

**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: July 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 August 11, 2000: 32,129,092.

PART 1 - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

FOSSIL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share amounts)

	July 1, 2000 (Unaudited)	January 1, 2000
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 81,849	\$ 90,908
Short-term marketable investments	4,834	10,870
Accounts receivable – net	50,709	51,399
Inventories	96,554	63,029
Deferred income tax benefits	7,132	6,769
Prepaid expenses and other current assets	<u>10,532</u>	<u>7,832</u>
Total current assets	251,610	230,807
Investment in joint venture	5,465	3,849
Property, plant and equipment – net	32,849	28,603
Intangible and other assets – net	<u>6,249</u>	<u>6,105</u>
	<u>\$ 296,173</u>	<u>\$ 269,364</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable	\$ 4,858	\$ 5,043
Accounts payable	23,252	11,870
Accrued expenses:		
Co-op advertising	10,893	15,191
Compensation	4,648	4,617
Other	16,169	21,493
Income taxes payable	<u>18,096</u>	<u>17,395</u>
Total current liabilities	77,916	75,609
Minority interest in subsidiaries	3,093	2,558
Stockholders' equity:		
Common stock, shares issued and outstanding, 32,107,270	321	321
Additional paid-in capital	42,124	41,774
Retained earnings	177,122	153,569
Accumulated other comprehensive income	(4,403)	(3,259)
Treasury stock at cost, 59,572 shares at January 1, 2000	<u>-</u>	<u>(1,208)</u>
Total stockholders' equity	<u>215,164</u>	<u>191,197</u>
	<u>\$ 296,173</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 July 1, <u>2000</u>	For the 13 Weeks Ended July 3, <u>1999</u>	For the 26 Weeks Ended July 1, <u>2000</u>	For the 26 Weeks Ended July 3, <u>1999</u>
Net sales	\$ 113,393	\$ 90,271	\$ 216,962	\$ 173,548
Cost of sales	<u>56,833</u>	<u>45,521</u>	<u>106,743</u>	<u>86,126</u>
Gross profit	56,560	44,750	110,219	87,422
Operating expenses:				
Selling and distribution	27,329	21,277	51,512	39,176
General and administrative	<u>8,779</u>	<u>6,714</u>	<u>17,096</u>	<u>13,610</u>
Total operating expenses	<u>36,108</u>	<u>27,991</u>	<u>68,608</u>	<u>52,786</u>
Operating income	20,452	16,759	41,611	34,636
Interest expense	18	24	45	49
Other income (expense) – net	<u>(185)</u>	<u>(43)</u>	<u>88</u>	<u>(184)</u>
Income before income taxes	20,249	16,692	41,654	34,403
Provision for income taxes	<u>8,301</u>	<u>6,826</u>	<u>17,078</u>	<u>14,106</u>
Net income	\$ 11,948	\$ 9,866	\$ 24,576	\$ 20,297
Other comprehensive income:				
Currency translation adjustment	841	(1,623)	(1,188)	(1,830)
Unrealized gain (loss) on short-term investments	<u>(33)</u>	<u>(175)</u>	<u>44</u>	<u>(193)</u>
Total comprehensive income	<u>\$ 12,756</u>	<u>\$ 8,068</u>	<u>\$ 23,432</u>	<u>\$ 18,274</u>
Earnings per share:				
Basic	<u>\$ 0.37</u>	<u>\$ 0.31</u>	<u>\$ 0.77</u>	<u>\$ 0.64</u>
Diluted	<u>\$ 0.36</u>	<u>\$ 0.29</u>	<u>\$ 0.74</u>	<u>\$ 0.61</u>
Weighted average common shares outstanding:				
Basic	<u>32,107</u>	<u>31,809</u>	<u>32,108</u>	<u>31,611</u>
Diluted	<u>33,236</u>	<u>33,448</u>	<u>33,255</u>	<u>33,267</u>

See notes to condensed consolidated financial statements.

FOSSIL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
UNAUDITED
(In thousands)

	For the 26 Weeks Ended July 1, <u>2000</u>	For the 26 Weeks Ended July 3, <u>1999</u>
Operating activities:		
Net income	\$ 24,576	\$ 20,297
Noncash items affecting net income:		
Minority interest in subsidiaries	1,028	1,027
Equity in losses of affiliate	385	-
Depreciation and amortization	2,936	2,593
Increase in allowance for doubtful accounts	468	501
Increase (decrease) in allowance for returns - net of related inventory in transit	(533)	636
Deferred income tax benefits	(364)	(921)
Changes in assets and liabilities:		
Accounts receivable	70	3,203
Inventories	(32,840)	(17,236)
Prepaid expenses and other current assets	(2,699)	(2,783)
Accounts payable	11,192	(56)
Accrued expenses	(9,592)	1,800
Income taxes payable	<u>1,005</u>	<u>9,308</u>
Net cash used in operating activities	(4,368)	18,369
Investing activities:		
Additions to property, plant and equipment	(7,006)	(5,786)
Sale of marketable investments	6,080	-
Investment in affiliate	(2,000)	-
Increase in intangible and other assets	<u>(321)</u>	<u>(1,371)</u>
Net cash from (used in) investing activities	(3,247)	(7,157)
Financing activities:		
Issuance of common or treasury stock for stock option exercises	498	3,681
Purchase of treasury stock	(267)	-
Distribution of minority interest earnings	(493)	(790)
Repayments of notes payable-banks	<u>(185)</u>	<u>(282)</u>
Net cash (used in) from financing activities	(447)	2,609
Effect of exchange rate changes on cash and cash equivalents	<u>(997)</u>	<u>(436)</u>
Net increase (decrease) in cash and cash equivalents	(9,059)	13,385
Cash and cash equivalents:		
Beginning of period	<u>90,908</u>	<u>57,263</u>
End of period	<u>\$ 81,849</u>	<u>\$ 70,648</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 July 1, 2000, and the results of operations for the thirteen-week periods ended July 1, 2000 and July 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 July 1, 2000, are not necessarily indicative of the results to be achieved for the full year.

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>	July 1, <u>2000</u>	January 1, <u>2000</u>
Components and parts	\$ 5,251	\$ 5,568
Work-in-process	4,848	2,755
Finished merchandise on hand	68,186	38,595
Merchandise at Company stores	8,120	7,481
Merchandise in-transit from estimated customer returns	<u>10,149</u>	<u>8,630</u>
	<u>\$96,554</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 July 1, 2000, the Company had hedge contracts to sell 24.9 million Euro Currency for approximately \$23.7 million, expiring through April 2001; 2.5 million British Pound Sterling for approximately \$3.7 million, expiring through January 2001; and 143.4 million Japanese Yen for approximately \$1.4 million, expiring through December 2000.

3. GEOGRAPHIC INFORMATION

(In thousands)

	For the 13 Weeks Ended <u>July 1, 2000</u>		For the 13 Weeks Ended <u>July 3, 1999</u>	
	<u>Net Sales</u>	<u>Operating Income</u>	<u>Net Sales</u>	<u>Operating Income</u>
U.S.- exclusive of Stores:				
External customers	\$ 62,813	\$ 8,890	48,530	\$ 4,048
Intergeographic	13,317	-	363	-
Far East and Export:				
External customers	16,354	9,361	15,040	9,342
Intergeographic	54,787	-	50,037	-
Stores	11,199	1,961	7,358	308
Europe	21,257	(17)	17,773	3,205
Japan	1,763	257	1,570	(144)
Intergeographic items	<u>(68,097)</u>	<u>-</u>	<u>(50,400)</u>	<u>-</u>
Consolidated	<u>\$113,393</u>	<u>\$20,452</u>	<u>\$90,271</u>	<u>\$16,759</u>

	For the 26 Weeks Ended <u>July 1, 2000</u>		For the 26 Weeks Ended <u>July 3, 1999</u>	
	<u>Net Sales</u>	<u>Operating Income</u>	<u>Net Sales</u>	<u>Operating Income</u>
U.S.- exclusive of Stores:				
External customers	\$128,010	\$ 19,299	\$ 99,746	\$ 12,838
Intergeographic	30,417	-	2,259	-
Far East and Export:				
External customers	24,572	17,393	21,155	15,176
Intergeographic	97,487	-	83,093	-
Stores	18,243	1,151	12,147	(289)
Europe	42,929	4,025	36,988	7,485
Japan	3,208	(257)	3,512	(574)
Intergeographic items	<u>(127,904)</u>	<u>-</u>	<u>(85,352)</u>	<u>-</u>
Consolidated	<u>\$216,962</u>	<u>\$41,611</u>	<u>\$173,548</u>	<u>\$34,636</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 July 1, 2000	For the 13 Weeks Ended July 3, 1999	For the 26 Weeks Ended July 1, 2000	For the 26 Weeks Ended July 3, 1999
Basic EPS computation:				
Numerator:				
Net income	<u>\$ 11,948</u>	<u>\$ 9,866</u>	<u>\$ 24,576</u>	<u>\$ 20,297</u>
Denominator:				
Weighted average common shares outstanding	32,107	31,809	32,108	31,656
Treasury stock	<u>-</u>	<u>-</u>	<u>-</u>	<u>(45)</u>
	<u>32,107</u>	<u>31,809</u>	<u>32,108</u>	<u>31,611</u>
Basic EPS	<u>\$ 0.37</u>	<u>\$ 0.31</u>	<u>\$ 0.77</u>	<u>\$ 0.64</u>
Diluted EPS computation:				
Numerator:				
Net income	<u>\$ 11,948</u>	<u>\$ 9,866</u>	<u>\$ 24,576</u>	<u>\$ 20,297</u>
Denominator:				
Weighted average common shares outstanding	32,107	31,809	32,108	31,656
Stock option conversion	1,129	1,639	1,147	1,656
Treasury stock	<u>-</u>	<u>-</u>	<u>-</u>	<u>(45)</u>
	<u>33,236</u>	<u>33,448</u>	<u>33,255</u>	<u>33,267</u>
Diluted EPS	<u>\$ 0.36</u>	<u>\$ 0.29</u>	<u>\$ 0.74</u>	<u>\$ 0.61</u>

5. DEBT

In June 2000, the Company renewed its U.S. short-term revolving credit facility for one year. All borrowings under the U.S. short-term revolver accrue interest at the bank's prime rate less 0.50% or LIBOR plus 0.75% (LIBOR plus 1.00% prior to June 29, 1999). The U.S. short-term revolver is unsecured and requires the maintenance of net worth, quarterly income, working capital and financial ratios.

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 Fossil, Inc. and its majority owned subsidiaries (the "Company") for the thirteen and twenty-six week periods ended July 1, 2000 (the "Second Quarter" and "Year to Date Period," respectively), as compared to the thirteen and twenty-six week periods ended July 3, 1999 (the "Prior Year Quarter" and "Prior Year YTD Period," respectively). This discussion should be read in conjunction with the Condensed Consolidated Financial Statements and the related Notes attached hereto.

General

The Company is primarily 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 and apparel. The Company's current product offerings include an extensive line of fashion watches sold under the FOSSIL and RELIC brands, complementary lines of small leather goods, belts, handbags, sunglasses and FOSSIL brand apparel. 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 primarily 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.

Second Quarter & Company Highlights

- FOSSIL brand watch sales continued to show double-digit growth at retail.
- FOSSIL and RELIC brand leather products sales combined for net sales increases of approximately 55% and 63% during the Second Quarter and Year-To-Date Period, respectively. This increase was due to continued strong retail demand for the Company's core and seasonal handbag products as well as a resurgence in the men's small leather goods business.
- RELIC brand watches, the Company-owned brand sold in leading national and regional chain department stores, recorded sales volume growth exceeding 100% and 90% during the Second Quarter and Year-To-Date Period, respectively.
- The Company continued to strengthen its licensed watch product line. The DKNY brand watch line, which was launched during the first quarter of 2000, generated sales of approximately \$6.2 million and \$10.6 million during the Second Quarter and Year-To-Date Period, respectively. Additionally, sales of EMPORIO ARMANI brand watches increased 21% over the Prior Year Quarter to \$8.5 million and increased 25% over the Prior Year YTD Period to \$17.2 million.
- International sales continued to show strong growth despite the strengthening of the U.S. dollar over the Euro. Overall sales volume growth increased approximately 15% for both the Second Quarter

and Year-To-Date Period. In a stable Euro currency environment, relative to the Prior Year Quarter, sales volume growth would have been approximately 22%.

- The Company operated 35 outlet and 17 full-price retail stores at the end of the Second Quarter compared to 30 outlet and 14 full-price retail stores at the end of the Prior Year Quarter. This retail store expansion, as well as increases in same store sales, generated sales volume growth in excess of 50% for both the Second Quarter and Year-To-Date Period.

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.

	Percentage of Net Sales		Percentage <u>Change</u>	Percentage of Net Sales		Percentage <u>Change</u>
	For the 13 Weeks Ended		For the 13 Weeks Ended	For the 26 Weeks Ended		For the 26 Weeks Ended
	July 1, <u>2000</u>	July 3, <u>1999</u>	July 1, <u>2000</u>	July 1, <u>2000</u>	July 3, <u>1999</u>	July 1, <u>2000</u>
Net sales	100.0%	100.0%	25.6%	100.0%	100.0%	25.0%
Cost of sales	<u>50.1</u>	<u>50.4</u>	24.8	<u>49.2</u>	<u>49.6</u>	23.9
Gross profit margin	49.9	49.6	26.4	50.8	50.4	26.1
Selling and distribution expenses	24.1	23.6	28.4	23.7	22.6	31.5
General and administrative expenses	<u>7.7</u>	<u>7.4</u>	30.8	<u>7.9</u>	<u>7.9</u>	25.6
Operating income	18.1	18.6	22.0	19.2	19.9	20.1
Interest expense	0.0	0.0	(23.3)	0.0	0.0	(8.0)
Other income (expense)- net	<u>(0.2)</u>	<u>(0.1)</u>	332.4	<u>0.0</u>	<u>(0.1)</u>	(148.2)
Income before income taxes	17.9	18.5	21.3	19.2	19.8	21.1
Income taxes	<u>7.4</u>	<u>7.6</u>	21.6	<u>7.9</u>	<u>8.1</u>	21.1
Net income	<u>10.5%</u>	<u>10.9%</u>	21.1%	<u>11.3%</u>	<u>11.7%</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>July 1,</u> <u>2000</u>	<u>July 3,</u> <u>1999</u>	<u>July 1,</u> <u>2000</u>	<u>July 3,</u> <u>1999</u>
International:				
Europe	\$ 21.2	\$ 17.1	19 %	21 %
Other	<u>18.1</u>	<u>16.9</u>	<u>16</u>	<u>10</u>
Total International	<u>39.3</u>	<u>34.0</u>	<u>35</u>	<u>31</u>
Domestic:				
Watch products	43.6	35.8	38	44
Other products	<u>19.2</u>	<u>13.1</u>	<u>17</u>	<u>16</u>
Total	62.8	48.9	55	60
Stores	<u>11.3</u>	<u>7.3</u>	<u>10</u>	<u>9</u>
Total Domestic	<u>74.1</u>	<u>56.2</u>	<u>65</u>	<u>69</u>
Total Net Sales	<u>\$113.4</u>	<u>\$ 90.2</u>	<u>100</u> %	<u>100</u> %

	<u>Amounts</u>		<u>% of Total</u>	
	<u>For the 26 Weeks Ended</u>		<u>For the 26 Weeks Ended</u>	
	<u>July 1,</u> <u>2000</u>	<u>July 3,</u> <u>1999</u>	<u>July 1,</u> <u>2000</u>	<u>July 3,</u> <u>1999</u>
International:				
Europe	\$ 42.9	\$ 36.4	20 %	21 %
Other	<u>27.8</u>	<u>24.9</u>	<u>13</u>	<u>14</u>
Total International	<u>70.7</u>	<u>61.3</u>	<u>33</u>	<u>35</u>
Domestic:				
Watch products	85.0	72.1	39	42
Other products	<u>43.0</u>	<u>28.0</u>	<u>20</u>	<u>16</u>
Total	128.0	100.1	59	58
Stores	<u>18.3</u>	<u>12.1</u>	<u>8</u>	<u>7</u>
Total Domestic	<u>146.3</u>	<u>112.2</u>	<u>67</u>	<u>65</u>
Total Net Sales	<u>\$217.0</u>	<u>\$173.5</u>	<u>100</u> %	<u>100</u> %

Fueling top line sales growth during the Second Quarter was (a) increased sales from the Company's European operations, including sales from its UK subsidiary which was acquired during the third quarter of 1999, (b) Company-owned stores expansion and same store sales increases which represented a 54% sales increase over the Prior Year Quarter, (c) a 55% increase in the Company's domestic other accessory product lines, primarily handbags and other FOSSIL branded leather products, (d) continued double-digit sales increases in FOSSIL watches, (e) a doubling of sales over the Prior Year Quarter from the Company's RELIC product line and (f) DKNY licensed watch line sales of \$6.2 million, which line was launched during the First Quarter. Net Sales for the Year-To-Date Period were favorably impacted from the same geographic regions and product lines that contributed to the Second Quarter sales growth with domestic other accessories increasing 63%, Company-owned stores increasing 50% and RELIC nearly doubling in sales. DKNY licensed watch line sales for the Year-To-Date Period were \$10.6 million. Additionally, the Second Quarter was favorably impacted by an \$8.3 million international non-branded premium incentive sale, which represented a \$1.1 million increase over the comparable sale in the Prior Year Quarter. Sales volume increases during the Second Quarter and Year-To-Date Period 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 49.6% in the Prior Year Quarter to 49.9% in the Second Quarter. For the Year-To-Date Period, gross profit margins increased from 50.4% in the Prior Year YTD Period to 50.8%. The increase, for both the Second Quarter and Year-To-Date Period, 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. Additionally, gross profit margins from the Company's European operations decreased from the Prior Year Quarter and Prior Year YTD Period due to the strengthening of the U.S. dollar against the Euro. In comparison to the First Quarter's gross profit margin of 51.8%, Second Quarter and Year-To-Date Period margins were impacted by the non-branded premium incentive sale (which sale also took place during the Prior Year Quarter) that was sold at margins well below margins normally achieved by the Company. Management believes the Company's gross profit margins for the remainder of 2000 will be equal to, or marginally above, the levels achieved during the comparable 1999 periods.

Operating Expenses. The aggregate increase in operating expenses for both the Second Quarter and the Year-To-Date Period 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 Second Quarter and Year-To-Date Period compared to the Prior Year Quarter and Prior Year YTD Period, respectively. These increases were 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 eight new Company-owned stores opened subsequent to the Prior Year Quarter. Additionally, increased brand advertising, primarily through certain internet portal relationships, and continued enhancement of the Company's web site continued during the Second Quarter and added to the overall operating expense increase. Management believes the operating expense ratio for the remainder of 2000 will increase slightly compared to 1999 levels primarily as a result of the Company continuing to enhance its brand advertising and continued opening of new Company-owned store locations.

Other Income (Expense). Other income (expense) increased unfavorably by \$142,000 during the Second Quarter as compared to the Prior Year Quarter. This increase was primarily due to increases in minority interest expense generated as a result of increased profitability from the Company's majority-owned subsidiaries and losses associated with joint ventures. These increases in other expense were partially offset by increased interest income generated from increased cash levels. During the Year-To-Date Period, interest income surpassed the aforementioned other expenses by approximately \$272,000.

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 Second Quarter, the Company increased its cash holdings and short-term marketable securities to \$87 million in comparison to \$71 million at the end of Prior Year Quarter. However, the Company's cash and short-term marketable securities position decreased by \$15.1 million from the end of 1999 due to the accumulation of inventory and the build-up in accounts receivable during the Year-To-Date Period. The increase in inventory from the Prior Year Quarter was a result of (a) inventories associated with a new watch assembly factory acquired during the first quarter of 2000 (b) an increase in DKNY inventory levels to support reorders, (c) an increase in the number of Company-owned stores, and (d) increases associated with the Company's UK subsidiary which was acquired during the third quarter of 1999. Accounts receivable increased approximately \$12.3 million or 32% from the Prior Year Quarter on a sales increase of 26%. Accounts receivable levels decreased from levels seen in the first quarter of 2000 by approximately \$7.5 million and days sales outstanding of 41 days for the Second Quarter were comparable with the Prior Year Quarter. At the end of the Second Quarter, the Company had working capital of \$174 million compared to working capital of \$128 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 \$4.9 million against its combined \$43 million bank credit facilities at the end of the Second 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 Second 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 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company held its annual meeting of stockholders (the "Meeting") on May 24, 2000. At such Meeting, the stockholders elected three (3) Class II directors of the Company and approved an increase in the number of authorized shares of common stock, par value \$0.01 of the Company ("Common Stock") from 50,000,000 to 100,000,000 shares. No other matters were voted on at the Meeting. A total of 29,983,915 shares were represented at the Meeting.

The number of shares that were voted for, and that were withheld from, each of the director nominees at the Meeting is as follows:

<u>Director Nominee</u>	<u>For</u>	<u>Withheld</u>
Kosta N. Kartsotis	29,834,014	149,901
Alan J. Gold	29,836,664	147,251
Michael Steinberg	29,836,164	147,751

The directors whose term of office as a director continued after the Meeting are Tom Kartsotis, Michael W. Barnes, Jal S. Shroff, Kenneth Anderson and Donald Stone.

The number of shares that were voted for, against and abstained from the proposal to increase the number of authorized shares of Common Stock at the Meeting is as follows:

<u>For</u>	<u>Against</u>	<u>Abstain</u>
27,309,217	2,672,721	2,977

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

- 3.1 Certificate of Amendment of the Second Amended and Restated Certificate of Incorporation of Fossil, Inc.
- 10.1 First Amendment to Fourth Amended and Restated Loan Agreement dated June 27, 2000 by and among Wells Fargo Bank Texas, National Association, a national banking association formerly known as Wells Fargo Bank (Texas), National Association, Fossil Partners, L.P., Fossil, Inc., Fossil Intermediate, Inc., Fossil Trust, Fossil Stores I, Inc. and Fossil Stores II, Inc. (without 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: August 14, 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

<u>Exhibit Number</u>	<u>Document Description</u>
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27	Financial Data Schedule