there were no components excluded from the assessment of hedge effectiveness for the First Quarter or Prior Year Quarter.

All derivative instruments are recognized as either assets or liabilities at fair value in the condensed consolidated balance sheet. Forward contracts designated as cash flow hedges are recorded at fair value at each balance sheet date and the change in fair value is recorded to accumulated other comprehensive income (loss) within the equity section of the balance sheet until such forward contract's gains (losses) become realized or the cash flow hedge relationship is terminated. If the cash flow hedge relationship is terminated, the derivative's gains or losses that are deferred in accumulated other comprehensive income (loss) will be recognized in earnings when the hedged cash flows occur. However, for cash flow hedges that are terminated because the forecasted transaction is not expected to occur in the original specified time period, the derivative's gains or losses are immediately recognized in earnings. There were no gains or losses reclassified into earnings as a result of the discontinuance of cash flow hedges in the First Quarter or Prior Year Quarter. Hedge accounting is discontinued if it is determined that the derivative is not highly effective. The Company records all cash flow hedge assets and liabilities on a gross basis as they do not meet the balance sheet netting criteria because the Company does not have master netting agreements established with the derivative counterparties that would allow for net settlement. As of March 31, 2012, the Company had the following outstanding forward contracts that were entered into to hedge the future payments of intercompany inventory transactions (in thousands):

Type	Functional Currency	Amount	Type	Contract Currency	Amount
Euro		132,345	U.S. Dollar		179,969
British Pound		15,691	U.S. Dollar		24,835
Japanese Yen		2,525,700	U.S. Dollar		30,775
Mexican Peso		152,500	U.S. Dollar		11,200
Australian Dollar		8,310	U.S. Dollar		8,248
Canadian Dollar		17,681	U.S. Dollar		17,619



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The effective portion of gains and losses on derivative instruments that was recognized in other comprehensive (loss) income, net of taxes during the First Quarter and the Prior Year Quarter is set forth below (in thousands):

**Derivatives Designated as Cash**

<b>Flow Hedges Under ASC 815</b>	<b>For the 13 Weeks Ended March 31, 2012</b>	<b>For the 13 Weeks Ended April 2, 2011</b>
Foreign exchange forward contracts	\$ (497)	\$ (7,093)
Total loss recognized in other comprehensive income (loss), net of taxes	\$ (497)	\$ (7,093)

The following table illustrates the effective portion of gains and losses on derivative instruments designated and qualifying as cash flow hedges recorded in other comprehensive income (loss), net of taxes during the term of the hedging relationship and reclassified into earnings, and gains and losses on derivatives not designated as hedging instruments recorded directly to earnings during the First Quarter and Prior Year Quarter (in thousands):

<b>Foreign Exchange Forward Contracts Under ASC 815</b>	<b>Condensed Consolidated Statements of Income and Comprehensive Income Location</b>	<b>For the 13 Weeks Ended March 31, 2012</b>	<b>For the 13 Weeks Ended April 2, 2011</b>
Cash flow hedging instruments	Other income (expense) net	Total gain/(loss) reclassified from other comprehensive income (loss), net of taxes into income, net of taxes	\$ 852 \$ (2,246)

The following table discloses the fair value amounts for the Company's derivative instruments as separate asset and liability values, presents the fair value of derivative instruments on a gross basis, and identifies the line items in the condensed consolidated balance sheets in which the fair value amounts for these categories of derivative instruments are included (in thousands):

	<b>Asset Derivatives</b>				<b>Liability Derivatives</b>			
	<b>March 31, 2012</b>		<b>December 31, 2011</b>		<b>March 31, 2012</b>		<b>December 31, 2011</b>	
<b>Foreign exchange forward contracts under ASC 815</b>	<b>Condensed Consolidated Balance Sheet Location</b>	<b>Fair Value</b>	<b>Consolidated Balance Sheet Location</b>	<b>Fair Value</b>	<b>Condensed Consolidated Balance Sheet Location</b>	<b>Fair Value</b>	<b>Consolidated Balance Sheet Location</b>	<b>Fair Value</b>
Cash flow hedging instruments	Prepaid expenses and other current assets	\$ 4,573	Prepaid expenses and other current assets	\$ 9,719	Accrued expenses other	\$ 2,366	Accrued expenses other	\$ 3,204
Cash flow hedging instruments	Intangible and other assets net	410	Intangible and other assets net	895	Other long term liabilities	302	Other long term liabilities	382
<b>Total</b>		<b>\$ 4,983</b>		<b>\$ 10,614</b>		<b>\$ 2,668</b>		<b>\$ 3,586</b>

At the end of the First Quarter, the Company had foreign exchange forward contracts with maturities extending through January 2014. The estimated net amount of the existing gains or losses at March 31, 2012 that is expected to be reclassified into earnings within the next twelve months is a gain of \$1.4 million.





**7. CONTROLLING AND NONCONTROLLING INTEREST**

The following tables summarize the changes in equity attributable to controlling and noncontrolling interest (in thousands):

	<b>Fossil, Inc. Stockholders Equity</b>	<b>Noncontrolling Interest</b>	<b>Total Stockholders Equity</b>
Balance at December 31, 2011	\$ 1,105,929	\$ 10,917	\$ 1,116,846
Net income	58,140	2,932	61,072
Currency translation adjustments	10,071	0	10,071
Unrealized gain on securities available for sale	50	0	50
Forward contracts hedging intercompany foreign currency payments change in fair values	(1,349)	0	(1,349)
Common stock issued upon exercise of stock options and stock appreciation rights	4,352	0	4,352
Tax benefit derived from stock-based compensation	9,901	0	9,901
Distribution of noncontrolling interest earnings	0	(3,786)	(3,786)
Acquisition of common stock	(67,878)	0	(67,878)
Stock-based compensation expense	3,144	0	3,144
Balance at March 31, 2012	\$ 1,122,360	\$ 10,063	\$ 1,132,423

	<b>Fossil, Inc. Stockholders Equity</b>	<b>Noncontrolling Interest</b>	<b>Total Stockholders Equity</b>
Balance at January 1, 2011	\$ 1,044,118	\$ 7,590	\$ 1,051,708
Net income	55,822	2,244	58,066
Currency translation adjustments	19,326	0	19,326
Unrealized loss on securities available for sale	(436)	0	(436)
Forward contracts hedging intercompany foreign currency payments change in fair values	(4,847)	0	(4,847)
Common stock issued upon exercise of stock options and stock appreciation rights	3,502	0	3,502
Tax benefit derived from stock-based compensation	4,791	0	4,791
Distribution of noncontrolling interest earnings	0	(3,772)	(3,772)
Common stock forfeitures put to treasury	(3,280)	0	(3,280)