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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-K

(Mark One)

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

For the Fiscal Year Ended January 5, 2002

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 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
(Address of principal executive offices)

75082
(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act: **None**

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, \$.01 par value
(Title of Class)

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

The aggregate market value of Common Stock, \$.01 par value per share (the "Common Stock"), held by nonaffiliates of the registrant, based on the sale trade price of the Common Stock as reported by the Nasdaq National Market on March 29, 2002, was \$262,676,282. For purposes of this computation, all officers, directors and 10% beneficial owners of the registrant are deemed to be affiliates. Such determination should not be deemed an admission that such officers, directors or 10% beneficial owners are, in fact, affiliates of the registrant. As of March 29, 2002, 30,416,164 shares of Common Stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The Company's definitive proxy statement in connection with the Annual Meeting of Stockholders to be held May 22, 2002, to be filed with the Commission pursuant to Regulation 14A, and the Company's Annual Report to Stockholders are incorporated by reference into Part III of this report.

PART I

Item 1. Business

General

Fossil, Inc. (the "Company") is a leader in the design, development, marketing and distribution of contemporary, high quality fashion watches and accessories. The Company developed the FOSSIL® brand name 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 a company offering its original flagship FOSSIL watch product into a diversified company offering an extensive line of fashion watches, small leather goods, belts, handbags and sunglasses under the FOSSIL and RELIC® brands 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 products for some of the most prestigious companies in the world, including national retailers, entertainment companies and theme restaurants. The Company's successful expansion of its product lines has contributed to its increasing net sales and operating profits.

The Company has capitalized on the increasing awareness of the FOSSIL brand by entering into various license agreements for other categories of fashion accessories. In addition, the Company has leveraged its infrastructure by entering into various license agreements to design, manufacture, distribute and market watches under the brands of other companies, including EMPORIO ARMANI®, DKNY®, DIESEL® and BURBERRY®.

The Company sells its products in approximately 17,000 retail locations in the United States through a diversified distribution network that includes approximately 5,000 department store doors, such as Federated/Macy's, May Department Stores, and Dillard's, and approximately 12,500 specialty retail locations for its FOSSIL brand and JCPenney, Kohls and Sears for its RELIC brand. The Company also sells its products through a network of 83 Company-owned stores within the United States, with 39 retail stores located in premier retail sites and 44 outlet stores located in major outlet malls. The Company also offers selected FOSSIL brand products at its website, www.fossil.com.

The Company's products are sold to department stores and specialty retail stores in over 90 countries worldwide through Company-owned foreign sales subsidiaries and through a network of approximately 51 independent distributors. The Company's foreign operations include a presence in Europe, South and Central America, the Caribbean, Canada, the Far East, Australia and the Middle East. In addition, the Company's products are offered at retail locations in major airports in the United States, on cruise ships and in Company-owned and independently-owned authorized FOSSIL retail stores and kiosks in certain international markets.

The Company is a Delaware corporation formed in 1991 and is the successor to a Texas corporation formed in 1984. In 1993, the Company completed an initial public offering of 2,760,000 shares of common stock, par value \$.01 (the "Common Stock"). The Company conducts a majority of its operations in the United States through Fossil Partners, L.P., a Texas limited partnership formed in 1994 of which the Company is sole general partner. The Company also conducts operations in the United States and certain international markets through various directly and indirectly owned subsidiaries. The Company's operations in Hong Kong relating to the procurement of watches from various manufacturing sources are conducted by Fossil (East) Limited ("Fossil East"), a wholly owned subsidiary of the Company acquired in 1992. The Company's principal executive offices are located at 2280 N. Greenville Avenue, Richardson, Texas 75082, and its telephone number at such address is (972) 234-2525.

Forward-Looking Information

The statements contained in this Annual Report on Form 10-K ("Annual Report") that are not historical facts, including, but not limited to, statements found in this "Item 1. Business" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 and involve a number of risks and uncertainties. The actual results of the future events described in such forward-looking statements in the Annual Report could differ materially from those stated in such forward-looking statements. Among the factors that could cause actual results to differ materially are: general economic conditions, competition, government regulation, possible future litigation, acts of terrorism and acts of war as well as the risks and uncertainties discussed in this Annual Report, including, without limitation, the portions referenced above, and the risks and uncertainties set forth on the Company's Current Report on Form 8-K dated March 30, 1999.

Industry Overview

Watch Products

The Company believes that the current market for watches in the United States can be divided into four segments. One segment of the market consists of fine watches characterized by internationally known brand names such as Concord, Piaget and Rolex. Watches offered in this segment are usually made of precious metals or stainless steel and may be set with precious gems. These watches are often manufactured in Switzerland and are sold by trade jewelers and in the fine jewelry departments of better department stores and other purveyors of luxury goods at retail prices ranging from \$1,500 to in excess of \$20,000. A second segment of the market consists of fine premium branded and designer watches manufactured in Switzerland and the Far East such as Gucci, Rado, Raymond Weil, Seiko and Swiss Army. These watches are sold at retail prices generally ranging from \$150 to \$1,500. The Company's EMPORIO ARMANI, ZODIAC® and ANTIMA® lines and, beginning in late 2002, BURBERRY line generally compete in this market segment. A third segment of the market consists of watches sold by mass marketers, which include certain watches sold under the Timex brand name as well as certain watches sold by Armitron under various brand names and labels. Retail prices in this segment range from \$5 to \$40.

The fourth segment of the market consists of moderately priced watches characterized by contemporary fashion and well known brand names. Moderately priced watches are typically manufactured in Japan or Hong Kong and are sold by department stores and specialty stores at retail prices ranging from \$40 to \$150. This market segment is targeted by the Company and its principal competitors, including the companies that market watches under the Guess?, Anne Klein II, Kenneth Cole and Swatch brand names, whose products attempt to reflect emerging fashion trends in accessories and apparel. The Company's DKNY and DIESEL lines generally compete in this segment as well. Some of the watches in this sector are manufactured under license agreements with companies that market watches under various brand names, including Guess?, Anne Klein II and Kenneth Cole. The Company believes that one reason for the growth of this sector has been that fashion-conscious consumers have increasingly come to regard branded fashion watches not only as time pieces but also as fashion accessories. This trend has resulted in consumers owning multiple watches that may differ significantly in terms of style, features and cost.

Fashion Accessories

The Company believes that the fashion accessories market in the United States includes products such as small leather goods, handbags, belts, eyewear, neckwear, underwear, lounge wear, jewelry, gloves, hats, hosiery and socks. The Company believes that one reason for the growth in this line of business is that consumers are becoming more aware of accessories as fashion statements, and as a result, are purchasing brand name, quality items that complement other fashion items. These fashion accessory products are generally marketed through mass merchandisers, department stores and specialty shops, depending upon price and quality. Higher price point items include products offered by Coach, Dooney & Burke, Ralph Lauren and Donna Karan New York.

Moderately priced fashion accessories are typically marketed in department stores and are characterized by contemporary fashion and well known brand names at reasonable price points, such as FOSSIL and RELIC. The Company currently offers small leather goods, handbags, belts, and eyewear for both men and women through department stores and specialty retailers in the moderate to upper-moderate price range. Companies such as Calvin Klein, Tommy Hilfiger, Guess?, Nine West, Kenneth Cole and Liz Claiborne currently operate in this market.

Apparel

In 2000, the Company introduced a line of FOSSIL apparel that is distributed exclusively through Company-owned retail stores and the Company's website. Selling through Company-owned stores allows the Company to effectively manage visual presentation, information feedback, inventory levels and operating returns. The apparel line is focused on the casual lifestyle of 16 to 24 year old consumers and consists primarily of jeans, tee shirts, and sweatshirts featuring FOSSIL brand packaging and labeling. The suggested retail selling price of the apparel line is comparable to that of major competitors like American Eagle Outfitters and Gap. The Company has leveraged its existing graphic and store design infrastructure to create a unique product packaging and store concept that differentiates it from other competitors in order to create higher perceived value for the products.

Business Strategy

The Company's long-term goal is to capitalize on the strength of its growing consumer brand recognition and capture an increasing share of a growing number of markets by providing consumers with fashionable, high quality, value-driven products. In pursuit of this goal, the Company has adopted operating and growth strategies that provide the framework for the Company's future growth, while maintaining the consistency and integrity of its brands.

Operating Strategy

- *Fashion Orientation and Design Innovation.* The Company is able to market its products to consumers with differing tastes and lifestyles by offering a wide range of brands and product categories at a variety of price points. The Company attempts to stay abreast of emerging fashion and lifestyle trends affecting accessories and apparel and it responds to these trends by making adjustments in its product lines several times each year. The Company differentiates its products from those of its competitors principally through innovations in fashion details, including variations in the treatment of dials, crystals, cases, straps and bracelets for the Company's watches, innovative treatments and details in its other accessories.

- *Coordinated Product Promotion.* The Company coordinates in-house product design, packaging, advertising and in-store presentations to more effectively and cohesively communicate to its target markets the themes and images associated with its brands. For example, many of the Company's FOSSIL brand products and certain of its accessory products are packaged in metal tins decorated with designs consistent with the Company's marketing strategy and product image. In addition, the Company generally markets its fashion accessory lines through the same distribution channels as its watch lines, using similar in-store presentations, graphics and packaging.
- *Product Value.* The Company's products provide value to the consumer by offering fashionable, high quality components and features at suggested retail prices generally below those of competitive products of comparable quality. The Company is able to offer its watches at a reasonable price point by manufacturing them principally in the Far East at lower cost than comparable quality watches manufactured in Switzerland. In addition, the Company is able to offer its accessories at reasonable prices because of its close relationships with manufacturers in the Far East. Unlike certain of its principal competitors, the Company does not pay royalties on its flagship brand, which the Company believes allows it to enjoy certain cost advantages that enhance its ability to achieve attractive profit margins.
- *Captive Suppliers.* The Company owns a majority interest in a number of watch assemblers with locations in Hong Kong and China. In addition, the Company maintains close relationships with accessory manufacturers in the Far East. The Company believes these relationships create a significant competitive advantage as they allow the Company to produce quality products, reduce the delivery time to market and improve overall operating margins.
- *Actively Manage Retail Sales.* The Company manages the retail sales process by monitoring customer sales and inventory levels by product category and style, primarily through Electronic Data Interchange ("EDI"), and by assisting retailers in the conception, development and implementation of their marketing programs. As a result, the Company believes it enjoys close relationships with its principal retailers, often allowing it to influence the mix, quantity and timing of customer purchasing decisions.
- *Centralized Distribution.* The Company distributes substantially all of its products sold in the United States and certain of its products sold in international markets from its warehouse and distribution centers in Richardson, Texas. The Company also distributes its products to international markets from warehouse and distribution centers located in Germany, Italy, Hong Kong, Australia, France and the United Kingdom. The Company believes its centralized distribution capabilities enable it to reduce inventory risk, increase flexibility in meeting the delivery requirements of its customers and maintain significant cost advantages as compared to its competitors.

Growth Strategy

- *Introduce New Products and Brands.* The Company continually introduces new products within its existing brands and through license agreements and brand extensions to attract a wide range of consumers with differing tastes and lifestyles. For example, the Company currently offers a full line of fashion watch and accessory products under its FOSSIL and RELIC brands, as well as watches under the EMPORIO ARMANI, DKNY, DIESEL and, beginning in late 2002, BURBERRY brand names pursuant to license agreements. In addition, the Company acquired three separate companies located in Bienne, Switzerland to provide the Company with design, sourcing and production

capabilities necessary to manufacture and market Swiss-made watches. The Company also leverages its brand recognition and its design and marketing expertise to expand the scope of its product offerings through the selective licensing of new product categories that complement its existing products. For example, the Company entered into license agreements with Safilo Group to offer FOSSIL and RELIC optical frames in the United States and Canada.

- *Expand International Business.* The Company has increased FOSSIL brand advertising internationally to accelerate brand recognition. The Company has also purchased former distributors and entered into joint venture relationships to gain increased control over the brand and instilled global-wide marketing efforts. The Company continues to introduce its licensed-brand products into international markets, open FOSSIL stores and develop new product lines.
- *Leverage Infrastructure.* The Company believes it has the design, marketing, manufacturing and distribution infrastructure in place to allow it to manage and grow its businesses. The Company continues to develop additional products and brands and seeks additional businesses and products to complement its existing business allowing it to leverage its existing infrastructure.
- *Expand Retail Locations.* The Company has historically expanded its Company-owned FOSSIL retail and outlet locations to further strengthen its brand image. The Company currently operates 89 retail and outlet stores and plans to open an additional three to five accessory stores and three to five outlet stores in 2002 in the United States. The Company intends to continue to offer its watch and accessory products through additional independently-owned, authorized FOSSIL retail stores in airports, on cruise ships and in international markets.

Products

The Company designs, develops, markets and distributes fashion watches and accessories, including sunglasses, small leather goods, belts, jewelry and handbags, principally under the FOSSIL and RELIC brand names and FOSSIL brand apparel and watches bearing the brand names of certain internationally known fashion designers pursuant to license agreements.

Watch Products

The Company introduced FOSSIL watches, its flagship product, in 1986 and RELIC watches in 1990. Since 1986, the Company has also contracted with retailers and other customers for the manufacture of watches primarily for sale under private labels. Sales of the Company's watches for fiscal years 2001, 2000 and 1999 accounted for approximately 68.1%, 71.7%, and 76.5%, respectively, of the Company's net sales.

The following table sets forth certain information with respect to the Company's FOSSIL and RELIC watches:

Watch Brand	Product Categories	Suggested Price Point Range	Average Price	Distribution Channels
FOSSIL	FOSSIL BLUE, F ² , FUEL, KALEIDO, ARKITEKT, TITANIUM, SIGNATURE	\$45—165	\$69	Major dept. stores (Dayton Hudson Corp., Dillard's, Federated/Macy's, May Dept. Stores, Nordstrom, Inc. and Saks), specialty retailers, Internet, and Company-owned stores
RELIC	RELIC Wet, Adjust-A-Link, Novelty, Pendant and Pocket	\$35—125	\$59	Major retailers (JCPenney, Kohl's Department Stores, Inc., and Sears)

The Company has entered into multi-year, worldwide license agreements for the manufacture, distribution and sale of watches bearing the brand names of certain internationally known fashion designers. The following table sets forth certain information with respect to the Company's licensed watch products:

Brand(s)	Products	Suggested Price Point Range	Average Price	Territory	Distribution Channel(s)
EMPORIO ARMANI	Wrist watches and bands, pocket watches	\$125—395	\$195	Worldwide	Major department stores, specialty retailers, jewelry stores and Emporio Armani Boutiques
DKNY, DKNY Active, DKNY Jeans & DONNA KARAN NEW YORK	Men's, women's and children's watches	\$75—195	\$107	Worldwide	Better department stores, specialty retailers, and Donna Karan Retail Stores
DIESEL	Wrist watches and straps and table, alarm, and wall clocks	\$75—320	\$100	Worldwide	Better department stores, specialty retailers, and Diesel Retail Stores

Private Label, Premium and Licensed Products. The Company designs, markets and arranges for the manufacture of watches on behalf of certain retailers, entertainment companies, theme restaurants and other corporate customers such as Eddie Bauer and Disney, as private label products or as premium and incentive items for use in various corporate events. Under this arrangement, the Company performs design and product development functions as well as acts as a sourcing agent for its customers by contracting for the manufacture of watches, managing the manufacturing process, inspecting the finished watches,

purchasing the watches and arranging for their shipment to the United States. Participation in the private label and premium businesses provides the Company with certain advantages, including increased manufacturing volume, which may reduce the costs of manufacturing the Company's other watch products, and the strengthening of business relationships with its manufacturing sources. These lines provide income to the Company with reduced inventory risks and certain other carrying costs. The Company has also entered into a number of license agreements for the sale of collectible watches. Under these agreements, the Company designs, manufactures and markets the goods bearing the trademarks, trade names and logos of various entities through major department stores within the Company's channels of distribution, including Harry Potter, Batman, Superman and Star Wars.

Fashion Accessories

In order to leverage the Company's design and marketing expertise and its close relationships with its principal retail customers, the Company has developed a line of fashion accessories, including handbags, and men's and women's belts, small leather goods and sunglasses. The Company has also introduced a line of FOSSIL brand fashion jewelry in Germany and is test marketing the line in other countries, including the United States. The Company's handbags are made of a variety of fine leathers and other materials that emphasize classic styles and incorporate a variety of creative designs. The sunglass line features optical quality lenses in both plastic and metal frames, with classic and fashion styling similar to other FOSSIL products. The Company's small leather goods are made of fine leathers and include items such as mini-bags, coin purses, key chains and wallets. The Company currently sells its fashion accessories through a number of its existing major department store and specialty retail store customers. The Company generally markets its fashion accessory lines through the same distribution channels as its watch business, using similar in-store presentations, graphics and packaging. These fashion accessories are typically sold in locations adjacent to watch departments, which may lead to purchases by persons who are familiar with the Company's watches. Sales of the Company's accessory lines for fiscal years 2001, 2000 and 1999 accounted for approximately 25.7%, 24.1% and 22.5%, respectively, of the Company's net sales.

The following table sets forth certain information with respect to the Company's fashion accessories:

Brand	Accessory Category	Suggested Price Point Range	Average Price	Distribution Channel
FOSSIL	Sunglasses	\$28—45	\$35	Major dept. stores (Dayton
	Handbags	\$35—168	\$100	Hudson Corp., Dillard's,
	Small Leather Goods	\$14—48	\$32	Federated/Macy's, May
	Belts	\$22—38	\$28	Dept. Stores, Nordstrom,
	Jewelry	\$35—95	\$40	Inc. and Saks), specialty retailers, Company-owned stores and Internet

<u>Brand</u>	<u>Accessory Category</u>	<u>Suggested Price Point Range</u>	<u>Average Price</u>	<u>Distribution Channel</u>
RELIC	Sunglasses	\$16—20	\$20	Major retailers (Fred Meyer, JCPenney, Kohl's
	Handbags	\$26—36	\$32	Department Stores, Inc.
	Small Leather Goods	\$12—28	\$20	and Sears)
	Belts	\$12—20	\$16	

Apparel

In July 2000, the Company introduced a collection of FOSSIL brand apparel and jeans. The jeans wear collection is designed for both men and women. The products' unique retro-Americana packaging captures the energy and spirit of the FOSSIL brand. The FOSSIL apparel collection is offered through approximately 19 Company-owned stores located in leading malls and retail locations in the United States. The line is also available at the Company's web site, www.fossil.com.

<u>Brand</u>	<u>Apparel Lines</u>	<u>Suggested Price Point Range</u>	<u>Average Price</u>	<u>Distribution Channel</u>
FOSSIL	Outerwear	\$36—68	\$45	FOSSIL jeans wear stores
	Men's Tops	\$12—48	\$32	and Internet
	Men's Bottoms	\$32—44	\$40	
	Women's Tops	\$16—38	\$28	
	Women's Bottoms	\$32—58	\$40	
	T-shirts	\$16—44	\$18	

Other Products

Licensed Products. In order to complement the Company's existing line of products and to increase consumer awareness of the FOSSIL brand, the Company has entered into license agreements for other categories of fashion accessories. These license agreements provide for royalty income to the Company based on a percentage of net sales and are subject to certain guaranteed minimum royalties. In 1999 the Company entered into a multi-year license agreement with the Safilo Group for the manufacture, marketing and sale of optical frames under the FOSSIL and RELIC brands in the United States and Canada. The Company also entered into a multi-year license agreement for the manufacture, marketing and sale of certain handbags, backpacks and sports bags in Germany, Austria, Switzerland and The Netherlands under the FOSSIL brand.

Future Products. The Company continually evaluates opportunities to expand its product offerings in the future to include other lines that would complement its existing product.

Design and Development

The Company's watch, accessory and apparel products are created and developed by its in-house design staff in cooperation with various outside sources, including manufacturing sources and component suppliers. Product design ideas are drawn from various sources and are reviewed and modified by the design staff to ensure consistency with the Company's existing product offerings and the themes and images that it associates with its products. Senior management is actively involved in the design process.

In order to respond effectively to changing consumer preferences, the Company attempts to stay abreast of emerging lifestyle and fashion trends affecting accessories and apparel. In addition, the Company attempts to take advantage of the constant flow of information from the Company's customers regarding the retail performance of its products. The Company reviews weekly sales reports provided by a substantial number of the Company's customers containing information with respect to sales and inventories by product category and style. Once a trend in the retail performance of a product category or style has been identified, the design and marketing staffs review their product design decisions to ensure that key features of successful products are incorporated into future designs. Other factors having an influence on the design process include the availability of components, the capabilities of the factories that will manufacture the products and the anticipated retail prices and profit margins for the products.

The Company differentiates its products from those of its competitors principally by incorporating into its product designs innovations in fashion details, including variations in the treatment of dials, crystals, cases, straps and bracelets for the Company's watches, and details and treatments in its other accessories. In certain instances, the Company believes that such innovations have allowed it to achieve significant improvements in consumer acceptance of its product offerings with only nominal increases in manufacturing costs. The Company believes that the substantial experience of its design staff will assist it in maintaining its current leadership position in watch design and in expanding the scope of its product offerings.

Marketing and Promotion

The Company's current FOSSIL brand advertising themes aim at evoking nostalgia for the simpler values and more optimistic outlook of the 1950s through the use of images of cars, trains, airliners and consumer products that reflect the classic American tastes of the period. These images are carefully coordinated in order to convey the flair for fun, fashion and humor that the Company associates with its products. The Company's nostalgic "America in the 1950s" tin packaging concept for many of its watch products and certain of its accessories is an example of these marketing themes. The tins have become a signature piece to the FOSSIL image and have become popular with collectors.

The Company participates in cooperative advertising programs with its major retail customers, whereby it shares the cost of certain of their advertising and promotional expenses. An important aspect of the marketing process involves the use of in-store visual support and other merchandising materials, including packages, signs, posters and fixtures. Through the use of these materials, the Company attempts to differentiate the space used to sell its products from other areas of its customers' stores. The Company also promotes the use of its Shop-in-Shop concept for handbags and small leather goods. The Shop-in-Shop concept involves the use of dedicated space within a customer's store to create a FOSSIL "shop" featuring the Company's products and visual displays. The Company also provides its customers with a large number of preprinted, customized advertising inserts and from time to time stages promotional events designed to focus public attention on its products.

The Company's in-house advertising department designs, develops and implements all aspects of the packaging, advertising, marketing and sales promotion of the Company's products. The advertising staff uses computer-aided design techniques to generate the images presented on product packaging and other advertising materials. The Company believes that the use of computers encourages greater creativity and reduces the time and cost required to incorporate new themes and ideas into effective product packaging and other advertising materials. Senior management is involved in monitoring the Company's advertising and promotional activities to ensure that themes and ideas are communicated in a cohesive manner to the Company's target audience.

The Company advertises, markets and promotes its products to consumers through a variety of media, including catalog inserts, billboards, print media and the Internet. The Company has advertised from time to time with billboards and other outdoor advertisements including bus panels in major metropolitan areas. The Company periodically advertises the RELIC brand in certain national fashion and consumer magazines such as *Teen*, *Twist*, *MH18* and *Marie Claire*. The Company also periodically advertises in trade publications such as *Women's Wear Daily* and *Daily News Record*.

Sales and Customers

The Company sells its products in approximately 17,000 retail locations in the United States through a diversified distribution network that includes approximately 5,000 department store doors, such as Federated/Macy's, May Department Stores, Dillard's, and approximately 12,500 specialty retail locations for its FOSSIL brand and JCPenney, Kohls and Sears for its RELIC brand. The Company also sells its watch and accessory products at Company-owned FOSSIL retail stores located at retail sites in the United States and sells certain of its products at Company-owned FOSSIL outlet stores located at major outlet malls throughout the United States. The Company's apparel products are sold through FOSSIL jeans wear stores and through the Company's website. The Company also sells its products at retail locations in major airports in the United States, on cruise ships and in independently-owned, authorized FOSSIL retail stores and kiosks in certain international markets. The Company generally does not have long-term contracts with any of its retail customers. All transactions between the Company and its retail customers are conducted on the basis of purchase orders, which generally require payment of amounts due to the Company on a net 30-day basis.

Department Stores. For fiscal years 2001, 2000 and 1999, domestic department stores accounted for approximately 53.3%, 59.8%, and 58.8% of the Company's net sales, respectively. In addition, in the same periods, the Company's 10 largest customers represented approximately 39%, 40%, and 41% of net sales, respectively. No customer accounted for more than 10% of the Company's net sales in fiscal years 2001, 2000 and 1999. Certain of the Company's customers are under common ownership. No customer, when considered as a group under common ownership, accounted for more than 10% of the Company's net sales in fiscal years 2001, 2000 and 1999.

International Sales. The Company's products are sold to department stores and specialty retail stores in over 90 countries worldwide through Company-owned foreign sales subsidiaries and through a network of approximately 51 independent distributors. The Company's foreign operations include a presence in Europe, South and Central America, the Caribbean, Canada, the Far East, Australia and the Middle East. Foreign distributors generally purchase products at uniform prices established by the Company for all international sales and resell them to department stores and specialty retail stores. The Company generally receives payment from its foreign distributors in United States currency. During the fiscal years 2001, 2000 and 1999, international and export sales accounted for approximately 34.5%, 30%, and 31% of net sales, respectively.

Company-Owned FOSSIL Stores. In 1995, the Company commenced operations of FOSSIL outlet stores at selected major outlet malls throughout the United States. The Company operated 44 outlet stores at the end of fiscal year 2001. These stores, which operate under the FOSSIL name, enable the Company to liquidate excess inventory and increase brand awareness. The Company's products in such stores are generally sold at discounts from 25% to 75% off the suggested retail price. The Company intends to open three to five additional outlet stores in 2002.

In 1996, the Company commenced operations of full priced accessory FOSSIL retail stores at some of the most prestigious retail malls and entertainment parks in the United States in order to broaden the recognition of the FOSSIL brand name. The Company currently operates 20 accessory retail stores in leading malls and retail locations throughout the United States, two in the United Kingdom and four in Australia. These stores, which operate under the FOSSIL name, carry a full assortment of FOSSIL merchandise which is generally sold at the suggested retail price. The Company intends to open three to five additional retail stores in 2002.

In 2000, the Company began offering FOSSIL brand apparel through specially designed Company-owned apparel stores. The Company currently operates 19 FOSSIL jeans wear stores in leading malls and retail locations throughout the United States. The Company's apparel stores carry the full apparel line along with an assortment of certain FOSSIL watch and accessory products. The Company does not intend to open any additional apparel stores in 2002.

During the fiscal years 2001, 2000 and 1999, Company-owned FOSSIL Store sales accounted for approximately 12%, 10%, and 9% of net sales, respectively.

Internet Sales. In November 1996, the Company established a website at www.fossil.com. In September 1999, the Company's website was redesigned with a stronger emphasis on retail sales and order fulfillment. The Company offers selected FOSSIL brand watches, sunglasses, leather goods, apparel and other related products. These products are also available to consumers through "storefronts" on America Online, Microsoft Network and Yahoo that are connected to the Company's website. In addition to offering selected FOSSIL products, the Company also provides Company news and information on the website. During 2000, the Company launched a business-to-business site that allows the Company's specialty retail accounts access to real-time inventory, account information and automated order processing.

Sales Personnel. The Company utilizes an in-house sales staff and, to a lesser extent, independent sales representatives to promote the sale of the Company's products to retail accounts. As of the end of fiscal year 2001, the Company had 123 in-house sales and customer service employees and 25 independent sales representatives. The Company's in-house sales personnel receive a salary and, in some cases, a commission based on a percentage of gross sales attributable to specified accounts. Independent sales representatives generally do not sell competing product lines and are under contracts with the Company that are generally terminable by either party upon 30 days' prior notice. These independent contractors are compensated on a commission basis.

Customer Service. The Company has developed an approach to managing the retail sales process that involves monitoring its customers' sales and inventories by product category and style, primarily through EDI, and assisting in the conception, development and implementation of their marketing programs. For example, the Company reviews weekly selling reports prepared by certain of its principal customers and has established an active EDI program with certain of its customers. The Company also places significant emphasis on the establishment of cooperative advertising programs with its major retail customers. The Company believes that its management of the retail sales process has resulted in close relationships with its principal customers, often allowing it to influence the mix, quantity and timing of their purchasing decisions.

The Company believes that its sales approach achieves high retail turnover in its products, which can result in attractive profit margins for its retail customers. The Company believes that the resulting profit margins for its retail customers encourage them to devote greater selling space to its products within their stores and enable the Company to work closely with buyers in determining the mix of products any store should carry. In addition, the Company believes that the buyers' familiarity with the Company's sales approach has and should continue to facilitate the introduction of new products through its existing distribution network.

The Company permits the return of damaged or defective products. In addition, although it has no obligation to do so, the Company accepts limited amounts of product returns from its customers in certain other instances. Accordingly, the Company provides allowances for the estimated amount of product returns. The allowances for product returns as of the end of fiscal years 2001, 2000 and 1999 were \$22.5 million, \$21.2 million, and \$17.7 million respectively. Since 1990, the Company has not experienced any returns in excess of the aggregate allowances therefor.

Backlog

It is the practice of a substantial number of the Company's customers not to confirm orders by delivering a formal purchase order until a relatively short time prior to the shipment of goods. As a result, the amount of unfilled customer orders includes confirmed orders and orders that the Company believes will be confirmed by delivery of a formal purchase order. A majority of such amounts represent orders that have been confirmed. The remainder of such amounts represent orders that the Company believes, based on industry practice and prior experience, will be confirmed in the ordinary course of business. The Company's backlog at a particular time is affected by a number of factors, including seasonality and the scheduling of the manufacture and shipment of products. Accordingly, a comparison of backlog from period to period is not necessarily meaningful and may not be indicative of eventual actual shipments. For fiscal year 2001, the Company had unfilled customer orders of approximately \$57.4 million compared to \$63.5 million and \$41.4 million for fiscal years 2000 and 1999, respectively.

Manufacturing

The Company's products are manufactured to its specifications by independent contractors and by companies in which the Company holds a majority interest. Substantially all of the Company's watches are manufactured by approximately 39 factories located primarily in Hong Kong and China. The Company believes that its policy of outsourcing products allows it to achieve increased production flexibility while avoiding significant capital expenditures, build-ups of work-in-process inventory and the costs of managing a substantial production work force.

The principal components used in the manufacture of the Company's watches are cases, crystals, dials, movements, bracelets and straps. These components are obtained by the Company's manufacturing sources from a large number of suppliers located principally in Hong Kong, Japan, China, Taiwan, Italy, Thailand and Korea. The Company estimates that the majority of the movements used in the manufacture of the Company's watches are supplied by three principal vendors. No other single component supplier accounted for more than 10% of component supplies in 2001. Although the Company does not normally engage in direct transactions with component suppliers, in some cases it actively reviews the performance of such suppliers and makes recommendations to its manufacturing sources regarding the sourcing of components. The Company does not believe that its business is materially dependent on any single component supplier.

The Company believes that it has established and maintains close relationships with a number of watch manufacturers located in Hong Kong and China. In 2001, four separate watch manufacturers in which the Company holds a majority interest each accounted for 10% or more of the Company's watch supplies. The loss of any one of these manufacturers could temporarily disrupt shipments of certain of the Company's watches. However, as a result of the number of suppliers from which the Company purchases its watches, the Company believes that it could arrange for the shipment of goods from alternative sources within approximately 30 days on terms that are not materially different from those currently available to the Company. Accordingly, the Company does not believe that the loss of any single supplier would have a material adverse effect on the Company's business. In general, however, the future success of the Company will depend upon its ability to maintain close relationships with, or ownership of, its current suppliers and to develop long-term relationships with other suppliers that satisfy the Company's requirements for price and production flexibility.

The Company's products are manufactured according to plans that reflect management's estimates of product performance based on recent sales results, current economic conditions and prior experience with manufacturing sources. The average lead time from the commitment to purchase products through the production and shipment thereof ranges from two to three months in the case of watches, from three to six months in the case of sunglasses, from three to four months in the case of leather goods and from two to four months for apparel items. The Company believes that the close relationships and, in certain cases, ownership interest, that it has established and maintains with its principal manufacturing sources constitute a significant competitive advantage and allow it to quickly and efficiently introduce innovative product designs and alter production in response to the retail performance of its products.

Quality Control

The Company's quality control program attempts to ensure that its products meet the standards established by its design staff. Samples of products are inspected by the Company prior to the placement of orders with manufacturing sources to ensure compliance with its specifications. The operations of the Company's manufacturing sources located in Hong Kong are monitored on a periodic basis by Fossil (East). Substantially all of the Company's watches and certain of its other accessories are inspected by personnel of Fossil (East) or by the manufacturer prior to shipment to the Company. In addition, the Company performs quality control checks on its products upon receipt at the Company's facility.

Distribution

Upon completion of manufacturing, the Company's products are shipped to its warehousing and distribution centers in Richardson, Texas; Italy; Hong Kong; the United Kingdom; Germany; Australia and France from which they are shipped to customers in selected markets. Since July 1997, the Company has owned and operated a warehouse and distribution facility in Richardson, Texas, adjacent to the Company's headquarters, to maximize the Company's inventory management and distribution capabilities. The Company also leases a warehouse and distribution center in Garland, Texas. The Company has acquired a 517,500 square foot warehouse and distribution facility in Dallas, Texas that will allow it to centralize the facilities currently being utilized for such purposes. The Company anticipates that its domestic distribution operations will be consolidated into the new facility by mid-year 2002.

The Company's warehouse and distribution facilities in Richardson and Dallas, Texas are operated in a special purpose subzone established by the United States Department of Commerce Foreign Trade Zone Board. As a result of the establishment of the subzone, the Company enjoys the following economic and operational advantages: (i) the Company may not have to pay duty on imported merchandise until it leaves the subzone and enters the United States market, (ii) the Company does not pay any United States duty on

merchandise if the imported merchandise is subsequently re-exported, and (iii) the Company does not pay local property tax on inventory located within the subzone.

Management Information Systems

Inventory Control. The Company maintains inventory control systems at its facilities that enable it to track each item of merchandise from receipt from its manufacturing sources, through shipment to its customers. To facilitate this tracking, a significant number of products sold by the Company are pre-ticketed and bar coded prior to shipment to its retail customers. The Company's inventory control systems report shipping, sales and individual SKU level inventory information. The Company manages the retail sales process by monitoring customer sales and inventory levels by product category and style, primarily through EDI. The Company believes that its distribution capabilities enable it to reduce inventory risk and increase flexibility in responding to the delivery requirements of its customers. The Company's management believes that its EDI efforts will continue to grow in the future as customers focus further on increasing operating efficiencies. In addition, the Company maintains systems that are designed to track inventory movement through the FOSSIL retail and outlet stores. Detailed sales transaction records are accumulated on each store's point-of-sale system and polled nightly by the Company.

Warranty and Repair

The Company's FOSSIL watch products are covered by a limited warranty against defects in materials or workmanship for a period of 11 years from the date of purchase. The Company's RELIC watch products are covered by a comparable 12 year warranty. The Company's licensed watch products generally are covered by one year limited warranty. The Company's sunglass line is covered by a one year limited warranty against defects in materials or workmanship. Defective products returned by consumers are processed at the Company's warehousing and distribution centers. In most cases, defective products under warranty are repaired by the Company's personnel. Products under warranty that cannot be repaired in a cost-effective manner are replaced by the Company at no cost to the customer. The Company also performs watch repair services on behalf of certain of its private label customers.

Governmental Regulations

Imports and Import Restrictions. Most of the Company's products are manufactured overseas. As a result, the United States and the countries in which the Company's products are manufactured or sold may from time to time modify existing or impose new quotas, duties, tariffs or other restrictions in a manner that adversely affects the Company. For example, the Company's products imported to the United States are subject to United States customs duties and, in the ordinary course of its business, the Company may from time to time be subject to claims by the United States Customs Service for duties and other charges. Factors which may influence the modification or imposition of these restrictions include the determination by the United States Trade Representative that a country has denied adequate intellectual property rights or fair and equitable market access to United States firms that rely on intellectual property, trade disputes between the United States and a country that leads to withdrawal of "most favored nation" status for that country and economic and political changes within a country that are viewed unfavorably by the government of the United States. The Company cannot predict the effect, if any, these events would have on its operations, especially in light of the concentration of its manufacturing operations in Hong Kong and China.

General. The Company's sunglass products are subject to regulation by the United States Food and Drug Administration as medical devices. The Company does not believe that compliance with such regulations is material to its operations. In addition, the Company is subject to various state and federal regulations generally applicable to similar businesses.

Intellectual Property

Trademarks. The Company has registered the FOSSIL and RELIC trademarks for use on the Company's watches, leather goods, apparel and other fashion accessories. The Company has also registered or applied for the registration of certain other marks used by the Company in conjunction with the sale and marketing of its products and services, including ZODIAC® and ANTIMA®. In addition, the Company has registered certain of its trademarks, including FOSSIL and RELIC, in certain foreign countries, including a number of countries located in Europe, the Far East, the Middle East, South America and Central America. The Company also has certain trade dress rights in, and has registered, the distinctive rectangular tins in which the Company packages certain of its FOSSIL watch products.

Patents. The Company continues to explore innovations in the design and manufacture of its watch products and is involved in the development of technology enhanced watches. As a result, the Company has been granted, and has pending, various United States and international design and utility patents related to certain of its watch designs and features. The Company also has been granted, and has pending, various United States patents related to certain of its other products and technologies.

The Company regards its trademarks, trade dress and patents as valuable assets and believes that they have significant value in the marketing of its products. The Company intends to protect its intellectual property rights vigorously against infringement.

Competition

There is intense competition in each of the businesses in which the Company competes. The Company's watch business competes with a number of established manufacturers, importers and distributors such as Guess? Anne Klein II, Kenneth Cole and Swatch. In addition, the Company's leather goods, sunglass and apparel businesses compete with a large number of established companies that have significantly greater experience than the Company in designing, developing, marketing and distributing such products. In all of its businesses, the Company competes with numerous manufacturers, importers and distributors who have significantly greater financial, distribution, advertising and marketing resources than the Company. The Company's competitors include distributors that import watches, accessories and apparel from abroad, domestic companies that have established foreign manufacturing relationships and companies that produce accessories and apparel domestically.

The Company competes primarily on the basis of style, price, value, quality, brand name, advertising, marketing and distribution. In addition, the Company believes that its ability to identify and respond to changing fashion trends and consumer preferences, to maintain existing relationships and develop new relationships with manufacturing sources, to deliver quality merchandise in a timely manner and to manage the retail sales process are important factors in its ability to compete.

The Company considers that the risk of significant new competitors is mitigated to some extent by barriers to entry such as high startup costs and the development of long-term relationships with customers and manufacturing sources. During the past few years, it has been the Company's experience that better department stores and other major retailers have been increasingly unwilling to source products from suppliers who are not well capitalized or do not have a demonstrated ability to deliver quality merchandise in a timely manner. There can be no assurance, however, that significant new competitors will not emerge in the future.

Employees

As of the end of fiscal year 2001, the Company (excluding Arrow Merchandising, Inc. and the Company's foreign subsidiaries) had 2,389 employees, including 274 in executive or managerial positions and the balance in design, advertising, sales, quality control, distribution, clerical and other office positions. As of the end of fiscal year 2001, the Company's foreign operating subsidiaries had 689 employees, including 52 in managerial positions.

The Company has not entered into any collective bargaining agreements with its employees. The Company believes that its relations with its employees are generally good.

Item 2. Properties

Company Facilities. As of the end of fiscal year 2001, the Company owned or leased the following facilities in connection with its domestic and international operations:

<u>Location</u>	<u>Use</u>	<u>Square Footage</u>	<u>Owned/Leased</u>
Richardson, Texas	Corporate headquarters	177,000	Owned
Richardson, Texas	Warehouse, distribution and general office	138,000	Owned
Dallas, Texas	Warehouse, distribution and general office	517,500	Owned
Garland, Texas	Warehouse and distribution	117,328	Lease expiring in 2002
Hong Kong	Office and warehouse	37,600	Lease expiring in 2003
Erlstätt, Germany	Office, warehouse and distribution	12,000	Lease expiring in 2002
Milton Keynes, England	Office, warehouse and distribution	8,250	Lease expiring in 2002
Saverne, France	Office, warehouse and distribution	51,450	Owned
Sydney, Australia	Office, warehouse and distribution	4,375	Lease expiring in 2004
Vicenza, Italy	Office, warehouse and distribution	22,750	Lease expiring in 2007
New York, New York	General office and showroom	13,596	Lease expiring in 2006
Atlanta, Georgia	General office and showroom	1,380	Lease expiring in 2003
Chicago, Illinois	General office and showroom	2,980	Lease expiring in 2004
Los Angeles, California	General office and showroom	1,934	Lease expiring in 2005

The Company's Richardson, Texas facilities are located on approximately 20 acres of land and the Dallas, Texas facility is on approximately 47 acres of land. The Company owns these facilities and the land on which each is located.

Jeans Wear Retail Store Facilities. As of the end of fiscal year 2001, the Company had entered into 19 lease agreements for retail space at prime locations in the United States for the sale of its apparel line and certain of its accessory products. The leases, including renewal options, expire at various times from 2009 to 2011. The leases provide for minimum annual rentals and, in certain cases, for the payment of additional rent when sales exceed specified net sales amounts. The amount of percentage rent ranges from six percent to eight percent. The Company is also required to pay its pro rata share of the common area maintenance costs, including real estate taxes, insurance, maintenance expenses and utilities.

Accessory Retail Store Facilities. As of the end of fiscal year 2001, the Company had entered into 23 lease agreements for retail space at prime locations in the United States for the sale of its full assortment of accessory products. The leases, including renewal options, expire at various times from 2003 to 2012.

The leases provide for minimum annual rentals and, in certain cases, for the payment of additional rent when sales exceed specified net sales amounts. The amount of percentage rent ranges from six percent to nine percent. The Company is also required to pay its pro rata share of the common area maintenance costs, including real estate taxes, insurance, maintenance expenses and utilities.

Outlet Store Facilities. The Company also leases retail space at selected outlet centers throughout the United States for the sale of its products. As of the end of fiscal year 2001, the Company had entered into 45 such leases. The leases, including renewal options, expire at various times from 2002 to 2013, and provide for minimum annual rentals and for the payment of additional rent based on a percentage of sales above specified net sales amounts ranging from four percent to eight percent. The Company is also required to pay its pro rata share of the common area maintenance costs at each outlet center, including, real estate taxes, insurance, maintenance expenses and utilities.

The Company believes that its existing facilities are well maintained and in good operating condition. In 2001, the Company acquired a 517,500 square foot warehouse and distribution facility in Dallas, Texas that will allow it to centralize the facilities currently being utilized for such purposes. This facility is scheduled to be fully operational in 2002.

Item 3. Legal Proceedings

There are no legal proceedings to which the Company is a party or to which its properties are subject, other than routine litigation incident to the Company's business which is not material to the Company's consolidated financial condition or results of operations.

Item 4. Submission of Matters to a Vote of Security Holders

No matter was submitted to a vote of the stockholders of the Company during the fourth quarter of fiscal year 2001.

PART II

Item 5. Market for the Registrant's Common Equity and Related Stockholder Matters

The Company's Common Stock is listed on the Nasdaq National Market under the symbol "FOSL." Quotation of the Company's Common Stock began on the Nasdaq National Market on April 8, 1993.

The following table sets forth the range of quarterly high and low sales prices per share of the Company's Common Stock on the Nasdaq National Market for the fiscal years ended January 5, 2002 and December 30, 2000.

	<u>High</u>	<u>Low</u>
Fiscal year beginning December 31, 2000:		
First Quarter	\$20.250	\$13.750
Second Quarter	23.350	16.510
Third Quarter	22.300	14.110
Fourth Quarter	22.600	16.150

	<u>High</u>	<u>Low</u>
Fiscal year beginning January 2, 2000:		
First Quarter	\$26.750	\$15.813
Second Quarter	25.125	16.625
Third Quarter	20.500	11.563
Fourth Quarter	16.438	10.500

As of March 29, 2002, the Company estimates that there were approximately 4,300 beneficial owners of the Company's Common Stock, represented by approximately 132 holders of record.

Dividend Policy. The Company expects that it will retain all available earnings generated by its operations for the development and growth of its business and does not anticipate paying any cash dividends in the foreseeable future. Any future determination as to dividend policy will be made in the discretion of the Board of Directors of the Company and will depend on a number of factors, including the future earnings, capital requirements, financial condition and future prospects of the Company and such other factors as the Board of Directors may deem relevant.

Item 6. Selected Financial Data

The information appearing under "Financial Highlights" beginning on page 5 of the Fossil, Inc. 2001 Annual Report is incorporated herein by reference.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The information appearing under "Management's Discussion and Analysis" beginning on page 34 of the Fossil, Inc. 2001 Annual Report is incorporated herein by reference.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

The information appearing under "Management's Discussion and Analysis" and "Financial Information" beginning on pages 34 and 46, respectively, of the Fossil, Inc. 2001 Annual Report is incorporated herein by reference.

Item 8. Financial Statements and Supplemental Data

The information appearing under "Financial Information" beginning on page 46 of the Fossil, Inc. 2001 Annual Report is incorporated herein by reference.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures

The Company has had no changes in or disagreements with its accountants to report under this item.

PART III

Item 10. Directors and Executive Officers of the Registrant

The information required in response to this Item is incorporated herein by reference to the Company's proxy statement to be filed with the Securities and Exchange Commission pursuant to

Regulation 14A, not later than 120 days after the end of the fiscal year covered by this report.

Item 11. Executive Compensation

The information required in response to this Item is incorporated herein by reference to the Company's proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A, not later than 120 days after the end of the fiscal year covered by this report.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information required in response to this Item is incorporated herein by reference to the Company's proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A, not later than 120 days after the end of the fiscal year covered by this report.

Item 13. Certain Relationships and Related Transactions

The information required in response to this Item is incorporated herein by reference to the Company's proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A, not later than 120 days after the end of the fiscal year covered by this report.

PART IV

Item 14. Exhibits, Financial Statements Schedules and Reports on Form 8-K

(a) Documents filed as part of Report.

1. *Financial Statements:*

The Financial Statements appearing under "Financial Information" beginning on page 46 of the Fossil, Inc. 2001 Annual Report are incorporated herein by reference.

2. *Financial Statement Schedule:*

The following Financial Statement Schedule and related Auditor's Report are contained herein on pages S-1 and S-2 of this Report.

Schedule II—Valuation and Qualifying Accounts

3. *Exhibits:*

- 3.1 Amended and Restated Certificate of Incorporation of Fossil, Inc. (incorporated by reference to Exhibit 3.1 of the Company's Registration Statement on Form S-1, registration no. 33-45357, filed with the Securities and Exchange Commission).
- 3.2 Amended and Restated Bylaws of Fossil, Inc. (incorporated by reference to Exhibit 3.2 of the Company's Registration Statement on Form S-1, registration no. 33-45357, filed with the Securities and Exchange Commission).
- 3.3 Certificate of Amendment of the Amended and Restated Certificate of Incorporation of Fossil, Inc. (incorporated by reference to Exhibit 3.1 of the Company's Report on Form 10-Q for the quarterly period ended June 30, 1995).

- 3.4 Second Amended and Restated Certificate of Incorporation of Fossil, Inc. (incorporated by reference to Exhibit 3.1 of the Company's Report on Form 10-Q for the quarterly period ended July 4, 1998).
- 3.5 Certificate of Amendment of the Second Amended and Restated Certificate of Incorporation of Fossil, Inc. (incorporated by reference to Exhibit 3.1 of the Company's Report on Form 10-Q for the quarterly period ended July 1, 2000).
- 3.6 Amended and Restated Bylaws of Fossil, Inc. (incorporated by reference to Exhibit 3.1 of the Company's Report on Form 10-Q for the quarterly period ended September 30, 2000).
- 10.1(2) Fossil, Inc. 1993 Nonemployee Director Stock Option Plan (incorporated herein by reference to Exhibit 10.1 of the Company's Registration Statement of Form S-1, registration no. 33-45357, filed with the Securities and Exchange Commission).
- 10.2(2) Fossil, Inc. 1993 Long-Term Incentive Plan (incorporated herein by reference to Exhibit 10.2 of the Company's Registration Statement of Form S-1, registration no. 33-45357, filed with the Securities and Exchange Commission).
- 10.3(2) Fossil, Inc. 1993 Savings and Retirement Plan (incorporated herein by reference to Exhibit 10.3 of the Company's Registration Statement of Form S-1, registration no. 33-45357, filed with the Securities and Exchange Commission).
- 10.4 Non-Competition Agreement dated December 31, 1992 between Fossil, Inc. and Mr. Jal S. Shroff (incorporated herein by reference to Exhibit 10.12 of the Company's Registration Statement of Form S-1, registration no. 33-45357, filed with the Securities and Exchange Commission).
- 10.5 Amended and Restated Buying Agent Agreement dated March 21, 1992 between Fossil, Inc. and Fossil East Ltd. (incorporated by reference to Exhibit 10.13 of the Company's Annual Report on Form 10-K for the year ended December 31, 1993).
- 10.6 Subordination Agreement of Fossil Trust for the benefit of First Interstate Bank of Texas, N.A. dated as of August 31, 1994 (incorporated by reference to Exhibit 10.7 of the Company's Report on Form 10-Q for the quarterly period ended September 30, 1994).
- 10.7 Indemnity Agreement dated as of August 31, 1994 from Fossil Partners, L.P. and Fossil, Inc. to First Interstate Bank of Texas, N.A. (incorporated by reference to Exhibit 10.8 of the Company's Report on Form 10-Q for the quarterly period ended September 30, 1994).
- 10.8 Master Licensing Agreement dated as of August 30, 1994, by and between Fossil, Inc. and Fossil Partners, L.P. (incorporated by reference to Exhibit 10.12 of the Company's Report on Form 10-Q for the quarterly period ended September 30, 1994).
- 10.9 Agreement of Limited Partnership of Fossil Partners, L.P. (incorporated by reference to Exhibit 10.13 of the Company's Report on Form 10-Q for the quarterly period ended September 30, 1994).
- 10.10 Overhead Allocation Agreement by and between Fossil Partners, L.P. and Fossil Stores I, Inc. dated December 1, 1994 (incorporated by reference to Exhibit 10.35 of the Company's Annual Report on Form 10-K for the year ended December 31, 1994).
- 10.11 Stock Pledge Agreement entered into on May 2, 1995 by and between Fossil, Inc. and First Interstate Bank of Texas, N.A. (incorporated by reference to Exhibit 10.3 of the Company's Report on Form 10-Q for the quarterly period ended June 30, 1995).

- 10.12 Joint Development Agreement entered into on December 25, 1995 by and between Fossil, Inc., Seiko Instruments, Inc, and Time Tech, Inc. (incorporated by reference to Exhibit 10.43 of the Company's Annual Report on Form 10-K for the year ended December 31, 1996).
- 10.13(2) First Amendment to the Fossil, Inc. 1993 Long-Term Incentive Plan (incorporated by reference to Exhibit 4.1 of the Company's Report on Form 10-Q for the quarterly period ended July 4, 1998).
- 10.14(2) Second Amendment to the Fossil, Inc. 1993 Long-Term Incentive Plan (incorporated by reference to Exhibit 4.1 of the Company's Report on Form 10-Q for the quarterly period ended July 4, 1998).
- 10.15(2) Amendment to the Fossil, Inc. 1993 Non-Employee Director Stock Option Plan (incorporated by reference to Exhibit 10.24 of the Company's Report on Form 10-K for the year-ended January 2, 1999).
- 10.16(2) Fossil, Inc. and Affiliates Deferred Compensation Plan (incorporated by reference to Exhibit 10.25 of the Company's Report on Form 10-K for the year-ended January 2, 1999).
- 10.17 Fourth Amended and Restated Loan Agreement by and among 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. dated as of June 28, 1999 (without exhibits) (incorporated by reference to Exhibit 10.1 of the Company's Report on Form 10-Q for the quarterly period ended July 3, 1999)
- 10.18 Joint Venture Agreement between Fossil, Inc. and Seiko Instruments America, Inc. dated June 1, 1999 (without exhibits) (incorporated by reference to Exhibit 10.1 of the Company's Report on Form 10-Q for the quarterly period ended October 2, 1999)
- 10.19 Service Agreement between SII Marketing International, Inc. and Fossil Partners, L.P. dated August 9, 1999 (incorporated by reference to Exhibit 10.2 of the Company's Report on Form 10-Q for the quarterly period ended October 2, 1999).
- 10.20 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) (incorporated by reference to Exhibit 10.1 of the Company's Report on Form 10-Q for the quarterly period ended July 1, 2000).
- 10.21 Joint Venture Agreement by and between Sucesores de A. Cadarso and Fossil Europe B.V., dated as of July 27, 2000 (without exhibits) (incorporated by reference to Exhibit 10.1 of the Company's Report on Form 10-Q for the quarterly period ended September 30, 2000).
- 10.22(2) Third Amendment to the Fossil, Inc. 1993 Long-Term Incentive Plan (incorporated by reference to Exhibit 4.1 of the Company's Report on Form 10-Q for the quarterly period ended July 7, 2001).
- 10.23 Agreement for the Sale and Purchase of the Avia Watch Company Limited between Roventa-Henex S.A. and Fossil (UK) Holdings Limited and Fossil, Inc. dated May 4, 2001 (incorporated by reference to Exhibit 10.1 of the Company's Report on Form 10-Q for the quarterly period ended July 7, 2001).
- 10.24 Stock Purchase Agreement by and between Fossil, Inc. and FSLA Pty. Limited, Mike Houtzaager and Colette Houtzaager dated June 6, 2001 (without exhibits) (incorporated by reference to Exhibit 10.1 of the Company's Report on Form 10-Q for the quarterly period ended October 6, 2001).
- 10.25 Stock Purchase and Joint Venture Agreement by and between Fossil, Inc. and Seiko Instruments Inc. dated June 14, 2001 (without exhibits) (incorporated by reference to Exhibit 10.2 of the Company's Report on Form 10-Q for the quarterly period ended October 6, 2001).

- 10.26 Share Purchase Agreement by and between Fossil Europe B.V. and Banque Degroof Luxembourg SA, Mr. Eric Gallou, Mr. Christian Matt, Activ'Invest SA dated August 3, 2001 (without schedules and exhibits) (incorporated by reference to Exhibit 10.3 of the Company's Report on Form 10-Q for the quarterly period ended October 6, 2001).
- 10.27 Asset Purchase Agreement between Genender International, Inc. and Fossil, Inc. dated August 27, 2001 (without exhibits and schedules) (incorporated by reference to Exhibit 10.4 of the Company's Report on Form 10-Q for the quarterly period ended October 6, 2001).
- 10.28(1) Second Amendment to Fourth Amended and Restated Loan Agreement dated June 26, 2001 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).
- 10.29(1) Stock Purchase Agreement by and between Montres Antima SA and Flavio Rota and Meliga Habillement Horloger SA dated October 31, 2001 (without exhibits and schedules).
- 10.30(1) Asset Purchase Agreement by and between Meliga Habillement Horloger SA and Montres Antima SA dated October 31, 2001 (without exhibits and schedules).
- 10.31(1) Stock Purchase Agreement by and between Swiss Technology Holding AG and Michel Geiger dated October 31, 2001 (without exhibits and schedules).
- 10.32(1)(2) 2002 Restricted Stock Plan of Fossil, Inc.
 - 13(1) Fossil, Inc. 2001 Annual Report to Stockholders.
 - 21.1(1) Subsidiaries of Fossil, Inc.
 - 23.1(1) Consent of Independent Auditors.

(1) Filed herewith.

(2) Management contract or compensatory plan or arrangement.

(b) Reports on Form 8-K

The Company did not file any report on Form 8-K during the last quarter of the period covered by this Report.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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 in the City of Richardson, State of Texas, on April 5, 2002.

FOSSIL, INC.

By: /s/ KOSTA KARTSOTIS
*Kosta Kartsotis, President, Chief Executive
Officer and Director*

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Capacity</u>	<u>Date</u>
<u>/s/ TOM KARTSOTIS</u> <i>Tom Kartsotis</i>	Chairman of the Board and Director (Principal Executive Officer)	April 5, 2002
<u>/s/ KOSTA N. KARTSOTIS</u> <i>Kosta N. Kartsotis</i>	President, Chief Executive Officer and Director	April 5, 2002
<u>/s/ MIKE L. KOVAR</u> <i>Mike L. Kovar</i>	Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	April 5, 2002
<u>/s/ MICHAEL W. BARNES</u> <i>Michael W. Barnes</i>	President, International and Special Markets Division and Director	April 5, 2002
<u>/s/ RICHARD H. GUNDY</u> <i>Richard H. Gundy</i>	President, FOSSIL Watches and Stores Division and Director	April 5, 2002
<u>/s/ JAL S. SHROFF</u> <i>Jal S. Shroff</i>	Director	April 5, 2002
<u>/s/ KENNETH W. ANDERSON</u> <i>Kenneth W. Anderson</i>	Director	April 5, 2002
<u>/s/ ALAN J. GOLD</u> <i>Alan J. Gold</i>	Director	April 5, 2002
<u>/s/ MICHAEL STEINBERG</u> <i>Michael Steinberg</i>	Director	April 5, 2002
<u>/s/ DONALD J. STONE</u> <i>Donald J. Stone</i>	Director	April 5, 2002
<u>/s/ JUNICH HATTORI</u> <i>Junich Hattori</i>	Director	April 5, 2002

INDEPENDENT AUDITORS' REPORT

To the Directors of Fossil, Inc.:

We have audited the consolidated financial statements of Fossil, Inc. and subsidiaries as of January 5, 2002 and December 30, 2000, and for each of the three years in the period ended January 5, 2002, and have issued our report thereon dated February 25, 2002; such consolidated financial statements and report are included in your 2001 Annual Report to Stockholders and are incorporated herein by reference. Our audits also included the consolidated financial statement schedule of Fossil, Inc. and subsidiaries listed in Item 14. This consolidated financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, such consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Deloitte & Touche LLP
Dallas, Texas
February 25, 2002

SCHEDULE II

**FOSSIL, INC. AND SUBSIDIARIES
 VALUATION AND QUALIFYING ACCOUNTS**

**Fiscal Years 1999, 2000, and 2001
 (in thousands)**

Classification	Balance at Beginning of Period	Additions Charged (Credited) to Costs and Expenses	Deductions Actual Returns or Writeoffs	Balance at End of Period
Fiscal Year 1999:				
Accounts receivable allowances:				
Sales returns	13,966	23,667	(19,933)	17,700
Bad debts	6,864	2,573	(1,480)	7,957
Cash discounts	228	219	(274)	173
Inventory in transit for estimated customer returns	(7,485)	(10,732)	8,754	(9,463)
Fiscal Year 2000:				
Accounts receivable allowances:				
Sales returns	17,700	26,513	(22,966)	21,247
Bad debts	7,957	3,005	(1,481)	9,481
Cash discounts	173	170	(159)	184
Inventory in transit for estimated customer returns	(9,463)	(14,415)	11,609	(12,269)
Fiscal Year 2001:				
Accounts receivable allowances:				
Sales returns	21,247	29,385	(28,175)	22,457
Bad debts	9,481	3,037	(808)	11,710
Cash discounts	184	331	(190)	325
Inventory in transit for estimated customer returns	(12,269)	(16,586)	15,619	(13,236)

EXHIBIT INDEX

Exhibit Number	Description
3.1	Amended and Restated Certificate of Incorporation of Fossil, Inc. (incorporated by reference to Exhibit 3.1 of the Company's Registration Statement on Form S-1, registration no. 33-45357, filed with the Securities and Exchange Commission).
3.2	Amended and Restated Bylaws of Fossil, Inc.(incorporated by reference to Exhibit 3.2 of the Company's Registration Statement on Form S-1, registration no. 33-45357, filed with the Securities and Exchange Commission).
3.3	Certificate of Amendment of the Amended and Restated Certificate of Incorporation of Fossil, Inc. (incorporated by reference to Exhibit 3.1 of the Company's Report on Form 10-Q for the quarterly period ended June 30, 1995).
3.4	Second Amended and Restated Certificate of Incorporation of Fossil, Inc. (incorporated by reference to Exhibit 3.1 of the Company's Report on Form 10-Q for the quarterly period ended July 4, 1998).
3.5	Certificate of Amendment of the Second Amended and Restated Certificate of Incorporation of Fossil, Inc. (incorporated by reference to Exhibit 3.1 of the Company's Report on Form 10-Q for the quarterly period ended July 1, 2000).
3.6	Amended and Restated Bylaws of Fossil, Inc. (incorporated by reference to Exhibit 3.1 of the Company's Report on Form 10-Q for the quarterly period ended September 30, 2000).
10.1(2)	Fossil, Inc. 1993 Nonemployee Director Stock Option Plan (incorporated herein by reference to Exhibit 10.1 of the Company's Registration Statement of Form S-1, registration no. 33-45357, filed with the Securities and Exchange Commission).
10.2(2)	Fossil, Inc. 1993 Long-Term Incentive Plan (incorporated herein by reference to Exhibit 10.2 of the Company's Registration Statement of Form S-1, registration no. 33-45357, filed with the Securities and Exchange Commission).
10.3(2)	Fossil, Inc. 1993 Savings and Retirement Plan (incorporated herein by reference to Exhibit 10.3 of the Company's Registration Statement of Form S-1, registration no. 33-45357, filed with the Securities and Exchange Commission).
10.4	Non-Competition Agreement dated December 31, 1992 between Fossil, Inc. and Mr. Jal S. Shroff (incorporated herein by reference to Exhibit 10.12 of the Company's Registration Statement of Form S-1, registration no. 33-45357, filed with the Securities and Exchange Commission).
10.5	Amended and Restated Buying Agent Agreement dated March 21, 1992 between Fossil, Inc. and Fossil East Ltd. (incorporated by reference to Exhibit 10.13 of the Company's Annual Report on Form 10-K for the year ended December 31, 1993).
10.6	Subordination Agreement of Fossil Trust for the benefit of First Interstate Bank of Texas, N.A. dated as of August 31, 1994 (incorporated by reference to Exhibit 10.7 of the Company's Report on Form 10-Q for the quarterly period ended September 30, 1994).
10.7	Indemnity Agreement dated as of August 31, 1994 from Fossil Partners, L.P. and Fossil, Inc. to First Interstate Bank of Texas, N.A. (incorporated by reference to Exhibit 10.8 of the Company's Report on Form 10-Q for the quarterly period ended September 30, 1994).

- 10.8 Master Licensing Agreement dated as of August 30, 1994, by and between Fossil, Inc. and Fossil Partners, L.P. (incorporated by reference to Exhibit 10.12 of the Company's Report on Form 10-Q for the quarterly period ended September 30, 1994).
 - 10.9 Agreement of Limited Partnership of Fossil Partners, L.P. (incorporated by reference to Exhibit 10.13 of the Company's Report on Form 10-Q for the quarterly period ended September 30, 1994).
 - 10.10 Overhead Allocation Agreement by and between Fossil Partners, L.P. and Fossil Stores I, Inc. dated December 1, 1994 (incorporated by reference to Exhibit 10.35 of the Company's Annual Report on Form 10-K for the year ended December 31, 1994).
 - 10.11 Stock Pledge Agreement entered into on May 2, 1995 by and between Fossil, Inc. and First Interstate Bank of Texas, N.A. (incorporated by reference to Exhibit 10.3 of the Company's Report on Form 10-Q for the quarterly period ended June 30, 1995).
 - 10.12 Joint Development Agreement entered into on December 25, 1995 by and between Fossil, Inc., Seiko Instruments, Inc. and Time Tech, Inc. (incorporated by reference to Exhibit 10.43 of the Company's Annual Report on Form 10-K for the year ended December 31, 1996).
 - 10.13(2) First Amendment to the Fossil, Inc. 1993 Long-Term Incentive Plan (incorporated by reference to Exhibit 4.1 of the Company's Report on Form 10-Q for the quarterly period ended July 4, 1998).
 - 10.14(2) Second Amendment to the Fossil, Inc. 1993 Long-Term Incentive Plan (incorporated by reference to Exhibit 4.1 of the Company's Report on Form 10-Q for the quarterly period ended July 4, 1998).
 - 10.15(2) Amendment to the Fossil, Inc. 1993 Non-Employee Director Stock Option Plan (incorporated by reference to Exhibit 10.24 of the Company's Report on Form 10-K for the year-ended January 2, 1999).
 - 10.16(2) Fossil, Inc. and Affiliates Deferred Compensation Plan (incorporated by reference to Exhibit 10.25 of the Company's Report on Form 10-K for the year-ended January 2, 1999).
 - 10.17 Fourth Amended and Restated Loan Agreement by and among 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. dated as of June 28, 1999 (without exhibits) (incorporated by reference to Exhibit 10.1 of the Company's Report on Form 10-Q for the quarterly period ended July 3, 1999)
 - 10.18 Joint Venture Agreement between Fossil, Inc. and Seiko Instruments America, Inc. dated June 1, 1999 (without exhibits) (incorporated by reference to Exhibit 10.1 of the Company's Report on Form 10-Q for the quarterly period ended October 2, 1999)
 - 10.19 Service Agreement between SII Marketing International, Inc. and Fossil Partners, L.P. dated August 9, 1999 (incorporated by reference to Exhibit 10.2 of the Company's Report on Form 10-Q for the quarterly period ended October 2, 1999).
 - 10.20 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) (incorporated by reference to Exhibit 10.1 of the Company's Report on Form 10-Q for the quarterly period ended July 1, 2000).
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- 10.21 Joint Venture Agreement by and between Sucesores de A. Cadarso and Fossil Europe B.V., dated as of July 27, 2000 (without exhibits) (incorporated by reference to Exhibit 10.1 of the Company's Report on Form 10-Q for the quarterly period ended September 30, 2000).
 - 10.22(2) Third Amendment to the Fossil, Inc. 1993 Long-Term Incentive Plan (incorporated by reference to Exhibit 4.1 of the Company's Report on Form 10-Q for the quarterly period ended July 7, 2001).
 - 10.23 Agreement for the Sale and Purchase of the Avia Watch Company Limited between Roventa-Henex S.A. and Fossil (UK) Holdings Limited and Fossil, Inc. dated May 4, 2001 (incorporated by reference to Exhibit 10.1 of the Company's Report on Form 10-Q for the quarterly period ended July 7, 2001).
 - 10.24 Stock Purchase Agreement by and between Fossil, Inc. and FSLA Pty. Limited, Mike Houtzaager and Colette Houtzaager dated June 6, 2001 (without exhibits) (incorporated by reference to Exhibit 10.1 of the Company's Report on Form 10-Q for the quarterly period ended October 6, 2001).
 - 10.25 Stock Purchase and Joint Venture Agreement by and between Fossil, Inc. and Seiko Instruments Inc. dated June 14, 2001 (without exhibits) (incorporated by reference to Exhibit 10.2 of the Company's Report on Form 10-Q for the quarterly period ended October 6, 2001).
 - 10.26 Share Purchase Agreement by and between Fossil Europe B.V. and Banque Degroof Luxembourg SA, Mr. Eric Gallou, Mr. Christian Matt, Activ'Invest SA dated August 3, 2001 (without schedules and exhibits) (incorporated by reference to Exhibit 10.3 of the Company's Report on Form 10-Q for the quarterly period ended October 6, 2001).
 - 10.27 Asset Purchase Agreement between Genender International, Inc. and Fossil, Inc. dated August 27, 2001 (without exhibits and schedules) (incorporated by reference to Exhibit 10.4 of the Company's Report on Form 10-Q for the quarterly period ended October 6, 2001).
 - 10.28(1) Second Amendment to Fourth Amended and Restated Loan Agreement dated June 26, 2001 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).
 - 10.29(1) Stock Purchase Agreement by and between Montres Antima SA and Flavio Rota and Meliga Habillement Horloger SA dated October 31, 2001 (without exhibits and schedules).
 - 10.30(1) Asset Purchase Agreement by and between Meliga Habillement Horloger SA and Montres Antima SA dated October 31, 2001 (without exhibits and schedules).
 - 10.31(1) Stock Purchase Agreement by and between Swiss Technology Holding AG and Michel Geiger dated October 31, 2001 (without exhibits and schedules).
 - 10.32(1)(2) 2002 Restricted Stock Plan of Fossil, Inc.
 - 13(1) Fossil, Inc. 2001 Annual Report to Stockholders.
 - 21.1(1) Subsidiaries of Fossil, Inc.
 - 23.1(1) Consent of Independent Auditors.
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- (1) Filed herewith.
 - (2) Management contract or compensatory plan or arrangement.
-

QuickLinks

(Mark One)

PART I

Item 1. Business

General

Forward-Looking Information

Industry Overview

Business Strategy

Operating Strategy

Growth Strategy

Products

Design and Development

Marketing and Promotion

Sales and Customers

Backlog

Manufacturing

Quality Control

Distribution

Management Information Systems

Warranty and Repair

Governmental Regulations

Intellectual Property

Competition

Employees

Item 2. Properties

Item 3. Legal Proceedings

Item 4. Submission of Matters to a Vote of Security Holders

PART II

Item 5. Market for the Registrant's Common Equity and Related Stockholder Matters

Item 6. Selected Financial Data

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Item 8. Financial Statements and Supplemental Data

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures

PART III

Item 10. Directors and Executive Officers of the Registrant

Item 11. Executive Compensation

Item 12. Security Ownership of Certain Beneficial Owners and Management

Item 13. Certain Relationships and Related Transactions

PART IV

Item 14. Exhibits, Financial Statements Schedules and Reports on Form 8-K

SIGNATURES

INDEPENDENT AUDITORS' REPORT

FOSSIL, INC. AND SUBSIDIARIES VALUATION AND QUALIFYING ACCOUNTS

EXHIBIT INDEX

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SECOND AMENDMENT TO FOURTH AMENDED AND RESTATED LOAN AGREEMENT

THIS SECOND AMENDMENT TO FOURTH AMENDED AND RESTATED LOAN AGREEMENT (this "*Amendment*") is made and entered into as of the 26th day of June, 2001 by and among **WELLS FARGO BANK TEXAS, NATIONAL ASSOCIATION**, a national banking association formerly known as Wells Fargo Bank (Texas), National Association (the "*Bank*"), **FOSSIL PARTNERS, L.P.** (the "*Borrower*"), **FOSSIL, INC.** (the "*Company*"), **FOSSIL INTERMEDIATE, INC.** ("*Fossil Intermediate*"), **FOSSIL TRUST** ("*Fossil Trust*"), **FOSSIL STORES I, INC.** ("*Fossil I*") and **FOSSIL STORES II, INC.** ("*Fossil II*") (the Company, Fossil Intermediate, Fossil Trust, Fossil I and Fossil II are sometimes referred to herein individually as a "*Guarantor*" and collectively as the "*Guarantors*").

RECITALS

WHEREAS, the Bank, the Borrower and the Guarantors are parties to that certain Fourth Amended and Restated Loan Agreement, dated as of June 28, 1999, as amended by that certain First Amendment to Fourth Amended and Restated Loan Agreement, dated as of June 27, 2000 (as amended, the "*Agreement*");

WHEREAS, the Bank, the Borrower and the Guarantors desire to amend the Agreement and the other Loan Documents as herein set forth.

NOW, THEREFORE, in consideration of the premises herein contained and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties, intending to be legally bound, agree as follows:

ARTICLE I

Definitions

1.01 Capitalized terms used in this Amendment are defined in the Agreement, as amended hereby, unless otherwise stated.

ARTICLE II

Amendments

2.01 *Amendment to Section 1*. Effective as of the date hereof, the second sentence of *Section 1* of the Agreement is hereby amended by deleting the words "Eleventh Amended and Restated Master Revolving Credit Note" and substituting in lieu thereof the words "Twelfth Amended and Restated Master Revolving Credit Note".

ARTICLE III

Conditions Precedent

3.01 *Conditions to Effectiveness*. The effectiveness of this Amendment is subject to the satisfaction of the following conditions precedent, unless specifically waived in writing by the Bank:

(a) The Bank shall have received the following documents, each in form and substance satisfactory to the Bank and its counsel:

(i) This Amendment, duly executed by the Borrower and the Guarantors; and

(ii) A Twelfth Amended and Restated Master Revolving Credit Note in the form of *Exhibit A* to this Amendment (hereinafter, the "*Revolving Note*"), duly executed by the Borrower.

(b) There shall have been no material adverse change in the financial condition of the Borrower or any Guarantor;

(c) There shall be no material adverse litigation, either pending or threatened, against the Borrower or any Guarantor that could reasonably be expected to have a material adverse effect on the Borrower or such Guarantor;

(d) The representations and warranties contained herein and in the Agreement and the other Loan Documents, as each is amended hereby, shall be true and correct as of the date hereof, as if made on the date hereof;

(e) No default or Event of Default shall have occurred and be continuing, unless such default or Event of Default has been specifically waived in writing by the Bank;

(f) All corporate proceedings taken in connection with the transactions contemplated by this Amendment and all documents, instruments and other legal matters incident thereto shall be satisfactory to the Bank and its legal counsel; and

(g) The Bank shall have received from the Company or the Borrower, as appropriate, all fees and expenses (if any) required to be paid to the Bank pursuant to the Agreement, as amended hereby;

ARTICLE IV

No Waiver

4.01 Nothing contained herein shall be construed as a waiver by the Bank of any covenant or provision of the Agreement, the other Loan Documents, this Amendment, or of any other contract or instrument between the Borrower and/or the Guarantors and the Bank, and the failure of the Bank at any time or times hereafter to require strict performance by the Borrower and/or any Guarantor of any provision thereof shall not waive, affect or diminish any right of the Bank to thereafter demand strict compliance therewith. The Bank hereby reserves all rights granted under the Agreement, the other Loan Documents, this Amendment and any other contract or instrument between the Borrower and/or the Guarantors and the Bank.

ARTICLE V

Ratifications, Representations and Warranties

5.01 *General Ratifications* . The terms and provisions set forth in this Amendment shall modify and supersede all inconsistent terms and provisions set forth in the Agreement and the other Loan Documents, and, except as expressly modified and superseded by this Amendment, the terms and provisions of the Agreement and the other Loan Documents are ratified and confirmed and shall continue in full force and effect. The parties hereto agree that the Agreement and the other Loan Documents, as amended hereby, shall continue to be legal, valid, binding and enforceable in accordance with their respective terms.

5.02 *Ratification of Guaranties* . Each of the Guarantors hereby acknowledges and consents to all of the terms and conditions of this Amendment and the Revolving Note and hereby ratifies and confirms the Guaranty Agreement to which it is a party to or for the benefit of the Bank. Each of the Guarantors hereby represents and acknowledges that it has no claims, counterclaims, offsets, credits or defenses to the Loan Documents or the performance of its obligations thereunder. Furthermore, each Guarantor agrees that nothing contained in this Amendment or the Revolving Note shall adversely affect any right or remedy of the Bank under the Guaranty Agreement to which such Guarantor is a party. Each Guarantor hereby agrees that with respect to the Guaranty Agreement to which it is a party, all references in such Guaranty Agreement to the "Guaranteed Obligations" shall include, without limitation, the obligations of Borrower to Bank under the Agreement, as amended hereby, and under the Revolving Note. Each Guarantor hereby also agrees that with respect to the Guaranty Agreement to which it is a party, all references in such Guaranty Agreement to (i) "First Interstate Bank of Texas, N.A." shall be deemed references "Wells Fargo Bank Texas, National Association" and (ii) the Bank's notice address shall be amended to read "Wells Fargo Bank Texas, National Association, 4975 Preston Park Boulevard, Suite 280, Plano, Texas 75093". Finally, each of the Guarantors hereby represents and acknowledges that the execution and delivery of this Amendment and the other Loan Documents executed in connection herewith shall in no way change or modify its obligations as a

guarantor, debtor, pledgor, assignor, obligor and/or grantor under its respective Guaranty Agreement except as specifically provided in this *Section 5.02* and shall not constitute a waiver by the Bank of any of the Bank's rights against such Guarantor.

5.03 Ratification of Security Interests . The Company hereby agrees that the Stock Pledge Agreement is hereby expressly amended such that the definition of "Secured Obligations" contained therein includes, without limitation, all indebtedness and other obligations of Borrower now or hereafter existing hereunder the Agreement, as amended hereby, the Revolving Note and the other Loan Documents, as amended hereby. Furthermore, the Company hereby ratifies and reaffirms its obligations under the Stock Pledge Agreement, as the same is amended hereby, and represents and acknowledges that the Stock Pledge Agreement is not subject to any claims, counterclaims, defenses or offsets. The Company hereby also agrees that all references in the Stock Pledge Agreement to "First Interstate Bank of Texas, N.A." shall be deemed references "Wells Fargo Bank Texas, National Association". Finally, the Company hereby represents and acknowledges that the execution and delivery of this Amendment and the other Loan Documents executed in connection herewith shall in no way change or modify its obligations as a debtor, pledgor, assignor, obligor and/or grantor under the Stock Pledge Agreement except as specifically provided this *Section 5.03* and shall not constitute a waiver by the Bank of any of the Bank's rights against the Company.

5.04 Representations and Warranties . The Borrower and each of the Guarantors hereby jointly and severally represent and warrant to the Bank that (a) the execution, delivery and performance of this Amendment and any and all other Loan Documents executed and/or delivered in connection herewith have been duly authorized by all requisite corporate, partnership or trust proceedings, as appropriate, and will not contravene, or constitute a default under, any provision of applicable law or regulation or of the Agreement of Limited Partnership, Articles of Incorporation, By-Laws or Trust Agreement, as applicable, of the Borrower or any Guarantor, or of any mortgage, indenture, contract, agreement or other instrument, or any judgment, order or decree, binding upon the Borrower or any Guarantor; (b) the representations and warranties contained in the Agreement and the other Loan Documents, as amended hereby, are true and correct on and as of the date hereof and on and as of the date of execution hereof as though made on and as of each such date; (c) no default or Event of Default under the Agreement, as amended hereby, has occurred and is continuing, unless such default or Event of Default has been specifically waived in writing by the Bank; and (d) the Borrower and the Guarantors are in full compliance with all covenants and agreements contained in the Agreement and the other Loan Documents, as amended hereby.

ARTICLE VI *Miscellaneous Provisions*

6.01 Survival of Representations and Warranties . All representations and warranties made in the Agreement or any other Loan Documents, including, without limitation, any document furnished in connection with this Amendment, shall survive the execution and delivery of this Amendment and the other Loan Documents to be executed in connection herewith, and no investigation by the Bank or any closing shall affect the representations and warranties or the right of the Bank to rely upon them.

6.02 Reference to Agreement . Each of the Agreement and the other Loan Documents, and any and all other agreements, documents or instruments now or hereafter executed and delivered pursuant to the terms hereof or pursuant to the terms of the Agreement, as amended hereby, are hereby amended so that any reference in the Agreement and such other Loan Documents to the Agreement, shall mean a reference to the Agreement, as amended hereby.

6.03 Expenses of the Bank . As provided in the Agreement, the Borrower agrees to pay on demand all reasonable costs and expenses incurred by the Bank in connection with the preparation, negotiation, and execution of this Amendment and the other Loan Documents executed pursuant hereto and any and all amendments, modifications, and supplements hereto or thereto, including, without limitation,

the costs and fees of the Bank's legal counsel, and all costs and expenses incurred by the Bank in connection with the enforcement or preservation of any rights under the Agreement or any other Loan Document, in each case as amended hereby, including, without, limitation, the costs and fees of the Bank's legal counsel.

6.04 *Severability* . Any provision of this Amendment held by a court of competent jurisdiction to be invalid or unenforceable shall not impair or invalidate the remainder of this Amendment and the effect thereof shall be confined to the provision so held to be invalid or unenforceable.

6.05 *Successors and Assigns* . This Amendment is binding upon and shall inure to the benefit of the Borrower, the Guarantors and the Bank and their respective successors and assigns.

6.06 *Counterparts* . This Amendment may be executed in one or more counterparts, each of which when so executed shall be deemed to be an original, but all of which when taken together shall constitute one and the same instrument.

6.07 *Effect of Waiver* . No consent or waiver, express or implied, by the Bank to or for any breach of or deviation from any covenant or condition by the Borrower or any Guarantor shall be deemed a consent to or waiver of any other breach of the same or any other covenant, condition or duty.

6.08 *Headings* . The headings, captions and arrangements used in this Amendment are for convenience only and shall not affect the interpretation of this Amendment.

6.09 *Applicable Law* . THIS AMENDMENT AND ALL OTHER AGREEMENTS EXECUTED PURSUANT HERETO SHALL BE DEEMED TO HAVE BEEN MADE AND TO BE PERFORMABLE IN AND SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS.

6.10 *Final Agreement* . THE AGREEMENT AND THE OTHER LOAN DOCUMENTS, EACH AS AMENDED HEREBY, REPRESENT THE ENTIRE EXPRESSION OF THE PARTIES WITH RESPECT TO THE SUBJECT MATTER HEREOF ON THE DATE THIS AMENDMENT IS EXECUTED. THE AGREEMENT AND THE OTHER LOAN DOCUMENTS, AS AMENDED HEREBY, MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES. NO MODIFICATION, RESCISSION, WAIVER, RELEASE OR AMENDMENT OF ANY PROVISION OF THIS AMENDMENT SHALL BE MADE, EXCEPT BY A WRITTEN AGREEMENT SIGNED BY THE BORROWER, THE GUARANTORS AND THE BANK.

6.11 **AGREEMENT FOR BINDING ARBITRATION.** The parties agree to be bound by the terms and provisions of the Bank's current Arbitration Program which is incorporated herein by reference and is acknowledged as received by the parties pursuant to which any and all disputes shall be resolved by mandatory binding arbitration upon the request of any party.

[Remainder of page intentionally left blank.]

IN WITNESS WHEREOF, this Amendment has been executed and is effective as of the date first above-written.

"BANK"

WELLS FARGO BANK TEXAS, NATIONAL
ASSOCIATION

By:

Juan J. Sanchez, Vice President

"BORROWER"

FOSSIL PARTNERS, L.P.

By: Fossil, Inc., its general partner

By:

Mike Kovar
Senior Vice President and Chief Financial Officer

"GUARANTORS"

FOSSIL INC.

By:

Mike Kovar
Senior Vice President and Chief Financial Officer

FOSSIL INTERMEDIATE, INC.

By:

Randy S. Kercho, Treasurer

FOSSIL TRUST

By: _____

Randy S. Kercho, Treasurer

FOSSIL STORES I, INC.

By: _____

Mike Kovar, Treasurer

FOSSIL STORES II, INC.

By: _____

Mike Kovar, Treasurer

Exhibit:

A—Revolving Note

EXHIBIT A

FORM OF REVOLVING NOTE

(See Attached)

QuickLinks

SECOND AMENDMENT TO FOURTH AMENDED AND RESTATED LOAN AGREEMENT
EXHIBIT A FORM OF REVOLVING NOTE (See Attached)

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STOCK PURCHASE AGREEMENT

This **STOCK PURCHASE AGREEMENT** (the "Agreement") is dated as of October , 2001 to be effective as of Closing by and between Montres Antima SA, a corporation duly organized and existing under the laws of Switzerland (hereinafter referred to as "Purchaser") and Flavio Rota, an individual ("Rota") and Meliga Habillement Horloger SA ("Meliga") (Rota and Meliga are hereinafter referred to individually as "Seller" and collectively, "Sellers").

RECITALS

WHEREAS, Rota owns 60% of the issued and outstanding shares of common stock of the Company (the "Rota Shares") and Meliga owns 40% of the issued and outstanding shares of common stock of the Company (the "Meliga Shares", together with the Rota Shares, the "Shares"); and

WHEREAS, Sellers desire to sell to Purchaser, and Purchaser desires to purchase from Sellers, the Shares upon the terms and conditions hereinafter described; and

NOW, THEREFORE, Purchaser and Sellers, in consideration of mutual premises and covenants contained herein, do hereby agree as follows:

ARTICLE 1 DEFINITIONS

For the purposes of this Agreement, the following terms shall have the respective meanings indicated below:

"Aggregate Closing Provisions Amount" shall mean, collectively, the Closing A/R Provision and the Closing Inventory Provision.

"Adjusted Stockholder's Equity" shall mean the sum of the Company's capital stock value, retained earnings and year to date earnings as evidenced by the Agreed Balance Sheet.

"Agreed Balance Sheet" means the balance sheet of the Seller as at June 30, 2001 in the agreed form.

"Balance Sheet Adjustments" shall mean the adjustments in the purchase price in accordance with the provisions of Section 3.2 hereof.

"Closing Balance Sheet" shall mean the balance sheet of the Company as of the date of Closing as determined in accordance with Swiss GAAP consistently applied.

"Closing A/R Provision" shall mean the accounts receivable provision, as evidenced by the Closing Balance Sheet, representing the estimated portion of the gross value of the accounts receivable of the Company that will not be fully collected within one (1) year from the date of the Closing Balance Sheet.

"Closing Inventory Provision" shall mean the inventory provision, as evidenced by the Closing Balance Sheet, representing the estimated portion of the gross value of Inventory that will not be sold during a period of one (1) year from the date of the Closing Balance Sheet and to compensate for the loss of gross profit margin should the inventory be sold for less than historical gross profit margins.

"Collateral Transactions" shall mean, collectively, (i) the Asset Purchase Agreement between Montres Antima SA and Meliga Habillement Horloger SA and (ii) the Stock Purchase Agreement between Swiss Technologies Holding AG and Michel Geiger.

"Company" shall mean Synergies Horlogeres SA.

"Confidential Information" shall mean any information a Party may exchange with, or acquire from, the other Party including but not limited to the Company's procedures, product specifications, methods, technology, suppliers, customers, trade secrets, marketing and business research and plans, that relate to or affects the Company's asset, but excluding any information to the extent that such

information becomes publicly known, through no fault of the Party receiving such information from the other Party.

"Encumbrance" means a mortgage, charge, pledge, lien, option, restriction, right of first refusal, right of pre-emption, third-party right or interest, retention of title, other encumbrance or security interest of any kind, or another type of preferential arrangement (including, without limitation, a title transfer or retention arrangement) having similar effect.

"Meliga Loan" shall mean in loan from Meliga to the Company in the principal amount of CHF 85.000.

"Party" shall mean Purchaser, Rota and Meliga (collectively, the "Parties").

"Post Closing Adjustments" shall mean, collectively, the Balance Sheet Adjustments and the Receivables/Inventory Adjustment.

"Receivables/Inventory Adjustment" shall have the meaning given to it in section 3.3.

"Rota Loan" shall mean the loan from Rota to the Company in the principal amount of CHF 80,000.

"Swiss GAAP" shall mean generally accepted accounting principles applicable in Switzerland.

"Test Date" shall mean the first anniversary date following Closing.

"Test Period" shall mean the period from Closing until the Test Date.

ARTICLE 2 PURCHASE AND SALE

Section 2.1 *Sale and Transfer of Shares.* In consideration of and in reliance upon the representations, warranties and covenants contained herein and subject to the terms and conditions of this Agreement, (i) Rota hereby sells the Rota Shares with full title guarantee, free and clear of any Encumbrance, (ii) Meliga sells the Meliga shares with full title guarantee, free and clear of any Encumbrance, and Purchaser purchases the Shares.

Section 2.2 *Waiver of Rights.* Sellers waive all rights of pre-emption and other restrictions on transfer, if any, over the Shares conferred on it pursuant to the Articles of Association of the Company or otherwise.

ARTICLE 3 CONSIDERATION

Section 3.1 *Purchase Price.* Subject to the Post Closing Adjustments, the total purchase price (the "Rota Purchase Price") for the Rota Shares shall be:

(a) an amount equal to the sum of the following, payable at Closing (the "Rota Closing Payment"):

(i) the Adjusted Stockholders Equity as of June 30, 2001 (less 123,245 CHF representing Meliga's investment in the Company); *plus* ;

(ii) 305,169 CHF; and

(b) the Aggregate Provisions Amount to be paid to Rota within ten (10) days following the calculation of the Receivable/Inventory Adjustment.

The total purchase price for the Meliga Shares, payable at Closing (the "Meliga Closing Payment", together with the Rota Closing Payment, the "Closing Payments"), shall be 123,245 CHF representing the value of Meliga's investment in the Company.

Section 3.2 *Balance Sheet Adjustments.* Within forty-five (45) days following Closing, the Purchaser shall procure that the Company prepare the Closing Balance Sheet reflecting the assets and liabilities of the Company as of Closing. The Closing Balance Sheet shall be prepared in accordance with Swiss GAAP, consistently applied. In the event that the Stockholders' Equity of the Company as reflected on the Closing Balance Sheet is greater than the Stockholders' Equity of the Company as reflected on the Agreed Balance Sheet, then Purchaser shall remit such difference to Rota as an adjustment to the Rota Purchase Price within thirty (30) days. In the event that the Stockholders' Equity of the Company as reflected on the Closing Balance Sheet is less than the Stockholders' Equity of the Company as reflected on the Agreed Balance Sheet, then Rota shall remit such difference to Purchaser as a decrease in the Rota Purchase Price within thirty (30) days.

Section 3.3 *Receivables/Inventory Adjustment.* The Purchaser shall procure that within forty-five (45) days following the Test Date, the Company shall test whether, as of the Test Date, the accounts receivable and the inventory existing as of Closing as evidenced by the Closing Balance Sheet have been fully collected (with respect to the accounts receivable) or fully utilized (with respect to the inventory, assuming realization of normal gross profit margins on such inventory) (the "Receivables/Inventory Adjustment"). To the extent that such receivables have not been fully collected, or such inventory has not been fully utilized, then the value of such assets shall be written to zero and applied against the deferred payment of the Aggregate Closing Provisions Amount which amount, if any, shall be payable within ten (10) days.

ARTICLE 4 CLOSING

Section 4.1 *Conditions of Closing.* The transaction stipulated in Article 2 is subject to the fulfillment, prior to or at the Closing, of each of the following conditions unless otherwise waived in writing by the Party for whose benefit the conditions exist.

(a) The representations and warranties made by the Parties in this Agreement or any certificates or documents delivered pursuant to the provisions hereof or in connection with the transactions contemplated herein shall be true and correct in all material respects when made, and shall be true and correct in all material respects on the Closing Date as though such representations and warranties were made on and as of such date

(b) The Collateral Transactions shall have closed, or simultaneously close, in accordance with their respective terms and conditions.

(c) The Parties shall have carried out their respective obligations as specified in Sections 4.3 and 4.4.

Section 4.2 *Closing Time Date and Place.* The purchase and sale contemplated herein shall be consummated at a Closing to take place by mail, facsimile or at the offices of the Company on October 31, 2001, or at such other time and place as the Parties may agree upon in writing.

Section 4.3 *Seller's Obligations at Closing.* At the Closing, the Sellers shall carry out the following obligations:

(a) At Closing the Sellers shall deliver to Purchaser or its nominee:

- (i) the share certificates duly endorsed to Purchaser or its nominee;
- (ii) evidence of the authority of each person executing a document on such Parties' behalf;

- (iii) the common seal (if any) of the Company and each register and minute book made up to Closing;
 - (iv) all consents and approvals of government agencies and/or third parties necessary to effect the transfer of the Shares.
- (b) The Seller shall ensure that at Closing a meeting of the board of directors of the Company is held at which the directors take the following actions and adopt the minutes of the Board Meeting in the agreed form attached hereto as Schedule 2:
- (i) vote in favour of the registration of Purchaser or its nominees as members of the Company in respect of the Shares (subject to the production of properly stamped transfers which shall be at Purchaser's cost);
 - (ii) with effect from the end of the meeting, authorise the secretary to notify the specimen signatures of the new officers of the Company in connection with each existing mandate given by the Company for the operation of its bank accounts; and

Section 4.4 *Purchaser's Obligations at Closing.* At the Closing, Purchaser will (i) deliver the Closing Payments to Sellers in accordance with the provisions of Section 3.1 and (ii) pay-off the existing balance of the Rota Loan.

Section 4.5 *Further Actions.* Sellers shall execute the instruments transferring the Shares to Purchaser effective as of the Closing Date and shall take all actions following Closing as may be necessary to more fully perfect title in the Shares to Purchaser.

ARTICLE 5

[Reserved]

ARTICLE 6

REPRESENTATIONS, WARRANTIES AND COVENANTS

Section 6.1 *Representations, Warranties and Covenants of Sellers.* Sellers represent and warrant to Purchaser that, as of the date of this Agreement and as of the Closing Date:

- (a) The information on the Company's excerpt from the Commercial Register attached hereto as Schedule 1 is true and correct;
- (b) The Company is a corporation duly organized, validly existing and in good standing under the laws of Switzerland and is duly empowered or licensed under the relevant laws in Switzerland to conduct the business as stipulated in its Articles of Association;
- (c) The Company does not have any subsidiaries, and does not own any minority interests in any other business entities;
- (d) The Company is in compliance with the provisions of the Articles of Association and applicable law;
- (e) The Company's financial and accounting records (the "Accounts"), including but not limited to the financial statements of the Company of fiscal years 1999 and 2000 and the interim financial statements as of and for the six month period ended June 30, 2001 attached hereto as Exhibits A, B and C, respectively, are up-to-date, in its possession or under its control and are properly completed in all material respects in accordance with the law and Swiss GAAP;
- (f) The Company is operating and has always operated its business in all material respects in accordance with its Articles of Association at the relevant time. The copy of the Articles of Association

of the Company disclosed to Purchaser and attached hereto as Exhibits D is a true and correct copy of the originals;

(g) Except for the Rota Loan and the Meliga Loan, the Company does not have outstanding, and has not agreed to create or incur loan capital, borrowings or indebtedness in the nature of borrowings (including, without limitation, any such indebtedness to the Sellers);

(h) Execution delivery and performance by Sellers of this Agreement will not conflict with or violate (i) any provision of the Company's charter, bylaws or other similar documents; (ii) any law, rule, regulation or order effective and binding on the Company; and (iii) result in any Encumbrance on any property owned by the Company;

(i) The Shares being acquired hereunder by Purchaser have been duly and validly authorized, and, when delivered to and paid for by Purchaser pursuant to this Agreement, will be fully paid and nonassessable;

(j) The certificates of the Shares are in valid and sufficient form; the holders of outstanding shares of any class of stock of the Company are not entitled to preemptive or other rights to subscribe for the Shares; and, except as set forth in this Agreement, no options, warrants or other rights to purchase, agreements or other obligations to issue, or rights to convert any obligations or exchange any securities for, shares of common stock of or ownership interests in the Company are outstanding;

(k) To the best of Sellers' knowledge, the Company has no liabilities or obligations (whether known, absolute, contingent etc.) that were not fully and appropriately reflected in the Accounts;

(l) The Company has timely, fully and correctly completed and filed all tax returns, reports and other filings required under the applicable laws with regard to Taxes and Duties and has at all times fully and truly informed the competent authorities in compliance with the applicable laws ("Taxes and Duties" as used herein being all taxes, social security and pension contributions (statutory, contractual and voluntary) to public and private institutions, customs duties and other duties levied by public entities, agencies and institutions, in each case in Switzerland and abroad);

All liabilities of the Company with regard to Taxes and Duties have been fully discharged or completely reflected in the financial statements of the Company, and no such liabilities are overdue. The Company has made appropriate provisions for all future obligations with regard to Taxes and Duties which will be levied on assessment periods (partially or fully) before the Closing date in accordance with Section 4.2;

The Company has not made distributions to shareholders or affiliated persons or companies which could result in additional liabilities of the Company for Taxes and Duties;

The Company has at its disposal all supporting documents in connection with (i) all filed tax returns, reports and other filings, and (ii) all tax returns, reports and other filings still to be filed which refer to assessment periods (partially or fully) before the Closing date in accordance with Section 4.2, in each case in form and substance in accordance with the statutory requirements;

There are no special agreements with, or concessions from, tax or other authorities, formal or informal, which have an impact on the taxes and duties chargeable on the Company;

(m) Since June 30, 2001, there has been no material adverse change in the business prospects, or financial conditions of the Company and, to Sellers' knowledge, the Balance Sheet dated June 30, 2001 attached hereto as Exhibit C accurately reflects the assets and liabilities of the Company as of such date;

(n) To the best of Sellers' knowledge, the Company has not violated any material statutes, rules, ordinances or other applicable laws in Switzerland;

(o) There has been no material litigation, pending or threatened against the Company; and

(p) None of the contracts which the Company is a party to contains a change-of-control clause which, as a consequence of the conclusion or Closing of this Agreement, (i) gives the other party the right to fully or partially terminate, amend or newly negotiate the contract, (ii) automatically amends or terminates the contract, or (iii) operates in any other way as a result of the conclusion or Closing of this Agreement;

(q) The Company has the insurance coverage customary in its line of business. Such insurance coverage is sufficient both with regard to its kind and the coverage amounts in order to cover the risks which reasonably have to be expected for businesses such as the ones conducted by the Company. The respective insurance contracts are all in full force and effect, and no premium payments of the Company thereunder are due. No notice of termination or cancellation with regard to any of the insurance contracts has been given or received by the Company, and neither the Company nor the respective insurance companies have requested or announced any amendments to the insurance contracts and no such termination, cancellation or request for amendment is to be expected;

(r) Seller owns, or is licensed or otherwise possesses legally sufficient rights to use, all trademarks, service marks, trade names, patents, copyrights, and any applications therefor, technology, know-how, trade secrets, computer software programs or applications (in both source code and object code form) and tangible or intangible proprietary information or material that are used or proposed to be used in the business, including all current patents, patent applications, registered and material unregistered copyrights, and any applications therefor owned or licensed by the Seller (the "Intellectual Property Rights") free and clear of all Encumbrances. All Intellectual Property Rights which can be registered are duly and validly registered, and there are no appeals, oppositions or other actions pending against such registrations. All application, registration, renewal and other fees relating to the Intellectual Property Rights have been fully paid in due time. Purchaser's use of the Intellectual Property Rights will not infringe upon the rights of any third party. To Seller's best knowledge, there has been no breach with respect to any license or right relating to any of the Intellectual Property Rights; and

(s) In making the representations, warranties and covenants of this Article, Seller has not made any untrue statements of material fact or omitted to state a material fact necessary in order to make the representation made, in light of the circumstances under which they were made, not misleading.

Section 6.2 *Representations Warranties and Covenants of Purchaser.* Purchaser hereby represents and warrants to Sellers that, as of the date of this Agreement and as of the Closing Date:

(a) Purchaser is a corporation duly organized, validly existing and in good standing under the laws of Switzerland; and

(b) Execution delivery and performance by Purchaser of this Agreements will not conflict with or violate (i) any provisions of Purchaser's charter, bylaws or other similar documents; or (ii) any law, rule, regulation or order binding on Purchaser.

ARTICLE 7 INDEMNIFICATION

Section 7.1 *Indemnification by Sellers.* Sellers shall, in accordance with Article 143 et. seq. Swiss Code of Obligation, jointly and severally indemnify and hold Purchaser, its employees, officers, directors, affiliates, representatives, agents, and other control persons harmless from, against and in respect of the following:

(a) Any and all loss, liability or damage suffered or incurred by Purchaser (including interest, penalties and attorney fees) by reason of any untrue written representation, breach of warranty or non-fulfillment of any covenant or agreement by Seller contained herein or in any exhibit, schedule,

certification, document or instrument delivered to Purchaser by Seller hereunder (each of such untrue written representation, breach of warranty or non-fulfillment of any covenant or agreement a "Breach"), it being expressly agreed, for the sake of clarity, that Seller shall indemnify Purchaser on a franc-by-franc basis for any loss, liability or damage which the Company suffers or incurs due to a Breach, or which encumbers the Company provided that non-disclosure of such encumbrance to Purchaser constitutes a Breach;

(b) Any and all loss, liability or damage suffered or incurred by Purchaser (including interest, penalties and attorney fees) by reason of or in connection with any claim for any finder's or brokerage fee or other commission resulting from any services alleged to have been rendered to, or at the insistence of or on behalf of or for Sellers with respect to this Agreement or any of the transactions contemplated hereby;

(c) Any and all liabilities of Sellers which relate to the ownership of the Shares or the operation of the Company prior to the Closing Date that are not expressly assumed or waived by Purchaser under this Agreement, including but not limited to liabilities arising from or related to any tax due, or to be due, and penalties and interest related thereto, imposed on the Company with respect to any period prior to the Closing Date; and

(d) Any and all actions, suits, proceedings, claims, demands, assessments, judgments, damages, costs and expenses, including but not limited to, legal fees and expenses as shall be determined by a court of competent jurisdiction, incident to any of the foregoing or incurred in investigating or attempting to avoid the same or to oppose the imposition thereof, or in enforcing this indemnity.

Section 7.2 *Indemnification by Purchaser.* Purchaser shall indemnify and hold Sellers, its representatives, agents, and other control persons harmless from, against and in respect of the following:

(a) Any and all loss, liability or damage suffered or incurred by Sellers (including interest, penalties and attorney fees) by reason of any untrue written representation, breach of warranty or non-fulfillment of any covenant or agreement by Purchaser contained herein or in any certificate document or instrument delivered by Purchaser to Sellers hereunder;

(b) Any and all loss, liability or damage suffered or incurred by Sellers (including interest, penalties and attorney fees) by reason of or in connection with any claim for any finder's or brokerage fee or other commission resulting from any services alleged to have been rendered to, or at the insistence of, or on behalf of or for Purchaser with respect to this Agreement or any of the transactions contemplated hereby; and

(c) Any and all actions, suits, proceedings, claims, demands, assessments, judgments, damages, costs and expenses, including but not limited to, legal and expenses as shall be determined by a court of competent jurisdiction, incident to any of the foregoing or incurred in investigating or attempting to avoid the same or to oppose the imposition thereof, or in enforcing this indemnity.

Section 7.3 *Indemnification Procedures.* In seeking indemnification under Article 7.1 or 7.2, the Parties agree to abide by the following procedure:

(a) For the purposes of this Article 7.3, the term "Indemnitee" shall mean the person(s) entitled, or claiming to be entitled, to be indemnified pursuant in the provisions of Article 7.1 or 7.2 hereof. The term "Indemnitor" shall mean the person(s) having the obligation to indemnify pursuant to such provisions.

(b) An Indemnitee shall promptly give the Indemnitor written notice of any matter which an Indemnitee has determined has given or could give rise to a right of an indemnification under this Agreement, stating the amount of the loss, if known, and method of computation thereof, all with reasonable particularity and containing a reference to the provisions of this Agreement in respect of

which such right of indemnification is being claimed or arises. If an Indemnitee shall receive notice of any claim by a third party which is or may be subject to indemnification (a "Third Party Claim") the Indemnitee shall give the Indemnitor prompt written notice of such Third Party Claim and shall permit the Indemnitor, at its option, to participate in the defense of such Third Party Claim by counsel of its own at its own costs and expense. If, however, the Indemnitor acknowledges in writing its obligation to indemnify the Indemnitee hereunder against all losses that may result from such Third Party Claim (subject to the limitations set forth herein), then the Indemnitor shall be entitled, at its option, to assume and control the defense of such Third Party Claim at its expense and through counsel of its choice. In the event the Indemnitor exercises its rights to undertake the defense of any such Third Party Claim, the Indemnitee shall co-operate with the Indemnitor in such defense and make available to the Indemnitor, at the Indemnitor's expense, all witnesses, pertinent records, materials and information in its possession or under its control relating thereto as is reasonably required by the Indemnitor. Similarly, in the event the Indemnitor is directly or indirectly, conducting the defense against any such Third Party Claim, the Indemnitor shall cooperate with the Indemnitee in such defense and make available in it all such witnesses, records, materials and information in its possession or under its control relating thereto as is reasonably required by the Indemnitee. No such Third Party Claim may be settled by the Indemnitor without the written consent of the Indemnitee, unless the settlement involves only the payment of money by the Indemnitor. No Third Party Claim which is being defended in good faith by the Indemnitor shall be settled by the Indemnitee without the written consent of the Indemnitor.

Section 7.4 *Survival of Representations, Warranties and Indemnity.* All representations and warranties made by the Parties in this Agreement or in any certificate document or instrument furnished in connection herewith, and the indemnification obligations contained in this Agreement, shall survive the Closing and any investigation at any time before or after Closing made by or on behalf of the Parties hereto and shall expire on the first anniversary of the Closing Date, *provided, however*, that (i) any claim which is submitted in writing to the indemnifying Party prior to such first anniversary may still be enforced thereafter, and (ii) any claim relating to Seller's representations made in Section 6.1 (m) (Taxes and Duties) may still be raised after the first anniversary of the Closing Date, but not later than one year after notification of the respective claims to Purchaser by the tax authorities or social security institutions. The limitations, time limits and Purchaser's investigation and notification and other duties under articles 200, 201 and 210 of the Swiss Code of Obligations are hereby expressly waived.

ARTICLE 8 CONFIDENTIALITY

Section 8.1 *Confidentiality.* The Parties agree to preserve the confidential nature of the Confidential Information which is disclosed by either Party (the "Disclosing Party") to the other (the "Receiving Party") and to take any and all necessary steps to insure that such Information is not revealed to third parties or to any person unauthorized in writing by the Disclosing Party. The responsibilities set forth herein shall survive the termination of this Agreement unless the prior written consent of the Disclosing Party has been obtained or unless any such information has previously been publicly disclosed. Should the Receiving Party be ordered by a court of competent jurisdiction or administrative authority to disclose this Agreement or confidential information disclosed by the Disclosing Party to the Receiving Party, it shall give written notice to the Disclosing Party before making any disclosure not permitted by this Article, shall use its best efforts to either resist disclosure or disclose solely subject to an attorneys' eyes-only protective order or such other protective order as the Disclosing Party shall approve. This Article shall survive the termination of this Agreement.

ARTICLE 9 TERMINATION

Section 9.1 *Termination of Agreement.* This Agreement may be terminated, and the transactions contemplated hereby may be abandoned at any time prior to Closing:

(a) by the mutual consent of the Parties;

(b) by either Party if any of the conditions to the Closing as set forth in Article 4.1 is not fulfilled or waived by the Party for whose benefit the conditions exist on or prior to the Closing Date; or

(c) by either Party if the Closing has not occurred on or prior to October 31, 2001.

Section 9.2 *Rights of Termination.* The rights of termination as provided for under Article 9.1 hereof may be exercised at any time after the occurrence of an event or the discovery of circumstances which gives rise to a right of termination. However, failure to assert a right of termination upon the occurrence of an event or the discovery of circumstances which give rise to a right of termination shall not be, or be deemed, a waiver of such right.

Section 9.3 *No Waiver of Rights.* A termination under Article 9.1 hereof shall not relieve either Party of any liability for a Breach, and any such termination shall not be deemed to be a waiver of any available remedy for any such Breach, and in the event of any such Breach, the prevailing Party shall also be entitled to its reasonable attorneys' fees and expenses.

ARTICLE 10 MISCELLANEOUS

Section 10.1 *Expenses.* The Parties shall each pay their own expenses incident to the negotiation preparation and execution of this Agreement and the consummation of the transactions contemplated hereunder, including any and all disbursements to their respective counsel.

Section 10.2 *Assignment.* Unless specifically consented to in writing by the other Party, neither Party may assign or transfer this Agreement or any of its rights hereunder, and any attempted assignment thereof shall be void and of no force and effect. It is expressly understood and agreed that either Party is under no obligation to consent to any proposed assignment on the part of the other Party and that each of the Parties, in its sole discretion, shall have absolute authority to decide whether or not a consent to assignment shall be given.

Section 10.3 *Notice.* Notices to be given to any Party under this Agreement shall not be effective unless given in writing and hand delivered or mailed by certified mail, or via overseas courier,

or sent by electronic mail or facsimile to such Party at the following addresses. Any Party may change its address by giving notice of such change in the manner above provided.

For Rota: Flavio Rota
8 Chemin Ritter
2502 Bienne, Switzerland
Phone: 032-342-5267
Fax: 032-342-5867

For Meliga Meliga Habillement Horloger SA
Ch. de la Clôture 6
C.P. 95
2502 Bienne, Switzerland
Attention: Jorg Bader
Telephone: 032-344-2999
Facsimile: 032-344-2983

For Purchaser: Montres Antima SA
Rue Th. Kocher 11
CH-2502 Bienne
Switzerland
Attention: Enrico Margaritelli
Telephone: 032-322-3462
Facsimile: 032-322-0471

with copy to: Fossil, Inc.
2280 North Greenville Ave.
Richardson, Texas 75082
Attention: T.R. Tunnell, Executive Vice President
Phone: 972-699-2139
Fax: 972-498-9639
E-mail: trtunnell@fossil.com

Notices sent via certified mail or overseas courier shall be deemed to have been received as of the date indicated by the postal or courier's receipt as having been received by the intended recipient. Notices sent via electronic mail or facsimile shall be deemed to have been received two (2) business days after the date on which they were transmitted, provided the Party transmitting any such notice mails a copy of the notice on the next business day to the Party to be notified via certified or registered mail or via overseas courier

Section 10.4 *Governing Law.* This Agreement shall be governed by and construed in accordance with the laws of Switzerland.

Section 10.5 *Dispute Resolution.* Any and all dispute, controversies differences which may arise out of or in relation to or in connection with this Agreement or the transactions contemplated hereby including its legal validity shall be finally settled and binding upon the parties hereto by an arbitration process to be held in Zurich, Switzerland. The arbitration tribunal will be comprised of an arbitrator jointly designated by the parties or, if the parties cannot agree on an arbitrator within a time period of one month, then by three arbitrators, one designated by each Party within a further month and the third one, who will act as chairman of the arbitral tribunal by the others. Any arbitrator not appointed as provided above shall be appointed by the Zurich High Court (§ 239 para. 2 Zurich Code of Civil Procedures applicable pursuant to Art. 179 para. 2 Swiss Federal Statute on International Private Law, "IPRG") at the request of one party. The language of such arbitration shall be English and such arbitration shall be conducted according to the rules of the IPRG). As far as the IPRG does not

contain mandatory provisions, the arbitrators shall apply the procedural provisions of the International Arbitration Rules of the Zurich Chamber of Commerce as in force at the time of the commencement of the arbitration proceedings, provided, however, that such rules shall not apply to the extent that (i) they contravene the present arbitration clause, or (ii) they call for an involvement of the Zurich Chamber of Commerce .

Section 10.6 *Binding Effect; Entire Agreement.* All the terms and provisions of this Agreement shall be binding upon and inure to the benefit of the Parties herein and to their respective successors. This Agreement contains the entire agreement between the Parties with respect to the subject matter hereof and shall supersede all previous and contemporaneous negotiations, commitments and undertakings, whether written or oral. No waiver or amendment to this Agreement will be effective unless it is in writing and is signed by a duly authorized representative of the Party sought to be bound thereby.

Section 10.7 *Counterparts.* This Agreement may be executed simultaneously in two or more counterparts each of which shall be deemed an original, but all of which together shall constitute one and the same instrument

Section 10.8 *Publicity.* Except as may otherwise be required by law, neither Party may make any announcement including any announcement to employees, customers, or suppliers or otherwise make publicly available any statement or release concerning this Agreement or the transactions contemplated hereunder without first obtaining the other Party's written approval of any proposed statement or release. If either Party is required by law to make any statement or other disclosure concerning this Agreement or the transactions contemplated hereby (the Disclosing Party), the Disclosing Party shall provide the other Party the opportunity to review and comment upon such statement or disclosure prior to its filing or release and shall make any revisions therein that the other Party may reasonable request.

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be executed by their duly authorized representatives as of the date of this Agreement.

MONTRES ANTIMA SA

By: _____
Name: _____
Title: _____

**MELIGA HABILLEMENT
HORLOGER SA**

By: _____
Name: _____
Title: _____

FLAVIO ROTA, individually

SCHEDULE 1

COMPANY EXCERPT FROM COMMERCIAL REGISTER

SCHEDULE 2

AGREED FORM OF MINUTES OF BOARD MEETING

EXHIBIT A
1999 FINANCIAL STATEMENTS

EXHIBIT B

2000 FINANCIAL STATEMENTS

EXHIBIT C
INTERIM FINANCIAL STATEMENTS AND
BALANCE SHEET DATED JUNE 30, 2001

EXHIBIT D
ARTICLES OF ASSOCIATION

QuickLinks

STOCK PURCHASE AGREEMENT

RECITALS

ARTICLE 1 DEFINITIONS

ARTICLE 2 PURCHASE AND SALE

ARTICLE 3 CONSIDERATION

ARTICLE 4 CLOSING

ARTICLE 5 [Reserved]

ARTICLE 6 REPRESENTATIONS, WARRANTIES AND COVENANTS

ARTICLE 7 INDEMNIFICATION

ARTICLE 8 CONFIDENTIALITY

ARTICLE 9 TERMINATION

ARTICLE 10 MISCELLANEOUS

MONTRES ANTIMA SA

SCHEDULE 1 COMPANY EXCERPT FROM COMMERCIAL REGISTER

SCHEDULE 2 AGREED FORM OF MINUTES OF BOARD MEETING

EXHIBIT A 1999 FINANCIAL STATEMENTS

EXHIBIT B 2000 FINANCIAL STATEMENTS

EXHIBIT C INTERIM FINANCIAL STATEMENTS AND BALANCE SHEET DATED JUNE 30, 2001

EXHIBIT D ARTICLES OF ASSOCIATION

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<DOCUMENT>
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<DESCRIPTION> Exhibit 10.30
<FILENAME>
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[QuickLinks](#)-- Click here to rapidly navigate through this document

ASSET PURCHASE AGREEMENT

THIS ASSET PURCHASE AGREEMENT (the "Agreement"), dated as of October , 2001 to be effective as of the Closing Date is made by and between Meliga Habillement Horloger SA ("Seller") and Montres Antima SA ("Purchaser").

WITNESSETH:

WHEREAS, Seller is in the business of manufacturing, marketing and distributing Swiss-made watches and components (the "Business");

WHEREAS, Seller desires to sell, and Purchaser desires to purchase, certain of Seller's assets relating to the Business, on the terms and subject to the conditions and limitations set forth herein; and

WHEREAS, the parties hereto desire to transfer from Seller to Purchaser only those assets and liabilities which are specifically designated in this Agreement, and not to structure the present transaction as a transfer of a business with assets and liabilities in accordance with article 181 of the Swiss Code of Obligations of March 30, 1911 (as amended) ("CO").

NOW, THEREFORE, in consideration of the mutual representations, warranties and covenants contained in this Agreement, and on the terms and subject to the conditions herein set forth, the parties hereto agree as follows:

Definitions

For the purposes of this Agreement, the following terms shall have the respective meanings indicated below:

"Aggregate Provisions Amount" shall mean, collectively, the A/R Provision and the Inventory Provision.

"Agreed Balance Sheet" means the balance sheet of the Seller as at June 30, 2001 in the agreed form.

"A/R Provision" shall mean 138,000 CHF, as evidenced by the Agreed Balance Sheet.

"Assets" shall mean all of Seller's assets and properties listed on Schedule 1(A)-(E) as reflected on the Agreed Balance Sheet, less the Excluded Assets.

"Assumed Contracts" shall mean the contracts and agreements related to Seller's business listed on Schedule 2 that will be assigned by Seller to, and assumed by, Purchaser at Closing.

"Assumed Obligations" shall mean (i) the obligations of Seller under the Assumed Contracts the causes of which arise after the Closing Date, and (ii) the other obligations of Seller listed on Schedule 2 that will be assigned by Seller to, and assumed by, Purchaser at Closing.

"Balance Sheet Adjustments" shall mean the adjustments in the purchase price in accordance with the provisions of Section 1.4(a) hereof.

"Closing" shall mean the consummation of the transactions contemplated by this Agreement.

"Closing Assets" shall mean the classes of Seller's assets and properties as listed on Schedule 1(A)-(E) as they exist as of Closing as evidenced by the Closing Balance Sheet, less the Excluded Assets.

"Closing Date" shall mean October 31, 2001, or such other date of Closing as mutually agreed to in writing by the parties.

"Closing Balance Sheet" shall mean the balance sheet of Seller as of the date of Closing as determined in accordance with Swiss GAAP, consistently applied.

"Collateral Transactions" shall mean, collectively, (i) the Purchase and Sale Agreement between Montres Antima SA and Flavio Rota, individually and Meliga Habillement Horloger SA and (ii) the Purchase and Sale Agreement between Swiss Technology Holding AG and Michel Geiger.

"Company" shall mean Meliga Habillement Horloger SA

"Encumbrance" means a mortgage, charge, pledge, lien, option, restriction, right of first refusal, right of pre-emption, third-party right or interest, retention of title, other encumbrance or security interest of any kind, or another type of preferential arrangement (including, without limitation, a title transfer or retention arrangement) having similar effect.

"Excluded Assets" shall mean the excluded assets and properties listed on Schedule 3.

"Inventory Provision" shall mean 225,000 CHF, as evidenced by the Agreed Balance Sheet.

"Lease" shall mean the lease relating to the Real Estate dated January 1, 2001 between Sessler Immobilien AG and the Seller.

"Post Closing Adjustments" shall mean, collectively, the Balance Sheet Adjustments and the Receivables/Inventory Adjustment.

"Receivables/Inventory Adjustment" shall have the meaning given to it in Section 1.4(b).

"Real Estate" shall mean the property located at Ch. de la Clôture 6, Bienne, Switzerland and improvements described in the Lease.

"Swiss GAAP" shall mean, generally accepted accounting principles applicable in Switzerland.

"Test Date" shall mean the first anniversary date following Closing.

"Test Period" shall mean the period from Closing until the Test Date.

"UBS Loan" shall mean the credit facility dated September 10, 1999, as amended, supplemented and modified, between UBS AG and Seller.

ARTICLE 1 ***Purchase and Sale***

1.1 Sale and Purchase of Assets. Subject to and upon the terms and conditions contained herein, Seller sells to Purchaser, and Purchaser purchases from Seller, the Assets less the Excluded Assets as they exist as of the Closing Date.

1.2 Closing. Unless this Agreement shall have been terminated and the transactions contemplated herein shall have been abandoned pursuant to Article 9, and subject to the satisfaction or waiver of the conditions set forth in Articles 6 and 7, the Closing shall take place on the Closing Date at the offices of Seller or at such other place as shall be mutually agreed to by the parties.

1.3 Consideration. The consideration of Purchaser for Seller's selling the Assets and transferring the Assumed Contracts, the Lease and the Employees to Purchaser shall be (i) payment of the Purchase Price (as defined below), and (ii) the assumption of the Assumed Obligations.

Subject to the Post Closing Adjustments contained in Section 1.4, the total purchase price (the "Purchase Price") shall be as follows:

(a) 1,628,920 CHF payable at Closing (the "Closing Payment") which amount is equal to the sum of the following:

(i) 268,313 CHF representing the net book value of fixed assets as listed on Schedule 1(A) and the intellectual property as listed on Schedule I(B); *less*

- (ii) 225,802 CHF representing the net book value of the Excluded Assets; *plus*
- (iii) 13,917 CHF for the pre-paid expenses as listed on Schedule 1(E); *plus*
- (iv) 588,511 CHF representing the net inventory valuation as listed on Schedule 1(C); *plus*
- (v) 770,514 CHF representing the net accounts receivable valuation of Seller as of June 30, 2001 as listed on Schedule 1(D); *less*
- (vi) 10,374 CHF for trade payables to Montres Antima SA; *less*
- (vii) 13,536 CHF for trade payable to Synergies Horlogeres SA; *plus*
- (viii) 83,000 CHF for the Navivision software; *plus*
- (ix) 200,000 CHF; *less*
- (x) 45,623 CHF (composed of (i) 28,008 CHF representing Seller's prorated portion of the 13th month salary accrual for 2001 and (ii) 17,615 CHF representing Seller's prorated portion of the October 2001 payroll).

(b) the Aggregate Provisions Amount to be paid within ten (10) days following the calculation of the Receivable/Inventory Adjustment in accordance with Section 1.4(b).

The Closing Payment shall be paid to Seller at the Closing by cashier's check or wire transfer in accordance with written instructions to be issued from Seller to Purchaser at least three (3) business days prior to Closing.

1.4 Post Closing Adjustments. The following adjustments to the Purchase Price shall be made following Closing:

(a) *Balance Sheet Adjustments* . Within 45 days following Closing, the Purchaser shall procure that the Company prepare the Closing Balance Sheet reflecting the assets and liabilities of the Company as of Closing. The Closing Balance Sheet shall be prepared in accordance with Swiss GAAP, consistently applied. In the event that the gross value of the Closing Assets, net of any applicable depreciation/amortization, of the Company is greater than the gross value of the Assets, net of any applicable depreciation/amortization, of the Company, then Purchaser shall remit such difference to Seller as an increase in the Purchase Price within 30 days. In the event that the gross value of the Closing Assets, net of any applicable depreciation/amortization, of the Company is less than the gross value of the Assets, net of any applicable depreciation/amortization, of the Company, then Seller shall refund such difference to Purchaser as a decrease in the Purchase Price within 30 days.

(b) *Receivables/Inventory Adjustment* . The Purchaser shall procure that within forty-five (45) days following the Test Date, the Company shall test whether, as of the Test Date, the accounts receivable and the inventory existing as of Closing as evidenced by the Closing Balance Sheet have been fully collected (with respect to the accounts receivable) or fully utilized (with respect to the inventory, assuming realization of normal gross profit margins on such inventory). To the extent that such receivables have not been fully collected, or such inventory has not been fully utilized, then the value of such assets shall be written to zero and taken against the deferred payment of the Aggregate Provisions Amount, which amount, if any, shall be payable within ten (10) days.

1.5 Assumption of Liabilities. Except for (i) the Assumed Obligations, and (ii) the obligations assumed in accordance with Section 1.6, Purchaser shall not bear any liabilities or obligations of Seller or otherwise related to the Assets or the Business, whether accrued, absolute, contingent or otherwise, including without limitation, liabilities based on or arising out of or in connection with (a) any defects in products manufactured or sold by Seller, or (b) any implied or express warranties relating to such products. In addition, Purchaser shall not bear any liabilities or obligations with respect to the Assumed Contracts which arose, or the cause of which arose, prior to the Closing Date. Therefore, Seller

undertakes to indemnify Purchaser for any of the liabilities and obligations referred to in this Section 1.5 which may transfer to, or accrue on the account of, Purchaser by operation of law.

1.6 Seller Employees; Noncompetition. Effective as of the Closing Date, Seller shall transfer to Purchaser and Purchaser shall assume from Seller the employment of the employees of Seller listed on Schedule 4 (the "Employees") in accordance with art. 333 CO. If the Employees do not refuse such employment with Purchaser within one month after the Closing Date (art. 333 para. 1 CO), Purchaser will employ the Employees effective as of the Closing Date on the same terms and conditions as those applicable to their employment by Seller prior to the Closing Date. Effective the Closing Date, Purchaser shall assume the vacation claims of the Employees accrued during 2001 and all payroll obligations with respect to the Employees for the pay period from October 1, 2001 through October 31, 2001. No other liabilities and obligations with regard to, or in connection with, the employment of the Employees (including, but not limited to, any social security, pension or other benefit liability relating to the Employees for the time before the Closing Date) shall be assumed by Purchaser, and Seller agrees to indemnify Purchaser for any such liability or obligation which may transfer to, or accrue on the account of, Purchaser by operation of law.

The provisions of this Section 1.6 shall inure solely to the benefit of Seller, and no third party (including, without limitation, any Employee) shall be permitted to rely hereon as a third party beneficiary or otherwise.

Effective as of the Closing Date, Purchaser shall also enter into an employment agreement with Jorg Bader in accordance with the provisions of Section 1.8(k) hereof. Seller shall not, for a period of at least 18 months following Closing, employ or offer employment to Employees who have accepted Purchaser's offers of employment under this Section 1.6 unless such Employees have received the written consent of Purchaser prior to such offer.

1.7 Lease. Effective as of the Closing Date, Seller shall assign to Purchaser and Purchaser shall assume from Seller the Lease, which is attached as Schedule 5 hereto. For a period of time beginning on the Closing Date and continuing for thirty (30) days thereafter, Purchaser shall provide to Seller reasonable access to the Real Estate during Purchaser's normal business hours for the purposes of (i) removing the Excluded Assets from the premises; (ii) allowing Seller to transfer its continuing operations, including all non-Business related records and corporate documentation of Seller, to a new facility; (iii) allowing the Seller to effect items (i) and (ii) above; provided, however, that any activities conducted under this Section 1.7 shall not hinder, in any manner, the operations of Purchaser.

1.8 Seller's Instruments of Transfer; Further Assurances. In order to consummate the transactions contemplated by this Agreement, the following documents shall be executed and delivered by Seller to Purchaser at the Closing:

- (a) a Bill of Sale covering the Assets, substantially in form and substance as set forth in Exhibit A;
- (b) a Deed of Transfer and Assumption for the employment contracts of the Employees, substantially in form and substance as set forth in Exhibit B;
- (c) a Deed of Transfer and Assumption for the Assumed Contracts and Assumed Obligations, substantially in form and substance as set forth in Exhibit C;
- (d) a Deed of Transfer and Assumption for the Lease, substantially in form and substance as set forth in Exhibit D;
- (e) written instruments evidencing all consents necessary for Seller to consummate the transaction contemplated hereby, including consents relating to the assignment of the Lease of the Real Estate and the assignment of the Assumed Contracts;

(f) a certificate duly executed by the President of Seller substantially in form and substance as set forth in Exhibit E that certifies (i) the due adoption by the Board of Directors of Seller of corporate resolutions, and the due adoption by the shareholders of Seller of shareholder resolutions, each of which shall be attached to such certificate, and each of which shall be authorizing the transactions and the execution and delivery of this Agreement and the other agreements and documents contemplated hereby and the taking of all actions contemplated by this Agreement and such other agreement and documents; (ii) that the copy of the Articles of Association of Seller provided by Seller, which shall be attached to such certificate, is a true and correct copy of such Articles of Association and that such Articles of Association are in full force and effect; and (iii) that Seller's representations and warranties set forth in Article 3 are true and correct as of the Closing Date.

(g) original copies of all Assumed Contracts and all amendments, supplements or modifications thereto;

(h) all of Seller's business records to the extent such records constitute a part of the Assets;

(i) possession of the Assets;

(j) the written consent from UBS AG, together with copies of all release of the UBS Loan with respect to the sale of the Assets hereunder, and all other necessary releases of Encumbrances affecting the Assets, executed by the lien holders thereof and otherwise in a form acceptable for filing;

(k) a countersigned original of the employment agreement between Jorg Bader and the Company in the form attached hereto as Exhibit F; and

(l) such other documents as Purchaser may reasonably request.

At the Closing, and at all times thereafter as may be necessary, Seller shall execute and deliver to Purchaser such other instruments of transfer as shall be reasonably necessary or appropriate to vest in Purchaser good and indefeasible title to the Assets and to comply with the purposes and intent of this Agreement. In particular, Seller will cooperate in, and execute all necessary instruments for, the transfer of the intellectual property as listed on Schedule 1(B).

1.9 Purchaser's Instruments of Transfer; Further Assurances. In order to consummate the transactions contemplated by this Agreement, the following shall be executed and delivered by Purchaser to Seller at the Closing:

(a) the Closing Payment by cashier's check or wire transfer of immediately available funds;

(b) a Deed of Transfer and Assumption for the employment contracts of the Employees, substantially in form and substance as set forth in Exhibit B;

(c) a Deed of Transfer and Assumption for the Assumed Contracts and Assumed Obligations, substantially in form and substance as set forth in Exhibit C;

(d) a Deed of Transfer and Assumption for the Lease, substantially in form and substance as set forth in Exhibit D; and

(e) a certificate duly executed by an authorized officer of Purchaser substantially in form and substance as set forth in Exhibit G that certifies the due adoption by the Board of Directors of Purchaser of corporate resolutions, which shall be attached to such certificate, authorizing the transactions and the execution and delivery of this Agreement and the other agreements and documents contemplated hereby and the taking of all actions contemplated by this Agreement and such other agreements and documents.

At the Closing, and at all times thereafter as may be reasonably necessary, Purchaser shall execute and deliver to Seller such other instruments as shall be reasonably necessary or appropriate to comply with the purposes and intent of this Agreement.

1.10 Certain Contracts. Notwithstanding any other provision of this Agreement, to the extent that the assignment by Seller of any Assumed Contract or Obligation to be assigned or assumed hereunder shall require the consent or approval of another party thereto, the consummation of the transactions contemplated by this Agreement shall not constitute an assignment, assumption or an attempted assignment or assumption thereof if such assignment or assumption, or attempted assignment or assumption would constitute a breach thereof. Seller shall obtain the written consent or approval to the assignment or assumption to the Purchaser of each such Assumed Contract or Obligation with respect to which such consent is required for such assignment or assumption.

ARTICLE 2

Representations and Warranties of Purchaser

Purchaser represents and warrants that the following are true and correct as of the date of this Agreement and will be true and correct through the Closing Date as if made on that date:

2.1 Incorporation and Good Standing. Purchaser is a corporation duly incorporated, validly existing and in good standing under the laws of Switzerland, with all requisite power and authority to carry on the business in which it is engaged, to own the properties it owns and to execute and deliver this Agreement and to consummate the transactions contemplated hereby.

2.2 Authorization and Validity. The execution, delivery and performance of this Agreement and the other agreements contemplated hereby by Purchaser, and the consummation of the transactions contemplated hereby and thereby, have been duly authorized by Purchaser. This Agreement has been and each other agreement contemplated hereby will be prior to Closing duly executed and delivered by Purchaser and this Agreement constitutes and each agreement contemplated hereby will constitute legal, valid and binding obligations of Purchaser, enforceable against Purchaser in accordance with their respective terms.

2.3 No Violation. Neither the execution and performance of this Agreement or the other agreements contemplated hereby, nor the consummation of the transactions contemplated hereby or thereby, will (a) conflict with, or result in a breach of the terms, conditions and provisions of, or constitute a default under, the Certificate of Incorporation or Bylaws of Purchaser or any agreement or other instrument under which Purchaser is bound, or (b) violate or conflict with any judgment, decree, order, statute, rule or regulation of any court or any public, governmental or regulatory agency or body having jurisdiction over Purchaser or the properties or assets of Purchaser.

2.4 Consents and Regulatory Compliance. No authorization, consent, approval, permit or license of, or filing with, any governmental or public body or authority, any lender or lessor or any other person or entity is required to authorize, or is required in connection with, the execution, delivery and performance of this Agreement or the agreements contemplated hereby on the part of Purchaser.

2.5 Finder's Fee. Purchaser has not incurred any obligation for any finder's, broker's or agent's fee in connection with the transactions contemplated hereby in a manner that will result in liability on the part of Seller.

ARTICLE 3

Representations and Warranties of Seller

Seller represents and warrants that the following are true and correct as of the date of this Agreement and will be true and correct through the Closing Date as if made on that date:

3.1 Incorporation and Good Standing; No Subsidiary. Seller is a corporation duly incorporated, validly existing and in good standing under the laws Switzerland, with all requisite power and authority to carry on the business in which it is engaged, to own the properties it owns and to execute and deliver this Agreement and to consummate the transactions contemplated hereby. Seller is duly

qualified and licensed to do business and is in good standing in all jurisdictions where the nature of its business makes such qualification necessary or where failure to so qualify does not have a material adverse effect on Seller's business. Except for Seller's interest in Synergies Horlogeres SA, Seller does not own, directly or indirectly, any interest or investment (whether equity or debt) in any corporation, partnership, limited liability company, business, trust or other entity.

3.2 Corporate Records. The copies of the Deed of Incorporation and all amendments thereto and the Articles of Association of Seller that have been delivered to Purchaser are true, correct and complete copies thereof. The records provided to Purchaser are the true and complete records of Seller with respect to the Business.

3.3 Vote Required. The approval of this Agreement, and the transactions contemplated hereby, by the holders of all outstanding shares of Seller's common stock is the only vote of holders of any class or series of the capital stock of Seller required to approve this Agreement, the sale of the Assets and the other transactions contemplated hereby.

3.4 Authorization and Validity. The execution, delivery and performance of this Agreement and the other agreements contemplated hereby by Seller, and the consummation of the transactions contemplated hereby and thereby, have been duly authorized by Seller. This Agreement has been and each other agreement contemplated hereby will be prior to Closing duly executed and delivered by Seller and this Agreement constitutes and each other agreement contemplated hereby will constitute legal, valid and binding obligations of Seller, enforceable against each of them in accordance with their respective terms.

3.5 Financial Information; Absence of Changes; Liabilities.

(a) *Financial Statements* . Schedule 6 sets forth the balance sheet of Seller as of December 31, 1998, December 31, 1999 and December 31, 2000, and the related statements of income and retained earnings for the three years ending on those dates, audited by Seller's independent public accountants. Schedule 7 sets forth unaudited balance sheet of Seller as June 30, 2001, together with related unaudited statements of income and retained earnings for the period ending on such date, as certified by the chief financial officer of Seller. The balance sheets and the statements of income have been prepared by Seller throughout the periods indicated in all material respects in accordance with Swiss GAAP, consistently applied. All financial information provided to Purchaser by Seller in connection with the transactions contemplated by this Agreement, including the financial statements of Seller, is true, correct and complete and fairly reflects the financial condition and results of operations of Seller as of the dates and for the periods indicated in all material respects.

(b) *No Changes* . Since June 30, 2001, there has not been any:

- (i) transaction by Seller except in the ordinary course of business;
- (ii) material adverse change in the financial condition, liabilities, assets, business or prospect of Seller;
- (iii) changes in accounting methods or practices by Seller;
- (iv) declaration, setting aside or payment of a dividend or other distribution in respect to the capital stock of Seller, or any direct or indirect redemption, purchase or other acquisition by Seller of any of its shares of capital stock; or
- (v) material, non-scheduled, increase in the salary or other compensation payable or to become payable by Seller to any of its employees, directors or officers.

3.6 Assets; Title; Leased Assets.

(a) *Real Property* . Seller owns no real property. The only real property leased to Seller is the Real Estate, and the Lease is a true and correct copy of the lease agreement for the Real Estate.

(b) *Personal Property* . Schedule 1(A) sets forth a complete and accurate schedule describing all machinery, equipment, supplies and all other tangible personal property owned by Seller in connection with the Business, including the date of acquisition, original purchase price and book value as of June 30, 2001.

(c) *Accounts Receivable* . Schedule 1(D) sets forth a complete and accurate schedule of the accounts receivable of Seller as of June 30, 2001, as reflected in the balance sheet as of that date, together with an accurate aging of these accounts. These accounts receivable, and all accounts receivable of Seller created after that date, arose from valid sales in Seller's ordinary course of business.

(d) *Assumed Contracts* . Each Assumed Contract attached hereto as Schedule 2 is a true and correct copy thereof.

(e) *Title* . Except with respect to the lien on the Assets related to the UBS Loan, which will be released at the time of Closing, Seller owns the Assets (not including those Assets that are leased by Seller as of the date of this Agreement), free and clear of all Encumbrances. Upon consummation of the transactions contemplated hereby and receipt of the required consents, Purchaser shall receive good, valid and marketable title to the Assets, and will be entitled to use all of the Assets that are currently leased to Seller, including the Real Estate, as lessee, free and clear of all Encumbrances, other than statutory landlord liens on assets located in or on the Real Estate.

(f) *Leased Property* . To the extent any of the Assets are leased or rented, such leases or rental agreements are in full force and effect (subject only to any applicable statutory landlord's liens), and no lessor or renter has declared any default thereunder and, to the knowledge of Seller, no circumstances exists which, upon notice or passage of time, would create an event of default or a default under any such agreement.

(g) *Software* . Purchaser has a valid right and license to use all software currently utilized in the conduct of the Business, and such software is adequate for the proper conduct of the Business.

3.7 Commitments. Seller has not received notice of any plan or intention of any of its customers or suppliers to exercise any right to cancel or terminate any present arrangement or agreement with Seller as a result of the transactions contemplated by this Agreement, and Seller does not know of any fact that would justify the exercise of such right. Seller does not currently contemplate, nor have reason to believe any other person or entity currently contemplates, any amendment or change to any arrangement or agreement. None of the customers or suppliers of Seller has refused, or communicated that it will or may refuse to purchase or supply goods or services, as the case may be, or has communicated that it will or may substantially reduce the amounts of goods or services that it is willing to purchase from, or sell to, Seller as a result of the transactions contemplated by this Agreement.

3.8 Insurance. All the insurable properties of Seller are insured for their respective benefit under valid and enforceable policies, issued by insurers of recognized responsibility in amounts and against such risks and losses as is customary in Seller's industry. The respective insurance policies are all in full force and effect, and no premium payments of Seller thereunder are due. No notice of termination or cancellation with regard to any of the insurance contracts has been given or received by Seller, and neither Seller nor the respective insurance companies have requested or announced any amendments to the insurance contracts and no such termination, cancellation or request for amendment is to be expected. True, complete and correct copies of all such policies as they relate to the Assets have been made available to Purchaser prior to the date hereof. Seller will maintain such insurance until the Closing Date, at which time Seller shall assign such insurance to Purchaser.

3.9 No Violation. Neither the execution and performance of this Agreement or the agreements contemplated hereby nor the consummation of the transactions contemplated hereby or thereby will (a) materially conflict with, or result in a breach of the terms, conditions and provisions of, or constitute a default under, the Articles of Association of Seller or any agreement or other instrument under which Seller is bound or to which any of the Assets are subject, (including, but not limited to, any of the Assumed Contracts) or result in the creation of any Encumbrance upon any of the Assets, or (b) materially violate or conflict with any judgment, decree, order, statute, rule or regulation of any court or any public, governmental or regulatory agency or body having jurisdiction over Seller or the properties or assets of Seller or the Business.

3.10 Taxes and Social Security. There is no material deficiency or delinquency for the payment of any tax, assessment, governmental charge or social security charge (including mandatory and voluntary pension plan payments) asserted against Seller with respect to the Assets, the Real Estate, the Business or the Employees, nor are there any unpaid assessments or taxes or governmental charges or social security charges, or any deficiency or delinquency in the payment of any of the taxes, assessments, governmental charges or social security charges of Seller that could be asserted by any taxing authority against Purchaser, nor is there any material violation by Seller of any federal, cantonal, municipal or foreign tax or social security law that could be asserted against Purchaser. There are no present disputes as to taxes or social security charges of any nature payable by Seller. There are no special agreements with, or concessions from, tax or other authorities, formal or informal, which have an impact on the taxes chargeable in connection with the Business. Seller shall deliver to Purchaser a certificate of the President of Seller evidencing the representations of this Section 3.10.

3.11 Consents. Except with respect to the assignment of the Lease and the assignment of the Assumed Contracts, no authorization, consent, approval, permit or license of, or filing with, any governmental or public body or authority, any lender or lessor or any other person or entity is required to authorize, or is required in connection with, the execution, delivery and performance of this Agreement or the agreements contemplated hereby on the part of Seller.

3.12 Compliance with Laws; Regulatory Compliance. There are no existing violations by Seller of any applicable federal, canton or local law or regulation that could materially adversely affect the Assets, the Real Estate or the Business. Seller has complied in all material respects with all applicable laws, regulations and licensing requirements, and has filed with the proper authorities, all necessary statements and reports relating to the Business. Seller possesses all necessary licenses, franchises, permits and governmental authorizations to own the Assets and conduct the Business as now conducted.

3.13 Finder's Fees. Seller has not incurred any obligation for any finder's, broker's or agent's fee in connection with the transactions contemplated hereby in a manner that will result in liability on the part of Purchaser.

3.14 Litigation. Seller has not had any legal action or administrative proceeding or investigation instituted or, to the best knowledge of Seller, threatened against or affecting, or that could affect, any of the Assets, the Real Estate or the Business. Seller is not subject to any continuing court or administrative order, writ, injunction or decree applicable to Seller or to the Assets, the Real Estate or the Business. Seller knows of no basis for any such action, proceeding or investigation.

3.15 Accuracy of Information Furnished. All information furnished to Purchaser by Seller in this Agreement or in any exhibit, schedule or certificate related to this Agreement is true, correct and complete in all material respects. Such information states all material facts required to be stated therein or necessary to make the statements therein, in light of the circumstances under which such statements are made, true, correct and complete in all material respects.

3.16 Condition of Assets and Equipment. All of the Assets that are tangible property are in good condition and repair for their intended use in the ordinary course of business consistent with past practice and conform in all material respects with all applicable ordinances, regulations and other laws and there are no known latent defects therein.

3.17 Customers. Seller has provided Purchaser with a complete and accurate list of Seller's customers and suppliers relating to the Business, which is attached hereto as Schedule 8.

3.18 Pricing. Seller has provided Purchaser with a complete and accurate list of Seller's standard prices and any applicable discounts by customer name, which is attached hereto as Schedule 9.

3.19 Product Warranties. To Seller's knowledge, there is no claim against or liability of Seller on account of product warranties or with respect to the manufacture, sale or rental of defective products, and, to the actual knowledge of Seller, there is no basis for any such claim on account of defective products heretofore manufactured, sold or rented.

3.20 Burdensome Obligations. To the best knowledge of Seller, (i) Seller is not a party to or bound by any Assumed Contract which is so unusual or burdensome as in the foreseeable future could reasonably be expected to have a material adverse effect on the Assets, the Real Estate or the Business, and (ii) Seller is not in violation of any law, ordinance, statute, code, rule, regulation, order or decree of the Switzerland, any canton, or any municipality in which Seller operates pertaining to occupational safety, except for violations which could not reasonably be expected to have a material adverse effect on the Assets, the Real Estate or the Business.

3.21 Intellectual Property Rights.

(a) *Intellectual Property Rights* . Seller owns, or is licensed or otherwise possesses legally sufficient rights to use, all trademarks, service marks, trade names, patents, copyrights, and any applications therefor, technology, know-how, trade secrets, computer software programs or applications (in both source code and object code form) and tangible or intangible proprietary information or material that are used or proposed to be used in the Business, including all current patents, patent applications, registered and material unregistered copyrights, and any applications therefor owned or licensed by the Seller (the "Intellectual Property Rights") free and clear of all Encumbrances.

(b) All Intellectual Property Rights which can be registered are duly and validly registered, and there are no appeals, oppositions or other actions pending against such registrations. All application, registration, renewal and other fees relating to the Intellectual Property Rights have been fully paid in due time.

(c) Seller has disclosed the Intellectual Property Rights to the extent necessary for Purchaser to practice and utilize such rights in its Business. Without limiting the generality of the foregoing, Schedule 9 is a true and complete list of Seller's customers and Schedule 10 is a true and complete list of Seller's computer systems and programs.

(d) Purchaser's use of the Intellectual Property Rights will not infringe upon the rights of any third party.

(e) To Seller's best knowledge, there has been no breach with respect to any license or right relating to any of the Intellectual Property Rights.

3.22 Employees. Schedule 4 sets forth the true and complete terms and conditions of employment of the Employees, including, but not limited to, their salaries, fringe benefits, bonuses and other benefits. Except for (i) Seller's prorated portion of the accrued, unpaid vacation for the Employees during 2001, (ii) Seller's prorated portion of the 13th month salary payable to the Employees and (iii) the October 2001 payroll, all claims of Employees against Seller which are based on occurrences

before the Closing Date have been fully discharged by Seller, and Purchaser will not incur any liability with regard to such claims.

ARTICLE 4 ***Purchaser's Covenants***

4.1 Consummation of Agreement. Purchaser agrees that on or prior to the Closing, Purchaser agrees to use its best efforts to (i) cause the Board of Directors of Purchaser to authorize all necessary corporate action; and (ii) cause the consummation of the transactions contemplated by this Agreement in accordance with its terms and conditions.

4.2 Retention of Records. Purchaser shall retain all documents, books and records of Seller which Purchaser receives from Seller for a period of two (2) years following the Closing Date. Seller shall be provided an opportunity to retain photostatic copies of those books, records, corporate document. After the Closing, Seller and its representatives shall have reasonable access to all such books, records and documents during normal business hours.

ARTICLE 5 ***Seller's Covenants***

Seller agrees that on or prior to the Closing:

5.1 Business Operations. Seller shall operate the Business only in the ordinary course, will not introduce any new method of management or operation and Seller shall use its best efforts to preserve the Business intact, to retain its present customers and suppliers so that it will be available to Purchaser after the Closing and to cause consummation of the transactions contemplated by this Agreement in accordance with its terms and conditions. Seller shall not take any action that might reasonably be expected to impair the Assets, the Real Estate or the Businesses without the prior written consent of Purchaser or take or fail to take any action that would cause or permit the representations made in Article 3 hereof to be inaccurate at the time of Closing or preclude Seller from making such representations and warranties at the Closing.

5.2 Access. Seller shall permit Purchaser and its authorized representatives full access to, and make available for inspection, all of the Assets, the Real Estate and the Business, including Seller's employees, customers and suppliers, and furnish Purchaser all documents, records and information with respect to the affairs of Seller as Purchaser and its representatives may reasonably request, all for the sole purpose of permitting Purchaser to become familiar with the Assets, the Real Estate and the Business.

5.3 Shareholder Approval . Seller will, as soon as practicable following the execution of this Agreement, duly call, give notice of, convene and hold a meeting of shareholders for the purpose of approving this Agreement and the transactions contemplated hereby.

5.4 Material Change. Prior to the Closing, Seller shall promptly inform Purchaser in writing of any material adverse change in the condition of the Assets, the Real Estate or the Business or any event that renders the representations and warranties made in Article 3 to be inaccurate, to the extent such change or event is known to Seller or should reasonably be known to Seller in the ordinary course of its operation of the Assets or the Business. Any such disclosure shall not be deemed a waiver by Purchaser of any representation or warranty of Seller contained in this Agreement.

5.5 Approvals of Third Parties. As soon as practicable after the execution of this Agreement, but in any event prior to the Closing Date, Seller will secure all necessary approvals, assignments, releases and consents of all third parties and governmental authorities required on the part of Seller for the consummation of and contemplated by this Agreement, including, without limitation, the assignment of the Assumed Contracts and the Lease.

5.6 Employees. Seller will cooperate with all reasonable requests made by Purchaser for the purpose of allowing Purchaser to hire the Employees. Seller will inform the Employees of the contemplated transfer to Purchaser in accordance with art. 333a CO in due time before the Closing Date and will advise them that they are deemed to have accepted such transfer if they do not explicitly refuse the transfer by written notice to Seller and Purchaser within one month after the Closing Date.

5.7 Employee Compensation. Except with Purchaser's prior written consent, no material, non-scheduled increase will be made in the compensation or rate of compensation payable or to become payable to the Employees, and no bonus, profit sharing, retirement, insurance, death, fringe benefit or other extraordinary or indirect compensation shall accrue, be set aside or be paid to, for or on behalf of any of such Employees other than as required by presently existing pension, profit sharing, bonus and similar benefit plans as presently constituted, and no agreement or plan other than those now in effect shall be adopted or committed for.

5.8 Contracts. Except with Purchaser's prior written consent, Seller shall not waive any material right or cancel any of the Assumed Contracts, debt or claim relating to the Assets, the Real Estate or the Business, nor will Seller, except in the ordinary course of business, assume or enter into any contract, lease, license, obligation, indebtedness, commitment, purchase or sale relating to the Assets, the Real Estate or the Business.

5.9 Mortgages, Liens. Except with Purchaser's prior written consent, Seller will not enter into any agreement establishing, and will not otherwise permit, any Encumbrance over the Assets, the Real Estate or the Business, whether now owned or hereafter acquired, except for transactions in the usual and ordinary course of business.

5.10 Changes in Inventory. Seller will not alter the physical contents or character of any of its inventory as listed on Schedule 1(C) so as to affect the nature of the Business or result in a change in the total franc valuation thereof other than normal period-end adjustments in accordance with Swiss GAAP and other than as a result of transactions in the ordinary course of business.

5.11 No Disclosure or Negotiation with Others. Seller will prevent the disclosure of any of the terms or conditions of this Agreement to any other person, other than to its employees, legal counsel and accountants, or as otherwise required by law or court order. Additionally, Seller shall not, directly or indirectly, through representatives or otherwise, solicit, entertain, or negotiate with respect to, or in any manner encourage, discuss or consider any offer or proposal to sell the Business, in whole or in part, to any person or entity other than Purchaser or its affiliates, whether directly or indirectly, through purchase, merger, consolidation or otherwise and neither Seller nor any representative of Seller shall provide information relating to the Business to any other person or entity in connection with a possible transaction involving the Business. The foregoing restrictions shall continue only until the Closing. Seller agrees to immediately notify Purchaser in the event of any known contact among Seller or Seller's representative and any other person or entity regarding any such offer or proposal or any related inquiry.

5.12 Noncompetition Agreement. Seller and the shareholders of Seller shall enter into a Confidentiality and Non-Competition Agreement with Purchaser substantially in the form and substance as set forth in Exhibit H whereby Seller and agrees not to compete with Purchaser in any respect in connection with the Business and Seller and the shareholders of Seller agree to maintain the confidentiality of all confidential information relating to the Business following Closing. The term of the non-competition provisions applicable to Seller and the shareholders of Seller shall be three (3) years beginning on the Closing Date and shall be in effect in, and cover all of Europe.

5.13 Information for Tax Returns. Seller shall cooperate with Purchaser after the Closing Date by providing Purchaser, without any additional consideration but at the expense of Purchaser, promptly upon request, such records and other information regarding the Assets, the Real Estate and/or the

Business as may reasonably be requested from time to time by Purchaser in connection with the preparation or audit of its federal, canton and municipal income and other tax returns, and audits, disputes, refund claims or litigation relating thereto. In connection therewith, Seller will afford Purchaser's tax advisors, and such other persons as may be mutually agreed upon, access to books and records relating to the Assets, the Real Estate and the Business; provided, however, that Purchaser shall cause its tax advisors and such other persons to hold in strict confidence all such information (except as required to be disclosed in connection with such tax returns and audits, disputes, refund claims and litigation relating thereto).

5.14 Swiss Value Added Tax. Seller will file on, or without delay after, Closing (but in no case later than 30 days after the Closing Date) a notification to the Federal Tax Administration in accordance with art. 47 para. 3 of the Federal Statute on Value Added Tax of September 2, 1999 (as amended) and will use its best efforts to successfully complete these notification procedures.

ARTICLE 6

Purchaser's Conditions Precedent

Except as may be waived in writing by Purchaser, the obligations of Purchaser hereunder are subject to the fulfillment at or prior to the Closing of each of the following conditions:

6.1 Representations and Warranties. The representations and warranties of Seller contained herein shall be true and correct as of the Closing, and Purchaser shall not have discovered any error, misstatement or omission therein.

6.2 Covenants. Seller shall have performed and complied with all covenants and conditions required by this Agreement to be performed and complied with by it prior to the Closing.

6.3 Officer's Certificate. Seller shall have delivered to Purchaser a certificate duly executed by Seller's President substantially in form and substance as set forth in Exhibit E certifying as to the statements contained in Section 6.1 and Section 6.2 to this Agreement.

6.4 Proceedings. No action, proceeding or order by any court or governmental body or agency or third party shall have been threatened in writing, asserted, instituted or entered to restrain or prohibit the carrying out of the transactions contemplated by this Agreement or which would materially affect the ability of the Purchaser to consummate the transactions contemplated by this Agreement.

6.5 Shareholder Approval and Other Approval. The execution and delivery of this Agreement by Seller, and the performance of its covenants and obligations hereunder, shall have been duly authorized by all necessary corporate and shareholder action, and Purchaser shall have received copies of all resolutions pertaining to that authorization, certified by the secretary of Seller.

6.6 No Material Adverse Change. No material, adverse change in the Assets, the Real Estate or the Business shall have occurred after the date hereof and prior to the Closing.

6.7 Due Diligence. Purchaser, acting through its own advisers, agents, consultants, personnel, counsel, accountants or other representatives designated by Purchaser, shall have been afforded full and complete opportunity to inspect and/or examine the Assets, the Real Estate, the Business and the books and records, titles and leases to properties, loans and other agreements, any pending or threatened litigation, and other matters pertaining to the legal structure, regulatory compliance, assets and obligations of Seller. The conclusion of any such inspection and/or examination shall be satisfactory, in the opinion of Purchaser and its advisors.

6.8 Instruments of Transfer. Seller shall have delivered to Purchaser each of those documents enumerated in Section 1.8 hereto.

6.9 Third Party Consents. All necessary agreements and consents of any parties to the consummation of the transactions contemplated by this Agreement, or otherwise pertaining to the matters covered by it, shall have been obtained by Seller and delivered to Purchaser, including, but not limited to, all consents to the assignment of the Assumed Contracts and the Lease.

6.10 Collateral Transactions. The Collateral Transactions shall have closed, or simultaneously close, in accordance with their respective terms and conditions.

ARTICLE 7

Seller's Conditions Precedent

Except as may be waived in writing by Seller, the obligations of Seller hereunder are subject to the fulfillment at or prior to the Closing of each of the following conditions:

7.1 Representations and Warranties. The representations and warranties of Purchaser contained herein shall be true and correct as of the Closing, subject to any changes contemplated by this Agreement, and Seller shall not have discovered any error, misstatement or omission therein.

7.2 Covenants. Purchaser shall have performed and complied in all material respects with all covenants or conditions required by this Agreement to be performed and complied with by it prior to the Closing.

7.3 Corporate Approval. The execution and delivery of this Agreement by Purchaser, and the performance of its covenants and obligations hereunder, shall have been duly authorized by all necessary corporate and shareholder action, and Purchaser shall have received copies of all resolutions pertaining to that authorization, certified by the secretary of Purchaser.

7.4 Officer's Certificate. Purchaser shall have delivered to Seller a certificate duly executed by an officer of Purchaser certifying as to the statements contained in Section 7.1 and Section 7.2 of this Agreement.

7.5 Proceedings. No action, proceeding or order by any court or governmental body or agency or third party shall have been threatened in writing, asserted, instituted or entered to restrain or prohibit the carrying out of the transactions contemplated by this Agreement or which would materially affect the ability of Seller to consummate the transactions contemplated by this Agreement.

7.6 Instruments of Transfer. Purchaser shall have delivered to Seller each of those items enumerated in Section 1.9 of this Agreement.

ARTICLE 8

Indemnification

8.1 Seller's Indemnity. Subject to the terms and conditions of this Article 8, Seller agrees to indemnify, defend and hold Purchaser and its shareholders, officers, directors, agents, attorneys and affiliates harmless from and against all losses, claims, obligations, demands, assessments, penalties, liability, costs, damages, reasonable attorneys' fees and expenses (collectively, "Damages"), asserted against or incurred by Purchaser by reason of or resulting from any of the following:

(a) A breach by Seller of any representation, warranty or covenant contained herein or in any agreement executed pursuant hereto;

(b) Any product liability claims relating to products sold by Seller, and all general liability claims relating to the Assets, the Real Estate or the Business arising out of or relating to occurrences of any nature prior to the Closing, whether any such claims are asserted prior to or after the Closing;

(c) Any obligation or liability not expressly assumed by Purchaser in accordance with Sections 1.5 and 1.6; or

(d) Any tax filing or return or payment made, or position taken, by Seller which any governmental authority challenges and which results in an assertion of Damages against Purchaser.

8.2 Purchaser's Indemnity. Subject to the terms and conditions of this Article 8, Purchaser agrees to indemnify, defend and hold Seller and its officers, directors, agents, attorneys and affiliates harmless from and against all Damages asserted against or incurred by Seller by reason of or resulting from any of the following:

(a) A breach by Purchaser of any representation, warranty or covenant contained herein or in any agreement executed pursuant hereto;

(b) Any product liability or breach of warranty claims relating to products sold by Purchaser, and all general liability claims relating to the Assets, the Real Estate or the Business arising out of or relating to occurrences of any nature after the Closing;

(c) Any obligation or liability with respect to the Employees arising out of or relating to occurrences of any nature after the Closing;

(d) Any tax filing or return or payment made, or position taken, by Purchaser, after Closing, which any governmental authority challenges and which results in an assertion of Damages against Seller; or

(e) The failure of Purchaser to pay, perform and discharge any of the Assumed Obligations.

8.3 Indemnification Procedures in Case of Third Party Claims. The respective obligations and liabilities of Seller and Purchaser (the "indemnifying party") to the other (the "party to be indemnified") under Sections 8.1 and 8.2, respectively, hereof with respect to claims resulting from the assertion of liability by third parties shall be subject to the following terms and conditions:

(a) Within 20 days (or such earlier time as might be required to avoid prejudicing the indemnifying party's position) after receipt of notice of commencement of any action evidenced by service of process or other legal pleading, or with reasonable promptness after the assertion in writing of any claim by a third party, the party to be indemnified shall give the indemnifying party written notice thereof together with a copy of such claim, process or other legal pleading, and the indemnifying party shall have the right to undertake the defense thereof by representatives of its own choosing and at its own expense; *provided, however*, that the party to be indemnified may participate in the defense with counsel of its own choice and at its own expense.

(b) In the event that the indemnifying party, by the 30th day after receipt of notice of any such claim (or, if earlier, by the 10th day preceding the day on which an answer or other pleading must be served in order to prevent judgment by default in favor of the person asserting such claim), does not elect to defend against such claim, the party to be indemnified will (upon further notice to the indemnifying party) have the right to undertake the defense, compromise or settlement of such claim on behalf of and for the account and risk of the indemnifying party and at the indemnifying party's expense, subject to the right of the indemnifying party to assume the defense of such claims at any time prior to settlement, compromise or final determination thereof.

(c) Anything in this Section 8.3 to the contrary notwithstanding, the indemnifying party shall not settle any claim without the consent of the party to be indemnified unless such settlement involves only the payment of money and the claimant provides to the party to be indemnified a release from all liability in respect of such claim. If the settlement of the claim involves more than the payment of money, the indemnifying party shall not settle the claim without the prior consent of the party to be indemnified.

(d) The party to be indemnified and the indemnifying party will each cooperate with all reasonable requests of the other.

8.4 Survival of Representations, Warranties and Covenants. Notwithstanding any investigation before or after Closing made by any party or on its behalf, the representations, warranties, covenants and other agreements contained herein shall survive the Closing for a period (such period being referred to as the "Survival Period") ending on the expiration of twenty-four (24) calendar months following the month in which the Closing shall occur, and all statements contained in any certificate, exhibit or other instrument delivered by or on behalf of Seller or Purchaser pursuant to this Agreement shall be deemed to have been representations and warranties by Seller or Purchaser, as the case may be, and shall survive the Closing and any investigation before or after Closing made by any party or on its behalf for a period expiring upon completion of the Survival Period; *provided, however*, that (i) any claim which is submitted in writing to the indemnifying Party on or before the expiration of the Survival Period may still be enforced after expiration of the Survival Period, and (ii) any claim relating to Seller's representations made in Section 3.10 (Taxes and Social Security) may still be raised after expiration of the Survival Period, but not later than one year after notification of the respective claims to Purchaser by the tax authorities or social security institutions. The limitations, time limits and Purchaser's investigation and notification and other duties under articles 200, 201 and 210 of the Swiss Code of Obligations are hereby expressly waived.

8.5 Remedies Not Exclusive. The remedies provided in this Article 8 shall not be exclusive of any other rights or remedies available by one party against the other, either at law or in equity.

ARTICLE 9

Termination

9.1 Termination by Purchaser. Purchaser may terminate this Agreement by written notice to Seller prior to Closing if any of the conditions precedent to its obligation to close stated in Article 6 have not been fulfilled prior to the Closing Date, or if in Purchaser's reasonable opinion Seller has materially failed to comply with any term or condition of this Agreement, or Seller or any of Seller's officers or other representatives has provided Purchaser with materially inaccurate information or has failed to disclose fully to Purchaser any materially unfavorable information about the Business or the Assets, or there has been a materially adverse change in the Assets, the Real Estate or the Business or in the ability of Seller to carry out any obligation under this Agreement; or for any reason other than a default by Purchaser if the Closing has not occurred on or before October 31, 2001.

9.2 Termination by Seller. Seller may terminate this Agreement by written notice to Purchaser prior to Closing if any of the conditions precedent to its obligations to close stated in Article 7 have not been fulfilled prior to the Closing Date, or if in Seller's reasonable opinion Purchaser has materially failed to comply with any term or condition of this Agreement, or Purchaser or any of Purchaser's officers or other representatives has provided Seller with materially inaccurate information; or for any reason other than a default by Seller, if the Closing has not occurred on or before October 31, 2001.

ARTICLE 10

Miscellaneous

10.1 Amendment. This Agreement may be amended, modified or supplemented only by an instrument in writing executed by the party against which enforcement of the amendment, modification or supplement is sought.

10.2 Assignment and Denial of Third Party Rights. Except as otherwise provided in this Section 10.2, neither this Agreement nor any right, remedy, obligation or liability arising hereunder or by reason hereof nor any of the documents executed in connection herewith may be assigned or delegated by any party without the written consent of the other parties. Any attempted assignment or delegation of such rights in violation of this Section 10.2 will be null and void and of no force and effect. Nothing contained herein, express or implied, is intended to confer upon any person or entity (including

minority shareholders or stockholders of the parties hereto) other than the parties indemnified under Article 8 and parties hereto and their successors in interest and permitted assignees any rights or remedies under or by reason of this Agreement unless so stated herein to the contrary.

10.3 Notice. Any notice or communication must be in writing and given by depositing the same in the mail, addressed to the party to be notified, postage prepaid and registered or certified with return receipt requested, or by delivering the same in person. Such notice shall be deemed received on the date on which it is hand-delivered or on the third business day following the date on which it is so mailed. For purposes of notice, the addresses of the parties shall be:

If to Seller: Meliga Habillement Horloger SA
Ch. de la Clôture 6
C.P. 95
2502 Bienne, Switzerland
Attention: Jorg Bader
Telephone: 032-344-2999
Facsimile: 032-344-2983

If to Purchaser: Montres Antima SA
Rue Th. Kocher 11
CH-2502 Bienne
Switzerland
Attention: Enrico Margaritelli
Telephone: 032-322-3462
Facsimile: 032-322-0471

with a copy to: Fossil, Inc.
2280 N. Greenville Ave.
Richardson, Texas 75082
Attention: T.R. Tunnell, Executive Vice President
Telephone: 972-699-2139
Facsimile: 972-498-9639

Any party may change its address for notice by written notice given to the other parties.

10.4 Confidentiality. The parties shall keep this Agreement and its terms confidential, but any party may make such disclosures after the Closing as it reasonably considers are required by law, but each party will notify the other party in advance of any such disclosure. In the event that the transactions contemplated by this Agreement are not consummated for any reason, the parties agree not to disclose or use any confidential information they may have concerning the affairs of the other parties, except for information which is required by law to be disclosed. Confidential information includes, but is not limited to: customer lists and files, prices and costs, business and financial records, surveys, reports, plans, proposals, financial information, information relating to personnel contracts, stock ownership, liabilities and litigation. Should the transactions contemplated hereby not be consummated, nothing contained in this Section 10.4 shall be construed to prohibit the parties from operating a business in competition with each other, provided that such party does not use the confidential information of the other party to operate such business. After the Closing Date, neither party hereto shall use in any way or disclose any of such confidential information, directly or indirectly, except as required by law or court order. After the Closing, all files, records, documents, information, data and similar items relating to the Business shall remain the exclusive property of Purchaser.

10.5 Entire Agreement. This Agreement and the schedules hereto supersede all prior agreements and understandings relating to the subject matter hereof, except that the obligations of any party under any agreement executed pursuant to this Agreement shall not be affected by this Section 10.5.

10.6 Costs, Expenses and Legal Fees. Whether or not the transactions contemplated hereby are consummated, each party shall bear its own costs and expenses (including attorney's fees) of preparation, negotiation and consummation of this Agreement and the transactions contemplated hereby.

10.7 Severability. If any provision of this Agreement is held to be illegal, invalid or unenforceable under present or future laws effective during the term hereof, such provision shall be fully severable and this Agreement shall be construed and enforced as if such illegal, invalid or unenforceable provision never comprised a part hereof; and the remaining provisions hereof shall remain in full force and effect and shall not be affected by the illegal, invalid or unenforceable provision or by its severance herefrom. Furthermore, in lieu of such illegal, invalid or unenforceable provision, there shall be added automatically as part of this Agreement, a provision as similar in its terms to such illegal, invalid or unenforceable provision as may be possible and be legal, valid and enforceable.

10.8 Specific Performance. Seller acknowledges that a refusal by Seller to consummate the transactions contemplated hereby, or a breach by Seller of the provisions of this Agreement, will cause irrevocable harm to Purchaser, for which there may be no adequate remedy at law and for which the ascertainment of damages would be difficult. Therefore, Purchaser shall be entitled, in addition to, and without having to prove the inadequacy of, other remedies at law, to specific performance of this Agreement, as well as injunctive relief (without being required to post bond or other security).

10.9 Governing Law. This Agreement and the rights and obligations of the parties shall be governed, construed and enforced in accordance with the laws of Switzerland.

10.10 Captions. The captions in this Agreement are for convenience of reference only and shall not limit or otherwise affect any of the terms or provisions hereof.

10.11 Counterparts; Facsimile Execution. This Agreement may be executed in counterparts, each of which shall be deemed an original, and all of which together shall constitute one and the same instrument. A telecopy or facsimile transmission of a signed counterpart of this Agreement shall be sufficient to bind the party or parties whose signature(s) appear(s) thereon.

10.12 Taxes. Each party shall be responsible for all sales, use, transfer or other taxes applicable to such party resulting from the transactions contemplated hereby.

10.13 Public Announcements. Seller and Purchaser shall cooperate with each other in the development and distribution of all news releases and other public information disclosures with respect to this Agreement or any of the transactions contemplated hereby and shall not issue any public announcement or statement with respect thereto prior to consultation with the other party. The parties agree that the initial press release or releases to be issued in connection with the execution of this Agreement shall be mutually agreed upon prior to the issuance thereof.

10.14 Dispute Resolution. Any and all dispute, controversies differences which may arise out of or in relation to or in connection with this Agreement or the transactions contemplated hereby including its legal validity shall be finally settled and binding upon the parties hereto by an arbitration process to be held in Zurich, Switzerland. The arbitration tribunal will be comprised of an arbitrator jointly designated by the parties or, if the parties cannot agree on an arbitrator within a time period of one month, then by three arbitrators, one designated by each Party within a further month and the third one, who will act as chairman of the arbitral tribunal, by the others. Any arbitrator not appointed as provided above shall be appointed by the Zurich High Court (§ 239 para. 2 Zurich Code of Civil Procedures applicable pursuant to Art. 179 para. 2 Swiss Federal Statute on International Private Law,

"IPRG") at the request of one party. The language of such arbitration shall be English and such arbitration shall be conducted according to the rules of the IPRG). As far as the IPRG does not contain mandatory provisions, the arbitrators shall apply the procedural provisions of the International Arbitration Rules of the Zurich Chamber of Commerce as in force at the time of the commencement of the arbitration proceedings, provided, however, that such rules shall not apply to the extent that (i) they contravene the present arbitration clause, or (ii) they call for an involvement of the Zurich Chamber of Commerce .

IN WITNESS WHEREOF, the undersigned parties have hereunto duly executed this Agreement as of the date first written above.

PURCHASER:

MONTRES ANTIMA SA

By: _____
Its: _____

SELLER:

MELIGA HABILLEMENT HORLOGER SA

By: _____
Its: _____

Exhibit A

Agreed Form of Bill of Sale

(See Attached)

Exhibit B

Agreed Form of Deed of Transfer and Assumption for Employment Agreements

(See Attached)

Exhibit C

**Agreed Form of Deed of Transfer and
Assumption for the Assumed Contracts and Assumed Obligations**

(See Attached)

Exhibit D

Agreed Form of Deed of Transfer and Assumption for the Lease

(See Attached)

Exhibit E
Agreed Form of Certificate by the President of Seller

(See Attached)

Exhibit F
Agreed Form of Employment Agreement with Jorg Bader

(See Attached)

Exhibit G
Agreed Form of Certificate by an Officer of Purchaser

(See Attached)

Exhibit H
Agreed Form of Non-Competition Agreement

(See Attached)

Schedule 1(A)
Fixed Assets

(See Attached)

Schedule 1(B)
Intellectual Property

Schedule 1(C)
Inventory

(See Attached)

Schedule 1(D)
Accounts Receivable

(See Attached)

Schedule 1(E)
Pre-Paid Expenses

Schedule 2
Assumed Contracts and Obligations

Schedule 3
Excluded Assets

(See Attached)

Schedule 4
List of Employees

(See Attached)

Schedule 5
Lease

(See Schedule 2)

Schedule 6
1998, 1999, and 2000 Balance Sheets and Related Income Statements

(See Attached)

Schedule 7
June 30, 2001 Balance Sheet

(See Attached)

**Schedule 8
Customer List**

(See Attached)

Schedule 9
Price List

(See Attached)

Schedule 10
Software Licenses

QuickLinks

ASSET PURCHASE AGREEMENT

WITNESSETH

ARTICLE 1 Purchase and Sale

ARTICLE 2 Representations and Warranties of Purchaser

ARTICLE 3 Representations and Warranties of Seller

ARTICLE 4 Purchaser's Covenants

ARTICLE 5 Seller's Covenants

ARTICLE 6 Purchaser's Conditions Precedent

ARTICLE 7 Seller's Conditions Precedent

ARTICLE 8 Indemnification

ARTICLE 9 Termination

ARTICLE 10 Miscellaneous

Exhibit A Agreed Form of Bill of Sale

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Exhibit G Agreed Form of Certificate by an Officer of Purchaser

Exhibit H Agreed Form of Non-Competition Agreement

Schedule 1(A) Fixed Assets

Schedule 1(B) Intellectual Property

Schedule 1(C) Inventory

Schedule 1(D) Accounts Receivable

Schedule 1(E) Pre-Paid Expenses

Schedule 2 Assumed Contracts and Obligations

Schedule 3 Excluded Assets

Schedule 4 List of Employees

Schedule 5 Lease

Schedule 6 1998, 1999, and 2000 Balance Sheets and Related Income Statements

Schedule 7 June 30, 2001 Balance Sheet

Schedule 8 Customer List

Schedule 9 Price List

Schedule 10 Software Licenses

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[QuickLinks](#)-- Click here to rapidly navigate through this document

STOCK PURCHASE AGREEMENT

This **STOCK PURCHASE AGREEMENT** (the "Agreement") is dated as of October , 2001, to be effective as of the Closing Date by and between Swiss Technology Holding AG, a corporation duly organized and existing under the laws of Switzerland (hereinafter referred to as "Purchaser") and Michel Geiger, an individual (hereinafter referred to as "Seller").

RECITALS

WHEREAS , Seller owns 100% of the issued and outstanding shares of common stock of Montres Antima SA (the "Shares"); and

WHEREAS , Seller desires to sell to Purchaser, and Purchaser desires to purchase from Seller, the Shares upon the terms and conditions hereinafter described; and

NOW, THEREFORE , Purchaser and Seller, in consideration of mutual premises and covenants contained herein, do hereby agree as follows:

ARTICLE 1 DEFINITIONS

For the purposes of this Agreement, the following terms shall have the respective meanings indicated below:

"Agreed Balance Sheet" means the balance sheet of the Company as at December 31, 2000 in the agreed form as reflected on Exhibit A hereto.

"Aggregate Closing Provisions Amount" shall mean, collectively, the Closing A/R Provision and the Closing Inventory Provision.

"Balance Sheet Adjustments" shall mean the adjustments in the purchase price in accordance with the provisions of Section 3.3 hereof.

"Closing Balance Sheet" shall mean the balance sheet of the Company as of the date of Closing as determined in accordance with Swiss GAAP, consistently applied.

"Closing A/R Provision" shall mean the accounts receivable provision, as evidenced by the Closing Balance Sheet, representing the estimated portion of the gross value of the accounts receivable of the Company that will not be fully collected within one (1) year from the date of the Closing Balance Sheet.

"Closing Inventory Provision" shall mean the inventory provision, as evidenced by the Closing Balance Sheet, representing the estimated portion of the gross value of Inventory that will not be sold during a period of one (1) year from the date of the Closing Balance Sheet and to compensate for the loss of gross profit margin should the inventory be sold for less than historical gross profit margins.

"Collateral Transactions" shall mean, collectively, (i) the Stock Purchase Agreement between Montres Antima SA and Flavio Rota, individually and Meliga Habillement Horloger SA and (ii) the Asset Purchase Agreement between Montres Antima SA and Meliga Habillement Horloger SA.

"Company" shall mean Montres Antima, S.A.

"Confidential Information" shall mean any information a Party may exchange with, or acquire from, the other Party including but not limited to the Company's procedures, product specifications, methods, technology, suppliers, customers, trade secrets, marketing and business research and plans, that relate to or affects the Company's asset, but excluding any information to the extent that such information becomes publicly known, through no fault of the Party receiving such information from the other Party.

"Cost of Goods Sold" as used in the definition of "Pre-tax Profit" shall mean, Swiss landed cost of components used to produce such products, plus after-sales service and repair costs (as historically

calculated), plus an amount equal to twenty percent (20%) of net sales of such goods to cover production costs and outside labor costs.

"Credit Suisse Loan" shall mean the Credit Line Agreement between the Company and Credit Suisse dated April 24, 2001.

"Earnings Multiple" shall mean a multiple of seven (7).

"Earnout Period Factor" shall mean a number equal to the number of fiscal years (or fractions thereof) from Closing until December 31, 2004.

"Encumbrance" means a mortgage, charge, pledge, lien, option, restriction, right of first refusal, right of pre-emption, third-party right or interest, retention of title, other encumbrance or security interest of any kind, or another type of preferential arrangement (including, without limitation, a title transfer or retention arrangement) having similar effect.

"Equity Deficit" shall mean 555,000 CHF.

"Fixed Operating and Interest Expense Charge" shall mean 621,000 CHF.

"Net Sales of Antima Products" shall mean wholesales sales and assembly sales plus all after sales service and repair sales, net of returns and refunds, to the companies/customers listed on Schedule 3, excluding, however, sales of products to such companies/customers incorporating the Golfer's Watch patent as disclosed in the Employment Agreement between the Company and Mr. Michel Geiger attached hereto as Exhibit D.

"Party" shall mean Purchaser and Seller (collectively, the "Parties").

"Post Closing Adjustments" shall mean, collectively, the Balance Sheet Adjustments and the Receivables/Inventory Adjustment.

"Pre-tax Profit" shall mean, for any date of determination, the pre-tax profit of the Company determined on the following basis, but in no event in an amount greater than the Pre-tax Profit Cap Amount: Net Sales of Antima Products less Cost of Goods Sold, less the Fixed Operating and Interest Expense Charge.

"Pre-tax Profit Cap Amount" shall mean 260,000 CHF.

"Pre-tax Profit Base Amount" shall mean 144,000 CHF.

"Receivables/Inventory Adjustment" shall have the meaning given to it in Section 3.4.

"Shareholder Loan" shall mean the subordinated loan agreement granted by Seller to the Company as assigned to Credit Suisse.

"Stockholders' Equity at Closing" shall mean the stockholders' equity of the Company as evidenced by the Closing Balance Sheet.

"Stub Period" shall mean the fiscal period from the Closing until December 31, 2001.

"Subordinated Loan Agreement" shall mean the subordinated loan agreement between Credit Suisse and the Company dated April 24, 2001.

"Swiss GAAP" shall mean generally accepted accounting principles applicable in Switzerland.

"Test Date" shall mean the first anniversary date following Closing.

"Test Period" shall mean the period from Closing until the Test Date.

ARTICLE 2 PURCHASE AND SALE

Section 2.1 *Sale and Transfer of Shares*. In consideration of and in reliance upon the representations, warranties and covenants contained herein and subject to the terms and conditions of this Agreement, the Seller hereby sells with full title guarantee, free and clear of any Encumbrance, and Purchaser purchases, the Shares.

ARTICLE 3 CONSIDERATION

Section 3.1 *Purchase Price*. Subject to the Post Closing Adjustments, the total purchase price (the "Purchase Price") for the shares shall be:

(a) an amount equal to the sum of:

- (i) 400,000 CHF, payable at Closing (the "Closing Payment"); *plus or minus (as applicable)*
- (ii) the difference between the Stockholders' Equity at Closing and the Equity Deficit, as determined in accordance Swiss GAAP, to be paid to Seller or Purchaser, as applicable, in accordance with the provisions of Section 3.3; *plus*
- (iii) the Aggregate Closing Provisions Amount, to be paid within ten (10) days following the calculation of the Receivable/Inventory Adjustment each in accordance with the provisions of Section 3.4; and

(b) subject to the provisions of Section 3.2, an amount up to a maximum of 1,200,000 CHF in future earnout payments (the "Earnout Payment") payable to Seller in accordance with the provisions of Section 3.2.

For the sake of clarity, the Parties agree that the full amount of the Purchase Price shall be deemed to constitute consideration for the Shares, and that no part or component of the Purchase Price is payable to Seller as consideration for his services rendered under the employment agreement between Seller and the Company, regardless of whether such part or component of the Purchase Price is paid to Seller on or after Closing.

Section 3.2 *Earnout Payment Amount*. Within forty-five (45) days following the conclusion of the Stub Period and each fiscal year thereafter during the Earnout Period, Purchaser shall procure that the Company determine the average Pre-tax Profit of the Company for the period or periods since Closing. In the event that the average Pre-tax Profit for such period exceeds the Pre-Tax Profit Base Amount, then such difference (the "Excess Amount") shall be multiplied by the Earnings Multiple, the product of which shall be divided by the Earnout Period Factor (the "Earnout Base Amount"). The Earnout Base Amount shall then be divided by the actual number of fiscal years (or fractions thereof) that have elapsed since Closing to arrive at an "Earnout Payment Amount". The Earnout Payment Amount, less any earnout payments previously made, will be paid to Seller within ten (10) days accompanied by a calculation of such amount substantially in the form attached hereto on Schedule 2.

Within forty-five (45) days following the end of the Company's 2004 fiscal year, the final average Pre-tax Profit over the period from Closing through December 31, 2004 will be multiplied by the Earnings Multiple. Such amount will be decreased by the Equity Deficit, plus 100,000 CHF for increase in equipment valuation, plus 247,000 CHF for the value of the Antima name less all previous Earnout Payments to the Seller. Such amount, if any, will be paid to Seller within ten (10) days.

Section 3.3 *Balance Sheet Adjustments*. Within forty-five (45) days following Closing, the Purchaser shall procure that the Company prepare the Closing Balance Sheet reflecting the assets and liabilities of the Company as of Closing. The Closing Balance Sheet shall be prepared in accordance with Swiss

GAAP, consistently applied. For purposes of calculating the amount referenced in Section 3.1(a)(ii), (a) in the event that the Stockholders' Equity of the Company as reflected on the Closing Balance Sheet is greater than the Equity Deficit, then Purchaser shall remit such difference to Seller as an adjustment to purchase price within thirty (30) days, and (b) in the event that the Stockholders' Equity of the Company as reflected on the Closing Balance Sheet is less than the Equity Deficit, then the Seller shall remit such difference to Purchaser as a decrease in the purchase price within thirty (30) days.

Section 3.4 *Receivables/Inventory Adjustment*. The Purchaser shall procure that within forty-five (45) days following the Test Date, the Company shall test whether, as of the Test Date, the accounts receivable and the inventory existing as of Closing as evidenced by the Closing Balance Sheet have been fully collected (with respect to the accounts receivable) or fully utilized (with respect to the inventory, assuming realization of normal gross profit margins on such inventory) (the "Receivables/Inventory Adjustment"). For purposes of the calculation and the payment referenced in Section 3.1(a)(iii), to the extent that such receivables have not been fully collected, or such inventory has not been fully utilized, then the value of such assets shall be written to zero and applied against the deferred payment of the Aggregate Closing Provisions Amount which amount, if any, shall be payable within ten (10) days.

ARTICLE 4 CLOSING

Section 4.1 *Conditions of Closing*. The transaction stipulated in Article 2 is subject to the fulfillment, prior to or at the Closing, of each of the following conditions unless otherwise waived in writing by the Party for whose benefit the conditions exist.

(a) The representations and warranties made by the Parties in this Agreement or any certificates or documents delivered pursuant to the provisions hereof or in connection with the transactions contemplated herein shall be true and correct in all material respects when made, and shall be true and correct in all material respects on the Closing Date as though such representations and warranties were made on and as of such date.

(b) The Collateral Transactions shall have closed, or simultaneously close, in accordance with their respective terms and conditions.

(c) The Parties shall have carried out their respective obligations as specified in Sections 4.3 and 4.4.

Section 4.2 *Closing Time Date and Place*. The purchase and sale contemplated herein shall be consummated at a Closing to take place by mail, facsimile or at the offices of Seller on October 31, 2001, or at such other time and place as the Parties may agree upon in writing.

Section 4.3 *Seller's Obligations at Closing*. At the Closing, the Seller shall carry out the following obligations:

(a) At Closing the Seller shall deliver to Purchaser or its nominee:

- (i) the share certificates duly endorsed to Purchaser or its nominee;
- (ii) evidence of the authority of each person executing a document on the Company's behalf;
- (iii) the common seal (if any) of the Company and each register and minute book made up to Closing;

- (iv) resignations in the agreed form, in the form attached hereto as Schedule 4, from each director and secretary of the Company, expressed to take effect from the end of the meeting held pursuant hereto;
 - (v) all consents and approvals of government agencies and/or third parties necessary to effect the transfer of the Shares, including releases of Encumbrances affecting the Shares, executed by the lien holders thereof and otherwise in a form acceptable for filing; and
 - (vi) a countersigned original of the employment agreement between Michel Geiger and the Company in the form attached hereto as Exhibit D.
- (b) The Seller shall ensure that at Closing a meeting of the board of directors of the Company is held at which the directors take the following actions and adopt the minutes of the Board Meeting in the agreed form attached hereto as Schedule 5:
- (i) vote in favour of the registration of Purchaser or its nominees as members of the Company in respect of the Shares (subject to the production of properly stamped transfers which shall be at Purchaser's cost);
 - (ii) with effect from the end of the meeting, authorise the secretary to notify the specimen signatures of the new officers of the Company in connection with each existing mandate given by the Company for the operation of its bank accounts.
- (c) The Seller shall ensure that at Closing a shareholders' meeting of the Company is held at which the shareholders take the following actions by adopting the resolutions in the agreed form attached hereto as Schedule 6:
- (i) appoint persons nominated by Purchaser as directors and secretary of the Company with effect from the end of the meeting;
 - (ii) accept the resignations of each director and secretary pursuant hereto so as to take effect from the end of the meeting.

Section 4.4 *Purchaser's Obligations at Closing*. At the Closing, Purchaser will (i) deliver the Closing Payment to Seller and (ii) pay-off the existing balance of the Shareholder Loan, the Subordinated Loan and the Credit Suisse Loan.

Section 4.5 *Further Actions*. Seller shall execute the instruments transferring the Shares to Purchaser effective as of the Closing Date and shall take all actions following Closing as may be necessary to more fully perfect title in the Shares to Purchaser.

ARTICLE 5
[Reserved]

ARTICLE 6
REPRESENTATIONS, WARRANTIES AND COVENANTS

Section 6.1 *Representations, Warranties and Covenants of Seller*. Seller represents and warrants to Purchaser that, as of the date of this Agreement and as of the Closing Date:

- (a) The information on the Company's excerpt from the Commercial Register attached hereto as Schedule 1 is true and correct;
- (b) The Company is a corporation duly organized, validly existing and in good standing under the laws of Switzerland and is duly empowered or licensed under the relevant laws in Switzerland to conduct the business as stipulated in its Articles of Association;

(c) The Company does not have any subsidiaries, and does not own any minority interests in any other business entities;

(d) The Company is in compliance with the provisions of the Articles of Association and applicable law;

(e) The Company's financial and accounting records (the "Accounts"), including but not limited to the financial statements of the Company of fiscal years 1998, 1999 and 2000, attached hereto as Exhibits A, and the interim financial statements as of and for the six and one-half month period ended July 15, 2001, attached hereto as Exhibit B, are up-to-date, in its possession or under its control and are properly completed in all material respects in accordance with the law and Swiss GAAP;

(f) The Company is operating and has always operated its business in all material respects in accordance with its Articles of Association at the relevant time. The copy of the Articles of Association of the Company disclosed to Purchaser and attached hereto as Exhibit C is true and correct copy of the original;

(g) Except for the Shareholder Loan, the Credit Suisse Loan, the Subordinated Loan, the Company does not have outstanding, and has not agreed to create or incur loan capital, borrowings or indebtedness in the nature of borrowings (including, without limitation, any such indebtedness to the Seller);

(h) As of October 8, 2001, the balance due under the Shareholder Loan is 278,218 CHF; the balance due under the Credit Suisse Loan is zero; and balance due under the Subordinated Loan is 310,000 CHF;

(i) Execution delivery and performance by Seller of this Agreement will not conflict with or violate (i) any provision of the Company's charter, bylaws or other similar documents; (ii) any law, rule, regulation or order effective and binding on the Company; and (iii) result in any Encumbrance on any property owned by the Company;

(j) The Shares being acquired hereunder by Purchaser have been duly and validly authorized, and, when delivered to and paid for by Purchaser pursuant to this Agreement, will be fully paid and nonassessable;

(k) The certificates of the Shares are in valid and sufficient form; the holders of outstanding shares of any class of stock of the Company are not entitled to preemptive or other rights to subscribe for the Shares; and, except as set forth in this Agreement, no options, warrants or other rights to purchase, agreements or other obligations to issue, or rights to convert any obligations or exchange any securities for, shares of common stock of or ownership interests in the Company are outstanding;

(l) To the best of Seller's knowledge, the Company has no liabilities or obligations (whether known, absolute, contingent etc.) that were not fully and appropriately reflected in the Accounts;

(m) The Company has timely, fully and correctly completed and filed all tax returns, reports and other filings required under the applicable laws with regard to Taxes and Duties and has at all times fully and truly informed the competent authorities in compliance with the applicable laws ("Taxes and Duties" as used herein being all taxes, social security and pension contributions (statutory, contractual and voluntary) to public and private institutions, customs duties and other duties levied by public entities, agencies and institutions, in each case in Switzerland and abroad);

All liabilities of the Company with regard to Taxes and Duties have been fully discharged or completely reflected in the financial statements of the Company, and no such liabilities are overdue. The Company has made appropriate provisions for all future obligations with regard to Taxes and Duties which will be levied on assessment periods (partially or fully) before the Closing date in accordance with Section 4.2;

The Company has not made distributions to shareholders or affiliated persons or companies which could result in additional liabilities of the Company for Taxes and Duties;

The Company has at its disposal all supporting documents in connection with (i) all filed tax returns, reports and other filings, and (ii) all tax returns, reports and other filings still to be filed which refer to assessment periods (partially or fully) before the Closing date in accordance with Section 4.2, in each case in form and substance in accordance with the statutory requirements;

There are no special agreements with, or concessions from, tax or other authorities, formal or informal, which have an impact on the taxes and duties chargeable on the Company;

(n) There has been no audit by any governmental authority of any tax return of the Company;

(o) Since July 15, 2001, there has been no material adverse change in the business prospects, or financial conditions of the Company and, to Seller's knowledge, the Balance Sheet dated July 15, 2001 attached hereto as Exhibit B accurately reflects the assets and liabilities of the Company as of such date;

(p) To the best of Seller's knowledge, the Company has not violated any material statutes, rules, ordinances or other applicable laws in Switzerland;

(q) There has been no material litigation, pending or threatened against the Company;

(r) None of the contracts which the Company is a party to contains a change-of-control clause which, as a consequence of the conclusion or Closing of this Agreement, (i) gives the other party the right to fully or partially terminate, amend or newly negotiate the contract, (ii) automatically amends or terminates the contract, or (iii) operates in any other way as a result of the conclusion or Closing of this Agreement;

(s) The Company has the insurance coverage customary in its line of business. Such insurance coverage is sufficient both with regard to its kind and the coverage amounts in order to cover the risks which reasonably have to be expected for businesses such as the ones conducted by the Company. The respective insurance contracts are all in full force and effect, and no premium payments of the Company thereunder are due. No notice of termination or cancellation with regard to any of the insurance contracts has been given or received by the Company, and neither the Company nor the respective insurance companies have requested or announced any amendments to the insurance contracts and no such termination, cancellation or request for amendment is to be expected;

(t) Seller owns, or is licensed or otherwise possesses legally sufficient rights to use, all trademarks, service marks, trade names, patents, copyrights, and any applications therefor, technology, know-how, trade secrets, computer software programs or applications (in both source code and object code form) and tangible or intangible proprietary information or material that are used or proposed to be used in the business, including all current patents, patent applications, registered and material unregistered copyrights, and any applications therefor owned or licensed by the Seller (the "Intellectual Property Rights") free and clear of all Encumbrances. All Intellectual Property Rights which can be registered are duly and validly registered, and there are no appeals, oppositions or other actions pending against such registrations. All application, registration, renewal and other fees relating to the Intellectual Property Rights have been fully paid in due time. Purchaser's use of the Intellectual Property Rights will not infringe upon the rights of any third party. To Seller's best knowledge, there has been no breach with respect to any license or right relating to any of the Intellectual Property Rights; and

(u) In making the representations, warranties and covenants of this Article, Seller has not made any untrue statements of material fact or omitted to state a material fact necessary in order to make the representation made, in light of the circumstances under which they were made, not misleading.

Section 6.2 *Representations Warranties and Covenants of Purchaser*. Purchaser hereby represents and warrants to Seller that, as of the date of this Agreement and as of the Closing Date:

(a) Purchaser is a corporation duly organized, validly existing and in good standing under the laws of Switzerland; and

(b) Execution delivery and performance by Purchaser of this Agreements will not conflict with or violate (i) any provisions of Purchaser's charter, bylaws or other similar documents; or (ii) any law, rule, regulation or order binding on Purchaser.

ARTICLE 7 INDEMNIFICATION

Section 7.1 *Indemnification by Seller*. Seller shall indemnify and hold Purchaser, its employees, officers, directors, affiliates, representatives, agents, and other control persons harmless from, against and in respect of the following:

(a) Any and all loss, liability or damage suffered or incurred by Purchaser (including interest, penalties and attorney fees) by reason of any untrue written representation, breach of warranty or non-fulfillment of any covenant or agreement by Seller contained herein or in any exhibit, schedule, certification, document or instrument delivered to Purchaser by Seller hereunder (each of such untrue written representation, breach of warranty or non-fulfillment of any covenant or agreement a "Breach"), it being expressly agreed, for the sake of clarity, that Seller shall indemnify Purchaser on a franc-by-franc basis for any loss, liability or damage which the Company suffers or incurs due to a Breach, or which encumbers the Company provided that non-disclosure of such encumbrance to Purchaser constitutes a Breach;

(b) Any and all loss, liability or damage suffered or incurred by Purchaser (including interest, penalties and attorney fees) by reason of or in connection with any claim for any finder's or brokerage fee or other commission resulting from any services alleged to have been rendered to, or at the insistence of or on behalf of or for Seller with respect to this Agreement or any of the transactions contemplated hereby;

(c) Any and all liabilities of Seller which relate to the ownership of the Shares or the operation of the Company prior to the Closing Date that are not expressly assumed or waived by Purchaser under this Agreement, including but not limited to liabilities arising from or related to any tax due, or to be due, and penalties and interest related thereto, imposed on the Company with respect to any period prior to the Closing Date; and

(d) Any and all actions, suits, proceedings, claims, demands, assessments, judgments, damages, costs and expenses, including but not limited to, legal fees and expenses as shall be determined by a court of competent jurisdiction, incident to any of the foregoing or incurred in investigating or attempting to avoid the same or to oppose the imposition thereof, or in enforcing this indemnity.

Section 7.2 *Indemnification by Purchaser*. Purchaser shall indemnify and hold Seller, its representatives, agents, and other control persons harmless from, against and in respect of the following:

(a) Any and all loss, liability or damage suffered or incurred by Seller (including interest, penalties and attorney fees) by reason of any untrue written representation, breach of warranty or non-fulfillment of any covenant or agreement by Purchaser contained herein or in any certificate document or instrument delivered by Purchaser to Seller hereunder;

(b) Any and all loss, liability or damage suffered or incurred by Seller (including interest, penalties and attorney fees) by reason of or in connection with any claim for any finder's or brokerage fee or other commission resulting from any services alleged to have been rendered to, or at the insistence of,

or on behalf of or for Purchaser with respect to this Agreement or any of the transactions contemplated hereby;

(c) Any and all actions, suits, proceedings, claims, demands, assessments, judgments, damages, costs and expenses, including but not limited to, legal expenses as shall be determined by a court of competent jurisdiction, incident to any of the foregoing or incurred in investigating or attempting to avoid the same or to oppose the imposition thereof, or in enforcing this indemnity.

Section 7.3 *Indemnification Procedures*. In seeking indemnification under Article 7.1 or 7.2, the Parties agree to abide by the following procedure:

(a) For the purposes of this Article 7.3, the term "Indemnitee" shall mean the person(s) entitled, or claiming to be entitled, to be indemnified pursuant in the provisions of Article 7.1 or 7.2 hereof. The term "Indemnitor" shall mean the person(s) having the obligation to indemnify pursuant to such provisions.

(b) An Indemnitee shall promptly give the Indemnitor written notice of any matter which an Indemnitee has determined has given or could give rise to a right of an indemnification under this Agreement, stating the amount of the loss, if known, and method of computation thereof, all with reasonable particularity and containing a reference to the provisions of this Agreement in respect of which such right of indemnification is being claimed or arises. If an Indemnitee shall receive notice of any claim by a third party which is or may be subject to indemnification (a "Third Party Claim") the Indemnitee shall give the Indemnitor prompt written notice of such Third Party Claim and shall permit the Indemnitor, at its option, to participate in the defense of such Third Party Claim by counsel of its own at its own costs and expense. If, however, the Indemnitor acknowledges in writing its obligation to indemnify the Indemnitee hereunder against all losses that may result from such Third Party Claim (subject to the limitations set forth herein), then the Indemnitor shall be entitled, at its option, to assume and control the defense of such Third Party Claim at its expense and through counsel of its choice. In the event the Indemnitor exercises its rights to undertake the defense of any such Third Party Claim, the Indemnitee shall co-operate with the Indemnitor in such defense and make available to the Indemnitor, at the Indemnitor's expense, all witnesses, pertinent records, materials and information in its possession or under its control relating thereto as is reasonably required by the Indemnitor. Similarly, in the event the Indemnitor is directly or indirectly, conducting the defense against any such Third Party Claim, the Indemnitor shall cooperate with the Indemnitee in such defense and make available in it all such witnesses, records, materials and information in its possession or under its control relating thereto as is reasonably required by the Indemnitee. No such Third Party Claim may be settled by the Indemnitor without the written consent of the Indemnitee, unless the settlement involves only the payment of money by the Indemnitor. No Third Party Claim which is being defended in good faith by the Indemnitor shall be settled by the Indemnitee without the written consent of the Indemnitor.

Section 7.4 *Survival of Representation, Warranties and Indemnity*. All representations and warranties made by the Parties in this Agreement or in any certificate document or instrument furnished in connection herewith, and the indemnification obligations contained in this Agreement, shall survive the Closing and any investigation at any time before or after Closing made by or on behalf of the Parties hereto and shall expire on the first anniversary of the Closing Date, *provided, however*, that (i) any claim which is submitted in writing to the indemnifying Party prior to such first anniversary may still be enforced thereafter, and (ii) any claim relating to Seller's representations made in Section 6.1 (m) (Taxes and Duties) may still be raised after the first anniversary of the Closing Date, but not later than one year after notification of the respective claims to Purchaser by the tax authorities or social security institutions. The limitations, time limits and Purchaser's investigation and notification and other duties under articles 200, 201 and 210 of the Swiss Code of Obligations are hereby expressly waived.

ARTICLE 8 CONFIDENTIALITY

Section 8.1 *Confidentiality*. The Parties agree to preserve the confidential nature of the Confidential Information which is disclosed by either Party (the "Disclosing Party") to the other (the "Receiving Party") and to take any and all necessary steps to insure that such Information is not revealed to third parties or to any person unauthorized in writing by the Disclosing Party. The responsibilities set forth herein shall survive the termination of this Agreement unless the prior written consent of the Disclosing Party has been obtained or unless any such information has previously been publicly disclosed. Should the Receiving Party be ordered by a court of competent jurisdiction or administrative authority to disclose this Agreement or confidential information disclosed by the Disclosing Party to the Receiving Party, it shall give written notice to the Disclosing Party before making any disclosure not permitted by this Article, shall use its best efforts to either resist disclosure or disclose solely subject to an attorneys' eyes-only protective order or such other protective order as the Disclosing Party shall approve. This Article shall survive the termination of this Agreement.

ARTICLE 9 TERMINATION

Section 9.1 *Termination of Agreement*. This Agreement may be terminated, and the transactions contemplated hereby may be abandoned at any time prior to Closing:

(a) by the mutual consent of the Parties;

(b) by either Party if any of the conditions to the Closing as set forth in Article 4.1 is not fulfilled or waived by the Party for whose benefit the conditions exist on or prior to the Closing Date; or

(c) by either Party if the Closing has not occurred on or prior to October 31, 2001.

Section 9.2 *Rights of Termination*. The rights of termination as provided for under Article 9.1 hereof may be exercised at any time after the occurrence of an event or the discovery of circumstances which gives rise to a right of termination. However, failure to assert a right of termination upon the occurrence of an event or the discovery of circumstances which give rise to a right of termination shall not be, or be deemed, a waiver of such right.

Section 9.3 *No Waiver of Rights*. A termination under Article 9.1 hereof shall not relieve either Party of any liability for a Breach, and any such termination shall not be deemed to be a waiver of any available remedy for any such Breach, and in the event of any such Breach, the prevailing Party shall also be entitled to its reasonable attorneys' fees and expenses.

ARTICLE 10 MISCELLANEOUS

Section 10.1 *Expenses*. The Parties shall each pay their own expenses incident to the negotiation preparation and execution of this Agreement and the consummation of the transactions contemplated hereunder, including any and all disbursements to their respective counsel.

Section 10.2 *Assignment*. Unless specifically consented to in writing by the other Party, neither Party may assign or transfer this Agreement or any of its rights hereunder, and any attempted assignment thereof shall be void and of no force and effect. It is expressly understood and agreed that either Party is under no obligation to consent to any proposed assignment on the part of the other Party and that each of the Parties, in its sole discretion, shall have absolute authority to decide whether or not a consent to assignment shall be given.

Section 10.3 *Notice.* Notices to be given to any Party under this Agreement shall not be effective unless given in writing and hand delivered or mailed by certified mail, or via overseas courier, or sent by electronic mail or facsimile to such Party at the following addresses. Any Party may change its address by giving notice of such change in the manner above provided.

For Seller: Michel Geiger
Rue Th. Kocher 11
2502 Bienne
Switzerland
Phone: 032-322-3465
Fax: 032-322-0471

For Purchaser: Swiss Technology Holding AG
c/o Verex Treuhand AG
Salzhausstrasse 5
CH-2501 Bienne
Switzerland
Attention: Enrico Margaritelli
Phone: 032-327 35 15
Fax: 032-327 35 19

with copy to: Fossil, Inc.
2280 North Greenville Ave.
Richardson, Texas 75082
Attention: T.R. Tunnell, Executive Vice President
Phone: 972-699-2139
Fax: 972-498-9639
E-mail: trtunnell@fossil.com

Notices sent via certified mail or overseas courier shall be deemed to have been received as of the date indicated by the postal or courier's receipt as having been received by the intended recipient. Notices sent via electronic mail or facsimile shall be deemed to have been received two (2) business days after the date on which they were transmitted, provided the Party transmitting any such notice mails a copy of the notice on the next business day to the Party to be notified via certified or registered mail or via overseas courier

Section 10.4 *Governing Law.* This Agreement shall be governed by and construed in accordance with the laws of Switzerland.

Section 10.5 *Dispute Resolution.* Any and all dispute, controversies differences which may arise out of or in relation to or in connection with this Agreement or the transactions contemplated hereby including its legal validity shall be finally settled and binding upon the parties hereto by an arbitration process to be held in Zurich, Switzerland. The arbitration tribunal will be comprised of an arbitrator jointly designated by the parties or, if the parties cannot agree on an arbitrator within a time period of one month, then by three arbitrators, one designated by each Party within a further month and the third one, who will act as chairman of the arbitral tribunal by the others. Any arbitrator not appointed as provided above shall be appointed by the Zurich High Court (§ 239 para. 2 Zurich Code of Civil Procedures applicable pursuant to Art. 179 para. 2 Swiss Federal Statute on International Private Law, "IPRG") at the request of one party. The language of such arbitration shall be English and such arbitration shall be conducted according to the rules of the IPRG). As far as the IPRG does not contain mandatory provisions, the arbitrators shall apply the procedural provisions of the International Arbitration Rules of the Zurich Chamber of Commerce as in force at the time of the commencement

of the arbitration proceedings, provided, however, that such rules shall not apply to the extent that (i) they contravene the present arbitration clause, or (ii) they call for an involvement of the Zurich Chamber of Commerce .

Section 10.6 *Binding Effect; Entire Agreement.* All the terms and provisions of this Agreement shall be binding upon and inure to the benefit of the Parties herein and to their respective successors. This Agreement contains the entire agreement between the Parties with respect to the subject matter hereof and shall supersede all previous and contemporaneous negotiations, commitments and undertakings, whether written or oral. No waiver or amendment to this Agreement will be effective unless it is in writing and is signed by a duly authorized representative of the Party sought to be bound thereby.

Section 10.7 *Counterparts.* This Agreement may be executed simultaneously in two or more counterparts each of which shall be deemed an original, but all of which together shall constitute one and the same instrument

Section 10.8 *Publicity.* Except as may otherwise be required by law, neither Party may make any announcement including any announcement to employees, customers, or suppliers or otherwise make publicly available any statement or release concerning this Agreement or the transactions contemplated hereunder without first obtaining the other Party's written approval of any proposed statement or release. If either Party is required by law to make any statement or other disclosure concerning this Agreement or the transactions contemplated hereby (the Disclosing Party), the Disclosing Party shall provide the other Party the opportunity to review and comment upon such statement or disclosure prior to its filing or release and shall make any revisions therein that the other Party may reasonable request.

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be executed by their duly authorized representatives as of the date of this Agreement.

SWISS TECHNOLOGY Holding AG

By: _____
Name: _____
Title: _____

MICHEL GEIGER, individually

SCHEDULE 1

COMPANY EXCERPT FROM COMMERCIAL REGISTER

SCHEDULE 2
EARNOUT PAYMENT AMOUNT CALCULATION

SCHEDULE 3

**LIST OF CUSTOMERS FOR PURPOSES OF
CALCULATION OF NET SALE OF ANTIMA PRODUCTS**

SCHEDULE 4

AGREED FORM OF RESIGNATION OF DIRECTORS

SCHEDULE 5

AGREED FORM OF MINUTES OF BOARD MEETING

SCHEDULE 6
AGREED FORM OF SHAREHOLDER RESOLUTIONS

EXHIBIT A

1998, 1999 and 2000 FINANCIAL STATEMENTS

EXHIBIT B
INTERIM FINANCIAL STATEMENTS
AND BALANCE SHEET DATED JULY 15, 2001

EXHIBIT C
ARTICLES OF ASSOCIATION

EXHIBIT D

**AGREED FORM OF EMPLOYMENT
AGREEMENT WITH MICHEL GEIGER**

QuickLinks

STOCK PURCHASE AGREEMENT

RECITALS

ARTICLE 1 DEFINITIONS

ARTICLE 2 PURCHASE AND SALE

ARTICLE 3 CONSIDERATION

ARTICLE 4 CLOSING

ARTICLE 5 [Reserved]

ARTICLE 6 REPRESENTATIONS, WARRANTIES AND COVENANTS

ARTICLE 7 INDEMNIFICATION

ARTICLE 8 CONFIDENTIALITY

ARTICLE 9 TERMINATION

ARTICLE 10 MISCELLANEOUS

SWISS TECHNOLOGY Holding AG

SCHEDULE 1 COMPANY EXCERPT FROM COMMERCIAL REGISTER

SCHEDULE 2 EARNOUT PAYMENT AMOUNT CALCULATION

SCHEDULE 3 LIST OF CUSTOMERS FOR PURPOSES OF CALCULATION OF NET SALE OF ANTIMA PRODUCTS

SCHEDULE 4 AGREED FORM OF RESIGNATION OF DIRECTORS

SCHEDULE 5 AGREED FORM OF MINUTES OF BOARD MEETING

SCHEDULE 6 AGREED FORM OF SHAREHOLDER RESOLUTIONS

EXHIBIT A 1998, 1999 and 2000 FINANCIAL STATEMENTS

EXHIBIT B INTERIM FINANCIAL STATEMENTS AND BALANCE SHEET DATED JULY 15, 2001

EXHIBIT C ARTICLES OF ASSOCIATION

EXHIBIT D AGREED FORM OF EMPLOYMENT AGREEMENT WITH MICHEL GEIGER

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<DOCUMENT>
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QuickLinks-- Click here to rapidly navigate through this document

**2002 RESTRICTED STOCK PLAN
OF
FOSSIL, INC.**

ARTICLE I. GENERAL

WHEREAS, the 2002 Restricted Stock Plan of Fossil, Inc. is being fully funded with treasury shares contributed to the Company from a shareholder; and

WHEREAS, the Company has received a determination letter from NASDAQ that, consequently, no stockholder approval of the Plan is required;

NOW, THEREFORE, the Plan is as follows:

SECTION 1.1. *Purpose of the Plan.* The Plan is intended to advance the best interests of the Company, its Subsidiaries and its stockholders in order to attract, retain and motivate key employees by providing them with additional incentives through the award of shares of Restricted Stock.

SECTION 1.2. *Definitions.* For purposes of this Plan, the following definitions shall apply:

"1934 Act" means the Securities Exchange Act of 1934, as amended.

"Award" means a grant under this Plan in the form of Restricted Stock.

"Award Agreement" means an agreement governing the Award entered into between the Company and the Participant pursuant to *Section 1.8*.

"Board" means the Board of Directors of the Company.

"Change in Control" means the occurrence of any of the following events:

(i) Any "person" (as such term is used in Sections 13(d) and 14(d)(2) of the Securities Exchange Act of 1934, as amended) becomes the beneficial owner, directly or indirectly, of voting securities representing thirty percent (30%) or more of the combined voting power of the Company's then outstanding voting securities or, if a person is the beneficial owner, directly or indirectly, of voting securities representing thirty percent (30%) or more of the combined voting power of the Company's outstanding voting securities as of the date the particular Award is granted, such person becomes the beneficial owner, directly or indirectly, of additional voting securities representing ten percent (10%) or more of the combined voting power of the Company's then outstanding voting securities;

(ii) During any period of twelve (12) months, individuals who at the beginning of such period constitute the Board cease for any reason to constitute a majority of the Directors unless the election, or the nomination for election by the Company's stockholders, of each new Director was approved by a vote of at least a majority of the Directors then still in office who were Directors at the beginning of the period;

(iii) The stockholders of the Company approve (A) any consolidation or merger of the Company or any Subsidiary that results in the holders of the Company's voting securities immediately prior to the consolidation or merger having (directly or indirectly) less than a majority ownership interest in the outstanding voting securities of the surviving entity immediately after the consolidation or merger, (B) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all or substantially all of the assets of the Company or (C) any plan or proposal for the liquidation or dissolution of the Company;

(iv) The stockholders of the Company accept a share exchange, with the result that stockholders of the Company immediately before such share exchange do not own, immediately following such share exchange, at least a majority of the voting securities of the entity resulting from such share exchange in

substantially the same proportion as their ownership of the voting securities outstanding immediately before such share exchange; or

(v) Any tender or exchange offer is made to acquire thirty percent (30%) or more of the voting securities of the Company, other than an offer made by the Company, and shares are acquired pursuant to that offer.

For purposes of this definition, the term "voting securities" means equity securities, or securities that are convertible or exchangeable into equity securities, that have the right to vote generally in the election of Directors.

"Code" means the Internal Revenue Code of 1986, as amended.

"Committee" means a committee of at least two (2) members of the Board. If it is intended that the Committee satisfy the requirements of Rule 16b-3 under the 1934 Act and Section 162(m) of the Code, then all of the members of the Committee, at the time of service on the Committee hereunder, should be "Non-Employee Directors," as defined in Rule 16b-3(b)(3) under the 1934 Act and "Outside Directors," as defined in Treasury Regulation Section 162-27(e)(3), under the Code. If no Committee has been designated to administer the Plan, references to the Committee shall be deemed to be references to the Board, whose members shall not be required to meet the qualifications of this definition.

"Common Stock" means the common stock, par value \$0.01 per share, of the Company.

"Company" means Fossil, Inc. and its successors and assigns.

"Date of Termination" of a Participant means the first day occurring on or after the date on which a Participant is granted an Award on which the Participant is not employed by the Company or any Subsidiary, regardless of the reason for the termination of employment; *provided, however*, that a termination of employment shall not be deemed to occur by reason of a transfer of the Participant between the Company and a Subsidiary or between two Subsidiaries; and, *further, provided*, that the Participant's employment shall not be considered terminated while the Participant is on a leave of absence from the Company or a Subsidiary approved by the Participant's employer. If, as a result of a sale or other transaction, the Participant's employer ceases to be a Subsidiary (and the Participant's employer is or becomes an entity that is separate from the Company), the occurrence of such transaction shall be treated as the Participant's Date of Termination caused by the Participant being discharged by the employer.

"Disability" with respect to any Participant has the meaning given that term or any substantially comparable term or usage in any employment or severance arrangement applicable to the Participant and approved by the Board or the Committee, or in the absence of any such arrangement or term, means, except as otherwise determined by the Committee, a condition that renders the Participant unable, by reason of a medically determinable physical or mental impairment, to engage in any substantial gainful activity, which condition, in the opinion of a physician selected by the Committee, is expected to have a duration of not less than one hundred twenty (120) days.

"Eligible Participant" has the meaning given in *Section 1.4*.

"Expiration Date" with respect to an Award means the date established as the Expiration Date by the Committee at the time of the grant; *provided, however*, that the Expiration Date shall not be later than the earliest to occur of: (a) if the Participant's Date of Termination occurs by reason of death or Disability, the one-year anniversary of such Date of Termination; or (b) if the Participant's Date of Termination occurs for reasons other than death or Disability, ninety (90) days after such Date of Termination.

"Fair Market Value" of a share of Common Stock on any date of reference means the closing price on the business day immediately preceding such date, unless the Committee in its sole discretion shall determine otherwise in a fair and uniform manner. For purposes of this Plan, the "Closing Price" of the Common Stock on any business day shall be: (a) if the Common Stock is listed or admitted for trading on any United States national securities exchange or included in the National Market System of the National Association of Securities Dealers Automated Quotation System ("NASDAQ"), the last reported sale price of Common Stock on such exchange or system, as reported in any newspaper of general circulation; (b) if the Common Stock is quoted on NASDAQ, or any similar system of automated dissemination of quotations of securities prices in common use, the mean between the closing high bid and low asked quotations for such day of the Common Stock on such system; (c) if neither clause (a) nor (b) is applicable, the mean between the high bid and low asked quotations for Common Stock as reported by the National Quotation Bureau, Incorporated if at least two (2) securities dealers have inserted both bid and asked quotations for Common Stock on at least five (5) of the ten (10) preceding days; or, (d) in lieu of the above, if actual transactions in the Common Stock are reported on a consolidated transaction reporting system, the last sale price of the Common Stock for such day and on such system.

"Participant" means any Eligible Participant that is granted an Award under the Plan.

"Plan" means this 2002 Restricted Stock Plan of Fossil, Inc.

"Restricted Stock Award" means an Award of stock of the Company that is granted pursuant to *Article II* that is subject to the restrictions imposed by *Article II*.

"Subsidiary" of the Company means any corporation, partnership or other entity that is designated by the Board as a participating employer under the Plan, provided that the Company directly or indirectly owns at least twenty percent (20%) of the combined voting power of all classes of stock of such entity or at least twenty percent (20%) of the ownership interests in such entity.

"Withholding Tax" means any federal, state or local withholding tax liability.

SECTION 1.3. *Administration of the Plan.*

(a) The Plan shall be administered by the Committee. The Committee shall have authority to interpret conclusively the provisions of the Plan, to adopt such rules and regulations for carrying out the Plan as it may deem advisable, to decide conclusively all questions of fact arising in the application of the Plan, to establish performance criteria in respect of Awards under the Plan, to certify that Plan requirements have been met for any Participant in the Plan, to submit such matters as it may deem advisable to the Company's stockholders for their approval, and to make all other determinations and take all other actions necessary or desirable for the administration of the Plan. The Committee is expressly authorized to adopt rules and regulations limiting or eliminating its discretion with respect to certain matters as it may deem advisable to comply with, or obtain preferential treatment under, any applicable tax or other law, rule, or regulation. All decisions and acts of the Committee shall be final and binding upon all affected Eligible Participants.

(b) The Committee shall designate the Eligible Participants, if any, to be granted Awards and the amount of such Awards and the time when Awards will be granted. All Awards granted under the Plan shall be on the terms and subject to the conditions determined by the Committee consistent with the Plan.

SECTION 1.4. *Eligible Participants.* Key employees of the Company and its Subsidiaries shall be eligible for Awards under the Plan.

SECTION 1.5. *Awards Under the Plan.* Awards to Eligible Participants shall be in the form of shares of Restricted Stock.

SECTION 1.6. *Shares Subject to the Plan.*

(a) *General Limitation.* The aggregate number of shares of Common Stock that may be issued under the Plan shall be Five Hundred Thousand (500,000) shares. If any Award under the Plan shall expire, terminate or be canceled for any reason without having been vested in full, or if any Award shall be forfeited to the Company, the unexercised or forfeited Award shall not count against the above limits and shall again become available for grants under the Plan (unless the holder of such Award received dividends or other economic benefits with respect to such Award, which dividends or other economic benefits are not forfeited, in which case the Award shall count against the above limits). Shares of Common Stock that are withheld in order to satisfy federal, state or local tax liability, shall not count against the above limits.

(b) *Additional Limitations.* No more than Five Hundred Thousand (500,000) shares of Common Stock may be subject to Restricted Stock Awards that are intended to be "performance based compensation" (as that term is used in Section 162(m) of the Code) may be granted.

SECTION 1.7. *Other Compensation Programs.* Nothing contained in the Plan shall be construed to preempt or limit the authority of the Board to exercise its corporate rights and powers, including, but not by way of limitation, the right of the Board (a) to grant incentive awards for proper corporate purposes otherwise than under the Plan to any employee, officer, director or other person or entity; or (b) to grant incentive awards to, or assume incentive awards of, any person or entity in connection a change of control of the Company.

SECTION 1.8. *Award Agreements.* Each Award shall be evidenced by an agreement that may contain any term deemed necessary or desirable by the Committee, provided such terms are not inconsistent with this Plan or applicable law. Each Award Agreement shall contain the agreement of the Participant not to compete with the business of the Company during the term of the Participant's employment with the Company and for a period of two years thereafter.

ARTICLE II. RESTRICTED STOCK

SECTION 2.1. *Terms and Conditions of Restricted Stock Awards.* Subject to the following provisions, all Awards of Restricted Stock under the Plan to an Eligible Participant shall be in such form and shall have such terms and conditions as the Committee, in its discretion, may from time to time determine consistent with the Plan.

(a) *Restricted Stock Award.* The Restricted Stock Award shall specify the number of shares of Restricted Stock subject to the Award, the price, if any, to be paid by the Participant receiving the Restricted Stock Award, and the date or dates on which the Restricted Stock will vest. The vesting and number of shares of Restricted Stock may be conditioned upon the completion of a specified period of service with the Company or its Subsidiaries. Unless otherwise provided in the grant relating to the Restricted Stock Award, the shares of Restricted Stock shall fully vest on the fifth anniversary of the date of the Award.

(b) *Restrictions on Transfer.* Unless otherwise provided in the grant relating to the Restricted Stock Award, stock certificates representing the Restricted Stock granted to a Participant shall be registered in the Participant's name. Prior to the shares of Restricted Stock becoming vested, such certificates shall either be held by the Company on behalf of the Participant, or delivered to the Participant bearing a legend to restrict transfer of the certificate until the Restricted Stock has vested, as determined by the Committee. The Participant shall have the right to vote and/or receive dividends on the Restricted Stock before it has vested. Except as may otherwise be expressly permitted by the Committee, no share of Restricted Stock may be sold, transferred, assigned, or pledged by the Participant until such share has vested in accordance with the terms of the Restricted Stock Award. Unless the grant of a Restricted Stock Award specifies otherwise, in the event of a Participant's

termination of employment before all the Participant's Restricted Stock has vested, or in the event other conditions to the vesting of Restricted Stock have not been satisfied prior to any deadline for the satisfaction of such conditions set forth in the Award, the shares of Restricted Stock that have not vested shall be forfeited and any purchase price paid by the employee shall be returned to the Participant. At the time Restricted Stock vests (and upon the return of such certificates to the Company), a certificate for such vested shares shall be delivered to the Participant (or the beneficiary designated by the Participant in the event of death), free of all restrictions.

(c) *Accelerated Vesting.* Notwithstanding the vesting conditions set forth in the Restricted Stock Award, unless the Restricted Stock Award grant or other agreement with the Participant thereof specifies otherwise:

(i) the Committee may in its discretion at any time accelerate the vesting of Restricted Stock or otherwise waive or amend any conditions of a grant of a Restricted Stock Award;

(ii) all the shares of Restricted Stock shall vest upon a Change of Control of the Company; and

(iii) all the shares of Restricted Stock shall rest upon the death of the Participant.

SECTION 2.2. *Section 83(b) Election.* If a Participant receives Restricted Stock that is subject to a "substantial risk of forfeiture," such Participant may elect under Section 83(b) of the Code to include in his or her gross income, for the taxable year in which the Restricted Stock is received, the excess of the Fair Market Value of such Restricted Stock on the Date of Grant (determined without regard to any restriction other than one which by its terms will never lapse), over the amount paid for the Restricted Stock. If the Participant makes the Section 83(b) election, the Participant shall (a) make such election in a manner that is satisfactory to the Committee, (b) provide the Company with a copy of such election, (c) agree to promptly notify the Company if any Internal Revenue Service or state tax agent, on audit or otherwise, questions the validity or correctness of such election or of the amount of income reportable on account of such election and (d) agree to such federal and state income tax withholding as the Committee may reasonably require in its sole discretion.

ARTICLE III. ADDITIONAL PROVISIONS

SECTION 3.1. *General Restrictions.* Each Award under the Plan shall be subject to the requirement that, if at any time the Committee shall determine that (a) the listing, registration or qualification of the shares of Common Stock subject or related thereto upon any securities exchange or under any state or federal law; (b) the consent or approval of any government regulatory body; or (c) an agreement by the recipient of an Award with respect to the disposition of shares of Common Stock, is necessary or desirable (in connection with any requirement or interpretation of any federal or state securities law, rule or regulation) as a condition of, or in connection with, the granting of such Award or the issuance, purchase or delivery of shares of Common Stock thereunder, such Award may not be consummated in whole or in part unless such listing, registration, qualification, consent, approval or agreement shall have been effected or obtained free of any conditions not acceptable to the Committee.

SECTION 3.2. *Adjustments for Changes in Capitalization.* In the event of any stock dividends, stock splits, recapitalizations, combinations, exchanges of shares, mergers, consolidations, liquidations, split-ups, split-offs, spin-offs or other similar changes in capitalization, or any distributions to stockholders, including a rights offering, other than regular cash dividends, changes in the outstanding stock of the Company by reason of any increase or decrease in the number of issued shares of Common Stock resulting from a split-up or consolidation of shares or any similar capital adjustment or the payment of any stock dividend, any share repurchase at a price in excess of the market price of the Common Stock at the time such repurchase is announced or other increase or decrease in the number

of such shares, the Committee shall make appropriate adjustment in the number and kind of shares authorized by the Plan, in the number, price or kind of shares covered by the Awards and in any outstanding Awards under the Plan. In the event of any adjustment in the number of shares covered by any Award, any fractional shares resulting from such adjustment shall be disregarded and each such Award shall cover only the number of full shares resulting from such adjustment.

SECTION 3.3. *Amendments.* The Committee shall have the authority to amend any Award to include any provision that, at the time of such amendment, is authorized under the terms of the Plan; *provided, however*, no outstanding Award may be revoked or altered in a manner unfavorable to the holder without the written consent of the holder.

SECTION 3.4. *Cancellation of Awards.* Any Award granted under the Plan may be canceled at any time with the consent of the holder and a new Award may be granted to such holder in lieu thereof, which award may, in the discretion of the Committee, be on more favorable terms and conditions than the canceled Award.

SECTION 3.5. *Beneficiary.* A Participant may file with the Company a written designation of beneficiary, on such form as may be prescribed by the Committee, to receive any shares of Restricted Stock that become deliverable to the Participant pursuant to the Plan after the Participant's death. A Participant may, from time to time, amend or revoke a designation of beneficiary. If no designated beneficiary survives the Participant, the executor or administrator of the Participant's estate shall be deemed to be the Participant's beneficiary.

SECTION 3.6. *Withholding.* Whenever the Company proposes or is required to issue or transfer shares of Common Stock under the Plan, the Company shall have the right to require the holder to pay an amount in cash or to retain or sell without notice, or demand surrender of, shares of Common Stock in value sufficient to satisfy any Withholding Tax prior to the delivery of any certificate for such shares (or remainder of shares if Common Stock is retained to satisfy such Withholding Tax). Whenever Common Stock is so retained, sold or surrendered to satisfy Withholding Tax, the value of shares of Common Stock so retained, sold or surrendered shall be determined by the Committee, and the value of shares of Common Stock so sold shall be the net proceeds (after deduction of commissions) received by the Company from such sale, as determined by the Committee.

SECTION 3.7. *Transferability.* Except as expressly provided in the Plan or as may be permitted by the Committee, no Award under the Plan shall be assignable or transferable by the holder thereof except by will or by the laws of descent and distribution. Except as expressly provided in the Plan or as may be permitted by the Committee, during the life of the holder, Awards under the Plan shall be exercisable only by such holder or by the guardian or legal representative of such holder.

SECTION 3.8. *Non-uniform Determinations.* Determinations by the Committee under the Plan (including, without limitation, determinations of the persons to receive Awards; the form, amount and timing of such Awards; the terms and provisions of such Awards and the agreements evidencing same; and provisions with respect to termination of employment) need not be uniform and may be made by it selectively among persons who receive, or are eligible to receive, Awards under the Plan, whether or not such persons are similarly situated.

SECTION 3.9. *No Guarantee of Employment.* The grant of an Award under the Plan shall not constitute an assurance of continued employment for any period.

SECTION 3.10. *Deferred Compensation and Trust Agreements.* The Committee may authorize and establish deferred compensation agreements and arrangements in connection with Awards under the Plan and may establish trusts and other arrangements, including "rabbi trusts," with respect to such agreements and appoint one or more trustees for such trusts. Shares of Common Stock under the Plan may also be acquired by one or more trustees from the Company, in the open market or otherwise.

SECTION 3.11. *Duration and Termination.*

(a) The Plan shall terminate on December 31, 2011. Notwithstanding the foregoing, Awards granted prior to such date may extend beyond such date, and the terms of this Plan shall continue to apply to all Awards granted hereunder.

(b) The Board may suspend, discontinue or terminate the Plan at any time. Such action shall not impair any of the rights of any holder of any Award outstanding on the date of the Plan's suspension, discontinuance or termination without the holder's written consent.

SECTION 3.12. *Effective Date.* The Plan shall be effective as of January 1, 2002.

Executed to evidence the Plan and the adoption thereof by the Board of Directors.

FOSSIL, INC.

By: _____

Print Name: _____

Title: _____

QuickLinks

2002 RESTRICTED STOCK PLAN OF FOSSIL, INC.

ARTICLE I. GENERAL

ARTICLE II. RESTRICTED STOCK

ARTICLE III. ADDITIONAL PROVISIONS

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Use these links to rapidly review the document

Exhibit 13

Exhibit 13

Fossil 2001 Annual Report

[ILLUSTRATION]

[ILLUSTRATION]

Table of Contents

4	<u>Company Profile</u>
5	<u>Financial Highlights</u>
6	<u>Letter to Stockholders</u>
8	<u>Company Overview</u>
34	<u>Management's Discussion and Analysis</u>
46	<u>Financial Information</u>
72	<u>Corporate Information</u>

COMPANY PROFILE

Fossil is a design, development, marketing and distribution company that specializes in consumer products predicated on fashion and value. The Company's principal 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, jewelry and sunglasses. The Company's products are sold in department stores and specialty retail stores in over 90 countries around the world, in addition to the Company's e-commerce website at www.fossil.com. The Company also offers a line of FOSSIL brand apparel at 19 Company-owned retail stores and over the Company's website.

The Company differentiates its products from those of its competitors principally through innovations in fashion details. These innovations include variations in the treatment of watch dials, crystals, cases, straps and bracelets for the Company's watches and innovative treatments and details in its other accessories. An in-house creative services team coordinates product design, packaging, advertising and in-store presentations to more effectively and cohesively communicate to its target markets the themes and images associated with its brands. Brand name development is further enhanced through Company-owned stores as well as the Company's website.

Utilizing several wholly and majority-owned watch assembly facilities and centralized distribution points enables the Company to reduce its inventory risk, increase flexibility in meeting the delivery requirements of its customers and maintain significant cost advantages compared to its competitors. To further leverage the Company's infrastructure, including design, development and production expertise, the Company has entered into license agreements to manufacture, market and sell watches bearing internationally recognized brands of other companies as well as design and develop private label products for some of the most distinguished companies in the world.

[GRAPH—NET SALES]

[GRAPH—NET INCOME]

[GRAPH—OPERATING
INCOME]

[GRAPH—STOCKHOLDERS'
EQUITY]

FINANCIAL HIGHLIGHTS

Fiscal Year <i>IN THOUSANDS, EXCEPT PER SHARE DATA</i>	2001	2000	1999	1998	1997
Net sales	\$ 545,541	\$ 504,285	\$ 418,762	\$ 304,743	\$ 244,798
Gross profit	271,850	255,746	212,887	150,504	117,528
Operating income	76,854	93,821	87,449	55,370	34,610
Income before income taxes	72,804	94,717	87,841	54,729	32,151
Net income	43,683	55,883	51,826	32,161	18,942
Pro forma net income(1)	46,548	n/a	n/a	n/a	n/a
Earnings per share:(2)					
Basic	1.45	1.76	1.63	1.04	0.63
Diluted	1.40	1.71	1.55	0.99	0.61
Pro forma earnings per share:(1)(2)					
Basic	1.54	n/a	n/a	n/a	n/a
Diluted	1.49	n/a	n/a	n/a	n/a
Weighted average common shares outstanding: (2)					
Basic	30,167	31,689	31,900	31,054	30,203
Diluted	31,240	32,675	33,428	32,586	31,250
Working capital	\$ 163,280	\$ 169,792	\$ 155,198	\$ 109,040	\$ 70,603
Total assets	380,863	307,591	269,364	194,078	139,570
Long-term debt	—	—	—	—	—
Stockholders' equity	264,023	220,699	191,197	134,919	95,263
Return on average stockholders' equity	18.3%	26.9%	32.2%	29.3%	23.1%

- (1) Pro forma information excludes a \$4.8 million one-time pre-tax charge in fiscal 2001 which reflects the write-off of the carrying value of the Company's investment in SII Marketing International, Inc. as a result of the Company's decision to terminate its equity participation in the joint venture.
- (2) All share and per share data has been adjusted to reflect three-for-two stock splits effected in the form of a stock dividend paid on April 8, 1998 and August 17, 1999.

STOCK INFORMATION

The Company's common stock prices are published daily in The Wall Street Journal and other publications under the Nasdaq National Market Listing. The stock is traded under the ticker symbol "FOSL." The following are the high and low sale prices of the Company's stock per the Nasdaq National Market. Stock prices have been adjusted in certain cases to the nearest traded amount.

	2001		2000	
	High	Low	High	Low
First quarter	\$ 20.250	\$ 13.750	\$ 26.750	\$ 15.813
Second quarter	23.350	16.510	25.125	16.625
Third quarter	22.300	14.110	20.500	11.563
Fourth quarter	22.600	16.150	16.438	10.500

LETTER TO THE STOCKHOLDERS

Dear Stockholders,

2001 was a challenging year in all respects. An act of hatred forced the nation, organizations and individuals to dig-down deep inside to try and refocus on building for the future. We are proud to report that your Company and its employees showed incredible resiliency in 2001 and delivered an operating margin of 14% on \$546 million in net sales. Investments made in previous years in FOSSIL's international diversification helped us in 2001 as the strength of our international business counter-balanced a domestic business that was soft. Despite a difficult retail environment, our domestic business improved toward the end of the year and we are well-positioned for 2002.

FOSSIL's resiliency during this difficult environment is a testament to our strategy of investing in the core elements of our business—our design, sourcing and production infrastructure and our global watch distribution network. Through the years, our product development teams have developed flexible design and sourcing systems that are adaptive to changes in the buying habits of our global customers. Our factories produce quality products that provide those customers with an excellent value. Our manufacturing arm is flexible and adaptive and quickly adjusts production levels based on changes in market demand. We control our global distribution in all major markets and the managers of those distribution networks are getting better and better at responding to consumer demands. This insight into consumer preference is communicated back to our product development teams and inventory planners who use this information to develop more competitive product offerings in the right quantities. The end result is a strong, resilient and adaptive Company.

Further stability and diversification is achieved by applying these same operating practices to other categories of fashion accessories. In 2001, 25% of our total sales volume came from products other than watches. Our leather and eyewear businesses represent significant opportunities for growth as FOSSIL increases in brand recognition and as we increasingly become more capable in effectively supplying our retail partners with accessory products under other brands. The RELIC brand is one of the fastest growing pieces of our business as we expand our offerings beyond watches and into leather products and eyewear.

FOSSIL is well positioned to deliver growth in sales and earnings as we further apply our resources within our core—the watch business. Investments made in 2001 are positioning us for growth in future years as we enter the higher-priced Swiss watch business. Internationally, our business continues to expand representing 35% of our total revenue in 2001. We have achieved critical mass in Europe but still believe that we have plenty of room to grow in the future. We are working toward structuring our European operations in a manner that will increase efficiencies and enable us to grow sales and profitability. Our business in Asia currently represents a very small percentage of our total business, but offers us a meaningful growth opportunity in the short to medium term.

Each year, FOSSIL continues to invest in the future. New initiatives do not always bring returns as quickly as we would like, but we are proud of our track record of building for the future utilizing the cash that is generated by a strong core business. We are focused on the need to invest for future years but have our eyes wide open to our stockholders' expectations for profitability today. We hope you are pleased with the manner in which we have balanced both important aspects of operating your Company in 2001. We would like to thank all of our dedicated employees around the world for their incredible effort and focus during a very trying 2001.

Sincerely,

/s/ TOM KARTSOTIS

Tom Kartsotis
Chairman of the Board

/s/ KOSTA KARTSOTIS

Kosta Kartsotis
President & Chief Executive Officer

[ILLUSTRATION] ... WE EXPAND OUR
OFFERINGS
BEYOND
WATCHES AND
INTO
LEATHER
PRODUCTS
AND EYEWEAR ...

COMPANY OVERVIEW

Fossil Watches:

The Company's FOSSIL BLUE, ARKITEKT and F2 lines continued to represent the core product offerings under the FOSSIL watch brand. Despite sales decreases in the Company's domestic watch business during 2001, certain new FOSSIL styles introduced during the second half of the year were well received at retail, including the KALEIDO line featuring color changing dials. During the year, the Company began the development of technology-enhanced watches, including the Wrist PDA™ and Wrist PDA/PC™ scheduled for launch in the Spring of 2002.

Fossil Leather Goods And Sunwear:

The FOSSIL accessories division exhibited strong sales growth in 2001 with sales increases of over 13%. Handbags gained market share at retail further enhancing the visibility and sales of the other accessory categories including small leather goods and belts. Innovative designs, incorporating new treatments and colors, developed in FOSSIL eyewear during 2001 further positioned the Company for continued growth in the U.S. and Germany.

[ILLUSTRATION]

International:

Sales of the Company's licensed watch brands, including EMPORIO ARMANI, DKNY and DIESEL, and the expanded distribution of FOSSIL brand jewelry led the growth in the Company's international business. Acquisitions in 2001, including The Avia Watch Company and the Company's French and Australian distributors, provide opportunities to further penetrate additional markets with the Company's various brands. The FOSSIL brand is available in over 90 countries around the world through the Company's subsidiary operations, joint ventures and a network of 51 independent distributors.

[ILLUSTRATION]

Licensed Brands:

The Company's licensed watch business continued to grow in 2001. Sales and distribution of the Company's EMPORIO ARMANI, DKNY and DIESEL lines increased worldwide. The Company's DKNY line was especially strong with an increase in net sales of 30% to \$42 million worldwide. Pursuant to a worldwide license agreement, the Company anticipates launching the BURBERRY line of Swiss-made timepieces beginning in late 2002.

RELIC Products:

The RELIC brand gained market share in the leading national chain department stores in 2001. The market share and brand recognition brought about by the presence of RELIC watches has resulted in expansion into other accessory categories. Growth in RELIC brand leather goods, including handbags, men's and women's belts and small leather goods, and the initial launch of RELIC eyewear resulted in net sales gains for the year.

[ILLUSTRATION]

Fossil Stores:

The Company operated 20 accessory stores in the United States and six internationally at the end of 2001. These stores continue to provide an exciting format in which to display the Company's increasing product assortment and to convey the FOSSIL brand image. In 2000, the Company opened the first of its 19 jeans wear stores. These stores offer a selection of FOSSIL casual wear and jeans in addition to the Company's watches and fashion accessories. The Company also operated 44 outlet stores coast-to-coast at the end of 2001. The outlet stores allow the Company to control the timely liquidation of discontinued styles while maintaining the integrity of the FOSSIL brand.

[ILLUSTRATION]

Private Label and Premiums:

In addition to building its own brands, the Company also designs and manufactures private label and premium products for some of the most prestigious companies in the world, including national retailers, entertainment companies and theme restaurants. The Company leverages its sourcing, design and development expertise to support these comprehensive incentive programs.

[ILLUSTRATION]

[ILLUSTRATION]
So how do we do it ...?

[ILLUSTRATION]

BY [ILLUSTRATION]
DOING
IT ALL.

We play every instrument,
from DESIGN to
PRODUCTION
to DISTRIBUTION.

[ILLUSTRATION]

AT THE HEART OF THIS MELODY IS OUR PASSION FOR GREAT DESIGN.

[ILLUSTRATION]

[ILLUSTRATION]

[ILLUSTRATION]
SEE THE AMAZING
FLEXIBLE
FOSSIL
THAT FITS INTO
ANY MARKET

[ILLUSTRATION]

[ILLUSTRATION]

[ILLUSTRATION]

[ILLUSTRATION]

OUR RICH RETRO-AMERICANA APPEAL FLOWS
INTO EVERYTHING WE SAY AND DO,
FROM PACKAGING TO ADVERTISING TO POINT-OF-SALE.

[ILLUSTRATION]

[ILLUSTRATION]

QUALITY
PRODUCTION
TECHNOLOGY

MAXIMIZES EFFICIENCY AND
SPEED-TO-MARKET

[ILLUSTRATION]

[ILLUSTRATION]

[ILLUSTRATION]

[ILLUSTRATION]

[ILLUSTRATION]

We put our own unique stamp
on our products, distributing
them to every nook and cranny
of the globe.

[ILLUSTRATION]

[ILLUSTRATION]

[ILLUSTRATION]

See these three strengths *
all rolled into one.

* Strengths (strengkths) *n.* Design, production and distribution.

With friends we grow
as we share in the fun.

[ILLUSTRATION]

[ILLUSTRATION]

[ILLUSTRATION]

MANAGEMENT'S DISCUSSION
AND ANALYSIS

[ILLUSTRATION]

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fossil is a design, development, marketing and distribution company that specializes in consumer products predicated on fashion and value. 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 marketed worldwide. The Company's principal offerings include an extensive line of watches sold under the FOSSIL and RELIC brands as well as complementary lines of small leather goods, belts, handbags, sunglasses, jewelry and FOSSIL brand apparel. In addition to developing its own brands, the Company leverages its infrastructure by designing, producing and distributing licensed and private label products for some of the most prestigious companies in the world, including fashion designers, national retailers and entertainment companies.

The Company's products are sold primarily to department stores and specialty retail stores in over 90 countries through Company-owned foreign sales subsidiaries and through a network of 51 independent distributors. The Company's foreign operations, including distributors, include a presence in Africa, Asia, Australia, Canada, the Caribbean, Europe, Japan, Central and South America and the Middle and Far East. In addition, the Company's products are offered at Company-owned retail stores primarily located in 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 over the last five fiscal years.

SIGNIFICANT ACCOUNTING POLICIES & ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management 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 financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, management evaluates its estimates and judgements, including those related to product returns, bad debts and inventories. Management bases its estimates and judgements on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Management believes the following critical accounting policies require the most significant estimates and judgements.

Revenues. Revenues are recognized as sales when merchandise is shipped and title transfers to the customer. The Company permits the return of damaged or defective products and accepts limited amounts of product returns in certain other instances. Accordingly, the Company provides allowances for the estimated amounts of these returns at the time of revenue recognition based on historical experience. While such returns have historically been within management's expectations and the provisions established, future return rates may differ from those experienced in the past. Any significant increase in product damages or defects could have an adverse impact on the operating results for the period or periods in which such returns materialize.

Accounts Receivable. The Company performs ongoing credit evaluations of its customers and adjusts credit limits based upon payment history and the customer's current credit worthiness, as determined by the review of their current credit information. The Company continuously monitors collections and payments from its customers and maintains a provision for estimated credit losses based upon historical experience and any specific customer collection issues identified. While such credit losses have historically been within the Company's expectations and the provisions established, future credit losses may differ from those experienced in the past.

Inventories. Inventories are stated at the lower of average cost, including any applicable duty and freight charges, or market. The Company writes down its inventory for estimated obsolescence or unmarketable inventory equal to the difference between the average cost of inventory and the estimated fair market value based upon assumptions about future demand and market conditions. If actual future demand or market conditions are less favorable than those projected by management, additional inventory write-downs may be required.

Long-Lived Assets. The Company periodically reviews the estimated useful lives of its depreciable assets based on factors including historical experience, the expected beneficial service period of the asset, the quality and durability of the asset and the Company's maintenance policy including periodic upgrades. Changes in useful lives are made on a prospective basis, unless factors indicate the carrying amounts of the assets may not be recoverable and an impairment write-down is necessary.

COMPANY HIGHLIGHTS

Sales Growth

- The Company's strategy of diversifying its product assortment and geographical distribution was instrumental in delivering net sales increases for 2001 against one of the most challenging economic environments in years.
- Net sales from the Company's international segment grew \$35 million (23%) over fiscal year 2000, led by continuing increases from licensed watch and FOSSIL jewelry sales and \$16.6 million of sales generated from acquired businesses.
- Net sales from the Company's domestic retail stores increased 33% as a result of new store openings. The Company operated 83 retail locations consisting of 44 outlet, 20 accessory and 19 jeans wear stores at the end of 2001 compared to 71 stores (39 outlet, 18 accessory and 14 jeans wear) at the end of 2000.
- Domestic watch sales decreased 11% as a result of decreases in private label watches and an 8% decrease in FOSSIL and RELIC brands. The extent of the decline in the Company's domestic watch category lessened throughout the year as certain new FOSSIL styles introduced during the second half of the year were well received at retail.
- Other domestic sales increased 11% as a result of growth in both FOSSIL and RELIC brand leather products.

New Products and Acquisitions

- The Company introduced the FOSSIL KALEIDO watch, providing consumers the flexibility to instantly change the color of their watch dial with the push of a button.
- The Company believes its ability to introduce new watch products utilizing various technologies and componentry allows it to be the leader in the fashion watch market. During 2001, newness brought into the product line included degrade dials, laser crystals and the Chinese Tic.
- FOSSIL jewelry, tested in Germany during holiday 2000, was launched during 2001 and achieved net sales exceeding \$8 million. Additionally, the Company continues further testing of this product category in Europe, Canada and the United States.
- Wrist PDA™ and Wrist PDA/PC™ —the ultimate companions for PALM Powered™ or PocketPC handheld devices were introduced. These products are the first high-tech devices in the FOSSIL line providing the convenience and portability of a watch with the storage capability of a handheld device.
- RELIC branded accessories doubled in sales as a result of further penetration of RELIC leather products and the launch of RELIC eyewear during 2001.
- The Company continued to expand its licensed watch product offerings with the launch of the Philippe Starck and Paul Frank lines during 2001. Additional licenses with Columbia Sportswear and Frank Gehry were signed during the year with product launches scheduled in 2002.
- The Company acquired The Avia Watch Company, Ltd., headquartered outside of London, England, that designs, markets and distributes AVIA brand watches and serves as a distributor of licensed and private label watches throughout the United Kingdom.
- The Company acquired FSLA Pty. Limited, its Australian distributor and Vedette Industries, SA ("Vedette"), its French distributor. Vedette markets and distributes various non-Fossil brand watches and is one of the largest suppliers of clocks in France.

Swiss Initiatives

- The Company acquired the worldwide rights to the ZODIAC brand name which has a 120 year history in Swiss-made timepieces.
- The Company acquired three businesses located in Bienne, Switzerland which provide design, sourcing and production capabilities necessary to manufacture and market Swiss-made timepieces.
- The Company entered into a worldwide license agreement with Burberry Limited ("BURBERRY") for the production of Swiss-made timepieces. Under the terms of the agreement, the Company will handle the design, manufacturing, distribution and merchandising of the new BURBERRY timepiece collection.

Infrastructure Additions

- The Company acquired a new 517,500 square foot distribution facility during 2001 that will be fully operational in 2002. This facility will enable the Company to consolidate multiple distribution facilities currently in place and will support its strategic growth initiatives for many years.
- The Company re-launched its B2B website allowing for more efficient means for its smaller customers to order product and view the Company's product offering.
- The Company added key senior management in its distribution operations and international segment to assist in further leveraging the Company's infrastructure and businesses worldwide.
- The Company began to roll out its "connected store" concept to all Company-owned retail locations providing more efficient means to gather retail data as well as provide each store with better connectivity to the Company's central information systems.

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 consolidated statements of income and (ii) the percentage changes in these line items between the years indicated.

Fiscal Year	Percentage change from 2000		Percentage change from 1999		
	2001	2000	2000	1999	
Net sales	100.0%	8.2%	100.0%	20.4%	100.0%
Cost of sales	50.2	10.1	49.3	20.7	49.2
Gross profit	49.8	6.3	50.7	20.1	50.8
Operating expenses	35.7	20.4	32.1	29.1	29.9
Operating income	14.1	(18.1)	18.6	7.3	20.9
Interest expense	0.1	150.3	—	—	—
Other (expense) income—net	(0.7)	(464.3)	0.2	101.2	0.1
Income before income taxes	13.3	(23.1)	18.8	7.8	21.0
Income taxes	5.3	(25.0)	7.7	7.8	8.6
Net income	8.0%	(21.8)%	11.1%	7.8%	12.4%

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 fiscal year indicated:

Fiscal Year	Amount in millions			Percent of total		
	2001	2000	1999	2001	2000	1999
International:						
Europe	\$ 132.0	\$ 99.5	\$ 86.7	24.2%	19.7%	20.7%
Other	56.1	53.3	41.6	10.3	10.6	9.9
Total international	188.1	152.8	128.3	34.5	30.3	30.6
Domestic:						
Watch products	180.6	202.7	180.7	33.1%	40.2%	43.2%
Other products	110.3	99.0	72.1	20.2	19.6	17.2
Total	290.9	301.7	252.8	53.3	59.8	60.4
Stores	66.5	49.8	37.7	12.2	9.9	9.0
Total domestic	357.4	351.5	290.5	65.5	69.7	69.4
Total net sales	\$ 545.5	\$ 504.3	\$ 418.8	100.0%	100.0%	100.0%

Fiscal 2001 Compared to Fiscal 2000

Net Sales. Net sales increases were led by continued sales volume growth in the Company's international businesses, increased sales from the Company's retail stores, due to an increase in the number of stores, and further penetration of the Company's leather products in the United States market. Excluding the impact of acquisitions, which contributed \$16.6 million to net sales, international sales increased 12% over prior year. This increase was primarily a result of sales volume increases from licensed watch products and continued growth in the FOSSIL jewelry line. The Company's leather product line increased predominantly due to further penetration of RELIC handbags in the national department store channel. These increases were partially offset by the non-recurrence of an \$8.3 million non-branded watch sale occurring in the second quarter of fiscal 2000 and by decreases in the Company's domestic watch business. An 11% decrease in domestic watches was primarily due to significant reductions in the Company's private label business and an 8% decrease in FOSSIL and RELIC brands resulting from the deteriorating retail climate during the year. Management believes that fiscal 2002 net sales growth could reach the 15% level as a result of continued growth internationally, growth in the Company's domestic leather and sunglass business, primarily due to further penetration of the RELIC brand, and increased sales in the Company's FOSSIL domestic watch business.

Gross Profit. Gross profit margins decreased to 49.8% compared to 50.7% in the prior year. Gross margins were favorably impacted from the non-recurrence of the \$8.3 million sale that carried a gross margin lower than the Company's historical consolidated gross margin. Excluding the effects of this sale, gross margins decreased approximately 140 basis points. The gross profit margins were impacted from a higher mix of lower margin domestic leather sales versus domestic watch sales, increased markdowns, lower margins generated by the Company's outlet stores and lower margins on European sales, primarily due to the Euro being weaker during the first three quarters of the year. Positively effecting gross margins was a greater mix of sales from the Company's international business and retail stores, both of which generally produce gross margins above the Company's historical consolidated gross margin. Management believes gross profit margins for 2002 will be consistent with those reported in fiscal 2001.

Operating Expenses. Operating expenses, as a percentage of net sales, increased to 35.7% compared to 32.1% for the prior year. Increases in operating expenses related to increased sales, expenses related to businesses acquired (\$5.9 million) and additional infrastructure added during the latter half of fiscal 2000. Operating expenses as a percentage of net sales for the fourth quarter were significantly below levels experienced during the year as the Company began to anniversary the fiscal 2000 infrastructure initiatives. These infrastructure costs included higher payroll and personnel-related expenses, store opening and operating expenses and warehouse and distribution related expenses.

Operating Income. The increase in operating expenses as a percentage of net sales combined with a decrease in gross margins, resulted in the reduction of the Company's operating profit margin to 14.1% for 2001 in comparison to 18.6% in the prior year. Management believes the effects of acquired businesses, whose operating structures are not as well leveraged as the Company, and continued investment in infrastructure in 2002, including the Company's new distribution facility, will result in annual operating margins consistent with fiscal 2001. Management believes long-term sustainable operating margins in the 17% range are achievable as the Company continues to grow its sales, further leverages the new infrastructure costs and begins to consolidate its existing infrastructure in Europe.

Write-off of Investment in Joint Venture. The write-off of investment in joint venture reflects a \$4.8 million one-time pre-tax charge to write off the carrying value of the Company's investment in SII Marketing International, Inc. ("SMI"), and record certain termination costs as a result of the Company's decision to terminate its equity participation in this joint venture. SMI, a joint venture between the Company and Seiko Instruments America, Inc., manufactures, markets and distributes watches to mass market retailers worldwide under owned, licensed and private label brands. The Company will continue to provide certain product development, marketing and merchandising support to SMI following termination of the joint venture on a cost-plus basis.

Other Income (Expense). Changes in other income (expense) have historically reflected changes in interest income from cash investments, royalty income, minority interests in the earnings (loss) of the Company's majority-owned subsidiaries, foreign currency gains and losses and equity in the earnings (loss) of its non-consolidated joint ventures. Other income (expense) for 2001 remained relatively unchanged compared to fiscal 2000 as decreases in interest income, due to lower invested cash balances and lower interest rates, were offset by foreign currency gains and certain damages awarded the Company resulting from a prior period legal matter.

Income Taxes. The Company's effective income tax rate decreased to 40% during 2001 compared to 41% in the prior year. This decrease was primarily related to a higher mix of income derived from jurisdictions that carry lower statutory income tax rates. Management believes opportunities exist to further reduce its effective income tax rate in 2002.

Fiscal 2000 Compared to Fiscal 1999

Net Sales. Net sales increases were primarily impacted by volume increases from the Company's international and domestic watch sales, domestic leather product sales and from an increase in the number of Company-owned retail stores over the prior year. The March 2000 launch and continued rollout of the Company's licensed brand line of DKNY watches, double-digit growth of the Company's FOSSIL watch brand and continued market penetration of the Company's RELIC watch brand fueled watch sales during the year. Increased sales volumes in the Company's leather product offerings were led by continued growth in handbags, women's small leather goods and men's belts. Additionally, continued expansion of RELIC leather products contributed to the overall growth in the Company's leather group. Expansion in both Company-owned retail and outlet stores, including the opening of 14 jeans wear retail stores during the second half of the year, and increases in same store sales in the Company's accessory stores also positively impacted sales.

Gross Profit. Gross profit margins remained relatively stable at 50.7% for 2000 compared to 50.8% in 1999. Adversely affecting the Company's gross margins throughout the year were foreign currency valuation changes relating to a strong U.S. dollar against the Euro. The average Euro rate declined approximately 13% from 1999 levels resulting in overall gross profit margins being lower by slightly less than one percent. Gross profit margins were also adversely effected by an increase in sales mix related to the Company's leather products that generally carry lower gross profit margins than the Company's consolidated average. Positively impacting gross profit margins were a higher sales mix of licensed watches and retail sales from Company-owned stores as well as internet sales, all of which generally carry higher gross profit margins than the Company's consolidated average.

Operating Expense. Operating expense increases were a result of variable expenses associated with increased sales volumes, costs associated with expanding the Company's operating infrastructure and increased advertising expenditures. As a percentage of net sales, operating expenses increased over 1999 levels by 2%. The infrastructure costs included higher payroll and personnel-related expenses, store opening and operating expenses and warehouse and distribution related expenses. Increased advertising expenditures were primarily related to expansion of the Company's leather handbag fixturing program at department stores, web-based advertising and additional internet portal affiliations.

Other income (expense). Other income (expense) primarily reflects interest income from cash investments, royalty income, minority interests in the earnings (loss) of the Company's majority-owned subsidiaries and equity in the earnings (loss) of its non-consolidated joint ventures. During 2000, other income (expense) increased favorably as interest and royalty income earned exceeded minority interest expense and equity in the losses of the Company's joint ventures.

EFFECTS OF INFLATION

Management does not believe that inflation had a material impact on results of operations for the periods presented. Substantial increases in costs, however, could have an impact on the Company and the industry. Management believes that, to the extent inflation affects its cost in the future, the Company could generally offset inflation by increasing prices if competitive conditions permit.

FOREIGN CURRENCY 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 risk relates to the Euro and the British Pound. 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 exposure during 2001 and management does not anticipate any significant changes in such exposure or in the strategies it employs to manage such exposure in the near future.

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 their peak in the September-November time frame. The Company's cash holdings and short-term marketable securities as of year-end decreased to \$73 million in comparison to \$91 million at the end of the prior year. This decrease is primarily comprised of working capital increases relating to higher levels of accounts receivable and inventories and approximately \$47 million paid in connection with new distribution infrastructure and acquired businesses. These uses of cash were partially offset by cash flows from operations.

Accounts receivable and inventory levels increased 18% and 28%, respectively, over prior year levels. Days sales outstanding ("DSO") increased to 38 days at year-end compared to 36 days in the previous year. The DSO increase is a result of a higher mix of international sales during the fourth quarter, which offer longer average payment terms than that in the United States. Additionally, DSO was unfavorably effected by an increase in the collection cycle domestically as a result of the weaker economy. The increase in inventory is primarily related to FOSSIL watch inventories and inventories related to acquired businesses. FOSSIL inventories were impacted by additional newness brought into the line. In conjunction with the change in the line, the Company reduced the number of its quick response styles ("QRS") from approximately 75% of the line to less than 40%. Accordingly, as QRS styles historically offer more predictability in sales, the Company increased inventory receipts during the fourth quarter to be more flexible in reacting to consumer demand. The Company reduced purchases in the first quarter of 2002 to balance out the heavy receipts in the fourth quarter of 2001 and management expects overall inventory levels to be more in line with prior year levels by the end of the first quarter.

At the end of 2001, the Company had working capital of \$163 million compared to working capital of \$170 million at the end of the prior year. The Company had outstanding borrowings of \$15 million against its \$50 million bank credit facility at the end of the year, all of which have subsequently been paid off. These borrowings were primarily related to the acquisition of the Company's new distribution center during the third quarter. Management believes that cash flows from operations combined with existing cash on hand and amounts available under its credit facility will be sufficient to satisfy its working capital needs for at least the next eighteen months. For disclosure regarding the Company's contractual obligations, please see Note 10 to the financial statements included elsewhere in this report.

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 2002. The actual results may differ materially from those expressed by these forward-looking statements. Significant factors that could cause the Company's 2002 operating results to differ materially from management's current expectations include, among other items, significant changes in consumer spending patterns or preferences, acts of terrorism and acts of war, 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, 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.

SELECTED QUARTERLY FINANCIAL DATA

The table below sets forth selected quarterly financial information. The information is derived from the unaudited consolidated financial statements of the Company and includes, in the opinion of management, all normal and recurring adjustments that management considers necessary for a fair statement of results for such periods. The operating results for any quarter are not necessarily indicative of results for any future period.

Fiscal Year 2001

DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
Net sales	\$ 121,105	\$ 112,357	\$ 135,999	\$ 176,079
Gross profit	59,735	56,904	65,851	89,360
Operating expenses	43,394	45,320	47,486	58,796
Operating income	16,341	11,584	18,365	30,564
Income before income taxes	16,662	12,145	17,858	26,139
Provision for income taxes	6,661	4,862	7,143	10,455
Net income	10,001	7,283	10,715	15,684
Pro forma net income*	n/a	n/a	n/a	18,549
Earnings per share:				
Basic	0.33	0.24	0.36	0.52
Diluted	0.32	0.23	0.34	0.50
Pro forma earnings per share:*				
Basic	n/a	n/a	n/a	0.61
Diluted	n/a	n/a	n/a	0.59
Gross profit as a percentage of net sales	49.3%	50.6%	48.4%	50.7%
Operating expenses as a percentage of net sales	35.8%	40.3%	34.9%	33.3%
Operating income as a percentage of net sales	13.5%	10.3%	13.5%	17.4%

* Pro forma information excludes a \$4.8 million one-time pre-tax charge in fiscal 2001 which reflects the write-off of the carrying value of the Company's investment in SII Marketing International, Inc. as a result of the Company's decision to terminate its equity participation in the joint venture.

Fiscal Year 2000

DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
Net sales	\$ 103,569	\$ 113,393	\$ 128,064	\$ 159,259
Gross profit	53,659	56,560	63,691	81,836
Operating expenses	32,500	36,108	41,302	52,015
Operating income	21,159	20,452	22,389	29,821
Income before income taxes	21,405	20,249	22,845	30,218
Provision for income taxes	8,777	8,301	9,367	12,389
Net income	12,628	11,948	13,478	17,829
Earnings per share:				
Basic	0.39	0.37	0.42	0.59
Diluted	0.38	0.36	0.41	0.57
Gross profit as a percentage of net sales	51.8%	49.9%	49.7%	51.4%
Operating expenses as a percentage of net sales	31.4%	31.9%	32.2%	32.7%
Operating income as a percentage of net sales	20.4%	18.0%	17.5%	18.7%

While the majority of the Company's products are not seasonal in nature, a significant portion of the Company's net sales and operating income is generally derived in the second half of the year. The Company's fourth quarter, which includes the Christmas season, on average generates in excess of 30% of the Company's annual operating income. The amount of net sales and operating income generated during the first quarter is affected by the levels of inventory held by retailers at the end of the Christmas season, as well as general economic conditions and other factors beyond the Company's control. In general, lower levels of inventory held by retailers at the end of the Christmas season may have a positive impact on the Company's net sales and operating income in the first quarter as a result of higher levels of restocking orders placed by retailers. Management currently believes that the Company's inventory levels at its major customers at the end of 2001 were below targeted levels and therefore may favorably impact retailers' restocking orders in the first quarter of 2002.

As the Company increases the number of Company-owned stores, it would generally amplify the Company's seasonality by decreasing the Company's operating income in the first half of the year while increasing operating income during the second half of the year. In addition, new product line launches would generally augment the sales levels in the quarter the product launch takes place. The results of operations for a particular quarter may also vary due to a number of factors, including retail, economic and monetary conditions, timing of orders or holidays and the mix of products sold by the Company.

FINANCIAL INFORMATION

[ILLUSTRATION]

FINANCIAL INFORMATION

INDEPENDENT AUDITORS' REPORT

To the Directors and Stockholders of Fossil, Inc.:

We have audited the accompanying consolidated balance sheets of Fossil, Inc. and subsidiaries as of January 5, 2002 and December 30, 2000, and the related consolidated statements of income and comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended January 5, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Fossil, Inc. and subsidiaries at January 5, 2002 and December 30, 2000, and the results of their operations and their cash flows for each of the three years in the period ended January 5, 2002, in conformity with accounting principles generally accepted in the United States of America.

/s/ DELOITTE & TOUCHE LLP
Deloitte & Touche LLP
Dallas, Texas
February 25, 2002

REPORT OF MANAGEMENT

The accompanying consolidated financial statements and other information contained in this Annual Report have been prepared by management. The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and include amounts that are based upon our best estimates and judgements.

To help assure that financial information is reliable and that assets are safeguarded, management maintains a system of internal controls and procedures which it believes is effective in accomplishing these objectives. These controls and procedures are designed to provide reasonable assurance, at appropriate costs, that transactions are executed and recorded in accordance with management's authorization. The consolidated financial statements and related notes thereto have been audited by Deloitte & Touche LLP, independent auditors. The accompanying auditors' report expresses an independent professional opinion on the fairness of presentation of management's financial statements.

The Audit Committee of the Board of Directors is composed of certain of the Company's outside directors, and is responsible for selecting the independent auditing firm to be retained for the coming year. The Audit Committee meets periodically with the independent auditors, as well as with management, to review internal accounting controls and financial reporting matters. The independent auditors also meet privately on occasion with the Audit Committee, to discuss the scope and results of their audits and any recommendations regarding the system of internal accounting controls.

/s/ KOSTA KARTSOTIS
Kosta Kartsotis
*President and
Chief Executive Officer*

/s/ MIKE L. KOVAR
Mike L. Kovar
*Senior Vice President,
Chief Financial Officer
and Treasurer*

CONSOLIDATED BALANCE SHEETS

<i>DOLLARS IN THOUSANDS</i>	January 5, 2002	December 30, 2000
Assets		
Current assets:		
Cash and cash equivalents	\$ 67,491	\$ 79,501
Short-term marketable investments	5,360	11,312
Accounts receivable—net	74,035	62,876
Inventories	103,662	81,118
Deferred income tax benefits	8,718	7,779
Prepaid expenses and other current assets	10,251	10,245
Total current assets	269,517	252,831
Investments in joint ventures	1,099	5,935
Property, plant and equipment—net	90,036	42,252
Intangible and other assets—net	20,211	6,573
Total assets	\$ 380,863	\$ 307,591
Liabilities and Stockholders' Equity		
Current liabilities:		
Notes payable	\$ 15,955	\$ 5,107
Accounts payable	21,266	18,325
Accrued expenses:		
Co-op advertising	14,838	14,320
Compensation	8,594	6,179
Other	27,679	19,145
Income taxes payable	17,905	19,964
Total current liabilities	106,237	83,040
Deferred income tax liability	7,318	—
Commitments (Note 10)		
Minority interest in subsidiaries	3,285	3,852
Stockholders' equity:		
Common stock, 30,284,369 and 30,136,824 shares issued and outstanding, respectively	303	301
Additional paid-in capital	15,241	14,214
Retained earnings	252,112	208,429
Accumulated other comprehensive loss	(3,633)	(2,245)
Total stockholders' equity	264,023	220,699
Total liabilities and stockholders' equity	\$ 380,863	\$ 307,591

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA

Fiscal Year	2001	2000	1999
Net sales	\$ 545,541	\$ 504,285	\$ 418,762
Cost of sales	273,691	248,539	205,875
Gross profit	271,850	255,746	212,887
Operating expenses:			
Selling and distribution	149,807	126,239	95,349
General and administrative	45,189	35,686	30,089
Total operating expenses	194,996	161,925	125,438
Operating income	76,854	93,821	87,449
Interest expense	319	128	117
Write-off of investment in joint venture	(4,776)	—	—
Other income (expense)—net	1,045	1,024	509
Income before income taxes	72,804	94,717	87,841
Provision for income taxes	29,121	38,834	36,015
Net income	\$ 43,683	\$ 55,883	\$ 51,826
Other comprehensive income (loss):			
Currency translation adjustment	(1,374)	827	(1,658)
Unrealized (loss) gain on marketable investments	(35)	187	(564)
Forward contracts as hedge of intercompany foreign currency payments:			
Cumulative effect of implementing SFAS No.133	(400)	—	—
Change in fair values	421	—	—
Total comprehensive income	\$ 42,295	\$ 56,897	\$ 49,604
Earnings per share:			
Basic	\$ 1.45	\$ 1.76	\$ 1.63
Diluted	\$ 1.40	\$ 1.71	\$ 1.55
Weighted average common shares outstanding:			
Basic	30,167	31,689	31,900
Diluted	31,240	32,675	33,428

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

<i>AMOUNTS IN THOUSANDS</i>	common stock				accumulated other comprehensive income (loss)			treasury stock		total stockholders' equity
	shares	par value	additional paid-in capital	retained earnings	cumulative translation adjustment	unrealized gain (loss) on marketable investments	unrealized gain (loss) on forward contracts	shares	share cost	
Balance, January 2, 1999	20,932	\$ 209	\$ 34,345	\$ 102,858	\$ (1,037)	\$ —	\$ —	(104)	\$ (1,456)	\$ 134,919
Common stock issued upon exercise of stock options	709	7	3,632	—	—	—	—	—	—	3,639
Tax benefit derived from exercise of stock options	—	—	3,902	—	—	—	—	—	—	3,902
Purchase of treasury shares	—	—	—	—	—	—	—	(90)	(1,994)	(1,994)
Reissuance of treasury stock upon exercise of stock options	—	—	—	(1,115)	—	—	—	135	2,242	1,127
Three-for-two-stock split	10,466	105	(105)	—	—	—	—	—	—	—
Net income	—	—	—	51,826	—	—	—	—	—	51,826
Unrealized loss on marketable investments	—	—	—	—	—	(564)	—	—	—	(564)
Currency translation adjustment	—	—	—	—	(1,658)	—	—	—	—	(1,658)
Balance, January 1, 2000	32,107	321	41,774	153,569	(2,695)	(564)	—	(59)	(1,208)	191,197
Common stock issued upon exercise of stock options	56	—	384	—	—	—	—	—	—	384
Tax benefit derived from exercise of stock options	—	—	470	—	—	—	—	—	—	470
Purchase of treasury shares	—	—	—	—	—	—	—	(13)	(268)	(268)
Reissuance of treasury stock upon exercise of stock options	—	—	—	(1,023)	—	—	—	72	1,476	453
Repurchase and retirement of common stock	(2,026)	(20)	(28,414)	—	—	—	—	—	—	(28,434)
Net income	—	—	—	55,883	—	—	—	—	—	55,883
Unrealized gain on marketable investments	—	—	—	—	—	187	—	—	—	187
Currency translation adjustment	—	—	—	—	827	—	—	—	—	827
Balance, December 30, 2000	30,137	301	14,214	208,429	(1,868)	(377)	—	—	—	220,699
Common stock issued upon exercise of stock options	307	3	2,622	—	—	—	—	—	—	2,625
Tax benefit derived from exercise of stock options	—	—	1,160	—	—	—	—	—	—	1,160
Common stock issued in connection with acquisitions	46	1	786	—	—	—	—	—	—	787
Repurchase and retirement of common stock	(206)	(2)	(3,541)	—	—	—	—	—	—	(3,543)
Net income	—	—	—	43,683	—	—	—	—	—	43,683
Unrealized loss on marketable investments	—	—	—	—	—	(35)	—	—	—	(35)
Currency translation adjustment	—	—	—	—	(1,374)	—	—	—	—	(1,374)
Forward contracts as hedge of intercompany foreign currency payments:										
Cumulative effect of implementing SFAS No.133	—	—	—	—	—	—	(400)	—	—	(400)
Change in fair values	—	—	—	—	—	—	421	—	—	421
Balance, January 5, 2002	30,284	\$ 303	\$ 15,241	\$ 252,112	\$ (3,242)	\$ (412)	\$ 21	—	\$ —	\$ 264,023

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

DOLLARS IN THOUSANDS

Fiscal Year	2001	2000	1999
Operating Activities:			
Net income	\$ 43,683	\$ 55,883	\$ 51,826
Noncash items affecting net income:			
Write-off of investment in joint venture	4,776	—	—
Minority interest in subsidiaries	1,430	1,786	1,484
Equity in losses of joint ventures	933	381	151
Depreciation and amortization	9,627	6,436	5,889
Tax benefit derived from exercise of stock options	1,160	470	3,902
Loss on disposal of assets	316	420	19
Increase in allowance for doubtful accounts	1,811	1,523	1,044
Increase in allowance for returns—net of related inventory in transit	268	742	2,098
Deferred income taxes	6,378	(1,010)	(1,114)
Changes in operating assets and liabilities, net of effects of acquisitions:			
Accounts receivable	(7,340)	(15,983)	(11,355)
Inventories	(15,776)	(15,993)	(3,014)
Prepaid expenses and other current assets	712	(2,509)	(4,733)
Accounts payable	(1,886)	7,842	(5,056)
Accrued expenses	4,998	(2,274)	13,544
Income taxes payable	(2,184)	2,574	6,909
Net cash from operating activities	48,906	40,288	61,594
Investing Activities:			
Business acquisitions, net of cash acquired	(15,787)	—	(2,732)
Effect of de-consolidating former subsidiary	(747)	—	—
Additions to property, plant and equipment	(55,610)	(20,341)	(10,568)
Sale (purchase) of marketable investments	5,951	(442)	(10,870)
Investment in joint ventures	(373)	(2,196)	(4,000)
Increase in intangible and other assets	(810)	(818)	(1,505)
Net cash used in investing activities	(67,376)	(23,797)	(29,675)
Financing Activities:			
Common stock issued upon exercise of stock options	2,625	838	4,766
Net purchase of treasury stock	—	(268)	(1,994)
Acquisition and retirement of common stock	(3,543)	(27,806)	—
Distribution of minority interest earnings	(1,116)	(492)	(790)
Increase in notes payable	8,904	64	505
Net cash from (used in) financing activities	6,870	(27,664)	2,487
Effect of exchange rate changes on cash and cash equivalents	(410)	(234)	(761)
Net (decrease) increase in cash and cash equivalents	(12,010)	(11,407)	33,645
Cash and cash equivalents:			
Beginning of year	79,501	90,908	57,263
End of year	\$ 67,491	\$ 79,501	\$ 90,908

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Significant Accounting Policies

Consolidated Financial Statements include the accounts of Fossil, Inc., a Delaware corporation and its subsidiaries (the "Company"). The Company reports on a fiscal year reflecting the retail-based calendar (containing 4-4-5 week calendar quarters). During 2001, the retail-based calendar contained 53 weeks instead of 52 weeks in the prior year. The additional week did not have a material impact on comparability to prior periods. References to 2001, 2000, and 1999 are for the fiscal years ended January 5, 2002, December 30, 2000 and January 1, 2000, respectively. Significant intercompany balances and transactions are eliminated in consolidation. The Company is a leader in the design, development, marketing and distribution of contemporary, high quality fashion watches, accessories and apparel. The Company's products are sold primarily through department stores and specialty retailers worldwide.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents are considered all highly liquid investments with original maturities at date of purchase of three months or less.

Short-term Marketable Investments consist of liquid investments with original maturities exceeding three months and mutual fund investments. By policy, the Company invests primarily in high-grade marketable securities. Securities of \$5.4 million and \$5.1 million for fiscal years 2001 and 2000, respectively, are classified as available for sale and stated at fair value, with unrealized holding gains (losses) included in accumulated other comprehensive income (loss) as a component of stockholders' equity. At the end of 2001, there were no securities classified as held-to-maturity. Securities of \$6.2 million for fiscal 2000 are classified as held-to-maturity and are stated at amortized cost.

Accounts Receivable are stated net of allowances of approximately \$22.5 million and \$21.2 million for estimated customer returns and approximately \$11.7 million and \$9.5 million for doubtful accounts at the close of fiscal years 2001 and 2000, respectively.

Inventories are stated at the lower of average cost, including any applicable duty and freight charges, or market.

Property, Plant and Equipment is stated at cost less accumulated depreciation and amortization. Depreciation is provided using the straight-line method over the estimated useful lives of the assets of three to ten years for equipment and thirty years for buildings. Leasehold improvements are amortized over the shorter of the lease term or the asset's useful life.

Intangible and Other Assets include the cost in excess of tangible assets acquired, noncompete agreements and trademarks. Non-compete agreements and trademarks are amortized using the straight-line method over the estimated useful lives of generally three and ten years, respectively. During 2001, cost in excess of tangible assets acquired, relative to business combinations occurring prior to July 1, 2001, have been amortized using the straight-line method over 20 years. In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets", issued in July 2001, future cost in excess of tangible assets acquired and other indefinite-lived intangible assets, related to business combinations occurring on or after July 1, 2001, will be tested for impairment rather than amortized beginning January 2002.

Cumulative Translation Adjustment is included in accumulated other comprehensive income (loss) as a component of stockholders' equity and reflects the unrealized adjustments resulting from translating the financial statements of foreign subsidiaries. The functional currency of the Company's foreign subsidiaries is the local currency of the country. Accordingly, assets and liabilities of the foreign subsidiaries are translated to U.S. dollars at year-end exchange rates. Income and expense items are translated at the average rates prevailing during the year. Changes in exchange rates that affect cash flows and the related receivables or payables are recognized as transaction gains and losses in the determination of net income. The Company incurred net foreign currency transaction gains of approximately \$300,000 and losses of \$400,000 and \$1.2 million for fiscal years 2001, 2000 and 1999, respectively, which have been included in other income (expense)—net.

Forward Contracts are entered into by the Company principally to hedge the future payment of intercompany inventory transactions with its non-U.S. subsidiaries. Beginning in fiscal year 2001 these cash flow hedges are stated at estimated fair value and changes in fair value are reported as a component of other comprehensive income. At January 5, 2002, the Company had hedge contracts to sell (i) 16.7 million Euro for approximately \$14.9 million, expiring through June 2002, and (ii) approximately 400,000 British Pounds for approximately \$600,000, expiring through January 2002. If the Company were to settle its Euro and British Pound based contracts at fiscal year-end 2001, the net result would be a gain of approximately \$21,000, net of taxes. This unrealized gain is recognized in other comprehensive income. The Company adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities,"

effective December 31, 2000, and recognized an unrealized loss for forward contracts open at that date of \$400,000, net of taxes, in other comprehensive income. The net increase in fair value of \$421,000, is reported as other comprehensive income during fiscal 2001. This net increase consisted of net gains from these hedges of \$771,000, less \$350,000 of net gains reclassified into earnings.

Revenues are recognized as sales when merchandise is shipped and title transfers to the customer. The Company permits the return of damaged or defective products and accepts limited amounts of product returns in certain other instances. Accordingly, the Company provides allowances for the estimated amounts of these returns at the time of revenue recognition.

Advertising Costs for in-store and media advertising as well as co-op advertising, internet portal costs and promotional allowances are expensed as incurred. Advertising expenses for fiscal years 2001, 2000 and 1999 were approximately \$32.9 million, \$32.3 million and \$27.1 million, respectively.

New Accounting Standards. In July 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." These standards were adopted by the Company on July 1, 2001. Under SFAS No. 142, all goodwill and intangible assets with indefinite lives will not be amortized in fiscal 2002 (amortization expense of \$185,000 recognized in 2001) but will be tested for impairment annually and also in the event of an impairment indication. The Company does not expect the adoption of these standards to have a material effect on its financial statements.

The FASB also issued SFAS No. 144, "Accounting for the Impairment or the Disposal of Long-Lived Assets," which is effective January 6, 2002 for the Company. SFAS No. 144 supersedes SFAS No.121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of." The Company has evaluated the impact of the provisions of SFAS No. 144, and believes the results of such evaluation would not result in any material adjustments to the carrying value of its long-lived assets as of the balance sheet date.

Minority Interest in Subsidiaries, included within other income (expense)—net represents the minority stockholders' share of the net income (loss) of various consolidated subsidiaries. The minority interest in the consolidated balance sheets reflects the proportionate interest in the equity of the various consolidated subsidiaries.

Earnings Per Share ("EPS"). Basic EPS is based on the weighted average number of common shares outstanding during each period. Diluted EPS includes the effects of dilutive stock options outstanding during each period using the treasury stock method.

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

Fiscal Year IN THOUSANDS, EXCEPT PER SHARE DATA	2001	2000	1999
Numerator:			
Net income	\$ 43,683	\$ 55,883	\$ 51,826
Denominator:			
Basic EPS computation:			
Weighted average common shares outstanding	30,323	32,177	21,462
Three-for-two stock split effected August 1999	—	—	10,466
Repurchase of common shares, net of treasury shares reissued	(156)	(488)	(28)
	<u>30,167</u>	<u>31,689</u>	<u>31,900</u>
Basic EPS	<u>\$ 1.45</u>	<u>\$ 1.76</u>	<u>\$ 1.63</u>
Diluted EPS computation:			
Basic weighted average common shares outstanding	30,167	31,689	31,900
Stock option conversion	1,073	986	1,528
	<u>31,240</u>	<u>32,675</u>	<u>33,428</u>
Diluted EPS	<u>\$ 1.40</u>	<u>\$ 1.71</u>	<u>\$ 1.55</u>

Common Share and Per Share Data in these notes to consolidated financial statements have been presented on a retroactive basis for all stock splits.

Deferred Income Taxes are provided for under the asset and liability method for temporary differences in the recognition of certain revenues and expenses for tax and financial reporting purposes.

Fair Value of Financial Instruments is estimated to approximate the related book values unless otherwise indicated, based on market information available to the Company.

Reclassification of certain 1999 and 2000 amounts have been made to conform to the 2001 presentation.

2. Acquisitions

In May 2001, Fossil UK Holdings, Ltd., an indirect wholly owned subsidiary of the Company, acquired 100% of the capital stock of The Avia Watch Company Ltd. ("Avia") as well as certain trademarks utilized by Avia from Roventa-Henex S.A. for a cash purchase price of approximately \$5.0 million. The acquisition was recorded as a purchase and, in connection therewith, the Company recorded goodwill of approximately \$3.3 million.

In July 2001, the Company acquired 80% of the capital stock of FSLA, Pty. Limited, the Company's distributor in Australia, for a cash purchase price of approximately \$300,000. This acquisition was recorded as a purchase and, in connection therewith, the Company recorded goodwill of approximately \$200,000.

Effective July 2001, Fossil (East) Limited ("Fossil East") increased its equity interest in Pulse Time, Ltd. to 90% by acquiring an additional 30% of the capital stock from its minority holders in exchange for approximately 24,000 shares of the Company's common stock, par value \$0.1 per share (the "Common Stock") valued at \$450,000. Additionally, on July 3, 2001, Fossil East increased its equity interest in Trylink, Ltd. to 85% by acquiring an additional 34% of the capital stock from its minority holders in exchange for \$225,000 in cash and approximately 14,000 shares of the Company's Common Stock valued at \$225,000. Both of these acquisitions have been accounted for as a purchase and no goodwill was recorded in connection with either transaction.

Effective August 2001, the Company acquired 99.6% of the outstanding capital stock of Vedette Industries, SA, the Company's distributor in France, for a cash purchase price of approximately \$5.3 million. The terms of this transaction include a future earnout payment of an amount up to \$1.5 million in the event that defined sales and operating income objectives are achieved. The acquisition was recorded as a purchase and, in connection therewith, the Company recorded goodwill of approximately \$2.5 million, including amounts relating to the earnout provision.

In August 2001, the Company acquired the worldwide rights to the ZODIAC brand name and related inventory for a cash purchase price of approximately \$4.7 million. This acquisition was recorded as a purchase and \$200,000 of goodwill was recorded in connection with this transaction.

In October 2001, the Company acquired the outstanding stock of two separate companies and certain assets of a third, all located in Switzerland, for a combined cash purchase price of approximately \$2.3

million. The terms of these transactions include future earnout payments for amounts up to approximately \$750,000, in the event certain earnings thresholds are met. This acquisition was recorded as a purchase and, in connection therewith, the Company recorded goodwill of approximately \$1.5 million, including amounts relating to the earnout provision.

The results of these business combinations are included in the accompanying consolidated financial statements since the dates of their acquisition. The proforma effects, as if transactions had occurred at the beginning of the years presented, are not significant.

3. Investments in Joint Ventures

During 1999, the Company acquired a 20% interest in SII Marketing International, Inc. ("SMI"), and since that time has invested \$6.0 million in the venture. SMI, a joint venture between the Company and Seiko Instruments Incorporated ("SII"), was formed to design, market and distribute watches in the mass-market distribution channel. The investment of \$5.4 million and \$3.8 million at fiscal year-end 2000 and 1999, respectively, had been carried on the equity basis. The Company's equity in SMI's net loss of \$1,100,000, \$409,000 and \$151,000 for fiscal 2001, 2000 and 1999, respectively, is included in other income (expense)—net. Subsequent to fiscal year-end 2001, the Company entered into an agreement to transfer its 20% interest in SMI to SII for no additional consideration in exchange for SII's agreement to indemnify the Company from certain existing and any future losses in connection with SMI. The write-off of the Company's remaining investment in SMI and recognition of certain transition cost of \$4.8 million is reported as a separate item as other expense for fiscal year 2001.

Effective July 2001, the Company sold 50% of the equity of its wholly-owned subsidiary in Japan, SFJ, Inc. ("SFJ"), to SII pursuant to a joint venture agreement for the marketing, distribution and sale of the Company's products in Japan. The Company has accounted for this investment based upon the equity method from the effective date of the transaction. The Company's equity in SFJ's net losses was \$265,000 for 2001.

In August 2000, the Company sold 50% of the equity of its former wholly-owned subsidiary ("Fossil Spain") pursuant to a joint venture agreement with Sucesores de A. Cardarso for the marketing, distribution and sale of the Company's products in Spain. The Company has accounted for the investment based upon the equity method from the effective date of the transaction. The Company's equity in Fossil Spain's net income was \$497,000 and \$28,000 for fiscal 2001 and 2000, respectively, and is included in other income (expense)—net.

4. Inventories

Inventories consist of the following:

Fiscal Year-End <i>IN THOUSANDS</i>	2001	2000
Components and parts	\$ 4,659	\$ 6,258
Work-in-process	3,855	1,182
Finished merchandise on hand	70,547	48,113
Merchandise at Company stores	11,365	13,296
Merchandise in-transit from customer returns	13,236	12,269
	<u>\$ 103,662</u>	<u>\$ 81,118</u>

5. Property, Plant and Equipment

Property, plant and equipment consist of the following:

Fiscal Year-End <i>IN THOUSANDS</i>	2001	2000
Land	\$ 7,757	\$ 2,525
Buildings	15,949	11,142
Furniture and fixtures	33,348	24,977
Computer equipment and software	18,536	11,883
Leasehold improvements	19,579	13,494
Construction in progress	27,549	1,817
	<u>122,718</u>	<u>65,838</u>
Less accumulated depreciation and amortization	<u>32,682</u>	<u>23,586</u>
	<u>\$ 90,036</u>	<u>\$ 42,252</u>

6. Intangible and Other Assets

Intangibles and other assets consist of the following:

Fiscal Year-End <i>IN THOUSANDS</i>	2001	2000
Costs in excess of tangible net assets acquired	\$ 13,401	\$ 5,200
Noncompete agreement	475	475
Trademarks	5,168	1,030
Deposits	2,320	1,458
Cash surrender value of life insurance	900	783
Other	978	290
	<u>23,242</u>	<u>9,236</u>
Less accumulated amortization	<u>3,031</u>	<u>2,663</u>
	<u>\$ 20,211</u>	<u>\$ 6,573</u>

7. Debt

Bank: U.S.-based. The Company has renewed its short-term revolving credit facility with its primary bank ("U.S. Short-term Revolver") each year since June 1998. In November 2001, the Company amended the U.S. Short-term Revolver to temporarily increase the funds available under the facility to \$50 million through January 15, 2002, an increase of \$10 million, not subject to any borrowing base calculation. The U.S. Short-term Revolver is unsecured and requires the maintenance of net worth, quarterly income, working capital and financial ratios. There were \$15.0 million in borrowings under the U.S. Short-term Revolver as of fiscal year-end 2001. Since June 1999, none of the \$40.0 million in available funds under the facility was subject to a borrowing base calculation. In June 2000, the Company negotiated a reduction in the interest rate paid on Eurodollar Base Rate ("Eurodollar") based borrowings. All borrowings under the U.S. Short-term Revolver accrue interest at the bank's prime rate less 0.5%, 4.25% at year-end, or Eurodollar plus 0.75%, 3.2% at year-end. Interest expense under the credit facility was approximately \$200,000 for fiscal year 2001.

At fiscal year-end 2001 and 2000, the Company had outstanding letters of credit of approximately \$8.6 million and \$1.8 million, respectively, to vendors for the purchase of merchandise.

Banks: Foreign Based. In connection with SFJ, the Company's joint venture with SII in Japan, the Company and SII are co-guarantors of SFJ's 500,000,000 yen (\$3.8 million as of year-end) short-term credit facility with Fuji Bank. In the event that SFJ defaults on payment of any amounts borrowed under this facility, the Company would be responsible to pay one-half the outstanding balance. As of the end of fiscal 2001, SFJ had approximately 260,000,000 yen (\$2.0 million) of borrowings outstanding under this facility.

8. Other Income (Expense)—Net

Other income (expense)—net consists of the following:

Fiscal Year <i>IN THOUSANDS</i>	2001	2000	1999
Interest income	\$ 1,549	\$ 3,480	\$ 2,650
Minority interest in subsidiaries	(1,430)	(1,786)	(1,484)
Equity in losses of joint ventures—net	(933)	(381)	(151)
Currency gain (loss)	336	(412)	(1,181)
Royalty income	740	770	353
Other income (expense)	783	(647)	322
	<u>\$ 1,045</u>	<u>\$ 1,024</u>	<u>\$ 509</u>

9. Income Taxes

Deferred income tax benefits reflect the net tax effects of deductible temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The tax effects of significant items comprising the Company's net deferred tax benefits, consist of the following:

Fiscal Year-End <i>IN THOUSANDS</i>	2001	2000
Current assets:		
Deferred tax assets:		
Bad debt allowance	\$ 3,709	\$ 3,163
Returns allowance	6,772	6,537
263(A) capitalization of inventory	878	704
Miscellaneous tax asset items	1,260	1,060
Deferred tax liabilities:		
In-transit returns inventory	(3,901)	(3,685)
Net current deferred tax benefits	8,718	7,779
Long-term deferred tax liability:		
Tax on certain undistributed earnings of foreign subsidiaries	(7,318)	—
Net deferred tax benefits	<u>\$ 1,400</u>	<u>\$ 7,779</u>

Management believes that no valuation allowance against net deferred tax benefits is necessary. The resulting provision for income taxes consists of the following:

Fiscal Year <i>IN THOUSANDS</i>	2001	2000	1999
Current provision:			
United States	\$ 12,104	\$ 21,229	\$ 18,448
Foreign	9,479	18,145	14,779
Deferred provision	6,378	(1,010)	(1,114)
Tax equivalent related to exercise of stock options (credited to additional paid-in capital)	1,160	470	3,902
Provision for income taxes	<u>\$ 29,121</u>	<u>\$ 38,834</u>	<u>\$ 36,015</u>

A reconciliation of income tax computed at the U.S. federal statutory income tax rate of 35% to the provision for income taxes is as follows:

Fiscal Year <i>IN THOUSANDS</i>	2001	2000	1999
Tax at statutory rate	\$ 25,481	\$ 33,151	\$ 30,744
State, net of federal tax benefit	1,069	736	975
Other	2,571	4,947	4,296
Provision for income taxes	<u>\$ 29,121</u>	<u>\$ 38,834</u>	<u>\$ 36,015</u>

Deferred U.S. federal income taxes are not provided on certain undistributed earnings of foreign subsidiaries where management plans to continue reinvesting these earnings outside the United States indefinitely. Determination of such tax amounts that would be payable if earnings were distributed to the U.S. Company is not practical because potential offsets by U.S. foreign tax credits would be available under various assumptions involving the tax calculation.

10. Commitments

License Agreements. The Company has various license agreements to market watches bearing certain trademarks owned by various entities. In accordance with these agreements, the Company incurred royalty expense of approximately \$11.2 million, \$9.6 million and \$4.7 million in fiscal years 2001, 2000 and 1999, respectively. These amounts are included in the Company's cost of sales and selling expenses. The Company has several agreements in effect at the end of fiscal year 2001 which expire on various dates from February 2002 through December 2007 and require the Company to pay royalties ranging from 6% to 20.5% of defined net sales. Future minimum royalty commitments under such license agreements at the close of fiscal year 2001 are as follows (amounts in thousands):

2002	\$ 11,122
2003	11,420
2004	5,551
2005	1,360
2006	1,863
Thereafter	1,855
	<u>\$ 33,171</u>

Leases. The Company leases its retail and outlet store facilities as well as certain of its office facilities and equipment under non-cancelable operating leases. Most of the retail store leases provide for contingent rental based on operating results and require the payment of taxes, insurance and other costs applicable to the property. Generally, these leases include renewal options for various periods at stipulated rates. Rent expense under these agreements was approximately \$17.5 million, \$10.9 million, and \$6.8 million for fiscal years 2001, 2000 and 1999, respectively. Contingent rent expense has been immaterial in each of the last three fiscal years. Future minimum rental commitments under such non-cancelable leases at the close of fiscal year 2001 are as follows (amounts in thousands):

2002	\$ 14,428
2003	14,622
2004	14,245
2005	13,753
2006	13,115
Thereafter	50,382
	<u>\$ 120,545</u>

11. Stockholders' Equity and Benefit Plans

Common and Preferred Stock. On July 21, 1999, the Board of Directors of the Company declared a 3-for-2 stock split ("Stock Split") of the Company's 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 all share and per share data in these notes to financial statements.

The Company has 100,000,000 shares of authorized Common Stock, with 30,284,369 and 30,136,824 shares issued and outstanding at the close of fiscal years 2001 and 2000, respectively. The Company has 1,000,000 shares of authorized \$0.01 par value preferred stock with none issued or outstanding. Rights, preferences and other terms of preferred stock will be determined by the Board of Directors at the time of issuance.

Common Stock Repurchase Programs. On September 18, 2000 and September 18, 1998, the Company's Board of Directors authorized management to repurchase up to 500,000 shares and 2.5 million shares, respectively, of the Company's Common Stock in the open market or privately negotiated transactions (the "Repurchase Programs"). During fiscal years 2001 and 2000, the Company repurchased 206,198 and 2,039,400 shares, respectively, of its Common Stock under the Repurchase Programs at a cost of approximately \$3.5 million and \$28.6 million, respectively. During fiscal years 2001 and 2000, none and 73,372 shares respectively, of Common Stock repurchased were reissued in connection with the Company's 1993 Long-Term Incentive Plan ("Incentive Plan"). The Company retired 206,198 shares and 2,026,600 shares of its Common Stock that were purchased in fiscal years 2001 and 2000, respectively.

Deferred Compensation and Savings Plans. The Company has a savings plan in the form of a defined contribution plan (the "401(k) plan") for substantially all full-time employees of the Company. After one year of service, the Company matches 50% of employee contributions up to 3% of their compensation and 25% of the employee contributions between 3% and 6% of their compensation. The Company also has the right to make certain additional matching contributions not to exceed 15% of employee compensation. The Company's Common Stock is one of several investment alternatives available under the 401(k) plan. Matching contributions made by the Company to the 401(k) plan totaled approximately \$400,000 for fiscal year 2001 and \$300,000 and \$200,000 for fiscal years 2000 and 1999, respectively.

In December 1998, the Company adopted the Fossil, Inc. and Affiliates Deferred Compensation Plan (the "Deferred Plan"). Eligible participants may elect to defer up to 50% of their salary pursuant to the

terms and conditions of the Deferred Plan. Eligible participants include certain officers and other highly compensated employees designated by the Deferred Plan's administrative committee. In addition, the Company may make employer contributions to participants under the Deferred Plan from time to time. The Company made no contributions to the Deferred Plan during the fiscal years 2001 and 2000 while \$500,000 was distributed during fiscal 1999.

Long-term Incentive Plan. An aggregate of 2,587,500 shares of Common Stock were initially reserved for issuance pursuant to the Incentive Plan, adopted April 1993. An additional 1,350,000 shares were reserved in each of 1995, 1998 and 2001 for issuance under the Incentive Plan. Designated employees of the Company, including officers and directors, are eligible to receive (i) stock options, (ii) stock appreciation rights, (iii) restricted or non-restricted stock awards, (iv) cash awards or (v) any combination of the foregoing. The Incentive Plan is administered by the Compensation Committee of the Company's Board of Directors (the "Compensation Committee"). Each option issued under the Incentive Plan terminates at the time designated by the Compensation Committee, not to exceed ten years. The current options outstanding predominately vest over a period ranging from three to five years and were priced at not less than the fair market value of the Company's Common Stock at the date of grant. The weighted average fair value of the stock options granted during fiscal years 2001, 2000 and 1999 was \$10.11, \$8.97 and \$12.01, respectively.

Nonemployee Director Stock Option Plan. An aggregate of 225,000 shares of Common Stock were reserved for issuance pursuant to the Nonqualified Stock Option Plan, adopted April 1993. During the first year individuals are elected as nonemployee directors of the Company, they receive a grant of 5,000 nonqualified stock options. In addition, on the first day of each subsequent calendar year, each non-employee director automatically receives a grant of an additional 3,000 nonqualified stock options as long as the person is serving as a nonemployee director. Pursuant to this plan, 50% of the options granted will become exercisable on the first anniversary of the date of grant and in two additional installments of 25% on the second and third anniversaries. The exercise prices of options granted under this plan were not less than the fair market value of the Common Stock at the date of grant. The weighted average fair value of the stock options granted during fiscal years 2001, 2000 and 1999 was \$10.29, \$10.06 and \$14.25, respectively.

The fair value of options granted under the Company's stock option plans during fiscal years 2001, 2000 and 1999 was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used: no dividend yield, expected volatility of approximately 63% to 66%, risk free interest rate of 3.50% to 6.00%, and expected life of five to six years. The following tables summarize the Company's stock option activity:

Incentive Plan

	exercise price per share	weighted average exercise price per share	outstanding	weighted average exercise price per share	exercisable	available for grant
Balance, Fiscal 1998	\$ 2.945 - \$19.833	\$ 6.187	2,313,788	\$ 4.767	1,140,451	1,715,779
Granted	\$17.875 - \$33.187	\$ 19.483	542,671	—	—	(542,671)
Exercised	\$ 2.945 - \$18.167	\$ 5.319	(895,580)	—	—	—
Canceled	\$ 3.528 - \$29.875	\$ 13.176	(53,426)	—	—	53,426
Exercisable	\$ 2.945 - \$19.833	\$ —	—	—	(199,643)	—
Balance, Fiscal 1999	\$ 2.945 - \$33.187	\$ 10.193	1,907,453	\$ 5.831	940,808	1,226,534
Granted	\$11.187 - \$25.000	\$ 15.169	789,000	—	—	(789,000)
Exercised	\$ 2.945 - \$20.000	\$ 7.204	(106,870)	—	—	—
Canceled	\$ 5.167 - \$33.187	\$ 16.812	(94,494)	—	—	94,494
Exercisable	\$ 2.945 - \$32.625	\$ —	—	—	300,027	—
Balance, Fiscal 2000	\$ 2.945 - \$32.625	\$ 11.639	2,495,089	\$ 7.344	1,240,835	532,028
Granted	\$14.000 - \$22.940	\$ 17.432	680,130	—	—	(680,130)
Shares designated for grant through the plan	—	—	—	—	—	1,350,000
Exercised	\$ 2.945 - \$19.333	\$ 8.736	(288,823)	—	—	—
Canceled	\$ 9.667 - \$32.209	\$ 17.243	(129,201)	—	—	129,201
Exercisable	\$ 2.945 - \$32.625	\$ —	—	—	55,812	—
Balance, Fiscal 2001	\$ 2.945 - \$32.625	\$ 13.081	2,757,195	\$ 8.993	1,296,647	1,331,099

Non-Employee Director Plan

	exercise price per share	weighted average exercise price per share	outstanding	weighted average exercise price per share	exercisable	available for grant
Balance, Fiscal 1998	\$ 3.333 - \$19.167	\$ 7.288	148,500	\$ 5.681	119,812	64,687
Granted	\$ 23.125	\$ 23.125	9,000	—	—	(9,000)
Exercised	\$ —	\$ —	—	—	—	—
Exercisable	\$ 3.333 - \$19.167	\$ —	—	—	16,874	—
Balance, Fiscal 1999	\$ 3.333 - \$23.125	\$ 8.193	157,500	\$ 6.560	136,686	55,687
Granted	\$ 14.375 - \$19.625	\$ 17.000	10,000	—	—	(10,000)
Exercised	\$ 3.333	\$ 3.333	(22,500)	—	—	—
Exercisable	\$ 3.333 - \$23.125	\$ —	—	—	(22,500)	—
Balance, Fiscal 2000	\$ 3.333 - \$23.125	\$ 9.554	145,000	\$ 7.195	114,186	45,687
Granted	\$ 14.484 - \$21.000	\$ 17.742	30,000	—	—	(30,000)
Exercised	\$ 3.333 - \$ 8.445	\$ 5.250	(18,000)	—	—	—
Exercisable	\$ 3.722 - \$23.125	\$ —	—	—	13,064	—
Balance, Fiscal 2001	\$ 3.722 - \$23.125	\$ 11.612	157,000	\$ 9.921	127,250	15,687

Additional weighted average information for options outstanding and exercisable as of fiscal year-end 2001:

	range of exercise price	number of shares	options outstanding		options exercisable	
			weighted average exercise price per share	weighted average remaining contractual life	number of shares	weighted average exercise price per share
Long-Term Incentive Plan:	\$ 2.945 - \$ 8.250	716,535	\$ 4.947	4.1 years	716,535	\$ 4.947
	\$ 8.260 - \$17.000	1,017,811	\$ 13.248	7.7 years	390,650	\$ 11.246
	\$ 17.010 - \$32.625	1,022,849	\$ 18.613	8.3 years	189,462	\$ 19.650
		<u>2,757,195</u>			<u>1,296,647</u>	\$ 8.993
Nonemployee Director Plan:						
	\$ 3.722 - \$ 8.250	60,750	\$ 5.185	4.0 years	60,750	\$ 5.185
	\$ 8.260 - \$17.000	53,750	\$ 11.686	6.1 years	43,750	\$ 11.053
	\$ 17.010 - \$23.125	42,500	\$ 20.706	8.4 years	22,750	\$ 20.392
		<u>157,000</u>			<u>127,250</u>	\$ 9.921

The Company applies Accounting Principles Board Opinion No.25 and related Interpretations in accounting for its stock option plans. No compensation cost has been recognized for the Company's stock option plans because the quoted market price of the Common Stock at the date of the grant was not in excess of the amount an employee must pay to acquire the Common Stock. SFAS No. 123, "Accounting for Stock-Based Compensation," issued by the FASB in 1995, prescribes a method to record compensation cost for stock-based employee compensation plans at fair value. Pro forma disclosures as if the Company had adopted the cost recognition requirements under SFAS No. 123 in fiscal years 2001, 2000 and 1999 are presented below.

Fiscal Year <i>IN THOUSANDS, EXCEPT PER SHARE DATA</i>	2001	2000	1999
Net income:			
As reported	\$ 43,683	\$ 55,883	\$ 51,826
Proforma under SFAS No. 123	\$ 40,633	\$ 53,018	\$ 49,707
Basic earnings per share:			
As reported	\$ 1.45	\$ 1.76	\$ 1.63
Proforma under SFAS No. 123	\$ 1.35	\$ 1.67	\$ 1.56
Diluted earnings per share:			
As reported	\$ 1.40	\$ 1.71	\$ 1.55
Proforma under SFAS No. 123	\$ 1.30	\$ 1.62	\$ 1.49

12. Supplemental Cash Flow Information

The following is provided as supplemental information to the consolidated statements of cash flows:

Fiscal Year <i>IN THOUSANDS</i>	2001	2000	1999
Cash paid during the year for:			
Interest	\$ 216	\$ 62	\$ 402
Income taxes	\$ 23,156	\$ 35,106	\$ 27,532

13. Major Customer, Segment and Geographic Information

Customers of the Company consist principally of major department stores and specialty retailers located throughout the United States, Europe and the Far East. There were no significant customers, individually or considered as a group under common ownership, which accounted for over 10% of net sales for fiscal years 2001, 2000 and 1999.

The Company's majority owned facilities operate primarily in four geographic regions. The Company operates in two distinct distribution channels, wholesale and retail. In its wholesale operations the Company designs, develops, markets and distributes fashion watches and other accessories to department stores, specialty shops, and independent retailers throughout the world. The Company's retail operations consist of the Company's outlet and mall-based retail stores selling the Company's product directly to the consumer. Specific information related to the Company's reportable segments and geographic areas are contained in the following table. Intercompany sales of products between geographic areas are referred to as intergeographic items.

<i>IN THOUSANDS</i>	Net Sales	Operating Income (Loss)	Long-lived Assets	Total Assets
Fiscal Year-End 2001				
United States—exclusive of Stores:			\$ 62,315	\$ 169,538
External customers	\$ 290,859	\$ 48,127	—	—
Intergeographic	77,236	—	—	—
Stores	66,504	(8,190)	23,897	43,702
Europe	132,030	1,306	21,567	34,270
Far East and Export:			3,567	133,353
External customers	53,580	36,046	—	—
Intergeographic	192,678	—	—	—
Japan	2,568	(435)	—	—
Intergeographic items	(269,914)	—	—	—
Consolidated	\$ 545,541	\$ 76,854	\$ 111,346	\$ 380,863
Fiscal Year-End 2000				
United States—exclusive of Stores:			\$ 28,269	\$ 138,796
External customers	\$ 301,767	\$ 55,811	—	—
Intergeographic	73,270	—	—	—
Stores	49,803	(7,215)	18,135	39,978
Europe	99,439	6,442	5,132	21,138
Far East and Export:			3,052	106,375
External customers	47,152	39,910	—	—
Intergeographic	189,651	—	—	—
Japan	6,124	(1,127)	172	1,304
Intergeographic items	(262,921)	—	—	—
Consolidated	\$ 504,285	\$ 93,821	\$ 54,760	\$ 307,591
Fiscal Year-End 1999				
United States—exclusive of Stores:			\$ 24,554	\$ 144,465
External customers	\$ 252,816	\$ 36,020	—	—
Intergeographic	34,700	—	—	—
Stores	37,797	4,361	8,294	24,818
Europe:			2,745	23,099
External customers	86,714	17,793	—	—
Intergeographic	500	—	—	—
Far East and Export:			2,687	74,469
External customers	34,091	29,662	—	—
Intergeographic	140,800	—	—	—
Japan	7,516	(387)	277	2,513
Intergeographic items	(176,172)	—	—	—
Consolidated	\$ 418,762	\$ 87,449	\$ 38,557	\$ 269,364

CORPORATE INFORMATION

EXECUTIVE OFFICERS AND DIRECTOR

Tom Kartsotis <i>Chairman of the Board</i>	Randy S. Kercho <i>Executive Vice President</i>	Kenneth W. Anderson <i>Director</i>
Kosta N. Kartsotis <i>President, Chief Executive Officer and Director</i>	Mike L. Kovar <i>Senior Vice President, Chief Financial Officer and Treasurer</i>	Alan J. Gold <i>Director</i>
Michael W. Barnes <i>President, International and Special Markets Division and Director</i>	Mark D. Quick <i>President, Fashion Accessories Division</i>	Junichi Hattori <i>Director</i>
Richard H. Gundy <i>President, FOSSIL Watches and Stores Division and Director</i>	T. R. Tunnell <i>Executive Vice President, Chief Legal Officer and Secretary</i>	Michael Steinberg <i>Director</i>
Jal S. Shroff <i>Managing Director— Fossil East and Director</i>		Donald J. Stone <i>Director</i>

CORPORATE INFORMATION

Transfer Agent and Registrar: Mellon Investor Services Overpeck Centre 85 Challenger Road Ridgefield Park, NJ 07760	Independent Auditors: Deloitte & Touche LLP 2200 Ross Avenue Dallas, TX 75201	Corporate Counsel: Jenkins & Gilchrist 1445 Ross Avenue Dallas, TX 75202
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INTERNET WEBSITE

The Company maintains a website at the worldwide internet address of www.fossil.com. Certain product, event, investor relations and collector club information concerning the Company is available at the site.

ANNUAL MEETING

The Annual Meeting of Stockholders will be held on Wednesday, May 22, 2002, at 4:00 pm at the Company's headquarters, 2280 N. Greenville Ave., Richardson, Texas.

COMPANY INFORMATION

A copy of the Company's Annual Report on Form 10-K and the Annual Report to Stockholders, as filed with the Securities and Exchange Commission, in addition to other Company information, is available to stockholders without charge upon written request to Fossil, Investor Relations, 2280 N. Greenville Ave., Richardson, Texas 75082-4412.

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**Subsidiaries of Fossil, Inc.
 as of January 5, 2002**

Name of Subsidiary	Place of Incorporation	Parent Company	Percent Ownership
Fossil Intermediate, Inc.	Delaware	Fossil, Inc.	100
Fossil Stores I, Inc.	Delaware	Fossil, Inc.	100
Intermediate Leasing, Inc.	Delaware	Fossil, Inc.	100
Arrow Merchandising, Inc.	Texas	Fossil, Inc.	100
Fossil (East) Limited	Hong Kong	Fossil, Inc.	100
Fossil Europe B.V.	The Netherlands	Fossil, Inc.	100
SFJ, Inc.	Japan	Fossil, Inc.	50
SII Marketing International, Inc.	Delaware	Fossil, Inc.	20
Swiss Technology Holding AG	Switzerland	Fossil, Inc.	100
Fossil Trust	Delaware	Fossil Intermediate, Inc.	100
Fossil Stores II, Inc.	Delaware	Fossil Stores I, Inc.	100
Newtime, Ltd.	Hong Kong	Fossil (East) Limited	100
Pulse Time Center Company, Ltd.	Hong Kong	Fossil (East) Limited	90
Trylink International, Ltd.	Hong Kong	Fossil (East) Limited	85
Fossil Trading, Ltd	Hong Kong	Fossil (East) Limited	100
Fossil Singapore, Ltd.	Singapore	Fossil (East) Limited	81
Design Time, Ltd.	Hong Kong	Fossil (East) Limited	51
FSLA Pty. Limited	Australia	Fossil (East) Limited	80
Fossil Europe GmbH	Germany	Fossil Europe B.V.	100
Fossil Italia, S.r.l.	Italy	Fossil Europe B.V.	100
Gum, S.A.	France	Fossil Europe B.V.	100
Fossil Spain, S.A.	Spain	Fossil Europe B.V.	50
Fossil U.K. Holdings Ltd.	United Kingdom	Fossil Europe B.V.	100
Fossil U.K. Ltd.	United Kingdom	Fossil U.K. Holdings Ltd	100
Fossil Stores U.K. Ltd.	United Kingdom	Fossil U.K. Ltd.	100
The Avia Watch Company Limited	United Kingdom	Fossil U.K. Holdings Ltd	100
Zodiac 1882 AG	Switzerland	Swiss Technology Holding AG	100
Montres Antima SA	Switzerland	Swiss Technology Holding AG	100
Vedette Industries SA	France	Gum, SA	100
Logisav SARL	France	Vedette Industries SA	100
SEM SARL	France	Vedette Industries SA	100
Trotime Espana SL	Spain	Vedette Industries SA	51
Synergies Horlogers SA	Switzerland	Montres Antima SA	100

QuickLinks

Subsidiaries of Fossil, Inc. as of January 5, 2002

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INDEPENDENT AUDITORS' REPORT

To the Directors of Fossil, Inc.:

We have audited the consolidated financial statements of Fossil, Inc. and subsidiaries as of January 5, 2002 and December 30, 2000, and for each of the three years in the period ended January 5, 2002, and have issued our report thereon dated February 25, 2002; such consolidated financial statements and report are included in your 2001 Annual Report to Stockholders and are incorporated herein by reference. Our audits also included the consolidated financial statement schedule of Fossil, Inc. and subsidiaries listed in Item 14. This consolidated financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, such consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ DELOITTE & TOUCHE LLP
Dallas, Texas
February 25, 2002

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