

**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: September 30, 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 November 13, 2000: 30,633,895.

PART 1 - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	September 30, 2000 (Unaudited)	January 1, 2000
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 63,266	\$ 90,908
Short-term marketable investments	5,004	10,870
Accounts receivable – net	67,875	51,399
Inventories	104,657	63,029
Deferred income tax benefits	7,656	6,769
Prepaid expenses and other current assets	<u>10,928</u>	<u>7,832</u>
Total current assets	259,386	230,807
Investment in joint ventures	6,042	3,849
Property, plant and equipment – net	35,865	28,603
Intangible and other assets – net	<u>6,787</u>	<u>6,105</u>
	<u>\$ 308,080</u>	<u>\$ 269,364</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable	\$ 4,759	\$ 5,043
Accounts payable	27,685	11,870
Accrued expenses:		
Co-op advertising	10,988	15,191
Compensation	5,664	4,617
Other	25,745	21,493
Income taxes payable	<u>20,224</u>	<u>17,395</u>
Total current liabilities	95,065	75,609
Minority interest in subsidiaries	3,657	2,558
Stockholders' equity:		
Common stock, shares issued and outstanding 30,623,290 and 32,107,270 respectively	306	321
Additional paid-in capital	21,611	41,774
Retained earnings	190,600	153,569
Accumulated other comprehensive income	(3,159)	(3,259)
Treasury stock at cost, 59,572 shares at January 1, 2000	<u>-</u>	<u>(1,208)</u>
Total stockholders' equity	<u>209,358</u>	<u>191,197</u>
	<u>\$ 308,080</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 September 30, <u>2000</u>	For the 13 Weeks Ended October 2, <u>1999</u>	For the 39 Weeks Ended September 30, <u>2000</u>	For the 39 Weeks Ended October 2, <u>1999</u>
Net sales	\$ 128,064	\$ 104,831	\$ 345,026	\$ 278,379
Cost of sales	<u>64,373</u>	<u>52,193</u>	<u>171,116</u>	<u>138,319</u>
Gross profit	63,691	52,638	173,910	140,060
Operating expenses:				
Selling and distribution	31,210	22,649	82,722	61,825
General and administrative	<u>10,092</u>	<u>7,675</u>	<u>27,188</u>	<u>21,285</u>
Total operating expenses	<u>41,302</u>	<u>30,324</u>	<u>109,910</u>	<u>83,110</u>
Operating income	22,389	22,314	64,000	56,950
Interest expense	63	27	108	76
Other income (expense) – net	<u>519</u>	<u>(31)</u>	<u>607</u>	<u>(215)</u>
Income before income taxes	22,845	22,256	64,499	56,659
Provision for income taxes	<u>9,367</u>	<u>9,125</u>	<u>26,445</u>	<u>23,231</u>
Net income	\$ 13,478	\$ 13,131	\$ 38,054	\$ 33,428
Other comprehensive income:				
Currency translation adjustment	1,139	978	(47)	(852)
Unrealized gain (loss) on short-term Investments	<u>103</u>	<u>(135)</u>	<u>147</u>	<u>(328)</u>
Total comprehensive income	<u>\$ 14,720</u>	<u>\$ 13,974</u>	<u>\$ 38,154</u>	<u>\$ 32,248</u>
Earnings per share:				
Basic	<u>\$ 0.42</u>	<u>\$ 0.41</u>	<u>\$ 1.19</u>	<u>\$ 1.05</u>
Diluted	<u>\$ 0.41</u>	<u>\$ 0.39</u>	<u>\$ 1.15</u>	<u>\$ 1.00</u>
Weighted average common shares outstanding:				
Basic	<u>32,015</u>	<u>31,978</u>	<u>32,077</u>	<u>31,785</u>
Diluted	<u>32,929</u>	<u>33,513</u>	<u>33,151</u>	<u>33,409</u>

See notes to condensed consolidated financial statements.

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

	For the 39 Weeks Ended September 30, <u>2000</u>	For the 39 Weeks Ended October 2, <u>1999</u>
Operating activities:		
Net income	\$ 38,054	\$ 33,428
Noncash items affecting net income:		
Minority interest in subsidiaries	1,592	1,531
Equity in losses of affiliates	273	-
Loss on disposal of fixed assets	385	-
Depreciation and amortization	4,546	4,042
Increase in allowance for doubtful accounts	1,295	362
Increase in allowance for returns - net of related inventory in transit	619	1,015
Deferred income tax benefits	(887)	(1,035)
Changes in assets and liabilities:		
Accounts receivable	(19,781)	(11,074)
Inventories	(40,381)	(18,089)
Prepaid expenses and other current assets	(3,191)	(4,095)
Accounts payable	16,865	3,520
Accrued expenses	(6,176)	333
Income taxes payable	<u>3,168</u>	<u>8,220</u>
Net cash (used in) from operating activities	(3,619)	18,158
Investing activities:		
Additions to property, plant and equipment	(12,050)	(7,283)
Acquisition of distributor assets	-	(2,732)
Sale of marketable investments	5,866	-
Investment in affiliates	(2,196)	(3,947)
Increase in intangible and other assets	<u>(942)</u>	<u>(702)</u>
Net cash used in investing activities	(9,322)	(14,664)
Financing activities:		
Issuance of common or treasury stock for stock option exercises	603	3,880
Purchase and retirement of common stock	(13,647)	-
Distribution of minority interest earnings	(493)	(790)
Repayments of notes payable-banks	<u>(284)</u>	<u>362</u>
Net cash (used in) from financing activities	(13,821)	3,452
Effect of exchange rate changes on cash and cash equivalents	<u>(880)</u>	<u>(213)</u>
Net (decrease) increase in cash and cash equivalents	(27,642)	6,733
Cash and cash equivalents:		
Beginning of period	<u>90,908</u>	<u>57,263</u>
End of period	<u>\$ 63,266</u>	<u>\$ 63,996</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 September 30, 2000, and the results of operations for the thirteen-week and thirty-nine week periods ended September 30, 2000 and October 2, 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 September 30, 2000, are not necessarily indicative of the results to be achieved for the full year.

Business. The Company is a design, development, marketing and distribution company that specializes in consumer products predicated on fashion and value. The Company’s principle 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, sunglasses and FOSSIL brand apparel. The Company’s products are sold in department stores and specialty retail stores in over 85 countries around the world.

2. INVENTORIES

Inventories consist of the following:

<i>(In thousands)</i>	September 30, <u>2000</u>	January 1, <u>2000</u>
Components and parts	\$ 8,385	\$ 5,568
Work-in-process	3,737	2,755
Finished merchandise on hand	69,927	38,595
Merchandise at Company stores	11,188	7,481
Merchandise in-transit from estimated customer returns	<u>11,420</u>	<u>8,630</u>
	<u>\$104,657</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 September 30, 2000, the Company had hedge contracts to sell 29.8 million Euro Currency for approximately \$27.6 million, expiring through April 2001; 1.6 million British Pound Sterling for approximately \$2.4 million, expiring through January 2001; and 82 million Japanese Yen for approximately \$0.8 million, expiring through December 2000.

3. GEOGRAPHIC INFORMATION
(In thousands)

	For the 13 Weeks Ended September 30, 2000		For the 13 Weeks Ended October 2, 1999	
	<u>Net Sales</u>	<u>Operating Income</u>	<u>Net Sales</u>	<u>Operating Income</u>
U.S.- exclusive of Company Stores:				
External customers	\$ 78,012	\$13,522	\$ 65,900	\$12,921
Intergeographic	23,119	-	7,193	-
Far East and Export:				
External customers	10,686	10,306	6,618	6,575
Intergeographic	50,526	-	33,809	-
Stores	13,147	(1,692)	10,804	454
Europe	25,014	818	19,960	2,363
Japan	1,205	(565)	1,549	1
Intergeographic items	<u>(73,645)</u>	<u>-</u>	<u>(41,002)</u>	<u>-</u>
Consolidated	<u>\$128,064</u>	<u>\$22,389</u>	<u>\$104,831</u>	<u>\$22,314</u>

	For the 39 Weeks Ended September 30, 2000		For the 39 Weeks Ended October 2, 1999	
	<u>Net Sales</u>	<u>Operating Income</u>	<u>Net Sales</u>	<u>Operating Income</u>
U.S.- exclusive of Company Stores:				
External customers	\$206,022	\$34,766	\$166,100	\$25,758
Intergeographic	53,536	-	9,452	-
Far East and Export:				
External customers	35,258	27,699	27,919	21,750
Intergeographic	148,013	-	116,902	-
Stores	31,390	(2,486)	22,951	167
Europe	67,943	4,843	56,348	9,848
Japan	4,413	(822)	5,061	(573)
Intergeographic items	<u>(201,549)</u>	<u>-</u>	<u>(126,354)</u>	<u>-</u>
Consolidated	<u>\$345,026</u>	<u>\$64,000</u>	<u>\$278,379</u>	<u>\$56,950</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 September 30, <u>2000</u>	For the 13 Weeks Ended October 2, <u>1999</u>	For the 39 Weeks Ended September 30, <u>2000</u>	For the 3 Weeks Ended October <u>1999</u>
Basic EPS computation:				
Numerator:				
Net income	<u>\$ 13,478</u>	<u>\$ 13,131</u>	<u>\$ 38,054</u>	<u>\$ 33,428</u>
Denominator:				
Weighted average common shares outstanding	32,015	32,136	32,077	31,816
Treasury stock	<u>-</u>	<u>(158)</u>	<u>-</u>	<u>(31)</u>
	<u>32,015</u>	<u>31,978</u>	<u>32,077</u>	<u>31,785</u>
Basic EPS	<u>\$ 0.42</u>	<u>\$ 0.41</u>	<u>\$ 1.19</u>	<u>\$ 1.05</u>
Diluted EPS computation:				
Numerator:				
Net income	<u>\$ 13,478</u>	<u>\$ 13,131</u>	<u>\$ 38,054</u>	<u>\$ 33,428</u>
Denominator:				
Weighted average common shares outstanding	32,015	31,978	32,077	31,785
Stock option conversion	<u>914</u>	<u>1,535</u>	<u>1,074</u>	<u>1,624</u>
	<u>32,929</u>	<u>33,513</u>	<u>33,151</u>	<u>33,409</u>
Diluted EPS	<u>\$ 0.41</u>	<u>\$ 0.39</u>	<u>\$ 1.15</u>	<u>\$ 1.00</u>

5. INVESTMENT IN JOINT VENTURE

Effective August 31, 2000, the Company sold 50% of the equity of its former wholly-owned subsidiary in Spain pursuant to a joint venture agreement with Sucesores de A. Cadarso ("Cadarso") for the marketing, distribution and sale of the Company's products in Spain. The Company accounted for this investment based upon the equity method from the effective date of the transaction. The Company does not expect this change in accounting to materially affect the results of operations for the remainder of its fiscal year.

6. STOCKHOLDERS' EQUITY

During the Third Quarter, the Company acquired approximately 1.5 million shares of its common stock for approximately \$20.6 million and immediately retired these shares. The shares were repurchased in conjunction with a 2.5 million share buyback authorized by the Company's board of directors on September 18, 2000.

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 thirty-nine week periods ended September 30, 2000 (the "Third Quarter" and "Year-to-Date Period," respectively), as compared to the thirteen and thirty-nine week periods ended October 2, 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 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.

Third Quarter and Company Highlights

- DKNY licensed watch line sales surpassed \$20 million since the launch in February.
- The Company launched the Diesel licensed watch line.
- Retail store expansion continued as the Company opened ten new apparel concept stores.
- The Company entered into a joint venture agreement for marketing and distribution of FOSSIL products in Spain.
- The Company acquired 1.5 million shares of its common stock.

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>Percentage of Net Sales</u>		<u>Percentag Change</u>
	<u>For the 13 Weeks Ended</u>		<u>For the 13 Weeks Ended</u>	<u>For the 39 Weeks Ended</u>		<u>For the 3 Weeks Enc</u>
	<u>September 30, 2000</u>	<u>October 2, 1999</u>	<u>September 30, 2000</u>	<u>September 30, 2000</u>	<u>October 2, 1999</u>	<u>September 2000</u>
Net sales	100.0%	100.0%	22.2%	100.0%	100.0%	23.9%
Cost of sales	<u>50.3</u>	<u>49.8</u>	23.3	<u>49.6</u>	<u>49.7</u>	23.7
Gross profit margin	49.7	50.2	21.0	50.4	50.3	24.2
Selling and distribution expenses	24.4	21.6	37.8	24.0	22.2	33.8
General and administrative expenses	<u>7.9</u>	<u>7.3</u>	31.5	<u>7.9</u>	<u>7.6</u>	27.7
Operating income	17.4	21.3	0.3	18.5	20.5	12.4
Interest expense	0.0	0.0	-	0.0	0.0	-
Other income (expense)- net	<u>0.4</u>	<u>(0.1)</u>	1,815.0	<u>0.2</u>	<u>(0.1)</u>	383.9
Income before income taxes	17.8	21.2	2.6	18.7	20.4	13.8
Income taxes	<u>7.3</u>	<u>8.7</u>	2.6	<u>7.7</u>	<u>8.4</u>	13.8
Net income	<u>10.5%</u>	<u>12.5%</u>	2.6%	<u>11.0%</u>	<u>12.0%</u>	13.8%

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>September 30,</u>	<u>October 2,</u>	<u>September 30,</u>	<u>October 2,</u>
	<u>2000</u>	<u>1999</u>	<u>2000</u>	<u>1999</u>
International:				
Europe	\$ 25.1	\$ 20.0	20 %	19 %
Other	<u>11.9</u>	<u>8.1</u>	<u>9</u>	<u>8</u>
Total International	<u>37.0</u>	<u>28.1</u>	<u>29</u>	<u>27</u>
Domestic:				
Watch products	52.7	46.4	41	44
Other products	<u>25.3</u>	<u>19.5</u>	<u>20</u>	<u>19</u>
Total	78.0	65.9	61	63
Stores	<u>13.1</u>	<u>10.8</u>	<u>10</u>	<u>10</u>
Total Domestic	<u>91.1</u>	<u>76.7</u>	<u>71</u>	<u>73</u>
Total Net Sales	<u>\$128.1</u>	<u>\$104.8</u>	<u>100</u> %	<u>100</u> %

	<u>Amounts</u>		<u>% of Total</u>	
	<u>For the 39 Weeks Ended</u>		<u>For the 39 Weeks Ended</u>	
	<u>September 30,</u>	<u>October 2,</u>	<u>September 30,</u>	<u>October 2,</u>
	<u>2000</u>	<u>1999</u>	<u>2000</u>	<u>1999</u>
International:				
Europe	\$ 67.9	\$ 56.4	20 %	20 %
Other	<u>39.7</u>	<u>33.0</u>	<u>11</u>	<u>12</u>
Total International	<u>107.6</u>	<u>89.4</u>	<u>31</u>	<u>32</u>
Domestic:				
Watch products	137.8	118.6	40	43
Other products	<u>68.2</u>	<u>47.5</u>	<u>20</u>	<u>17</u>
Total	206.0	166.1	60	60
Stores	<u>31.4</u>	<u>22.9</u>	<u>9</u>	<u>8</u>
Total Domestic	<u>237.4</u>	<u>189.0</u>	<u>69</u>	<u>68</u>
Total Net Sales	<u>\$345.0</u>	<u>\$278.4</u>	<u>100</u> %	<u>100</u> %

Net sales growth in the Third Quarter was led by an \$8.9 million increase from the Company's international operations. This increase represented a 31.6% increase over the Prior Year Quarter despite the weakness of the EURO. At Prior Year Quarter EURO rates, the overall net sales increase from international operations would have exceeded 40%. The Company's domestic watch products increased \$6.3 million over the Prior Year Quarter. Impacting the growth in this category was the market performance of the DKNY licensed watch brand, that was launched during the first quarter, and an increase in sales of the Company's RELIC brand watch. Domestic leather product sales also contributed to the net sales growth during the Third Quarter, primarily as a result of the continued success of the Company's handbag and women's small leather products. Additionally, retail store expansion, including the opening of ten new apparel concept stores, contributed to the Third Quarter net sales increase. Net sales for the Year-To-Date Period were favorably impacted from the same geographic regions and product lines that contributed to the Third Quarter sales increases. Leading this Year-To-Date increase was other domestic products, that consists of leather goods and sunglasses; international operations, again despite the

weakness in the EURO; domestic watches, led by a \$10.6 million contribution from DKNY watch sales; and the Company's retail stores as a result of expansion and same store sales growth. Management currently anticipates the Company's fourth quarter net sales to display double digit growth and year-over-year growth to increase over 20%.

Gross Profit. Gross profit margins for the Third Quarter decreased by 50 basis points to 49.7% compared to 50.2% in the Prior Year Quarter. This decrease was the result of the weakness of the EURO against the U.S. Dollar. Since the Company's European-based operations primarily purchase products from the United States and Hong Kong, the weakness in the EURO with no comparable increase in the Company's wholesale sales prices caused product costs to escalate approximately 10% during the Third Quarter. Additionally, the gross profit margin decrease in the Third Quarter was impacted by a higher mix of leather product versus watch sales as the Company's leather products historically generate gross profit margins below the Company's consolidated margin. On a year-to-date basis, gross profit margins increased slightly to 50.4% compared to 50.3% in the prior year. A higher sales mix of licensed designer brand watches and sales from Company-owned stores positively impacted gross margins throughout the Year-To-Date Period but were somewhat offset by the increasing product costs in the Company's European-based operations as well as the higher mix of leather product versus watch sales.

Operating Expenses. Operating expenses, as a percentage of net sales, increased to 32.3% in the Third Quarter compared to 28.9% in the Prior Year Quarter. For the Year-To-Date Period, operating expenses increased to 31.9% compared to 29.8%. Operating expenses, in the aggregate, increased over the Prior Year Quarter and Prior Year-To-Date Period to support increased net sales volumes. Moreover, in order to promote continued sales growth both near-term and long-term, the Company continued to expand and enhance its infrastructure and promote its products and image by increasing brand advertising primarily through internet portal relationships. Increased infrastructure cost included additional payroll and personnel related expenses as well as expansion of the Company's distribution facilities. In addition to increased infrastructure cost and brand advertising, operating expenses increased as a result of cost associated with the DKNY licensed watch line launch, increased display cost associated with new leather fixtures to enhance the Company's positioning of these products within the retail environment and costs associated with the opening of ten new apparel concept stores. Management anticipates that infrastructure cost will continue to increase that may result in operating income margins decreasing to the 17% range during the next fifteen months.

Other Income (Expense). Other income (expense) increased favorably by \$550,000 during the Third Quarter as compared to the Prior Year Quarter and by \$822,000 during the Year-To-Date Period as compared to the Prior Year YTD Period. These increases were the result of increased interest income earned as a result of higher invested cash balances and increased royalty income generated from licensing certain FOSSIL brand products. These increases more than offset minority expense from profits generated by the Company's assembly facilities and losses associated with joint ventures.

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 and typically reach their 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. At the end of the Third Quarter, the Company's inventories increased by \$28 million, or 31.7%, compared to inventory balances at the end of the Prior Year Quarter. This increase, in comparison to the 22% increase in

net sales, is due to unusually low inventory levels at the end of the Prior Year Quarter combined with current year increases in leather product inventories due to longer delivery lead times for leather goods. Increased apparel inventory levels to support the ten new apparel concept stores opened during the Third Quarter also impacted the overall inventory increase. Annualized inventory turns, however, remained relatively consistent with prior period results. As a result of the increase in inventories, accounts payable increased to \$27.7 million compared to \$20.2 million and \$11.9 million at the end of the Prior Year Quarter and fiscal 1999 year-end, respectively.

In addition to cash needs to support inventory levels and build-up in accounts receivable, during the Third Quarter the Company acquired 1.5 million shares of its common stock through open market purchases at an aggregate cost of approximately \$20 million. This share buyback was in conjunction with a 2.5 million share buyback authorization approved by the Company's board of directors on September 18, 2000. As these shares were acquired at the end of the Third Quarter, actual cash expended to cover these trades amounted to approximately \$13 million during the Third Quarter. The Company ended the Third Quarter with \$68 million in cash, cash equivalents and short-term investments. At the end of the Third Quarter, the Company had working capital of \$164 million compared to working capital of \$139 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 \$4.8 million against its \$43 million bank credit facility at the end of the Third Quarter. Management believes that cash flow from operations combined with existing cash on hand will be sufficient to satisfy its working capital requirements through the end of the Company's 2001 fiscal year as well as any additional cash requirements resulting from the Company's stock buyback program.

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 [Third](#) 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

3.1 Amended and Restated Bylaws of Fossil, Inc.

10.1 Joint Venture Agreement by and between Sucesores de A. Cadarso and Fossil Europe B.V, dated as of July 27, 2000 (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: November 13, 2000

/s/ Mike L. Kovar

Mike L. Kovar

Senior 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