

FOSSIL INC  
Form 10-Q  
August 13, 2009

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

**(Mark One)**

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

**For the quarterly period ended: July 4, 2009**

**OR**

**o      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: 0-19848**

**FOSSIL, INC.**

(Exact name of registrant as specified in its charter)

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

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

**2280 N. Greenville Avenue, Richardson, Texas 75082**

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(Address of principal executive offices) (Zip Code)

(972) 234-2525

(Registrant's telephone number, including area code)

Indicate by check mark whether 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 definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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 August 10, 2009: 66,665,268.

**PART I - FINANCIAL INFORMATION****Item 1. Financial Statements****FOSSIL, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS****UNAUDITED****AMOUNTS IN THOUSANDS**

	July 4, 2009	January 3, 2009
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 264,090	\$ 172,012
Securities available for sale	7,980	6,436
Accounts receivable - net of allowances of \$47,370 and \$55,596, respectively	139,183	205,973
Inventories - net	250,132	291,955
Deferred income tax assets - net	28,728	27,006
Prepaid expenses and other current assets	61,167	60,084
Total current assets	751,280	763,466
Investments	11,987	13,011
Property, plant, and equipment - net of accumulated depreciation of \$166,479 and \$156,758, respectively	207,900	207,328
Goodwill	43,765	43,217
Intangible and other assets - net	64,367	60,274
Total assets	\$ 1,079,299	\$ 1,087,296
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Short-term debt	\$ 3,505	\$ 5,271
Accounts payable	70,615	91,027
Accrued expenses:		
Compensation	29,333	34,091
Royalties	11,603	17,078
Co-op advertising	10,893	21,869
Other	26,099	30,306
Income taxes payable	2,307	7,327
Total current liabilities	154,355	206,969
Long-term income taxes payable	40,739	38,784
Deferred income tax liabilities	28,297	22,880
Long-term debt	4,473	4,733
Other long-term liabilities	9,384	8,567
Total long-term liabilities	82,893	74,964

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## Stockholders' equity:

Common stock, 66,657 and 66,502 shares issued at July 4, 2009 and January 3, 2009, respectively

	667	665
Additional paid-in capital	85,476	81,905
Retained earnings	729,370	695,427
Accumulated other comprehensive income	23,877	24,147
Noncontrolling interest	2,661	3,219
Total stockholders' equity	842,051	805,363
Total liabilities and stockholders' equity	\$ 1,079,299	\$ 1,087,296

See notes to the condensed consolidated financial statements.

**FOSSIL, INC. AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

**AND COMPREHENSIVE INCOME**

**UNAUDITED**

**AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA**

	For the 13 Weeks Ended		For the 26 Weeks Ended	
	July 4, 2009	July 5, 2008	July 4, 2009	July 5, 2008
Net sales	\$ 315,865	\$ 353,191	\$ 638,893	\$ 709,375
Cost of sales	148,683	162,852	302,331	324,785
Gross profit	167,182	190,339	336,562	384,590
Operating expenses:				
Selling and distribution	107,522	115,397	215,610	220,720
General and administrative	37,184	39,981	74,673	79,794
Total operating expenses	144,706	155,378	290,283	300,514
Operating income	22,476	34,961	46,279	84,076
Interest expense	69	93	132	292
Other income (expense) - net	4,550	(1,214)	9,233	(737)
Income before income taxes	26,957	33,654	55,380	83,047
Provision for income taxes	9,709	7,147	19,392	24,738
Net income	17,248	26,507	35,988	58,309
Less: Net income attributable to noncontrolling interest	625	1,370	2,045	2,955
Net income attributable to Fossil, Inc.	\$ 16,623	\$ 25,137	\$ 33,943	\$ 55,354
Other comprehensive income (loss) - net of taxes:				
Currency translation adjustment	12,943	(542)	4,279	14,108
Unrealized gain (loss) on securities available for sale	245	(269)	501	(673)
Forward contracts hedging intercompany foreign currency payments - change in fair values	(4,527)	1,876	(5,050)	(3,471)
Comprehensive income	25,909	27,572	35,718	68,273
Less: Comprehensive income attributable to noncontrolling interest	627	1,370	2,046	2,955
Comprehensive income attributable to Fossil, Inc.	\$ 25,282	\$ 26,202	\$ 33,672	\$ 65,318
Earnings per share:				
Basic	\$ 0.25	\$ 0.37	\$ 0.51	\$ 0.81
Diluted	\$ 0.25	\$ 0.36	\$ 0.51	\$ 0.80
Weighted average common shares outstanding:				
Basic	66,668	67,936	66,607	68,281

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Diluted	67,110	68,996	66,881	69,452
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See notes to the condensed consolidated financial statements.

**FOSSIL, INC. AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

**UNAUDITED**

**AMOUNTS IN THOUSANDS**

	<b>For the 26 Weeks Ended</b>	
	<b>July 4, 2009</b>	<b>July 5, 2008</b>
<b>Operating Activities:</b>		
Net income	\$ 35,988	\$ 58,309
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	20,450	18,016
Stock-based compensation	3,576	3,458
Decrease in allowance for returns - net of related inventory in transit	(5,400)	(52)
Loss (gain) on disposal of assets	95	(24)
Impairment Loss	900	
Equity in loss (income) of joint venture	930	(789)
Increase in allowance for doubtful accounts	1,281	1,813
Excess tax expense (benefit) from stock-based compensation	323	(617)
Deferred income taxes	4,802	4,725
Changes in operating assets and liabilities - net of effects of acquisitions:		
Accounts receivable	75,017	53,200
Inventories	37,715	(40,250)
Prepaid expenses and other current assets	(3,619)	(8,667)
Accounts payable	(27,255)	(18,385)
Accrued expenses	(25,093)	(28,167)
Income taxes payable	(3,387)	(9,893)
Net cash from operating activities	116,323	32,677
<b>Investing Activities:</b>		
Additions to property, plant, and equipment	(16,205)	(24,313)
Increase in intangible and other assets	(3,170)	(5,385)
Purchase of securities available for sale	(868)	(1,470)
Sales and maturities of securities available for sale	20	6,256
Net cash used in investing activities	(20,223)	(24,912)
<b>Financing Activities:</b>		
Acquisition and retirement of common stock		(61,871)
Distribution of noncontrolling interest earnings	(2,602)	(4,330)
Excess tax (expense) benefit from stock-based compensation	(323)	617
Borrowings on notes payable	1,561	
Payments on notes payable	(3,355)	(6,135)
Proceeds from exercise of stock options		