

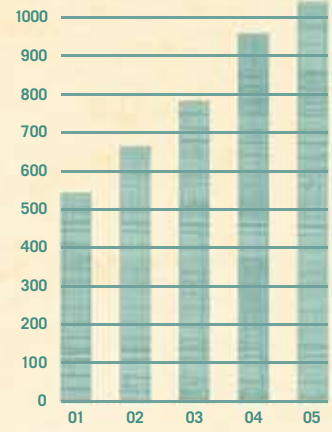


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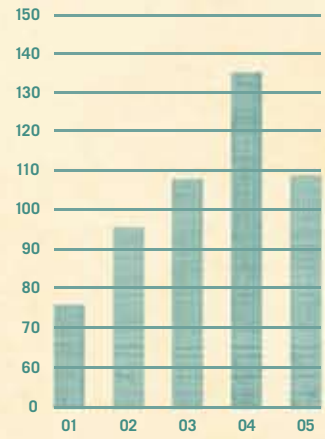




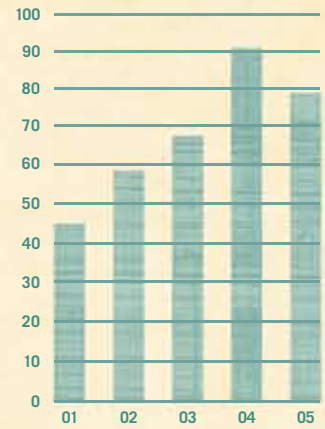
NET SALES
(in millions of dollars)



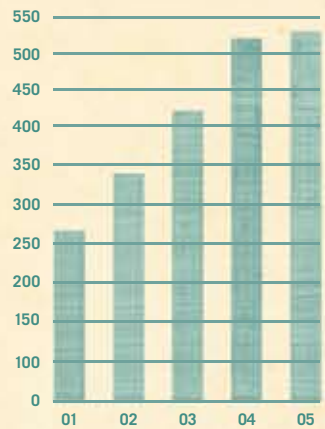
OPERATING INCOME
(in millions of dollars)



NET INCOME
(in millions of dollars)



STOCKHOLDERS' EQUITY
(in millions of dollars)



FINANCIAL HIGHLIGHTS

| Fiscal Year | 2005 | 2004 | 2003 | 2002 | 2001 |
|---|--------------|------------|------------|------------|------------|
| <i>INTHOUSANDS, EXCEPT PER SHARE DATA</i> | | | | | |
| Net sales..... | \$ 1,040,468 | \$ 959,960 | \$ 781,175 | \$ 663,338 | \$ 545,541 |
| Gross profit..... | 533,707 | 504,041 | 399,023 | 333,003 | 271,290 |
| Operating income..... | 109,392 | 135,359 | 108,808 | 95,930 | 76,854 |
| Income before taxes..... | 103,564 | 141,102 | 109,471 | 95,979 | 72,804 |
| Net income..... | 78,059 | 90,569 | 68,335 | 58,907 | 43,683(4) |
| Earnings per share:(3) | | | | | |
| Basic..... | 1.10(1) | 1.28(2) | 0.98 | 0.85 | 0.64(4) |
| Diluted..... | 1.07(1) | 1.22(2) | 0.93 | 0.81 | 0.62(4) |
| Weighted average common and common equivalent shares outstanding:(3) | | | | | |
| Basic..... | 70,834 | 70,672 | 69,817 | 68,990 | 67,877 |
| Diluted..... | 73,209 | 74,462 | 73,182 | 72,357 | 70,290 |
| Working capital..... | \$ 320,069 | \$ 367,133 | \$ 313,561 | \$ 241,177 | \$ 163,280 |
| Total assets..... | 744,746 | 787,793 | 587,541 | 482,526 | 380,863 |
| Long-term debt..... | — | — | — | — | — |
| Stockholders' equity..... | 526,149 | 524,000 | 423,426 | 340,541 | 264,023 |
| Return on average stockholders' equity..... | 14.5% | 19.4% | 18.4% | 19.9% | 18.3% |

(1) Includes a one-time tax benefit of \$12 million related to the repatriation of subsidiary earnings which were not considered permanently invested pursuant to the American Jobs Creation Act of 2004. Excluding this benefit, net income, basic earnings per share and diluted earnings per share would have been approximately \$66 million, \$0.93, and \$0.90, respectively.

(2) Includes one-time after tax charges related to cumulative rent expense adjustments and settlement of a supplier claim of \$2.0 million and \$550,000, respectively. Excluding these one-time charges, net income, basic earnings per share and diluted earnings per share were \$93.1 million, \$1.32 and \$1.25, respectively.

(3) All share and per share price data have been adjusted to reflect three-for-two stock splits effected in the form of stock dividends paid on June 7, 2002, and April 8, 2004.

(4) Includes a \$2.9 million one-time after tax charge which reflects the write-off of the carrying value of our investment in SII Marketing International, Inc. as a result of our decision to terminate our equity participation in this joint venture relationship. Excluding this one-time charge, net income, basic earnings per share and diluted earnings per share were \$46.5 million, \$0.69 and \$0.66, respectively.

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 April 8, 2004. Stock prices have been adjusted in certain cases to the nearest traded amount.

| | 2005 | | 2004 | |
|----------------------|-----------|-----------|-----------|-----------|
| | High | Low | High | Low |
| First quarter | \$ 28.950 | \$ 23.970 | \$ 23.300 | \$ 17.680 |
| Second quarter | 25.910 | 18.900 | 27.970 | 21.940 |
| Third quarter | 25.080 | 17.820 | 32.370 | 21.750 |
| Fourth quarter | 22.090 | 14.960 | 32.250 | 23.350 |

LETTER TO STOCKHOLDERS

Dear Stockholders,

Fiscal 2005 was a very challenging year in the watch segment of our business. The advantages of our global operating platform, which have historically led to strong growth for us, were not able to offset a worldwide market decline in some of our larger fashion watch businesses.

As a result, net sales increased by only 8.4%, a significant decrease from our historical compounded annual growth rate over the preceding five-year period. That said, we believe we continued to gain global market share in the watch category on the strength of our branded watch portfolio.

In addition, we experienced the second consecutive year of strong double-digit growth in our leather goods businesses, and we believe we are gaining market share in this category as well, as a result of further penetration within U.S. department stores.

We also achieved solid growth in a number of our lower penetrated watch businesses, such as luxury, mass market, and licensed watches, and continued to experience double-digit sales growth in jewelry and our company-owned retail stores.

However, sales decreases from our more mature fashion watch businesses, unfavorable currency comparisons and a shift in the mix of our business toward lower gross margin businesses and lower gross margin geographical regions resulted in gross margin declining below last year's level. While we took steps to reduce expense growth mid-year, these efforts did not fully compensate for our weakened sales and gross margins.

In Fiscal 2005:

- » Sales surpassed a significant milestone, increasing 8.4% to just over \$1.0 billion;
- » Operating margin was 10.5%;
- » Diluted earnings per share were \$1.07 (\$0.90 excluding approximately \$0.17 per diluted share related to tax benefits from the repatriation of foreign earnings under the American Jobs Creation Act of 2004); and
- » Cash and securities available for sale at December 31, 2005 totaled \$64.0 million, after expending approximately \$75 million in conjunction with our share repurchase program, while working capital totaled \$320.1 million.

During 2005, we continued to develop our global watch and accessory platform while delivering considerable growth in certain businesses. Notable 2005 initiatives included:

- » A partnership with Wal-Mart to develop and grow the George brand in the watch category thereby increasing our presence in this relatively new distribution channel for us.
- » Jewelry product extensions under our proprietary MICHELE brand and licensed DIESEL brand. MICHELE jewelry debuted at retail in February 2006 while DIESEL jewelry debuted in March 2006.
- » Preparation for upcoming watch launches including MARC by Marc Jacobs and ADIDAS. MARC JACOBS watches, produced in Switzerland, debuted in fall 2005 in Marc Jacobs Boutiques and select department stores globally. MARC by Marc Jacobs watches are scheduled to launch in fall 2006 to a broader distribution base. With the launch of ADIDAS in January 2006, we fill a void in our portfolio for sports watches and strengthen our presence in Europe and Asia.

- » Progress in our brand-building efforts through www.fossil.com, our company-owned retail stores and the introduction of our FOSSIL consumer catalog. Our catalog was delivered to one million households during the 2005 holiday season with encouraging results.

For 2006, our main focus is to:

- » Utilize our significant resources to rejuvenate the FOSSIL brand watch business through a greater focus on differentiation;
- » Support the sales momentum in our accessories and jewelry businesses;
- » Expand the distribution of accessories to select international markets; and
- » Focus on reducing our expenses and inventory levels to keep them in line with our sales outlook.

As an indication of our confidence in our strategy and our commitment to attain stronger growth in the future, in January 2006 we completed the 3.5 million share repurchase program we announced in November 2005.

We want to thank our employees, stockholders and board of directors for their support and dedication this past year and for their continued contributions to our future.

Sincerely,



Tom Kartsotis
Chairman



Kosta N. Kartsotis
President & Chief
Executive Officer

CORPORATE INFORMATION

EXECUTIVE OFFICERS AND DIRECTORS

Tom Kartsotis
Chairman of the Board

Kosta N. Kartsotis
President,
Chief Executive Officer
and Director

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

Jal S. Shroff
Managing Director–
Fossil East and Director

Steve Bock
President,
Luxury Division

Harold S. Brooks
President,
Fashion Watch Division

Randy S. Kercho
Executive Vice President

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

Mark D. Quick
President,
Fashion Accessories
and Stores Division

Kenneth W. Anderson
Director

Andrea Camerana
Director

Alan J. Gold
Director

Michael Steinberg
Director

Donald J. Stone
Director

Caden Wang
Director

CORPORATE INFORMATION

Transfer Agent and Registrar:
Mellon Investor Services LLC
480 Washington Boulevard
Jersey City, NJ 07310

Principal Independent Auditors:
Deloitte & Touche LLP
2200 Ross Avenue
Dallas, TX 75201

Corporate Counsel:
Haynes and Boone, LLP
901 Main Street
Suite 3100
Dallas, TX 75202

OUR WEBSITE

The Company maintains a website at the worldwide internet address of www.fossil.com. Certain product, event, and investor relations information concerning the Company is available at the site.

ANNUAL MEETING

The Annual Meeting of Stockholders will be held on Wednesday, May 24, 2006, 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, as filed with the Securities and Exchange Commission, and the Annual Report to Stockholders, 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.