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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 4, 2003

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 whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). 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 July 6, 2002, was \$339,707,873. 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 28, 2003, 46,450,177 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 21, 2003, to be filed with the Commission pursuant to Regulation 14A, and the Company's Annual Report to Stockholders for fiscal year ended January 4, 2003 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 an earlier period in America 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 under its proprietary FOSSIL, RELIC[®] and ZODIAC[®] brands and, pursuant to license agreements, under some of the most prestigious brands in the world, including, EMPORIO ARMANI[®], DKNY[®], DIESEL[®] and BURBERRY[®]. Additionally, the Company offers a wide range of accessories including small leather goods, belts, handbags, and sunglasses under the FOSSIL and RELIC brands, jewelry under the FOSSIL and EMPORIO ARMANI brands and FOSSIL brand apparel. The Company leverages its centralized design/development and production/sourcing expertise by distributing these products through its global distribution network.

The Company sells its products in approximately 17,500 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 for its FOSSIL brand and JCPenney, Kohls and Sears for its RELIC brand, and approximately 12,500 specialty retail locations. The Company also sells its products through a network of 87 Company-owned stores within the United States, with 40 retail stores located in premier retail sites and 47 outlet stores located in major outlet malls. The Company also offers selected FOSSIL and licensed 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 53 independent distributors. The Company's products can be found 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 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. The Company's Internet address is www.fossil.com. The Company makes its filings with the Securities and Exchange Commission available from its website free of charge.

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, ANTIMA[®] and BURBERRY lines 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, China 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 with its FOSSIL and RELIC lines and by 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 Tommy Hilfiger, Guess?, Nine West, Kenneth Cole and Liz Claiborne currently operate in this market. In addition, the Company offers fashion jewelry sold under the FOSSIL and EMPORIO ARMANI brands.

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, and 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 certain of 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.
- *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. Through the Company's merchandising unit, the Company works with retailers to ensure that the Company's products are properly stocked and displayed in accordance with the Company's visual standards. 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 center in Dallas, Texas. The Company also distributes its products to international markets from warehouse and distribution centers located in Germany, Italy, Hong Kong, Australia, France, Switzerland and the United Kingdom. In December 2002, the Company acquired a parcel of land in Germany on which it will construct a new 100,000 square foot distribution facility to be operational in late 2003. This facility will support the Company's current distribution operations in Germany, allow the Company to consolidate its European distribution sites and further support future growth throughout Europe. 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 BURBERRY brand names pursuant to license agreements. The Company has also entered the market for Swiss-made watches with its ZODIAC, ANTIMA, and BURBERRY lines. In addition, the Company is entering the market for technology-enhanced watches pursuant to license agreements with PalmSource and Microsoft. Pursuant to the PalmSource agreement, the Company will produce a watch that contains the Palm OS[®] platform. Under the Microsoft agreement, the Company will produce watches that incorporate Microsoft's "SPOT" (Smart Personal Objects Technology) technology, which will allow users to receive customized information via FM subcarrier transmissions.
- *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 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 87 retail and outlet stores domestically and plans to open an additional two to three accessory stores and five to seven outlet stores in 2003 in the United States. The Company offers its watch and accessory products through Company-owned and independently-owned, authorized FOSSIL retail stores in airports, on cruise ships and in certain international markets.

Products

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

Watch Products

The Company introduced FOSSIL watches in 1986 and RELIC watches in 1990. Sales of the Company's watches for fiscal years 2002, 2001 and 2000 accounted for approximately 69.3%, 68.1%, and 71.8%, respectively, of the Company's net sales.

The following table sets forth certain information with respect to the Company's owned-brand watches:

Watch Brand	Product Categories	Suggested Price Point Range	Average Price	Territory	Distribution Channels
FOSSIL	FOSSIL BLUE, F ² , FUEL, BIG TIC, ARKITEKT, TITANIUM, SPEEDWAY	\$ 55 - 165	\$ 69	Worldwide	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, FOLIO, BLUSH, DIAMOND, VIBE	\$ 55 - 85	\$ 61	United States	Major retailers (JCPenney, Kohl's Department Stores, Inc., and Sears)
ZODIAC	WIDE ANGLE, BELLEVUE 14, ALIZE, CALAME SPORT	\$ 295 - 795	\$ 495	Worldwide	Better department stores, watch specialty stores, and jewelry stores

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 companies. The following table sets forth specific information with respect to certain of 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	\$ 100 - 500	\$ 210	Worldwide	Major department stores, specialty retailers, jewelry stores and Emporio Armani Boutiques
DKNY, DKNY Active, DKNY Jeans & DONNA KARAN NEW YORK	Men's and women's watches	\$ 65 - 150	\$ 94	Worldwide	Better department stores, specialty retailers, and Donna Karan Retail Stores

Brand(s)	Products	Suggested Price Point		Territory	Distribution Channel(s)
		Range	Average Price		
DIESEL	Wrist watches and straps and table, alarm, and wall clocks	\$ 85 - 215	\$ 109	Worldwide	Better department stores, specialty retailers, and Diesel Retail Stores
BURBERRY	Wrist watches for men and women	\$ 275 - 1,195	\$ 400	Worldwide	Better department stores, specialty retailers, and Burberry Retail Stores

Licensed, Private Label, and Premium Products. The Company has 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 the Company's website and major department stores within the Company's channels of distribution. The Company also designs, markets and arranges for the manufacture of watches on behalf of certain companies and organizations 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.

Technology-Enhanced Products. During 2002, the Company entered into separate license agreements with PalmSource and Microsoft for technology-enhanced watches. Pursuant to the agreement with PalmSource, the Company will incorporate the Palm OS into its smallest form ever. The Wrist PDA with Palm OS watch will include Graffiti input along with the standard Palm applications, including date book, address book, note pad and to do list. The Wrist PDA with Palm OS will have 2MB memory capacity and will be able to run all Palm OS applications. The Wrist PDA with Palm OS is expected to be available in the United States in mid 2003 and in select international market in late 2003. Pursuant to the agreement with Microsoft, the Company will incorporate Microsoft's SPOT technology into certain watches under the PHILIPPE STARCK brand and the Company's FOSSIL and ABACUS® brands. These watches will receive customized information from Microsoft, such as news, weather and instant messages, via FM subcarrier transmissions. To receive the information, users will be required to register with Microsoft, which may include a service fee. Receipt of the information is also subject to local FM reception. The SPOT watches are expected to be available in the United States in late 2003.

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, men's and women's belts, small leather goods, jewelry and sunglasses. 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's jewelry lines include earrings, necklaces, rings and bracelets. FOSSIL brand jewelry generally is offered in sterling silver or steel. EMPORIO ARMANI brand jewelry is generally made of sterling silver, semi-precious stones or 18K gold. 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 2002, 2001 and 2000 accounted for approximately 30.3%, 25.7%, and 24.1%, 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 Hudson Corp., Dillard's, Federated/Macy's, May Dept. Stores, Nordstrom, Inc. and Saks, specialty retailers, Company-owned stores and Internet)
	Handbags	\$ 35 - 118	\$ 85	
	Small Leather Goods	\$ 14 - 48	\$ 32	
	Belts	\$ 22 - 38	\$ 28	
	Jewelry	\$ 35 - 95	\$ 40	
EMPORIO ARMANI	Jewelry	\$ 100 - 1,200	\$ 207	Major department stores, specialty retailers, jewelry stores and Emporio Armani Boutiques

Brand	Accessory Category	Suggested Price Point Range	Average Price	Distribution Channel
RELIC	Sunglasses	\$ 16 - 24	\$ 20	Major retailers (JCPenney, Kohl's Department Stores, Inc. and Sears)
	Handbags	\$ 22 - 34	\$ 30	
	Small Leather Goods	\$ 10 - 26	\$ 20	
	Belts	\$ 12 - 25	\$ 20	

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 17 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.

The following table sets forth certain information with respect to the Company's apparel line:

Brand	Apparel Lines	Suggested Price Point Range	Average Price	Distribution Channel
FOSSIL	Outerwear	\$ 36 - 68	\$ 45	FOSSIL jeans wear stores and Internet
	Men's Tops	\$ 20 - 48	\$ 32	
	Men's Bottoms	\$ 32 - 44	\$ 40	
	Women's Tops	\$ 16 - 38	\$ 28	
	Women's Bottoms	\$ 32 - 58	\$ 40	
	T-shirts	\$ 12 - 20	\$ 16	

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 an earlier time in America 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 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 17,500 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 for its FOSSIL brand and JCPenney, Kohls and Sears for its RELIC brand, and approximately 12,500 specialty retail locations. 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 Company-owned and 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 2002, 2001 and 2000, domestic department stores accounted for approximately 49.3%, 53.3%, and 59.8% of the Company's net sales, respectively. In addition, in the same periods, the Company's 10 largest customers represented approximately 25%, 39%, and 40% of net sales, respectively. No customer accounted for more than 10% of the Company's net sales in fiscal years 2002, 2001 and 2000. 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 2002, 2001 and 2000.

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 53 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

2002, 2001 and 2000, international and export sales accounted for approximately 38.1%, 34.5%, and 30%, 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 47 outlet stores at the end of fiscal year 2002. 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 five to seven additional outlet stores in 2003.

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 23 accessory retail stores in leading malls and retail locations throughout the United States and 22 accessory retail stores in select international markets. 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 two to three additional retail stores in the United States in 2003. The Company also operates four multi-brand watch stores in Switzerland.

In 2000, the Company began offering FOSSIL brand apparel through specially designed Company-owned apparel stores. The Company currently operates 17 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 2003.

During the fiscal years 2002, 2001 and 2000, Company-owned FOSSIL Store sales accounted for approximately 12%, 12%, and 10% of net sales, respectively.

Internet Sales. In November 1996, the Company established a website at www.fossil.com. The Company offers selected FOSSIL brand watches, certain licensed watch brands, sunglasses, leather goods, apparel, jewelry and other related products. These products are also available to consumers through "storefronts" on America Online, Microsoft Network, Amazon and Yahoo that are connected to the Company's website. In addition to offering selected FOSSIL and licensed brand 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 2002, the Company had 117 in-house sales and customer service employees and 38 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 2002, 2001 and 2000 were \$24.8 million, \$22.5 million, and \$21.2 million respectively. Since 1990, the Company has not experienced any returns in excess of the aggregate allowances therefor. Additional information regarding the Company's major customer, segment and geographic information is located in our financial statements.

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 2002, the Company had unfilled customer orders of approximately \$43.9 million compared to \$57.4 million and \$63.5 million for fiscal years 2001 and 2000, 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, except for the Company's Swiss watches which are made in Switzerland. 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, Korea and Switzerland. The Company estimates that the majority of the movements used in the

manufacture of the Company's watches are supplied by four principal vendors. No other single component supplier accounted for more than 10% of component supplies in 2002. 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 2002, 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 60 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 two to six months in the case of eyewear, from three to four months in the case of leather goods, from two to four months for apparel items and from four to six months for jewelry. 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 Dallas, Texas; Italy; Hong Kong; the United Kingdom; Germany; Australia; Switzerland; and France from which they are shipped to customers in selected markets. The Company's warehouse and distribution facility in Dallas, Texas, near the Company's headquarters, allows the Company to maximize its inventory management and distribution capabilities. In December 2002, the Company acquired a parcel of land in Germany on which it will construct a new 100,000 square foot distribution facility to be operational in late 2003. This facility will support the Company's current distribution operations in

Germany, allow the Company to consolidate its European distribution sites and further support future growth throughout Europe.

The Company's warehouse and distribution facility in Dallas, Texas is 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.

Enterprise Resource Planning. During 2002, the Company began the process of implementing an Enterprise Resource Planning (ERP) system from SAP AG. Over the next few years, the Company intends to replace its existing ERP and other principal financial systems with software systems provided by SAP AG. The initial phase of this project entails implementing SAP's sales and distribution, materials management, demand planning and forecasting and finance modules in North America. Implementation of this initial phase is scheduled for mid-2003.

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 BURBERRY and ZODIAC watches are covered by a 2 year limited 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 in the United States and 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 has also registered or applied for registration in the United States and internationally certain other marks used by the Company in conjunction with the sale and marketing of its products and services, including ZODIAC[®] AVIA, ABACUS and ANTIMA.

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, jewelry 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 2002, the Company (excluding Arrow Merchandising, Inc. and the Company's foreign subsidiaries) had 2,233 employees, including 277 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 2002, the Company's foreign operating subsidiaries had 868 employees, including 80 in managerial positions.

The Company has not entered into any collective bargaining agreements with its domestic 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 2002, the Company owned or leased the following facilities in connection with its domestic and international operations:

Location	Use	Square Footage	Owned / Leased
Richardson, Texas	Corporate headquarters	190,000	Owned
Richardson, Texas	Warehouse and general office	138,000	Owned
Dallas, Texas	Office, warehouse and distribution	517,500	Owned
Hong Kong	Office and warehouse	37,600	Lease expiring in 2003
China	Manufacturing	86,359	Lease expiring in 2005
China	Manufacturing	22,000	Lease expiring in 2003
China	Manufacturing	48,000	Lease expiring in 2006
Tokyo, Japan	Office, warehouse and distribution	3,594	Lease expiring in 2005
Erlstätt, Germany	Office, warehouse and distribution	12,000	Lease expiring in 2010
Milton Keynes, England	Office, warehouse and distribution	8,250	Lease expiring in 2005
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
Bienne, Switzerland	Office, warehouse, distribution and manufacturing	4,779	Lease expiring 2004
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 2002, the Company had entered into 17 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 2010 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 2002, the Company had entered into 25 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 2013. 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 2002, the Company had entered into 50 such leases. The leases, including renewal options, expire at various times from 2003 to 2012, 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 December 2002, the Company acquired a parcel of land in Germany on which it will construct a new 100,000 square foot facility to be operational in August 2003. This facility will support the Company's current operations in Germany as well as allow the Company to further support future growth throughout Europe.

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, cash flows 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 2002.

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 4, 2003 and January 5, 2002. Such prices have been adjusted to reflect a three-for-two stock split (the "3 for 2 Stock Split") of the Company's Common Stock effected as a fifty percent (50%) stock dividend declared on May 14, 2002 and paid on June 7, 2002 to all stockholders of record on May 24, 2002.

	<u>High</u>	<u>Low</u>
Fiscal year beginning January 6, 2002:		
First Quarter	\$18.667	\$13.167
Second Quarter	23.740	17.527
Third Quarter	24.610	15.600
Fourth Quarter	22.620	14.990
Fiscal year beginning December 31, 2000:		
First Quarter	\$13.500	\$ 9.167
Second Quarter	15.567	11.007
Third Quarter	14.867	9.407
Fourth Quarter	15.067	10.767

As of March 28, 2003, the Company estimates that there were approximately 6,000 beneficial owners of the Company's Common Stock, represented by approximately 160 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 3 of the Fossil, Inc. 2002 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 21 of the Fossil, Inc. 2002 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 21 and 29, respectively, of the Fossil, Inc. 2002 Annual Report is incorporated herein by reference.

Item 8. Financial Statements and Supplemental Data

The information appearing under "Financial Information" beginning on page 29 of the Fossil, Inc. 2002 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.

Item 14. Controls and Procedures

Within the 90-day period prior to the filing of this report, an evaluation was carried out under the supervision and with the participation of the Company's management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures was effective. No significant changes were made in our internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

PART IV

Item 15. 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 29 of the Fossil, Inc. 2002 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 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).
- 3.2 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).
- 3.3 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 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).

- 10.18(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).
- 10.19 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).
- 10.20 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).
- 10.21 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).
- 10.22 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).
- 10.23 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).
- 10.24 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) (incorporated by reference to Exhibit 10.28 of the Company's Report on Form 10-K for the year-ended January 5, 2002).
- 10.25 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) (incorporated by reference to Exhibit 10.29 of the Company's Report on Form 10-K for the year-ended January 5, 2002).
- 10.26 Asset Purchase Agreement by and between Meliga Habillement Horloger SA and Montres Antima SA dated October 31, 2001 (without exhibits and schedules) (incorporated by reference to Exhibit 10.30 of the Company's Report on Form 10-K for the year-ended January 5, 2002).
- 10.27 Stock Purchase Agreement by and between Swiss Technology Holding AG and Michel Geiger dated October 31, 2001 (without exhibits and schedules) (incorporated by reference to Exhibit 10.31 of the Company's Report on Form 10-K for the year-ended January 5, 2002).
- 10.28(2) 2002 Restricted Stock Plan of Fossil, Inc. (incorporated by reference to Exhibit 10.32 of the Company's Report on Form 10-K for the year-ended January 5, 2002).
- 10.29 Stock Purchase Agreement by and between Fossil Europe B.V. and Thomas Steinemann dated June 25, 2002 (without exhibits) (incorporated by reference to Exhibit 10.1 of the Company's Report on Form 10-Q for the quarterly period ended July 6, 2002).
- 10.30 Fourth Amendment to Fourth Amended and Restated Loan Agreement dated June 25, 2002 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 10.2 of the Company's Report on Form 10-Q for the quarterly period ended July 6, 2002).

- 10.31 Asset Purchase Agreement among Fossil Canada Inc. and Comark Inc. and Fossil, Inc. dated July 31, 2002 (without exhibits) (incorporated by reference to Exhibit 10.3 of the Company's Report on Form 10-Q for the quarterly period ended July 6, 2002).
- 13(1) Fossil, Inc. 2002 Annual Report to Stockholders.
- 21.1(1) Subsidiaries of Fossil, Inc.
- 23.1(1) Consent of Independent Auditors.
- 99.1(1) Certification of Chief Executive Officer Pursuant to Section 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 99.2(1) Certification of Chief Financial Officer Pursuant to Section 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

-
- (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 4, 2003.

FOSSIL, INC.

/s/ Kosta N. Kartsotis
*Kosta N. 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>
/s/ Tom Kartsotis <i>Tom Kartsotis</i>	Chairman of the Board and Director (Principal Executive Officer)	April 4, 2003
/s/ Kosta N. Kartsotis <i>Kosta N. Kartsotis</i>	President, Chief Executive Officer and Director	April 4, 2003
/s/ Mike L. Kovar <i>Mike L. Kovar</i>	Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	April 4, 2003
/s/ Michael W. Barnes <i>Michael W. Barnes</i>	President, International and Special Markets Division and Director	April 4, 2003
/s/ Richard H. Gundy <i>Richard H. Gundy</i>	President, FOSSIL Watches and Stores Division and Director	April 4, 2003
/s/ Jal S. Shroff <i>Jal S. Shroff</i>	Director	April 4, 2003
/s/ Kenneth W. Anderson <i>Kenneth W. Anderson</i>	Director	April 4, 2003
/s/ Alan J. Gold <i>Alan J. Gold</i>	Director	April 4, 2003
/s/ Michael Steinberg <i>Michael Steinberg</i>	Director	April 4, 2003
/s/ Donald J. Stone <i>Donald J. Stone</i>	Director	April 4, 2003

Certification of Principal Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Kosta N. Kartsotis, certify that:

- 1) I have reviewed this annual report on Form 10-K of Fossil, Inc.;
- 2) Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
- 3) Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
- 4) The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act rules 13a-14 and 15d-14) for the registrant and have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report ("Evaluation Date"); and
 - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
- 5) The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons fulfilling the equivalent functions):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
- 6) The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: April 4, 2003

/s/ Kosta N. Kartsotis
Kosta N. Kartsotis,
President and Chief Executive Officer

Certification of Principal Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Mike L. Kovar, certify that:

- 1) I have reviewed this annual report on Form 10-K of Fossil, Inc.;
- 2) Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
- 3) Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
- 4) The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act rules 13a-14 and 15d-14) for the registrant and have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report ("Evaluation Date"); and
 - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
- 5) The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons fulfilling the equivalent functions):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
- 6) The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: April 4, 2003

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

INDEPENDENT AUDITORS' REPORT

Directors and Stockholders of Fossil, Inc.

We have audited the consolidated financial statements of Fossil, Inc. and subsidiaries as of January 4, 2003 and January 5, 2002, and for each of the three years in the period ended January 4, 2003, and have issued our report thereon dated February 24, 2003; such consolidated financial statements and report are included in your 2002 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 15. 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 24, 2003

SCHEDULE II

FOSSIL, INC. AND SUBSIDIARIES
VALUATION AND QUALIFYING ACCOUNTSFiscal Years 2000, 2001, and 2002
(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 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)
Fiscal Year 2002:				
Accounts receivable allowances:				
Sales returns	22,457	35,832	(33,476)	24,813
Bad debts	11,710	2,839	(1,932)	12,617
Cash discounts	325	419	(465)	279
Inventory in transit for estimated customer returns	(13,236)	(21,725)	19,936	(15,025)

EXHIBIT INDEX

Exhibit Number	Description
3.1	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).
3.2	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).
3.3	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 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).
 - 10.18(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).
 - 10.19 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).
 - 10.20 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).
 - 10.21 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).
 - 10.22 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).
 - 10.23 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).
-

- 10.24 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) (incorporated by reference to Exhibit 10.28 of the Company's Report on Form 10-K for the year-ended January 5, 2002).
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(1) Filed herewith.
(2) Management contract or compensatory plan or arrangement.

DOC 2 : Header

Exhibit 13

FOSSIL > 2002 ANNUAL REPORT

[ILLUSTRATION]

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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 Company's proprietary FOSSIL®, RELIC® and ZODIAC® brands as well as licensed brands for some of the most prestigious companies in the world, including EMPORIO ARMANI®, DKNY®, DIESEL® and BURBERRY®. The Company also offers complementary lines of small leather goods, belts, handbags and sunglasses under the FOSSIL and RELIC brands, jewelry under the FOSSIL and EMPORIO ARMANI brands and FOSSIL apparel. 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 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. Additionally, the Company's centralized infrastructure in development/ design coupled with its production/sourcing capabilities allows it to leverage the strength of its branded watch portfolio over an extensive global distribution network.

[GRAPH - NET SALES]

[GRAPH - OPERATING INCOME]

[GRAPH - NET INCOME]

[GRAPH - STOCKHOLDERS' EQUITY]

FINANCIAL HIGHLIGHTS

Fiscal Year	2002	2001	2000	1999	1998
<i>IN THOUSANDS, EXCEPT PER SHARE DATA</i>					
Net sales	\$ 663,338	\$ 545,541	\$ 504,285	\$ 418,762	\$ 304,743
Gross profit	334,085	271,850	255,746	212,887	150,504
Operating income	95,930	76,854	93,821	87,449	55,370
Income before income taxes	95,979	72,804	94,717	87,841	54,729
Net income	58,907	43,683 (1)	55,883	51,826	32,161
Earnings per share: (2)					
Basic	1.28	0.97 (1)	1.18	1.08	0.69
Diluted	1.22	0.93 (1)	1.14	1.03	0.66
Weighted average common shares outstanding: (2)					
Basic	45,993	45,251	47,534	47,850	46,581
Diluted	48,238	46,860	49,013	50,142	48,879
Working capital	\$ 241,177	\$ 163,280	\$ 169,792	\$ 155,198	\$ 109,040
Total assets	482,526	380,863	307,591	269,364	194,078
Long-term debt	—	—	—	—	—
Stockholders' equity	340,541	264,023	220,699	191,197	134,919
Return on average stockholders' equity	19.9 %	18.3 %	26.9 %	32.2 %	29.3 %

(1) Includes a \$2.9 million one-time charge 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 relationship. Excluding this one-time charge, pro forma net income, basic earnings per share and diluted earnings per share were \$46.5 million, \$1.03 and \$0.99, respectively.

(2) All share and per share price data has been adjusted to reflect three-for-two stock splits effected in the form of a stock dividend paid on August 17, 1999 and June 7, 2002.

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. All share price data has been adjusted to reflect a three-for-two stock split effected in the form of a stock dividend paid on June 7, 2002. Stock prices have been adjusted in certain cases to the nearest traded amount.

	2002		2001	
	High	Low	High	Low
First quarter	\$ 18.667	\$ 13.167	\$ 13.500	\$ 9.167
Second quarter	23.740	17.527	15.567	11.007
Third quarter	24.610	15.600	14.867	9.407
Fourth quarter	22.620	14.990	15.067	10.767

As of March 28, 2003, the Company estimates that there were approximately 6,000 beneficial owners of the Company's Common Stock, represented by approximately 160 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.

LETTER TO STOCKHOLDERS

Dear Stockholders,

We are pleased to report that during 2002, FOSSIL expanded its global market share and achieved record levels of sales and earnings. We are also pleased with the Company's ability to intensify its focus on the creative, financial, operational and strategic aspects of our different businesses. During the year, the Company demonstrated an ability to operate effectively even during a time when consumers around the world were decreasing their spending. We ended 2002 with strong growth in sales, operating income and earnings per share. Additionally, our balance sheet and inventory levels are in good shape and we have no long-term debt. Our shareholders were rewarded with a 44% increase in the value of the enterprise during 2002.

The Company's focus on diversification by brand, distribution channel, customer and geography has created a strong operating model. In 2002, we grew by both increasing the absolute number of business platforms that we offer to retailers and by increasing our sales within each platform. We attribute this success to our disciplined approach to manufacturing, sourcing and distribution. Our sourcing and distribution systems are efficient and our operating model generates high levels of predictability and profitability.

The following are some of the specific objectives that the Company was able to accomplish during 2002:

- Achieved strong growth in FOSSIL watches worldwide
- Significantly expanded RELIC watches and accessories
- Laid the groundwork for our Swiss watch offerings with the launch of BURBERRY and ZODIAC
- Introduced EMPORIO ARMANI jewelry
- Significantly grew our international presence with FOSSIL brand and licensed watches
- Increased distribution capacity in the United States
- Announced plans to introduce our first wrist technology offerings through partnerships with PalmSource and Microsoft

As we look ahead, we believe our strategies and initiatives provide us an outstanding opportunity for continued growth over the next three to five years. Domestically, we will continue to pursue an expansion of market share for our RELIC and FOSSIL brands. Our licensed brands should grow faster than the overall market this year. With our Swiss initiative, we will capture new distribution by selling jewelry stores in the United States for the first time. Furthermore, we will add new distribution by selling our technology watches to a large number of consumer electronic stores in the United States.

Internationally, we are focused on fine-tuning our global distribution systems in order to improve operational efficiencies. We believe that we are just now starting to penetrate a business that we estimate to be twice the size of the U.S. market. The U.K., France, Italy, Spain, Switzerland and all of Asia should represent significant growth opportunities for us as we continue to expand our business model.

We appreciate the support we received from our retail partners around the world during 2002. We also appreciate the tenacity that was exhibited by our global management team in continuing in their effort to aggressively capture market share and to do so efficiently. We believe that we have significant momentum, that our systems are sound and that our future should bring continued success.

Sincerely,



Tom Kartsotis
Chairman



Kosta Kartsotis
President & Chief
Executive Officer

[ILLUSTRATION]

[ILLUSTRATION]

LEVERAGE > BRANDS

Our globally recognized brand portfolio allows us to adapt to any market.

[ILLUSTRATION]

[ILLUSTRATION]

[ILLUSTRATION]

LEVERAGE > DISTRIBUTION CHANNELS

Our distribution presence has grown to over 90 countries throughout the world and allows for continued growth as we expand our offering in under-penetrated markets and develop new channels of distribution.

[ILLUSTRATION]

LEVERAGE > DESIGN/PRODUCTION

[ILLUSTRATION]

Our centralized design and production teams stay abreast of fashion trends and advances in technology resulting in product differentiation that keeps us in front of our competitors.

COMPANY OVERVIEW

WATCHES

Fossil:

The Company's FOSSIL brand continues to expand inside and outside the US, with 11% sales growth during 2002. Over the last several years, the Company has upgraded its entire assortment to include stainless steel components that further advances its competitive advantage due to the high value/quality relationship. The strengths of the FOSSIL design team coupled with the Company's production expertise continues to increase the brand's market share worldwide and position it as one of the leading brands in the fashion watch category. Over the last three years, the Company has seen its FOSSIL business in the U.S. grow significantly in the specialty retail channel, to the point that more watches are being sold through this channel today than department stores. On the international front, strategic brand building initiatives, including the opening of FOSSIL retail stores and increased advertising in the wholesale channel, have resulted in significant sales growth. Management believes opportunities exist in the international market that would allow its FOSSIL business to grow to the size of that achieved in the U.S. over the next three to four years.

Relic:

The RELIC brand continues to gain market share and has become a recognized brand in leading national chain department stores. Leveraging the Company's design and production capabilities allows RELIC to continue to offer fashion right watches at modest prices. The growth of RELIC accessories over the last year has further assisted in the recognition of this brand as a significant name in its distribution channel.

Licensed Fashion Brands:

The Company's strengths in design and production, coupled with its global distribution network, have been instrumental in allowing it to attract licensing arrangements with some of the most prestigious companies in the world. This licensed watch group, that includes EMPORIO ARMANI, DKNY, DIESEL, COLUMBIA and PHILLIP STARCK, represented approximately 21% of the Company's net sales in 2002, compared to 17.5% in the prior year. Combined with the Company's proprietary fashion watch brands and the newly introduced Swiss brands, these licensed brands have assisted the Company in building a watch portfolio that allows the Company to tailor its offerings to the demands of the global marketplace.

Swiss Brands:

The Company initiated its Swiss watch strategy in late 2001 by acquiring three companies in Switzerland that specialized in design, sourcing and production of high-quality Swiss-made watches. In addition to these acquisitions, the Company purchased the ZODIAC brand, which carries a 120 year Swiss watch heritage, and entered into a global licensing arrangement with Burberry for design, production, marketing and distribution of BURBERRY fine timepieces. These offerings will allow the Company to immediately leverage its international distribution channels. Additionally, the Company is in the process of finalizing its sales infrastructure in the U.S. that will allow it to distribute watches to fine jewelry departments in major department stores and specialty jewelry stores for the first time.

Technology Offerings:

Over the last three years, the Company has invested significant time and money in research and development associated with new applications for the watch market. This investment has centered on developing innovative and diversified products, primarily mobile communication devices, that can be worn on the wrist. As a result, in 2002 the Company announced that it would be delivering the first wearable full-functioning Palm Powered device pursuant to a licensing arrangement with PalmSource. This product provides consumers convenient access to information while on-the-go in a sleek and compact form factor. The Company also announced in 2002 its partnership with Microsoft to develop a wrist device utilizing SPOT (Microsoft's Smart Personal Objects Technology). This new watch will enable users to receive and display timely, customized web content at the convenient flick of a wrist. Both of these products are scheduled to launch in 2003.

JEWELRY

The Company believes the fashion jewelry category provides many of the same competitive advantages as its watch business. These advantages include portability, predictability and profitability. As a result, the Company initially developed FOSSIL jewelry in Germany to further leverage the FOSSIL brand and customer relationships in the German market and to take advantage of this synergistic category. In two years, net sales from this offering have grown to approximately \$15 million in Germany and the Company is testing this category in other locations around the world. Additionally, the Company signed a global license arrangement for design, production and distribution of EMPORIO ARMANI jewelry worldwide. The Company tested this product offering in late 2002 and will be launching into hundreds of doors worldwide during fiscal 2003.

ACCESSORIES

The accessory division of Fossil exhibited solid growth in 2002 with sales increases of 12%. The Company's handbag, small leather, belt and sunglass businesses under the FOSSIL brand are a major resource for moderately priced department stores throughout the U.S. Innovative designs and competitively priced products have allowed the Company to gain market share in this distribution channel in 2002. Additionally, expansion of RELIC accessories in late 2001 has solidified RELIC as a major brand in national department stores throughout the U.S., as well as leveraged the design and production capabilities of the Company's accessory division.

DIRECT BUSINESSES

The Company's full price stores continue to provide an exciting format in which to display the Company's increasing FOSSIL product assortment and to convey the FOSSIL brand image. These stores are primarily located in major metropolitan malls, high traffic street locations and major entertainment theme parks throughout the U.S., Canada, Europe and the Far East. Furthermore, these stores are excellent vehicles for testing new product offerings. The Company also operates its own outlet stores throughout the U.S. These stores allow the Company to control the timely liquidation of discontinued merchandise while maintaining the integrity of the FOSSIL brand.

Fossil.com, the Company's award winning and highly successful website, provides another excellent format in which to display the FOSSIL product assortment and convey the FOSSIL brand image. The website attracts approximately 1.4 million unique visitors each month. The integration of the site with the Company's distribution facility allows the visitor real-time information on product availability. The Company has accumulated a database of 1.6 million users who have signed up to receive weekly or monthly emails. Additionally, this site provides extensive financial and investor relations information for interested investors.

[ILLUSTRATION]

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JEWELRY >

Jewelry offers many of the same competitive characteristics seen in our watch business and allows for further expansion of our brands.

[ILLUSTRATION]

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[ILLUSTRATION]

ACCESSORIES >

[ILLUSTRATION]

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The Company's accessory lines continue to expand the FOSSIL and RELIC brand visibility.

[ILLUSTRATION]

DIRECT CHANNELS >

[ILLUSTRATION]

The Company's retail stores and website provide an exciting format in which to display the Company's increasing FOSSIL product assortment and to convey the FOSSIL brand image.

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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 an earlier time in America 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 dominant global watch company with a well-recognized branded portfolio delivered over an extensive distribution network. The Company's principle offerings include an extensive line of watches sold under the Company's proprietary brands FOSSIL, RELIC and ZODIAC as well as licensed brands for some of the most prestigious companies in the world including, EMPORIO ARMANI, DKNY, DIESEL and BURBERRY. The Company also offers complementary lines of small leather goods, belts, handbags and sunglasses under the FOSSIL and RELIC brands, jewelry under the FOSSIL and EMPORIO ARMANI brands and FOSSIL apparel. The Company's centralized infrastructure in design/development and production/sourcing allows it to leverage the strength of its branded watch portfolio over an extensive global distribution network.

The Company's products are sold primarily to department stores and specialty retail stores in over 90 countries worldwide through Company-owned foreign sales subsidiaries and through a network of 53 independent distributors. The Company's foreign operations include wholly or majority-owned subsidiaries in Australia, Canada, France, Germany, Hong Kong, Italy, Japan, Singapore, Switzerland and the U.K. In addition, the Company's products are offered at Company-owned retail locations, primarily 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 during the last five fiscal years.

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 judgments, including those related to product returns, bad debts, and inventories. Management bases its estimates and judgments 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 judgments 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 judgments.

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 and the resulting credit returns 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 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

- During 2002, the Company continued to extend its product offering and geographical distribution. As a result, net sales increased 22% with contributions from all major product categories and businesses.
- Sales from the Company's international businesses increased 36% (29% excluding currency gains), including a 45% increase in Europe (36% excluding currency gains). Primary drivers of this increase were licensed watches, FOSSIL watches and FOSSIL jewelry. Sales from businesses acquired during the year were \$6.7 million.
- Domestic watch sales increased 11% as a result of an 8% increase in FOSSIL and a 68% increase in licensed brands. RELIC watches increased slightly for the year, but experienced double-digit growth in the second half of the year, benefiting from expanded visibility and intensified brand imaging associated with the expansion of RELIC accessories.
- Other domestic sales increased 14% as a result of growth in both FOSSIL and RELIC brand accessory products. RELIC accessories increased 57% as the product continued to gain market share after the expansion of this category in the fall of 2001.
- Sales from the Company's retail stores increased 22% as a result of a 12% increase in the average number of stores opened during the year and same store sales increases of 10%. The Company operated 104 stores at the end of the year, consisting of 47 outlet, 23 accessory and 18 jeans-wear stores in the United States and 16 accessory stores located outside the United States. This compares to 91 stores open at the end of the prior year; 44 outlet, 20 accessory and 19 jeans-wear stores in the United States and 8 accessory stores located outside the United States.

New Products and Acquisitions

- The Company introduced its Swiss-made timepiece collections, BURBERRY and ZODIAC, on a limited basis during the fourth quarter of 2002. A more significant roll-out of these brands is anticipated in the second half of 2003.
- EMPORIO ARMANI jewelry was introduced in the fourth quarter of 2002. This product extension will allow the Company to leverage its existing sales infrastructure worldwide.
- The Company continued to expand its fashion watch offering by launching COLUMBIA watches in the United States in 2002.
- In the technology area, the Company announced its license arrangement with PalmSource to launch the first wrist PDA with a fully functional Palm operating system. This product combines the functionality of the Palm OS system and the portability of a watch. The product is scheduled to launch in mid-2003. Additionally, the Company announced its partnership with Microsoft to launch "SPOT" (Smart Personal Objects Technology), watches in the latter part of 2003. This product will allow personalized information to be delivered to a watch via FM radio frequency. These two technology offerings will allow the Company to expand its watch distribution into national electronic superstores as well as other electronic specialty retailers.
- The Company acquired its former watch distributor and operator of four watch retail stores in Switzerland. Four FOSSIL retail stores were acquired in Canada during 2002. Additionally, the Company acquired the remaining 50% interest of its former joint venture company in Japan.

Infrastructure Additions

- The Company began consolidating its U.S. based warehouse and distribution operations into its new 517,000 square foot state-of-the-art distribution facility in Dallas, Texas in April 2002. The Company completed this transition in early January 2003.
- During December 2002, the Company acquired a parcel of land in Germany on which it will construct a new 100,000 square foot facility anticipated to be operational in August 2003. This facility will support the Company's current operations in Germany as well as allow the Company to further support future growth throughout Europe.
- Over the past year, the Company has been engaged in implementing a new enterprise resource planning system for its North American operations. Completion of this initial phase is scheduled for 2003. The Company plans on expanding this implementation into its European facilities beginning in late 2003.

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	2002	Percentage	2001	Percentage	2000
		change from 2001		change from 2000	
Net sales	100.0 %	21.6 %	100.0 %	8.2 %	100.0 %
Cost of sales	49.6	20.3	50.2	10.1	49.3
Gross profit	50.4	22.9	49.8	6.3	50.7
Operating expenses	35.9	22.1	35.7	20.4	32.1
Operating income	14.5	24.8	14.1	(18.1)	18.6
Interest expense	—	(66.4)	0.1	150.3	—
Other income (expense)net	—	104.2	(0.7)	(464.3)	0.2
Income before income taxes	14.5	31.8	13.3	(23.1)	18.8
Provision for income taxes	5.6	27.3	5.3	(25.0)	7.7
Net income	8.9 %	34.9 %	8.0 %	(21.8)%	11.1 %

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		
	2002	2001	2000	2002	2001	2000
International:						
Europe	\$ 189.5	\$ 130.3	\$ 99.5	28.6 %	23.9 %	19.7 %
Other	63.5	56.1	53.3	9.6	10.3	10.6
Total international	253.0	186.4	152.8	38.2	34.2	30.3
Domestic:						
Watch products	201.4	180.6	202.7	30.4	33.1	40.2
Other products	125.8	110.3	99.0	18.9	20.2	19.6
Total domestic	327.2	290.9	301.7	49.3	53.3	59.8
Stores worldwide	83.1	68.2	49.8	12.5	12.5	9.9
Total net sales	\$ 663.3	\$ 545.5	\$ 504.3	100.0 %	100.0 %	100.0 %

FISCAL 2002 COMPARED TO FISCAL 2001

Net Sales. Net sales increased 22% for the year (19% excluding currency gains). This increase was led by strong sales volume growth in the Company's international businesses, primarily from Europe which experienced a 45% increase (36% excluding currency gains). The Company believes its strategy of utilizing its impressive portfolio of watch brands continues to position it for further market penetration in Europe and the Far East. Also, the Company believes the addition of Swiss-made BURBERRY and ZODIAC watches and EMPORIO ARMANI jewelry will further advance its product offerings and allow for long-term leverage of its existing distribution infrastructure inside and outside the U.S. Businesses acquired in Switzerland, Canada and Japan contributed approximately \$6.7 million to international sales. In the U.S., sales from the Company's domestic wholesale businesses grew 12% as a result of further expansion of RELIC accessories, significant growth in licensed watch sales and solid growth in FOSSIL watches and accessories. Market expansion of RELIC handbags, small leather goods and sunglasses in the national department store channel accelerated beyond the launch of these product categories in 2001. Licensed watch sales growth in 2002 benefited from the launch of the COLUMBIA brand and further market penetration in DIESEL, EMPORIO ARMANI and DKNY. FOSSIL watches grew market share in the U.S. during 2002 and further expanded its leading fashion watch position in department and selected specialty stores. Additionally, the Company believes Swiss-made BURBERRY and ZODIAC watches, EMPORIO ARMANI jewelry and newly developed technology watch offerings will allow it to expand into additional distribution channels in the U.S., primarily specialty watch and jewelry stores and retail electronic stores, during 2003 and beyond.

Gross Profit. Gross profit margin increased to 50.4% compared to 49.8% in the prior year. This increase is attributed to increased sales mix from the Company's international businesses and licensed watches as a percentage of total sales. International sales and licensed watch sales grew to approximately 38% and 21% of total sales during 2002, respectively, as compared to 34% and 17.5% during 2001, respectively. Both international and licensed watch sales generally provide gross margins in excess of the Company's historical consolidated gross profit margin. Additionally, gross profit margin was favorably impacted from a lower sales mix of accessory products that generally provide gross profit margins below the Company's historical consolidated gross profit margin. A stronger Euro during 2002 compared to the prior year slightly benefited gross profit margin. The Company believes gross profit margin for 2003 will increase slightly as management expects sales from its international businesses and licensed watch businesses to increase at a faster rate than its domestic accessory business.

Operating Expenses. Operating expenses, as a percentage of net sales, increased to 35.9% compared to 35.7% for the prior year. The \$43 million increase in operating expenses primarily reflects increased variable costs to support sales growth, as well as higher distribution costs relating to the Company's new distribution facility, increased payroll cost, increased advertising expenditures, operating expenses related to acquired businesses and higher costs in Europe due to the effects of a stronger Euro. The increase in payroll and advertising costs is primarily associated with new business initiatives, including Swiss-made watches, jewelry and new technology products. The Company believes operating cost, as a percentage of net sales, will increase slightly during 2003 as it incurs costs, inclusive of advertising, related to these product offerings. During 2003, management believes advertising costs, as a percentage of net sales, could increase 50 to 100 basis points to support these new product offerings and further expansion of advertising for FOSSIL watches worldwide.

Operating Income. Increased sales and improved gross profit margin more than offset increases in operating expenses for the year. As a result, the Company's operating profit margin increased to 14.5% from 14.1% in the prior year. For fiscal 2003, management believes slight improvement in gross profit margin will be offset by operating expense increases resulting in operating margins consistent with fiscal 2002. Management believes long-term sustainable margins in the 17% range are achievable as the Company continues to grow its sales, further leverages the new infrastructure costs and consolidates its existing infrastructure in Europe.

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 (losses) of its non-consolidated joint venture. During 2002, other income (expense) decreased unfavorably by approximately \$900,000 primarily as a result of reduced interest income due to lower yields on invested cash balances and the effects of a \$500,000 legal settlement received by the Company in the prior year.

Income Taxes. The Company's effective income tax rate decreased to 38.6% during 2002 compared to 40% in the prior year. This decrease was primarily related to a higher mix of income generated from countries whose statutory income tax rates are lower than the Company's historical average income tax rate. Management believes this trend in its mix of income will continue and, as a result, expects its income tax rate to continue to decrease in 2003.

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.

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.

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.

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). 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.

EFFECTS OF INFLATION

Management does not believe that inflation has 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 costs 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 2002 and management does not anticipate any significant changes in such exposures 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 increased to \$118 million in comparison to \$73 million at the end of the prior year. This increase in cash flow is primarily derived from \$81 million of net cash generated from operating activities offset by \$27 million in capital expenditures and \$14 million in debt reduction.

Accounts receivable at year-end were \$86 million compared to \$74 million at the end of the prior year. This 17% increase is below the 22% sales increase for the year and resulted in days sales outstanding decreasing to 37 days compared to 38 days in the prior year. Inventory at year-end was on plan and current at \$122 million, representing a 17% increase from the \$104 million at the end of the prior year. This \$18 million increase was entirely related to the Company's international businesses as its domestic inventories remained unchanged compared to the prior year.

At the end of the year, the Company had working capital of \$241 million compared to working capital of \$163 million at the end of the prior year. The Company had no outstanding borrowings against its \$40 million bank credit facility at the end of the year. Management believes that cash flow from operations combined with existing cash on hand and amounts available under its credit facility will be sufficient to satisfy the cash requirements of its working capital needs for at least the next eighteen months. For disclosure regarding the Company's contractual obligations, see Note 10 to the consolidated 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 2003. The actual results may differ materially from those expressed by these forward-looking statements. Significant factors that could cause the Company's 2003 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 2002	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA				
Net sales	\$ 143,680	\$ 142,460	\$ 164,821	\$ 212,377
Gross profit	71,492	71,475	81,579	109,539
Operating expenses	52,229	55,306	58,419	72,201
Operating income	19,263	16,169	23,160	37,338
Income before income taxes	19,367	15,962	23,112	37,538
Provision for income taxes	7,552	6,224	9,015	14,281
Net income	11,815	9,738	14,097	23,257
Earnings per share:				
Basic	0.26	0.21	0.31	0.50
Diluted	0.25	0.20	0.29	0.48
Gross profit as a percentage of net sales	49.8 %	50.2 %	49.5 %	51.6 %
Operating expenses as a percentage of net sales	36.4 %	38.8 %	35.4 %	34.0 %
Operating income as a percentage of net sales	13.4 %	11.3 %	14.1 %	17.6 %

Fiscal Year 2001	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA				
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 (1)
Earnings per share:				
Basic	0.22	0.16	0.24	0.35 (1)
Diluted	0.21	0.16	0.23	0.33 (1)
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 %

(1) Includes a \$2.9 million one-time charge 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. Excluding this one-time charge, pro forma net income, basic earnings per share and diluted earnings per share were \$18.5 million, \$0.41 and \$0.39, respectively.

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 2002 were at or near retailers' target inventory levels, although on average, slightly higher than the levels at the end of 2001.

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 launches would generally augment the sales levels in the quarter in which 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

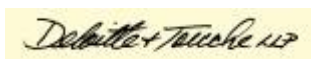
INDEPENDENT AUDITORS' REPORT

Directors and Stockholders of Fossil, Inc.

We have audited the accompanying consolidated balance sheets of Fossil, Inc. and subsidiaries as of January 4, 2003 and January 5, 2002, 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 4, 2003. 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 4, 2003 and January 5, 2002, and the results of their operations and their cash flows for each of the three years in the period ended January 4, 2003, in conformity with accounting principles generally accepted in the United States of America.



Deloitte & Touche LLP
Dallas, Texas
February 24, 2003

REPORT OF MANAGEMENT

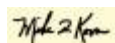
The accompanying consolidated financial statements and other information contained in this Annual Report have been prepared by management. The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and include amounts that are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

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.



Kosta Kartsois
*President and
Chief Executive Officer*



Mike L. Kovar
Senior Vice President, Chief Financial Officer and Treasurer

CONSOLIDATED BALANCE SHEETS
AMOUNTS IN THOUSANDS

Fiscal Year	2002	2001
Assets		
Current assets:		
Cash and cash equivalents	\$ 112,348	\$ 67,491
Short-term marketable investments	5,576	5,360
Accounts receivable net	86,351	74,035
Inventories	121,823	103,662
Deferred income tax benefits	13,597	8,718
Prepaid expenses and other current assets	15,944	10,251
Total current assets	355,639	269,517
Investment in joint ventures	1,926	1,099
Property, plant and equipment net	103,112	90,036
Intangible and other assets net	21,849	20,211
Total assets	\$ 482,526	\$ 380,863
Liabilities and Stockholders' Equity		
Current liabilities:		
Notes payable	\$ 2,505	\$ 15,955
Accounts payable	32,999	21,266
Accrued expenses:		
Co-op advertising	13,784	14,838
Compensation	11,314	8,594
Other	33,028	27,679
Income taxes payable	20,832	17,905
Total current liabilities	114,462	106,237
Deferred income tax liability	23,599	7,318
Commitments (Note 10)		
Minority interest in subsidiaries	3,924	3,285
Stockholders' equity:		
Common stock, 46,392,123 and 30,284,369 shares issued and outstanding, respectively	464	303
Additional paid-in capital	27,096	15,241
Retained earnings	311,019	252,112
Accumulated other comprehensive income (loss)	4,263	(3,633)
Deferred compensation	(2,301)	—
Total stockholders' equity	340,541	264,023
Total liabilities and stockholders' equity	\$ 482,526	\$ 380,863

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA

Fiscal Year	2002	2001	2000
Net sales	\$ 663,338	\$ 545,541	\$ 504,285
Cost of sales	329,253	273,691	248,539
Gross profit	334,085	271,850	255,746
Operating expenses:			
Selling and distribution	186,634	149,807	126,239
General and administrative	51,521	45,189	35,686
Total operating expenses	238,155	194,996	161,925
Operating income	95,930	76,854	93,821
Interest expense	107	319	128
Write-off of investment in joint venture	—	(4,776)	—
Other income (expense)—net	156	1,045	1,024
Income before income taxes	95,979	72,804	94,717
Provision for income taxes	37,072	29,121	38,834
Net income	\$ 58,907	\$ 43,683	\$ 55,883
Other comprehensive income (loss), net of taxes:			
Currency translation adjustment	11,510	(1,374)	827
Unrealized (loss) gain on marketable investments	(83)	(35)	187
Forward contracts as hedge of intercompany foreign currency payments:			
Cumulative effect of implementing SFAS No.133	—	(400)	—
Change in fair values	(3,531)	421	—
Total comprehensive income	\$ 66,803	\$ 42,295	\$ 56,897
Earnings per share:			
Basic	\$ 1.28	\$ 0.97	\$ 1.18
Diluted	\$ 1.22	\$ 0.93	\$ 1.14
Weighted average common shares outstanding:			
Basic	45,993	45,251	47,534
Diluted	48,238	46,860	49,013

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
AMOUNTS IN THOUSANDS

	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		deferred compensation
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 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
Common stock issued upon exercise of stock options	970	10	6,433	—	—	—	—	—	—	—	6,443
Tax benefit derived from exercise of stock options	—	—	3,053	—	—	—	—	—	—	—	3,053
Repurchase and retirement of common stock	(4)	—	(59)	—	—	—	—	—	—	—	(59)
Three-for-two-stock split	15,142	151	(156)	—	—	—	—	—	—	—	(5)
Restricted stock issued in connection with deferred compensation plan	—	—	2,584	—	—	—	—	—	—	(2,584)	—
Amortization of deferred compensation.	—	—	—	—	—	—	—	—	—	283	283
Net income	—	—	—	58,907	—	—	—	—	—	—	58,907
Unrealized loss on marketable investments	—	—	—	—	—	(83)	—	—	—	—	(83)
Currency translation adjustment	—	—	—	—	11,510	—	—	—	—	—	11,510
Forward contracts as hedge of intercompany foreign currency payments:											
Change in fair values	—	—	—	—	—	—	(3,531)	—	—	—	(3,531)
Balance, January 4, 2003	46,392	\$ 464	\$ 27,096	\$ 311,019	\$ 8,268	\$ (495)	(3,510)	—	\$ —	(2,301)	\$ 340,541

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
AMOUNTS IN THOUSANDS

Fiscal Year	2002	2001	2000
Operating Activities:			
Net income	\$ 58,907	\$ 43,683	\$ 55,883
Noncash items affecting net income:			
Write-off of investment in joint venture	—	4,776	—
Minority interest in subsidiaries	1,958	1,430	1,786
Equity in (income) losses of joint ventures	(827)	933	381
Depreciation and amortization	14,230	9,627	6,436
Amortization of deferred compensation	283	—	—
Tax benefit derived from exercise of stock options	3,053	1,160	470
Loss on disposal of assets	369	316	420
Increase in allowance for doubtful accounts	907	1,811	1,523
Increase in allowance for returns net of related inventory in transit	484	268	742
Deferred income taxes	13,674	6,378	(1,010)
Changes in operating assets and liabilities, net of effects of acquisitions:			
Accounts receivable	(15,537)	(7,340)	(15,983)
Inventories	(14,783)	(15,776)	(15,993)
Prepaid expenses and other current assets	(5,463)	712	(2,509)
Accounts payable	16,398	(1,886)	7,842
Accrued expenses	6,802	4,998	(2,274)
Income taxes payable	594	(2,184)	2,574
Net cash from operating activities	<u>81,049</u>	<u>48,906</u>	<u>40,288</u>
Investing Activities:			
Business acquisitions, net of cash acquired	(4,373)	(15,787)	—
Effect of de-consolidating former subsidiary	—	(747)	—
Additions to property, plant and equipment	(26,860)	(55,610)	(20,341)
(Purchase) sale of marketable investments	(216)	5,951	(442)
Investment in joint ventures	—	(373)	(2,196)
Decrease (increase) in intangible and other assets	917	(810)	(818)
Net cash used in investing activities	<u>(30,532)</u>	<u>(67,376)</u>	<u>(23,797)</u>
Financing Activities:			
Proceeds from exercise of stock options	6,438	2,625	838
Net purchase of treasury stock	—	—	(268)
Acquisition and retirement of common stock	(59)	(3,543)	(27,806)
Distribution of minority interest earnings	(1,319)	(1,116)	(492)
(Payments) borrowings on notes payable-net	(13,998)	8,904	64
Net cash (used in) from financing activities	<u>(8,938)</u>	<u>6,870</u>	<u>(27,664)</u>
Effect of exchange rate changes on cash and cash equivalents	3,278	(410)	(234)
Net increase (decrease) in cash and cash equivalents	<u>44,857</u>	<u>(12,010)</u>	<u>(11,407)</u>
Cash and cash equivalents:			
Beginning of year	<u>67,491</u>	<u>79,501</u>	<u>90,908</u>
End of year	<u>\$ 112,348</u>	<u>\$ 67,491</u>	<u>\$ 79,501</u>

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 current year. The additional week did not have a material impact on comparability between periods presented. References to 2002, 2001, and 2000 are for the fiscal years ended January 4, 2003, January 5, 2002 and December 30, 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 \$5.6 million and \$5.4 million for fiscal years 2002 and 2001, 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.

Accounts Receivable are stated net of allowances of approximately \$24.8 million and \$22.5 million for estimated customer returns and approximately \$12.6 million and \$11.7 million for doubtful accounts at the close of fiscal years 2002 and 2001, 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. In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets", issued in July 2001, cost in excess of tangible assets acquired and other indefinite-lived intangible assets related to business combinations occurring on or after July 1, 2001, are tested for impairment rather than amortized. During 2001 and prior periods, cost in excess of tangible assets acquired relative to business combinations occurring prior to July 1, 2001, were amortized using the straight-line method over 20 years.

Cumulative Translation Adjustment is included as a component of other comprehensive income (loss) 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 losses of approximately \$500,000, gains of \$300,000 and losses of \$400,000 for fiscal years 2002, 2001 and 2000, 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 (loss). At January 4, 2003, the Company had hedge contracts to sell (i) 63.1 million Euro for approximately \$59.9 million, expiring through December 2003, and (ii) approximately 1.1 million British Pounds for approximately \$1.5 million, expiring through February 2003. If the Company were to settle its Euro and British Pound based contracts at fiscal year-end 2002, the net result would be a loss of approximately \$3.5 million, net of taxes. This unrealized loss is recognized in other comprehensive income (loss). 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 (loss). The net decrease in fair value of \$3.5 million during fiscal 2002 and net increase in fair value of \$421,000 during fiscal 2001, are reported as other comprehensive income (loss). The net decrease in fiscal 2002 of \$3.5 million consisted of net losses from these hedges of \$4.0 million less \$500,000 of net losses reclassified into earnings. The increase in fiscal 2001 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 coop advertising, internet portal costs and promotional allowances are expensed as incurred. Advertising expenses for fiscal years 2002, 2001 and 2000 were approximately \$41.9 million, \$36.9 million and \$36.5 million, respectively.

New Accounting Standards. In June 2002, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 146, “Accounting for Costs Associated with Exit or Disposal Activities.” SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies the guidance previously provided in EITF No. 94-3, “Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring).” SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity is recognized at fair value when the liability is incurred rather than at the date of a commitment to an exit or disposal plan. The provisions of SFAS No. 146 will be effective for disposal activities initiated after December 31, 2002.

In December 2002, the FASB issued SFAS No. 148, “Accounting for Stock-Based Compensation - Transition and Disclosure.” SFAS No. 148 amends SFAS No. 123, “Accounting for Stock-Based Compensation” to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of Statement No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. SFAS No. 148 is effective for periods beginning after December 15, 2002. Accordingly, the Company will begin making the disclosures required by SFAS No. 148 beginning in the first quarter of fiscal year 2003.

In November 2002, the Emerging Issues Task Force (“EITF”) reached a consensus on Issue No. 02-16, “Accounting by a Customer (Including a Reseller) for Cash Consideration Received from a Vendor.” EITF Issue No. 02-16 provides guidance on how cash consideration received by the Company, as a reseller of others’ goods, should be classified in its statement of earnings. The Company does not expect EITF Issue No. 02-16 to have a material impact on its consolidated financial position or operating results.

In July 2001, the 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 are not amortized in fiscal 2002 but are to be tested for impairment annually and also in the event of an impairment indication. The adoption of these standards did not have a material effect on the Company’s financial statements.

The FASB also issued SFAS No. 144, “Accounting for the Impairment or the Disposal of Long-Lived Assets,” became 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 adoption of this standard did not have a material effect on the Company’s financial statements.

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 <i>IN THOUSANDS, EXCEPT PER SHARE DATA</i>	<u>2002</u>	<u>2001</u>	<u>2000</u>
Numerator:			
Net income	\$ 58,907	\$ 43,683	\$ 55,883
Denominator:			
Basic EPS computation:			
Weighted average common shares outstanding	30,854	30,323	32,177
Three-for-two stock split effected June 2002	15,142	15,162	16,089
Repurchase of common shares, net of treasury shares reissued	(3)	(234)	(732)
	<u>45,993</u>	<u>45,251</u>	<u>47,534</u>
Basic EPS	<u>\$ 1.28</u>	<u>\$ 0.97</u>	<u>\$ 1.18</u>
Diluted EPS computation:			
Basic weighted average common shares outstanding	45,993	45,251	47,534
Stock option conversion	2,245	1,609	1,479
	<u>48,238</u>	<u>46,860</u>	<u>49,013</u>
Diluted EPS	<u>\$ 1.22</u>	<u>\$ 0.93</u>	<u>\$ 1.14</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 2000 and 2001 amounts have been made to conform to the 2002 presentation.

2. Acquisitions

On October 7, 2002, the Company acquired the remaining fifty percent (50%) of the outstanding shares of SFJ, Inc., ("SFJ") a former joint venture with Seiko Instruments Inc., at no cost to the Company. The Company has renamed the business Fossil Japan. Prior to this transaction, the Company owned 50% of the equity in SFJ and accounted for this investment based upon the equity method. Accordingly, the Company recorded net losses of \$124,000 and \$265,000 during 2002 and 2001, respectively.

On July 31, 2002, Fossil Canada Inc., a wholly owned subsidiary of the Company, acquired four full price FOSSIL retail stores in Canada that were previously operated under a license agreement with Comark Inc. for approximately \$400,000. This acquisition was recorded as a purchase and no goodwill was recorded in connection with this transaction.

In July 2002, Fossil Europe B.V., Ltd. ("Fossil B.V."), a wholly owned subsidiary of the Company, acquired 100% of the capital stock in the Company's Swiss distributor, No-Time AG, for a purchase price of approximately \$3.8 million in cash. Fossil B.V. also acquired three stores in Switzerland from X-Time AG for approximately \$10,000 in cash. These acquisitions were recorded as purchases and resulted in goodwill of approximately \$2.0 million.

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 resulted in 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 resulted in 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 resulted in 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 resulted in 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 pro forma 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 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 at fiscal year-end 2000, had been carried on the equity basis. The Company’s equity in SMI’s net loss of \$1,100,000 and \$409,000 for fiscal 2001 and 2000, 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 costs of \$4.8 million was reported as a separate item as other expense for fiscal year 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 \$770,000, \$497,000 and \$28,000 for fiscal 2002, 2001 and 2000, respectively, and is included in other income (expense)—net.

4. Inventories

Inventories consist of the following:

Fiscal Year <i>IN THOUSANDS</i>	2002	2001
Components and parts	\$ 9,481	\$ 4,659
Work-in-process	2,417	3,855
Finished merchandise on hand	83,462	70,547
Merchandise at Company retail stores	11,430	11,365
Merchandise in-transit from customer returns	15,033	13,236
	\$ 121,823	\$ 103,662

5. Property, Plant and Equipment

Property, plant and equipment consist of the following:

Fiscal Year <i>IN THOUSANDS</i>	2002	2001
Land	\$ 9,300	\$ 7,757
Buildings	35,516	15,949
Furniture and fixtures	45,271	33,348
Computer equipment and software	20,151	18,536
Leasehold improvements	19,851	19,579
Construction in progress	13,812	27,549
	143,901	122,718
Less accumulated depreciation and amortization	40,789	32,682
	\$ 103,112	\$ 90,036

6. Intangible and Other Assets

Intangibles and other assets consist of the following:

Fiscal Year <i>IN THOUSANDS</i>	2002	2001
Costs in excess of tangible net assets acquired	\$ 15,526	\$ 13,401
Noncompete agreement	—	475
Trademarks	5,540	5,168
Deposits	1,905	2,320
Cash surrender value of life insurance	1,008	900
Other	530	978
	24,509	23,242
Less accumulated amortization	2,660	3,031
	\$ 21,849	\$ 20,211

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 no borrowings under the U.S. Short-term Revolver as of fiscal year-end 2002, and \$15.0 million in borrowings 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%, 3.75% at year-end, or Eurodollar plus 0.75%, 2.11% at year-end. There was no interest expense under the credit facility for fiscal year 2002, and approximately \$200,000 for fiscal year 2001.

At fiscal year-end 2002 and 2001, the Company had outstanding letters of credit of approximately \$5.2 million and \$8.6 million, respectively, to vendors for the purchase of merchandise.

Banks: Foreign-based. During October 2002, Fossil Japan restructured its short-term credit facility with its primary bank allowing borrowings of up to 400 million yen. All outstanding borrowings under the facility bear interest at the Euroyen rate. In connection with the financing agreement, Fossil Japan agreed to pay an unused fee of 0.3% per annum. The facility is collateralized by a U.S. bank. Japan-based borrowings, in U.S. dollars, under the facility were approximately \$2.5 million at fiscal year-end 2002.

8. Other Income (Expense)—Net

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

Fiscal Year <i>IN THOUSANDS</i>	<u>2002</u>	<u>2001</u>	<u>2000</u>
Interest income	\$ 1,013	\$ 1,549	\$ 3,480
Minority interest in subsidiaries	(1,958)	(1,430)	(1,786)
Equity in gains (losses) of joint ventures net	842	(933)	(381)
Currency (loss) gain	(528)	336	(412)
Royalty income	611	740	770
Other income (expense)	176	783	(647)
	<u>\$ 156</u>	<u>\$ 1,045</u>	<u>\$ 1,024</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 <i>IN THOUSANDS</i>	<u>2002</u>	<u>2001</u>
Current assets:		
Deferred tax assets:		
Bad debt allowance	\$ 4,463	\$ 3,709
Returns allowance	7,296	6,772
263 (A) capitalization of inventory	897	878
Forward contract losses	2,259	(13)
Miscellaneous tax asset items	2,923	1,273
Deferred tax liabilities:		
In-transit returns inventory	(4,241)	(3,901)
Net current deferred tax benefits	13,597	8,718
Long-term deferred tax liability:		
Tax on certain undistributed earnings of foreign subsidiaries	(23,599)	(7,318)
Net deferred tax (liabilities) benefits	<u>\$ (10,002)</u>	<u>\$ 1,400</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>	<u>2002</u>	<u>2001</u>	<u>2000</u>
Current provision:			
United States	\$ 5,304	\$ 12,104	\$ 21,229
Foreign	15,041	9,479	18,145
Deferred provision	13,674	6,378	(1,010)
Tax equivalent related to exercise of stock options (credited to additional paid-in capital)	3,053	1,160	470
Provision for income taxes	<u>\$ 37,072</u>	<u>\$ 29,121</u>	<u>\$ 38,834</u>
Tax (benefit) expense related to other comprehensive income (loss)	<u>\$ (2,272)</u>	<u>\$ 13</u>	<u>\$ —</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>	<u>2002</u>	<u>2001</u>	<u>2000</u>
Tax at statutory rate	\$ 33,593	\$ 25,481	\$ 33,151
State, net of federal tax benefit	397	1,069	736
Other	3,082	2,571	4,947
Provision for income taxes	<u>\$ 37,072</u>	<u>\$ 29,121</u>	<u>\$ 38,834</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 \$17.8 million, \$11.2 million and \$9.6 million in fiscal years 2002, 2001 and 2000, 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 2002 which expire on various dates from January 2003 through December 2008 and require the Company to pay royalties ranging from 3.6% to 20.0% of defined net sales. Future minimum royalty commitments under such license agreements at the close of fiscal year 2002 are as follows (amounts in thousands):

2003	\$ 20,933
2004	17,847
2005	13,785
2006	14,798
2007	14,325
Thereafter	9,791
	<u>\$ 91,479</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 \$20.6 million, \$17.5 million, and \$10.9 million for fiscal years 2002, 2001 and 2000, 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 2002 are as follows (amounts in thousands):

2003	\$ 15,874
2004	14,782
2005	13,639
2006	12,122
2007	11,131
Thereafter	35,245
	<u>\$ 102,793</u>

11. Stockholders' Equity and Benefit Plans

Common and Preferred Stock. On May 13, 2002, 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 June 7, 2002 to stockholders of record on May 24, 2002. Retroactive effect has been given to the stock split in all share and per share data in these notes to consolidated financial statements.

The Company has 100,000,000 shares of authorized \$0.01 par value Common Stock, with 46,392,123 and 45,426,554 shares issued and outstanding at the close of fiscal years 2002 and 2001, 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 750,000 shares and 3.7 million shares, respectively, of the Company's Common Stock in the open market or privately negotiated transactions (the "Repurchase Programs"). During fiscal years 2002 and 2001, the Company repurchased and retired 3,558 and 309,297 shares, respectively, of its Common Stock under the Repurchase Programs at a cost of approximately \$59,000 and \$3.5 million, respectively. At the end of 2002, the Company had approximately 600,000 shares available for repurchase relating to previous authorizations.

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 (minimum of 1,000 hours worked), the Company matches 50% of employee contributions up to 3% of their compensation and 25% of the employee contributions between 4% 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 \$500,000, \$400,000 and \$300,000 for fiscal years 2002, 2001 and 2000, 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 2002, 2001 and 2000.

Long-term Incentive Plan. An aggregate of 3,881,250 shares of Common Stock were initially reserved for issuance pursuant to the Incentive Plan, adopted April 1993. An additional 2,025,000 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 2002, 2001 and 2000 was \$7.95, \$6.74 and \$5.98, respectively.

Nonemployee Director Stock Option Plan. An aggregate of 337,500 shares of Common Stock were reserved for issuance pursuant to the Nonqualified Stock Option Plan, adopted April 1993. An additional 75,000 shares were reserved in 2002 for issuance under this plan. 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 2002, 2001 and 2000 was \$11.07, \$6.86 and \$6.71, respectively.

Restricted Stock Plan. The 2002 Restricted Stock Plan of the Company, (the "Restricted Stock 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. The Restricted Stock Plan is being fully funded with treasury shares contributed to the Company from a significant shareholder. During 2002, 139,500 shares of restricted stock were contributed to the Restricted Stock Plan by the shareholder and reissued by the Company to the employees. These shares were accounted for at fair value and resulted in deferred compensation and additional paid in capital of approximately \$2.6 million. At fiscal year-end 2002, the Company has reserved 599,500 common shares for future issuances under the Restricted Stock Plan.

The fair value of options granted under the Company's stock option plans during fiscal years 2002, 2001 and 2000 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 62% to 66%, risk free interest rate of 3.0% to 6.0%, and expected life of five to six years. The following tables summarize the Company's stock option activity:

Incentive Plan

	<u>exercise price per share</u>	<u>weighted average exercise price per share</u>	<u>outstanding</u>	<u>weighted average exercise price per share</u>	<u>exercisable</u>	<u>available for grant</u>
Balance, Fiscal 1999	\$ 1.963—\$22.125	\$ 6.795	2,861,180	\$ 3.887	1,411,212	1,839,801
Granted	\$ 7.458—\$16.667	\$ 10.113	1,183,500	—	—	(1,183,500)
Exercised	\$ 1.963—\$13.333	\$ 4.803	(160,305)	—	—	—
Canceled	\$ 3.445—\$22.125	\$ 11.208	(141,741)	—	—	141,741
Exercisable	\$ 1.963—\$21.750	\$ —	—	—	450,041	—
Balance, Fiscal 2000	\$ 1.963—\$21.750	\$ 7.759	3,742,634	\$ 4.896	1,861,253	798,042
Granted	\$ 9.333—\$15.293	\$ 11.621	1,020,195	—	—	(1,020,195)
Shares designated for grant through the plan	—	—	—	—	—	2,025,000
Exercised	\$ 1.963—\$12.889	\$ 5.824	(433,235)	—	—	—
Canceled	\$ 6.445—\$21.473	\$ 11.495	(193,801)	—	—	193,801
Exercisable	\$ 1.963—\$21.750	\$ —	—	—	83,718	—
Balance, Fiscal 2001	\$ 1.963—\$21.750	\$ 8.721	4,135,793	\$ 5.996	1,944,971	1,996,648
Granted	\$ 13.440—\$23.800	\$ 14.606	1,034,329	—	—	(1,034,329)
Exercised	\$ 1.963—\$21.014	\$ 6.686	(937,555)	—	—	—
Canceled	\$ 3.704—\$22.490	\$ 12.816	(174,551)	—	—	174,551
Exercisable	\$ 1.963—\$21.750	—	—	—	(418,693)	—
Balance, Fiscal 2002	\$ 1.963—\$23.800	\$ 10.530	4,058,016	\$ 7.594	1,526,278	1,136,870

Nonemployee Director Plan

	<u>exercise price per share</u>	<u>weighted average exercise price per share</u>	<u>outstanding</u>	<u>weighted average exercise price per share</u>	<u>exercisable</u>	<u>available for grant</u>
Balance, Fiscal 1999	\$ 2.222—\$15.417	\$ 5.462	236,250	\$ 4.373	205,029	83,531
Granted	\$ 9.583—\$13.083	\$ 11.333	15,000	—	—	(15,000)
Exercised	\$ 2.222	\$ 2.222	(33,750)	—	—	—
Exercisable	\$ 2.222—\$15.417	—	—	—	(33,750)	—
Balance, Fiscal 2000	\$ 2.222—\$15.417	\$ 6.369	217,500	\$ 4.797	171,279	68,531
Granted	\$ 9.656—\$14.000	\$ 11.828	45,000	—	—	(45,000)
Exercised	\$ 2.222—\$5.630	\$ 3.500	(27,000)	—	—	—
Exercisable	\$ 2.481—\$15.417	—	—	—	19,596	—
Balance, Fiscal 2001	\$ 2.481—\$15.417	\$ 7.742	235,500	\$ 6.614	190,875	23,531
Granted	\$ 20.340	\$ 20.340	15,000	—	—	(15,000)
Shares designated for grant through the plan						75,000
Exercised	\$ 3.889—\$5.630	\$ 5.027	(29,250)	—	—	—
Exercisable	\$ 2.481—\$15.417	—	—	—	(5,250)	—
Balance, Fiscal 2002	\$ 2.481—\$20.340	\$ 8.955	221,250	\$ 7.660	185,625	83,531

Additional weighted average information for options outstanding and exercisable as of fiscal year-end 2002:

	<u>range of exercise price</u>	<u>number of shares</u>	<u>options outstanding</u>		<u>options exercisable</u>	
			<u>weighted average exercise price per share</u>	<u>weighted average remaining contractual life</u>	<u>number of shares</u>	<u>weighted average exercise price per share</u>
Long-Term Incentive Plan:	\$ 1.963 —\$8.000	1,186,343	\$ 5.053	4.7 years	897,183	\$ 4.277
	\$ 8.001 —\$13.000	1,673,629	\$ 11.322	7.3 years	543,129	\$ 11.494
	\$ 13.001 —\$23.800	1,198,044	\$ 14.847	8.8 years	85,966	\$ 17.564
		4,058,016			1,526,278	\$ 7.594
Nonemployee Director Plan:	\$ 2.481 —\$8.000	112,500	\$ 4.506	3.6 years	112,500	\$ 4.506
	\$ 8.001 —\$13.000	50,250	\$ 10.903	7.2 years	42,750	\$ 11.125
	\$ 13.001 —\$20.340	58,500	\$ 15.835	8.6 years	30,375	\$ 14.460
		221,250			185,625	\$ 7.660

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 SFASNo.123 in fiscal years 2002, 2001 and 2000 are presented below.

Fiscal Year <i>IN THOUSANDS, EXCEPT PER SHARE DATA</i>	<u>2002</u>	<u>2001</u>	<u>2000</u>
Net income:			
As reported	\$ 58,907	\$ 43,683	\$ 55,883
Pro forma under SFAS No. 123	\$ 55,117	\$ 40,633	\$ 53,018
Basic earnings per share:			
As reported	\$ 1.28	\$ 0.97	\$ 1.18
Pro forma under SFAS No. 123	\$ 1.20	\$ 0.90	\$ 1.12
Diluted earnings per share:			
As reported	\$ 1.22	\$ 0.93	\$ 1.14
Pro forma under SFAS No. 123	\$ 1.14	\$ 0.87	\$ 1.08

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>	<u>2002</u>	<u>2001</u>	<u>2000</u>
Cash paid during the year for:			
Interest	\$ 11	\$ 216	\$ 62
Income taxes	\$ 17,608	\$ 23,156	\$ 35,106

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 2002, 2001 and 2000.

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 its outlet and mall-based retail stores and its website 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 inter-geographic items.

2002 <i>IN THOUSANDS</i>	Operating		Long-lived	Total Assets
	Net Sales	Income (Loss)	Assets	
United States-exclusive of Stores:			\$ 75,663	\$ 210,945
External customers	\$ 327,151	\$ 33,637	—	—
Intergeographic	103,046	—	—	—
Stores	83,135	(8,432)	22,931	43,051
Europe	189,485	13,233	23,510	53,951
Far East and Export:			4,783	174,579
External customers	63,567	57,492	—	—
Intergeographic	219,945	—	—	—
Intergeographic items	(322,991)	—	—	—
Consolidated	\$ 663,338	\$ 95,930	\$ 126,887	\$ 482,526

**2001
*IN THOUSANDS***

United States-exclusive of Stores:			\$ 62,315	\$ 169,538
External customers	\$ 290,859	\$ 48,127	—	—
Intergeographic	77,236	—	—	—
Stores	68,243	(9,276)	25,951	46,465
Europe	130,330	2,408	19,513	31,507
Far East and Export:			3,567	133,353
External customers	56,109	35,595	—	—
Intergeographic	192,678	—	—	—
Intergeographic items	(269,914)	—	—	—
Consolidated	\$ 545,541	\$ 76,854	\$ 111,346	\$ 380,863

**2000
*IN THOUSANDS***

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	53,276	38,783	172	1,304
Intergeographic	189,651	—	—	—
Intergeographic items	(262,921)	—	—	—
Consolidated	\$ 504,285	\$ 93,821	\$ 54,760	\$ 307,591

CORPORATE INFORMATION

EXECUTIVE OFFICERS AND DIRECTORS

Tom Kartsotis
Chairman of the Board

Randy S. Kercho
Executive Vice President

Kenneth W. Anderson
Director

Kosta N. Kartsotis
*President,
Chief Executive Officer
and Director*

Mike L. Kovar
*Senior Vice President,
Chief Financial Officer
and Treasurer*

Alan J. Gold
Director

Michael W. Barnes
*President, International and
Special Markets Division
and Director*

Mark D. Quick
*President,
Fashion Accessories Division*

Michael Steinberg
Director

Richard H. Gundy
*President, FOSSIL Watches
and Stores Division
and Director*

T. R. Tunnell
*Executive Vice President,
Chief Legal Officer and Secretary*

Donald J. Stone
Director

Jal S. Shroff
*Managing Director-
Fossil East and Director*

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, P.C.
1445 Ross Avenue
Dallas, TX 75202*

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 21, 2003, 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, or online at www.fossil.com.

[ILLUSTRATION]

[ILLUSTRATION]

[ILLUSTRATION]

2280 N. Greenville Ave.
Richardson, Texas 75082
www.fossil.com

DOC 3 : Header

Exhibit 21.1**Subsidiaries of Fossil, Inc.
as of December 31, 2003**

<u>Name of Subsidiary</u>	<u>Place of Incorporation</u>	<u>Parent Company</u>	<u>Percent Ownership</u>
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
Fossil Japan, K.K.	Japan	Fossil, Inc.	100
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 Asia, 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 Time Malaysia	Malaysia	Fossil (East) Limited	81
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 Distribution GmbH	Germany	Fossil Europe B.V.	100
No Time AG	Switzerland	Fossil Europe B.V.	100
X Time AG	Switzerland	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
Trottime Espana SL	Spain	Vedette Industries SA	51
Synergies Horlogers SA	Switzerland	Montres Antima SA	100
Fossil Australia Stores	Australia	FSLA Pty. Limited	100

DOC 4 : Header

Exhibit 23.1

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement No. 33-65980, Post-Effective Amendment No. 1 to Registration Statement No. 33-77526 and Registration Statement No. 333-70477 on Form S-8 of our reports dated February 24, 2003, appearing and incorporated by reference in this Annual Report on Form 10-K of Fossil, Inc. for the fiscal year ended January 4, 2003.

/s/ DELOITTE & TOUCHE LLP

Dallas, Texas
April 4, 2003

DOC 5 : Header

Exhibit 99.1

Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the filing of the Annual Report on Form 10-K for the Year Ended January 4, 2003 (the "Report") by Fossil, Inc. ("Registrant"), the undersigned hereby certifies that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Registrant.

Date: April 4, 2003

/s/ Kosta N. Kartotis
Kosta N. Kartotis
Director, President and Chief
Executive Officer

A signed original of this written statement required by Section 906 has been provided to Fossil, Inc. and will be maintained by Fossil, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

DOC 6 : Header

Exhibit 99.2

Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the filing of the Annual Report on Form 10-K for the Year Ended January 4, 2003 (the "Report") by Fossil, Inc. ("Registrant"), the undersigned hereby certifies that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Registrant.

/s/ Mike L. Kovar

Mike L. Kovar

Senior Vice President, Chief Financial
Officer and Treasurer

Date: April 4, 2003

A signed original of this written statement required by Section 906 has been provided to Fossil, Inc. and will be maintained by Fossil, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.
