

**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: April 1, 2000

OR

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

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, Richardson, Texas 75082

(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 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

The number of shares of Registrant's common stock, outstanding as of May 12, 2000: 32,108,789

ITEM 1. FINANCIAL STATEMENTS

FOSSIL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)

	April 1, 2000	January 1, 2000
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 92,256	\$ 90,908
Short-term marketable investments	4,800	10,870
Accounts receivable – net	58,193	51,399
Inventories	72,977	63,029
Deferred income tax benefits	6,874	6,769
Prepaid expenses and other current assets	<u>8,698</u>	<u>7,832</u>
Total current assets	243,798	230,807
Investment in joint venture	3,591	3,849
Property, plant and equipment – net	29,777	28,603
Intangible and other assets – net	<u>6,270</u>	<u>6,105</u>
	<u>\$ 283,436</u>	<u>\$ 269,364</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable	\$ 5,001	\$ 5,043
Accounts payable	21,476	11,870
Accrued expenses:		
Co-op advertising	13,396	15,191
Compensation	4,319	4,617
Other	13,399	21,493
Income taxes payable	<u>21,132</u>	<u>17,395</u>
Total current liabilities	78,723	75,609
Minority interest in subsidiaries	2,486	2,558
Stockholders' equity:		
Common stock, shares issued and outstanding, 32,107,270	321	321
Additional paid-in capital	42,012	41,774
Retained earnings	165,279	153,569
Accumulated other comprehensive income	(5,211)	(3,259)
Treasury stock at cost, 8,369 and 59,572 shares, respectively	<u>(174)</u>	<u>(1,208)</u>
Total stockholders' equity	<u>202,227</u>	<u>191,197</u>
	<u>\$ 283,436</u>	<u>\$ 269,364</u>

See notes to condensed consolidated financial statements.

FOSSIL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
AND COMPREHENSIVE INCOME
UNAUDITED
(In thousands, except per share amounts)

	For the 13 Weeks Ended April 1, <u>2000</u>	For the 13 Weeks Ended April 3, <u>1999</u>
Net sales	\$ 103,569	\$ 83,277
Cost of sales	<u>49,910</u>	<u>40,605</u>
Gross profit	53,659	42,672
Operating expenses:		
Selling and distribution	24,183	17,899
General and administrative	<u>8,317</u>	<u>6,896</u>
Total operating expenses	<u>32,500</u>	<u>24,795</u>
Operating income	21,159	17,877
Interest expense	27	25
Other income (expense) – net	<u>273</u>	<u>(141)</u>
Income before income taxes	21,405	17,711
Provision for income taxes	<u>8,777</u>	<u>7,280</u>
Net income	\$ 12,628	\$ 10,431
Other comprehensive income:		
Currency translation adjustment	(2,029)	(207)
Unrealized gain (loss) on short-term investments	<u>77</u>	<u>(18)</u>
Total comprehensive income	<u>\$ 10,676</u>	<u>\$ 10,206</u>
Earnings per share:		
Basic	<u>\$ 0.39</u>	<u>\$ 0.33</u>
Diluted	<u>\$ 0.38</u>	<u>\$ 0.32</u>
Weighted average common and common equivalent shares outstanding:		
Basic	<u>32,045</u>	<u>31,411</u>
Diluted	<u>33,208</u>	<u>33,083</u>

See notes to condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
UNAUDITED
(In thousands)

	For the 13 Weeks Ended April 1, <u>2000</u>	For the 13 Weeks Ended April 3, <u>1999</u>
Operating activities:		
Net income	\$ 12,628	\$ 10,431
Noncash items affecting net income:		
Minority interest in subsidiaries	421	257
Equity in losses of affiliate	258	-
Depreciation and amortization	1,756	1,417
Increase in allowance for doubtful accounts	232	311
Increase in allowance for returns - net of related inventory in transit	81	304
Deferred income tax benefits	(106)	(339)
Changes in assets and liabilities:		
Accounts receivable	(7,760)	1,311
Inventories	(9,295)	(269)
Prepaid expenses and other current assets	(865)	(1,453)
Accounts payable	8,493	(2,924)
Accrued expenses	(10,187)	(2,792)
Income taxes payable	<u>3,975</u>	<u>6,985</u>
Net cash (used in) from operating activities	(369)	13,239
Investing activities:		
Additions to property, plant and equipment	(2,841)	(1,806)
Sale of marketable investments	6,070	-
Increase in intangible and other assets	<u>(254)</u>	<u>(310)</u>
Net cash from (used in) investing activities	2,975	(2,116)
Financing activities:		
Issuance of common or treasury stock for stock option exercises	383	1,355
Purchase of treasury stock	(267)	-
Distribution of minority interest earnings	(493)	(473)
Repayments of notes payable-banks	<u>(42)</u>	<u>(261)</u>
Net cash (used in) from financing activities	(419)	621
Effect of exchange rate changes on cash and cash equivalents	<u>(839)</u>	<u>(218)</u>
Net increase in cash and cash equivalents	1,348	11,526
Cash and cash equivalents:		
Beginning of period	<u>90,908</u>	<u>57,263</u>
End of period	<u>\$ 92,256</u>	<u>\$ 68,789</u>

See notes to condensed consolidated financial statements.

FOSSIL, INC. AND SUBSIDIARIES
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 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 April 1, 2000, and the results of operations for the thirteen-week periods ended April 1, 2000 and April 3, 1999. All adjustments are of a normal, recurring nature.

These interim financial statements should be read in conjunction with the audited financial statements and the notes thereto included in Form 10-K filed by the Company pursuant to the Securities Exchange Act of 1934 for the year ended January 1, 2000. Operating results for the thirteen-week period ended April 1, 2000, are not necessarily indicative of the results to be achieved for the full year.

On July 21, 1999, the Board of Directors of the Company declared a 3-for-2 stock split (“Stock Split”) of the Company’s \$0.01 par value common stock (“Common Stock”) which was effected in the form of a stock dividend which was paid on August 17, 1999 to stockholders of record on August 3, 1999. Retroactive effect has been given to the Stock Split in stockholders’ equity accounts and in all share and per share data in the accompanying condensed consolidated financial statements and notes thereto.

Business. The Company designs, develops, markets and distributes fashion watches and other accessories, principally under the “FOSSIL” and “RELIC” brands names. The Company’s products are sold primarily through department stores and other major retailers, both domestically and in over 85 countries worldwide.

2. INVENTORIES

Inventories consist of the following:

<i>(In thousands)</i>	April 1, 2000	January 1, 2000
Components and parts	\$ 5,234	\$ 5,568
Work-in-process	2,743	2,755
Finished merchandise on hand	47,006	38,595
Merchandise at Company stores	7,878	7,481
Merchandise in-transit from estimated customer returns	<u>10,116</u>	<u>8,630</u>
	<u>\$72,977</u>	<u>\$63,029</u>

The Company periodically enters into forward contracts principally to hedge the payment of intercompany inventory transactions with its non-U.S. subsidiaries. Currency exchange gains or losses resulting from the translation of the related accounts, along with the offsetting gains or losses from the hedge, are deferred until the inventory is sold or the forward contract is completed. At April 1, 2000, the Company had hedge contracts to sell 194.4 million Japanese Yen for approximately \$1.9 million, expiring through December 2000 and 7.13 billion Italian Lira for approximately \$3.6 million, expiring through June 2000.

3. GEOGRAPHIC INFORMATION
(In thousands)

	For the 13 Weeks Ended April 1, 2000		For the 13 Weeks Ended April 3, 1999	
	<u>Net Sales</u>	<u>Operating Income</u>	<u>Net Sales</u>	<u>Operating Income</u>
U.S.- exclusive of Stores:				
External customers	\$ 65,197	\$10,409	\$51,188	\$ 8,790
Intergeographic	17,100	-	7,700	-
Far East:				
External customers	8,218	8,032	6,071	5,834
Intergeographic	42,700	-	27,400	-
Stores	7,044	(810)	4,789	(597)
Europe	21,672	4,042	19,215	4,280
Japan	1,445	(514)	1,942	(430)
Intergeographic items	<u>(59,807)</u>	<u>-</u>	<u>(35,028)</u>	<u>-</u>
Consolidated	<u>\$103,569</u>	<u>\$21,159</u>	<u>\$83,277</u>	<u>\$17,877</u>

4. EARNINGS PER SHARE

The following table reconciles the numerators and denominators used in the computations of both basic and diluted EPS:

<i>(In thousands, except per share data)</i>	For the 13 Weeks Ended April 1, <u>2000</u>	For the 13 Weeks Ended April 3, <u>1999</u>
Basic EPS computation:		
Numerator:		
Net income	<u>\$ 12,628</u>	<u>\$10,431</u>
Denominator:		
Weighted average common shares outstanding	32,048	31,471
Treasury stock	<u>(3)</u>	<u>(60)</u>
	<u>32,045</u>	<u>31,411</u>
Basic EPS	<u>\$ 0.39</u>	<u>\$ 0.33</u>
Diluted EPS computation:		
Numerator:		
Net income	<u>\$ 12,628</u>	<u>\$10,431</u>
Denominator:		
Weighted average common shares outstanding	32,048	31,471
Stock option conversion	1,163	1,672
Treasury stock	<u>(3)</u>	<u>(60)</u>
	<u>33,208</u>	<u>33,083</u>
Diluted EPS	<u>\$ 0.38</u>	<u>\$ 0.32</u>

5. STOCKHOLDER'S EQUITY

During the First Quarter of 2000, the Company repurchased 12,800 shares of treasury stock for \$267,604.

FOSSIL, INC. AND SUBSIDIARIES

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is a discussion of the financial condition and results of operations of the Company for the thirteen-week period ended April 1, 2000 (the "First Quarter"), as compared to the thirteen-week period ended April 3, 1999 (the "Prior Year Quarter"). This discussion should be read in conjunction with the Condensed Consolidated Financial Statements and the related Notes attached hereto.

General

The Company is a leader in the design, development, marketing and distribution of contemporary, high quality fashion watches and accessories. The FOSSIL brand name was developed by the Company to convey a distinctive fashion, quality and value message and a brand image reminiscent of "America in the 1950s" that suggests a time of fun, fashion and humor. Since its inception in 1984, the Company has grown from its original flagship FOSSIL watch product into a Company offering a diversified range of accessories. The Company's current product offerings include an extensive line of fashion watches sold under the FOSSIL and RELIC brands as well as complementary lines of small leather goods, belts, handbags and sunglasses. In addition to developing its own brands, the Company leverages its development and production expertise by designing and manufacturing private label and licensed products for some of the most prestigious companies in the world, including national retailers, entertainment companies and fashion designers.

The Company's products are sold to department stores and specialty retail stores in over 85 countries worldwide through Company-owned foreign sales subsidiaries and through a network of approximately 52 independent distributors. The Company's foreign operations include a presence in Asia, Australia, Canada, the Caribbean, Europe, Central and South America and the Middle East. In addition, the Company's products are offered at Company-owned retail locations throughout the United States and in independently-owned, authorized FOSSIL retail stores and kiosks located in several major airports, on cruise ships and in certain international markets. The Company's successful expansion of its product lines worldwide and leveraging of its infrastructure have contributed to its increasing net sales and operating profits.

First Quarter & Company Highlights

- FOSSIL brand watch sales continue to show double-digit growth at retail with an increased emphasis on the ladies F2 line of watches.
- FOSSIL brand handbags recorded sales volume growth with net sales increases over 70% during the First Quarter. This increase was largely due to the strong retail demand for the Company's traditional leather handbag products as well as the current non-leather seasonal line.
- RELIC, the Company-owned brand sold in leading national and regional chain department stores, recorded sales volume growth exceeding 70% during the First Quarter. This increase was driven by strong volume increases in RELIC watches combined with continued roll-out of RELIC leather goods.
- The Company continued to strengthen its licensed watch product line. During the First Quarter, the Company launched its DKNY brand licensed watch line, which generated sales of approximately \$4.3 million. Additionally, sales of EMPORIO ARMANI brand watches increased 28% over the prior year to \$8.6 million during the First Quarter.
- International sales continued to show strong growth despite the strengthening of the U.S. dollar over the Euro currency. Overall sales volume growth increased approximately 15% during the First Quarter. In a stable Euro currency environment relative to the first quarter of 1999, sales volume growth would have been approximately 28%.

The Company operated 33 outlet and 17 retail stores at the end of the First Quarter compared to 27 outlet and 11 retail stores at the end of the Prior Year Quarter. This retail store expansion, as well as increases in same store sales, also positively impacted sales.

Results of Operations

The following table sets forth, for the periods indicated, (i) the percentages of the Company's net sales represented by certain line items from the Company's condensed consolidated statements of income and (ii) the percentage changes in these line items between the current period and the comparable period of the prior year.

	<u>Percentage of Net Sales</u>		<u>Percentage Change</u>
	<u>For the 13 Weeks Ended</u>		<u>For the 13 Weeks Ended</u>
	<u>April 1, 2000</u>	<u>April 3, 1999</u>	<u>April 1, 2000</u>
Net sales	100.0%	100.0%	24.4%
Cost of sales	<u>48.2</u>	<u>48.8</u>	22.9
Gross profit margin	51.8	51.2	25.7
Selling and distribution expenses	23.4	21.5	35.1
General and administrative expenses	<u>8.0</u>	<u>8.3</u>	20.6
Operating income	20.4	21.4	18.4
Interest expense	0.0	0.0	8.0
Other income (expense)- net	<u>0.3</u>	<u>(0.2)</u>	293.6
Income before income taxes	20.7	21.2	20.9
Income taxes	<u>8.5</u>	<u>8.7</u>	20.6
Net income	<u>12.2%</u>	<u>12.5%</u>	21.1%

Net Sales. The following table sets forth certain components of the Company's consolidated net sales and the percentage relationship of the components to consolidated net sales for the periods indicated (in millions, except percentage data):

	<u>Amounts</u>		<u>% of Total</u>	
	<u>For the 13 Weeks Ended</u>		<u>For the 13 Weeks Ended</u>	
	<u>April 1, 2000</u>	<u>April 3, 1999</u>	<u>April 1, 2000</u>	<u>April 3, 1999</u>
International:				
Europe	\$ 21.7	\$ 19.3	%	23 %
Other	<u>9.7</u>	<u>8.0</u>		<u>10</u>
Total International	<u>31.4</u>	<u>27.3</u>		<u>33</u>
Domestic:				
Watch products	41.4	36.3		43
Other products	<u>23.8</u>	<u>14.9</u>		<u>18</u>
Total	65.2	51.2		61
Stores	<u>7.0</u>	<u>4.8</u>		<u>6</u>
Total Domestic	<u>72.2</u>	<u>56.0</u>		<u>67</u>
Total Net Sales	<u>\$103.6</u>	<u>\$ 83.3</u>	%	<u>100</u> %

Fueling top line sales growth during the First Quarter was (a) a 59% increase in the Company's domestic other accessory product lines, primarily handbags and other FOSSIL branded leather products, (b) sales of \$4.3 million from the launch of the DKNY licensed watch line and (c) a 46% increase in sales from Company-owned stores. Sales volume increases during the First Quarter were partially offset by decreases in the Company's private label watch line. Management anticipates sales volume growth of 20% or more over the remainder of 2000 from increased sales of existing product lines and businesses as well as new product lines scheduled to be launched.

Gross Profit. Gross profit margins increased from 51.2% in the Prior Year Quarter to 51.8% in the First Quarter. The increase is primarily due to the positive gross margin influence from a higher sales mix of licensed designer watches and sales from Company-owned stores. In addition, gross profit margins were favorably impacted from higher production levels in the Company's foreign-based assembly facilities. These positive influences were partially offset by the impact of the increase in sales of leather goods which historically generate gross profit margins below the Company's consolidated average margins. Management believes the Company's gross profit margins for the remainder of 2000 will be equal to, or marginally above, the levels achieved during 1999.

Operating Expenses. The aggregate increase in operating expenses was due primarily to costs necessary to support increased sales volumes. Total selling, general and administrative expenses as a percentage of net sales, increased in the First Quarter compared to the Prior Year Quarter. This increase was primarily due to increased display cost incurred in connection with the DKNY licensed watch line launch, the continued roll-out of leather handbag fixtures and costs associated with the addition of 12 new Company-owned stores opened following the Prior Year Quarter. Additionally, increased brand advertising, primarily through certain internet portal relationships, and continued enhancement of the Company's web site added to the operating expense increases. Management believes the operating expense ratio for the remainder of 2000 will approximate 1999 levels with operating expense leveraging improving throughout the remainder of the year.

Other Income (Expense). Other income (expense) increased favorably during the First Quarter as compared to the Prior Year Quarter. The increase was primarily due to (a) increased interest income generated from increased cash levels, (b) increased royalty revenues generated on certain FOSSIL brand license agreements and (c) a decrease in exchange losses realized. These increases in other income were partially offset by increases in minority interest expense generated as a result of increased profitability from the Company's majority-owned subsidiaries.

Liquidity and Capital Resources

The Company's general business operations historically have not required substantial cash needs during the first several months of its fiscal year. Generally, starting in the second quarter the Company's cash needs begin to increase, typically reaching its peak in the September-November time frame. The additional cash needs have generally been to finance the accumulation of inventory and the build-up in accounts receivable. During the First Quarter, the Company increased its cash holdings and short-term marketable securities to \$97 million in comparison to \$69 million at the end of Prior Year Quarter. However, the Company's cash and short-term marketable securities position decreased by \$4.7 million from the end of 1999 due to the accumulation of inventory and the build-up in accounts receivable during the First Quarter. The increase in inventory was a result of (a) DKNY inventory necessary to support the product launch and reorders, (b) an increase in EMPORIO ARMANI inventory levels due to lower levels of inventory at the end of 1999 and (c) increases in the number of Company-owned stores. The build-up in accounts receivable was primarily related to the timing of First Quarter sales inclusive of the DKNY watch line launch which took place in late February through March. During the last half of the First Quarter, the Company's domestic-based sales alone increased \$17 million as compared to the last half of the Prior Year Quarter. Management anticipates the accounts receivable percentage increase in comparison to prior year comparable periods to more closely approximate the applicable sales percentage increases by the end of the Company's second quarter. At the end of the First Quarter, the Company had working capital of \$165 million compared to working capital of \$120 million and \$155 million at the end of the Prior Year Quarter and fiscal 1999 year-end, respectively. The Company had outstanding

borrowings of only \$5 million against its combined \$15 million bank credit facilities at the end of the First Quarter. Management believes that cash flow from operations combined with existing cash on hand will be sufficient to satisfy its working capital expenditures for at least the next eighteen months.

Forward-Looking Statements

Included within management's discussion of the Company's operating results, "forward-looking statements" were made within the meaning of the Private Securities Litigation Reform Act of 1995 regarding expectations for 2000. The actual results may differ materially from those expressed by these forward-looking statements. Significant factors that could cause the Company's 2000 operating results to differ materially from management's current expectations include, among other items, significant changes in consumer spending patterns or preferences, competition in the Company's product areas, international in comparison to domestic sales mix, changes in foreign currency valuations in relation to the United States dollar, principally the European Union's Euro and Japanese Yen, an inability of management to control operating expenses in relation to net sales without damaging the long-term direction of the Company and the risks and uncertainties set forth in the Company's current report on Form 8-K dated March 30, 1999.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a multinational enterprise, the Company is exposed to changes in foreign currency exchange rates. The Company employs a variety of practices to manage this market risk, including its operating and financing activities and, where deemed appropriate, the use of derivative financial instruments. Forward contracts have been utilized by the Company to mitigate foreign currency risk. The Company's most significant foreign currency risks relate to the Euro and the Japanese Yen. The Company uses derivative financial instruments only for risk management purposes and does not use them for speculation or for trading. There were no significant changes in how the Company managed foreign currency transactional exposures during the First Quarter and management does not anticipate any significant changes in such exposures or in the strategies it employs to manage such exposures in the near future.

PART II - OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

27 Financial Data Schedule

(b) Reports on Form 8-K

No reports on Form 8-K were filed during the period covered by this Report.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FOSSIL, INC.

Date: May 15, 2000

/s/ Randy S. Kercho
Randy S. Kercho
Executive Vice President and Chief Financial Officer
(Principal financial and accounting officer duly
authorized to sign on behalf of Registrant)

EXHIBIT INDEX

Exhibit
Number

Document Description

27

Financial Data Schedule.