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 1, 2011

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	**75-2018505**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2280 N. Greenville Avenue Richardson, Texas	**75082**
(Address of principal executive offices)	(Zip Code)

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

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

Title of each class	Name of each exchange on which registered
Common Stock, $0.01 par value	**NASDAQ Global Select Market**

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒	Accelerated filer ☐
Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The aggregate market value of Common Stock, $0.01 par value per share (the "Common Stock"), held by non-affiliates of the registrant, based on the last sale price of the Common Stock as reported by the NASDAQ Global Select Market on July 2, 2010, was $1,879,076,566. 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 February 25, 2011, 67,923,151 shares of Common Stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's proxy statement to be furnished to shareholders in connection with its 2011 Annual Meeting of Shareholders are incorporated by reference in Part III, Items 10-14 of this Annual Report on Form 10-K.

FOSSIL, INC.
FORM 10-K
FOR THE FISCAL YEAR ENDED JANUARY 1, 2011
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In this Form 10-K, references to "we," "our," and the "Company" refer to Fossil, Inc. and its subsidiaries on a consolidated basis.

PART I

Item 1. Business

General

We are a global design, marketing and distribution company that specializes in consumer fashion accessories. Our principal offerings include an extensive line of men's and women's fashion watches and jewelry, handbags, small leather goods, belts, sunglasses, shoes, soft accessories and clothing. In the watch and jewelry product categories, we have a diverse portfolio of globally recognized owned and licensed brand names under which our products are marketed. Our products are distributed globally through various distribution channels, including wholesale in countries where we have a physical presence, direct to the consumer through our retail stores and commercial websites and through third-party distributors in countries where we do not maintain a physical presence. Our products are offered at varying price points to service the needs of our customers, whether they are value-conscious or luxury oriented. Based on our extensive range of accessory products, brands, distribution channels and price points, we are able to target style-conscious consumers across a wide age spectrum on a global basis.

Domestically, we sell our products through a diversified distribution network that includes department stores, specialty retail locations, specialty watch and jewelry stores, owned retail and factory outlet stores, mass market stores, owned and affiliate internet sites and through our FOSSIL® catalogs. Our broadly based wholesale customer base includes retailers such as Neiman Marcus, Nordstrom, Saks Fifth Avenue, Macy's, Dillard's, JCPenney, Kohl's, Sears, Wal-Mart and Target. We also sell our products in the United States ("U.S.") through a network of Company-owned stores, which included 121 retail stores located in premier retail sites and 70 outlet stores located in major outlet malls as of January 1, 2011. In addition, we offer an extensive collection of our FOSSIL brand products through our catalogs and at *www.fossil.com*, as well as proprietary and licensed watch and jewelry brands through other managed and affiliate websites.

Internationally, our products are sold to department stores, specialty retail locations, and specialty watch and jewelry stores in over 120 countries worldwide through 23 Company-owned foreign sales subsidiaries and through a network of over 60 independent distributors. Our products are distributed in Africa, Asia, Australia, Europe, Central and South America, Canada, the Caribbean, Mexico, and the Middle East. Our products are offered on airlines, cruise ships, international Company-owned websites and in international Company-owned retail stores, which included 138 accessory retail stores, 9 multi-brand stores, 3 clothing stores and 23 outlet stores in select international markets as of January 1, 2011. Our products are also sold through licensed and franchised FOSSIL retail stores, retail concessions operated by us and kiosks in certain international markets, as well as our websites in certain countries.

We are a Delaware corporation formed in 1991 and are the successor to a Texas corporation formed in 1984. In 1993, we completed an initial public offering of 13,972,500 shares of our common stock, as adjusted for four three-for-two stock splits to date. Domestically, we conduct a majority of our operations through Fossil Partners, L.P., a Texas limited partnership formed in 1994 of which we are the sole general partner. We also conduct operations domestically and in certain international markets through various owned subsidiaries. Our principal executive offices are located at 2280 N. Greenville Avenue, Richardson, Texas 75082, and our telephone number at such address is (972) 234-2525. Our European headquarters is located in Basel, Switzerland and our Far East headquarters is located in Hong Kong. Our common stock is traded on the NASDAQ Global Select Market under the trading symbol FOSL. We make available free of charge through our website at *www.fossil.com* our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to these reports. You may also obtain any materials we file with, or furnish to, the U.S. Securities and Exchange Commission (the "SEC") on its website at *www.sec.gov*.

Business segments

Our operations and financial reporting are primarily divided into four distinct segments: (i) the North America Wholesale segment; (ii) the Europe Wholesale segment; (iii) the Asia Pacific Wholesale segment; and (iv) the Direct to Consumer segment, which includes our Company-owned retail stores, our catalogs and e-commerce activities. Within the wholesale segments of our business, we generally sell to retailers in those countries in which we have a physical presence as well as to distributors in countries where we do not have a physical presence. Except to the extent that differences between operating segments are material to an understanding of our business taken as a whole, the description of our business in this report is presented on a consolidated basis. Corporate expenses include certain administrative, legal, accounting, technology support costs, equity compensation costs, payroll costs attributable to executive management and amounts related to intercompany eliminations that are not allocated to the various segments. For financial information about our operating segments and geographic areas, refer to Management's Discussion and Analysis of Financial Condition and Results of Operations set forth in Part II, Item 7 and Note 17—Major Customer, Segment and Geographical Information to our Consolidated Financial Statements set forth in Part II, Item 8 of this Annual Report on Form 10-K.

Business strengths

We believe that we have several business strengths which allow us to differentiate ourselves and achieve our key operating and financial goals. These business strengths include:

Brand strength. We believe a brand's image, individuality, consistency and connection with its customers is paramount in building and sustaining the brand. We believe that our FOSSIL brand name is recognized on a global basis as a vintage-inspired aspirational lifestyle brand with a focus on fashion accessories. The FOSSIL brand has developed from its origin as a watch brand to encompass other accessory categories, including handbags, belts, small leather goods, jewelry, soft accessories, sunglasses, clothing and shoes. We believe the FOSSIL brand is one of our most valuable assets, serves as a foundational piece of our business and remains very marketable across product lines, geographic areas and distribution channels. Since our inception in 1984, we have continued to develop, acquire or license other nationally or internationally recognized brand names, such as ADIDAS®, BURBERRY®, DIESEL®, DKNY®, EMPORIO ARMANI®, MARC® BY MARC JACOBS™, MICHELE®, MICHAEL KORS®, RELIC® and ZODIAC®, in order to appeal to a wide range of consumers. Our industry is highly competitive and subject to changing preferences in style, taste and price points. The success of our business model depends upon offering a wide range of branded products that appeal to the various tastes and fashion preferences of our customers. We must also maintain the relevance of these products by continually anticipating customer needs and desires as they relate to both the brands and categories of product we offer. We have teams of designers and product specialists assigned to each of our brands. The objectives of these designers and brand specialists are to immerse themselves in their assigned brand and product area, identify their customers' preferences, interpret global fashion trends and develop style-right offerings to generate volume purchasing. By owning the vast majority of our global distribution, we are also able to create and execute consistent pricing strategies and brand image presentations that protect and enhance our proprietary brands and those of our licensors.

Licensing strength. Since 1997, we have attracted highly recognized and respected brand names to license within our watch and jewelry portfolios. We believe we attract such quality brands due to our ability to provide them with access to our global design, production, distribution and marketing infrastructure. As a result of our vertical integration, we, unlike many of our competitors, can offer an integrated solution to launch or increase an accessory category presence on a worldwide basis in a consistent, timely and focused manner. All of our major licensing relationships are exclusive to us and the licensors, which substantially minimizes risks to the licensor associated with dealing with multiple licensees in different geographic regions. Additionally, in order to develop a broader relationship and maintain brand consistency across the accessory categories, we have broadened our infrastructure, allowing us to expand our licensing activities to products beyond the watch category, including our DIESEL, DKNY and EMPORIO ARMANI jewelry product lines.

Breadth of brands and price points. Through the multiple brands we distribute, we have developed a broad spectrum of retail price points. Within our watch collections, retail price points vary from approximately $7 in the mass market channel up to retail price points of $2,445 in the luxury distribution channel, although the majority of our collections focus on price points ranging from $50 to $600. The breadth of our brands allows us to anchor a brand to a given price point range and distribution channel, thereby maintaining a consistent brand image while focusing on the quality/value relationship important to the customer and not diluting the brand through overlapping distribution channels. The breadth of price points allows us to cater to various age and income groups while continuing to participate in sales consistently, regardless of a shift in income or the price/value preferences of our customers.

International penetration. Since our initial public offering in 1993, we have continued to extend our reach beyond the U.S. by forming and acquiring internationally-based subsidiaries, licensing and developing internationally recognized brands and investing in the growth of our business within many major countries of the world. For fiscal year 2010, 52.9% of our wholesale net sales and 49.3% of our total net sales were generated outside of the U.S.

Breadth of distribution channels. Our products are sold through multiple distribution channels including department stores, specialty retail stores, specialty watch and jewelry stores, mass market stores, sport stores, cruise ships, airlines, owned-retail, licensed and franchised FOSSIL stores, retail concessions operated by us, business to business, the Internet and our catalogs. As we continue to expand our presence in existing distribution channels and add new distribution channels, as well as develop new product lines and expand our geographic reach, our revenues become less dependent on any one product, brand, distribution channel or geographic region. Our owned-retail, Internet and catalog venues allow us to enhance the related brand image by offering a targeted message to the customer, showcasing the array of product availability, influencing the merchandising and presentation of the products and testing new product introductions.

In-house creative team. Since our inception, we have developed a talented pool of creative individuals who design our retail stores, websites, products, packaging, graphics, presentation displays and marketing materials, allowing us to deliver a unique and cohesive style and image for each of our brands. We believe our emphasis on constant innovation and distinctive design has made us a leader in the branded accessory category. The breadth of talent and vertical integration of our design teams allows us to minimize the need for, and associated expense of, outside creative talent and advertising agencies.

International sourcing. The vast majority of our products are sourced internationally. Most watch product sourcing from Asia is coordinated through our Hong Kong subsidiary Fossil (East) Limited ("Fossil East"), which we acquired in 1993. During 2010, approximately 71% of our non-Swiss made watch production was assembled through wholly or majority owned factories. This vertical integration of our business allows for better flow of communication, consistent quality, product design protection and improved supply chain speed, while still allowing us to utilize non-owned production facilities for their unique capabilities and to cover production needs over internal capacities. Establishing our watch assembly facilities near the component manufacturers also allows us to operate a more efficient supply chain. We have also been successful in leveraging our jewelry production needs through our watch assembly factory infrastructure. Our other accessory, clothing and shoes products are purchased from third-party manufacturers with whom we have long-standing relationships and, in the case of our leathers business, we typically represent a meaningful portion of their businesses.

Operating cash flow. Our business model has historically generated strong operating cash flows, including $209.2 million in fiscal year 2010, and $584.1 million and $864.5 million over the past three years and five years, respectively. This strong cash flow has allowed us to operate at low debt levels while funding capital expenditures, owned retail store growth, product line expansions and common stock buy back programs.

Information systems. Operating and managing a global company requires sophisticated and reliable management information systems to assist in the planning, order processing, production and distribution functions and accounting of each relevant business. In 2003, we implemented a SAP Enterprise Resource

Planning system in the U.S. and have rolled this system out to our larger international subsidiaries. For many of our subsidiaries which do not currently demand the complexity of the SAP solution, we have implemented Microsoft's Dynamics Navision Enterprise Resource Planning System ("Navision"). Additionally, in 2009 we upgraded our e-commerce platform to an IBM mainframe system and have continued to invest in our e-commerce infrastructure, which will allow us to leverage the success of our U.S.-based web business across many of the countries where we currently distribute products. We have also implemented SAP's Retail Merchandise Planning and an SAP point-of-sale system to improve our ability to manage our growing owned-retail stores globally. In addition, we are implementing a Customer Relationship Management system that will allow us to significantly increase our ability to communicate with our customers and increase the efficiency of our marketing activities. We believe these systems allow us to gain better insight into our businesses in real-time on a global basis, assist us in meeting the needs of our customers in a professional and timely manner and provide a scalable infrastructure to accommodate further growth. Our company's products are principally distributed from three primary warehouses, one located in Texas, near our headquarters, one located in southern Germany and the other located in Hong Kong. Our Texas and German facilities utilize sophisticated automated material handling equipment and software designed to improve accuracy, speed and quality in our warehousing operations.

Growth Strategy

In order to expand our global market share in a profitable manner, we continually establish and implement business initiatives that we believe will build brand equity, increase revenues and improve profitability. Our key operating and financial goals are as follows:

Extend product categories of existing brands. We frequently introduce new accessory product categories within our existing proprietary and licensed brands to further leverage our branded portfolio. For example, we introduced jewelry collections under the DIESEL, DKNY, EMPORIO ARMANI and FOSSIL brands after first establishing a market for the brands in watches. Additionally, we have leveraged the FOSSIL brand name with the introduction in 2007 of soft accessories such as hats, gloves and scarves, men's shoes in late 2008 and women's shoes in 2009.

Introduce new brands. We have introduced new brands through the development or acquisition of proprietary brands and licensing agreements related to recognizable global fashion brands to attract a wide range of consumers with differing tastes and lifestyles. For example, our current portfolio of proprietary and licensed watch brands allows us to compete for market share from the luxury branded market to the mass market level. Additionally, we licensed the ADIDAS brand to gain a greater market share of watches sold through sporting goods channels and to sports-minded consumers.

Expand international business. Since our initial public offering in 1993, international expansion has been a key driver in our long-term growth strategy. We have continued to increase our penetration of the international market by building brand name recognition, broadening the selection of merchandise through existing distribution channels by introducing new products or brands, extending product categories under our existing portfolio of brands, purchasing former distributors to gain increased control over international businesses, establishing owned, franchised or licensed retail stores, expanding into retail concessions operated by us and entering new geographic markets through owned subsidiary or distributor relationships. For example, in 2005, we acquired our distributors in Taiwan and Sweden and, in 2006, we acquired the assets of our distributor in Mexico and formed a distribution subsidiary in Shanghai, China. In 2007, we also formed distribution subsidiaries in India and South Korea, replacing former distribution partners that serviced those markets for us previously.

Leverage existing infrastructure. We have built our design, marketing, assembly and distribution infrastructure to allow us to manage and grow our businesses. As we continue to develop additional products, acquire or license additional brands and seek additional businesses and products to complement our existing product lines, we believe we will be able to leverage our infrastructure and continue to increase the efficiency of our operations over the long-term.

Expand retail locations. Historically, we have expanded our Company-owned retail and outlet locations each year. Distribution through our Company-owned retail stores has allowed us to raise awareness of the FOSSIL brand and showcase a broad assortment of FOSSIL branded products in a warm and inviting atmosphere. Our FOSSIL retail stores, combined with our FOSSIL branded catalogs and website, have continued to build brand equity, present a consistent brand image, influence the merchandising and presentation of our products at other retailers and have allowed us to test new product categories and designs. With the level of awareness we have achieved for the FOSSIL brand worldwide and the expansion of product categories offered under the brand, we have been able to accelerate our FOSSIL retail store growth. Of the 364 Company-owned retail stores open as of January 1, 2011, 348 of these stores are FOSSIL branded stores. We plan to open approximately 80 to 85 additional FOSSIL branded stores in 2011, depending upon available retail locations and lease terms that meet our requirements. We expect to close approximately 26 to 28 stores in fiscal year 2011. The majority of these new store openings will be our full-price accessory concept at locations both inside the U.S. and internationally.

Operating strategy

Fashion orientation and design innovation. We are able to market our products to consumers with differing tastes and lifestyles by offering a wide range of brands and product categories at varying price points. We attempt to stay abreast of emerging fashion and lifestyle trends affecting accessories and clothing, and we respond to these trends by making adjustments in our product lines several times each year. We differentiate our products from those of our competitors principally through innovations in fashion details, including variations in both the materials and treatments used for dials, crystals, cases, straps and bracelets for our watches, and innovative treatments and details in our other accessories.

Coordinated product promotion. We coordinate in-house product design, packaging, advertising, our website and catalogs and in-store presentations to more effectively and cohesively communicate to our target markets the themes and images associated with our brands. For example, many of our watch products and certain of our accessory products are packaged in metal tins decorated with designs consistent with our marketing strategy and product image. In certain parts of the world, we market our non-watch fashion accessory lines through the same distribution channels as our watch lines, using similar in-store presentations, graphics and packaging.

Captive suppliers. The two entities that assemble or source the majority of our Asia watch production volume are majority-owned by us. In addition, although we do not have long-term contracts with our unrelated accessory manufacturers, we maintain long-term relationships with several manufacturers. These relationships have developed due to the number of years that we have been conducting business with and visiting the same manufacturers and because of the small amount of turnover in the employees of our manufacturers. We believe that we are able to exert significant operational control with regard to our principal watch assemblers because of our level of ownership and long standing relationships. In addition, we believe that the relative size of our business with non-owned watch manufacturers gives us priority within their production schedules. Furthermore, the manufacturers understand our quality standards, which allows us to produce quality products and reduce the delivery time to market, improving overall operating margins.

Actively manage retail sales. We manage the retail sales process with our wholesale customers by monitoring consumer purchases and retail inventory levels by product category and style, primarily through electronic data interchange, and by assisting our wholesale customers in the conception, development and implementation of their marketing programs. Through our merchandising unit, we work with retailers to ensure that our products are properly stocked and displayed in accordance with our visual standards. As a result, we believe we enjoy close relationships with our principal wholesale customers, often allowing us to influence the mix, quantity and timing of their purchasing decisions.

Centralized distribution. We distribute substantially all of our products sold in North America from our warehouse and distribution centers located in Texas. In Europe, we distribute our products primarily through our warehouse and distribution center located in Germany. In Asia, we primarily distribute our products through our

distribution warehouse located in Hong Kong and through smaller distribution warehouses in those countries where we maintain a physical presence. We believe our centralized distribution capabilities in the U.S. and Europe enable us to reduce inventory risk, increase flexibility in meeting the delivery requirements of our customers and maintain cost advantages as compared to our competitors.

Industry overview

Watch products

We believe that the current market for watches generally can be divided into four segments. One segment of the market consists of fine watches characterized by internationally known brand names such as Audemars Piguet, Cartier, Omega, Patek Philippe, 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 almost exclusively 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 $3,000 to in excess of $10,000. A portion of our MICHELE line competes in this market. A second segment of the market consists of fine premium branded and designer watches produced in Switzerland and the Far East such as Gucci, Movado, Raymond Weil, Seiko, Tag Heuer and Tissot. These watches are sold at retail prices generally ranging from $495 to $3,000. Our BURBERRY, EMPORIO ARMANI, MARC BY MARC JACOBS, MICHELE and ZODIAC lines generally compete in this market segment. A third segment of the market consists of watches sold by mass marketers, which typically consist of digital and analog watches manufactured in the Far East. Well known brands in this segment include Armitron, Casio and Timex. Retail prices in this segment range from $7 to $55. We compete in this segment through the design and production of private label watch products for Wal-Mart and Target.

The fourth segment of the market consists of moderately priced watches characterized by contemporary fashion and well known fashion brand names. Moderately priced watches are typically produced in Japan, China or Hong Kong and are sold by department stores and specialty stores at retail prices ranging from $45 to $550. This market segment is targeted by us with our FOSSIL and RELIC lines and by our principal competitors, including the companies that market watches under the Anne Klein II, Guess?, Kenneth Cole and Swatch brand names, whose products attempt to reflect emerging fashion trends in accessories and clothing. Our DKNY, DIESEL, MARC BY MARC JACOBS and MICHAEL KORS lines generally compete in this segment as well. We compete in the sports specialty area of this segment with our ADIDAS line of women's and men's sport timepieces. We believe that a number of consumers regard branded fashion watches, not only as time pieces, but also as fashion accessories, and that has historically resulted in consumers owning multiple watches that may differ significantly in terms of style, features and cost.

Watches typically utilize either a mechanical or quartz-analog movement to maintain their time keeping function. Mechanical watches utilize intricate arrangements of wheels, jewels and winding and regulating mechanisms to keep time, while quartz-analog watches are precisely calibrated to the regular frequency of the vibration of a quartz crystal powered by a battery. Although quartz-analog movements typically maintain their time keeping functions more precisely than mechanical movements, mechanical movements are prized for their craftsmanship and are generally associated with high-end luxury timepieces.

Fashion accessories

The fashion accessories market also includes an array of products such as small leather goods, handbags, belts, eyewear, neckwear, underwear, lounge wear, jewelry, gloves, hats, hosiery and socks. We believe that a number of consumers view accessories as fashion statements, and as a result, purchase 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 such fashion names as Louis Vuitton and Prada.

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 our FOSSIL and RELIC brands. We currently offer small leather goods, handbags, belts, eyewear and soft accessories for both men and women through department stores and specialty retailers in the moderate to upper-moderate price ranges. Our competitors in this market include companies such as Coach, Guess?, Nine West, Kenneth Cole and Liz Claiborne. In addition, we currently offer fashion jewelry sold under the DIESEL, DKNY, EMPORIO ARMANI, FOSSIL and RELIC brands.

Clothing

In 2000, we introduced a line of FOSSIL clothing that is distributed exclusively through Company-owned retail stores, *www.fossil.com* and through our FOSSIL catalogs. Selling through Company-owned distribution channels allows us to more effectively manage visual presentation, information feedback, inventory levels and operating returns. The clothing line is focused on the casual lifestyle of the savvy consumer who is youthful in their approach to life and is not tied to any one demographic or age. The clothing line consists primarily of jeans, tee shirts and vintage-inspired fashion clothing. The suggested retail selling price of the clothing line is comparable to that of major competitors like American Eagle Outfitters and J. Crew. We have leveraged our existing graphic and store design infrastructure to create a unique, inviting and welcoming environment rich in details of design, product and merchandising to appeal to the consumers' sense of discovery.

Shoes

In late 2008, we launched our line of FOSSIL men's shoes through our FOSSIL website. In the spring of 2009, we launched the men's line into a select number of department store doors in the U.S. and Germany. In the fall of 2009, we launched our women's shoe line in select department stores, specialty stores, Company-owned retail stores and *www.fossil.com*. We currently offer a select assortment of each line through certain Company-owned retail stores and select third-party retailers. Our shoe line consists of modern details and vintage inspiration crafted from full grain leather, nubuck and suede. The shoe line includes sport sneakers, authentic casuals and dress classics with a modern touch for men and fashionable flats, heels, wedges and boots for women. The competitors for our men's shoe line include Cole Haan, Johnston & Murphy, Lacoste and Kenneth Cole. The competitors for our women's shoe line include Frye, Coach and Lucky Brand.

Products

We design, develop, market and distribute fashion accessories, including clothing, belts, handbags, jewelry, small leather goods, sunglasses, soft accessories and watches under proprietary and licensed brand names. Additionally, we manufacture or distribute private label brands as well as branded products we purchase for resale in certain of our non-FOSSIL retail stores. The following table sets forth certain information with respect to the breakdown of our net sales and percentage of growth between proprietary, licensed and other brands within our wholesale and direct to consumer distribution channels for the fiscal years indicated (in millions, except for percentage data).

	Fiscal Year Ended				
	2010		2009		2008
	Dollars	% Growth	Dollars	% Growth	Dollars
Net sales					
Wholesale					
Proprietary	$ 742.7	18.9%	$ 624.5	(9.5)%	$ 689.7
Licensed	729.8	54.7	471.9	(5.7)	500.2
Other	74.9	(0.9)	75.6	(10.0)	84.0
	1,547.4	32.0	1,172.0	(8.0)	1,273.9
Direct to consumer					
Proprietary	402.0	27.9	314.3	23.4	254.7
Licensed	69.7	38.0	50.5	20.2	42.0
Other	11.6	2.7	11.3	(10.3)	12.6
	483.3	28.5	376.1	21.6	309.3
Total					
Proprietary	1,144.7	21.9	938.8	(0.6)	944.4
Licensed	799.5	53.0	522.4	(3.7)	542.2
Other	86.5	(0.5)	86.9	(10.0)	96.6
	$2,030.7	31.2%	$1,548.1	(2.2)%	$1,583.2

Watch products

We offer an extensive line of fashion watches under our proprietary brands and, pursuant to license agreements, under some of the most prestigious brands in the world. Sales of watches for fiscal years 2010, 2009 and 2008 accounted for approximately 69.9%, 66.0% and 66.9%, respectively, of our consolidated net sales.

Proprietary brands. The following table sets forth information about some of our proprietary brand watches:

Brand	Suggested Price Point Range	Primary Distribution Channels
FOSSIL	$65 - 225	U.S. department stores (Macy's, Dillard's, Belk and Nordstrom), U.S. specialty retailers (the Buckle), better European department stores (Debenhams, El Corte Ingles, Gallerias Lafayette, Harrod's, House of Fraser, Karstadt and Printemps), better European specialty stores (Christ, Earnest Jones, Goldsmith and H. Samuel), Canadian department stores (Hudson Bay and Sears), Australian department stores (Grace Brothers and Myers), independently-owned watch and jewelry stores worldwide, *www.fossil.com*, our catalog and Fossil stores worldwide
MICHELE	$295 - 2,445	U.S. department stores (Neiman Marcus, Saks Fifth Avenue, Bloomingdales and Nordstrom), watch specialty stores, jewelry stores and *www.michele.com*
RELIC	$45 - 120	U.S. department stores (JCPenney, Kohl's and Sears) and *www.relicbrand.com*
ZODIAC	$495 - 975	U.S. department stores (Nordstrom), watch specialty jewelry stores worldwide and *www.zodiacwatches.com*

Licensed brands. We have entered into multi-year, worldwide exclusive license agreements for the manufacture, distribution and sale of watches bearing the brand names of certain globally recognized fashion companies. The following table sets forth information with respect to certain of our licensed watch products:

Brand	Suggested Price Point Range	Expiration Date	Primary Distribution Channels
ADIDAS	$30 - 150	12/31/2012	Department stores, major sports stores, specialty retailers, jewelry stores and Adidas stores worldwide
BURBERRY	$295 - 995	12/31/2012	Department stores, specialty retailers, duty free stores worldwide and Burberry boutiques worldwide
DIESEL	$85 - 450	12/31/2015	Department stores, specialty retailers, Diesel boutiques worldwide and www.dieseltimeframes.com
DKNY	$65 - 375	12/31/2014	Department stores, jewelry stores, specialty retailers and DKNY boutiques worldwide
EMPORIO ARMANI	$145 - 645	12/31/2013	Department stores, specialty retailers, major jewelry and watch stores, Emporio Armani boutiques worldwide, duty free stores worldwide and www.emporioarmani.com
MARC BY MARC JACOBS	$125 - 500	12/31/2015	Department stores, specialty retailers and Marc by Marc Jacobs boutiques worldwide
MICHAEL KORS	$120 - 550	12/31/2015	Department stores, specialty retailers, jewelry stores, duty free stores worldwide and Michael Kors boutiques nationwide

The continuation of our material license agreements is important to the growth of our watch business. Sales of our licensed products amounted to 39.4% of our net sales for fiscal year 2010, with certain individual licensed brands accounting for a significant portion of our revenues. In fiscal year 2010, we renewed our license agreements with the owners of the DIESEL and MARC by MARC JACOBS brands. We also renewed our watch license agreement with MICHAEL KORS and added a jewelry product line to the license agreement. Additionally, we renewed our DKNY watch license and extended the term of the jewelry license.

Private label and other. We design, market and arrange for the manufacture of watches and accessories on behalf of certain mass market retailers, companies and organizations as private label products or as premium and incentive items for use in various corporate events. Under these arrangements, we perform design and product development functions, as well as, act as a sourcing agent for our customers by contracting for and managing the manufacturing process, purchasing and inspecting the finished product and arranging for shipment. Participation in the private label and premium businesses provides us with certain advantages, including increased assembly volume, which may reduce the costs of assembling our other products, and the strengthening of business relationships with our manufacturing sources. These lines provide income to us while reducing inventory risks and certain other carrying costs. In certain countries, we have distribution rights for other brands not owned or licensed by us.

Fashion accessories

In order to leverage our design and marketing expertise and our close relationships with our principal retail customers, primarily in the U.S. and Europe, we have developed a line of fashion accessories for both men and women, including handbags, belts, small leather goods, jewelry and sunglasses. We also offer a line of soft accessories including hats, gloves and scarves under the FOSSIL brand. Our handbags are made of a variety of fine leathers and other materials that emphasize classic styles and incorporate a variety of creative designs. Our

small leather goods are typically made of fine leathers or other man-made materials and include items such as mini-bags, coin purses, cosmetic bags and wallets. Our jewelry lines include earrings, necklaces, rings and bracelets marketed under the EMPORIO ARMANI, DIESEL, DKNY and FOSSIL brands. FOSSIL jewelry is offered in base metal, stainless steel or sterling silver with natural and synthetic materials. DIESEL brand jewelry generally is offered in sterling silver or stainless steel with natural and synthetic materials. EMPORIO ARMANI brand jewelry is generally made of sterling silver, semi-precious stones or 18K gold. Our DKNY brand jewelry is offered in primarily stainless steel with fashion accents. Our sunglass line features optical quality lenses in both plastic and metal frames, with classic and fashion styling. Our soft accessories are made of a variety of blends consisting of natural yarns such as cotton, wool, angora and alpaca, as well as, man-made blends including acrylic, viscose and nylon. We currently sell our fashion accessories through a number of our existing major department store and specialty retail store customers, as well as, our own retail stores, *www.fossil.com*, other internationally-owned websites and through our catalog operations. In the U.S. and certain international markets, we generally market our fashion accessory lines through the same distribution channels as our watches 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 our watch brands. Sales of our accessory lines for fiscal years 2010, 2009 and 2008 accounted for approximately 27.4%, 31.1% and 30.4%, respectively, of our consolidated net sales.

The following table sets forth information about our fashion accessories:

Brand	Accessory Category	Suggested Price Point Range	Primary Distribution Channel
FOSSIL	Handbags Small Leather Goods Belts Gifts Eyewear Soft Accessories Shoes	$128 - 258 $25 - 75 $25 - 50 $15 -150 $35 -150 $ 28 - 54 $48 - 328	U.S. department stores (Dillard's, Macy's, Nordstrom and Belk), specialty retailers (the Buckle), European department stores (Karstadt, El Corte Ingles, Galeries Lafayette, Christ, Debenhams and House of Fraser), Company-owned stores, our catalogs and www.fossil.com
FOSSIL	Jewelry Accessory Jewelry	$7 - 125 $22 - 95	Company-owned stores, department and jewelry stores (in each case, primarily in Europe as well as the U.S. and other select international markets), our catalogs and www.fossil.com
EMPORIO ARMANI	Jewelry	$75 - 450	Department stores, specialty retailers, major jewelry stores, Emporio Armani boutiques worldwide, duty free stores worldwide and www.emporioarmani.com
DIESEL	Jewelry	$50 -150	Department stores, domestic and international specialty retailers and Diesel retail stores worldwide
DKNY	Jewelry	$30 - 250	International department stores, specialty retailers, jewelry stores and DKNY boutiques
RELIC	Sunglasses Handbags Small Leather Goods Belts Soft Accessories	$26 $28 - 64 $20 - 36 $18 - 28 $25 - 35	U.S. department stores (JCPenney, Kohl's and Sears) and www.relicbrand.com

Clothing

The FOSSIL clothing collection is designed for both men and women and includes jeans, outerwear, fashion tops and bottoms and tee shirts. The products' unique vintage-inspired style, packaging and graphics capture the energy and spirit of the FOSSIL brand. As of January 1, 2011, the FOSSIL clothing collection is offered through 31 Company-owned stores located in leading malls and retail locations in the U.S and internationally. The line is also available at *www.fossil.com* and through our catalogs. Sales for our clothing collection for fiscal years 2010, 2009 and 2008 accounted for approximately 0.8%, 1.0% and 1.0%, respectively, of our consolidated net sales.

Shoes

In late 2008, we launched a men's shoe line, followed by a launch of a women's line in 2009. The shoe line includes sport court sneakers, authentic casuals, dress classics and boots with a modern touch for men and fashionable flats, heels, wedges, and boots for women. Sales for our shoe line for fiscal years 2010 and 2009 accounted for approximately 0.5% and 0.3%, respectively, of our consolidated net sales. There were no shoe line sales in 2008.

Licensed eyewear

We are party to a license agreement with the Safilo Group for the manufacture, marketing and sale of optical frames under the FOSSIL and RELIC brands in the U.S. and Canada, which provides us royalty income based on a percentage of net sales and is subject to certain guaranteed minimum royalties.

Design and development

We believe one of our key strengths is our internal creative team. Our watch, accessory and clothing products are created and developed by our in-house design staff primarily located in the U.S., Germany, Hong Kong and Switzerland. When developing products under our various licensed brands, we often coordinate our efforts with our licensors' design teams to provide for a more fluid design approval process and to fully incorporate the image of the respective brand into the product. Product design ideas are drawn from various sources and are reviewed and modified by the design staff to ensure consistency with our existing product offerings and the themes and images associated with our brands. Senior management is actively involved in the design process.

In order to respond effectively to changing consumer preferences, we attempt to stay abreast of emerging lifestyle and fashion trends affecting accessories and clothing. In addition, we attempt to take advantage of the constant flow of information from our customers and our retail stores and websites regarding the retail performance of our products. We review weekly sales reports provided by a substantial number of our 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. Our creative teams have access to our Company's product design archives and are kept up-to-date on all the various new components, hardware and materials that become available.

We differentiate our products from those of our competitors principally by incorporating into our product designs innovations in fashion details, including variations in the materials and treatments used for dials, crystals, cases, straps and bracelets for our watches, and details and treatments in our other accessories. We also own and license proprietary technology or integrate our suppliers' technology for certain of our watch products. In certain instances, we believe that such innovations have allowed us to achieve significant improvements in consumer acceptance of our product offerings. We believe that the substantial experience of our design staff will assist us in maintaining our current leadership position in the watch and handbag categories and in expanding the scope of our product offerings.

Marketing and promotion

Our marketing strategy for each of our proprietary brands is to deliver a coordinated and consistent brand image to the consumer regardless of where the consumer may come in contact with the brand. This permeates from point of sale merchandise displays, print and media advertising, our websites, our catalogs, retail stores, and the product packaging to the product itself. We identify our advertising themes and coordinate our packaging, advertising and point of sale material around these themes. These themes are carefully coordinated in order to convey modern vintage styling and the aspirational viewpoint that we associate with our products. Our vintage-inspired tin packaging concept for many of our watch products and certain of our accessories is an example of these marketing themes. While our marketing themes typically change each year, the core image of the brand is designed to endure, only changing slightly to keep it fresh and relevant to our targeted consumer. For our licensed brands, we incorporate many of the same concepts but derive the themes generally from the licensors.

We participate in cooperative advertising programs with our major retail customers, whereby we share 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, we attempt to differentiate the space used to sell our products from other areas of our customers' stores. We also promote the use of our shop-in-shop concept for watches, jewelry, handbags, small leather goods and watch and jewelry concessions, primarily in Asia and Europe. The shop-in-shop concept involves the use of dedicated space within a customer's store to create a brand "shop" featuring our products and visual displays. Concessions allow us to essentially operate all or a portion of the watch and jewelry department within our customers' stores, thereby permitting us to control merchandising, inventory levels, build-out and branding decisions and, more importantly, the interaction with the end consumer. We also provide our customers with a large number of preprinted customized advertising inserts and from time to time stage promotional events designed to focus public attention on our products.

Our in-house art department designs, develops and implements all of the packaging, advertising, marketing and other promotional aspects of our products. The art staff uses computer-aided design techniques to generate the images presented on product packaging and other advertising materials. Senior management is involved in monitoring our advertising and promotional activities to ensure that themes and ideas are communicated in a cohesive manner to our target audience.

We advertise, market and promote our products to consumers through a variety of media, including catalog inserts, billboards, print media, television, cinema and the Internet. We distribute FOSSIL catalogs, which feature selected FOSSIL brand products and are produced by our in-house staff. The timing of these catalogs is generally coordinated with seasonal shopping periods and generally peak during the holiday season. The scope of the distribution of these catalogs is determined by our management based on consumer response. We believe these catalogs are a cost-effective way of enhancing the FOSSIL brand and driving sales to our retail stores, websites and wholesale customers.

Sales and customers

General. Domestically, we sell our products in retail locations in the U.S. through a diversified distribution network that includes department stores, specialty retail locations, specialty watch and jewelry stores, mass market stores, the Internet and through our catalogs. Our department store customers include Neiman Marcus, Belk, Saks Fifth Avenue, Bloomingdales, Nordstrom, Macy's, Dillard's, JCPenney, Kohl's and Sears. We maintain sales offices in several major cities across the U.S. staffed with sales associates to assist in managing our department and specialty store accounts and employ a nationwide staff of merchandise coordinators who work with the stores to ensure that our products are displayed appropriately. We also sell certain of our watch and accessory products at Company-owned FOSSIL retail stores and outlet stores located throughout the U.S. and through our website at *www.fossil.com.* In addition, we sell certain of our proprietary and licensed watch

products, as well as upscale watch brands of other companies, such as Citizen and Swiss Army, at our Company-owned Watch Station retail stores in the U.S. Our clothing products are sold through select Company-owned FOSSIL retail stores and through our website and catalogs. Our products are also sold through retail locations in major airports in the U.S. and on cruise ships.

Our foreign operations include a presence in Africa, Asia, Australia, Europe, Central and South America, Canada, the Caribbean, Mexico and the Middle East. We maintain subsidiary offices in Australia, Austria, Canada, China, Denmark, France, Germany, Hong Kong, India, Italy, Japan, Malaysia, Mexico, the Netherlands, New Zealand, Norway, Singapore, South Korea, Spain, Sweden, Switzerland, Taiwan and the United Kingdom. Our European headquarters is located in Basel, Switzerland and our Far East headquarters is located in Hong Kong. Internationally, our products are sold to department stores and specialty retail stores in over 120 countries worldwide through 23 Company-owned foreign subsidiaries, through a network of over 60 independent distributors, through Company-owned retail stores and websites and through licensed or franchised authorized FOSSIL retail stores and kiosks in certain international markets. Foreign distributors generally purchase products from us at uniform prices established by us for all international sales and resell them to department stores and specialty retail stores. We generally receive payment from our foreign distributors in U.S. currency. We generally do not have long-term contracts with any of our retail customers. All transactions between us and our retail customers are conducted on the basis of purchase orders, which generally require payment of amounts due to us on a net 30 day basis for most of our U.S.-based customers and up to 120 days for certain international customers. No customer accounted for 10% or more of our net sales in fiscal years 2010, 2009 or 2008.

U.S. wholesale sales. For fiscal years 2010, 2009 and 2008, U.S. wholesale sales accounted for approximately 35.9%, 30.4% and 29.9% of our net sales, respectively. In addition, in the same fiscal year periods, the aggregate sales to our 10 largest customers in the U.S. channel represented approximately 23.5%, 22.0% and 21.8% of total net sales, respectively.

International wholesale sales. During the fiscal years 2010, 2009 and 2008, international wholesale sales, including sales to third-party distributors, accounted for approximately 40.3%, 45.3% and 50.6% of net sales, respectively.

Company-owned stores. Our various retail store formats focus on creating emotional connections with our customer through an intense branding experience and personalized customer service. We strive to provide an inviting and welcoming environment for our customers that enhances our brand image and seeks brand loyalty by continually delivering innovative vintage-inspired products that meet our customers' tastes.

Accessory Stores

In 1996, we commenced operations of full price FOSSIL accessory retail stores ("Accessory Stores") in the U.S. in order to broaden the recognition of the FOSSIL brand name. Accessory Stores carry a full assortment of FOSSIL watches and other accessories that are generally sold at the suggested retail price. We believe this store concept presents a key growth strategy for us on a worldwide basis. As of January 1, 2011, 138 of our 230 Accessory Stores were located outside of the U.S., mainly in Europe and Asia. At the end of fiscal 2010, the average size of our Accessory Stores was 1,354 square feet, but each store can vary in size based on its geographic location. For example, our international-based stores are generally smaller in square footage than our U.S.-based stores due to smaller retail store configurations available in the market. The table below sets forth information about our Accessory Stores for the last five fiscal years:

Fiscal Year	Open At Beginning of Period	Opened During Period	Closed During Period	Open at End of Period	Total Gross Square Footage (in thousands)	Percentage Increase in Square Footage	Average Gross Square Footage Per Retail Store
2006	59	18	4	73	107.6	13.5%	1,473
2007	73	42	2	113	153.6	42.8%	1,359
2008	113	79	1	191	258.6	68.4%	1,354
2009	191	29	2	218	296.2	14.5%	1,359
2010	218	20	8	230	311.4	5.1%	1,354

Our current U.S. Accessory Stores operating model assumes a retail store size of approximately 1,200 to 1,600 square feet. Our targeted net investment to open a U.S. Accessory Store is approximately $450,000 which includes approximately $370,000 of build-out costs, net of landlord contributions, but including furniture and fixtures and $80,000 of initial inventory. Our current international Accessory Stores operating model assumes a retail store size of approximately 600 to 1,100 square feet. Our targeted net investment to open an Accessory Store in Europe is approximately $561,000 which includes approximately $425,000 of build-out costs, net of landlord contributions, but including furniture and fixtures and $136,000 of initial inventory. Our targeted net investment to open an Accessory Store in the Far East is approximately $259,000 which includes approximately $150,000 of build-out costs, net of landlord contributions, but including furniture and fixtures and $109,000 of initial inventory. Our targeted pre-tax margin, on a four-wall basis, for the first fiscal year is 15%. Our historical sales per square foot approximate $623 in our U.S. Accessory Stores, $775 in our European Accessory Stores and $693 in our Asia Pacific Accessory Stores.

Outlet Stores

In 1995, we commenced operations of FOSSIL outlet stores at selected major outlet malls throughout the U.S. We opened our first FOSSIL outlet store outside the U.S. in 2005 and, as of January 1, 2011, 23 of our 93 outlet stores are located outside of the U.S. These stores, which operate under the FOSSIL name, not only increase our brand awareness, but also enable us to liquidate excess inventory generally at significantly better prices than we would obtain through third-party liquidators. We generally discount products in these stores from 25% to 75% off the suggested retail price. The table below sets forth information about our FOSSIL outlet stores during the last five fiscal years:

Fiscal Year	Open At Beginning of Period	Opened During Period	Closed During Period	Open at End of Period	Total Gross Square Footage (in thousands)	Percentage Increase in Square Footage	Average Gross Square Footage Per Retail Store
2006	72	8	2	78	204.0	5.5%	2,616
2007	78	4	2	80	206.2	1.0%	2,577
2008	80	5	3	82	207.6	0.7%	2,532
2009	82	12	4	90	212.5	2.4%	2,361
2010	90	9	6	93	221.1	4.0%	2,377

Other Direct to Consumer

In 2000, we began offering FOSSIL brand clothing through specially designed Company-owned clothing stores. As of January 1, 2011, we operated 28 FOSSIL clothing stores in leading malls and retail locations throughout the U.S and three outside the U.S. Our clothing stores carry the full clothing line along with an assortment of certain FOSSIL watch and accessory products and shoes. In 2004, we commenced operations of our first Modern Watch Co. retail store, in both full-price and outlet locations, through which we sell certain of our proprietary and licensed brand watches, as well as watches manufactured by other companies. In 2007, we acquired the Watch Station trade name from Sunglass Hut and subsequently rebranded all Modern Watch Co. stores with the Watch Station name. As of January 1, 2011, we operated nine Watch Station stores, seven located in the U.S., including one full-price store, six outlets and two full-price stores in Asia. As of January 1, 2011, we also operated seven non-FOSSIL retail stores outside the U.S. under various names.

During 2006, we entered into an agreement with the House of Fraser, a U.K.- based department store ("HOF"), which allows us to operate the watch department in certain HOF stores. Under this agreement, we own the inventory within the HOF store, provide the labor to operate the department and pay HOF a commission on the retail watch sales generated in the stores. As of January 1, 2011, we operated the watch department in 43 HOF stores, generating net sales of approximately $12.6 million during fiscal year 2010. Although we include the net sales derived from the HOF stores in our Direct to Consumer segment, we do not include the number of locations associated with this arrangement in our retail store count.

Internet sales. In November 1996, we established our first e-commerce website with the launch of *www.fossil.com.* In October 2007, we launched our first e-commerce site outside the U.S. in Germany. We now operate sites in the United Kingdom, Australia and Singapore as well. Each site features a full selection of geographically appropriate FOSSIL brand products. Certain of our sites also provide customer service, company news and shareholder information. Our sites are continually updated to provide a fresh look and an easy-to-navigate interface that enhances the brand image, while allowing consumers a pleasing shopping experience or a preview of what they may find at their local store carrying the brand. Since its launch, the *www.fossil.com* website has been promoted consistently in support of online brand and direct sales goals. Online marketing efforts include: search/keyword marketing programs through major search partners including Google Affiliate Network, Yahoo! and MSN; online "storefront" relationships with websites such as America Online, Microsoft Network, Amazon and Yahoo!; regular e-mail communications sent using SilverPop to over one million registered consumers; product and promotional banners presented on affiliate sites through integration partners Commission Junction and Performics; and online brand initiatives in support of viral, sweepstakes and traditional brand initiatives. In support of certain seasonal initiatives, we have partnered with groups such as Tacoda, Bravo Network / Project Runway and Expedia. We have leveraged our e-commerce infrastructure by opening additional sites to support our licensed and owned brands, including *www.michele.com, www.zodiacwatches.com, www.relicbrand.com, www.emporioarmaniwatches.com,* and *www.dieseltimeframes.com,* as well as an international branding site located at *http://global.fossil.com.* We also leverage our e-commerce infrastructure to support a business-to-business site that allows U.S. corporate partners to access FOSSIL product assortments and catalogs.

During fiscal years 2010, 2009 and 2008, our Direct to Consumer segment, which includes sales from Company-owned stores, catalogs and e-commerce businesses, accounted for approximately 23.8%, 24.3% and 19.5% of net sales, respectively.

Catalogs. In fiscal year 2010, we distributed approximately 19.9 million FOSSIL catalogs, an increase from 10.0 million in fiscal year 2009. We typically distribute several versions of our catalog each year with a majority being distributed during our fourth quarter. We distribute our catalogs to a database of customers collected principally through our website, third-party mailing list and our Company-owned stores in the U.S. We view our catalogs as a key communication and advertising tool for the brand, further enhancing and focusing the brand image, as well as, promoting sales across all of our distribution channels.

Facilitating our wholesale distribution

We utilize an in-house sales staff and, to a lesser extent, independent sales representatives to promote the sale of our products to retail accounts. Our in-house sales personnel receive a salary and, in some cases, a commission based on a percentage of sales attributable to specified accounts. Independent sales representatives generally do not sell competing product lines and are under contracts with us that are generally terminable by either party upon 30 days prior notice. These independent contractors are primarily compensated on a commission basis.

We have developed an approach to managing the retail sales process that involves monitoring our customers' sales and inventories by product category and style, primarily through electronic data interchange. We review weekly selling and inventory information to ensure our products are properly stocked and replenished on a timely basis. We also assist many of our customers in the conception, development and implementation of their marketing programs. We also participate in cooperative advertising programs with our major retail customers. We believe that management of the retail sales process has resulted in close relationships with our principal customers, often allowing us to influence the mix, quantity and timing of their purchasing decisions.

We believe that our sales approach has historically accounted for high retail turnover in our products, which can result in attractive profit margins for our retail customers. We believe that the resulting profit margins for our wholesale customers encourage them to devote greater selling space to our products within their stores. We are also able to work closely with buyers in determining the mix of products a store should carry. In addition, we believe that the buyers' familiarity with our sales approach has facilitated, and should continue to facilitate, the introduction of new products through our existing distribution network.

We permit the return of damaged or defective products. In addition, although we have no obligation to do so, we accept limited amounts of product returns from our customers in other instances. Accordingly, we provide allowances for the estimated amount of product returns. The allowances for product returns as of the end of fiscal years 2010, 2009 and 2008 were $62.7 million, $40.0 million and $42.2 million, respectively. We have not historically experienced returns in excess of our aggregate allowances.

Backlog

It is the practice of a substantial number of our 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 we believe 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 represents orders that we believe, based on industry practice and prior experience, will be confirmed in the ordinary course of business. Our 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. At the end of fiscal year 2010, we had unfilled customer orders of approximately $137.8 million compared to $82.4 million and $58.9 million at the end of fiscal years 2009 and 2008, respectively.

Manufacturing

During 2010, approximately 71% of the watches we procured from the Far East were assembled through our two majority-owned entities. The remaining 29% of the watches we procured from the Far East were assembled by approximately 45 unrelated factories located primarily in Hong Kong and China, which includes almost all the production and assembly of our digital and mass market watches. Production of approximately 56% of the jewelry products we sell is sourced from one of our majority-owned entities. The remaining 44% is manufactured by approximately 20 factories located primarily in China. Although we have no ownership interest in these unrelated watch and jewelry factories, Fossil East maintains oversight and control of the supply chain from design through final delivery of the finished product as it does with the related factories. We believe substantial

ownership of the assembly factories that produce a majority of our fashion watches and jewelry is critical to our operating model, as we believe this allows us to keep our designs proprietary, control the size of our production runs and vertically manage our supply chain. All of our handbags, small leather goods, belts, sunglasses, shoes and clothing product production are outsourced. We believe that our policy of outsourcing the production of these product categories allows us flexibility in selecting our suppliers while avoiding significant capital expenditures, build-ups of work-in-process inventory and the costs of managing a substantial production work force. Our Swiss-made watches are assembled primarily in three third-party factories within Switzerland.

The principal components used in the assembly of our watches are cases, crystals, dials, movements, hands, bracelets and straps. These components are obtained from a large number of suppliers located principally in China, Hong Kong, India, Italy, Japan, South Korea, Switzerland, Taiwan and Thailand. The majority of the movements used in the assembly of our watches are supplied by five principal vendors. During fiscal year 2010, one case and bracelet vendor was responsible for approximately 28% of our production of these components. No other single component supplier accounted for more than 10% of component supplies in fiscal year 2010. The principal materials used in the manufacture of our jewelry products are stainless steel, sterling silver, semi-precious stones, and natural and synthetic materials. These components are primarily obtained from the same factories that we use for our watches. Except for the one case and bracelet vendor, we do not believe that our business is materially dependent on any single component supplier.

We believe that we have established and maintain close relationships with a number of component manufacturers and assembly operations primarily located in Hong Kong, China and Switzerland. In 2010, two separate watch assembly factories, that are majority-owned by us, accounted for 34% and 37%, respectively, of our watch production. The loss of any one of these factories could temporarily disrupt shipments of certain of our watches. However, as a result of the number of component manufacturers and assembly operations from which we purchase our components and finished watches, we believe that we could arrange for the assembly of watches from alternative sources on terms that are not materially different from those currently available to us. Accordingly, we do not believe that the loss of any single assembly operation would have a material adverse effect on our business. However, our future success will generally depend upon our ability to maintain close relationships with, or ownership of, our current watch assembly factories and suppliers and to develop long-term relationships with other suppliers that satisfy our requirements for price and production flexibility.

Our products are assembled or 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 four months in the case of watches, leather goods, jewelry, eyewear and clothing. We believe that the close relationships, including ownership interests in some cases, we have established and maintain with our principal assembly or manufacturing sources constitute a significant competitive advantage and allow us to quickly and efficiently introduce innovative product designs and alter production in response to the retail performance of our products.

Quality control

Our quality control program attempts to ensure that our products meet the standards established by our product development staff. Samples of products are inspected by us prior to the placement of orders with factories to ensure compliance with our specifications. We also typically inspect prototypes of each product before production runs commence. The operations of our factories located in Hong Kong and China are monitored on a periodic basis by Fossil East, and the operations of our factories located in Switzerland are monitored on a periodic basis by Montres Antima SA, one of our foreign operating subsidiaries. Substantially all of our watches, jewelry and certain of our other accessories are inspected by personnel of Fossil East or by the factory prior to shipment to us. Final inspections, on a sampling basis, occur when the products are received in our distribution centers. We believe that our policy of inspecting our products at the assembly/manufacturing facility, upon receipt at our distribution facilities and prior to shipment to our customers is important to maintain the quality, consistency and reputation of our products.

Distribution

Upon completion of assembly/manufacturing, the majority of our products are shipped to one of our warehousing and distribution centers in Texas, Germany or Hong Kong, from which they are shipped to subsidiary warehouses, in the case of our Mexico, Scandinavia and Far East operations, or directly to customers in selected markets. Our centralized warehouse and distribution facilities in Texas and Germany allow us to maximize our inventory management and distribution capabilities and more readily meet the varying distribution requirements placed on us by our customers at a lower cost. Our facilities in Texas and Germany are equipped with automated material handling equipment operated by world-class software from SAP AG and Manhattan Associates. The automated equipment and operating systems, in conjunction with the continual manual sampling of our outgoing orders prior to shipment, are important in maintaining the quality, accuracy, speed and reputation of our products and distribution service.

Our warehouse and distribution facilities in Texas operate in a special purpose sub-zone established by the U.S. Department of Commerce Foreign Trade Zone Board. As a result of the establishment of the sub-zone, the following economic and operational advantages are available to us: (i) we may not have to pay duty on imported merchandise until it leaves the sub-zone and enters the U.S. market, (ii) we may not have to pay any U.S. duty on merchandise if the imported merchandise is subsequently shipped to locations outside the U.S. and (iii) we do not have to pay local property tax on inventory located within the sub-zone.

Information technology systems

General. We believe that automation, reliable and scalable systems, accurate reporting and rapid flow of communication is essential to maintain our competitive position and support our key operating and financial goals. Therefore, we continue to invest in computer hardware, system application and telecommunication networks. Our information technology systems consist of a wide spectrum of financial, distribution, human resources, merchandising, planning, point of sale, supply chain and other solutions. Where possible and cost effective, we leverage our various systems on a global basis, which enhances the accuracy, timeliness and accessibility of the relevant data.

Inventory control. We maintain inventory control systems at our facilities that enable us to track each product from the time it is shipped from the factory through shipment to our customers. To facilitate this tracking, a significant number of products sold by us are pre-ticketed and bar coded prior to shipment to our wholesale customers. Our inventory control systems report shipping, sales and individual stock keeping unit level inventory information. We manage the retail sales process by monitoring customer sales and inventory levels of our products by product category and style, primarily through electronic data interchange. We believe that our distribution capabilities enable us to reduce inventory risk and increase flexibility in responding to the delivery requirements of our customers. Our management believes that our electronic data interchange efforts will continue to grow in the future as customers focus further on increasing operating efficiencies. In addition, we maintain systems that are designed to track inventory movement through our Company-owned stores. Detailed sales transaction records are accumulated on each store’s point-of-sale system and polled by us.

Enterprise resource planning. We intend to continue implementing our enterprise resource planning system from SAP AG in certain of our subsidiary operations located in Europe. This software is installed on a single site platform located in our U.S. headquarters facility. The software currently supports the human resources, sales and distribution, inventory planning, retail merchandising and operational and financial reporting systems of our U.S. businesses and certain subsidiary operations in Europe. The financial, sales and distribution, inventory planning and reporting system implementations were principally completed in the U.S., Germany, France, Italy and the United Kingdom during 2003, 2004, 2005, 2008 and 2010, respectively. We expect to complete the implementation of SAP for our Switzerland operation in fiscal year 2011. The human resources and retail systems were implemented for our operations in the U.S. during 2005 and 2007, respectively. We do not believe our subsidiary sales operations in the Far East are of a size to effectively benefit from our SAP software application. However, in 2009 we implemented our SAP financial, planning and warehouse management

modules in Hong Kong to provide efficiencies to further support our regional warehouse in Hong Kong and the related supply chain associated with our local country operations, including our owned retail stores throughout Asia. We have implemented Navision as our standard system throughout most of our Far East distribution and manufacturing subsidiary operations. The Navision system supports many of the same functions as our SAP system on a local country level.

Warranty and repair

Our FOSSIL watch products sold in the U.S. are covered by a limited warranty against defects in materials or workmanship for a period of 11 years from the date of purchase. RELIC watch products sold in the U.S. are covered by a comparable 12 year warranty while other watches sold in the U.S. are covered by a comparable two year limited warranty. Generally, all of our watch products sold in Canada, Europe and Asia are covered by a comparable two year limited warranty. The majority of our defective watch products returned by consumers in North America are processed at our repair facilities in Texas while defective watch products returned by consumers in Europe are processed at our repair facilities in France. We also maintain repair facilities at a majority of our subsidiaries, as well as, through our network of distributors to handle repairs which are minor in nature or are not convenient to one of our centralized repair facilities. In most cases, defective products under warranty are repaired by our personnel or distributors. We attempt to retain adequate levels of component parts to facilitate after-sales service of our watches, even after the discontinuance of specific styles. We have a component parts system that tracks the inventory of our various component replacement parts that can be utilized by our repair facilities for identifying stock levels and availability for procurement. Watch and non-watch products under warranty that cannot be repaired in a cost-effective manner are replaced by us at no cost to the customer. Sales for repairs for fiscal years 2010, 2009 and 2008 accounted for approximately 0.8%, 0.9% and 0.8%, respectively, of our consolidated net sales. The warranty liability recorded for fiscal years 2010, 2009 and 2008 was $8.5 million, $6.4 million and $4.6 million, respectively.

Governmental regulations

Imports and import restrictions. Most of our products are assembled or manufactured overseas. As a result, the U.S. and countries in which our products are sourced or sold may from time to time modify existing or impose new quotas, duties (including antidumping or countervailing duties), tariffs or other restrictions in a manner that adversely affects us. For example, our products imported to the U.S. are subject to U.S. customs duties and, in the ordinary course of our business, we may from time to time be subject to claims by the U.S. Customs Service for duties and other charges. Factors that may influence the modification or imposition of these restrictions include the determination by the U.S. Trade Representative that a country has denied adequate intellectual property rights or fair and equitable market access to U.S. firms that rely on intellectual property, trade disputes between the U.S. 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 U.S. government. We cannot predict the effect, if any, these events would have on our operations, especially in light of the concentration of our assembly and manufacturing operations in Hong Kong and China.

General. Our sunglass products are subject to regulation by the U.S. Food and Drug Administration as medical devices, and certain of our dials and watch straps are subject to regulation by the U.S. Fish and Wildlife Service. In addition, we are subject to various state and federal regulations generally applicable to similar businesses.

Intellectual property

Trademarks. We use the FOSSIL, RELIC, MICHELE and ZODIAC trademarks, as well as, other trademarks on certain of our watches, leather goods, clothing and other fashion accessories in the U.S. and in a significant number of foreign countries. We have taken steps to establish or provide additional protection for our trademarks by registering or applying to register our trademarks for relevant classes of products in each country where our products are sold in addition to certain foreign countries where it is our intent to market our products

in the future. Each trademark is renewable indefinitely, so long as we continue to use the mark in the applicable jurisdiction and make the appropriate filings when required. We aggressively protect our trademarks and trade dress and pursue infringement both domestically and internationally. We also pursue counterfeiters both domestically and internationally through leads generated internally, as well as, through business partners worldwide. In certain cases, we track serial numbers of our products or we etch microscopic identification numbers on certain of our watches in order to identify potential customers who might be diverting product into a parallel market.

Patents. We continue to explore innovations in the design and assembly of our watch products and are involved in the development of technology enhanced watches. As a result, we have been granted, and have pending, various U.S. and international design and utility patents related to certain of our watch designs and features. We also have been granted, and have pending, various U.S. patents related to certain of our other products and technologies. The expiration date of our two material U.S. patents is April 12, 2019.

License agreements. A portion of our growth in sales and net income is, and is expected to continue to be, derived from the sales of products produced under licensing agreements with third-parties. Under these license agreements, we generally have the right to produce, market and distribute certain products utilizing the brand names of other companies. Our major license agreements have various expiration dates between 2012 and 2015. In fiscal year 2010, we renewed our license agreements with the owners of the DIESEL and MARC by MARC JACOBS brands. We also renewed our license agreement for MICHAEL KORS and added a jewelry product line to the license agreement. Additionally, we renewed our DKNY watch license and extended the term of the jewelry license. We currently have certain license rights to the ARMANI EXCHANGE brand and are negotiating a long-term license agreement.

Seasonality

Although the majority of our products are not seasonal, our business is seasonal by nature. A significant portion of our net sales and operating income are generated during the third and fourth quarter of our fiscal year, which includes the “back to school” and Christmas season. Additionally, as our direct to consumer sales continue to increase as a percentage of our sales mix, it will benefit our sales and profitability in the fourth quarter, generally at the expense of the first and second quarter when it is more difficult to leverage Direct to Consumer segment expenses against Direct to Consumer segment sales. The amount of net sales and operating income generated during the fourth quarter also depends upon the anticipated level of retail sales during the Christmas season, as well as, general economic conditions and other factors beyond our control. In addition, the amount of net sales and operating income generated during the first quarter depends in part upon the actual level of retail sales during the Christmas season. Lower levels of inventory held by our wholesale customers at the end of the Christmas season may result in higher levels of restocking orders placed by them during the first quarter.

Competition

The businesses in which we compete are highly competitive and fragmented. We believe that the current market for watches can be divided into four segments, ranging from lower price point watches that are typically distributed through mass market channels to luxury watches at higher price points that are typically distributed through fine watch departments of upscale department stores or upscale specialty watch and fine jewelry stores. Our watch business generally competes with a number of established manufacturers, importers and distributors in many of these segments, including, Armitron, Citizen, Gucci, Guess?, Kenneth Cole, LVMH Group, Movado, Raymond Weil, Seiko, Swatch, Swiss Army, TAG Heuer and Timex. In addition, our leather goods, sunglasses, jewelry and clothing businesses compete with a large number of established companies that have significantly greater experience than us in designing, developing, marketing and distributing such products. In all of our businesses, we compete with numerous manufacturers, importers and distributors who may have significantly greater financial, distribution, advertising and marketing resources than us. Our competitors include distributors that import watches, accessories and clothing from abroad, U.S. companies that have established foreign manufacturing relationships and companies that produce accessories and clothing domestically.

Although the level and nature of competition varies among our product categories and geographic regions, we believe that we compete on the basis of style, price, value, quality, brand name, advertising, marketing, distribution and customer service. We believe that our 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 our ability to compete. We also believe that our distinctive business model of owning the distribution in key markets and offering a globally recognized portfolio of proprietary and licensed brands allows for many competitive advantages over smaller, regional or local competitors. This "ownership of the market" allows us to bypass the local distributor's cost structure resulting in more competitively priced products while also generating higher product and operating margins.

We consider 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 our 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 2010, we employed approximately 10,500 persons, including approximately 5,700 persons employed by our foreign operating subsidiaries.

None of our domestic or foreign-based employees are represented by a trade union. However, certain European-based employees are represented by work councils, consisting of certain of the current employees who negotiate with management on behalf of all the employees. We have never experienced a work stoppage and consider our working relationship with our employees and work councils to be good.

Item 1A. Risk Factors

The statements contained and incorporated by reference in this Annual Report on Form 10-K that are not historical facts, including, but not limited to, statements regarding our expected financial position, results of operations, business and financing plans found in 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 words "may", "believes", "expects", "plans", "intends", "anticipates" and similar expressions identify forward-looking statements. The actual results of the future events described in such forward-looking statements could differ materially from those stated in such forward-looking statements.

Our actual results may differ materially due to the risks and uncertainties discussed in this Annual Report on Form 10-K, including those discussed below. Accordingly, readers of this Annual Report on Form 10-K should consider these factors in evaluating, and are cautioned not to place undue reliance on, the forward-looking statements contained herein. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

Risk Factors Relating to Our Business

The deterioration in the global economic environment, and resulting declines in consumer confidence and spending, could have an adverse effect on our operating results.

The global economic environment has been challenging during the past two years. Declining real estate values, reduced lending by banks, solvency concerns of major financial institutions, increases in unemployment

levels and significant volatility in the global financial markets have negatively impacted the level of consumer spending for discretionary items. This has affected our business as it is dependent on consumer demand for our products. In certain countries in which we distribute our products, we experienced a significant slowdown in customer traffic and a highly promotional environment during late 2008 and most of 2009. Although we have experienced a slight improvement in the overall economy over the last twelve months, if the economy deteriorates or slides back into a recession, there could likely be a negative effect on our revenues and earnings across most of our segments for fiscal year 2011.

The effects of economic cycles, terrorism, acts of war and retail industry conditions may adversely affect our business.

Our business is subject to economic cycles and retail industry conditions. Purchases of discretionary fashion accessories, such as our watches, handbags, sunglasses and other products, tend to decline during recessionary periods when disposable income is low and consumers are hesitant to use available credit. In addition, acts of terrorism, acts of war and military action both in the U.S. and abroad can have a significant effect on economic conditions and may negatively affect our ability to procure our products from manufacturers for sale to our customers. Any significant declines in general economic conditions, public safety concerns or uncertainties regarding future economic prospects that affect consumer spending habits could have a material adverse effect on consumer purchases of our products.

Our success depends upon our ability to anticipate and respond to changing fashion trends.

Our success depends upon our ability to anticipate and respond to changing fashion trends and consumer preferences in a timely manner. The purchasing decisions of consumers are highly subjective and can be influenced by many factors, such as brand image, marketing programs and product design. Our success depends, in part, on our ability to anticipate, gauge and respond to these changing consumer preferences in a timely manner while preserving the authenticity and the quality of our brands. Although we attempt to stay abreast of emerging lifestyle and fashion trends affecting accessories and clothing, any failure by us to identify and respond to such trends could adversely affect consumer acceptance of our existing brand names and product lines, which in turn could adversely affect sales of our products. If we misjudge the market for our products, we may be faced with a significant amount of unsold finished goods inventory, which could adversely affect our results of operations.

The loss of any of our license agreements, pursuant to which a number of our products are produced, may result in the loss of significant revenues and may adversely affect our business.

A significant portion of our growth in sales and net income is, and is expected to continue to be, derived from the sales of products produced under license agreements with third-parties. Under these license agreements, we generally have the right to produce, market and distribute certain products utilizing the brand names of other companies. We sell products under certain licensed brands, including, but not limited to, ADIDAS, BURBERRY, DIESEL, DKNY, EMPORIO ARMANI, MARC BY MARC JACOBS and MICHAEL KORS. Sales of our licensed products amounted to 39.4% of our net sales for fiscal year 2010, with certain individual licensed brands accounting for a significant portion of our revenues. Our material license agreements have various expiration dates between 2012 and 2015. In addition, certain license agreements may require us to make minimum royalty payments, subject us to restrictive covenants or require us to comply with certain other obligations and may be terminated by the licensor if these or other conditions are not met or upon certain events. We may not be able to continue to meet our obligations or fulfill the conditions under these agreements in the future. In addition, we may be unable to renew our existing license agreements beyond the current term or obtain new license agreements to replace any lost license agreements on similar economic terms or at all. The failure by us to maintain or renew one or more of our existing material license agreements could result in a significant decrease in our sales and have a material adverse affect on our results of operations.

Our success depends upon our ability to continue to develop innovative products.

Our success also depends upon our ability to continue to develop innovative products in the respective markets in which we compete. If we are unable to successfully introduce new products, or if our competitors introduce superior products, customers may purchase increasing amounts of products from our competitors, which could adversely affect our sales and results of operations.

Reduced lending by banks could have a negative impact on our customers, suppliers and business partners, which in turn could materially and adversely affect our results of operations and liquidity.

The reduction in lending by banks is having a significant negative impact on businesses around the world. Although we believe that our cash provided by operations and available borrowing capacity under our U.S. credit facility will provide us with sufficient liquidity for the foreseeable future, the impact of reduced lending on our customers, business partners and suppliers cannot be predicted and may be quite severe. The inability of our manufacturers to ship our products could impair our ability to meet delivery date requirements. A disruption in the ability of our significant customers, distributors or licensees to access liquidity could cause serious disruptions or an overall deterioration of their businesses, which could lead to a significant reduction in their future orders of our products and the inability or failure on their part to meet their payment obligations to us, any of which could have a material adverse effect on our financial condition and results of operations and liquidity.

Seasonality of our business may adversely affect our net sales and operating income.

Our quarterly results of operations have fluctuated in the past and may continue to fluctuate as a result of a number of factors, including seasonal cycles, the timing of new product introductions, the timing of orders by our customers and the mix of product sales demand. Our business is seasonal by nature. A significant portion of our net sales and operating income are generated during the third and fourth quarters of our fiscal year, which includes the "back to school" and Christmas seasons. The amount of net sales and operating income generated during the fourth quarter depends upon the anticipated level of retail sales during the Christmas season, as well as, general economic conditions and other factors beyond our control. In addition, the amount of net sales and operating income generated during the first quarter depends in part upon the actual level of retail sales during the Christmas season. The seasonality of our business may adversely affect our net sales and operating income during the first and fourth quarters of our fiscal year.

Our plan to significantly increase our store base may not be successful, and implementation of this plan may divert our operational, managerial and administrative resources, which could impact our competitive position.

Each year, we have historically expanded our store base. During fiscal year 2011, we intend to further expand our store base by opening approximately 80 to 85 new stores globally and close approximately 26 to 28 stores. Thereafter, in the near term, we plan to continue to expand our store base annually. The success of our business depends, in part, on our ability to open new stores and renew our existing store leases on terms that meet our financial targets. Our ability to open new stores on schedule or at all, to renew existing store leases on favorable terms or to operate them on a profitable basis will depend on various factors, including our ability to:

- identify suitable markets for new stores and available store locations;
- negotiate acceptable lease terms for new locations or renewal terms for existing locations;
- manage and expand our infrastructure to accommodate growth;
- hire and train qualified sales associates;
- develop new merchandise and manage inventory effectively to meet the needs of new and existing stores on a timely basis;
- foster current relationships and develop new relationships with vendors that are capable of supplying a greater volume of merchandise; and
- avoid construction delays and cost overruns in connection with the build-out of new stores.

Our plans to expand our store base may not be successful and the implementation of these plans may not result in an increase in our net sales even though they increase our costs. Additionally, implementing our plans to expand our store base will place increased demands on our operational, managerial and administrative resources. The increased demands of operating additional stores could cause us to operate less effectively, which could cause the performance of our existing stores and our wholesale operations to suffer materially. Any of these outcomes of our attempted expansion of our store base could have a material adverse effect on the amount of net sales we generate and on our financial condition and results of operations.

We have key facilities in the U.S. and overseas, the loss or shut down of any of which could harm our business.

Our administrative and distribution operations in the U.S. are conducted primarily from five separate facilities located in the Dallas, Texas area. Our operations internationally are conducted from various administrative, distribution and assembly facilities outside of the U.S., particularly in China, Germany, Hong Kong and Switzerland. The complete or temporary loss of use of all or part of these facilities could have a material adverse effect on our business.

Certain of our warehouse and distribution facilities in the Dallas, Texas area are operated in a special purpose sub-zone established by the U.S. Department of Commerce Foreign Trade Zone Board. Although the sub-zone allows us certain tax advantages, the sub-zone is highly regulated by the U.S. Customs Service. This level of regulation may cause disruptions or delays in the distribution of our products out of these facilities. Under some circumstances, the U.S. Customs Service has the right to shut down the entire sub-zone and, therefore, our entire warehouse and distribution facilities. During the time that the sub-zone is shut down, we may be unable to adequately meet the supply requests of our customers and our Company-owned retail stores, which could have an adverse effect on our sales, relationships with our customers, and results of operations, especially if the shut down were to occur during our third or fourth quarter.

Our ability to grow our sales is dependent upon the implementation of our growth strategy, which we may not be able to achieve.

Since our public offering in 1993, we have experienced substantial growth in net sales. Our ability to continue this growth is dependent on the successful implementation of our business strategy. This includes diversification of our product offerings, expansion of our Company-owned accessory locations and possibly strategic acquisitions. If we are not successful in the expansion of our product offerings or our new products are not profitable or do not generate sales comparable to those of our existing businesses, our results of operations could be negatively impacted. Another element of our business strategy is to place increased emphasis on growth in selected international markets. If our brand names and products do not achieve a high degree of consumer acceptance in these markets, our net sales could be adversely affected.

We also operate FOSSIL brand stores and other non-FOSSIL branded stores and have historically expanded our Company-owned accessory and outlet locations to further strengthen our brand image. As of January 1, 2011, we operated 364 stores worldwide. The costs associated with leasehold improvements to current stores and the costs associated with opening new stores could materially increase our costs of operation.

We have recently expanded and intend to further expand the scope of our product offerings, and new products introduced by us may not achieve consumer acceptance comparable to that of our existing product lines.

We have recently expanded and intend to further expand the scope of our product offerings. As is typical with new products, market acceptance of new designs and products is subject to uncertainty. In addition, we generally make decisions regarding product designs several months in advance of the time when consumer

acceptance can be measured. If trends shift away from our products, or if we misjudge the market for our product lines, we may be faced with significant amounts of unsold inventory or other conditions which could have a material adverse effect on our financial condition and results of operations.

The failure of new product designs or new product lines to gain market acceptance could also adversely affect our business and the image of our brands. Achieving market acceptance for new products may also require substantial marketing efforts and expenditures to generate consumer demand. These requirements could strain our management, financial and operational resources. If we do not continue to develop innovative products that provide better design and performance attributes than the products of our competitors and that are accepted by consumers, or if our future product lines misjudge consumer demands, we may lose consumer loyalty, which could result in a decline in our sales and market share.

Our business could be harmed if we fail to maintain proper inventory levels.

We maintain an inventory of selected products that we anticipate will be in high demand. We may be unable to sell the products we have ordered in advance from manufacturers or that we have in our inventory. Inventory levels in excess of customer demand may result in inventory write-downs or the sale of excess inventory at prices below our standard levels. These events could significantly harm our operating results and impair the image of our brands. Conversely, if we underestimate consumer demand for our products or if our manufacturers fail to supply quality products in a timely manner, we may experience inventory shortages, which might result in unfilled orders, negatively impact customer relationships, diminish brand loyalty and result in lost revenues, any of which could harm our business.

Our license agreements may require minimum royalty commitments regardless of the level of product sales under these agreements.

With respect to our license agreements, we have in the past experienced, and could again in the future experience, instances where minimum royalty commitments under these agreements exceeded royalties payable based upon our sales of such licensed products. We incurred royalty expense of approximately $109.4 million, $73.9 million and $74.9 million in fiscal years 2010, 2009 and 2008, respectively. We also have agreements in effect at the end of fiscal year 2010 which expire on various dates from December 2012 through December 2015 that require us to pay royalties ranging from 8% to 20% of defined net sales.

Fluctuations in the price, availability and quality of raw materials could cause delays and increase costs.

Fluctuations in the price, availability and quality of the raw materials used in our products could have a material adverse effect on our cost of sales or ability to meet our customers' demands. The price and availability of such raw materials may fluctuate significantly, depending on many factors, including natural resources, increased freight costs, increased labor costs, especially in China, and weather conditions. In the future, we may not be able to pass on, all or a portion of, such higher raw materials prices to our customers.

We rely on third-party manufacturers and problems with, or loss of, our suppliers or raw materials could harm our business and results of operations.

All of our clothing, shoes, sunglasses, handbags, small leather goods, belts, soft accessories and certain of our watch and jewelry products are produced by independent manufacturers. We do not have long-term contracts with these manufacturers. In addition, we face the risk that these third-party manufacturers, with whom we contract to produce our products, may not produce and deliver our products on a timely basis, or at all. As a result, we cannot be certain that these manufacturers will continue to manufacture products for us or that we will not experience operational difficulties with our manufacturers, such as reductions in the availability of production capacity, errors in complying with product specifications, insufficient quality control, shortages of raw materials, failures to meet production deadlines or increases in manufacturing costs. The failure of any manufacturer to perform to our expectations could result in supply shortages for certain products and harm our business.

Access to suppliers that are not Fossil subsidiaries is not guaranteed because we do not maintain long-term contracts but instead rely on long-standing business relationships, which may not continue in the future.

The majority of our watch products are currently assembled to our specifications by our majority owned entities in China with the remainder assembled by unrelated entities. Certain of our other products are currently manufactured to our specifications by independent manufacturers in international locations, including, but not limited to, China and Hong Kong, and to a lesser extent Italy, Mexico, South Korea, Switzerland and Taiwan. We have no long-term contracts with these independent manufacturing sources and compete with other companies for production facilities. All transactions between us and our independent manufacturing sources are conducted on the basis of purchase orders. Our future success will depend upon our ability to maintain close relationships with our current suppliers and to develop long-term relationships with other suppliers that satisfy our requirements for price, quality and production flexibility. Our ability to establish new manufacturing relationships involves numerous uncertainties, including those relating to payment terms, costs of manufacturing, adequacy of manufacturing capacity, quality control and timeliness of delivery. Any failure by us to maintain long-term relationships with our current suppliers or to develop relationships with other suppliers could have a material adverse effect on our ability to manufacture and distribute our products.

If an independent manufacturer or license partner of ours fails to use acceptable labor practices, our business could suffer.

We have no control over the ultimate actions or labor practices of our independent manufacturers. The violation of labor or other laws by one of our independent manufacturers, or by one of our license partners, or the divergence of an independent manufacturer's or license partner's labor practices from those generally accepted as ethical in the U.S. or other countries in which the violation or divergence occurred, could interrupt or otherwise disrupt the shipment of finished products to us or damage our reputation. Any of these, in turn, could have a material adverse effect on our financial condition and results of operations. As a result, should one of our independent manufacturers or licensors be found in violation of state or international labor laws, we could suffer financial or other unforeseen consequences.

We extend unsecured credit to our customers and are therefore vulnerable to any financial difficulties they may face.

We sell our merchandise primarily to department stores and specialty retail stores worldwide. We extend credit based on an evaluation of each customer's financial condition, usually without requiring collateral. Should any of our larger customers experience financial difficulties, we could curtail business with such customers or assume more credit risk relating to such customers' receivables. Our inability to collect on our trade accounts receivable relating to such customers could have a material adverse effect on the amount of sales revenue that we receive and our financial condition and results of operations.

We do not maintain long-term contracts with our customers and are unable to control their purchasing decisions.

We do not maintain long-term purchasing contracts with our customers and therefore have no contractual leverage over their purchasing decisions. A decision by a major department store or other significant customer to decrease the amount of merchandise purchased from us or to cease carrying our products could have a material adverse effect on our net sales and operating strategy.

Our Direct to Consumer business segment operates in the highly competitive specialty retail, e-commerce and catalog industry and the size and resources of some of our competitors are substantially greater than ours, which may allow them to compete more effectively.

We face intense competition in the specialty retail, e-commerce and catalog industry. We compete primarily with specialty retailers, department stores, catalog retailers and internet businesses that engage in the retail sale

of watches, accessories and clothing. We believe that the principal basis upon which we compete is the quality and design of merchandise and the quality of customer service. We also believe that price is an important factor in our customers' decision-making processes. Many of our competitors are, and many of our potential competitors may be, larger and have greater financial, marketing and other resources than we have and therefore may be able to adapt to changes in customer requirements more quickly, devote greater resources to the marketing and sale of their products and generate greater national brand recognition than we can. This intense competition and greater size and resources of some of our competitors could have a material adverse effect on the amount of net sales we generate and on our results of operations.

We could be negatively impacted if we fail to successfully integrate the businesses we acquire.

As part of our growth strategy, we have made certain acquisitions, domestically and internationally, including acquisitions of FOSSIL stores previously operated under license agreements, acquisitions of certain watch brands and acquisitions of independent distributors of our products. The integration of these and future acquisitions may not be successful or generate sales increases. When we have acquired businesses, we have acquired businesses that we believe could enhance our business opportunities and our growth prospects. All acquisitions involve risks that could materially adversely affect our business, financial condition and operating results. These risks include:

- distraction of management from our business operations;
- loss of key personnel and other employees;
- costs, delays, and inefficiencies associated with integrating acquired operations and personnel;
- the impairment of acquired assets and goodwill; and
- acquiring the contingent and other liabilities of the businesses we acquire.

In addition, acquired businesses may not provide us with increased business opportunities or result in the growth that we anticipate. Furthermore, integrating acquired operations is a complex, time-consuming and expensive process. Combining acquired operations with our current operations may result in lower overall operating margins, greater stock price volatility and quarterly earnings fluctuations. Cultural incompatibilities, career uncertainties and other factors associated with such acquisitions may also result in the loss of employees. Failure to acquire and successfully integrate complementary practices, or failure to achieve the business synergies or other anticipated benefits, could materially adversely affect our business, our financial condition and results of operations.

Our competitors are established companies that may have greater experience than us in a number of crucial areas, including design and distribution.

There is intense competition in each of the businesses in which we compete. In all of our businesses, we compete with numerous manufacturers, importers and distributors who may have significantly greater financial, distribution, advertising and marketing resources than us. Our competitors include distributors that import watches, accessories and clothing from abroad, U.S. companies that have established foreign manufacturing relationships and companies that produce accessories and clothing domestically. Our results of operations and market position may be adversely affected by our competitors and their competitive pressures in the watch, fashion accessory and clothing industries.

Our implementation of a new enterprise resource planning system could disrupt our computer system and divert management time.

In 2003, we began implementing an enterprise resource planning system from SAP AG, a German software company. We implemented the new enterprise resource planning system in our U.S., Germany, France, Italy and United Kingdom locations in 2003, 2004, 2005, 2008 and 2010, respectively. We intend to replace our existing

enterprise resource planning systems and other principal financial systems in certain other subsidiaries located in Europe with software systems provided by SAP AG. We have implemented Navision as our standard system throughout most of our Far East distribution subsidiary operations. During 2007, we implemented this system in our principal Hong Kong office and China assembly facilities. Our current expansion plans may place significant strain on our management, working capital, financial and management control systems and staff. The failure to maintain or upgrade financial and management control systems, to recruit additional staff or to respond effectively to difficulties encountered during expansion could have a material adverse effect on our ability to respond to trends in our target markets, market our products and meet our customers' requirements. The sustained disruption or failure of our systems due to force majeure or as part of an upgrade, conversion or other systems maintenance could result in the same adverse effects.

Changes in the mix of product sales demand could negatively impact our gross profit margins.

Our gross profit margins are impacted by our sales mix. Sales from our Direct to Consumer segment and international and licensed watch businesses generally provide gross margins in excess of our historical consolidated gross profit margin, while accessory products generally provide gross profit margins below our historical consolidated gross profit margin. If future sales from our Direct to Consumer segment and international and licensed watch businesses do not increase at a faster rate than our U.S. accessory business, our gross profit margins may grow at a slower pace, cease to grow, or decrease relative to our historical consolidated gross profit margin. We also distribute private label product to the mass market channel at gross profit margins significantly lower than our historical consolidated gross profit margin. Future growth in this channel at rates in excess of our consolidated net sales growth rate could negatively impact our consolidated gross profit margins.

Our industry is subject to pricing pressures that may adversely impact our financial performance.

We assemble or source many of our products offshore because they generally cost less to make overseas, due primarily to lower labor costs. Many of our competitors also source their product requirements offshore to achieve lower costs, possibly in locations with lower costs than our offshore operations, and those competitors may use these cost savings to reduce prices. To remain competitive, we must adjust our prices from time to time in response to these industry-wide pricing pressures. Our financial performance may be negatively affected by these pricing pressures if we are forced to reduce our prices and we cannot reduce our production costs or our production costs increase and we cannot increase our prices.

The loss of our intellectual property rights may harm our business.

Our trademarks, patents and other intellectual property rights are important to our success and competitive position. We are devoted to the establishment and protection of our trademarks, patents and other intellectual property rights in those countries where we believe it is important to our ability to sell our products. However, we cannot be certain that the actions we have taken will result in enforceable rights, will be adequate to protect our products in every country where we may want to sell our products, will be adequate to prevent imitation of our products by others or will be adequate to prevent others from seeking to prevent sales of our products as a violation of the trademarks, patents or other intellectual property rights of others. Additionally, we rely on the patent, trademark and other intellectual property laws of the U.S. and other countries to protect our proprietary rights. Even if we are successful in obtaining appropriate trademark, patent and other intellectual property rights, we may be unable to prevent third-parties from using our intellectual property without our authorization, particularly in those countries where the laws do not protect our proprietary rights as fully as in the U.S. Because we sell our products internationally and are dependent on foreign manufacturing in China, we are significantly dependent on foreign countries to protect our intellectual property rights. The use of our intellectual property or similar intellectual property by others could reduce or eliminate any competitive advantage we have developed, causing us to lose sales or otherwise harm our business. Further, if it became necessary for us to resort to litigation to protect our intellectual property rights, any proceedings could be burdensome and costly and we may not prevail. The failure to obtain or maintain trademark, patent or other intellectual property rights could materially harm our business.

Our products may infringe the intellectual property rights of others, which may cause us to incur unexpected costs or prevent us from selling our products.

We cannot be certain that our products do not and will not infringe upon the intellectual property rights of others. We may be subject to legal proceedings and claims in the ordinary course of our business, including claims of alleged infringement of the intellectual property rights of third-parties by us or our customers in connection with their use of our products. Any such claims, whether or not meritorious, could result in costly litigation and divert the efforts of our personnel. Moreover, should we be found liable for infringement, we may be required to enter into licensing agreements (if available on acceptable terms or at all) or to pay damages and cease making or selling certain products. Moreover, we may need to redesign or rename some of our products to avoid future infringement liability. Any of the foregoing could cause us to incur significant costs and prevent us from manufacturing or selling our products.

An increase in product returns could negatively impact our operating results.

We accept limited returns and will request that a customer return a product if we feel the customer has an excess of any style that we have identified as being a poor performer for that customer or geographic location. We continually monitor returns and maintain a provision for estimated returns based upon historical experience and any specific issues identified. While returns have historically been within our expectations and the provisions established, future return rates may differ from those experienced in the past. In the event that our products are performing poorly in the retail market and/or we experience product damages or defects at a rate significantly higher than our historical rate, the resulting credit returns could have an adverse impact on the operating results for the period or periods in which such returns occur.

There are inherent limitations in all control systems, and misstatements due to error or fraud may occur and not be detected.

We are subject to the ongoing internal control provisions of Section 404 of the Sarbanes-Oxley Act of 2002. These provisions provide for the identification of material weaknesses in internal control over financial reporting, which is a process to provide reasonable assurance regarding the reliability of financial reporting for external purposes in accordance with accounting principles generally accepted in the United States of America. Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our internal controls and disclosure controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. In addition, the design of a control system must reflect the fact that there are resource constraints and the benefit of controls must be relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, in our company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple errors or mistakes. Further, controls can be circumvented by individual acts of some persons, by collusion of two or more persons, or by management override of the controls. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, a control may be inadequate because of changes in conditions, such as growth of the company or increased transaction volume, or the degree of compliance with the policies or procedures may deteriorate. Because of inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

In addition, discovery and disclosure of a material weakness, by definition, could have a material adverse impact on our financial statements. Such an occurrence could discourage certain customers or suppliers from doing business with us, cause downgrades in our debt ratings leading to higher borrowing costs and affect how our stock trades. This could in turn negatively affect our ability to access public debt or equity markets for capital.

Factors Relating to Our International Operations

Factors affecting international commerce and our international operations may seriously harm our financial condition.

We generate a significant portion of our revenues from outside of the U.S., and we anticipate that revenue from our international operations could account for an increasingly larger portion of our net sales in the future. Our international operations are directly related to, and dependent on, the volume of international trade and foreign market conditions. International commerce and our international operations are subject to many risks, some of which are discussed in more detail below, including:

- recessions in foreign economies;
- the adoption and expansion of trade restrictions;
- limitations on repatriation of earnings;
- difficulties in protecting our intellectual property or enforcing our intellectual property rights under the laws of other countries;
- longer receivables collection periods and greater difficulty in collecting accounts receivable;
- difficulties in managing foreign operations;
- social, political and economic instability;
- unexpected changes in regulatory requirements;
- our ability to finance foreign operations;
- tariffs and other trade barriers; and
- U.S. government licensing requirements for exports.

The occurrence or consequences of any of these risks may restrict our ability to operate in the affected regions and decrease the profitability of our international operations, which may seriously harm our financial condition.

Foreign currency fluctuations could adversely impact our financial condition.

We generally purchase our products in U.S. dollars. However, we source a significant amount of our products overseas and, as such, the cost of these products may be affected by changes in the value of the currencies, including the Australian Dollar, British Pound, Canadian Dollar, Chinese Yuan, Danish Krone, Euro, Hong Kong Dollar, Indian Rupee, Japanese Yen, Korean Won, Malaysian Ringgit, Mexican Peso, Norwegian Kroner, Singapore Dollar, Swedish Krona, Swiss Franc and Taiwanese Dollar. Due to our dependence on manufacturing operations in China, changes in the value of the Chinese Yuan may have a material impact on our supply channels and manufacturing costs, including component and assembly costs. Changes in the currency exchange rates may also affect the relative prices at which we and our foreign competitors sell products in the same market. Although we utilize forward contracts to mitigate foreign currency risks (mostly relating to the Euro, British Pound, Japanese Yen, Mexican Peso, Canadian Dollar and Australian Dollar), if we are unsuccessful in mitigating these risks, foreign currency fluctuations may have a material adverse impact on our financial condition and results of operations.

We depend on independent distributors to sell our products in certain international markets.

Our products are sold in certain international markets through independent distributors. If a distributor fails to meet annual sales goals, it may be difficult and costly to locate an acceptable substitute distributor. If a change in our distributors becomes necessary, we may experience increased costs, as well as a substantial disruption in, and a resulting loss of, sales and profits.

Because we are dependent on foreign manufacturing, we are vulnerable to changes in economic and social conditions in Asia and disruptions in international travel and shipping.

Because a substantial portion of our watches and certain of our handbags, sunglasses and other products are assembled or manufactured in China, our success will depend to a significant extent upon future economic and social conditions existing in China. If the factories in China were disrupted for any reason, we would need to arrange for the manufacture and shipment of products by alternative sources. Because the establishment of new manufacturing relationships involves numerous uncertainties, including those relating to payment terms, costs of manufacturing, adequacy of manufacturing capacity, quality control and timeliness of delivery, we are unable to predict whether such new relationships would be on terms that we regard as satisfactory. Any significant disruption in our relationships with our manufacturing sources located in China would have a material adverse effect on our ability to manufacture and distribute our products. Restrictions on travel to and from this and other regions, similar to those imposed during the outbreak of Severe Acute Respiratory Syndrome in 2003, commonly known as SARS, and any delays or cancellations of customer orders or the manufacture or shipment of our products on account of SARS or other syndromes could have a material adverse effect on our ability to meet customer deadlines and timely distribute our products in order to match consumer tastes.

Risks associated with foreign government regulations and U.S. trade policy may affect our foreign operations and sourcing.

Our businesses are subject to risks generally associated with doing business abroad, such as foreign governmental regulation in the countries in which our manufacturing sources are located, primarily China. While we have not experienced any material issues with foreign governmental regulations that would impact our arrangements with our foreign manufacturing sources, we believe that this issue is of particular concern with regard to China due to the less mature nature of the Chinese market economy and the historical involvement of the Chinese government in industry. If regulation were to render the conduct of business in a particular country undesirable or impracticable, or if our current foreign manufacturing sources were for any other reason to cease doing business with us, such a development could have a material adverse effect on our product sales and on our supply, manufacturing and distribution channels.

Our business is also subject to the risks associated with U.S. and foreign legislation and regulations relating to imports, including quotas, duties, tariffs or taxes, and other charges or restrictions on imports, which could adversely affect our operations and our ability to import products at current or increased levels. We cannot predict whether additional U.S. and foreign customs quotas, duties (including antidumping or countervailing duties), tariffs, taxes or other charges or restrictions, requirements as to where raw materials must be purchased, additional workplace regulations or other restrictions on our imports will be imposed upon the importation of our products in the future or adversely modified, or what effect such actions would have on our costs of operations. For example, our products imported to the U.S. are subject to U.S. customs duties and, in the ordinary course of our business we may from time to time be subject to claims by the U.S. Customs Service for duties and other charges. Factors that may influence the modification or imposition of these restrictions include the determination by the U.S. Trade Representative that a country has denied adequate intellectual property rights or fair and equitable market access to U.S. firms that rely on intellectual property, trade disputes between the U.S. 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 U.S. government. Future quotas, duties or tariffs may have a material adverse effect on our business, financial condition and results of operations. Future trade agreements could also provide our competitors with an advantage over us, or increase our costs, either of which could have a material adverse effect on our business, financial condition and results of operations and financial condition. Substantially all of our import operations are subject to:

- quotas imposed by bilateral textile agreements between the countries where our clothing-producing facilities are located and foreign countries; and
- customs duties imposed by the governments where our clothing-producing facilities are located on imported products, including raw materials.

Our clothing business is also subject to the effects of international trade agreements and regulations such as the North American Free Trade Agreement, and the activities and regulations of the World Trade Organization, referred to as the WTO. Generally, such trade agreements benefit our clothing business by reducing or eliminating the duties and/or quotas assessed on products manufactured in a particular country. However, trade agreements can also impose requirements that negatively impact our clothing business, such as limiting the countries from which we can purchase raw materials and setting quotas on products that may be imported into the U.S. from a particular country. In addition, the WTO may commence a new round of trade negotiations that liberalize textile trade. This increased competition could have a material adverse effect on our business, results of operations and financial condition.

Risks Relating to Our Common Stock

Many factors may cause our net sales, operating results and cash flows to fluctuate and possibly decline, which may result in declines in our stock price.

Our net sales, operating results and cash flows may fluctuate significantly because of a number of factors, many of which are outside of our control. These factors may include, but may not be limited to, the following:

- fluctuations in market demand for our products;
- increased competition and pricing pressures;
- our ability to anticipate changing customer demands and preferences;
- our failure to efficiently manage our inventory levels;
- our inability to manage and maintain our debt obligations;
- seasonality in our business;
- changes in our, and our competitors', business strategy or pricing;
- the successful expansion of our owned retail stores;
- the timing of certain general and administrative expenses;
- completing acquisitions and the costs of integrating acquired operations;
- international currency fluctuations, operating challenges and trade regulations;
- acts of terrorism or acts of war; and
- government regulation.

One or more of the foregoing factors, as well as any other risk factors discussed in this Annual Report on Form 10-K, may cause our operating expenses to be unexpectedly high or result in a decrease in our net sales during any given period. If these or any other variables or unknowns were to cause a shortfall in revenues or earnings, an increase in our operating costs or otherwise cause a failure to meet public market expectations, our stock price may decline and our business could be adversely affected.

Two principal stockholders own a significant amount of our outstanding common stock.

Mr. Kosta Kartsotis, our CEO, and Mr. Tom Kartsotis, founder of the Company, each own a substantial amount of our common stock. As a result, they are in a position to significantly influence the outcome of elections of our directors, the adoption, amendment or repeal of our bylaws and any other actions requiring the vote or consent of our stockholders, and to otherwise influence our affairs.

Because the interests of Messrs. Kartsotis may not coincide with the interests of other shareholders, Messrs. Kartsotis may influence the Company to enter into transactions or agreements that other shareholders would not approve or make decisions with which other shareholders may disagree.

Our organizational documents contain anti-takeover provisions that could discourage a proposal for a takeover.

Our certificate of incorporation and bylaws, as well as the General Corporation Law of the State of Delaware, contain provisions that may have the effect of discouraging a proposal for a takeover. These include a provision in our certificate of incorporation authorizing the issuance of "blank check" preferred stock; provisions in our bylaws establishing advance notice procedures with respect to certain stockholder proposals; and a provision stating that directors may be removed by the stockholders only for cause. Our bylaws may be amended by a vote of 80% of the Board of Directors, subject to repeal by a vote of 80% of the stockholders. In addition, Delaware law limits the ability of a Delaware corporation to engage in certain business combinations with interested stockholders. Finally, Messrs. Kartsotis have the ability, by virtue of their stock ownership, to significantly influence a vote regarding a change in control.

Future sales of our common stock in the public market could adversely affect our stock price.

Mr. Kosta Kartsotis and Mr. Tom Kartsotis each own a substantial amount of our common stock. The shares beneficially owned by Mr. Kosta Kartsotis and Mr. Tom Kartsotis may be sold in the open market in the future, subject to any volume restrictions and other limitations under the Securities Act of 1933 and Rule 144 thereunder. We may also decide to file a registration statement enabling Messrs. Kartsotis to sell additional shares. Any sales by Messrs. Kartsotis of substantial amounts of our common stock in the open market, or the availability of their shares for sale, could adversely affect the price of our common stock. The market price of our common stock could decline as a result of sales of substantial amounts of our common stock in the public market, or the perception that those sales could occur. These sales or the possibility that they may occur also could make it more difficult for us to raise funds in any equity offering in the future at a time and price that we deem appropriate.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Company Facilities. As of the end of fiscal year 2010, we owned or leased the following material facilities in connection with our U.S. and international operations:

Location	Use	Square Footage	Owned / Leased
Dallas, Texas	Office, warehouse and distribution	517,500	Owned
Eggstätt, Germany	Office, warehouse and distribution	230,000	Owned
Richardson, Texas	Corporate headquarters	190,000	Owned
Richardson, Texas	Warehouse and distribution	138,000	Owned
Richardson, Texas	Office	131,541	Owned
Grabenstatt, Germany	Office	92,160	Owned
Basel, Switzerland	European headquarters	36,113	Owned
Hong Kong	Office, warehouse and distribution	191,986	Lease expiring in 2014
Garland, Texas	Warehouse	150,000	Lease expiring in 2014
China	Manufacturing	110,231	Lease expiring in 2013
New York, New York	General office and showroom	26,552	Lease expiring in 2016

We have entered into an Agreement of Purchase and Sale to sell three of our facilities. In a related transaction, we expect to enter into a lease agreement for approximately 535,731 square feet of office space. The buildings to be sold consist of two home office buildings in the Richardson, Texas area comprising approximately 190,000 and 132,000 square feet, respectively, and one of our warehouses comprising approximately 138,000 square feet in Richardson, Texas. We plan to consolidate all of our home office employees into a new leased building. The distribution facility to be sold is adjacent to one of our current home office buildings. We will be able to move the operations of this distribution facility into an existing 150,000 square foot distribution facility in the Dallas, Texas area that we currently have under lease. The proposed new home office lease is expected to commence, and the sale of the buildings described above is expected to close, late in the second quarter of fiscal year 2011.

We also lease certain other manufacturing and/or office, warehouse and/or distribution facilities in Atlanta, Georgia; Chicago, Illinois; Los Angeles, California; Miami, Florida; Australia; Austria; Canada; China; Denmark; France; Hong Kong; India; Italy; Japan; Malaysia; Mexico; the Netherlands; New Zealand; Norway; Singapore; South Korea; Sweden; Switzerland; Taiwan and the United Kingdom.

U.S.-based Clothing Store Facilities. As of the end of fiscal year 2010, we had 28 lease agreements for retail space at prime locations in the U.S. for the sale of our clothing line and certain of our accessory products. The leases, including renewal options, expire at various times from 2011 to 2020. The leases provide for minimum annual rentals and, in certain cases, for the payment of additional rent when sales exceed specified net sales amounts. We are also required to pay our pro rata share of the common area maintenance costs, including real estate taxes, insurance, maintenance expenses and utilities.

U.S.-based Accessory Retail Store Facilities. As of the end of fiscal year 2010, we had 93 lease agreements for retail space at prime locations in the U.S. for the sale of our full assortment of accessory products and the operation of certain of our Watch Station stores. The leases, including renewal options, expire at various times from 2011 to 2021. The leases provide for minimum annual rentals and, in certain cases, for the payment of additional rent when sales exceed specified net sales amounts. We are also required to pay our pro rata share of the common area maintenance costs, including real estate taxes, insurance, maintenance expenses and utilities.

U.S.-based Outlet Store Facilities. We lease retail space at selected outlet centers throughout the U.S. for the sale of our products and for the operation of certain of our multi-brand Watch Station outlet stores. As of the end of fiscal year 2010, we had 70 such leases. The leases, including renewal options, expire at various times from 2011 to 2021 and provide for minimum annual rentals and for the payment of additional rent based on a percentage of sales above specified net sales amounts. We are also required to pay our pro rata share of the common area maintenance costs at each outlet center, including real estate taxes, insurance, maintenance expenses and utilities.

International-based Accessory Retail and Clothing Store Facilities. As of the end of fiscal year 2010, we had 158 lease agreements for retail stores located outside the U.S., including leases for eight stores that are scheduled to open in fiscal year 2011. The leases, including renewal options, expire at various times from 2011 to 2021. The leases provide for minimum annual rentals and, in certain cases, for the payment of additional rent when sales exceed specified net sales amounts. We are also required to pay our pro rata share of the common area maintenance costs, including real estate taxes, insurance, maintenance expenses and utilities.

International-based Outlet Store Facilities. We lease retail space at selected outlet centers located outside the U.S. for the sale of our products. As of the end of fiscal year 2010, we had 23 such leases. The leases, including renewal options, expire at various times from 2011 to 2021 and provide for minimum annual rentals and for the payment of additional rent based on a percentage of sales above specified net sales amounts. We are also required to pay our pro rata share of the common area maintenance costs at each outlet center, including real estate taxes, insurance, maintenance expenses and utilities.

We believe that our material existing facilities are well maintained, in good operating condition, and are adequate for our needs.

Item 3. Legal Proceedings

Three shareholder derivative lawsuits have been filed in the United States District Court for the Northern District of Texas, Dallas Division, naming us as a nominal defendant and naming all of our then current directors and certain of our current and former officers and directors as defendants. The first suit, captioned *City of Pontiac Policeman's and Fireman's Retirement System, derivatively on behalf of Fossil, Inc. v. Tom Kartsotis, Kosta N. Kartsotis, Michael L. Kovar, Michael W. Barnes, Mark D. Quick, Randy S. Kercho, Jal S. Shroff, Randy S. Hyne, Thomas R. Tunnel, Richard H. Gundy, Kenneth W. Anderson, Andrea Camerana, Alan J. Gold, Michael Steinberg, Donald J. Stone and Cadence Wang* (Cause No. 3-06CV1672-P), was filed on September 13, 2006. The second suit, captioned *Robert B. Minich, derivatively on behalf of Fossil, Inc. v. Tom Karstotis, Kosta N. Kartsotis, Michael L. Kovar, Michael W. Barnes, Mark D. Quick, Randy S. Kercho, Jal S. Shroff, Randy S. Hyne, Thomas R. Tunnel, Richard H. Gundy, Kenneth W. Anderson, Andrea Camerana, Alan J. Gold, Michael Steinberg, Donald J. Stone and Cadence Wang* (Cause No. 3-06CV1977-M), was filed on October 26, 2006. The third suit, captioned *Robert Neel, derivatively on behalf of Fossil, Inc. v. Michael W. Barnes, Richard H. Gundy, Randy S. Kercho, Mark D. Quick, Tom Kartsotis, Kosta N. Kartsotis, Jal S. Shroff, T. R. Tunnell, Michael L. Kovar, Donald J. Stone, Kenneth W. Anderson, Alan J. Gold, Michael Steinberg, and Fossil, Inc.* (Cause No. 3-06CV2264-G), was filed on December 8, 2006. The complaints allege purported violations of federal securities laws and state law claims for breach of fiduciary duty, abuse of control, constructive fraud, corporate waste, unjust enrichment and gross mismanagement in connection with certain stock option grants made by us. Plaintiffs seek (i) monetary damages for all losses and damages suffered as a result of the acts alleged in the complaint; (ii) for defendants to account for all damages caused by them and all profits and special benefits obtained as a result of the alleged unlawful conduct; (iii) actions to reform and improve Company corporate governance and internal control procedures; (iv) the ordering of the imposition of a constructive trust over the defendants' stock options and proceeds derived therefrom; and (v) punitive damages. The ultimate liability with respect to these claims cannot be determined at this time; however, we do not expect these matters to have a material impact on our financial position, operations or liquidity.

There are no other legal proceedings to which we are a party or to which our properties are subject, other than routine litigation incident to our business, which is not material to our consolidated financial condition, cash flows or results of operations.

Item 4. [Removed and Reserved]

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

General. Our common stock is listed on the NASDAQ Global Select Market under the symbol "FOSL." The following table sets forth the range of quarterly high and low sales prices per share of our common stock on the NASDAQ Global Select Market for the fiscal years ended January 1, 2011 and January 2, 2010.

	High	Low
Fiscal year ended January 1, 2011:		
First quarter	$39.60	$31.31
Second quarter	43.42	33.00
Third quarter	54.76	35.49
Fourth quarter	74.34	51.03
Fiscal year ended January 2, 2010:		
First quarter	$17.87	$11.00
Second quarter	24.97	16.12
Third quarter	30.00	21.09
Fourth quarter	34.18	26.14

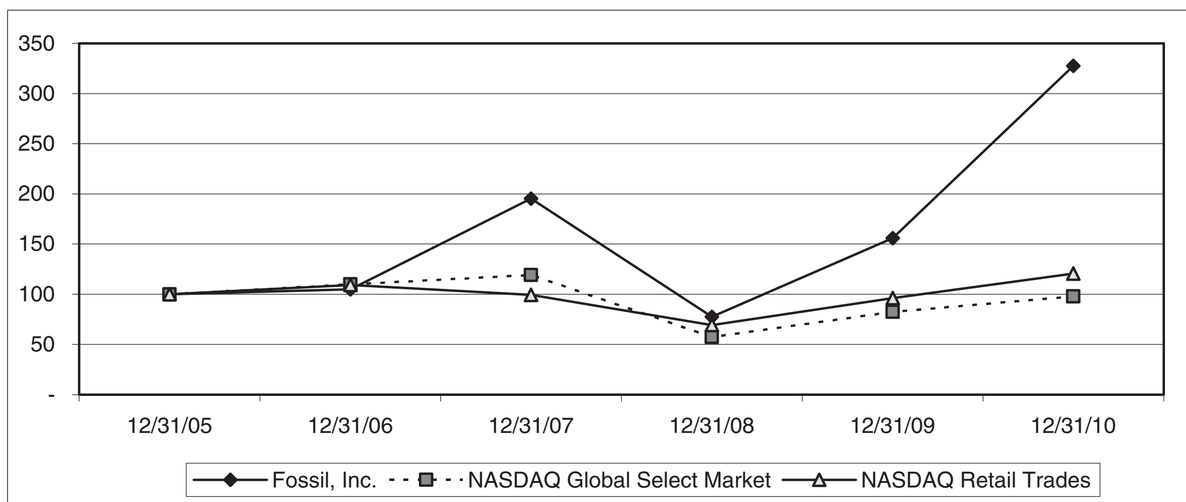
As of February 25, 2011, there were 125 holders of record of our shares of common stock, although we believe that the number of beneficial owners is much higher.

Cash Dividend Policy. We did not pay any cash dividends in fiscal 2010, 2009 or 2008. We expect that we will retain all available earnings generated by our operations for the development and growth of our business. Any future determination as to a cash dividend policy will be made at the discretion of our Board of Directors and will depend on a number of factors, including our future earnings, capital requirements, financial condition, future prospects and such other factors as our Board of Directors may deem relevant.

Common Stock Performance Graph

The following performance graph compares the cumulative return of our shares of common stock over the preceding five year periods with that of the broad market (CRSP Total Return Index of the NASDAQ Global Select Market (US)) and the NASDAQ Retail Trades Group. Each Index assumes $100 invested at December 31, 2005 and is calculated assuming quarterly reinvestment of dividends and quarterly weighting by market capitalization.

2010 COMPARATIVE TOTAL RETURNS
Fossil, Inc., NASDAQ Global Select Market and
NASDAQ Market Retail Trades Group
(Performance Results through 12/31/10)



	12/31/05	12/31/06	12/31/07	12/31/08	12/31/09	12/31/10
Fossil, Inc.	100.00	104.97	195.17	77.64	156.02	327.66
NASDAQ Global Select Market	100.00	109.84	119.14	57.41	82.53	97.95
NASDAQ Retail Trades	100.00	109.21	99.37	69.33	96.31	120.63

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

During 2010, we completed a $20 million share buyback approved by our Board of Directors in December 2009 by investing approximately $8.8 million to repurchase approximately 235,000 shares of our common stock. Additionally, we entered into 10b5-1 repurchase plans in August 2010 and November 2010 for the purpose of purchasing $130 million and $100 million, respectively, of our outstanding common stock. These repurchase plans were entered into pursuant to an August 2010 authorization by our Board of Directors of a $750 million common stock repurchase program expiring in December 2013. We completed the repurchase of all $130 million of common stock, representing 2.4 million shares, as of November 9, 2010. From November 23, 2010 through January 1, 2011, we repurchased an additional $49 million of our common stock under the $100 million 10b5-1 plan, representing approximately 694,000 shares of our common stock.

ISSUER PURCHASES OF EQUITY SECURITIES (1)

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans
October 3, 2010-October 30, 2010	1,011,000	$54.78	1,011,000	$667,483,904
October 31, 2010-November 27, 2010	376,842	$62.10	376,842	$644,080,708
November 28, 2010-January 1, 2011	608,412	$71.17	608,412	$600,777,804
Total	1,996,254		1,996,254	

(1) The table reflects purchases made during our fiscal fourth quarter based on the settlement date of the stock purchase. In our previous reports on Form 10-K, we reported purchases in this table based on the trade date of the stock purchase, rather than the settlement date. The settlement date is generally three trading days following the trade date.

Item 6. Selected Financial Data

The following information should be read in conjunction with our consolidated financial statements and notes thereto contained in Item 8. Financial Statements and Supplementary Data of this Annual Report on Form 10-K (in thousands, except for per share data).

FINANCIAL HIGHLIGHTS

Fiscal Year	2010	2009	2008	2007	2006
Net sales	$2,030,690	$1,548,093	$1,583,242	$1,432,984	$1,213,965
Gross profit	1,155,164	844,850	851,151	742,031	608,919
Operating income	376,414	211,627	205,770	186,485	123,325
Income before taxes attributable to Fossil, Inc.	372,448	213,776	189,429	187,526	118,795
Net income attributable to Fossil, Inc.	255,205	139,188	138,097(1)	123,261(2)	77,582
Earnings per share:					
Basic	3.83	2.09	2.05(1)	1.81(2)	1.15
Diluted	3.77	2.07	2.02(1)	1.75(2)	1.13
Weighted average common shares and common equivalent shares outstanding:					
Basic	66,701	66,684	67,525	68,213	67,177
Diluted	67,687	67,153	68,323	70,333	68,817
Working capital	$ 801,329	$ 701,193	$ 556,497	$ 546,410	$ 357,608
Total assets	1,467,573	1,276,483	1,087,296	1,122,628	852,597
Total long-term liabilities	76,377	62,791	74,964	66,432	22,914
Stockholders' equity attributable to Fossil, Inc.	1,044,118	962,781	802,144	771,662	602,201
Return on average stockholders' equity attributable to Fossil, Inc.	25.0%	16.2%	17.8%	18.3%	14.2%

(1) Includes a $20.8 million benefit in income tax expense related to the reduction of certain current and long-term tax liabilities in connection with completion of prior year income tax audits.

(2) Includes $8.6 million in expenses, net of tax, relating to our voluntary evaluation of our accounting for equity-based compensation, including the appropriateness of accounting measurement dates used to determine the amounts of compensation charges and related tax effects which have been previously disclosed in filings with the Securities and Exchange Commission.

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

Summary

We are a global design, marketing and distribution company that specializes in consumer fashion accessories. Our principal offerings include an extensive line of men's and women's fashion watches and jewelry, handbags, small leather goods, belts, sunglasses, soft accessories, shoes and clothing. In the watch and jewelry product category, we have a diverse portfolio of globally recognized owned and licensed brand names under which our products are marketed. Our products are distributed globally through various distribution channels including wholesale in countries where we have a physical presence, direct to the consumer through our retail stores and commercial websites and through third-party distributors in countries where we do not maintain a physical presence. Our products are offered at varying price points to service the needs of our customers, whether they are value conscious or luxury oriented. Based on our extensive range of accessory products, brands, distribution channels and price points, we are able to target style-conscious consumers across a wide age spectrum on a global basis.

Domestically, we sell our products through a diversified distribution network that includes department stores, specialty retail locations, specialty watch and jewelry stores, owned retail and factory outlet stores, mass market stores and through our FOSSIL catalogs and website. Our wholesale customer base includes, among others, Neiman Marcus, Nordstrom, Saks Fifth Avenue, Macy's, Dillard's, JCPenney, Kohl's, Sears, Wal-Mart and Target. We also sell our products in the United States through a network of Company-owned stores that included 121 retail stores located in premier retail sites and 70 outlet stores located in major outlet malls as of January 1, 2011. In addition, we offer an extensive collection of our FOSSIL brand products through our catalogs and on our website, *www.fossil.com*, as well as proprietary and licensed watch and jewelry brands through other managed and affiliated websites.

Internationally, our products are sold to department stores, specialty retail stores and specialty watch and jewelry stores in over 120 countries worldwide through 23 Company-owned foreign sales subsidiaries and through a network of over 60 independent distributors. Our products are distributed in Africa, Asia, Australia, Europe, Central and South America, Canada, the Caribbean, Mexico, and the Middle East. Our products are offered on airlines, cruise ships and in international Company-owned retail stores, which included 150 retail stores and 23 outlet stores in select international markets as of January 1, 2011. Our products are also sold through licensed and franchised FOSSIL retail stores, retail concessions operated by us and kiosks in certain international markets. In addition, we offer an extensive collection of our FOSSIL brand products on our websites in certain countries.

Our business is subject to global economic cycles and retail industry conditions. Purchases of discretionary fashion accessories, such as our watches, handbags, sunglasses and other products, tend to decline during recessionary periods when disposable income is low and consumers are hesitant to use available credit. Beginning in the second half of fiscal year 2008, declining values in real estate, reduced lending by banks, solvency concerns of major financial institutions, increases in unemployment levels and significant declines and volatility in the global financial markets negatively impacted the level of consumer spending for discretionary items. In North America, beginning in the fourth quarter of fiscal year 2008 and continuing through most of fiscal year 2009, the discretionary consumer segment experienced a significant slowdown in customer traffic and a highly promotional environment. These same conditions spread across many international markets during 2009. These factors negatively affected our business, as it is dependent on consumer demand for our products. However, during fiscal year 2010, we experienced a pronounced recovery in our watch and jewelry businesses in many of the markets we service which has led to double-digit net sales and net income increases. However, if economic conditions worsen or if the global or regional economies slip back into a recession, our revenues and earnings for fiscal year 2011 or beyond could be negatively impacted.

The majority of our products are sold at price points ranging from $50 to $600. Although the current economic environment continues to weigh on consumer discretionary spending levels, we believe that the price/value relationship and the differentiation and innovation of our products, in comparison to those of our competitors, will allow us to maintain or grow our market share in those markets in which we compete. Historically, during recessionary periods, the strength of our balance sheet, our strong operating cash flow and the relative size of our business with our wholesale customers, in comparison to that of our competitors, have allowed us to weather recessionary periods for longer periods of time and generally resulted in market share gains to us.

Future sales and earnings growth are also contingent upon our ability to anticipate and respond to changing fashion trends and consumer preferences in a timely manner while continuing to develop innovative products to distribute in the respective markets in which we compete. As is typical with new products, market acceptance of new designs and products that we may introduce is subject to uncertainty. In addition, we generally make decisions regarding product designs several months in advance of the time when consumer acceptance can be measured. We believe the double-digit net sales growth we have experienced over the last five fiscal quarters is attributable to our ability to design innovative products incorporating a number of new materials that not only differentiate us from our competition but also continues to provide a solid value proposition to consumers across all of our brands and product categories.

Our international operations are subject to many risks, including foreign currency. Generally, the strengthening of the U.S. dollar against currencies of other countries in which we operate will reduce the translated amounts of sales and operating expenses of our subsidiaries, which results in a reduction of our consolidated operating income. We manage these currency risks by using derivative instruments. The primary risk managed by using derivative instruments is the future payments of intercompany inventory transactions, denominated in U.S. dollars, by non-U.S. subsidiaries. We enter into forward contracts to manage fluctuations in global currencies that will ultimately be used to settle such U.S. dollar denominated inventory purchases.

Effective January 3, 2010, we made changes to the presentation of reportable segments to reflect changes in the way our chief operating decision maker evaluates the performance of our operations, develops strategy and allocates capital resources. Prior to January 3, 2010, our reportable segments consisted of the following: United States Wholesale, Europe Wholesale, Other International Wholesale and Direct to Consumer. Effective January 3, 2010, our reportable segments consist of the following: North America Wholesale, Europe Wholesale, Asia Pacific Wholesale and Direct to Consumer. These changes include the reclassification of our wholesale operations in Canada and Mexico and our U.S. export business, all of which were previously recorded within our Other International Wholesale segment, to the North America Wholesale segment. Our U.S. domestic wholesale operations previously recorded within the United States Wholesale segment, have also been reclassified to the North America Wholesale segment. Our Asia Pacific Wholesale operations, previously recorded within the Other International Wholesale segment, have been reclassified to the Asia Pacific Wholesale segment. Our operations related to our joint venture with Fossil, Spain S.A., previously recorded within the Other International Wholesale segment, have been reclassified to the Europe Wholesale segment. For comparison purposes our historical segment disclosures have been recast to be consistent with the current presentation.

This discussion should be read in conjunction with the consolidated financial statements and the related notes included therewith.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us 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, we evaluate our estimates and judgments, including those related to product returns, bad debt, inventories, long-lived asset impairment, impairment of goodwill and trade names, income taxes, warranty costs, hedge accounting, litigation reserves and stock-based compensation. We base our estimates and judgments on historical experience and on various other factors that we believe to be reasonable under the circumstances. Our estimates 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. We believe the following critical accounting policies require the most significant estimates and judgments.

Product Returns. We accept limited returns and may request that a customer return a product if we feel the customer has an excess of any style that we have identified as being a poor performer for that customer or geographic location. We continually monitor returns and maintain a provision for estimated returns based upon historical experience and any specific issues identified. While returns have historically been within our expectations and the provisions established, future return rates may differ from those experienced in the past. In the event that our products are performing poorly in the retail market and/or we experience product damages or defects at a rate significantly higher than our historical rate, the resulting returns could have an adverse impact on the operating results for the period or periods in which such returns occur.

Bad Debt. We perform ongoing credit evaluations of our customers and adjust credit limits based upon payment history and the customer’s current credit worthiness, as determined by a review of their current credit information. We continuously monitor collections and payments from our customers and maintain a provision for

estimated credit losses based upon historical experience and any specific customer collection issues identified. Additionally, we secure credit insurance policies in certain countries. While such credit losses have historically been within our expectations and the provisions established, future credit losses may differ from those experienced in the past. Our bad debt allowance has increased over the last three fiscal years due to the challenging global economic environment. As a result of the difficult economic environment, some of our customers both domestically and internationally have experienced financial difficulties including bankruptcy. We increased our bad debt allowance to reserve for these bankruptcies, increased risks of non-payment and increased risk of customer charge-backs. Our policy is to maintain the reserve balances for bankruptcies until such time as the bankruptcies are actually settled.

Inventories. Inventories are stated at the lower of average cost, including any applicable duty and freight charges, or market. We account 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 valuation reductions may be required.

Long-lived Asset Impairment. We test for asset impairment of property, plant and equipment and intangibles other than trade names whenever events or changes in circumstances indicate that the carrying value of an asset might not be recoverable from estimated future cash flows. We apply Accounting Standards Codification (“ASC”) 360 *Property, Plant and Equipment* (“ASC 360”), in order to determine whether or not an asset is impaired. In evaluating long-lived assets for recoverability, we use our best estimate of future cash flows expected to result from the use of the asset and its eventual disposition. When undiscounted cash flows estimated to be generated through the operations of our Company-owned full price retail stores are less than the carrying value of the underlying assets, impairment losses are recorded in selling and distribution expenses. In addition, impairment losses resulting from property, plant and equipment in our corporate costs area are recorded in general and administrative expenses. Should actual results or market conditions differ from those anticipated, additional losses may be recorded. We recorded impairment losses of $5.6 million, $2.5 million and $1.9 million in fiscal years 2010, 2009 and 2008, respectively.

Impairment of Goodwill and Trade Names. We evaluate goodwill for impairment annually as of the end of the fiscal year by comparing the fair value of the reporting unit to its recorded value. We have three reporting units under which we evaluate goodwill for impairment, North America Wholesale, Europe Wholesale and Asia Pacific Wholesale. The fair value of each reporting unit is estimated using market comparable information. Based on the analysis, if the estimated fair value of a reporting unit exceeds its recorded value, no impairment loss is recognized. As of January 1, 2011, the fair values of each of our three operating segments containing goodwill substantially exceeded the respective carrying values.

Judgments and assumptions are inherent in our estimate of future cash flows used to determine the estimate of the reporting unit’s fair value. The most significant assumptions associated with the fair value calculations include net sales growth rates and discount rates. If the actual future sales results do not meet the assumed growth rates, future impairments of goodwill may be incurred.

We evaluate trade names annually as of the end of the fiscal year by comparing the fair value of the asset to its recorded value. The fair value of the asset is estimated using discounted cash flow methodologies. The MICHELE trade name represented approximately 97.7% and 88.9% of our total trade name balances as of fiscal year end 2010 and 2009, respectively. We performed the required annual impairment test and recorded impairment losses of $1.8 million in fiscal year 2010 related to the ZODIAC and OYZTERBAY trade names, $2.7 million in fiscal year 2009 related to the ZODIAC and OYZTERBAY trade names and $7.9 million in fiscal year 2008 related to the MICHELE and ZODIAC trade names. As of January 1, 2011, the fair value of the MICHELE trade name exceeded its carrying value by approximately 72.0%. The ZODIAC trade name carrying value was written down to its fair value and the OYZTERBAY trade name carrying value was written down to zero. Due to the inherent uncertainties involved in making the estimates and assumptions used in the fair value

analysis, actual results may differ which could alter the fair value of the trade names and possibly cause impairment charges to occur in future periods.

Income Taxes. We record valuation allowances against our deferred tax assets, when necessary, in accordance with ASC 740, *Income Taxes*. Realization of deferred tax assets (such as net operating loss carryforwards) is dependent on future taxable earnings and is therefore uncertain. At least quarterly, we assess the likelihood that our deferred tax asset balance will be recovered from future taxable income. To the extent we believe that recovery is not likely, we establish a valuation allowance against our deferred tax asset, increasing our income tax expense in the period such determination is made. In addition, we have not recorded U.S. income tax expense for foreign earnings that we have determined to be indefinitely reinvested. On an interim basis, we estimate what our effective tax rate will be for the full fiscal year. The estimated annual effective tax rate is then applied to the year-to-date pre-tax income excluding unusual or infrequently occurring items, to determine the year-to-date tax expense. The income tax effects of infrequent or unusual items are recognized in the interim period in which they occur. As the fiscal year progresses, we continually refine our estimate based upon actual events and earnings by jurisdiction during the year. This continual estimation process periodically results in a change to our expected effective tax rate for the fiscal year. When this occurs, we adjust the income tax provision during the quarter in which the change in estimate occurs so that the year-to-date provision equals the expected annual rate excluding the impact of infrequent or unusual items.

Warranty Costs. Our FOSSIL watch products sold in the U.S. are covered by a limited warranty against defects in materials or workmanship for a period of 11 years from the date of purchase. RELIC watch products sold in the U.S. are covered by a comparable 12 year limited warranty. All other watch brands sold in the U.S. as well as generally, all of our watch products sold in Canada, Europe and Asia are covered by a comparable two year limited warranty. We determine our warranty liability using historical warranty repair experience. As changes occur in sales volumes and warranty experience, the warranty accrual is adjusted as necessary. The warranty liability recorded for fiscal years 2010, 2009 and 2008 was $8.5 million, $6.4 million and $4.6 million, respectively.

Hedge Accounting. We operate in foreign countries, which exposes us to market risk associated with foreign currency exchange rate fluctuations. We have entered into certain forward contracts to hedge the risk of foreign currency rate fluctuations. We have elected to apply the hedge accounting rules as required by ASC 815 *Derivatives and Hedging* for these hedges. Our objective is to hedge the variability in forecasted cash flows due to the foreign currency risk primarily associated with certain anticipated inventory purchases. Changes in the fair value of forward contracts designated as cash flow hedges are recorded as a component of accumulated other comprehensive income within stockholders' equity, and are recognized in other income (expense)—net in the period which approximates the time the hedged inventory is sold.

Litigation Reserves. Estimated amounts for claims that are probable and can be reasonably estimated are recorded as liabilities in our consolidated balance sheet. The likelihood of a material change in these estimated reserves would be dependent on new claims that may arise, changes in the circumstances used to estimate amounts for prior period claims and favorable or unfavorable final settlements of prior period claims. As additional information becomes available, we assess the potential liability related to new claims and existing claims and revise estimates as appropriate. As new claims arise or circumstances change relative to prior claim assessments, revisions in estimates of the potential liability could materially impact the results of operations and financial position.

Stock-Based Compensation. We account for stock-based compensation in accordance with the provisions of ASC 718, *Compensation — Stock Compensation* ("ASC 718"). We utilize the Black-Scholes model to determine the fair value of stock options and stock appreciation rights on the date of grant. The model requires us to make assumptions concerning (a) the length of time employees will retain their vested stock options before exercising them ("expected term"), (b) the volatility of our common stock price over the expected term, and (c) the number of options that will be forfeited. Changes in these assumptions can materially affect the estimate of fair value of

stock-based compensation and, consequently, the related expense amounts recognized on the consolidated statements of operations.

Newly Adopted Accounting Standard Codification Updates

In January 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2010-6 *Improving Disclosures about Fair Value Measurements (Topic 820)* ("ASU 2010-6"). ASU 2010-6 provides amendments to Subtopic 820-10 that require separate disclosure of significant transfers in and out of Level 1 and Level 2 fair value measurements and the presentation of separate information regarding purchases, sales, issuances and settlements for Level 3 fair value measurements. Additionally, ASU 2010-6 provides amendments to Subtopic 820-10 that clarify existing disclosures about the level of disaggregation and inputs and valuation techniques. The new disclosure requirements became effective for financial statements issued for interim and annual periods beginning after December 15, 2009, except for the disclosure about purchases, sales, issuances, and settlements in Level 3 fair value measurements, which become effective for fiscal years beginning after December 15, 2010. The adoption of ASU 2010-6 did not have a material impact on our consolidated results of operations or financial position.

In January 2010, the FASB issued ASU 2010-2 *Consolidations (Topic 810) Accounting and Reporting for Decreases in Ownership of a Subsidiary—a Scope Clarification* ("ASU 2010-2"). ASU 2010-2 addresses implementation issues related to the changes in ownership provisions in the Consolidation—Overall Subtopic ("Subtopic 810-10") of the ASC. Subtopic 810-10 establishes the accounting and reporting guidance for noncontrolling interests and changes in ownership interests of a subsidiary. An entity is required to deconsolidate a subsidiary when the entity ceases to have a controlling financial interest in the subsidiary. Upon deconsolidation of a subsidiary, an entity recognizes a gain or loss on the transaction and measures any retained investment in the subsidiary at fair value. The gain or loss includes any gain or loss associated with the difference between the fair value of the retained investment in the subsidiary and its carrying amount at the date the subsidiary is deconsolidated. In contrast, an entity is required to account for a decrease in ownership interest of a subsidiary that does not result in a change of control of the subsidiary as an equity transaction. ASU 2010-2 became effective for us starting January 3, 2010. The adoption of ASU 2010-2 did not have a material impact on our consolidated results of operations or financial position.

In December 2009, the FASB issued ASU 2009-17 *Consolidations (Topic 810) Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities* ("ASU 2009-17"). ASU 2009-17 amends the ASC for the issuance of FASB Statement No. 167, *Amendments to FASB Interpretation No. 46(R)*. The amendments in ASU 2009-17 replace the quantitative-based risks and rewards calculation for determining which enterprise, if any, has a controlling financial interest in a variable interest entity with an approach focused on identifying which enterprise has the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and (1) the obligation to absorb losses of the entity or (2) the right to receive benefits from the entity. ASU 2009-17 also requires additional disclosures about an enterprise's involvement in variable interest entities. ASU 2009-17 was effective for us starting January 3, 2010. The adoption of ASU 2009-17 did not have an impact on our consolidated results of operations or financial position as we had no variable interest entities.

In December 2009, the FASB issued ASU 2009-16 *Transfers and Servicing (Topic 860) Accounting for Transfers of Financial Assets* ("ASU 2009-16"). ASU 2009-16 amends the ASC for the issuance of FASB Statement No. 166, *Accounting for Transfers of Financial Assets—an amendment of FASB Statement No. 140*. The amendments in ASU 2009-16 eliminate the exceptions for qualifying special purpose entities from the consolidation guidance and the exception that permitted sales accounting for certain mortgage securitizations when a transferor has not surrendered control over the transferred financial assets. In addition, the amendments require enhanced disclosures about the risks that a transferor continues to be exposed to because of its continuing involvement in transferred financial assets. ASU 2009-16 was effective for us starting January 3, 2010. The adoption of ASU 2009-16 did not have an impact on our consolidated results of operations or financial position as we had no mortgage securitizations.

Results of Operations

The following table sets forth, for the periods indicated, (i) the percentages of our net sales represented by certain line items from our consolidated statements of income and comprehensive income and (ii) the percentage changes in these line items between the fiscal years indicated.

Fiscal Year	2010	Percentage Change from 2009	2009	Percentage Change from 2008	2008
Net sales	100.0 %	31.2 %	100.0 %	(2.2)%	100.0 %
Cost of sales	43.1	24.5	45.4	(3.9)	46.2
Gross profit	56.9	36.7	54.6	(0.7)	53.8
Operating expenses	38.3	23.0	40.9	(1.9)	40.8
Operating income	18.6	77.9	13.7	2.8	13.0
Interest expense	0.1	376.2	0.0	(57.7)	0.0
Other income (expense) - net	0.4	4.8	0.5	(177.3)	(0.7)
Income before income taxes	18.9	74.7	14.2	13.2	12.3
Provision for income taxes	5.9	57.8	4.9	44.4	3.3
Net income	13.0	83.6	9.3	1.7	9.0
Net income attributable to noncontrolling interest, net of taxes	0.4	89.7	0.3	35.9	0.2
Net income attributable to Fossil, Inc.	12.6 %	83.4	9.0 %	0.8	8.8 %

Net Sales. The following table sets forth consolidated net sales by segment and the percentage relationship of each segment to consolidated net sales for the fiscal years indicated (in millions, except percentage data):

	Amounts			Percentage of Total		
Fiscal Year	**2010**	**2009**	**2008**	**2010**	**2009**	**2008**
Wholesale						
North America	$ 779.2	$ 551.1	$ 560.7	38.3 %	35.6 %	35.4 %
Europe	547.4	467.1	551.4	27.0	30.2	34.9
Asia Pacific	220.8	153.8	161.8	10.9	9.9	10.2
Total Wholesale	1,547.4	1,172.0	1,273.9	76.2	75.7	80.5
Direct to Consumer	483.3	376.1	309.3	23.8	24.3	19.5
Consolidated	$2,030.7	$1,548.1	$1,583.2	100.0 %	100.0 %	100.0 %

Fiscal Year 2010 Compared to Fiscal Year 2009

Net Sales. The following table illustrates by factor the total year-over-year percentage change in net sales by segment and on a consolidated basis:

	Exchange Rates	Organic Change	Total Change
North America Wholesale	0.7%	40.7%	41.4%
Europe Wholesale	(5.6)	22.8	17.2
Asia Pacific Wholesale	8.6	35.0	43.6
Direct to Consumer	(0.5)	29.0	28.5
Consolidated	(0.7)%	31.9%	31.2%

The following net sales discussion excludes the impact on sales growth attributable to foreign currency rate changes as noted in the above table.

North America Wholesale Net Sales. Net sales in the North America Wholesale segment, which consists of our operations in the U.S., Canada, Mexico and sales to third-party distributors in South America, increased 40.7%, or $224.4 million, during fiscal year 2010. We attribute this increase to consumers' positive reactions to our innovative product offerings and an upward trend in the fashion watch category. These favorable watch sales trends have prompted retailers to place greater emphasis on the category by increasing staff to service the watch customer, increasing open-to-buy dollars and expanding marketing initiatives, thereby further accelerating net sales. The increased sell-through rates of our watch products at our retailers have also resulted in these customers restocking inventories during fiscal year 2010, after heavily destocking inventory levels in fiscal year 2009 due to the economic downturn. Additionally, our customers have been increasing the level of inventories in certain situations, including allocating additional retail space within their stores, to meet the increased demand for our watch products. As a result of the acceleration in sales in fiscal year 2010 in comparison to the destocking activity in fiscal year 2009, North American wholesale watch shipments increased by 60.9%, or $207.9 million, in fiscal year 2010. Licensed brands, FOSSIL and MICHELE represented the strongest net sales contributions, increasing by 113.9%, 35.4% and 49.7%, respectively. Licensed brand watch sales were primarily led by sales volume increases in MICHAEL KORS of 218.4% or $95.5 million and, to a lesser extent, increases in EMPORIO ARMANI of 48.8%, DIESEL of 61.0%, DKNY of 46.8% and MARC BY MARC JACOBS of 61.0%. In addition, our RELIC watch business increased 20.8% during the fiscal year. MICHAEL KORS sales volumes were principally driven by innovative designs, increased sell-through rates at retail and additional case space allocated by retailers in the department store channel.

Our accessories business, which includes our men's and women's leather, jewelry, and other non-watch categories, also contributed to the growth in North America as net sales volumes increased 7.9%, or $16.5 million, in fiscal year 2010. This increase was primarily a result of sales volume growth in FOSSIL accessory jewelry, shoes, women's small leathers, and sunglasses which had sales increases of 67.6%, 122.2%, 27.2% and 3.6%, respectively. Both our accessory jewelry and shoes categories were launched into the department store channel in the last two years and are still experiencing both door growth and, in some cases, assortment expansion. These increases were partially offset by sales volume declines of 2.6% and 3.8% in women's bags and men's leather products, respectively.

Europe Wholesale Net Sales. Net sales in our Europe Wholesale segment increased 22.8%, or $106.4 million, during fiscal year 2010. During fiscal year 2010 our Europe Wholesale segment benefited from a similar level of increased consumer response to new designs as we experienced in the North America segment. Additionally, net sales increases in fiscal year 2010 benefited from similar de-stocking activities to that experienced in our North America segment, primarily during the last nine months of fiscal year 2009. Watch sales experienced the most significant growth, increasing 23.3%, or $78.5 million. All major watch brands contributed to this growth with increases of 19.7% in FOSSIL, 24.3% in EMPORIO ARMANI, 101.3% in MICHAEL KORS, 26.6% in DIESEL and 18.2% in DKNY representing the strongest performances. During fiscal year 2010, our jewelry and leather categories also delivered strong double-digit increases of 21.0% and 46.7%, respectively. We believe net sales increases in our jewelry category were positively impacted by trends similar to those that we experienced in our watch business. We believe the growth experienced in our leather products business in fiscal year 2010 was a result of our initiative to expand our leather offerings in our wholesale channel by leveraging the increased brand awareness generated by the expansion of our FOSSIL accessory store concept in the region over the last two years. In addition, shipments to third-party distributors increased 45.4% in fiscal year 2010, which we believe was principally related to increased sell-through rates of our fashion watch offerings and to our distributors replenishing inventory during fiscal year 2010 in comparison to destocking inventory in the prior fiscal year.

Asia Pacific Wholesale Net Sales. In fiscal year 2010, Asia Pacific Wholesale shipments increased 35.0%, or $53.8 million, primarily a result of a 39.6% increase in licensed brand watch sales and, to a lesser extent,

increases of 19.4% in FOSSIL watches and 55.2% in leather products. Licensed brand watch sales were led by increases of 43.0% in EMPORIO ARMANI, 127.8% in MARC BY MARC JACOBS and 54.0% in BURBERRY. In addition to consumers responding favorably to new designs, we believe the growth in our watch business was due to the growth in our retail concession base across many of our markets within this segment, including the transition of our South Korean operations from a third-party distributor to a Company-owned subsidiary during the 2010 fiscal year. The net sales growth in the South Korea market represented 46.6% of the $53.8 million in net sales that we added within this segment in fiscal year 2010 in comparison to fiscal year 2009. The growth in the leather category in fiscal year 2010 was a result of our initiative to broaden distribution of the category by leveraging the FOSSIL brand awareness created from an expanded FOSSIL accessory store base in this region.

We believe our diverse global distribution network, including owned distribution in 23 countries, combined with our design and marketing capabilities, will allow us to continue to take shelf space from lesser known local and regional brands as we continue to increase brand awareness through the growth of our retail stores and introduction of new websites in many of the countries in which we operate. We also believe that the expansion of our businesses into the newer markets will allow us to experience higher levels of growth in our international wholesale segments in comparison to our North America Wholesale segment.

Direct to Consumer Net Sales. Direct to Consumer net sales increased 29.0%, or $108.9 million, during fiscal year 2010, principally the result of comparable store sales increases of 19.0% and a 5.9% increase in the average number of stores open during the fiscal year. Additionally, our Direct to Consumer segment was favorably impacted in fiscal year 2010 by growth of 50.2% in e-commerce sales primarily driven by our U.S. and Germany-based e-commerce businesses. During fiscal year 2010, comparable store sales related to our global full price accessory concept increased by 15.9%, while our global outlet stores experienced comparable store sales growth of 21.1%. We believe the growth in our Direct to Consumer business was attributable to consumers' positive response to the focused point of view and imagery of the FOSSIL brand, the continuous introduction of new and innovative designs and materials, increased catalog mailings and expanded e-commerce marketing activities.

We ended fiscal year 2010 with 364 stores, including 230 full price accessory stores, 127 of which were outside of North America, 93 outlet locations, including 22 outside of North America, 31 clothing stores, including 3 outside of North America, and 10 full price multi-brand stores, including 9 outside of North America. This compares to 354 stores at the end of fiscal year 2009, including 218 full price accessory stores, 116 of which were outside of North America, 90 outlet locations, including 15 outside of North America, 33 clothing stores, all in North America, and 13 full price multi-brand stores, including 11 outside of North America. During fiscal year 2010, we opened 33 new stores and closed 23 stores. During fiscal year 2011, we anticipate opening approximately 80 to 85 additional retail stores and closing approximately 26 to 28 stores globally.

A store is included in comparable store sales in the thirteenth month of operation. Stores that experience a gross square footage increase of 10% or more due to an expansion and/or relocation are removed from the comparable store sales base, but are included in total sales. These stores are returned to the comparable store sales base in the thirteenth month following the expansion and/or relocation. During 2006, we entered into an agreement with the House of Fraser, a U.K.-based department store ("HOF"), which allows us to operate the watch department in certain HOF stores. Under this agreement, we own the inventory within the HOF store, provide the labor to operate the department and pay HOF a commission on the retail watch sales generated in the stores. Although we include the net sales derived from the HOF stores in our Direct to Consumer segment, we do not include the number of locations associated with this agreement in our retail store count or in our comparable store sales.

Gross Profit. Gross profit of $1.2 billion in fiscal year 2010 represented an increase of 36.7% in comparison to $844.9 million in the prior fiscal year. This increase was primarily a result of an increase in net sales and gross profit margin expansion. Gross profit margin increased 230 basis points to 56.9% in fiscal year 2010 compared to 54.6% in the prior fiscal year. The increase in gross profit margin was principally driven by an increase in the

mix of sales of higher margin watch products in comparison to leather products, including a greater mix of higher margin licensed watch brands, and higher gross margins experienced in outlet stores. Gross profit margin was also favorably impacted by a combination of decreased component costs associated with some of the new materials we incorporated into our watch designs and higher retail prices. These increases in gross profit margin were partially offset by a stronger U.S. dollar, which unfavorably impacted gross profit margin by approximately 20 basis points during fiscal year 2010, and increased input costs related to payroll as a result of wage increases across our China assembly operations and third-party component manufacturers.

Our consolidated gross profit margin is impacted by our diversified business model that includes but is not limited to: (i) a significant number of product categories we distribute, (ii) the multiple brands we offer within several product categories, (iii) the geographical presence of our businesses, and (iv) the different distribution channels we sell to or through. The components of this diversified business model produce varying ranges of gross profit margin. Generally, on a historical basis, our fashion branded watch, jewelry and sunglass offerings produce higher gross profit margins than our leather goods categories. In addition, in most product categories that we offer, brands with higher retail price points generally produce higher gross profit margins compared to those of lower retail priced brands. From a segment standpoint, our Direct to Consumer business generally produces the highest gross profit margin as a result of these sales being direct to the ultimate consumer. Gross profit margins related to sales in our international wholesale segments are historically lower than our Direct to Consumer segment, but historically higher than our North America Wholesale segment primarily due to the following factors: (i) premiums charged in comparison to retail prices on products sold in the U.S., (ii) the product sales mix in our international wholesale segments, in comparison to our North America Wholesale segment, are comprised more predominantly of watches and jewelry that generally produce higher gross profit margins than leather goods; and (iii) the watch sales mix in our international wholesale segments, in comparison to our North America Wholesale segment, are comprised more predominantly of higher priced licensed brands.

Operating Expenses. Total operating expenses increased $145.5 million to $778.8 million in fiscal year 2010. Expressed as a percentage of net sales, operating expenses decreased to 38.3% in fiscal year 2010 compared to 40.9% in the prior fiscal year and included a favorable impact of approximately $3.5 million related to the translation of foreign-based expenses due to a stronger U.S. dollar. On a constant dollar basis, operating expenses in our wholesale segments, Direct to Consumer segment and corporate cost areas increased by $78.9 million, $35.7 million and $34.4 million, respectively, in fiscal year 2010. Expense growth in the wholesale segments was principally a result of increased marketing expenses and compensation costs. Expense increases in the Direct to Consumer segment were primarily attributable to store growth, expansion of our catalog mailings and increased web-based marketing expenditures. Expense growth in the corporate cost area was primarily associated with increased compensation costs, including a $3.8 million increase in equity compensation expense, and a non-cash charge of approximately $3.7 million related to the write-down of an other than temporary fixed asset impairment.

The following table sets forth operating expenses on a segment basis and the relative percentage of operating expenses to net sales for each segment for the fiscal years indicated (in millions, except for percentage data):

Fiscal Year	2010		2009	
	Operating Expense	% of Net Sales	Operating Expense	% of Net Sales
North America Wholesale	$146.3	18.8%	$118.9	21.6%
Europe Wholesale	164.1	30.0	146.0	31.3
Asia Pacific Wholesale	96.1	43.5	66.9	43.5
Direct to Consumer	258.2	53.4	222.6	59.2
Corporate	114.1	0.0	78.8	0.0
Total	$778.8	38.3%	$633.2	40.9%

Operating Income. Operating income increased by 77.9% to $376.4 million in fiscal year 2010 compared to $211.6 million in fiscal year 2009. Operating income margin increased by 480 basis points to 18.5% of net sales in fiscal year 2010 compared to 13.7% in the prior fiscal year, principally as a result of increased net sales, gross profit margin expansion and a decrease in operating expenses as a percentage of sales. Operating income included approximately $6.8 million of net currency losses in fiscal year 2010 related to the translation of foreign-based sales and expenses into U.S. dollars.

Interest Expense. Interest expense increased by $884,000 as compared to fiscal year 2009, primarily driven by increased participation by our Asia Pacific subsidiaries in our notional cash pool at interest rates in excess of those earned on cash deposits by our European subsidiaries in the pool.

Other Income (Expense)—Net. Other income (expense)—net primarily reflects interest income from investments, foreign currency transaction gains or losses and equity in the earnings or losses of our non-consolidated joint venture in Spain. During fiscal year 2010, other income (expense)—net increased favorably by approximately $409,000 as compared to fiscal year 2009, primarily driven by increased equity earnings of our non-consolidated joint venture in Spain and increased interest income, partially offset by decreased net foreign currency transaction gains.

Provision for Income Taxes. Income tax expense for fiscal year 2010 was $119.3 million, resulting in an effective tax rate of 31.1%, compared to 34.4% in fiscal year 2009. Fiscal year 2010 income tax expense was favorably impacted by the recognition of previously unrecognized income tax benefits in connection with the completion of prior year income tax audits during the fiscal year. For fiscal year 2011, we estimate our effective tax rate will approximate our structural rate of 35%, excluding any discrete events.

Net Income Attributable to Noncontrolling Interest. Net income attributable to noncontrolling interest, which represents the minority interest portion of subsidiaries in which we own less than 100%, increased $4.6 million for fiscal year 2010. This increase is a result of increased net income related to our less than 100% wholly-owned subsidiaries with a substantial portion of this increase attributable to the net income related to one of our watch assembly facilities.

Net Income Attributable to Fossil, Inc. Fiscal year 2010 net income attributable to Fossil, Inc. increased 83.4% to $255.2 million, or $3.77 per diluted share, in comparison to $139.2 million, or $2.07 per diluted share, in the prior fiscal year. Fiscal year 2010 earnings per diluted share of $3.77 included an approximate $0.07 diluted earnings per share reduction related to foreign currency rate changes.

Fiscal Year 2009 Compared to Fiscal Year 2008

Net Sales. The following table illustrates by factor the total year-over-year percentage change in net sales by segment and on a consolidated basis:

	Exchange Rates	Organic Change	Total Change
North America Wholesale	(0.7)%	(1.0)%	(1.7)%
Europe Wholesale	(3.6)	(11.7)	(15.3)
Asia Pacific Wholesale	0.6	(5.5)	(4.9)
Direct to Consumer	(1.1)	22.7	21.6
Consolidated	(1.6)%	(0.6)%	(2.2)%

The following net sales discussion excludes the impact on sales growth attributable to foreign currency rate changes as noted in the above table.

North America Wholesale Net Sales. We believe wholesale shipments of our watch and accessory offerings were negatively impacted by our wholesale partners significantly reducing their purchases during the first half of

fiscal year 2009. We believe this was the result of our wholesale partners carrying higher levels of inventory into the beginning of the year due to the downturn in consumer spending during the fourth quarter of fiscal year 2008. Nevertheless, net sales in the North America Wholesale watch business increased 1.9% during fiscal year 2009, primarily a result of sales volume growth in licensed brands, mass market, RELIC and MICHELE watches, partially offset by a sales volume decrease in FOSSIL watches. Licensed watch sales rose 16.4%, principally driven by MICHAEL KORS and to a lesser extent ADIDAS and MARC BY MARC JACOBS watches. MICHAEL KORS wholesale shipments increased 104.4% during fiscal year 2009, which we believe is due to the innovative design that is represented by the assortment and the expansion of points of sale for the brand. Sales volume growth in ADIDAS and MARC BY MARC JACOBS was primarily attributable to the expansion of points of sale. During fiscal year 2009, our mass market watch shipments increased 10.2% in comparison to the prior fiscal year, which we attribute primarily to further penetration of our private label program with Wal-Mart as well as consumers continuing to shop for value. RELIC watch sales rose 12.0% during fiscal year 2009, as a result of increased penetration in existing customers and new door growth. MICHELE sales volumes increased 9.6% during fiscal year 2009, which we attribute to consumers' positive response to innovative new styles. North America Wholesale shipments of FOSSIL watches declined 18.9% during fiscal year 2009, which we believe resulted from retailers managing their inventories conservatively. FOSSIL is the most penetrated watch business within our portfolio in the North America Wholesale segment and thereby more significantly impacted by comparable stores sales within the department store channel. However, new FOSSIL styles introduced into department stores during the fourth quarter of fiscal year 2009 experienced strong sell through during the holiday season, resulting in the overall trend improving.

Wholesale shipments from our accessories business in North America, which primarily includes handbags, small leather goods, belts, sunglasses, jewelry and cold weather accessories, decreased 5.4% during fiscal year 2009. This decrease was principally attributable to sales volume declines in FOSSIL women's handbags, small leather goods, and eyewear, partially offset by sales volume increases in FOSSIL accessory jewelry and the launch of our FOSSIL shoes line during fiscal year 2009. We primarily attribute the sales volume declines in women's handbags, small leather goods and eyewear of 11.0%, 17.8% and 20.4%, respectively, to the challenging economic environment resulting in decreased consumer demand and our wholesale partners reducing inventory levels during the first nine months of fiscal year 2009. Additionally, eyewear sales volume was unfavorably impacted by certain of our customers consolidating vendors in their sunglass departments and discontinuing the RELIC men's eyewear line. FOSSIL accessory jewelry net sales increased 22.4% in fiscal year 2009 as a result of retail door growth, while the launch of our FOSSIL shoes line contributed $2.9 million to the North America Wholesale business during fiscal year 2009.

Europe Wholesale Net Sales. The net sales decline in our Europe Wholesale segment during fiscal year 2009 was primarily the result of sales volume declines in our core watch and jewelry businesses of 11.5% and 19.7%, respectively. We believe that weakening economies and the resulting decrease in discretionary spending was the primary reason for our sales volume decreases in this segment. The declines had a bigger impact on our larger, more penetrated businesses. The decrease in our watch business was principally the result of FOSSIL and licensed brand watch sales volumes declining 8.5% and 11.7%, respectively, while the reduction in our jewelry sales volume was primarily led by a 22.9% decrease in FOSSIL jewelry. However, for brands and businesses recently introduced into our Europe Wholesale segment and for those brands and businesses less penetrated, and thus continuing to expand into new doors, we experienced sales growth. For example, our recently-introduced FOSSIL leathers business increased 19.9% during fiscal year 2009, with solid growth in both the women's and men's categories. We believe the expansion of our leathers business is partly attributable to the growth of our FOSSIL accessory store concept in this region, which is continuing to improve the brand awareness across all FOSSIL categories. Additionally, MICHAEL KORS and BURBERRY watch sales volumes rose 4.5% and 6.7%, respectively, in fiscal year 2009 primarily as a result of an increase in the penetration level with existing customers and new door growth. During fiscal year 2009, net sales were also favorably impacted by the introduction of DKNY jewelry, launched during the third quarter of fiscal year 2008.

Asia Pacific Wholesale Net Sales. Net sales in our Asia Pacific Wholesale segment decreased during fiscal year 2009, principally a result of a $19.5 million decline in wholesale shipments to our third-party distributors. We attribute these sales declines to the challenging economic environment and credit restraints experienced by a number of our third-party distributors. Excluding shipments to third-party distributors, sales from our Asia Pacific Wholesale operations increased 12.8%, principally driven by further penetration in our newer markets of China, India and South Korea as well as a 15.5% increase generated in our Australian wholesale business primarily related to sales volume growth in FOSSIL leather goods.

Direct to Consumer Net Sales. Direct to Consumer net sales increased 22.7% during fiscal year 2009, principally the result of a 19.4% increase in the average number of stores open during the fiscal year and comparable store sales increases of 7.8%. Our Direct to Consumer segment was also favorably impacted by 11.4% growth in e-commerce sales primarily driven by our U.S.-based e-commerce businesses. We believe this growth was partially attributable to system upgrades for our U.S. website during the second half of fiscal year 2009. Additionally, an increase in the number of catalogs mailed in fiscal year 2009 and an increase in the amount of spending during the fourth quarter of fiscal year 2009 in on-line search advertising also benefited e-commerce sales. These initiatives led to an increased number of visitors to the site resulting in higher levels of sales. Our e-commerce and catalog initiatives, in addition to the favorable consumer reaction to new product innovation, also benefited our comparable store sales in our U.S. retail stores. Comparable store sales related to our full price accessory concept, which is our growth engine in this segment, increased by 5.9% globally while our global outlet stores experienced comparable store sales growth of 9.7% during fiscal year 2009.

We ended fiscal year 2009 with 354 stores, including 218 full price accessory stores, 126 of which are located outside the U.S., 90 outlet locations, including 16 outside the U.S., 33 clothing stores and 13 multi-brand stores. This compares to 324 stores at the end of fiscal year 2008, which included 191 full price accessory stores, 104 located outside the U.S., 82 outlet locations, including 8 outside the U.S., 33 clothing stores and 18 multi-branded stores. During fiscal year 2009, we opened 42 new stores, including 29 full-price accessory stores, and closed 12 stores.

Gross Profit. Gross profit decreased by 0.7% to $844.9 million in fiscal year 2009, with gross profit margin expanding by 80 basis points to 54.6% compared to 53.8% in the prior fiscal year. The gross profit margin improvement was due primarily to an increase in the sales mix of Direct to Consumer segment sales and a reduction in sales mix of lower margin shipments to third-party distributors. The increase in gross profit margin was partially offset by a stronger U.S. dollar, which unfavorably impacted gross profit margin by approximately 80 basis points during fiscal year 2009 and a reduction in the sales mix attributable to our Europe Wholesale segment, which historically generates a gross profit margin in excess of our consolidated gross profit margin. In comparison to fiscal year 2008, our fiscal year 2009 gross profit margin was not impacted by any significant changes in component or labor costs related to the production of our watch and accessory offerings.

Operating Expenses. Total operating expenses decreased $12.2 million to $633.2 million in fiscal year 2009 in comparison to the prior fiscal year and as a percentage of net sales, increased 10 basis points to 40.9% compared to 40.8% in fiscal year 2008. Fiscal year 2009 included a reduction of approximately $11.5 million related to the translation impact of foreign-based expenses due to an average stronger U.S. dollar on a comparable year-over-year basis. On a constant dollar basis, operating expenses for fiscal year 2009 included net decreases in our wholesale segments and corporate costs of $43.1 million, partially offset by an increase of $42.5 million in our Direct to Consumer segment. The decrease in operating expenses associated with our wholesale segments was primarily related to lower compensation cost, as a result of a reduction of workforce in the first quarter of fiscal year 2009 and the freeze of merit increases and certain benefit costs. Additionally, fiscal year 2009 wholesale operating expenses benefited from reduced levels of advertising expense and a net reduction of approximately $5.2 million of non-cash charges related to the write-down of certain fixed asset and intangible asset impairments when compared to fiscal year 2008. Fiscal year 2009 operating expenses also benefited from reductions in certain variable expenses as a result of a reduction in wholesale sales. The increase in our Direct to Consumer operating expenses was primarily related to the impact of the direct operating costs associated with a net 30 new stores opened during fiscal year 2009 and expenses associated with the expansion of our e-commerce and catalog operations.

The following table sets forth operating expenses on a segment basis and the relative percentage of operating expenses to net sales for each segment for the fiscal years indicated (in millions, except for percentage data):

Fiscal Year	2009		2008	
	Operating Expense	% of Net Sales	Operating Expense	% of Net Sales
North America Wholesale	$118.9	21.6%	$144.9	25.8%
Europe Wholesale	146.0	31.3	170.3	30.9
Asia Pacific Wholesale	66.9	43.5	65.2	40.3
Direct to Consumer	222.6	59.2	183.4	59.3
Corporate	78.8	0.0	81.6	0.0
Total	$633.2	40.9%	$645.4	40.8%

Operating Income. Operating income increased by 2.8% to $211.6 million in fiscal year 2009 compared to $205.8 million in fiscal year 2008. In fiscal year 2009, operating income margin increased by 70 basis points to 13.7% of net sales compared to 13.0% in the prior fiscal year, principally as a result of gross margin expansion. Operating income included approximately $15.4 million of net currency losses in fiscal year 2009 related to the translation of foreign-based sales and expenses into U.S. dollars.

Other Income (Expense)—Net. Other income (expense)—net primarily reflects interest income from investments, foreign currency transaction gains or losses and equity in the earnings or losses of our non-consolidated joint venture in Spain. During fiscal year 2009, other income (expense)—net increased by approximately $19.5 million as compared to fiscal year 2008, primarily driven by net foreign currency transaction gains in comparison to net losses in the prior fiscal year.

Provision for Income Taxes. Our effective income tax rate was 34.4% during fiscal year 2009, compared to 27.0% in fiscal year 2008. The prior fiscal year's income tax expense was favorably impacted by the recognition of previously unrecognized income tax benefits in connection with the completion of prior year income tax audits.

Net Income Attributable to Fossil, Inc. Fiscal year 2009 net income attributable to Fossil, Inc. increased 0.8% to $139.2 million, or $2.07 per diluted share, in comparison to $138.1 million, or $2.02 per diluted share, in the prior fiscal year. Fiscal year 2009 earnings per diluted share of $2.07 included an approximate $0.07 diluted earnings per share benefit related to foreign currency rate changes. Fiscal year 2008 diluted earnings per share included a benefit of approximately $0.20 per diluted share as a result of the reduction of certain tax reserves recorded in the fourth quarter of fiscal year 2008.

Effects of Inflation

We do not believe that inflation has had a material impact on our results of operations for the periods presented. Substantial increases in costs, however, could have an impact on us and the industry. We believe that, to the extent inflation affects our costs in the future, we could generally offset inflation by increasing prices if competitive conditions permit.

Liquidity and Capital Resources

Historically, our business operations have not required substantial cash during the first several months of our fiscal year. Generally, starting in the second quarter, our cash needs begin to increase, typically reaching a peak in the September-November time frame as we increase inventory levels in advance of the holiday season. Our quarterly cash requirements are also impacted by the number of new stores we open, other capital expenditures, and the amount of any discretionary stock repurchases we make.

Net cash provided by operating activities of $209.2 million in fiscal year 2010 was more than offset by cash used in investing and financing activities of $47.5 million and $170.6 million respectively, resulting in a $12.4 million decrease in cash and cash equivalents since the end of fiscal year 2009. During fiscal year 2010, net cash provided by operating activities consisted of net income of $264.9 million and favorable non-cash activities of $81.7 million, partially offset by unfavorable decreases in working capital of $137.4 million. During fiscal year 2010, cash used in investing activities were primarily driven by $46.5 million in capital expenditures. During fiscal year 2010, cash used in financing activities were principally comprised of $199.2 million of common stock repurchases, partially offset by a $23.4 million in proceeds relating to the exercise of stock options. Foreign exchange rate translations decreased cash and cash equivalents by $3.4 million during fiscal year 2010.

Accounts receivable increased by 25.5% to $263.2 million during fiscal year 2010 compared to $209.8 million at the end of the prior fiscal year, primarily due to an increase in wholesale shipments. Average days sales outstanding for our wholesale segments for fiscal year 2010 was 48 days in comparison to 54 days in the prior fiscal year.

Inventory at the end of fiscal year 2010 was $371.9 million, representing an increase of 51.4% from the prior fiscal year inventory balance of $245.7 million. This increase was primarily attributable to the following three factors: (i) In the fourth quarter of fiscal year 2009, inventory levels decreased 16% while net sales increased 14%. Thus on a two fiscal year basis, inventory levels were much more consistent with the sales increases, (ii) Fiscal year 2010 ending inventory was impacted by a forward shift in the Chinese New Year which added approximately $30 million in inventory receipts and in-transit shipments to the fourth quarter 2010 fiscal year inventory levels. In comparison to the comparable period of fiscal year 2009, the deliveries related to the timing of Chinese New Year did not occur until the first quarter of fiscal year 2010, and (iii) Since the second quarter of fiscal year 2010, we have been implementing a "smoothing effort" to remove part of the peaks and valleys associated with the timing of production needs while still supplying us with inventory levels sufficient to service our sales and store growth.

During fiscal year 2009, our Board of Directors approved a stock repurchase program pursuant to which $20 million could be used to repurchase outstanding shares of our common stock. We did not repurchase any shares under this authorization during fiscal year 2009. During fiscal year 2010, we repurchased approximately 528,000 shares of common stock to complete this repurchase program. In fiscal year 2010, our Board of Directors approved two additional common stock repurchase programs pursuant to which up to $30 million and $750 million, respectively, could be used to repurchase outstanding shares of our common stock. The $750 million repurchase program has a termination date of December 2013 and the $30 million repurchase program has no termination date. We repurchased 3.1 million shares under the $750 million repurchase program during fiscal year 2010 at a cost of $179.2 million. Both of these repurchase programs were conducted pursuant to Rule 10b-18 of the Securities Exchange Act of 1934.

At the end of fiscal year 2010, we had working capital of $801.3 million compared to working capital of $701.2 million at the end of the prior fiscal year. Additionally, we had approximately $5.3 million of outstanding short-term borrowings and $4.5 million in long-term debt. On December 17, 2010, we and certain of our subsidiaries entered into a Credit Agreement (the "Credit Agreement") with Wells Fargo Bank, National Association ("Wells Fargo"), as administrative agent, swingline lender and issuing lender, Wells Fargo Securities, LLC, as sole lead arranger and sole book manager and Bank of America, N.A., as lender. The Credit Agreement provides for revolving credit loans in the amount of $300 million (the "Revolver"), a swingline loan of $20 million, and the provision for letters of credit. The Revolver increased our borrowing capability from $100 million to $300 million as it replaced the Loan Agreement dated as of September 23, 2004, as amended by and between us and certain of our subsidiaries. We had no outstanding borrowings under the Revolver at the end of fiscal year 2010. Amounts outstanding under the Revolver bear interest at our option of (i) the base rate (defined as the higher of (a) the prime rate publicly announced by Wells Fargo, (b) the federal funds rate plus 1.50% and (c) LIBOR plus 1.50%) plus the base rate applicable margin (which varies based upon our consolidated leverage ratio (the "Ratio") from 0.25% if the Ratio is less than 1.00 to 1.00 to 1.00% if the Ratio is

greater than or equal to 2.00 to 1.00) or (ii) the LIBOR rate (defined as the quotient obtained by dividing (a) LIBOR by (b) 1.00 minus the Eurodollar reserve percentage) plus the LIBOR rate applicable margin (which varies based upon the Ratio from 1.25% if the Ratio is less than 1.00 to 1.00 to 2.00% if the Ratio is greater than or equal to 2.00 to 1.00). Amounts outstanding under the swingline loan under the Credit Agreement or upon any drawing under a letter of credit bear interest at the base rate plus the base rate applicable margin. We had $0.4 million of outstanding standby letters of credit at January 1, 2011 that reduce amounts available under the Revolver. In December 2010, our Japanese subsidiary, Fossil Japan, entered into a new 400 million Yen short-term credit facility agreement (the "Facility"). The Facility replaced two separate 150 million Yen short-term credit facilities previously utilized for the working capital needs of Fossil Japan. The Facility bears interest at the short-term prime rate (1.475% at fiscal year end 2010). At the end of fiscal year 2010, we had approximately $4.9 million of outstanding borrowings under the Facility which are included in short-term borrowings. At January 1, 2011, we were in compliance with all debt covenants related to our credit facilities.

At the end of fiscal year 2010, we had approximately $4.5 million of outstanding long-term borrowings, of which $3.9 million was related to our wholly-owned subsidiary, Fossil Group Europe, Gmbh, in the form of a term note. This note has a variable interest term with an interest rate at the end of fiscal year 2010 of 2.0% with interest payments due quarterly. This note requires minimum principal payments of 100,000 Swiss Francs each year with no stated maturity and no penalties for early termination.

During fiscal year 2011, we anticipate total capital expenditures of approximately $100 million. This planned increase in capital expenditure levels is principally related to accelerating new store openings and increasing our infrastructure capacity across our sales, distribution, supply chain and back office functions. We believe that cash flows from operations combined with existing cash on hand will be sufficient to fund our working capital needs, common stock repurchases and capital expenditures plans for the next twelve months. We also have access to amounts available under our credit facilities should additional funds be required.

Contractual Obligations

The following table identifies contractual obligations as of January 1, 2011 (in thousands).

	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 years
Debt obligations (1)	$ 8,886	$ 5,031	$ 206	$ 206	$ 3,443
Minimum royalty payments (2)	269,835	84,882	138,338	46,615	0
Capital lease obligations	968	292	585	91	0
Operating lease obligations	422,240	73,742	128,027	95,853	124,618
Purchase obligations (3)	123,969	123,969	0	0	0
Uncertain tax positions (4)	2,677	2,677	0	0	0
Total contractual cash obligations	$828,575	$290,593	$267,156	$142,765	$128,061

(1) Consists of borrowings in Japan and Switzerland, excluding contractual interest payments that are variable in nature.
(2) Consists primarily of exclusive licenses to manufacture watches and jewelry under trademarks not owned by us. Also includes amounts owed pursuant to various license and design service agreements under which we are obligated to pay the licensors a percentage of our net sales of these licensed products, subject to minimum scheduled royalty, design and advertising payments.
(3) Consists primarily of outstanding letters of credit, which represent inventory purchase commitments that typically mature in one to eight months and open non-cancelable purchase orders.
(4) Management has only included its current ASC 740 liability in the table above. Long-term amounts of $8.2 million have been excluded because the payment timing cannot be reasonably estimated.

Off Balance Sheet Arrangements

None

Selected Quarterly Financial Data

The table below sets forth selected quarterly financial information. The information is derived from our unaudited consolidated financial statements 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. Certain line items presented in the tables below, when aggregated, may not agree with the corresponding line items on our Consolidated Statements of Income and Comprehensive Income for fiscal years 2010 and 2009 due to rounding (in thousands, except per share data).

Fiscal Year 2010	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
Net sales	$393,229	$412,560	$523,825	$701,076
Gross profit	219,419	236,885	298,743	400,118
Operating expenses	168,156	172,539	187,473	250,582
Operating income	51,263	64,346	111,270	149,536
Income before income taxes	53,739	64,524	111,257	154,690
Provision for income taxes	16,043	7,965	40,353	54,959
Net income	37,696	56,559	70,904	99,731
Net income attributable to noncontrolling interest	1,789	2,074	2,748	3,074
Net income attributable to Fossil, Inc.	35,907	54,485	68,156	96,657
Comprehensive income	25,496	43,323	88,705	92,324
Comprehensive income attributable to noncontrolling interest	1,780	2,062	2,764	3,084
Comprehensive income attributable to Fossil, Inc.	23,716	41,261	85,941	89,240
Earnings per share:				
Basic	0.54	0.81	1.02	1.48
Diluted	0.53	0.80	1.00	1.46
Gross profit as a percentage of net sales	55.8%	57.4%	57.0%	57.1%
Operating expenses as a percentage of net sales	42.8%	41.8%	35.8%	35.7%
Operating income as a percentage of net sales	13.0%	15.6%	21.2%	21.3%

Fiscal Year 2009	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
Net sales	$323,027	$315,865	$381,362	$527,839
Gross profit	169,379	167,182	210,737	297,552
Operating expenses	145,576	144,706	153,373	189,568
Operating income	23,803	22,476	57,364	107,984
Income before income taxes	28,423	26,957	55,654	108,864
Provision for income taxes	9,927	9,709	19,109	36,859
Net income	18,496	17,248	36,545	72,005
Net income attributable to noncontrolling interest	1,176	625	1,270	2,034
Net income attributable to Fossil, Inc.	17,320	16,623	35,275	69,971
Comprehensive income	9,565	25,909	43,209	75,924
Comprehensive income attributable to noncontrolling interest	1,174	627	1,265	2,039
Comprehensive income attributable to Fossil, Inc.	8,391	25,282	41,944	73,885
Earnings per share:				
Basic	0.26	0.25	0.53	1.05
Diluted	0.26	0.25	0.52	1.03
Gross profit as a percentage of net sales	52.4%	52.9%	55.3%	56.4%
Operating expenses as a percentage of net sales	45.1%	45.8%	40.2%	35.9%
Operating income as a percentage of net sales	7.4%	7.1%	15.0%	20.5%

While the majority of our products are not seasonal in nature, a significant portion of our net sales and operating income is generally derived in the second half of the fiscal year. Our third and fourth quarters, which include the “back to school” and Christmas season, have historically generated a significant portion of our 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 our control. In general, lower levels of inventory held by retailers at the end of the Christmas season may have a positive impact on our net sales and operating income in the first quarter of the following fiscal year as a result of higher levels of restocking orders placed by retailers. We currently believe that our inventory levels at those of our largest customers in the U.S. which we have sufficient information to form an opinion were near their targeted inventory levels at the end of fiscal year 2010.

As we expand our retail store base and e-commerce businesses, sales from our Direct to Consumer segment may increase as a percentage of the total sales mix. Based upon the historical seasonality of sales in our Direct to Consumer segment, we believe this expansion could result in higher levels of profitability in the fourth quarter and lower levels of profitability in the first and second quarters when, due to seasonality, it is more difficult to leverage four wall operating costs and back office expenses against a lower level of sales productivity. In addition, new product launches would generally augment the sales and operating expense levels in the quarter the product launch takes place. The results of operations for a particular quarter may also vary due to a number of factors, including retail, economic and monetary conditions, timing of orders or holidays and the mix of products sold by us.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

As a multinational enterprise, we are exposed to changes in foreign currency exchange rates. Our most significant foreign currency risk relates to the Euro and, to a lesser extent, the British Pound, Australian Dollar, Canadian Dollar, Japanese Yen and Mexican Peso as compared to the U.S. dollar. Due to our vertical nature whereby a significant portion of goods are sourced from our owned facilities, the foreign currency risks relate primarily to the necessary current settlement of intercompany inventory transactions. We employ a variety of operating practices to manage these market risks relative to foreign currency exchange rate changes and, where deemed appropriate, utilize foreign currency forward contracts. These operating practices include, among others, our ability to convert foreign currency into U.S. dollars at spot rates and to maintain U.S. dollar pricing relative to sales of our products to certain distributors located outside the U.S. The use of foreign currency forward contracts allows us to offset exposure to rate fluctuations because the gains or losses incurred on the derivative instruments will offset, in whole or in part, losses or gains on the underlying foreign currency exposure. We use derivative instruments only for risk management purposes and do not use them for speculation or for trading. There were no significant changes in how we managed foreign currency transactional exposure in fiscal year 2010 and management does not anticipate any significant changes in such exposures or in the strategies we employ to manage such exposure in the near future.

At January 1, 2011, we had outstanding foreign exchange contracts to sell 96.9 million Euro for approximately $126.2 million, expiring through April 2012, 4.1 billion Japanese Yen for approximately $46.9 million, expiring through December 2012, 15.7 million British Pounds for approximately $25.0 million, expiring through April 2012, 22.3 million Australian Dollars for approximately $19.6 million, expiring through May 2012, 33.7 million Mexican Pesos for approximately $2.6 million, expiring through June 2011 and 10.1 million Canadian Dollars for approximately $9.9 million, expiring through December 2011. If we were to settle our Euro, Japanese Yen, British Pound, Australian Dollar, Mexican Peso and Canadian Dollar based contracts at fiscal year end 2010, the net result would be a net loss of approximately $6.1 million, net of taxes.

At fiscal year end 2010, a 10% unfavorable change in the U.S. dollar strengthening against foreign currencies to which we have balance sheet transactional exposures would have reduced net pre-tax income by $13.4 million. The translation of the balance sheets of our foreign-based operations from their local currencies into U.S. dollars is also sensitive to changes in foreign currency exchange rates. At fiscal year end 2010, a 10% unfavorable change in the exchange rate of the U.S. dollar strengthening against the foreign currencies to which we have exposure would have reduced consolidated stockholders’ equity by approximately $34.9 million. In the view of management, these hypothetical losses resulting from these assumed changes in foreign currency exchange rates are not material to our consolidated financial position, results of operations or cash flows.

Item 8. Financial Statements and Supplementary Data

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Fossil, Inc.
Richardson, Texas

We have audited the accompanying consolidated balance sheets of Fossil, Inc. and subsidiaries (the "Company") as of January 1, 2011 and January 2, 2010, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended January 1, 2011. Our audits also included the consolidated financial statement schedule listed in the Index at Item 15. These consolidated financial statements and consolidated financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and consolidated financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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 as of January 1, 2011 and January 2, 2010, and the results of their operations and their cash flows for each of the three years in the period ended January 1, 2011, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such 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.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of January 1, 2011, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 2, 2011 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

Dallas, Texas
March 2, 2011

FOSSIL, INC.

CONSOLIDATED BALANCE SHEETS

IN THOUSANDS

Fiscal Year	2010	2009
Assets		
Current assets:		
Cash and cash equivalents	$ 392,794	$ 405,175
Securities available for sale	8,864	7,995
Accounts receivable - net	263,218	209,784
Inventories	371,935	245,714
Deferred income tax assets - net	41,836	28,937
Prepaid expenses and other current assets	62,170	48,868
Total current assets	1,140,817	946,473
Investments	9,023	13,730
Property, plant and equipment - net	217,424	212,367
Goodwill	44,572	44,266
Intangible and other assets - net	55,737	59,647
Total long-term assets	326,756	330,010
Total assets	$1,467,573	$1,276,483
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 122,266	$ 103,591
Short-term debt	5,314	3,618
Accrued expenses:		
Compensation	51,374	39,773
Royalties	39,731	16,774
Co-op advertising	23,101	18,498
Transaction taxes	18,894	11,151
Other	50,779	18,467
Income taxes payable	28,029	33,408
Total current liabilities	339,488	245,280
Long-term income taxes payable	9,088	18,840
Deferred income tax liabilities	47,893	27,039
Long-term debt	4,513	4,538
Other long-term liabilities	14,883	12,374
Total long-term liabilities	76,377	62,791
Commitments and contingencies (Note 13)		
Stockholders' equity:		
Common stock, 67,882 and 66,900 shares issued for 2010 and 2009, respectively	679	669
Treasury Stock, at cost, 3,206 shares in 2010	(183,014)	0
Additional paid-in capital	117,215	93,037
Retained earnings	1,089,820	834,615
Accumulated other comprehensive income	19,418	34,460
Noncontrolling interest	7,590	5,631
Total stockholders' equity	1,051,708	968,412
Total liabilities and stockholders' equity	$1,467,573	$1,276,483

See notes to the consolidated financial statements.

FOSSIL, INC.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

IN THOUSANDS, EXCEPT PER SHARE DATA

Fiscal Year	2010	2009	2008
Net sales	$2,030,690	$1,548,093	$1,583,242
Cost of sales	875,526	703,243	732,091
Gross profit	1,155,164	844,850	851,151
Operating expenses:			
Selling and distribution	583,860	478,637	489,600
General and administrative	194,890	154,586	155,781
Total operating expenses	778,750	633,223	645,381
Operating income	376,414	211,627	205,770
Interest expense	1,119	235	555
Other income (expense) - net	8,915	8,506	(11,011)
Income before income taxes	384,210	219,898	194,204
Provision for income taxes	119,320	75,604	52,351
Net income	264,890	144,294	141,853
Less: Net income attributable to noncontrolling interest	9,685	5,106	3,756
Net income attributable to Fossil, Inc.	$ 255,205	$ 139,188	$ 138,097
Other comprehensive (loss) income, net of taxes:			
Currency translation adjustment	(9,909)	13,584	(18,790)
Unrealized gain (loss) on securities available for sale	554	1,093	(749)
Forward contracts hedging intercompany foreign currency payments - change in fair values	(5,687)	(4,364)	7,213
Total comprehensive income	249,848	154,607	129,527
Less: Comprehensive income attributable to noncontrolling interest	9,690	5,105	3,752
Comprehensive income attributable to Fossil, Inc.	$ 240,158	$ 149,502	$ 125,775
Earnings per share:			
Basic	$ 3.83	$ 2.09	$ 2.05
Diluted	$ 3.77	$ 2.07	$ 2.02
Weighted average common shares outstanding:			
Basic	66,701	66,684	67,525
Diluted	67,687	67,153	68,323

See notes to the consolidated financial statements.

FOSSIL, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
IN THOUSANDS

	Common stock					Accumulated other comprehensive income (loss)					
	Shares	Par value	Additional paid-in capital	Treasury Stock	Retained earnings	Cumulative translation adjustment	Unrealized gain (loss) on securities available for sale	Unrealized gain (loss) on forward contracts	Stockholders' Equity Attributable to Fossil, Inc	Noncontrolling Interest	Total Stockholders' Equity
Balance, January 5, 2008	69,713	$697	$ 88,000	$ 0	$ 646,492	$ 40,559	$ (688)	$(3,398)	$ 771,662	$ 6,127	$ 777,789
Common stock issued upon exercise of stock options and stock appreciation rights	`326	3	4,142	764	0	0	0	0	4,909	0	4,909
Tax expense derived from stock-based compensation	0	0	(447)	0	0	0	0	0	(447)	0	(447)
Repurchase and retirement of common stock	(3,660)	(36)	(17,353)	678	(89,162)	0	0	0	(105,873)	0	(105,873)
Restricted stock issued in connection with deferred compensation plan	123	1	(1)	0	0	0	0	0	0	0	0
Restricted stock forfeiture put to treasury	0	0	311	(1,442)	0	0	0	0	(1,131)	0	(1,131)
Stock-based compensation expense	0	0	7,253	0	0	0	0	0	7,253	0	7,253
Net income	0	0	0	0	138,097	0	0	0	138,097	3,756	141,853
Unrealized loss on securities available for sale	0	0	0	0	0	0	(749)	0	(749)	0	(749)
Currency translation adjustment	0	0	0	0	0	(18,790)	0	0	(18,790)	(4)	(18,794)
Distribution of noncontrolling interest earnings	0	0	0	0	0	0	0	0		(6,660)	(6,660)
Forward contracts hedging intercompany foreign currency payments - change in fair values	0	0	0	0	0	0	0	7,213	7,213	0	7,213
Balance, January 3, 2009	66,502	$665	$ 81,905	$ 0	$ 695,427	$ 21,769	$(1,437)	$ 3,815	$ 802,144	$ 3,219	$ 805,363
Common stock issued upon exercise of stock options and stock appreciation rights	314	3	3,753	0	0	0	0	0	3,756	0	3,756
Tax benefit derived from stock-based compensation	0	0	1,166	0	0	0	0	0	1,166		1,166
Repurchase and retirement of common stock	(45)	0	(785)	785	0	0	0	0	0	0	0
Restricted stock issued in connection with deferred compensation plan	129	1	(1)	0	0	0	0	0	0	0	0
Restricted stock forfeiture put to treasury	0	0	212	(785)	0	0	0	0	(573)	0	(573)
Stock-based compensation expense	0	0	6,787	0	0	0	0	0	6,787	0	6,787
Net income	0	0	0	0	139,188	0	0	0	139,188	5,106	144,294
Unrealized gain on securities available for sale	0	0	0	0	0	0	1,093	0	1,093	0	1,093
Currency translation adjustment	0	0	0	0	0	13,584	0	0	13,584	(1)	13,583
Distribution of noncontrolling interest earnings	0	0	0	0	0		0	0	0	(2,693)	(2,693)
Forward contracts hedging intercompany foreign currency payments - change in fair values	0	0	0	0	0	0	0	(4,364)	(4,364)	0	(4,364)
Balance, January 2, 2010	66,900	$669	$ 93,037	$ 0	$ 834,615	$ 35,353	$ (344)	$ (549)	$ 962,781	$ 5,631	$ 968,412
Common stock issued upon exercise of stock options and stock appreciation rights	1,382	14	23,396	0	0	0	0	0	23,410	0	23,410
Tax benefit derived from stock-based compensation	0	0	11,961	0	0	0	0	0	11,961	0	11,961
Repurchase of common stock	0	0	0	(199,222)	0	0	0	0	(199,222)	0	(199,222)
Retirement of common stock	(563)	(6)	(21,746)	21,752	0	0	0	0	0	0	0
Restricted stock issued in connection with stock-based compensation plan	163	2	(2)	0	0	0	0	0	0	0	0
Common stock forfeitures put to treasury	0	0	727	(5,544)	0	0	0	0	(4,817)	0	(4,817)
Stock-based compensation expense	0	0	10,553	0	0	0	0	0	10,553	0	10,553
Net income	0	0	0	0	255,205	0	0	0	255,205	9,685	264,890
Unrealized gain on securities available for sale	0	0	0	0	0	0	554	0	554	0	554
Currency translation adjustment	0	0	0	0	0	(9,909)	0	0	(9,909)	5	(9,904)
Purchase of noncontrolling interest shares	0	0	(711)		0	0	0	0	(711)	(144)	(855)
Distribution of noncontrolling interest earnings	0	0	0	0	0	0	0	0	0	(7,587)	(7,587)
Forward contracts hedging intercompany foreign currency payments - change in fair values	0	0	0	0	0	0	0	(5,687)	(5,687)	0	(5,687)
Balance, January 1, 2011	67,882	$679	$117,215	$(183,014)	$1,089,820	$ 25,444	$ 210	$(6,236)	$1,044,118	$ 7,590	$1,051,708

See notes to consolidated financial statements

FOSSIL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

AMOUNTS IN THOUSANDS

Fiscal Year	2010	2009	2008
Operating Activities:			
Net income	$ 264,890	$144,294	$ 141,853
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation, amortization and accretion	40,560	41,334	37,642
Stock-based compensation	10,553	6,787	7,253
Increase (decrease) in allowance for returns - net of inventory in transit	15,558	(557)	2,406
Loss on disposal of assets	748	618	154
Impairment losses	7,429	5,232	10,570
Equity in income of joint venture	(1,072)	(449)	(1,562)
Distribution from joint venture	4,726	0	955
Increase in allowance for doubtful accounts	3,921	2,599	3,441
Excess tax benefits from stock-based compensation	(11,961)	(1,166)	(574)
Deferred income taxes and other	11,213	3,235	1,106
Changes in operating assets and liabilities:			
Accounts receivable	(85,893)	(4,180)	17,712
Inventories	(115,921)	44,569	(45,558)
Prepaid expenses and other current assets	(14,298)	8,491	(1,497)
Accounts payable	18,193	6,101	(18,756)
Accrued expenses	63,331	1,777	(13,351)
Income taxes payable	(2,800)	7,303	(32,840)
Net cash provided by operating activities	209,177	265,988	108,954
Investing Activities:			
Additions to property, plant and equipment	(46,538)	(37,687)	(63,934)
Increase in intangible and other assets	(274)	(385)	(23,664)
Purchase of securities available for sale	(628)	(1,237)	(7,106)
Sales/maturities of securities available for sale	314	938	12,386
Proceeds from sale of property, plant and equipment	448	76	791
Purchase of noncontrolling interest shares	(855)	0	0
Net cash used in investing activities	(47,533)	(38,295)	(81,527)
Financing Activities:			
Acquisition of common stock	(199,222)	0	(105,873)
Distribution of noncontrolling interest earnings	(7,587)	(2,693)	(6,660)
Excess tax benefits from stock based compensation	11,961	1,166	574
Borrowings on notes payable	1,243	5,111	114,462
Payments on notes payable	(389)	(7,055)	(120,216)
Proceeds from exercise of stock options	23,410	3,756	4,909
Net cash (used in) provided by financing activities	(170,584)	285	(112,804)
Effect of exchange rate changes on cash and cash equivalents	(3,441)	5,185	2,145
Net (decrease) increase in cash and cash equivalents	(12,381)	233,163	(83,232)
Cash and cash equivalents:			
Beginning of year	405,175	172,012	255,244
End of year	$ 392,794	$405,175	$ 172,012

See notes to the 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). References to 2010, 2009 and 2008 are for the fiscal years ended January 1, 2011, January 2, 2010, and January 3, 2009, respectively. All 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 accessories on a global basis. The Company's products are sold primarily through department stores, specialty retailers and Company-owned retail stores worldwide.

Effective January 3, 2010, the Company made changes to the presentation of reportable segments to reflect changes in the way its chief operating decision maker evaluates the performance of its operations, develops strategy and allocates capital resources. The Company's reportable segments consist of the following: North America Wholesale, Europe Wholesale, Asia Pacific Wholesale and Direct to Consumer. Prior to January 3, 2010, the Company's reportable segments consisted of the following: United States Wholesale, Europe Wholesale, Other International Wholesale and Direct to Consumer.

These changes include the reclassification of the Company's wholesale operations in Canada and Mexico and its U.S. export business, all of which were previously recorded within the Company's Other International Wholesale segment, to the North America Wholesale segment. The Company's U.S. domestic wholesale operations previously recorded within the United States Wholesale segment, have also been reclassified to the North America Wholesale segment. The Company's Asia Pacific Wholesale operations, previously recorded within the Other International Wholesale segment, have been reclassified to the Asia Pacific Wholesale segment. The Company's operations related to its joint venture with Fossil, Spain S.A., previously recorded within the Other International Wholesale segment, have been reclassified to the Europe Wholesale segment. The Company's historical segment disclosures have been recast to be consistent with the current presentation.

Use of Estimates are required in the preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America. Management makes 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 consolidated 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, allowance for bad debt, inventories, long-lived assets, goodwill and trade names, income taxes, warranty costs, hedge accounting, litigation, reserves and stock-based compensation. Management bases its estimates and judgments on historical experience and on various other factors that it believes are reasonable under the circumstances. Management estimates form the basis for making judgments about the carrying value of the assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates under different assumptions or conditions.

Concentration of Risk involves financial instruments that potentially expose the Company to concentration of credit risk consist primarily of cash investments and accounts receivable. The Company places its cash investments with high-credit quality financial institutions and currently invests primarily in corporate debt securities and money market funds with major banks and financial institutions. Accounts receivable are generally diversified due to the number of entities comprising the Company's customer base and their dispersion across many geographic regions. The Company believes no significant concentration of credit risk exists with respect to these cash investments and accounts receivable.

A significant portion of sales of the Company's products are supplied by manufacturers located outside of the U.S., primarily in Asia. While the Company is not dependent on any single manufacturer outside the U.S., the Company could be adversely affected by political or economic disruptions affecting the business or operations of

third-party manufacturers located outside of the U.S. In fiscal years 2010 and 2009, three of the Company's majority owned assembly factories represented more than 70% of the Company's total watch assembly and jewelry production.

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

Securities Available for Sale consists of debt securities with original maturities exceeding three months and mutual fund investments. By policy, the Company invests primarily in high-grade marketable securities. Unrealized holding gains (losses) are included in accumulated other comprehensive income (loss) as a component of stockholders' equity. During fiscal year 2008, $800,000 of losses previously classified in accumulated other comprehensive income (loss) were reclassified into earnings to recognize an other than temporary decline in fair value. No adjustments were recorded in fiscal years 2010 or 2009 for other than temporary declines in fair value.

Accounts Receivable are stated net of allowances of approximately $62.7 million and $40.0 million for estimated customer returns and approximately $18.0 million and $16.0 million for doubtful accounts at the end of fiscal years 2010 and 2009, respectively. The Company's bad debt allowance has increased over the last three fiscal years due to the challenging global economic environment. As a result of the difficult economic environment, many of the Company's customers both domestically and internationally have experienced financial difficulties including bankruptcy. The Company increased its bad debt allowance to reserve for these bankruptcies, increased risks of non-payment and increased risk of customer charge-backs. The Company's policy is to maintain the reserve balances for bankruptcies until such time as the bankruptcies are actually settled.

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

Investments in which the Company has significant influence over the investee are accounted for utilizing the equity method. If the Company does not have significant influence over the investee, the cost method is utilized.

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 thirty years for buildings, five years for furniture and fixtures and three to seven years for computer equipment and software. Leasehold improvements are amortized over the shorter of the lease term or the asset's useful life.

Property, plant and equipment and other long-lived assets are evaluated for impairment whenever events or conditions indicate that the carrying value of an asset may not be recoverable based on expected undiscounted cash flows related to the asset. Impairment losses related to under-performing Company-owned retail stores of approximately $1.8 million, $2.5 million and $1.9 million were recorded in 2010, 2009 and 2008, respectively, and are included in selling and distribution expenses. The Company also recorded a $3.7 million impairment loss related to a certain Company-owned office building in 2010, which was included in general and administrative expenses. No impairment losses were recorded on Company-owned office buildings in 2009 or 2008.

Goodwill and Other Intangible Assets include the cost in excess of net tangible assets acquired (goodwill), trademarks, trade names, customer lists and patents. Trademarks, customer lists and patents are amortized using the straight-line method over the estimated useful lives of generally seven to twenty years. Goodwill and other indefinite-lived intangible assets such as trade names related to business combinations are evaluated for impairment annually as of the end of the fiscal year rather than amortized. Impairment testing compares the carrying amount of the asset with its fair value. When the carrying amount of the asset exceeds its fair value, an impairment charge is recorded.

The Company has three reporting units under which it evaluates goodwill for impairment, North America Wholesale, Europe Wholesale and Asia Pacific Wholesale. The fair value of each reporting unit is estimated using market comparable information. Based on the analysis, if the estimated fair value of a reporting unit exceeds its recorded value, no impairment loss is recognized. As of January 1, 2011, the fair values of each of our three operating segments containing goodwill substantially exceeded the respective carrying values.

Judgments and assumptions are inherent in our estimate of future cash flows used to determine the estimate of the reporting unit's fair value. The most significant assumptions associated with the fair value calculations include net sales growth rates and discount rates. If the actual future sales results do not meet the assumed growth rates, future impairments of goodwill may be incurred.

The Company estimates the fair value of its trade names using discounted cash flow methodologies. Due to the inherent uncertainties involved in making the estimates and assumptions used in the fair value analysis, actual results may differ which could alter the fair value of the trade names and possibly cause impairment charges to occur in future periods. The Company completed the required annual impairment testing for trade names for fiscal years 2010, 2009 and 2008 and recorded pre-tax impairment charges of $1.8 million, $2.7 million and $7.9 million in fiscal years 2010, 2009 and 2008, respectively. See Note 7—Intangibles and Other Assets, for an expanded explanation of impairment to the Company's trade names.

Accrued Expenses Other includes liabilities relating to duty, deferred compensation, forward contracts, taxes, deferred rent, and other liabilities which are current in nature.

Warranty Liability is recorded using historical warranty repair experience. As changes in warranty costs are experienced, the warranty accrual is adjusted as necessary. The warranty liability recorded for fiscal years 2010, 2009 and 2008 was $8.5 million, $6.4 million and $4.6 million, respectively.

Cumulative Translation Adjustment is included as a component of other comprehensive income (loss) and reflects the adjustments resulting from translating the financial statements of foreign subsidiaries. The functional currency of the Company's foreign subsidiaries is the currency of the primary economic environment in which the entity operates which is generally 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 daily or average monthly rates. Changes in exchange rates that affect cash flows and the related receivables or payables are recognized as transaction gains and losses in the determination of net income. The Company incurred net foreign currency transaction gains, including gains and losses associated with the settlement of forward contracts of approximately $5.2 million and $5.8 million in fiscal years 2010 and 2009, respectively and losses of $16.9 million in fiscal year 2008, 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 by its non-U.S. subsidiaries. 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), net of taxes. If the Company were to settle its Euro, Canadian Dollar, Japanese Yen, British Pound, Australian Dollar, and Mexican Peso based contracts at fiscal year end 2010, the result would be a net loss of approximately $6.1 million, net of taxes. This unrealized loss is recognized in other comprehensive income (loss), net of taxes. Additionally, to the extent that any of these contracts are not considered to be perfectly effective in offsetting the change in the value of the cash flows being hedged, any changes in fair value relating to the ineffective portion of these contracts would be recognized in other income (expense)—net included in the consolidated statements of income and comprehensive income. See Note 8—Derivatives and Risk Management, for an expanded explanation of the Company's use of forward contracts.

Litigation Reserves are estimated amounts for claims that are probable and can be reasonably estimated and are recorded as liabilities in the consolidated balance sheet. The likelihood of a material change in these estimated reserves would be dependent on new claims that may arise, changes in the circumstances used to

estimate amounts for prior period claims and favorable or unfavorable final settlements of prior period claims. As additional information becomes available, the Company assesses the potential liability related to new claims and existing claims and revises estimates as appropriate. As new claims arise or circumstances change relative to prior claim assessments, revisions in estimates of the potential liability could materially impact the Company's results of operations and financial position.

Stock-Based Compensation is accounted for in accordance with the provisions of Accounting Standards Codification ("ASC") 718, *Compensation — Stock Compensation* ("ASC 718"). The Company utilizes the Black-Scholes model to determine the fair value of stock options and stock appreciation rights on the date of grant. The model requires the Company to make assumptions concerning (a) the length of time employees will retain their vested stock options before exercising them ("expected term"), (b) the volatility of the Company's common stock price over the expected term, and (c) the number of options that will be forfeited. Changes in these assumptions can materially affect the estimate of fair value of stock-based compensation and, consequently, the related expense amounts recognized on the consolidated statements of operations.

Revenues are recognized at the point title and the risks and rewards of ownership have passed to the customer, based on the terms of sale. The Company accepts limited returns and may request that a customer return a product if the customer has an excess of any style that the Company has identified as being a poor performer for that customer or geographic location. The Company continually monitors returns and maintains a provision for estimated returns based upon historical experience and any specific issues identified. Product returns are accounted for as reductions to revenue, cost of sales, accounts receivable and an increase in inventory to the extent such product is resalable. While returns have historically been within management's expectations and the provisions established, future return rates may differ from those experienced in the past. In the event that the Company's products are performing poorly in the retail market and/or it experiences product damages or defects at a rate significantly higher than the historical rate, the resulting returns could have an adverse impact on the operating results for the period or periods in which such returns materialize. Taxes imposed by governmental authorities on the Company's revenue-producing activities with customers, such as sales taxes and value added taxes, are excluded from net sales.

Cost of Sales includes raw material costs, assembly labor, assembly overhead including depreciation expense, assembly warehousing costs and shipping and handling costs related to the movement of finished goods from assembly locations to sales distribution centers and from sales distribution centers to customer locations. Additionally, cost of sales includes customs duties, product packaging cost, royalty cost associated with sales of licensed products, the cost of molding and tooling and inventory shrinkage and damages.

Selling and Distribution Expenses include sales and distribution labor costs, sales distribution center and warehouse costs, depreciation expense related to sales distribution and warehouse facilities, the four-wall operating costs of the Company's retail stores, point-of-sale expenses, advertising expenses and art, design and product development labor costs.

General and Administrative Expenses include administrative support labor and "back office" or support costs such as treasury, legal, information services, accounting, internal audit, human resources and executive management costs. General and administrative expenses also include costs associated with stock-based compensation.

Advertising Costs for in-store and media advertising as well as co-op advertising, catalog costs, product displays, show/exhibit costs, advertising royalty related to the sales of licensed brands, internet costs associated with affiliation fees, printing costs and promotional allowances are expensed as incurred. Advertising costs were approximately $123.8 million, $85.6 million and $97.1 million for fiscal years 2010, 2009 and 2008, respectively.

Noncontrolling Interest, formerly defined as minority interest, is recognized as equity in the consolidated balance sheets, is reflected in net income attributable to noncontrolling interests in consolidated net income and

is captured within the summary of changes in equity attributable to controlling and noncontrolling interests. A noncontrolling interest emphasizes the Company's substantive control over a subsidiary rather than a simple ownership percentage as with minority interest.

Earnings Per Share ("EPS"). Basic EPS is based on the weighted average number of common shares outstanding during each period. Diluted EPS adjusts Basic EPS for the effects of dilutive common stock equivalents 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 (in thousands, except per share data):

Fiscal Year	2010	2009	2008
Numerator:			
Net income attributable to Fossil, Inc.	$255,205	$139,188	$138,097
Denominator:			
Basic EPS computations:			
Basic weighted average common shares outstanding	66,701	66,684	67,525
Basic EPS	$ 3.83	$ 2.09	$ 2.05
Diluted EPS computation:			
Basic weighted average common shares outstanding	66,701	66,684	67,525
Stock options, stock appreciation rights and restricted stock units	986	469	798
Diluted weighted average common shares outstanding	67,687	67,153	68,323
Diluted EPS	$ 3.77	$ 2.07	$ 2.02

Approximately 812,000 and 392,000 weighted average shares issuable under stock-based awards were not included in the diluted EPS calculation in 2009 and 2008, respectively, because they were antidilutive. There were no antidilutive shares in 2010.

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. The Company applies the provisions of ASC 740 which addresses how the benefit of tax positions taken or expected to be taken on a tax return should be recorded in the financial statements. Tax benefits associated with uncertain tax positions are recognized in the period in which one of the following conditions is satisfied: (1) the more likely than not recognition threshold is satisfied; (2) the position is ultimately settled through negotiation or litigation; or (3) the statute of limitations for the taxing authority to examine and challenge the position has expired. Tax benefits associated with an uncertain tax position are derecognized in the period in which the more likely than not recognition threshold is no longer satisfied.

Newly Adopted ASC Updates

In January 2010, the FASB issued Accounting Standards Update ("ASU") 2010-6 *Improving Disclosures about Fair Value Measurements (Topic 820)* ("ASU 2010-6"). ASU 2010-6 provides amendments to Topic 820 that require separate disclosure of significant transfers in and out of Level 1 and Level 2 fair value measurements and the presentation of separate information regarding purchases, sales, issuances and settlements for Level 3 fair value measurements. Additionally, ASU 2010-6 provides amendments to Topic 820 that clarify existing disclosures about the level of disaggregation and inputs and valuation techniques. The new disclosure requirements became effective for financial statements issued for interim and annual periods beginning after December 15, 2009, except for the disclosure about purchases, sales, issuances and settlements in Level 3 fair

value measurements, which become effective for fiscal years beginning after December 15, 2010. The adoption of ASU 2010-6 did not have a material impact on the Company's consolidated results of operations or financial position.

In January 2010, the FASB issued ASU 2010-2 *Consolidations (Topic 810) Accounting and Reporting for Decreases in Ownership of a Subsidiary - a Scope Clarification* ("ASU 2010-2"). ASU 2010-2 addresses implementation issues related to the changes in ownership provisions in the Consolidation—Overall Subtopic ("Subtopic 810-10") of the ASC. Subtopic 810-10 establishes the accounting and reporting guidance for noncontrolling interests and changes in ownership interests of a subsidiary. An entity is required to deconsolidate a subsidiary when the entity ceases to have a controlling financial interest in the subsidiary. Upon deconsolidation of a subsidiary, an entity recognizes a gain or loss on the transaction and measures any retained investment in the subsidiary at fair value. The gain or loss includes any gain or loss associated with the difference between the fair value of the retained investment in the subsidiary and its carrying amount at the date the subsidiary is deconsolidated. In contrast, an entity is required to account for a decrease in ownership interest of a subsidiary that does not result in a change of control of the subsidiary as an equity transaction. ASU 2010-2 became effective for the Company starting January 3, 2010. The adoption of ASU 2010-2 did not have a material impact on the Company's consolidated results of operations or financial position.

In December 2009, the FASB issued ASU 2009-17 *Consolidations (Topic 810) Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities* ("ASU 2009-17"). ASU 2009-17 amends the ASC for the issuance of FASB Statement No. 167, *Amendments to FASB Interpretation No. 46(R)*. The amendments in ASU 2009-17 replace the quantitative-based risks and rewards calculation for determining which enterprise, if any, has a controlling financial interest in a variable interest entity with an approach focused on identifying which enterprise has the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and (1) the obligation to absorb losses of the entity or (2) the right to receive benefits from the entity. ASU 2009-17 also requires additional disclosures about an enterprise's involvement in variable interest entities. ASU 2009-17 was effective for the Company starting January 3, 2010. The adoption of ASU 2009-17 did not have an impact on the Company's consolidated results of operations or financial position as the Company had no variable interest entities.

In December 2009, the FASB issued ASU 2009-16 *Transfers and Servicing (Topic 860) Accounting for Transfers of Financial Assets* ("ASU 2009-16"). ASU 2009-16 amends the ASC for the issuance of FASB Statement No. 166, *Accounting for Transfers of Financial Assets—an amendment of FASB Statement No. 140*. The amendments in ASU 2009-16 eliminate the exceptions for qualifying special purpose entities from the consolidation guidance and the exception that permitted sales accounting for certain mortgage securitizations when a transferor has not surrendered control over the transferred financial assets. In addition, the amendments require enhanced disclosures about the risks that a transferor continues to be exposed to because of its continuing involvement in transferred financial assets. ASU 2009-16 was effective for the Company starting January 3, 2010. The adoption of ASU 2009-16 did not have an impact on the Company's consolidated results of operations or financial position as the Company had no mortgage securitizations.

2. Acquisitions and Goodwill

In August 2010, Fossil (East) Limited, a wholly owned subsidiary of the Company, exercised its call option to purchase 370,500 shares in Fossil (Asia) Holdings Limited ("Fossil Taiwan"), representing the entire noncontrolling interest in Fossil Taiwan, for approximately $854,000. The Company's ownership interest in Fossil Taiwan increased from 81% to 100%. The transaction was accounted for as an equity transaction, resulting in a decrease in the Company's additional paid-in capital of approximately $711,000.

Goodwill. The changes in the carrying amount of goodwill, which is not subject to amortization, are as follows (in thousands):

Fiscal Year	North America Wholesale	Europe Wholesale	Asia Pacific Wholesale	Direct to Consumer	Total
Balance at January 3, 2009	$23,620	$17,139	$2,458	$0	$43,217
Currency	101	915	33	0	1,049
Balance at January 2, 2010	23,721	18,054	2,491	0	44,266
Currency	117	66	123	0	306
Balance at January 1, 2011	$23,838	$18,120	$2,614	$0	$44,572

3. Inventories

Inventories consist of the following (in thousands):

Fiscal Year	2010	2009
Components and parts	$ 23,292	$ 14,715
Work-in-process	4,176	2,943
Inventory purchases in transit	47,455	35,012
Finished goods	297,012	193,044
Inventories	$371,935	$245,714

4. Prepaid and Other Current Assets

Prepaid expenses and other current assets consist of the following (in thousands):

Fiscal Year	2010	2009
Prepaid royalties	$20,639	$15,264
Prepaid taxes	12,699	8,085
Other receivables	9,606	6,706
Prepaid rent	7,097	6,922
Other	12,129	11,891
Prepaid expenses and other current assets	$62,170	$48,868

5. Property, Plant and Equipment

Property, plant and equipment—net consist of the following (in thousands):

Fiscal Year	2010	2009
Land	$ 19,402	$ 19,738
Buildings	86,366	78,916
Furniture and fixtures	87,663	85,847
Computer equipment and software	111,699	101,187
Leasehold improvements	110,179	99,736
Construction in progress	7,427	9,271
	422,736	394,695
Less accumulated depreciation and amortization	205,312	182,328
Property, plant and equipment—net	$217,424	$212,367

6. Investments

The Company maintains a 50% equity interest in Fossil Spain, S.A. ("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 and Portugal. The Company has accounted for the investment based upon the equity method from the effective date of the transaction and, as of January 1, 2011, the investment balance was approximately $9.0 million. The Company's equity in Fossil Spain's net income is recorded in the Europe Wholesale segment in other income (expense)—net and was $1.4 million, $1.1 million and $1.6 million for fiscal years 2010, 2009 and 2008, respectively. Net sales to Fossil Spain by the Company for 2010, 2009, and 2008 were $16.3 million, $8.0 million and $19.9 million, respectively. The Company had receivable balances from Fossil Spain of $3.0 million and $1.7 million as of January 1, 2011 and January 2, 2010, respectively, which is included in accounts receivable—net.

The Company periodically evaluates whether declines in fair value of its investments are other-than-temporary. This evaluation consists of several qualitative and quantitative factors regarding the severity and duration of the unrealized loss as well as the Company's ability and intent to hold the investment. Factors considered include, if applicable, quoted market prices, recent financial results and operating trends, other publicly available information, implied values from any recent transactions or offers of investee securities, or other conditions that may affect the value of its investments.

7. Intangibles and Other Assets

The following table summarizes intangibles and other assets – net as of the fiscal years 2010 and 2009, respectively (in thousands):

		2010		2009	
	Useful Lives	Carrying Amount	Accumulated Amortization	Carrying Amount	Accumulated Amortization
Intangibles - subject to amortization:					
Trademarks	10 yrs.	$ 2,666	$ 1,795	$ 2,646	$ 1,612
Customer list	9 yrs.	7,937	6,963	7,786	5,745
Patents	14-20 yrs.	775	349	764	303
Other	7-20 yrs.	194	187	201	184
Total intangibles - subject to amortization		11,572	9,294	11,397	7,844
Intangibles - not subject to amortization:					
Tradenames		18,938	0	20,815	0
Other assets:					
Key money deposits		22,973	7,720	22,822	5,191
Other deposits		11,991	0	9,015	0
Deferred compensation plan assets		3,295	0	2,847	0
Other		6,615	2,633	6,379	593
Total other assets		44,874	10,353	41,063	5,784
Total intangibles and other assets		$75,384	$19,647	$73,275	$13,628
Net of amortization			$55,737		$59,647

Amortization expense for intangible assets, key money deposits and other assets was approximately $5.9 million, $4.4 million and $3.9 million for fiscal years 2010, 2009 and 2008, respectively.

Estimated aggregate future amortization expense for intangible assets, key money deposits and other assets is estimated as follows (in thousands):

Fiscal Year	Amortization Expense
2011	$3,885
2012	3,564
2013	3,131
2014	2,716
2015	2,271

As noted in Note 1, the Company performed its annual impairment test of certain trade names. During fiscal year 2010, the analysis resulted in net of tax impairment charges of $837,000 and $789,000 to the OYZTERBAY and ZODIAC trade names, respectively, representing the excess of the carrying cost of these indefinite-lived intangible assets over their estimated fair value. During fiscal year 2009, the analysis resulted in net of tax impairment charges of $0.4 million and $1.8 million to the OYZTERBAY and ZODIAC trade names, respectively. During fiscal year 2008, the analysis resulted in net of tax impairment charges of $3.5 million and $1.8 million to the MICHELE and ZODIAC trade names, respectively. The MICHELE trade name is reported within the Company's North America Wholesale segment while the ZODIAC and OYZTERBAY trade names are reported within the Europe Wholesale segment.

8. Derivatives and Risk Management

The Company is exposed to certain risks relating to its ongoing business operations, which it attempts to manage by using derivative instruments. The primary risks managed by using derivative instruments are the fluctuations in global currencies that will ultimately be used to settle future payments of intercompany inventory transactions, denominated in U.S. dollars, by non-U.S. dollar functional currency subsidiaries. Specifically, the Company projects future intercompany purchases by its non-U.S. dollar functional currency subsidiaries generally over a period of up to eighteen months. The Company enters into foreign currency forward contracts ("forward contracts") generally for up to 65% of the forecasted purchases to manage fluctuations in global currencies that will ultimately be used to settle such U.S. dollar denominated inventory purchases. Forward contracts represent agreements to exchange the currency of one country for the currency of another country at an agreed-upon settlement date. The majority of the Company's forward contracts are designated as single cash flow hedges. Fluctuations in exchange rates will either increase or decrease the Company's U.S. dollar equivalent cash flows from these intercompany inventory transactions, which will affect the Company's U.S. dollar earnings. Gains or losses on the forward contracts are expected to offset these fluctuations to the extent the cash flows are hedged by the forward contracts. The Company also periodically enters into forward contracts to manage exchange rate risks associated with certain non-inventory intercompany transactions and to which the Company does not elect hedge treatment under ASC 815, *Derivatives and Hedging* ("ASC 815"). The Company did not have any outstanding forward contracts not designated as hedging instruments as of fiscal years 2010 or 2009.

The Company's forward contracts purchased to hedge exchange rate risk associated with intercompany inventory transactions meet the criteria for hedge eligibility noted in ASC 815-20-25-30 and ASC 815-20-25-43(b)(4), which requires that they represent foreign-currency-denominated forecasted intra-entity transactions in which (1) the operating unit that has the foreign currency exposure is a party to the hedging instrument and (2) the hedged transaction is denominated in a currency other than the hedging unit's functional currency. At the inception of the hedge, the hedging relationship is expected to be highly effective in achieving offsetting cash flows attributable to the hedged risk. In accordance with ASC 815, the Company assesses hedge effectiveness under the critical terms matched method at inception and at least quarterly throughout the life of the hedging relationship. If the critical terms (i.e. amounts, currencies and settlement dates) of the forward currency exchange contract match the terms of the forecasted transaction, the Company concludes that there is no hedge ineffectiveness. The Company's cash flow hedges resulted in no ineffectiveness in the statements of income and comprehensive income for the fiscal years 2010, 2009 and 2008.

The accounting for gains and losses that result from changes in the fair values of derivative instruments depends on whether the derivatives have been designated and qualify as hedging instruments. Changes in the fair value of derivatives not designated as hedging instruments are recognized in earnings when they occur per ASC 815-10-35-2. For a derivative instrument that is designated and qualifies as a cash flow hedge, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income (loss), net of taxes and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings. Due to the high degree of effectiveness between the hedging instruments and the underlying exposures being hedged, the Company's hedges resulted in no ineffectiveness in the consolidated statements of income and comprehensive income, and there were no components excluded from the assessment of hedge effectiveness for the fiscal years 2010, 2009 and 2008.

ASC 815 requires companies to recognize all derivative instruments as either assets or liabilities at fair value in the statement of financial position. Forward contracts designated as cash flow hedges are recorded at fair value at each balance sheet date and the change in fair value is recorded to other comprehensive income (loss) within the equity section of the balance sheet until such forward contract gains (losses) become realized or the cash flow hedge relationship is terminated. If the cash flow hedge relationship is terminated, the derivatives gains or losses that are deferred in other comprehensive income (loss) will be recognized in earnings when the hedged cash flows occur. However, for cash flow hedges that are terminated because the forecasted transaction is not expected to occur in the original specified time period, the derivative gains, or losses are immediately recognized in earnings. There were no gains or losses reclassified into earnings as a result of the discontinuance of cash flow hedges as of January 1, 2011 or as of January 2, 2010. Hedge accounting is discontinued if it is determined that the derivative is not highly effective. The Company records all cash flow hedge assets and liabilities on a gross basis as they do not meet the ASC 210-20*, Balance Sheet-Offsetting* balance sheet netting criteria as the Company does not have master netting agreements established with the derivative counterparties that would allow for net settlement.

As of January 1, 2011, the Company had the following outstanding forward contracts that were entered into to hedge the future payments of intercompany inventory transactions (in thousands):

Functional Currency		Contract Currency	
Type	**Amount**	**Type**	**Amount**
Euro	96,873	U.S. Dollar	126,235
British Pound	15,658	U.S. Dollar	25,000
Japanese Yen	4,063,900	U.S. Dollar	46,939
Mexican Peso	33,703	U.S. Dollar	2,620
Australian Dollar	22,300	U.S. Dollar	19,592
Canadian Dollar	10,140	U.S. Dollar	9,878

The effective portion of gains and losses on derivative instruments that was recognized in other comprehensive income (loss), net of taxes during 2010 and 2009 is set forth below (in thousands):

Derivatives Designated as Cash Flow Hedges Under ASC 815:	For the Year Ended January 1, 2011	For the Year Ended January 2, 2010
Foreign exchange contracts	$1,016	$(2,911)
Total gain (loss) recognized in other comprehensive income (loss), net of taxes	$1,016	$(2,911)

The following table illustrates the effective portion of gains and losses on derivative instruments designated and qualifying as cash flow hedges recorded in accumulated other comprehensive income (loss) during the term of the hedging relationship and reclassified into earnings, and the gains and losses on derivatives not designated as hedging instruments recorded directly to earnings during fiscal years 2010 and 2009 (in thousands):

Foreign Exchange Contracts Under ASC 815:	Consolidated Income Statement Location		For the Year Ended January 1, 2011	For the Year Ended January 2, 2010
Cash flow hedging instruments	Other income - net	Total gain reclassified from other comprehensive income (loss), net of taxes into income, net of taxes	$ 6,703	$ 1,453
Not designated as hedging instruments	Other income - net	Total loss recognized in income	(1,879)	0
		Total	$ 4,824	$ 1,453

The table below discloses the Company's fair value amounts as separate asset and liability values, presents the fair value of derivative instruments on a gross basis and identifies the line item in the balance sheet in which the fair value amounts for these categories of derivative instruments are included (in thousands).

	Asset Derivatives				Liability Derivatives			
	January 1, 2011		January 2, 2010		January 1, 2011		January 2, 2010	
Foreign exchange contracts under ASC 815:	Consolidated Balance Sheet Location	Fair Value	Consolidated Balance Sheet Location	Fair Value	Consolidated Balance Sheet Location	Fair Value	Consolidated Balance Sheet Location	Fair Value
Cash flow hedging instruments	Prepaid expenses and other current assets	$ 1,388	Prepaid expenses and other current assets	$ 2,122	Accrued expenses -other	$ 8,583	Accounts payable	$ 2,116
Cash flow hedging instruments	Intangible and other assets - net	240	Intangible and other assets - net	0	Other long-term liabilities	1,639	Other long-term liabilities	0
Total foreign exchange contracts under ASC 815:		$ 1,628		$ 2,122		$10,222		$ 2,116

At the end of fiscal year 2010, the Company had foreign exchange contracts with maturities extending through 2012. The estimated net amount of the existing gains and losses at the reporting date that is expected to be reclassified into earnings within the next 12 months is a loss of $5.4 million.

9. Fair Value Measurements

The Company defines fair value as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date.

ASC 820, *Fair Value Measurement and Disclosures* ("ASC 820"), establishes a fair value hierarchy, which prioritizes the inputs used in measuring fair value into three broad levels as follows:

- Level 1—Quoted prices in active markets for identical assets or liabilities.
- Level 2—Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly.
- Level 3—Unobservable inputs based on the Company's assumptions.

ASC 820 requires the use of observable market data if such data is available without undue cost and effort.

The following table presents the fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of January 1, 2011 (in thousands):

	Fair Value at January 1, 2011			
	Level 1	Level 2	Level 3	Total
Assets:				
Securities available for sale:				
Investments in bonds	$ 7,705	$ 0	$ 0	$ 7,705
Investment in publicly traded equity securities	1,159	0	0	1,159
Foreign exchange forward contracts	0	1,628	0	1,628
Deferred compensation plan assets:				
Investment in publicly traded mutual funds	3,295	0	0	3,295
Total	$12,159	$ 1,628	$ 0	$13,787
Liabilities:				
Foreign exchange forward contracts	$ 0	$10,222	$ 0	$10,222
Total	$ 0	$10,222	$ 0	$10,222

The following table presents the fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of January 2, 2010 (in thousands):

	Fair Value at January 2, 2010			
	Level 1	Level 2	Level 3	Total
Assets:				
Securities available for sale:				
Investments in bonds	$ 7,453	$ 0	$ 0	$ 7,453
Investment in publicly traded equity securities	542	0	0	542
Foreign exchange forward contracts	0	2,122	0	2,122
Deferred compensation plan assets:				
Investment in publicly traded mutual funds	2,847	0	0	2,847
Total	$10,842	$2,122	$ 0	$12,964
Liabilities:				
Foreign exchange forward contracts	$ 0	$2,116	$ 0	$ 2,116
Total	$ 0	$2,116	$ 0	$ 2,116

The fair values of the Company's available-for-sale securities and deferred compensation plan assets are based on quoted prices. The deferred compensation plan assets are recorded as intangible and other assets-net. The foreign exchange forward contracts are entered into by the Company principally to hedge the future payment of intercompany inventory purchases by non-U.S. subsidiaries. The fair values of the Company's foreign exchange forward contracts are based on published quotations of spot currency rates and forwards points, which are converted into implied forward currency rates.

The Company has evaluated its short-term and long-term debt and believes, based on the interest rates, related terms and maturities, that the fair values of such instruments approximate their carrying amounts. As of January 1, 2011 and January 2, 2010, the carrying values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximated their values due to the short-term maturities of these accounts.

The following table presents the fair value hierarchy for those assets and liabilities measured at fair value on a nonrecurring basis as of January 1, 2011 (in thousands):

	For the Year Ended January 1, 2011	Fair Value Measurements Using			Total Gains/(Losses)
		Level 1	Level 2	Level 3	
Assets:					
Specific Company-owned stores - net	$ 0	$ 0	$ 0	$ 0	$(1,848)
Specific Company-owned office - net	8,863	0	0	8,863	(3,738)
Specific trade names	438	0	0	438	(1,843)
Total		$ 0	$ 0	$9,301	$(7,429)

In accordance with the provisions of ASC 360, *Property, Plant and Equipment*, property, plant and equipment—net with a carrying amount of $2.1 million related to Company-owned retail store leasehold improvements, fixturing, computer software and computer hardware was deemed not recoverable, resulting in an impairment charge of $1.8 million after estimated insurance proceeds of $0.3 million for fiscal year 2010. Property, plant and equipment—net with a carrying amount of $12.6 million associated with a Company-owned office building was written down to a fair value of $8.9 million, based on a third-party appraisal, resulting in an impairment charge of $3.7 million included in earnings for fiscal year 2010. Both the fair values of the Company-owned retail stores and the Company-owned office building were determined using Level 3 inputs. If undiscounted cash flows estimated to be generated through the operation of Company-owned retail stores are less than the carrying value of the underlying assets, impairment losses are recorded. Impairment expense and associated insurance recoveries related to Company-owned retail stores are recorded in selling and distribution expenses within the Direct to Consumer segment. The impairment expense related to the Company-owned office building was recorded in general and administrative expenses within the corporate cost area.

In accordance with the provisions of ASC 350, *Intangibles—Goodwill and Other*, intangible and other assets—net with a carrying amount of $2.2 million were written down to an implied fair value of $0.4 million, resulting in an impairment charge of $1.8 million, which was included in earnings during fiscal year 2010.

10. Debt

Short-Term U.S.-based: On December 17, 2010, the Company entered into a Credit Agreement (the "Credit Agreement") with Wells Fargo Bank, National Association ("Wells Fargo"), as administrative agent, swingline lender and issuing lender, Wells Fargo Securities, LLC, as sole lead arranger and sole book manager and Bank of America, N.A., as lender. The Credit Agreement provides for revolving credit loans in the amount of $300 million, a swingline loan of $20 million, and the provision of letters of credit. The Credit Agreement expires and

is due and payable on December 17, 2013. It is guaranteed by all direct and indirect material domestic subsidiaries of the Company, as provided in a subsidiary guaranty agreement, and secured by 65% of the total outstanding voting capital stock and 100% of the non-voting Capital Stock of Fossil Europe B.V. and Swiss Technology Holding GmbH, foreign subsidiaries of the Company, pursuant to a pledge agreement. In connection with entering into the Credit Agreement, the Company paid upfront fees of approximately $1.2 million which will be amortized over the life of the Credit Agreement.

Amounts outstanding under the revolving credit facility under the Credit Agreement (the "Revolver") bear interest at the Company's option of (i) the base rate (defined as the higher of (a) the prime rate publicly announced by Wells Fargo (3.50% at fiscal year end 2010), (b) the federal funds rate plus 1.50% and (c) the London Interbank Offer Rate ("LIBOR") (1.51% at fiscal year end 2010) plus 1.50%) plus the base rate applicable margin (which varies based upon the Company's consolidated leverage ratio (the "Ratio") from 0.25% if the Ratio is less than 1.00 to 1.00 to 1.00% if the Ratio is greater than or equal to 2.00 to 1.00) or (ii) the LIBOR rate (defined as the quotient obtained by dividing (a) LIBOR by (b) 1.00 minus the Eurodollar reserve percentage) plus the LIBOR rate applicable margin (which varies based upon the Ratio from 1.25% if the Ratio is less than 1.00 to 1.00 to 2.00% if the Ratio is greater than or equal to 2.00 to 1.00). Amounts outstanding under the swingline loan under the Credit Agreement or upon any drawing under a letter of credit bear interest at the base rate plus the base rate applicable margin. Interest based upon the base rate is payable quarterly in arrears. Interest based upon the LIBOR rate is payable either monthly or quarterly in arrears, depending on the interest period selected by the Company. The Revolver also includes a commitment fee ranging from 0.20% to 0.35% for any amounts un-used under such Revolver.

The Credit Agreement replaced that certain Loan Agreement dated as of September 23, 2004, as amended, by and between Fossil Partners, L.P. ("LP"), a subsidiary of the Company, as borrower, the Company, and certain subsidiaries of the Company, as guarantors, and Wells Fargo, which was scheduled to mature on December 31, 2010 (the "Old Agreement"). No amounts were outstanding under the Old Agreement except for three letters of credit in the aggregate amount of $598,000. Upon termination of the Old Agreement, these letters of credit continued to be issued and outstanding under the Credit Agreement. No penalties or other early termination fees were incurred in connection with the termination of the Old Agreement.

Loans under the Credit Agreement may be prepaid, in whole or in part, at the option of the Company, in minimum principal amounts of $2.0 million or increments of $1.0 million in excess thereof with respect to a base rate loan, $5.0 million or increments of $1.0 million in excess thereof with respect to a LIBOR rate loan and $100,000 or increments of $100,000 in excess thereof with respect to a swingline loan. Loans under the Credit Agreement must be repaid, or letter of credit obligations cash collateralized with the net proceeds of certain asset sales, insurance and condemnation events. The Company may permanently reduce the revolving credit commitment at any time, in whole or in part, without premium or penalty, in a minimum aggregate principal amount of not less than $3.0 million or increments of $1.0 million in excess thereof.

Wells Fargo can accelerate the repayment obligation upon the occurrence of an event of default, including the failure to pay principal or interest, a material inaccuracy of a representation or warranty, violation of covenants, cross-default, change in control, bankruptcy events, failure of a loan document provision, certain ERISA events and material judgments. There were no outstanding borrowings as of the end of fiscal year 2010. Amounts available under the Revolver are reduced by any amounts outstanding under stand-by letters of credit. At the end of fiscal year 2010, the Company had available borrowings of approximately $299.6 million under the Revolver. As a result of no outstanding borrowing during fiscal years 2010 and 2009, the Company incurred no interest expense related to the Revolver or the Old Agreement during fiscal year 2010 and 2009. The Company's interest expense related to outstanding borrowings under the Old Agreement was $120,000 for 2008.

Financial covenants governing the Credit Agreement require the Company to maintain (i) a consolidated leverage ratio no greater than 2.50 to 1.00, (ii) consolidated tangible net worth no less than the sum of (a) $600 million plus (b) 25% of positive consolidated net income, (iii) consolidated net income that is not negative for

any two consecutive fiscal quarters, and (iv) maximum capital expenditures not in excess of $125 million in any fiscal year, subject to certain adjustments. The Credit Agreement contains representations, warranties, covenants, events of default and indemnities that are customary for agreements of this type. The Company is in compliance with all covenants related to the Revolver as of January 1, 2011.

Short-Term Foreign-based: The Company's Japanese subsidiary, Fossil Japan, entered into a 400 million Yen short-term credit facility agreement (the "Facility") on December 30, 2010. The Facility replaced two separate 150 million Yen short-term credit facilities that expired in fiscal year 2010. The Facility bears interest at the short-term prime rate (1.475% at fiscal year end 2010). Japan-based borrowings, in U.S. dollars, under this facility were approximately $4.9 million at fiscal year end 2010. Japan-based borrowings, in U.S. dollars, under the two 150 million Yen facilities were approximately $3.2 million at fiscal year end 2009. Up to May 3, 2008, Fossil U.K. Ltd. ("Fossil UK") maintained a 4.0 million British Pound revolving credit facility with interest costs under this facility based upon the aggregate of the Margin, LIBOR and Mandatory Lending Agreement ("MLA") costs (7.11% on a combined basis at fiscal year end 2008). On May 3, 2008, Fossil U.K. retired all outstanding borrowings under this facility and did not renew the facility upon expiration in 2008. The Company incurred approximately $61,000, $61,000 and $142,000 of interest expense related to Japan and UK borrowings for 2010, 2009 and 2008, respectively. The borrowings entered into by Fossil Japan and Fossil UK were primarily used for working capital purposes and the purchase of a new office/distribution center, respectively. Additionally, at the end of fiscal years 2010 and 2009, the Company had current capital lease obligations of $283,000 and $297,000, respectively. At the end of fiscal years 2010 and 2009, the Company had total outstanding short-term borrowings of $5.3 million and $3.6 million, respectively.

Long-Term Foreign-based: On September 21, 2007, Fossil Group Europe, Gmbh ("FGE"), a wholly owned subsidiary of the Company, entered into a long-term note payable with its primary bank (the "FGE Note") related to the purchase of a building in Basel, Switzerland. The FGE Note has a variable interest rate (2% at fiscal year end 2010) with interest payments due quarterly. This note requires minimum principal payments of 100,000 Swiss Francs (approximately $107,000 U.S. dollars at fiscal year end 2010), per year with no stated maturity and no penalties for early payment. The FGE Note requires FGE to submit an annual balance sheet and income statement and is secured by the Company's building in Basel, Switzerland. The Company incurred approximately $76,000, $76,000, and $119,000 of interest expense related to the FGE Note for 2010, 2009, and 2008, respectively. At the end of fiscal years 2010 and 2009, amounts outstanding under the FGE Note were $3.9 million and $3.6 million, respectively. In addition, at the end of fiscal years 2010 and 2009, the Company had outstanding long-term capital lease obligations of $659,000 and $952,000, respectively. At the end of fiscal years 2010 and 2009, the Company had total outstanding long-term borrowings of $4.5 million and $4.5 million, respectively.

Letters of Credit: On January 15, 2010, FGE and LP executed a renewal of their Letter of Credit Facility (the "LC Facility") with the Hongkong and Shanghai Banking Corporation Limited ("HSBC"). Fossil Asia Pacific Ltd. was added to the LC Facility as part of the renewal. The purpose of the LC Facility is to allow for up to $40 million of commercial and/or standby letters of credit. At the end of fiscal years 2010 and 2009, the Company had outstanding letters of credit of approximately $37.2 million and $24.9 million, respectively, and stand-by letters of credit of approximately $412,000 and $412,000, respectively. Letters of credit and stand-by letters of credit are primarily issued to vendors for the purchase of merchandise. On February 7, 2011, the Company, LP, FGE and Fossil Asia Pacific Ltd. executed a new Letter of Credit Facility (the "New Facility") with HSBC to allow for $60 million of commercial and/or standby letters of credit. The New Facility will replace the LC Facility.

11. Other Income (Expense)—Net

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

Fiscal Year	2010	2009	2008
Interest income	$1,503	$1,310	$ 4,209
Equity in the earnings of joint venture, net of tax	1,382	1,146	1,562
Currency gains (losses)	5,227	5,779	(16,897)
Royalty income	462	478	453
Other gains (losses)	341	(207)	(338)
Other income (expense) - net	$8,915	$8,506	$(11,011)

12. Taxes

Income Taxes

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the consolidated deferred tax assets and liabilities were (in thousands):

Fiscal Year	2010	2009
Current deferred income tax assets (liabilities):		
Bad debt allowance	$ 7,028	$ 5,018
Returns allowance	15,468	9,162
Inventory	10,144	7,442
Warranty reserve	1,054	0
Compensation	2,894	1,999
Accrued liabilities	3,536	4,021
In-transit returns inventory	(6,024)	(3,788)
Deferred rent	789	874
Loss carry-forwards	1,596	1,047
Other	6,837	5,657
Total current deferred tax assets	43,322	31,432
Valuation allowance	(1,486)	(2,495)
Net current deferred income tax assets	$ 41,836	$ 28,937
Long-term deferred income tax (liabilities) assets:		
Unrealized exchange losses	2,520	(298)
State income tax and interest on tax contingencies	925	2,654
Fixed assets	(8,847)	(10,758)
Trade-names and customer list	(7,168)	(7,127)
Compensation	5,972	4,408
Deferred rent	3,264	3,252
Loss carry-forwards	2,375	3,516
Undistributed earnings of certain foreign subsidiaries	(44,122)	(18,141)
Tax deductible foreign reserves	(1,229)	(654)
Other	2,038	1,233
Total deferred income tax liabilities	(44,272)	(21,915)
Valuation allowance	(2,695)	(2,470)
Net long-term deferred income tax liabilities	$(46,967)	$(24,385)
Total long-term deferred income tax assets	926	2,654
Total deferred income tax liabilities	(47,893)	(27,039)
Net long-term deferred income tax liabilities	$(46,967)	$(24,385)

The deferred income tax asset for loss carry-forwards includes $13.8 million of net operating losses of foreign subsidiaries. Valuation allowances have been recorded to reflect the estimated amount of deferred tax assets that may not be realized on these losses. The amounts and the fiscal year of expiration are indicated below (in thousands).

Operating loss carry-forwards

Expires 2011	$ 49
Expires 2012	57
Expires 2013	0
Expires 2014	818
Expires 2015	2,224
Expires thereafter	10,630
Total loss carry-forwards	$13,778

The following table identifies income before income taxes for the Company's U.S. and non-U.S. based operations for the fiscal years indicated (in thousands):

Fiscal Year	2010	2009	2008
U.S.	$154,318	$ 94,543	$ 68,457
Non-U.S.	229,892	125,355	125,747
Total	$384,210	$219,898	$194,204

The Company's provision for income taxes consists of the following for the fiscal years indicated (in thousands):

Fiscal Year	2010	2009	2008
Current provision:			
U.S. federal	$ 54,820	$46,350	$27,732
Non-U.S.	44,613	22,629	21,127
State and local	4,535	3,284	2,386
Total current	103,968	72,263	51,245
Deferred provision			
U.S. federal	19,112	3,320	5,013
Non-U.S.	(3,188)	(39)	(3,850)
State and local	(572)	60	(57)
Total deferred	15,352	3,341	1,106
Provision for income taxes	$119,320	$75,604	$52,351

The expected cash payments for the current domestic income tax expense for 2010, 2009 and 2008 were reduced by approximately $12.5 million, $2.1 million and $2.1 million, respectively, as a result of tax deductions related to the exercise of non-qualified stock options and stock appreciation rights and the vesting of restricted stock and restricted stock units. The expected cash payments for current foreign tax expense were reduced by $1.7 million in 2010 and $0.5 million in 2009 as a result of tax deductions related to the exercise of stock options and the vesting of restricted stock granted to foreign employees. The income tax benefits resulting from these stock-based compensation plans have been recorded to additional paid in capital. Total deferred income tax expense of $15.4 million, $3.3 million and $1.1 million for fiscal years 2010, 2009 and 2008, respectively, are included in deferred income taxes and other on the consolidated statements of cash flows.

The Company was granted a 100% tax holiday for its watch assembly activities in Switzerland for tax years 2003 through 2007 and a 60% tax holiday for tax years 2008 through 2012. After 2012, the Company will pay the full Swiss tax rate on its watch assembly activities. This holiday had the effect of reducing current foreign income taxes by $240,000, $130,000, and $220,000 in fiscal years 2010, 2009 and 2008, respectively.

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	2010	2009	2008
Tax at statutory rate	35.0%	35.0%	35.0%
State, net of federal tax benefit	0.9	0.8	0.9
Foreign rate differential	(11.1)	(9.2)	(13.8)
U.S. tax on foreign income	9.8	8.7	12.6
Income tax contingencies	(3.7)	(0.4)	(8.0)
Other	0.2	(0.5)	0.3
Provision for income taxes	31.1%	34.4%	27.0%

Deferred U.S. federal income taxes and foreign withholding taxes are not provided on undistributed earnings of certain foreign subsidiaries where management plans to continue reinvesting these earnings outside the U.S. The amount of undistributed earnings that would be subject to tax if distributed is approximately $267 million at January 1, 2011. Determination of tax amounts that would be payable if earnings were distributed to the U.S. company is not practicable.

The total amount of unrecognized tax benefits under ASC 740, excluding interest and penalties that would favorably impact the effective tax rate in future periods, if recognized is $8.1 million for fiscal year 2010, $7.8 million for fiscal year 2009, and $8.9 million for fiscal year 2008. During the second quarter of fiscal 2010, the examination phase of the Internal Revenue Service ("IRS") audit for tax years 2005 and 2006 was completed. The IRS proposed certain adjustments to the Company's tax returns and the Company filed a protest. The protest is under review by the IRS Office of Appeals and may be resolved within the next twelve months. The Company is also subject to examinations in various state and foreign jurisdictions for the 2005-2009 tax years, none of which the Company believes are individually significant. Audit outcomes and timing of audit settlements are subject to significant uncertainty.

The Company has classified uncertain tax positions as long-term income taxes payable unless such amounts are expected to be paid within twelve months from January 1, 2011. As of January 1, 2011, the Company has recorded $2.7 million of unrecognized tax benefits, excluding interest and penalties, for positions that could be settled within the next twelve months. Consistent with its past practice, the Company recognizes interest and/or penalties related to income tax overpayments and income tax underpayments in income tax expense and income taxes receivable/payable, respectively. The total amount of accrued income tax-related interest in the consolidated balance sheet was $1.3 million and $5.2 million at January 1, 2011 and January 2, 2010, respectively. The total amount of penalties included in the consolidated balance sheet was $0.3 million at January 2, 2010. There were no penalties in the consolidated balance sheet at January 1, 2011. The Company accrued interest expense of $0.8 million, $1.8 million and $3.0 million in each of fiscal years 2010, 2009 and 2008.

The following is a tabular reconciliation of the total amounts of unrecognized tax benefits for the fiscal years indicated (in thousands):

Fiscal Year	2010	2009	2008
Balance at beginning of year	$ 35,426	$33,855	$ 57,195
Gross increases - Tax positions in prior years	2,680	4,676	2,710
Gross decreases - Tax positions in prior years	(27,799)	(641)	(21,473)
Gross increases - current year tax positions	842	2,428	3,869
Settlements	(204)	0	(8,595)
Lapse in statute of limitations	0	(4,902)	0
Increase due to currency revaluation	0	10	149
Balance at end of year	$ 10,945	$35,426	$ 33,855

13. Commitments and Contingencies

License Agreements. The Company has various license agreements to market watches bearing certain trademarks or patents owned by various third-parties. In accordance with these agreements, the Company incurred royalty expense of approximately $109.4 million, $73.9 million and $74.9 million in fiscal years 2010, 2009 and 2008, respectively. These amounts are included in the Company's cost of sales or if advertising related, selling and distribution expenses. The Company has various license agreements in effect at fiscal year end 2010 which expire on dates between fiscal years 2011 and 2015 and such license agreements also require the Company to pay royalties ranging from 3% to 20% of defined net sales. Future minimum royalty commitments under such license agreements, by fiscal year, are as follows (in thousands):

2011	$ 84,882
2012	74,083
2013	64,255
2014	29,008
2015	17,607
Thereafter	0
	$269,835

Leases. The Company leases its retail and outlet store facilities as well as certain of its office and warehouse facilities and equipment under non-cancelable operating leases and capital leases. Most of the retail and outlet store leases provide for contingent rental payments 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 $88.6 million, $77.6 million and $62.7 million for fiscal years 2010, 2009 and 2008, respectively. Contingent rent expense was approximately $3.8 million, $1.8 million and $1.7 million for fiscal years 2010, 2009 and 2008, respectively. Future minimum rental commitments under such non-cancelable leases, by fiscal year, are as follows (in thousands):

	Operating	Capital
2011	$ 73,742	$292
2012	69,178	292
2013	58,849	293
2014	51,585	90
2015	44,268	1
Thereafter	124,618	0
	$422,240	$968
Less amount representing interest		(26)
Capital lease obligations, included in short-term debt and in long-term debt		$942

The Company has entered into a sublease agreement with a third-party related to one of its former retail store locations, which expires in 2011. Future sublease income is expected to be approximately $623,000 for fiscal year 2011.

Purchase Obligations. As of January 1, 2011, the Company had purchase obligations totaling $124.0 million.

Asset Retirement Obligations. ASC 410, *Asset Retirement and Environmental Obligations* ("ASC 410") requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made and that the associated asset retirement costs be capitalized as part of the carrying amount of the long-lived asset. The Company's asset retirement obligations relate to costs associated with the retirement of leasehold improvements under store and office leases within the Europe Wholesale segment and the Asia Pacific Wholesale segment and under retail store leases within the Direct to Consumer segment. The Company had asset retirement obligations of $3.4 million as of January 1, 2011.

Litigation. The Company is occasionally subject to litigation or other legal proceedings. Set forth below is a description of the Company's significant pending legal matters. Although the estimated range of loss, if any, for the pending legal matters described below cannot be estimated at this time, the Company does not believe that the outcome of these, or any other pending legal matters, individually or collectively, will have a material adverse effect on the business or financial condition of the Company although such matters may have a material adverse effect on the Company's results of operations or cash flows in a particular period.

Three shareholder derivative lawsuits have been filed in the United States District Court for the Northern District of Texas, Dallas Division, naming the Company as a nominal defendant and naming all of the Company's then current directors and certain of its current and former officers and directors as defendants. The complaints allege purported violations of federal securities laws and state law claims for breach of fiduciary duty, abuse of control, constructive fraud, corporate waste, unjust enrichment and gross mismanagement in connection with certain stock option grants made by the Company.

14. Stockholders' Equity and Benefit Plans

Common and Preferred Stock. The Company has 100,000,000 shares of common stock, par value $0.01 per share, authorized, with 67,881,522 and 66,899,736 shares issued and outstanding at fiscal year end 2010 and 2009, respectively. The Company has 1,000,000 shares of preferred stock, par value $0.01 per share, authorized, 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. Purchases of the Company's common stock are made from time to time, subject to market conditions and at prevailing market prices, through the open market. Repurchased shares of common stock are recorded at cost and become authorized but unissued shares which may be issued in the future for general corporate and other purposes. The Company may terminate or limit the stock repurchase program at any time. In the event the repurchased shares are cancelled, the Company accounts for retirements by allocating the repurchase price to common stock, additional paid-in-capital and retained earnings. The repurchase price allocation is based upon the equity contribution associated with historical issuances.

During fiscal years 2008 and 2007, the Company's Board of Directors approved two stock repurchase programs, pursuant to which up to 2.0 million shares of its common stock could be repurchased under each program. During fiscal years 2008 and 2007, the Company completed these two repurchase programs and retired 3.6 million and 0.4 million shares, respectively, of its common stock at a cost of approximately $105.9 million and $15.9 million, respectively. During fiscal year 2009, the Company's Board of Directors approved a stock repurchase program pursuant to which $20 million could be used to repurchase outstanding shares of the Company's common stock. The Company did not repurchase any shares under this authorization during fiscal

year 2009. During fiscal year 2010, the Company repurchased approximately 528,000 shares to complete this repurchase program. In fiscal year 2010, the Company's Board of Directors approved two common share repurchase programs pursuant to which up to $30 million and $750 million, respectively, could be used to repurchase outstanding shares of the Company's common stock. The $750 million repurchase program has a termination date of December 2013 and the $30 million repurchase program has no termination date. The Company repurchased 3.1 million shares under the $750 million repurchase program during fiscal year 2010, at a cost of $179.2 million. These repurchase programs were conducted pursuant to Rule 10b-18 of the Securities Exchange Act of 1934. At the end of fiscal year 2010 the Company had open authorizations to repurchase approximately $601 million of its common stock.

Noncontrolling Interest. The following table summarizes the effects of changes in the Company's ownership interest in its subsidiaries on equity (in thousands):

	For the 52 Weeks Ended	
	January 1, 2011	January 2, 2010
Net income attributable to Fossil, Inc.	$255,205	$139,188
Transfers (to) from the noncontrolling interest		
Decrease in Fossil, Inc.'s additional paid-in capital for purchases of 371 common shares of Fossil Taiwan	(711)	0
Net transfers to noncontrolling interest	(711)	0
Change from net income attributable to Fossil, Inc. and transfers to noncontrolling interest	$254,494	$139,188

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 U.S. based full-time employees of the Company. The Company's common stock is one of several investment alternatives available under the 401(k) Plan. The Company has a discretionary match for the 401(k) Plan. 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 employee contributions between 4% and 6% of their compensation. Matching contributions made by the Company to the 401(k) Plan totaled approximately $1.3 million, $186,000 and $1.2 million for 2010, 2009 and 2008, respectively. In March 2009, the Company eliminated the employer match portion of the 401(k) Plan and, effective January 2010, the Company reinstated the employer match program. The Company also has the right to make certain additional matching contributions not to exceed 15% of employee compensation. The Company did not make any additional matching contributions during 2010, 2009 and 2008.

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 or up to 100% of any bonuses paid pursuant to the terms and conditions of the Deferred Plan. 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 2010, 2009 and 2008. The Company has made payments pursuant to the Deferred Plan into a Rabbi Trust. The funds held in the Rabbi Trust are directed to certain investments available through life insurance products and accounted for in accordance with Emerging Issues Task Force No. 97-14, *Accounting for Deferred Compensation Arrangements Where Amounts Earned Are Held in a Rabbi Trust and Invested* (now codified within ASC 710, *Compensation—General* ("ASC 710")). As of January 1, 2011, the Company had an asset of $3.3 million related to the Company's invested balances recorded in Intangibles and Other Assets—Net and a liability of $1.8 million related to the participants' invested balances recorded in Accrued Expenses Other.

Stock-Based Compensation Plans. The Company accounts for stock-based compensation in accordance with the provisions of ASC 718, using the Black-Scholes option pricing model to determine the fair value of stock options and stock appreciation rights at the date of grant. The Company's current stock-based compensation plans include: (a) stock options and restricted stock for its international employees, (b) stock

options and restricted stock units for its non-employee directors and (c) stock appreciation rights, restricted stock and restricted stock units for its U.S.-based employees. As of January 1, 2011, there was approximately $19.9 million of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the incentive plans. This cost is expected to be recognized over a weighted-average period of approximately two years.

Long-Term Incentive Plans. An aggregate of 4,685,030 shares of the Company's common stock were reserved for issuance pursuant to the Company's 2008 Long-Term Incentive Plan ("2008 LTIP"), adopted in March 2008. Designated employees of the Company, including officers and directors, certain contractors, and outside directors of the Company are eligible to receive (i) stock options, (ii) stock appreciation rights, (iii) restricted or non-restricted stock awards, (iv) restricted stock units, (v) cash awards, or (vi) any combination of the foregoing. The 2008 LTIP is administered by the Compensation Committee of the Company's Board of Directors (the "Compensation Committee"). Each award issued under the 2008 LTIP terminates at the time designated by the Compensation Committee, not to exceed ten years. The current stock options, stock appreciation rights, restricted stock and restricted stock units outstanding have original vesting periods that predominately range from three to five years. All stock appreciation rights and restricted stock units are settled in shares of the Company's common stock. Effective January 1, 2010, the Company's Board of Directors approved a new equity compensation package for nonemployee directors. Each nonemployee director will receive restricted stock units valued at $100,000 on the date of the annual stockholders' meeting. These grants are scheduled to vest on the earlier of one year from the date of grant or the next annual stockholders' meeting date.

Prior to the Company establishing the 2008 LTIP, stock-based compensation awards were made to employees and nonemployee directors pursuant to the Company's initial Long-Term Incentive Plan ("LTIP") and Nonemployee Director Stock Option Plan ("Nonemployee Plan"), respectively. Each award issued under the LTIP terminates at the time designated by the Compensation Committee, not to exceed ten years. The current options, stock appreciation rights, restricted stock and restricted stock units outstanding have original vesting periods that predominately range from three to five years. All stock appreciation rights and restricted stock units are settled in shares of the Company's common stock. The exercise prices of stock options granted under the Nonemployee Plan were not less than the fair market value of the Company's common stock at the date of grant. Pursuant to the Nonemployee Plan, 50% of the options granted became exercisable on the first anniversary of the date of grant and in two additional installments of 25% each on the second and third anniversaries. On March 26, 2008, the Company's Board of Directors elected to terminate these prior plans and grants to employees and nonemployee directors since the termination date have been made under the 2008 LTIP. However, the termination of the LTIP and the Nonemployee plans did not impair outstanding awards representing 932,418 shares and 83,750 shares, respectively, of the Company's common stock which continued in accordance with their original terms.

Restricted Stock Plan. The 2002 Restricted Stock Plan of the Company was intended to advance the 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. Shares awarded under the Restricted Stock Plan were funded with shares contributed to the Company from a significant stockholder. During 2006, 44,200 shares of stock were contributed to the Restricted Stock Plan by the stockholder and reissued by the Company to employees. At fiscal year end 2010, 22,250 shares issued to employees were forfeited and subsequently canceled and retired. There were no shares forfeited by employees under this plan in fiscal years 2009 or 2008. The restricted shares outstanding have original vesting periods that predominantly range from one to five years. These shares were accounted for at fair value at the date of grant. On August 29, 2007, the Company's Board of Directors elected to terminate this plan. However, the termination did not impair outstanding awards representing 8,390 shares of common stock, which continued in accordance with their original terms.

Stock Options and Stock Appreciation Rights. The fair value of stock options and stock appreciation rights granted under the Company's stock-based compensation plans was estimated on the date of grant using the Black-Scholes option-pricing model. The table below outlines the weighted average assumptions for these award grants:

	2010	2009	2008
Risk-free interest rate	1.4%	1.8%	2.3%
Expected term (in years)	5.8	5.9	6.4
Expected volatility	50.4%	53.2%	52.0%
Expected dividend yield	0.0%	0.0%	0.0%
Estimated fair value per options/stock appreciation right granted	$18.60	$13.65	$14.96

The expected term of the options represent the estimated period of time until exercise and is based on historical experience of similar awards. Expected stock price volatility is based on the historical volatility of the Company's common stock. The risk-free interest rate is based on the implied yield available on U.S. Treasury issues with an equivalent remaining term.

The Company receives a tax deduction for certain stock option exercises/restricted stock vestings when the options/restricted shares are exercised/vested. Generally for stock options, the tax deduction is related to the excess of the stock price at the time the stock options are sold over the exercise price of the stock options. For restricted shares, the tax deduction is the fair market value of the Company's common stock on the date the restricted shares vest. Excess tax benefits from stock-based compensation on the consolidated statements of cash flows for fiscal years 2010, 2009 and 2008 amounted to approximately $12.0 million, $1.2 million and $0.6 million, respectively.

The following table summarizes stock option and stock appreciation rights activity:

Stock Options and Stock Appreciation Rights	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
	IN THOUSANDS			IN THOUSANDS
Outstanding at January 5, 2008	2,895	$19.18	5.7	$48,983
Granted	423	28.69		
Exercised	(350)	14.01		5,152
Forfeited or expired	(110)	25.48		
Outstanding at January 3, 2009	2,858	21.09	5.7	5,862
Granted	317	13.65		
Exercised	(315)	12.03		4,935
Forfeited or expired	(49)	24.13		
Outstanding at January 2, 2010	2,811	21.21	5.3	35,217
Granted	325	38.37		
Exercised	(1,496)	19.98		47,073
Forfeited or expired	(240)	26.82		
Outstanding at January 1, 2011	1,400	25.55	5.8	62,889
Exercisable at January 1, 2011	646	22.51	4.3	31,006
Nonvested at January 1, 2011	754	28.16	7.1	31,883
Expected to vest	700	$28.16	7.1	$29,610

The aggregate intrinsic value in the table above is before income taxes and is based on the exercise price for outstanding and exercisable options/rights at January 1, 2011 and based on the fair market value of the Company's common stock on the exercise date for options/rights that have been exercised during the fiscal year.

Stock Options and Stock Appreciation Rights Outstanding and Exercisable. The following table summarizes information with respect to options and stock appreciation rights outstanding and exercisable at January 1, 2011:

Stock Options and Stock Appreciation Rights Outstanding				Stock Options and Stock Appreciation Rights Exercisable	
Range of Exercise Prices	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Number of Shares	Weighted-Average Exercise Price
	IN THOUSANDS			IN THOUSANDS	
$6.95 - $13.91	347	$12.64	5.1	156	$11.41
$13.91 - $20.86	150	17.90	4.9	106	17.81
$20.86 - $27.81	267	24.31	4.1	235	24.29
$27.81 - $34.77	317	30.92	6.2	100	31.06
$34.77 - $41.72	276	38.21	8.2	6	35.05
$41.72 - $48.67	43	43.16	7.0	43	43.16
Total	1,400	$25.55	5.8	646	$22.51

The Company has elected to apply the long-form method to determine the hypothetical additional paid-in capital ("APIC") pool provided by ASC 718-740, *Compensation — Stock Compensation — Income* ("ASC 718-740"). The Company had determined that a hypothetical pool of excess tax benefits existed in APIC as of January 1, 2006, the date of adoption of ASC 718-740, related to historical stock option and stock appreciation right exercises. In future periods, excess tax benefits resulting from stock option and stock appreciation right exercises will be recognized as additions to APIC in the period the benefit is realized. In the event of a shortfall (that is, the tax benefit realized is less than the amount previously recognized through periodic stock-based compensation expense recognition and related deferred tax accounting), the shortfall would be charged against APIC to the extent of previous excess benefits, if any, including the amounts included in hypothetical APIC pool, and then to tax expense.

Restricted Stock and Restricted Stock Units. The following table summarizes restricted stock and restricted stock unit activity:

Restricted Stock and Restricted Stock Units	Number of Shares	Weighted-Average Grant-Date Fair Value
	IN THOUSANDS	
Nonvested at January 5, 2008	443	$21.59
Granted	174	30.18
Vested	(110)	21.37
Forfeited	(12)	25.54
Nonvested at January 3, 2009	495	24.56
Granted	150	13.65
Vested	(142)	23.48
Forfeited	(10)	25.02
Nonvested at January 2, 2010	493	21.54
Granted	215	38.83
Vested	(150)	21.66
Forfeited	(128)	25.35
Nonvested at January 1, 2011	430	29.03
Expected to vest	393	$29.03

The total fair value of shares/units vested during fiscal years 2010, 2009 and 2008 was $5.8 million, $2.4 million and $3.5 million, respectively.

15. Supplemental Cash Flow Information

The following table summarizes the supplemental cash flow information (in thousands):

Fiscal Year	2010	2009	2008
Cash paid during the year for:			
Interest	$ 1,026	$ 443	$ 569
Income taxes	$107,787	$62,957	$77,240
Supplemental disclosures of non-cash investing and financing activities:			
Additions to property, plant and equipment included in accounts payable	$ 8,034	$ 4,349	$ 3,614
Retirement of treasury stock	$ 725	$ 212	$ 110

16. Supplemental Disclosure for Accumulated Other Comprehensive Income

A summary of changes in accumulated other comprehensive income is as follows (in thousands):

	2010	2009	2008
Unrealized gain (loss) on securities available for sale:			
Balance at beginning of year	$ (344)	$ (1,437)	$ (688)
Unrealized gain on marketable investments	554	1,093	51
Other than temporary impairment reclassified into earnings	0	0	(800)
Balance at end of year	210	(344)	(1,437)
Unrealized gain (loss) on cash flow hedges:			
Balance at beginning of year	(549)	3,815	(3,398)
Plus change in fair value associated with current period hedging activities, net of taxes of $2,482, ($23), ($1,031), respectively	1,016	(2,911)	3,816
Less reclassification into earnings, net of taxes of $25, $749, and ($56), respectively	6,703	1,453	(3,397)
Balance at end of year	$ (6,236)	$ (549)	$ 3,815
Cumulative translation adjustment	$25,444	$35,353	$21,769
Accumulated other comprehensive income	$19,418	$34,460	$24,147

17. Major Customer, Segment and Geographic Information

In accordance with ASC 280*, Segment Reporting* (“ASC 280”) the Company reports segment information based on the “management” approach. The management approach designates the internal reporting used by management for making decisions and assessing performance as the source of the Company’s reportable segments.

SEGMENT INFORMATION

The Company manages its business primarily on a geographic basis. The Company’s reportable operating segments are comprised of North America Wholesale, Europe Wholesale, Asia Pacific Wholesale and Direct to

Consumer. The North America Wholesale, Europe Wholesale and Asia Pacific Wholesale reportable segments do not include activities related to the Direct to Consumer segment. The North America Wholesale segment primarily includes sales to wholesale or distributor customers based in Canada, Mexico, the United States and countries in South America. The Europe Wholesale segment primarily includes sales to wholesale or distributor customers based in European countries, the Middle East and Africa. The Asia Pacific Wholesale segment primarily includes sales to wholesale or distributor customers based in Australia, China (including the Company's assembly and procurement operations), India, Indonesia, Japan, Malaysia, New Zealand, Singapore, South Korea, Taiwan and Thailand. The Direct to Consumer segment includes Company-owned retail stores, e-commerce sales and catalog activities. Each reportable operating segment provides similar products and services.

The Company evaluates the performance of its reportable segments based on net sales and operating income. Net sales for geographic segments are generally based on the location of the customers. Operating income for each segment includes net sales to third-parties, related cost of sales and operating expenses directly attributable to the segment. General corporate expenses, including certain administrative, legal, accounting, technology support costs, equity compensation costs, payroll costs attributable to executive management and amounts related to intercompany eliminations that are not allocated to the various segments. Intercompany sales of products between segments are referred to as intersegment items.

Certain reclassifications have been made to prior fiscal year amounts to conform with current fiscal year presentation. Due to changes in the Company's reportable segments as discussed in Note 1 to the consolidated financial statements, segment results for fiscal years 2009 and 2008 have been recast to present results on a comparable basis. These changes had no impact on consolidated net sales or operating income. Summary information by operating segment is as follows (in thousands):

	Fiscal Year 2010				
	Net Sales	Operating Income	Depreciation and Amortization	Long-lived Assets	Total Assets
North America Wholesale:			$ 3,547	$ 98,970	$ 585,616
External customers	$ 779,159	$ 188,155			
Intersegment	151,304				
Europe Wholesale:			3,954	85,048	383,301
External customers	547,428	154,729			
Intersegment	100,661				
Asia Pacific Wholesale:			2,291	17,193	188,459
External customers	220,777	82,037			
Intersegment	592,403				
Direct to Consumer	483,326	66,339	21,452	96,017	217,620
Intersegment items	(844,368)				
Corporate		(114,846)	9,058	29,528	92,577
Consolidated	$2,030,690	$ 376,414	$40,302	$326,756	$1,467,573

	Fiscal Year 2009				
	Net Sales	Operating Income	Depreciation and Amortization	Long-lived Assets	Total Assets
North America Wholesale:			$ 3,355	$ 93,065	$ 459,076
External customers	$ 551,117	$103,272			
Intersegment	181,207				
Europe Wholesale:			4,176	104,813	430,921
External customers	467,099	91,295			
Intersegment	43,037				
Asia Pacific Wholesale:			2,303	18,793	189,172
External customers	153,739	57,507			
Intersegment	349,896				
Direct to Consumer	376,138	39,047	21,385	82,766	142,986
Intersegment items	(574,140)				
Corporate		(79,494)	9,661	30,573	54,328
Consolidated	$1,548,093	$211,627	$40,880	$330,010	$1,276,483

	Fiscal Year 2008				
	Net Sales	Operating Income	Depreciation and Amortization	Long-lived Assets	Total Assets
North America Wholesale:			$ 3,478	$100,041	$ 377,330
External customers	$ 560,686	$ 52,615			
Intersegment	251,747				
Europe Wholesale:			3,778	110,228	381,772
External customers	551,453	146,460			
Intersegment	36,313				
Asia Pacific Wholesale:			1,999	15,614	141,727
External customers	161,771	75,229			
Intersegment	456,290				
Direct to Consumer	309,332	13,060	16,141	77,938	138,257
Intersegment items	(744,350)				
Corporate		(81,594)	12,019	20,009	48,210
Consolidated	$1,583,242	$205,770	$37,415	$323,830	$1,087,296

The following table indicates revenue for each class of similar products for the fiscal years 2010, 2009 and 2008 (in thousands):

	Fiscal Year 2010	Fiscal Year 2009	Fiscal Year 2008
Watches	$1,419,205	$1,021,181	$1,059,085
Leathers	340,405	297,591	277,798
Jewelry	166,183	133,949	150,063
Other	104,897	95,372	96,296
Total	$2,030,690	$1,548,093	$1,583,242

GEOGRAPHIC INFORMATION

Wholesale customers of the Company consist principally of major department stores and specialty retail stores located throughout the world. The Company does not have an individual customer that comprises 10% or more of the Company's net sales. Geographic net sales information is generally based on the location of the customers. Net sales and long-lived assets by geographic area are as follows (in thousands):

	Fiscal Year 2010	
	Net Sales	Long-lived Assets
United States	$1,028,840	$161,472
Europe	670,959	135,087
Asia Pacific	267,158	23,617
All other international	63,733	6,580
Consolidated	$2,030,690	$326,756

	Fiscal Year 2009	
	Net Sales	Long-lived Assets
United States	$ 757,837	$161,636
Europe	563,061	142,234
Asia Pacific	183,599	19,418
All other international	43,596	6,722
Consolidated	$1,548,093	$330,010

	Fiscal Year 2008	
	Net Sales	Long-lived Assets
United States	$ 741,600	$169,916
Europe	617,554	129,937
Asia Pacific	184,182	19,302
All other international	39,906	4,675
Consolidated	$1,583,242	$323,830

18. Selected Quarterly Financial Data (Unaudited)

The following is a summary of the unaudited quarterly financial information for the fiscal years 2010 and 2009 (in thousands, except per share data):

Fiscal Year 2010	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
Net sales	$393,229	$412,560	$523,825	$701,076
Gross profit	219,419	236,885	298,743	400,118
Operating expenses	168,156	172,539	187,473	250,582
Operating income	51,263	64,346	111,270	149,536
Income before income taxes	53,739	64,524	111,257	154,690
Provision for income taxes	16,043	7,965	40,353	54,959
Net income	37,696	56,559	70,904	99,731
Net income attributable to noncontrolling interest	1,789	2,074	2,748	3,074
Net income attributable to Fossil, Inc.	35,907	54,485	68,156	96,657
Comprehensive income	25,496	43,323	88,705	92,324
Comprehensive income attributable to noncontrolling interest	1,780	2,062	2,764	3,084
Comprehensive income attributable to Fossil, Inc.	23,716	41,261	85,941	89,240
Earnings per share:				
Basic	0.54	0.81	1.02	1.48
Diluted	0.53	0.80	1.00	1.46
Gross profit as a percentage of net sales	55.8%	57.4%	57.0%	57.1%
Operating expenses as a percentage of net sales	42.8%	41.8%	35.8%	35.7%
Operating income as a percentage of net sales	13.0%	15.6%	21.2%	21.3%

Fiscal Year 2009	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
Net sales	$323,027	$315,865	$381,362	$527,839
Gross profit	169,379	167,182	210,737	297,552
Operating expenses	145,576	144,706	153,373	189,568
Operating income	23,803	22,476	57,364	107,984
Income before income taxes	28,423	26,957	55,654	108,864
Provision for income taxes	9,927	9,709	19,109	36,859
Net income	18,496	17,248	36,545	72,005
Net income attributable to noncontrolling interest	1,176	625	1,270	2,034
Net income attributable to Fossil, Inc.	17,320	16,623	35,275	69,971
Comprehensive income	9,565	25,909	43,209	75,924
Comprehensive income attributable to noncontrolling interest	1,174	627	1,265	2,039
Comprehensive income attributable to Fossil, Inc.	8,391	25,282	41,944	73,885
Earnings per share:				
Basic	0.26	0.25	0.53	1.05
Diluted	0.26	0.25	0.52	1.03
Gross profit as a percentage of net sales	52.4%	52.9%	55.3%	56.4%
Operating expenses as a percentage of net sales	45.1%	45.8%	40.2%	35.9%
Operating income as a percentage of net sales	7.4%	7.1%	15.0%	20.5%

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

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We conducted an evaluation of the effectiveness of our "disclosure controls and procedures" ("Disclosure Controls"), as defined by Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of January 1, 2011, the end of the period covered by this Annual Report on Form 10-K. The Disclosure Controls evaluation was done under the supervision and with the participation of management, including our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"). There are inherent limitations to the effectiveness of any system of disclosure controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon this evaluation, our CEO and CFO have concluded that our Disclosure Controls were effective at the reasonable assurance level as of January 1, 2011.

Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the consolidated financial statements for external reporting purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness of internal control over financial reporting to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate over time.

Management, including our CEO and our CFO, assessed the effectiveness of the Company's internal control over financial reporting as of January 1, 2011. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control—Integrated Framework*. Based on its assessment and those criteria, management has concluded that the Company maintained effective internal control over financial reporting as of January 1, 2011.

Deloitte & Touche LLP, the independent registered public accounting firm that audited the Company's consolidated financial statements included in this Annual Report on Form 10-K, has issued an attestation report on the Company's internal control over financial reporting, which is included herein.

Changes in Internal Control over Financial Reporting

During the third quarter of fiscal year 2010, we implemented an enterprise resource planning system from SAP in our United Kingdom subsidiary that materially affected our internal control over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Fossil, Inc.
Richardson, Texas

We have audited the internal control over financial reporting of Fossil Inc. and subsidiaries (the "Company") as of January 1, 2011, based on *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 1, 2011, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and consolidated financial statement schedule as of and for the year ended January 1, 2011 of the Company and our report dated March 2, 2011 expressed an unqualified opinion on those consolidated financial statements and consolidated financial statement schedule.

/S/ DELOITTE & TOUCHE

Dallas, Texas
March 2, 2011

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information under the headings "Directors and Nominees," "Executive Officers," "Section 16(a) Beneficial Ownership Reporting Compliance" and "Board Committees and Meetings" in our proxy statement to be filed with the SEC pursuant to Regulation 14A, not later than 120 days after the end of the fiscal year covered by this report, is incorporated herein by reference.

We have adopted a code of ethics that applies to all our directors and employees, including the principal executive officer, principal financial officer, principal accounting officer and controller. The full text of our Code of Conduct and Ethics is published on our Investor Relations website at *www.fossil.com*. We intend to disclose future amendments to certain provisions of the Code of Conduct and Ethics, or waivers of such provisions granted to executive officers and directors, on this website within five business days following the date of such amendment or waiver.

Item 11. Executive Compensation

The information required in response to this Item is incorporated herein by reference to our proxy statement to be filed with the SEC 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 and Related Stockholder Matters

The information required in response to this Item is incorporated herein by reference to our proxy statement to be filed with the SEC 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, and Director Independence

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

Item 14. Principal Accountant Fees and Services

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

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) Documents filed as part of Report.

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	Consolidated Statements of Income and Comprehensive Income	60
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2.	Consolidated Financial Statement Schedule: See "Schedule II".	97
3.	Exhibits required to be filed by Item 601 of Regulation S-K.	98

The exhibits required to be filed by this Item 15 are set forth in the Exhibit Index accompanying 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.

March 2, 2011

FOSSIL, INC.

/s/ KOSTA N. KARTSOTIS

Kosta N. Kartsotis,
Chairman of the Board of Directors and Chief Executive Officer

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.

Signature	Capacity	Date
/s/ KOSTA N. KARTSOTIS Kosta N. Kartsotis	Chairman of the Board of Directors and Chief Executive Officer (Principal Executive Officer)	March 2, 2011
/s/ MIKE L. KOVAR Mike L. Kovar	Executive Vice President, Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)	March 2, 2011
/s/ ELAINE AGATHER Elaine Agather	Director	March 2, 2011
/s/ JEFFREY N. BOYER Jeffrey N. Boyer	Director	March 2, 2011
/s/ ELYSIA HOLT RAGUSA Elysia Holt Ragusa	Director	March 2, 2011
/s/ JAL S. SHROFF Jal S. Shroff	Director	March 2, 2011
/s/ JAMES E. SKINNER James E. Skinner	Director	March 2, 2011
/s/ MICHAEL STEINBERG Michael Steinberg	Director	March 2, 2011
/s/ DONALD J. STONE Donald J. Stone	Director	March 2, 2011
/s/ JAMES M. ZIMMERMAN James M. Zimmerman	Director	March 2, 2011

SCHEDULE II

FOSSIL, INC. AND SUBSIDIARIES
VALUATIONS AND QUALIFYING ACCOUNTS
Fiscal Years 2008, 2009 and 2010
(in Thousands)

Classification	Balance at the Begining of Period	Additions Charged (Credited) to Operations	Deductions Actual Returns or Writeoffs	Balance at End of Period
Fiscal Year 2008:				
Account receivable allowances:				
Sales returns	41,878	74,186	73,832	42,232
Bad debts	9,923	8,339	4,898	13,364
Deferred tax asset valuation allowance	1,994	3,035	138	4,891
Fiscal Year 2009:				
Account receivable allowances:				
Sales returns	42,232	59,435	61,664	40,003
Bad debts	13,364	5,906	3,307	15,963
Deferred tax asset valuation allowance	4,891	2,250	2,176	4,965
Fiscal Year 2010:				
Account receivable allowances:				
Sales returns	40,003	99,581	76,886	62,698
Bad debts	15,963	6,078	4,080	17,961
Deferred tax asset valuation allowance	4,965	1,501	2,285	4,181

EXHIBIT INDEX

Exhibit Number	Description
3.1	Third Amended and Restated Certificate of Incorporation of Fossil, Inc. (incorporated by reference to the Company's Current Report on Form 8-K filed on May 25, 2010).
3.2	Third Amended and Restated Bylaws of Fossil, Inc. (incorporated by reference to the Company's Current Report on Form 8-K filed on May 25, 2010).
10.1(2)	Fossil, Inc. 1993 Nonemployee Director Stock Option Plan (incorporated herein by reference to the Company's Registration Statement on 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 the Company's Registration Statement on Form S-1, registration no. 33-45357, filed with the Securities and Exchange Commission).
10.3(2)	Form of Award Agreement under the Fossil, Inc. 1993 Long-Term Incentive Plan (incorporated herein by reference to the Company's Registration Statement on Form S-3, registration no. 333-107476, filed with the Securities and Exchange Commission).
10.4(2)	Fossil, Inc. 1993 Savings and Retirement Plan (incorporated herein by reference to the Company's Registration Statement on Form S-1, registration no. 33-45357, filed with the Securities and Exchange Commission).
10.5(1)	Subordination Agreement of Fossil Trust for the benefit of First Interstate Bank of Texas, N.A. dated as of August 31, 1994.
10.6(1)	Master Licensing Agreement dated as of August 30, 1994, by and between Fossil, Inc. and Fossil Partners, L.P.
10.7(1)	Agreement of Limited Partnership of Fossil Partners, L.P.
10.8(1)(2)	First Amendment to the Fossil, Inc. 1993 Long-Term Incentive Plan.
10.9(1)(2)	Second Amendment to the Fossil, Inc. 1993 Long-Term Incentive Plan.
10.10(1)(2)	Amendment to the Fossil, Inc. 1993 Non-Employee Director Stock Option Plan.
10.11(2)	Third Amendment to the Fossil, Inc. 1993 Long-Term Incentive Plan (incorporated by reference to the Company's Report on form 10-K for the year ended January 3, 2009).
10.12(1)(2)	2002 Restricted Stock Plan of Fossil, Inc. and Form of Award Agreement.
10.13	Loan Agreement, by and among, Wells Fargo Bank, National Association, Fossil Partners, L.P., Fossil, Inc., Fossil Intermediate, Inc., Fossil Trust, Fossil Stores I, Inc., Intermediate Leasing, Inc., Arrow Merchandising, Inc., Fossil Holdings, LLC and FMW Acquisition, Inc., dated September 23, 2004 (incorporated by reference to the Company's Report on form 10-K for the year ended January 2, 2010).
10.14(1)	First Amendment to Loan Agreement, by and among Wells Fargo Bank, National Association, a national banking association, Fossil Partners, L.P., Fossil, Inc., Fossil Intermediate, Inc., Fossil Trust, Fossil Stores I, Inc., Intermediate Leasing, Inc., Arrow Merchandising, Inc. and Fossil Holdings, LLC, dated September 22, 2005.
10.15(1)	Second Amendment to Loan Agreement, by and among Wells Fargo Bank, National Association, a national banking association, Fossil Partners, L.P., Fossil, Inc., Fossil Intermediate, Inc., Fossil Trust, Fossil Stores I, Inc., Arrow Merchandising, Inc. and Fossil Holdings, LLC, dated February 20, 2006 to be effective as of September 22, 2005.
10.16(2)	Fourth Amendment to the Fossil, Inc. 1993 Long-Term Incentive Plan (incorporated by reference to the Company's Report on Form 10-K for the year ended January 6, 2007).

Exhibit Number	Description
10.17(2)	Fifth Amendment to the Fossil, Inc. 2004 Long-Term Incentive Plan (incorporated by reference to the Company's Report on Form 10-K for the year ended January 6, 2007).
10.18(2)	Amendment to Award Agreement, by and between Fossil, Inc. and Mark Quick, dated November 10, 2005 (incorporated by reference to the Company's Report on Form 10-K for the year ended January 6, 2007).
10.19(2)	Form of Restricted Stock Award Agreement under the Fossil, Inc. 2004 Long-Term Incentive Plan (incorporated by reference to the Company's Report on Form 10-K for the year ended January 6, 2007).
10.20(2)	Form of Restricted Stock Unit Award Agreement under the Fossil, Inc. 2004 Long-Term Incentive Plan (incorporated by reference to the Company's Report on Form 10-K for the year ended January 6, 2007).
10.21(2)	Form of Stock Appreciation Rights Award Agreement under the Fossil, Inc. 2004 Long-Term Incentive Plan (incorporated by reference to the Company's Report on Form 10-K for the year ended January 6, 2007).
10.22(2)	Sixth Amendment to the 2004 Long-Term Incentive Plan of Fossil, Inc. (incorporated by reference to the Company's Report on Form 8-K filed on May 30, 2006).
10.23	Third Amendment to Loan Agreement, by and among Wells Fargo Bank, National Association, Fossil Partners, L.P., Fossil, Inc., Fossil Intermediate, Inc., Fossil Trust, Fossil Stores I, Inc., Arrow Merchandising, Inc. and Fossil Holdings, LLC, effective as of September 21, 2006 (incorporated by reference to the Company's Report on Form 8-K filed on September 26, 2006).
10.24	Amended and Restated Stock Pledge Agreement, by and between Fossil, Inc. and Wells Fargo Bank, National Association, a national banking association, dated September 21, 2006 (incorporated by reference to the Company's Report on Form 8-K filed on September 26, 2006).
10.25	Fourth Amendment to Loan Agreement, by and among Wells Fargo Bank, National Association, a national banking association, Fossil Partners, L.P., Fossil, Inc., Fossil Intermediate, Inc., Fossil Trust, Fossil Stores I, Inc., Arrow Merchandising, Inc. and Fossil Holdings, LLC, effective as of December 22, 2006 (incorporated by reference to the Company's Report on Form 8-K filed on December 27, 2006).
10.26(2)	Form of Letter Agreement relating to outstanding stock options under the Company's long-term equity plans (incorporated by reference to the Company's report on Form 8-K filed on January 5, 2007).
10.27(2)	Form of Revised Stock Option Award Agreement under the Fossil, Inc. 2004 Long-Term Incentive Plan (incorporated by reference to the Company's Report on Form 10-K filed on August 8, 2007).
10.28(2)	Form of Revised Restricted Stock Award Agreement under the Fossil, Inc. 2004 Long-Term Incentive Plan (incorporated by reference to the Company's Report on Form 10-K filed on August 8, 2007).
10.29(2)	Form of Revised Restricted Stock Unit Award Agreement under the Fossil, Inc. 2004 Long-Term Incentive Plan (incorporated by reference to the Company's Report on Form 10-K filed on August 8, 2007).
10.30(2)	Form of Revised Stock Appreciation Rights Award Agreement under the Fossil, Inc. 2004 Long-Term Incentive Plan (incorporated by reference to the Company's Report on Form 10-K filed on August 8, 2007).
10.31(2)	Form of International Stock Option Award Agreement under the Fossil, Inc. 2004 Long-Term Incentive Plan (incorporated by reference to the Company's Report on Form 10-K filed on August 8, 2007).

Exhibit Number	Description
10.32(2)	Form of International Restricted Stock Award Agreement under the Fossil, Inc. 2004 Long-Term Incentive Plan (incorporated by reference to the Company's Report on Form 10-K filed on August 8, 2007).
10.33(2)	Form of International Restricted Stock Unit Award Agreement under the Fossil, Inc. 2004 Long-Term Incentive Plan (incorporated by reference to the Company's Report on Form 10-K filed on August 8, 2007).
10.34	Fifth Amendment to Loan Agreement, by and among Wells Fargo Bank, National Association, a national banking association, Fossil Partners, L.P., Fossil, Inc., Fossil Intermediate, Inc., Fossil Trust, Fossil Stores I, Inc., Arrow Merchandising, Inc. and Fossil Holdings, LLC, effective as of September 19, 2007 (incorporated by reference to the Company's Report on Form 8-K filed on September 24, 2007).
10.35(2)	Amendment Number One to the Fossil, Inc. 1993 Nonemployee Director Stock Option Plan (incorporated by reference to the Company's Report on Form 10-K for the year ended January 3, 2009).
10.36(2)	Fossil, Inc. 2008 Long-Term Incentive Plan (incorporated by reference to the Company's Report on Form 8-K filed on May 23, 2008).
10.37(2)	Form of Stock Option Award Agreement—U.S. Employees (incorporated by reference to the Company's Report on Form 8-K filed on June 27, 2008).
10.38(2)	Form of Stock Option Award Agreement—Non-U.S. Employees (incorporated by reference to the Company's Report on Form 8-K filed on June 27, 2008).
10.39(2)	Restricted Stock Unit Award Agreement—U.S. Participants (incorporated by reference to the Company's Report on Form 8-K filed on June 27, 2008).
10.40(2)	Restricted Stock Unit Award Agreement—Non-U.S. Participants (incorporated by reference to the Company's Report on Form 8-K filed on June 27, 2008).
10.41(2)	Restricted Stock Award Agreement—U.S. Participants (incorporated by reference to the Company's Report on Form 8-K filed on June 27, 2008).
10.42(2)	Restricted Stock Award Agreement—Non-U.S. Participants (incorporated by reference to the Company's Report on Form 8-K filed on June 27, 2008).
10.43(2)	Stock Appreciation Rights Award (incorporated by reference to the Company's Report on Form 8-K filed on June 27, 2008).
10.44	Sixth Amendment to Loan Agreement, by and among Wells Fargo Bank, National Association, a national banking association, Fossil Partners, L.P., Fossil, Inc., Fossil Intermediate, Inc., Fossil Trust, Fossil Stores I, Inc., Arrow Merchandising, Inc. and Fossil Holdings, LLC, effective as of September 19, 2008 (incorporated by reference to the Company's Report on Form 8-K filed on September 23, 2008).
10.45	Fourth Amended and Restated Revolving Line of Credit Note, by and between Fossil Partners, L.P. and Wells Fargo Bank, National Association, a national banking association, dated September 19, 2008 (incorporated by reference to the Company's Report on Form 8-K filed on September 23, 2008).
10.46	Seventh Amendment to Loan Agreement, by and among Wells Fargo Bank, National Association, a national banking association, Fossil Partners, L.P., Fossil, Inc., Fossil Intermediate, Inc., Fossil Trust, Fossil Stores I, Inc., Arrow Merchandising, Inc., Fossil Holdings, LLC and Fossil International Holdings, Inc., effective as of November 19, 2008 (incorporated by reference to the Company's Report on Form 8-K filed on November 25, 2008).

Exhibit Number	Description
10.47	Fifth Amended and Restated Revolving Line of Credit Note, by and between Fossil Partners, L.P. and Wells Fargo Bank, National Association, a national banking association, dated November 19, 2008 (incorporated by reference to the Company's Report on Form 8-K filed on November 25, 2008).
10.48	Amended and Restated Stock Pledge Agreement, by and between Fossil, Inc. and Wells Fargo Bank, National Association, a national banking association, dated November 19, 2008 (incorporated by reference to the Company's Report on Form 8-K filed on November 25, 2008).
10.49	Amended and Restated Guaranty Agreement, executed by Fossil, Inc., Fossil Intermediate, Inc., Fossil Trust, Fossil Stores I, Inc., Arrow Merchandising, Inc., Fossil Holdings, LLC and Fossil International Holdings, Inc. in favor of Wells Fargo Bank, National Association, a national banking association (incorporated by reference to the Company's Report on Form 8-K filed on November 25, 2008).
10.50	Eighth Amendment to Loan Agreement, by and among Wells Fargo Bank, National Association, a national banking association, Fossil partners, L.P., Fossil, Inc., Fossil Intermediate, Inc. Fossil Trust, Fossil Stores I, Inc., Arrow Merchandising, Inc., Fossil Holdings, LLC and Fossil International Holdings, Inc. effective as of November 18, 2009 (incorporated by reference to the Company's Report on Form 8-K filed on November 23, 2009).
10.51	Sixth Amended and Restated Revolving Line of Credit Note, by and between Fossil Partners, L.P. and Wells Fargo Bank, National Association, a national banking association, dated November 18, 2009 (incorporated by reference to the Company's Report on Form 8-K filed on November 23, 2009).
10.52	Letter Agreement Regarding Acceptance to Serve as an Advisory Director and Election to Decline Participation in the Fossil, Inc. 2008 Long-Term Incentive Plan, executed by Kenneth W. Anderson on May 20, 2009 (incorporated by reference to the Company's Report on Form 8-K filed on May 22, 2009).
10.53	Letter Agreement Regarding Acceptance to Serve as an Advisory Director and Election to Decline Participation in the Fossil, Inc. 2008 Long-Term Incentive Plan, executed by Alan J. Gold on May 20, 2009 (incorporated by reference to the Company's Report on Form 8-K filed on May 22, 2009).
10.54(2)	Summary Sheet of Non-employee Director Cash Compensation (incorporated by reference to the Company's report on Form 8-K filed on April 7, 2009).
10.55(2)	Form of Stock Option Award Agreement for Outside Directors under the Fossil, Inc. 2008 Long-Term Incentive Plan (incorporated by reference to the Company's Report on Form 8-K filed on January 5, 2009).
10.56(2)	Form of Restricted Stock Unit Award Agreement for Outside Directors under the Fossil, Inc. 2008 Long-Term Incentive Plan (incorporated by reference to the Company's Report on form 10-K for the year ended January 2, 2010).
10.57(2)	Form of Restricted Stock Unit Award Agreement under the Fossil, Inc. 2008 Long-Term Incentive Plan for Non-U.S. Participants (incorporated by reference to the Company's Report on Form 10-Q for the quarter ended April 3, 2010).
10.58(2)	Form of Stock Option Award Agreement for Non-US Optionees under the Fossil, Inc. 2008 Long-Term Incentive Plan (incorporated by reference to the Company's Report on form 10-K for the year ended January 2, 2010).
10.59(2)	Summary Sheet of Non-employee Director Compensation, dated as of January 1, 2010 (incorporated by reference to the Company's Report on form 10-K for the year ended January 2, 2010).

Exhibit Number	Description
10.60(2)	Fossil, Inc. 2010 Cash Incentive Plan (incorporated by reference to the Company's Current Report on Form 8-K filed on May 25, 2010).
10.61	Ninth Amendment to Loan Agreement, by and among Wells Fargo Bank, National Association, a national banking association, Fossil Partners, L.P., Fossil, Inc., Fossil Intermediate, Inc., Fossil Trust, Fossil Stores I, Inc., Arrow Merchandising, Inc., Fossil Holdings, LLC and Fossil International Holdings, Inc., effective as of November 17, 2010 (incorporated by reference to the Company's Current Report on Form 8-K filed on November 19, 2010).
10.62	Seventh Amended and Restated Revolving Line of Credit Note, by and among Fossil Partners, L.P. and Wells Fargo Bank, National Association, a national banking association, dated November 17, 2010 (incorporated by reference to the Company's Current Report on Form 8-K filed on November 19, 2010).
10.63	Third Amended and Restated Fossil, Inc. and Affiliates Deferred Compensation Plan (incorporated by reference to the Company's Current Report on Form 8-K filed on December 21, 2010).
10.64	Credit Agreement, dated as of December 17, 2010, by and among Fossil, Inc., Fossil Intermediate, Inc., Fossil Trust, Fossil Partners, L.P., Arrow Merchandising, Inc., Fossil Stores I, Inc., Fossil Holdings, LLC, Fossil International Holdings, Inc., Wells Fargo Bank, National Association and Wells Fargo Securities, LLC (the exhibits and schedules to the Credit Agreement have not been filed herewith and will be provided to the Securities and Exchange Commission supplementally upon request) (incorporated by reference to the Company's Current Report on Form 8-K filed on December 23, 2010).
10.65	Guaranty Agreement, dated as of December 17, 2010, executed and delivered by Fossil Intermediate, Inc., Fossil Trust, Fossil Stores I, Inc. and Fossil International Holdings, Inc. to Wells Fargo Bank, National Association (incorporated by reference to the Company's Current Report on Form 8-K filed on December 23, 2010).
10.66	Pledge Agreement, dated as of December 17, 2010, by and among Fossil, Inc. and Wells Fargo Bank, National Association (incorporated by reference to the Company's Current Report on Form 8-K filed on December 23, 2010).
21.1(1)	Subsidiaries of Fossil, Inc.
23.1(1)	Consent of Independent Registered Public Accounting Firm.
31.1(1)	Certification of Chief Executive Officer Pursuant to Section 302 of Sarbanes-Oxley Act of 2002.
31.2(1)	Certification of Chief Financial Officer Pursuant to Section 302 of Sarbanes-Oxley Act of 2002.
32.1(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.
32.2(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.
101(3)	The following materials from the Company's Annual Report on Form 10-K for the year ended January 1, 2011, formatted in XBRL (eXtensible Business Reporting Language), (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Earnings, (iii) Consolidated Statements of Cash Flows, and (iv) the Notes to the Consolidated Financial Statements.

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(1) Filed herewith.
(2) Management contract or compensatory plan or arrangement.
(3) Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

Exhibit 10.5

SUBORDINATION AGREEMENT OF FOSSIL TRUST FOR
THE BENEFIT OF FIRST INTERSTATE BANK OF TEXAS,
N.A.

WHEREAS, Fossil Partners, L.P. ("Borrower") is or may become indebted to Fossil Trust, a Delaware business trust ("Junior Creditor")

WHEREAS, Borrower desires to enter into an Amended and Restated Loan Agreement (the "Loan Agreement") with First Interstate Bank of Texas, N.A. ("Bank"); and

WHEREAS, upon Bank's acceptance of this Subordination Agreement, Borrower will be indebted to Junior Creditor only in the amounts and on the evidences of indebtedness described on Exhibit A attached hereto;

NOW, THEREFORE, to induce Bank, in its discretion, to extend credit to Borrower at any time, in such manner, upon such terms and for such amounts as may be mutually agreeable to Bank and Borrower, Junior Creditor hereby agrees to subordinate and does hereby subordinate payment by Borrower of all or any part of the indebtedness described on Exhibit A attached hereto together with any and all other indebtedness of Borrower to Junior Creditor now or hereafter incurred, created or evidenced, howsoever such indebtedness may be hereafter extended, renewed or evidenced (all such indebtedness hereinafter referred to as the "Subordinated Indebtedness"), together with all collateral, mortgage(s) and security if any, for the payment of the Subordinated Indebtedness, to the payment in full, in cash to Bank, its successors and assigns, of any and all indebtedness, direct or contingent for which Borrower may now or hereafter be obligated to Bank, including, without limitation, interest at the rate(s) provided for in the Loan Agreement which, but for the commencement of any bankruptcy, insolvency or receivership proceeding relating to Borrower, would have accrued and been payable with respect to such indebtedness, ("Senior Obligations") and any collateral, mortgage(s) and security granted to Bank therefor, and in furtherance thereof does hereby agree not to ask for, demand, sue for, take or receive all or any part of the Subordinated Indebtedness or enforce Junior Creditor's rights to any security therefor, nor ask for, demand, take or receive any security therefor, unless and until Senior Obligations have been paid in full in cash and Bank's financing arrangements with Borrower terminated. Junior Creditor also hereby agrees that Bank shall be subrogated for Junior Creditor with respect to Junior Creditor's claims against Borrower and Junior Creditor's rights, liens and security interests, if any, in any of Borrower's assets and the proceeds thereof until the Senior Obligations have been paid in full, in cash and Bank's financing arrangements with Borrower terminated.

Junior Creditor further agrees that, upon any distribution of the assets or readjustment of the indebtedness of Borrower, whether by reason of liquidation, composition, bankruptcy, arrangement, receivership, assignment for the benefit of creditors or any other action or proceeding involving the readjustment of all or any of the Subordinated Indebtedness, or the application of the assets of Borrower to the payment or liquidation thereof, Bank shall be entitled to receive payment in full in cash of the Senior Obligations prior the payment of all or any part of the Subordinated Indebtedness, and in order to enable Bank to enforce its rights hereunder in any such action or proceeding, Bank is hereby irrevocalby authorized and empowered in its sole discretion make and present for and on behalf of Junior Creditor such proofs of claim against Borrower on account of the Subordinated Indebtedness in the name of Junior Creditor or Bank may deem expedient or proper and to vote such proofs of claim in any such proceeding and to receive and collect any and all dividends or other payments or disbursements made thereon in whatever form the same may be paid and issued and to apply the same on account of any of the Senior Obligations.

Junior Creditor represents and warrants to Bank that Exhibit A attached hereto identifies all of Borrower's existing indebtedness and obligations to Junior Creditor.

Junior Creditor further agrees to execute and deliver to Bank such assignments, endorsements, or other instruments as my be required by Bank in order to enable Bank to enforce any and all such claims and to collect any and all dividends or other payments or disbursements which may be made at any time on account of all or any of the Subordinated Indebtedness.

If any money or other property is received by Junior Creditor for application on the Subordinated Indebtedness before the Senior Obligations are paid in full, in cash, Junior Creditor will hold such money and other property in trust for Bank and promptly after receipt, deliver such money and other property to Bank.

Junior Creditor hereby also agrees not to assign or transfer at any time while this Subordination Agreement remains in effect any rights, claim or interest of any kind in or to any of the Subordinated Indebtedness, either principal or interest, without (1) first notifying Bank and (2) making such assignment expressly subject to this Subordination Agreement in form and substance satisfactory to Bank. Junior Creditor will, upon request from Bank, deliver any note or other evidence of the Subordinated Indebtedness to Bank, and Bank may (or Junior Creditor, upon request from Bank, will) add a legend to such note or other evidence of the Subordinated Indebtedness stating that payment thereof is the subject of the provisions of this Subordination Agreement.

This is a continuing agreement of subordination and Bank may continue, without notice to Junior Creditor, to extend credit or other accommodation or benefit and lend moneys to or for the account of Borrower on the faith hereof. It is further understood and agreed that Bank may at any time, in its sole discretion, renew or extend the time of payment of all or any existing or future indebtedness or obligations of Borrower to Bank or waive or release any collateral which may be held therefor at any time and in reference thereto to make and enter into any such agreement or agreements as Bank may deem proper or desirable without notice to or further assent from Junior Creditor and without in any manner impairing or affecting this Subordination Agreement or any of Bank's rights hereunder.

Junior Creditor hereby expressly waives notice of acceptance by Bank of the subordination and other provisions of this Subordination Agreement and all other notices whatsoever, including, without limitation, notice of the creation of any indebtedness or liability of Borrower to Bank, notice of the giving or extension of credit by Bank to Borrower, notice of protest and default, and all other notices to which Junior Creditor might otherwise be entitled. Junior Creditor consents and agrees that Bank shall be under no obligation to marshal any assets in favor of Junior Creditor or against or in payment of any or all of the Senior Obligations. Junior Creditor hereby assents to any extension or postponement of the time of payment of the Senior Obligations or to any other indulgence with respect thereto, to any substitution, exchange or release of collateral which may at any time secure the Senior Obligations and/or to the addition or release of any other party or person primarily or secondarily liable therefor.

Junior Creditor expressly waives reliance by Bank upon the subordination and other agreements as herein provided and presentment, demand and protest. Junior Creditor agrees that Bank has made no warranties or representations with respect to the due execution, legality, validity, completeness or enforceability of the Loan Agreement or any other document or instrument evidencing or relating to the Senior Obligations, or the collectibility of the Senior Obligations, that Bank shall be entitled to manage and supervise its loans to Borrower in accordance with its usual practices, modified from time to time as it deems appropriate under the circumstances, without regard to the existence of any rights that Junior Creditor may now or hereafter have in or to any of the assets of Borrower, and that Bank shall have no liability to Junior Creditor for, and waives any claim which Junior Creditor may now or hereafter have

against Bank arising out of, (1) any and all actions which Bank, in good faith, takes or omits to take (including, without limitation, actions with respect to the creation, perfection or continuation of liens or security interests in the “Collateral” (as defined in the Loan Agreement), actions with respect to the occurrence of an “Event of Default” (as defined in the Loan Agreement), actions with respect to the foreclosure upon, sale, release of, depreciation of or failure to realize upon any of the Collateral, and actions with respect to the collection of any claim for all or any part of the Senior Obligations from any account debtor, guarantor or any other party) with respect to the Loan Agreement or any other agreement related thereto or to the collection of the Senior Obligations or the valuation, use, protection or release of the Collateral, (2) Bank’s election, in any proceeding instituted under Chapter 11 of Title 11 of the United States Code (11 U.S.C. §101 et seq.) (the “Bankruptcy Code”), of the application of Section 1111(b)(2) of the Bankruptcy Code, and/or (3) any borrowing or grant of a security interest under Section 364 of the Bankruptcy Code.

Junior Creditor hereby assumes responsibility for keeping itself informed of the financial condition of Borrower, any and all endorsers and any and all guarantors of Borrower’s indebtedness to Bank and of all other circumstances bearing upon the risk of nonpayment of the Subordinated Indebtedness that diligent inquiry would reveal, and Junior Creditor hereby agrees that Bank shall have no duty to advise Junior Creditor information known to Bank regarding such condition or any such circumstances.

This Subordination Agreement is binding on Junior Creditor, its successors and assigns, and shall inure to the benefit of Bank, its successors and assigns. Whenever reference is made in this Subordination Agreement to Borrower, such term shall include any successor or assign of Borrower, including, without limitation, a receiver, trustee or deptor-in-possession.

The foregoing notwithstanding, until such time as Bank gives Junior Creditor notice that Borrower is in default of any of its obligations to Bank, Junior Creditor may accept and retain payments identified on Exhibit A attached hereto as “Permitted Payments”.

Any notice or notification required, permitted or contemplated hereunder shall be in writing, shall be addressed to the party to be notified at the address set forth below or at such other address as each party may designate for itself from time to time by notice hereunder, and shall be deemed to have been validly served, given or delivered (i) three (3) days following deposit in the United States mails, with proper first class postage prepaid, certified mail, return receipt requested (ii) the next Business Day after such notice was delivered to a regularly scheduled overnight delivery carrier with delivery fees either prepaid or an arrangement, satisfactory with such carrier, made for the payment of such fees, or (iii) upon receipt of notice given by telecopy, mail-gram, telegram, telex, or personal delivery:

To Bank: First Interstate Bank of Texas, N.A
1445 Ross Avenue Suite 300
Dallas, Texas 75202 Attn: Jeffrey S. A. Cook

To Junior Creditor: Fossil Trust
1100 N. Market Street
Rodney Square North
Wilmington, Delaware 19890

With a copy to: Fossil Trust c/o Fossil, Inc.
2280 N. Greenville Avenue
Richardson, Texas 75082-4412
Attention: Randy S. Kercho

THIS SUBORDINATION AGREEMENT SHALL BE INTERPRETED AND THE RIGHTS AND LIABILITIES OF THE PARTIES HERETO DETERMINED IN ACCORDANCE WITH THE LOCAL LAW OF THE STATE OF TEXAS, EXCLUDING ANY CONFLICTS OF LAW RULE OR PRINCIPLE THAT MIGHT OTHERWISE REFER CONSTRUCTION OR INTERPRETATION OF THIS SUBORDINATION AGREEMENT TO THE SUBSTANTIVE LAW OF ANOTHER JURISDICTION, AND ALL OTHER LAWS OF MANDATORY APPLICATION.

BANK AND JUNIOR CREDITOR EACH HEREBY WAIVES TRIAL BY JURY WITH RESPECT TO ANY ACTION, CLAIM, SUIT OR PROCEEDING IN RESPECT TO ARISING OUT OF THIS AGREEMENT AND/OR THE CONDUCT OF THE RELATIONSHIP BETWEEN BANK AND JUNIOR CREDITOR.

This Subordination Agreement sets forth the complete undertaking and agreements of Bank and Junior Creditor with the subject matter hereof, and there are no other agreements or understandings binding upon them, including, without limitation, any conflicting provisions of any agreement of note referred to on Exhibit A attached hereto.

The parties agree to be bound by the terms and provisions of the Arbitration Program (dated 9/1/92) which is incorporated by reference herein and is acknowledged as received by the parties pursuant to which any and all disputes shall be resolved by mandatory binding arbitration upon the request of any party.

IN WITNESS WHEREOF, this Subordination Agreement has been duly executed by Junior Creditor as of August 31, 1994,

FOSSIL TRUST,

a Delaware business trust

By: /s/ Alan D. Moore
Alan D. Moore, Trustee

ACKNOWLEDGEMENT BY BORROWER

Borrower hereby acknowledges receipt of a copy of the Subordination Agreement, confirms the accuracy of the information set forth in Exhibit A attached hereto and that Exhibit A identifies all of Borrower's existing indebtedness and obligations to Junior Creditor, and agrees that it will not pay any indebtedness subordinated by the foregoing Subordination Agreement (except as otherwise permitted thereby) until all indebtedness of Borrower to Bank now existing and hereafter arising shall have been paid in full and Bank's financing arrangements with Borrower are terminated. In the event of any breach of the provisions of foregoing Subordination Agreement, Borrower agrees that, in addition to any other rights and remedies Bank may have, all of Borrower's obligations and liabilities to Bank shall, without notice or demand, become immediately due and payable, unless Bank shall otherwise elect.

FOSSIL PARTNERS, L.P

By: Fossil, Inc.,
its general partner

By: /s/ Randy S. Kercho
Name: Randy S. Kercho
Title: VP and Chief Financial Officer

EXHIBIT A

TO SUBORDINATION AGREEMENT

I. Indebtedness Owed to Junior Creditor

II. Permitted Payments

So long as, after giving effect to such payment, Borrower remains in compliance with all the covenants of the Loan Agreement and no Event of Default (as defined in the Loan Agreement) then exists, Junior Creditor may accept and retain principal and interest payments of the note evidencing the Subordinated Indebtedness. The Junior Creditor hereby acknowledges that it has been provided a copy of and has Loan Agreement.

LEGEND TO NOTE

THIS NOTE, AND PAYMENT AND ENFORCEMENT HEREOF, IS SUBJECT TO THE TERMS AND PROVISIONS OF THAT CERTAIN SUBORDINATION AGREEMENT DATED AUGUST 31, 1994, BETWEEN FOSSIL TRUST AND FIRST INTERSTATE BANK OF TEXAS, N. A. AND ACKNOWLEDGED BY FOSSIL PARTNERS, L.P., AS SUCH SUBORDINATION AGREEMENT MAY BE AMENDED FROM TIME TO TIME.

Exhibit 10.6

MASTER LICENSE AGREEMENT

This MASTER LICENSE AGREEMENT ("Agreement") is made and entered into as of August 30, 1994, by and between FOSSIL, INC., a Delaware corporation (hereinafter referred to as "Licensor") with a principal office at 2280 N. Greenville, Richardson, Texas 75082, as Licensor, and FOSSIL PARTNERS, L.P., a Texas limited partner., as well as any operating subsidiary and affiliates of Licensor that becomes a party hereto after the date hereof (hereinafter referred to collectively as "Licensees" and each a "Licensee").

WITNESSETH:

WHEREAS, Licensor owns rights in certain trademarks (and the current applications for federal registration of certain other trademarks), as well as the goodwill associated with such trademarks and applications for trademarks;

WHEREAS, each Licensee desires to obtain a nonexclusive license to use such intellectual property rights in connection with the sale, marketing and distribution of certain goods; and

WHEREAS, Licensor is willing to grant such a license to each such Licensee under the terms of this Agreement.

NOW THEREFORE, in consideration of the mutual promises contained herein, and subject to the terms and conditions of this Agreement. Licensor and each Licensee (severally, but not jointly) agree as follows:

ARTICLE I

License Grant

(a) Licensor grants to each Licensee the nonexclusive right and license to use the Marks (as defined below) in connection with the Licensed Goods (as defined below) during the tenn of this Agreement.

(b) "Marks" is defined in this Agreement as (i) the trademarks listed in Schedule A (as such may be supplemented or amended from time to time) attached hereto, having the federal registrations shown on Schedule A , and (ii) the trademarks listed in Schedule B for which applications for registration are pending in the U.S. Patent and Trademark Office as listed in Schedule B (as such may be supplemented or amended from time to time) attached hereto.

(c) "Licensed Goods" is defined in this Agreement as all goods bearing the Marks as authorized by Licensor from time to time.

(d) Each Licensee agrees that Licensor retains full ownership of the Marks and the goodwill associated with the Marks, that no Licensee shall acquire any rights in the Marks other than those rights expressly granted by Licensor pursuant to and during the term of this Agreement, and that use of the Marks by any Licensee inures to the benefit of Licensor. Each Licensee agrees to cooperate fully with Licensor in securing and maintaining the goodwill of Licensor in the Marks, and to execute and deliver any and all agreements, instruments and other documents necessary or appropriate to secure, maintain and evidence such goodwill of Licensor in the Marks.

ARTICLE II

Term

The term of this Agreement shall commence on August 31, 1994, and shall initially be for the 12-month period immediately following such date. This Agreement shall automatically be renewed for successive 12-month periods unless, prior to the end of the initial term or any renewal tenn, Licensor or Licensee gives the other party notice of its intention not to renew this Agreement, in which case this Agreement shall not be renewed with respect to each Licensee who has given such notice to Licensor or who has been given such notice by Licensor.

ARTICLE III

Default, Termination

(a) In the event that either Licensor or any Licensee is in breach of or default under the terms of this Agreement (a "Default"), the other party may serve on the defaulting party a notice of default ("Notice of Default") specifying the nature of the Default. If the Default is not cured within fifteen (IS) days from service of the Notice of Default, the other party may then serve a notice (the "Termination Notice") that it is terminating this Agreement and the Agreement shall be automatically terminated, in which case this Agreement shall be terminated with respect to each Licensee who has served such Termination Notice on Licensor or upon whom such Termination Notice has been served by the Licensor. Notwithstanding the foregoing, this Agreement shall be terminated immediately without notice as to any Licensee in the event of the bankruptcy or judicial or administrative declaration of insolvency of such Licensee, or in the event that such Licensee makes any assignment for the benefit of creditors (such events being collectively referred to hereinafter as "Events of Automatic Termination" and each an "Event of Automatic Termination"), provided, however, that such termination without notice shall apply only with respect to the Licensee or Licensees to whom such an Event of Automatic Termination has occurred, and the license of each of the other Licensees to whom such an Event of Automatic Termination has not occurred shall continue without regard to the status of the license of such Licensee or Licensees subject to such Event of Automatic Termination.

(b) Upon expiration or termination of this Agreement for any reason, all rights granted to a Licensee hereunder shall cease, and any such Licensee will immediately refrain from further use of the Marks, take down all signs displaying the Marks, and destroy or return to Licensor all other materials containing, displaying or using the Marks.

ARTICLE IV

Royalty Payments

Licensor acknowledges and agrees that Licensee will incur expenses related to the marketing and promotion of the Licensed Good as well as increasing the recognition and goodwill associated with the Marks covered by this agreement. In consideration of Licensee's agreement and undertaking to incur such expenses and to use its best efforts to increase the notoriety and consumer awareness of the Marks, all for the benefit of Licensor. Licensor and Licensee agree that no royalty payment or licensing fee shall be payable by Licensee to Licensor hereunder.

ARTICLE V

Books of Account and Records

Each Licensee agrees to keep accurate books of account and records covering all transactions relating to the Licensed Goods. Licensor and its authorized representatives shall have the right to examine and copy said books of account and other records; provided, however, that such examination and copying shall be done at the usual place of business (and only during reasonable hours) of the Licensee whose books of account and records Licensor desires to examine and copy. unless such restrictions are not required by said Licensee.

ARTICLE VI

Quality Control; Advertising Materials

(a) Each Licensee agrees to maintain such quality of Licensed Goods sold or otherwise provided under or in connection with the Marks in accordance with specifications set forth by Licensor from time to time. Licensor reserves the right to inspect the quality of such services to ensure that the quality required is maintained.

(b) Licensor may from time to time require any Licensee to furnish Licensor samples of advertising or other promotional materials to be used in connection with the Licensed Goods. Each Licensee agrees that it will use the Marks in any reasonable manner required by Licensor in order to identify Licensor's rights in such Marks.

ARTICLE VII

Indemnity/Hold Harmless

Each Licensee agrees that it is wholly responsible for all goods offered or sold by it, and that Licensor shall have no liability for or in connection with any services offered, sold or otherwise provided by Licensee in connection with the Marks. Each Licensee severally agrees to indemnify and hold harmless Licensor and the officers, directors, shareholders, employees and agents of Licensor, from and against any and all claims, demands, causes of action, damages, costs and expenses, including court costs and reasonable attorneys' fees, caused by or arising out of or in connection with the use by such Licensee of the Marks or the offer, sale or provision of any such services by a Licensee, including without limitation, claims or actions for negligence, breach of contract, strict liability and patent or copyright infringement.

ARTICLE XIII

Miscellaneous

8.1 Headings. All article or section headings in this Agreement are for reference only and shall not be deemed to control or affect in any way the meaning or construction of any of the provisions hereof.

8.2 Binding Effect. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns.

8.3 Counterparts. This Agreement may be executed in any number of counterparts, all of which together shall constitute one agreement binding on the parties hereto,

8.4 Applicable Law. This Agreement shall be treated as though it were executed in Dallas county, Texas and shall for all purposes be. governed by and interpreted and enforced in accordance with the laws of the State of Texas, without regard to the choice of law principles thereof. Each Licensee hereby agrees that any action arising out of this Agreement shall be litigated under the laws of the State of Texas in a Court of competent jurisdiction in Dallas county, Texas.

8.5 Notices. Any notice, request, consent or communication (collectively a "Notice") under this Agreement shall be effective only if it is in writing and (a) personally delivered, (b) sent by certified or registered mail, return receipt requested, postage prepaid, (c) sent by a nationally recognized overnight delivery service, with delivery confirmed, or (d) telexed or telecopied. with receipt confirmed, addressed, if to Licensor, as follows:

Fossil. Inc
2280 N. Greenville
Richardson, Texas 75082
Attention: General Counsel

and if to a Licensee, to the address of such Licensee on the books and records of Licensor, or to such other address or addresses as shall be furnished in writing by any party to the other party. Unless the sending party has actual knowledge that a Notice was not received by the intended recipient, a Notice shall be deemed to have been given, served and received (i) as of the date when personally delivered, (ii) three days after being deposited with the United States mail properly addressed, (iii) the next day after being delivered to said overnight delivery service, properly addressed and prior to such delivery service's cut off time for next day delivery, or (iv) when receipt of the telex or telecopy is confirmed, as the case may be.

8.6 Entire Agreement; Modification. This Agreement contains the complete expression of the agreement between the parties with respect to the matters addressed herein and there are no promises, representations, or inducements except as herein provided. The terms and provisions of this Agreement may not be modified, supplemented or amended except in writing signed by both parties hereto. All terms and provisions of this Agreement shall be binding upon and inure to the benefit of and be enforceable by the respective successors and permitted assigns of the parties hereto.

8.7 Assignment. Either party hereto shall have the right to assign this Agreement only to (i) any successor assignee of such party that may result from any merger, consolidation or reorganization or (ii) another corporation that acquires all or substantially all of such party's assets, business and liabilities.

8.8 No Waiver. Failure by either party hereto to enforce at any time or for any period of time any provision or right hereunder shall not constitute a waiver of such provision or of the right of such party thereafter to enforce each and every such provision.

8.9 Severability. The provisions of this Agreement are severable, and if any provision shall be held illegal, invalid, or unenforceable, the parties affected thereby shall substitute for the affected provision an enforceable provision that approximates the intent and economic benefit of the affected provision as closely as possible, but all other provisions shall continue in full force and effect.

8.10 Intent.

(a) Notwithstanding anything herein to the contrary, it is the intent of the parties that Schedule A and Schedule B attached hereto may be supplemented or amended, from time to time, by Licensor, so as to add additional Marks (but no additional royalty under Article IV hereof shall be payable). Such supplement or amendment shall be effective upon notice by Licensor to a Licensee of such supplement or amendment, which such notice shall contain a copy of the supplemented or amended schedule for Licensee's files.

(b) No language herein shall be construed so as to give a right to Licensor to remove a Mark from the list of Marks in Schedule A or Schedule B , unless consented to in writing by each Licensee who would be affected by such removal; provided, however, that this provision shall not limit the ability of Licensor to utilize its remedies and/or rights specified in Article III hereof with respect to default and termination.

(c) It is the intent of this Agreement that each Licensee is to be severally (but not jointly) bound to the provisions hereof. Nothing in this Agreement shall be construed so as to make any Licensee responsible for any action, liability, breach or default of any other Licensee to this Agreement; nor shall this Agreement be construed so as to give any Licensee any rights or benefits to which any other Licensee under this Agreement may be entitled.

IN WITNESS WHEREOF, this Master License Agreement has been duly executed by the parties hereto as of the date first written above.

LICENSOR:

FOSSIL, INC.

By: /s/ T. R. Tunnell
Name: T. R. Tunnell
Title: VP, Secretary & General Counsel

LICENSEE:

FOSSIL PARTNERS, L.P.

By Fossil, Inc./General Partner

By: /s/ Randy Kercho
Name: Randy S. Kercho
Title: VP & CEO

Exhibit 10.7

AGREEMENT OF
LIMITED PARTNERSHIP
OF
FOSSIL PARTNERS, L.P.

THIS AGREEMENT OF LIMITED PARTNERSHIP is made and entered into to be as of the 31st day of August, 1994 (the "Effective Date"), by and between FOSSIL, INC., a Delaware corporation, as general partner (the "General Partner") and FOSSIL TRUST a Delaware business trust, as limited partner (the "Limited Partner").

WITNESSETH:

WHEREAS, the parties desire to associate themselves herein; and

WHEREAS, the parties desire to set forth their understandings with respect to the foregoing.

NOW, THEREFORE, in consideration of the foregoing premises and the mutual promises herein contained, the parties agree as follows:

ARTICLE I

DEFINITIONS

As used herein, the following terms defined in this Article I shall have the following meanings for purposes of this Agreement, unless the context otherwise specifies or requires a different meaning.

1.1 "Act" means the Texas Uniform Limited Partnership Act, V.A.T.S. art 6132a-1, as amended from time to time.

1.2 "Adjusted Capital Account Deficit" means, with respect to any Partners, the deficit balance, if any, in such Partner's Capital Account as of the end of the relevant fiscal year, after giving effect to the following adjustments:

(a) Credit to such Capital Account any amounts that such Person is obligated to restore pursuant to any provision of this Agreement or is deemed to be obligated to restore pursuant to the penultimate sentences of Sections 1.704-1T(b)(4)(iv)(f) and 1.704-1T(h)(4)(iv)(h)(5) of the Regulations; and

(b) Debit to such Capital Account the items described in Sections 1.704-1(b)(2)(ii)(d)(4), 1.704-1(b)(2)(ii)(d)(5) and 1.704-1(b)(2)(ii)(d)(6) of the foregoing definition of Adjusted Capital Account Deficit is intended to comply with the provisions of Section 1.704-1(b)(2)(ii)(d) of the Regulations and shall be interpreted consistently therewith.

1.3 "Adjusted Capital Contributions" means, as of any day, a Partner's Capital Contributions, adjusted as follows:

(a) Increased by the amount of any Partnership liabilities that, in connection with distributions pursuant to Sections 5.4 and 13.2 hereof, are assumed by such Partner or are secured by any Partnership Property distributed to such Partner;

(b) Increased by any amounts actually paid by such Partner to any Partnership lender, and

(c) Reduced by the amount of cash and the Gross Asset Value of any Partnership Property distributed to such Partner pursuant to Sections 5.4, 5.6 and 13.2(c) hereof and the amount of any liabilities of such Partner assumed by the Partner or that are secured by any property contributed by such Partner to the Partnership.

In the event any Partner transfers all or any portion of its Interest in accordance with the terms Agreement, its transferee shall succeed to the Adjusted Capital Contribution of the to the extent it relates to the transferred Interest in the Partnership.

1.4 "Affiliate" means, with respect to any Person, any person that directly or indirectly through one or more intermediaries controls, is controlled by, or is under common control with, the specified Person. As used herein, the term "control" means the possession, directly of indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through ownership of voting securities, by contract or otherwise.

1.5 "Agreement" or "Partnership Agreement" means this Agreement of Limited Partnership, as amended from time to time. Words such as "herein," "hereinafter, "hereto" and "hereunder" refer to this Agreement as a whole, unless the context otherwise requires.

1.6 "Bankruptcy" of a Partner shall mean: (i) the filing by such Partner of a voluntary petition seeking liquidation, reorganization, arrangement or readjustment, in any form, of its debts under Title 11 of the United States Code or any other federal or state insolvency law, or such Partner filing an answer consenting to or acquiescing in any such petition; (ii) the making by such Partner of any assignment for the benefit of its creditors; or (iii) the expiration of 60 days after the filing of an involuntary petition under Title 11 of the United States Code, an application for the appointment of a receiver for the assets of such Partner or an involuntary seeking liquidation, reorganization, arrangement or readjustment of its debt under any other federal or state insolvency law, provided that the same shall not have been vacated, set staved within such 60-day period.

1.7 "Capital Account" means the capital account maintained for a Partner pursuant to Section 4.6.

1.8 "Capital Contribution" or "Contribution" means, with respect to any the amount of money and the initial Gross Asset Value of any Property (other than money) contributed to the Partnership with respect to the Interest in the Partnership held by such Person. The principal amount of a promissory note that is not readily traded on an established securities market and that is contributed to the Partnership by the maker of the note shall not be m the Capital Account of any Person until the Partnership makes a taxable disposition of the note or until (and to the extent) principal payments are made on the note, all in accordance with Section 1.704-1(b)(2)(iv)(d)(2) of the Regulations.

1.9 "Code" means the Internal Revenue Code of 1986, as amended from time to time, any successor thereto and applicable Regulations thereunder.

1.10 “Depreciation” means, for each fiscal year or other period, an amount equal to the depreciation, amortization, or other cost recovery deduction allowable with respect to an asset for such year or other period, except that if the Gross Asset Value of an asset differs from its adjusted basis for federal income tax purposes at the beginning of such year or other Depreciation shall be an amount that bears the same ratio to such beginning Gross Asset Value as the federal income tax depreciation. amortization, or other cost recovery deduction for such year or other period bears to such beginning adjusted tax basis; provided, however, that in the federal income tax depreciation, amortization. or other cost recovery deduction for such year is zero. Depreciation shall be determined with reference to such beginning Gross Asset Value using any reasonable method selected by the General Partner.

1 .11 “Entity” means any corporation, association, partnership, joint venture, estate or other organization.

1.12 “General Partner” means Fossil, Inc., or any other Person that becomes partner of the Partnership pursuant to the terms of this Agreement. “General Partners” shall mean all such Persons.

1.13 “Gross Asset Value” means with respect to any asset, the asset’s adjusted basis for federal income tax purposes, except as follows:

(a) The initial Gross Asset Value of any assets contributed by a Partner to the Partnership shall be the gross fair market value of such asset, as determined by the contributing Partner and the Partnership;

(b) The Gross Asset Values of all Partnership assets shall be adjusted to equal their respective gross fair market values, as determined by the General Partner, as of the following times: (i) the acquisition of an additional interest in the Partnership in any new or existing Partner in exchange for more than a de minimis Capital Contribution; (ii) the distribution by the Partnership to a Partner of more than a de minimis amount of Property as consideration for an Interest in the Partnership; (iii) the transfer of an Interest in the Partnership, whether by sale, gift, or otherwise, to a Person, whether it is a new or existing Partner; (iv) a distribution by the Partnership pursuant to section 5.4 hereof; and (v) the liquidation of the Partnership within the meaning of Section 1.704-1(b)(2)(ii)(g) of the Regulations; provided, however, that adjustments pursuant to clauses (i) through (iv) above shall be made only if the General Partner reasonably determines that such adjustments are necessary or appropriate to reflect the relative economic interests of the Partners in the Partnership:

(c) The Gross Asset Value of any Partnership Property distributed to any Partner shall be the gross fair market value of such Property on the date of distribution; and

(d) The Gross Asset Values of Partnership assets shall be increased (or decreased) to reflect any adjustments to the adjusted basis of such assets pursuant to Section 734(b) or Section 743(b) of the Code, but only to the extent that such adjustments ire taken into account in determining Capital Accounts pursuant to Section a 7()4-1(b)(2)(iv)(m) of the Regulations and Section 5.3(i) hereof; provided, however, that Gross Asset Values shall not be adjusted pursuant to this Section 1.13 to the extent the General Partner determines that an adjustment pursuant to Section 1.13(b) hereof is necessary or appropriate in connection with a transaction that would otherwise result in .n adjustment pursuant to this Section 1.13.

If the Gross Asset Values of an asset has been determined or adjusted pursuant to Section 1.13(a), (b) or (d) hereof, such Gross Asset Value shall thereafter be adjusted by the : 7~pm.mation taken into account with respect to such asset for purposes of computing Profits and Losses.

1.14 “Limited Partner” means Fossil Trust any person or entity that is or becomes a limited partner of the Partnership pursuant to the terms of this Agreement. “Limited Partners” shall mean all such Persons.

1.15 “Net Cash From Operations” means the gross cash proceeds from Partnership operations, less the portion thereof used to pay or establish reserves for all Partnership expenses, debt payments, capital improvements, replacements, and contingencies, all as determined by the General Partner. “Net Cash From Operations” shall not be reduced by depreciation, amortization, cost recovery deductions, or similar allowances, but shall be increased by any reductions of reserves previously established.

1.16 “Net Cash From Sales or Refinancings” means the net cash proceeds from all sales and other dispositions (other than in the ordinary course of business) and all refinancings of Property, less any portion thereof used to establish reserves, all as determined by General Partner. “Net Cash From Sales or Refinancings” shall include all principal and interest payments with respect to any note or other obligation received by the Partnership in connection with sales and other dispositions (other than in the ordinary course of business) of Partnership Property.

1.17 “Nonrecourse Deductions” has the meaning set forth in Section 1.704-T(b)(4)(iv)(b) of the Regulations. The amount of Nonrecourse Deductions for a Partnership fiscal year equals the excess, if any, of the net increase, if any, in the amount of Partnership Minimum Gain during that fiscal year over the aggregate amount of any distributions during that fiscal year of proceeds of a Nonrecourse Liability that are allocable to an increase in Partnership Minimum Gain, determined according to the provisions of Section 1.704-1T(b)(4)(iv)(b) of the Regulations.

1.18 “Nonrecourse Liability” has the meaning set forth in Section “ -1 .704-1T(b)(4)(iv)(k)(3) of the Regulations.

1.19 “Partner Minimum Gain” means an amount, with respect to each Partner Nonrecourse Debt, equal to the Partnership Minimum Gain that would result if such Partner Nonrecourse Debt were treated as a Nonrecourse Liability, determined in accordance with 1,7 04-1T(b)(4)(iv)(h) of the Regulations.

1.20 “Partner Nonrecourse Debt” has the meaning set forth in Section T(b)(4)(iv)(k)(4) of the Regulations.

1.21 “Partner Nonrecourse Deductions” has the meaning set forth in Section1.704-1T(b)(4)(iv)(h)(3) of the Regulations. The amount of Partner Nonrecourse Deductions with respect to a Partner Nonrecourse Debt for a Partnership fiscal year equals the excess, if any of the net increase, if any, in the amount of Partner Minimum Gain attributable to such Partner Nonrecourse Debt during that fiscal year over the aggregate amount of any distributions during that fiscal year to the Partner that bears the economic risk of loss for such Partner Nonrecourse Debt to the extent such distributions are from the proceeds of such Partner Nonrecourse Debt and are allocable to an increase in Partner Minimum Gain attributable to such Partner Nonrecourse Debt determined in accordance with Section 1.704-1T(b)(4)(iv)(h)(3) of the Regulations.

1.22 “Partners” means all General Partners and all Limited Partners, where no distinction is required by the context in which the term is used herein. “Partner” means any one of the Partners. All references in this Agreement to a majority in interest of the partners shall mean Partners (or Partners within such classification, as the case may be) who are entitled to an allocation of more than 50% of any Profits at such point in time pursuant to Section 5.1 thereof.

1.23 “Partnership” means the partnership formed by this Agreement of Limited Partnership, and the partnership continuing the business of this Partnership in the event of dissolution as herein provided.

1.24 “Partnership Interest” or “Interest” means the ownership interest of a .r in the Partnership including any and all benefits to which the holder of such an interest may be entitled as provided in this Agreement, together with all obligations of such Person to comply with the terms and provisions of this Agreement.

1.25 “Partnership Minimum Gain” has the meaning set forth in Section 1.704-1T(b)(4)(iv)(a)(2) and 1.704-1T(b)(4)(iv)(c) of the Regulations.

1.26 “Profits” and “Losses” means, for each fiscal year or other period, an amount equal to the Partnership’s taxable income or loss for such year or period, determined in accordance with Section 703(a) of the Code (for this purpose, all items of income, gain, loss or deduction required to be stated separately pursuant to Section 703(a)(1) of the Code shall be included in taxable income or loss), with the following adjustments:

(a) Any income of the Partnership that is exempt from federal income tax and not otherwise taken into account in computing Profits or Losses pursuant to this Section 1.26 shall be added to such taxable income or loss;

(b) Any expenditures of the Partnership described in Section 705(a)(2)(B) of the Code or treated as Section 705(a)(2)(B) of the Code expenditures pursuant to Section 1.704-1(b)(2)(iv)(1) of the Regulations and not otherwise taken into amount in computing Profits or Losses pursuant to this Section 1.26, shall be subtracted from such taxable income or loss:

(c) In the event the Gross Asset Value of any Partnership Property is adjusted pursuant to Section 1.13(b) or Section 1.13(c) hereof, the amount of such adjustment shall be taken into account as gain or loss from the disposition of such Property for purposes of computing Profits or Losses;

(d) Gain or loss resulting from any disposition of Property with respect to which gain or loss is recognized for federal income tax purposes shall be computed by reference to the Gross Asset Value of the property disposed of, notwithstanding that the adjusted tax basis of such Property differs from its Gross Asset Value;

(e) In lieu of depreciation, amortization and other cost recovery deductions taken into account in computing such taxable income or loss, there shall be taken into account Depreciation for such fiscal year or other period, computed in accordance with Section 1.10 hereof; and

(f) Notwithstanding any other provision of this Section 1.26, any items that are specially allocated pursuant to Section 5.3 hereof shall not be taken into account in computing Profits or Losses.

1.27 “Property means all real and personal property, fixtures, equipment, intangible property and other assets, and interests in all of the foregoing, now or hereafter acquired by the Partnership and any improvements or additions thereto.

1.28 “Regulations” means the Income Tax Regulations promulgated under the Code, as such Regulations may be amended from time to time (including corresponding provisions of succeeding regulations).

1.29 “Transfer” means, as a noun, any voluntary or involuntary transfer, sale, hypothecation, gift, or other disposition and, as a verb, voluntarily or involuntarily to transfer sell. pledge, hypothecate, gift or otherwise dispose of.

ARTICLE II

ORGANIZATION

2.1 Formation. The Partners hereby form the Partnership pursuant to the provision of the Act and the terms and conditions of this Agreement. The General Partner has all he rights and duties of a “general partner” under the Act and this Agreement, and the Limited Partner has all of the rights and duties of a “limited partner” under the Act and this Agreement.

2.2 Name and Principal Office. The name of the Partnership shall be “Fossil Partners, L.P.”, or such other name as the Partners shall hereafter agree upon. All assets of Partnership shall be held in such name (and not in the name of any Partner), and all business and affairs of the Partnership shall be conducted under such name, or under any name licensed for use by the Partnership by the General Partner. The principal office of the Partnership shall be at the business mailing address and street address of the General Partner, to wit: 2280 N. Greenville, Richardson, Texas 75082-4412, or such other place as the General Partner may from time to time designate. In addition, the General Partner may establish and maintain such other offices and places of business within and without the State of as it may from time to time determine.

2.3 Registered Agent. The name of the Partnership’s registered agent for services of process is T.R. Tunnell, Vice President, Secretary and General Counsel, of Fossil, Inc., or any successor as appointed by the General Partner. The address of the registered agent and the address of the registered office is 2280 N. Greenville, Richardson, Texas 75082.

2.4 Filings; Certificate of Limited Partnership.

(a) The General Partner shall execute and cause the Certificate of Limited Partnership described in the Act (the “Certificate”) to be filed with the Secretary of State of Texas as required by Section 2.5 of this Agreement and the provisions of the Act and shall execute and cause to be filed, recorded and/or published such other certificates or documents with the appropriate authorities of the State of Texas as may be determined by the General Partner to be reasonable and necessary or appropriate for the formation, continuation, registration and/or operation of a limited partnership in any state in which the Limited Partnership has elected or may elect to do business. Pursuant to Article III hereof, the Partnership has elected to do business in the State of Texas. The General Partner shall execute such fictitious name registrations as are

required by law with regard to the use of the name of the Partnership. The General Partner shall take any and all other actions reasonably necessary to perfect and maintain the status of the Partnership as a “limited partnership,” its Limited Partner as a “limited partner” and its General Partner as a “general partner” under the Act and the laws of the State of Texas or any other state in which the Partnership has elected elect to do business.

(b) To the extent that the General Partner determines such action to be reasonable and necessary or appropriate, the General Partner shall execute and file amendments to the Certificate and do all the things to maintain the Partnership as a limited partnership under the Act and other applicable laws of the State of Texas or any other state in which the Partnership has elected or may elect to do business. Subject to applicable law, the General Partner may omit from the Certificate filed with the Secretary of State of Texas and from any other certificates or documents filed in any other state in order to register and/or qualify the to do business therein and from all amendments thereto, any information, including, without limitation, the name and address of the Limited Partner and information relating to the Contributions and shares of Profits and Losses and compensation of the General Partner. Subject to the terms of Section 7.3, the General Partner shall not be required to deliver or mail a copy of the Certificate of Limited Partnership, any qualification document or any amendment thereto the Limited Partner.

(c) To the extent that the General Partner determines such action to be and necessary or appropriate, the General Partner shall cause a certified copy of the Certificate and any amendments thereto to be recorded in the office of the county recorder in every county in which the Partnership owns real property.

(d) Upon the dissolution of the Partnership, the General Partner (or, in the event there is no remaining General Partner, any Person selected pursuant to Section 13.2 thereof) shall promptly execute and cause to be filed certificates of dissolution and/or certificates of cancellation in accordance with the Act and the law of any other states or jurisdictions in which the Partnership has filed a Certificate or has registered and/or qualified to do business therein.

2.5 Term. The existence of the Partnership as a limited partnership shall commence on the date the Certificate is filed in the office of the Secretary of State of Texas in accordance with the Act, or such other office as is appropriate under applicable state law, and shall continue until the winding up and liquidation of the Partnership and its business and affairs following Liquidating Event, as provided in Article XIII hereof.

2.6 Independent Activities. The General Partner and the Limited Partner may, notwithstanding this Agreement, engage in whatever activities they choose, whether. the same or as competitive with the Partnership or otherwise, without having or incurring any obligation to offer any interest in such activities to the Partnership or any Partner. Neither this Agreement nor any activity undertaken pursuant hereto shall prevent any Partner from engaging in such activities or require any Partner to permit the Partnership or any Partner to participate in any such activities and as a material part of the consideration for the execution of this Agreement by each Partner, each Partner hereby waives, relinquishes, and renounces any such right or claim of participation.

ARTICLE III

PURPOSE

3.1 Business Purpose. The purpose of the Partnership shall be to engage in the business of manufacturing, marketing, developing and distributing fashion watches and other fashion accessories in the United States and other international markets, and to do all other things necessary, appropriate or advisable in connection with such purposes. The Partnership may also conduct such other business or businesses or activity or activities: (a) in Texas as are under the Act and other laws of the State of Texas and (b) in any other state where the Partnership has properly registered and/or qualified to do business as are lawful under the Act other laws of Texas and such other state.

3.2 Powers. The Partnership shall have such powers as are necessary or appropriate to carry out the purposes of the Partnership, including, without limitation:

(a) to have and maintain one or more offices within or without the State of Texas and, in connection therewith, to do such acts and things and incur such expenses as may be necessary or advisable in connection with the maintenance of such office or offices and the conduct of the business and affairs of the Partnership;

(b) to open, maintain and close accounts with one or more banks or other financial institutions, and to draw checks and other orders for the payment of money;

(c) to guarantee on a non-recourse basis borrowings of the Partners used to acquire Property for the Partnership, and, in connection therewith, to pledge and grant security interests in Partnership Property;

(d) to borrow money in furtherance of the purposes set forth in Section 3.1 hereof, and to secure the payment of such borrowing or other obligations of the Partnership by the pledge of, or the grant of security interests in, all or part of the Property of the Partnership;

(e) to enter into, make and perform all such contracts, agreements and other undertakings as may be necessary, advisable or incident to the carrying out of the purpose set forth in Section 3.1 hereof; and

(f) to engage in any other lawful act or activity that may be necessary or appropriate in the pursuance of the foregoing, including, without limitation, the retention of employees, agents, independent contractors, attorneys, accountants and investment counselors and the preparation and filing of all Partnership tax returns.

3.3 Limited Purpose. The Partnership shall be a limited partnership between the Partners solely and exclusively for the business purposes specified in Section 3.1, and this Agreement is not intended and shall not be deemed to create a partnership between the Partners with respect to any activities whatsoever other than the activities that are actually undertaken by the Partnership and that are within, or in pursuance of, the business purposes and powers of the Partnership as specified in Section 3.1 and Section 3.2.

3.4 Separate Business. The Partnership shall keep its business and affairs and all of its Property and operations separate and distinct from the business, affairs, assets and operation of the Partners and of any other Person or Entity in which any of them may be or interested.

ARTICLE IV

CAPITAL CONTRIBUTIONS

4.1 Partners. On the Effective Date hereof, Fossil, Inc. ("Fossil") shall to the Partnership on behalf of and in the name of Fossil, as General Partner, and Fossil Trust, as Limited Partner, respectively, those assets and property currently owned by Fossil, all as more fully described in that certain Conveyance Agreement, dated as of even date herewith, between the Partnership and Fossil (the "Conveyance Agreement") in exchange for the issuance (i) to Fossil of a 1 % general partnership interest in the Partnership ("Fossil Partnership Interest"), and (ii) to Fossil Trust of a 99 % limited partnership interest in the Partnership ("Trust Interest"). From time to time thereafter as necessary, the General Partner shall make Capital Contributions to the Partnership in cash, check or other property, in an amount necessary to maintain the General Partner's Capital Account balance at a level that equals Fossil Partnership Interest. Such cash shall be deposited in the Partnership's accounts as soon as practicable after the amount thereof has been computed.

4.2 Additional Capital Contributions. No Partner shall be required to make additional Capital Contributions to the Partnership; however, the General Partner may permit any Partner to make one or more additional Capital Contributions to the Partnership at such times and in such amounts as the General Partner, in its absolute discretion, may determine.

4.3 Record of Contributions. The books and records of the Partnership shall include true and full information regarding the Capital Contributions by each Partner to the Partnership.

4.4 No Withdrawal of Interest. No Partner shall be entitled to demand or a return of any part of such Partner's Capital Contribution or Capital Account, or to withdraw from the Partnership, without the consent of all Partners, except as otherwise provided in this Agreement. Under circumstances requiring a return of any Capital Contributions, no Partner shall have the right to receive Property other than cash, except as may be specifically provided herein. No Partner shall be entitled to interest on any part of such Partner's Capital Contribution or Capital Account at any time.

4.5 Capital Accounts. The Partnership shall maintain for each Partner a separate Capital Account in accordance with the rules of Section 1.704-1(b)(2)(iv) of the Regulations. The initial Capital Account of each Partner is its respective Contribution set forth in Section 4.1 hereof. Such Capital Account shall be maintained in accordance with the following provisions:

(a) To each Person's Capital Account there shall be credited such Person's Capital Contributions, such Person's distributive share of Profits and any items in the nature of income or gain that are specially allocated pursuant to Section 5.3 hereof, and the amount of any Partnership liabilities assumed by such Person or that are secured by any Property distributed to such Person.

(b) To each Person's Capital Account there shall be debited the amount of cash and the Gross Asset Value of any Property distributed to such Person pursuant to any provision of this Agreement, such Person's distributive share of Losses and any items in the nature of expenses or losses that are specially allocated pursuant to Section 5.3 hereof, and the amount of any liabilities of such Person assumed by the Partnership or that are secured by any property contributed by such Person to the Partnership.

(c) In the event all or a portion of an Interest in the Partnership is transferred in accordance with the terms of this Agreement. the transferee shall succeed to the Capital Account of the transferor to the extent it relates to the transferred Interest.

(d) In determining the amount of any liability for purposes of Sections 1.3(a), 1.3(c), 4.5(a) and 4.5(b) hereof, there shall be taken into account Section 752(c) of the Code and any other applicable provisions of the Code and Regulations.

The foregoing provisions and the other provisions of this Agreement relating to the maintenance of Capital Accounts are intended to comply with Section 1.704-1(b) of the Regulations, and shall be interpreted and applied in a manner consistent with such Regulations. In the event the General Partner shall determine that it is prudent to modify the manner in which the Capital Accounts, or any debits or credits thereto (including, without limitation, debits or credits relating to liabilities that are secured by contributed or distributed property or that are assumed by the Partnership or its Partners), are computed in order to comply with such Regulations, the General Partner may make such modification, provided that it is not likely to have a material effect on amounts distributable to any Person pursuant to Article XIII hereof upon the dissolution of the Partnership. The General Partner also shall: (i) make any adjustments that are necessary or appropriate to maintain equality between the Capital Accounts of the Partners and the amount of Partnership capital reflected on the Partnership's balance sheet, as computed for book purposes in accordance with Section 1.704-1(b)(2)(iv)(q) of the Regulations; and (ii) make any appropriate modifications in the event unanticipated events (for example, the acquisition by the Partnership of oil or gas properties) might otherwise cause this Agreement not to comply with Section 1.704-1(b) of the Regulations.

4.6 Loans- Partnership Indebtedness.

(a) Any Partner may make a loan to the Partnership in such amount, at such time and on such terms and conditions as may be approved by the General Partner; provided however, that the Partner may not charge the Partnership interest at a rate greater than the rate (including points or other financing charges or fees) that would be charged the Partnership (without reference to the Partner's financial abilities or guaranties) by unrelated lenders or comparable leans. No loan by any Partner to the Partnership shall be considered as a Contribution for any purpose. The Partnership shall not loan or advance funds to any Partner nor permit its Property to be pledged or hypothecated to secure the obligation of any Partner, except as provided in Section 3.2(b).

(b) The Partnership shall from time to time arrange such loan or loans with such persons, firms or corporations as are willing to make the same at such rates, for such and upon such other terms and conditions as the General Partner shall approve, and the Partnership shall have the power and authority to incur such obligations and to execute such notes, pledges, security interests, conditional assignments of Partnership Property or other documents as shall be necessary or advisable in connection with said loan or loans. In the event guaranties of the General Partner are required in connection with any loan approved by the Partnership, the General Partner agrees to execute the same.

(c) Except as otherwise provided by this Agreement, no Limited Partner shall be liable for the debts, liabilities, contracts or other obligations of the Partnership. Except as provided by this Agreement, any other agreements among the Partners, or applicable a Limited Partner shall be liable only to make its Capital Contribution and shall not be required to lend any funds to the Partnership or, after its Capital Contribution has been paid, any additional Contributions to the Partnership or to guarantee Partnership debts, loans or other obligations.

ARTICLE V

ALLOCATIONS AND DISTRIBUTIONS

5.1 Allocations of Profits and Losses. After giving effect to the special allocations set forth in Sections 5.2 and 5.3 hereof, Profits and Losses for any fiscal year of the Partnership shall be allocated among the Partners in proportion to their respective Adjusted Contributions as of the first day of such fiscal year; provided, however, that if a Partner's Adjusted Capital Contributions changes during any fiscal year, Profits and Losses for each month within such year shall be allocated among the Partners in proportion to the Adjusted Capital of each Partner as of the first day of such month, and each Partner's share of Profits and Losses the fiscal year shall equal the sum of that Partner's share of Profits and Losses for each month during such fiscal year.

5.2 Other Allocation Rules.

(a) Except as otherwise provided in Section 5.1, for purposes of the Profits, Losses, or any other items allocable to any period, Profits, Losses, and any such other items shall be determined on a daily, monthly, or other basis, as determined by the General Partner using any permissible method under Section 706 of the Code and the Regulations thereunder.

(b) All allocations to the Partners pursuant to this Article V shall, as otherwise provided, be divided among them in proportion to the Partnership Interests hr each. In the event there is more than one General Partner, all such allocations to the General Partners shall be divided among them as they may agree.

(c) Except as otherwise provided in this Agreement, all items of Partnership income, gain, loss, deduction, or credit, and any other allocations not otherwise provided for shall be divided among the General Partners and Limited Partners in the same proportions as they Share Profits or Losses, as the case may be, for the year.

(d) The Partners are aware of the income tax consequences of the allocations made by this Article V and hereby agree to be bound by the provisions of this Article V in reporting their shares of Partnership income and loss for income tax purposes.

5.3 Tax Allocations.

The following special allocations shall be made in the following order, except as in Section 5.3(h) hereof:

(a) Notwithstanding any other provision of this Article V, if there is a net decrease in Partnership Minimum Gain during any Partnership fiscal year, each Partner shall be specially allocated items of Partnership income and gain for such year (and, if necessary, subsequent years) in an amount equal to the greater of: (i) the portion of such Person's share of the net decrease in Partnership Minimum Gain, determined in accordance with Section 1.704-1T(b)(4)(iv)(f) of the Regulations, that is allocable to the disposition of Partnership Property

subject to Nonrecourse Liabilities, determined in accordance with Section 1.704-1T(b)(4)(iv)(e) of the Regulations; or (ii) if such Person would otherwise have an Adjusted Capital Account Deficit at the end of such year, an amount sufficient to eliminate such Adjusted Capital Account Deficit. Allocations pursuant to the previous sentence shall be made in proportion to the respective amounts required to be allocated to each Partner pursuant thereto. The items to be so allocated shall be determined in accordance with Section 1.704-1T(b)(4)(iv)(e) of the Regulations. This Section 5.3(a) is intended to comply with the "minimum gain chargeback" requirement in such Section of the Regulations and shall be interpreted consistently therewith. To the extent permitted by such Section of the Regulations and for purposes of this Section 5.3(a) only, each Partner's Adjusted Capital Account Deficit shall be determined prior to any other allocations pursuant to this Article V with respect to such fiscal year and without regard to any net decrease in Partner Minimum Gain during such fiscal year.

(b) Notwithstanding any other provision of this Article V except Section 5.3(a), if there is a net decrease in Partner Minimum Gain attributable to a Partner Nonrecourse Debt during any Partnership fiscal year, each Partner who has a share of the Partner Minimum Gain attributable to such Partner Nonrecourse Debt, determined in accordance with Section 1.704-1T(b)(4)(iv)(h)(5) of the Regulations, shall be specially allocated items of Partnership income and gain for such year (and, if necessary, subsequent years) in an amount equal to the greater of: (i) the portion of such Person's share of the net decrease in Partner Minimum Gain attributable to such Partner Nonrecourse Debt, determined in accordance with Section 1.704-1T(b)(4)(iv)(h)(5) of ,he Regulations, that is allocable to the disposition of Partnership Property subject to such Partner Nonrecourse Debt, determined in accordance with Section 1.704-1T(b)(4)(iv)(h)(4) of the Regulations; or (ii) if such Person would otherwise have an Adjusted Capital Account Deficit at the end of such year, an amount sufficient to -1,:iminate such Adjusted Capital Account Deficit. Allocations pursuant to the previous sentence shall be made in proportion to the respective amounts required to be allocated to each Partner pursuant thereto. The items to be so allocated shall be determined in accordance with Section 1.704-1T(b)(4)(iv)(h)(4) of the Regulations. This Section 5.3(b) is intended to comply with the "partner minimum gain chargeback" requirement in such Section of the Regulations and shall be interpreted consistently therewith. Solely for purposes of this Section 5.3(b), each Partner's Adjusted Capital Account Deficit shall be determined prior to any other allocations pursuant to this Article V with respect to such fiscal year, other than allocations pursuant to Section 5.3(a) hereof.

(c) In the event any Partner unexpectedly receives any adjustments, allocations or distributions described in Sections 1.704-1T(b)(2)(ii)(d)(4), (5) or (6) of the Regulations, items of Partnership income and gain shall be specially allocated to such Partner in an amount and manner sufficient to eliminate, to the extent required by the Regulations, the Adjusted Capital Account Deficit of such Partner as quickly as possible, provided that an allocation pursuant to this Section 5.3 (c) shall be made only if and to the extent that such Partner would have an Adjusted Capital Account Deficit after all Other allocations provided for in this Article V have been tentatively made as if this Section 5.3(c) were not in the Agreement. This Section 5.3(c) is intended to constitute a "qualified income offset" within the meaning of Section 1.704-1(b)(2)(ii)(d) of the Regulations and shall be interpreted consistently therewith.

(d) In the event any Partner has a deficit Capital Account at the end of any Partnership fiscal year that is in excess of the sum of: (i) the amount such Partner is Obligated to restore pursuant to any provision of this Agreement; and (ii) the amount such Partner is deemed to be obligated to restore pursuant to the penultimate sentences Of Sections 1.704-1T(b)(4)(iv)(f) and 1.704-1T(b)(4)(iv)(h)(5) of the Regulations, each such Partner shall be specially allocated

items of Partnership income and gain in the amount of such excess as quickly as possible, provided that a "gross income allocation" pursuant to this Section 5.3(d) shall be made only if and to the extent that such Partner would have a deficit Capital Account in excess of such sum after all other allocations provided for in this Article V have been made as if Section 5.3 (c) hereof and this Section 3.3 (d) were not in the Agreement.

(e) Nonrecourse Deductions for any fiscal year or other period shall he specially allocated to the Partners in the ratios by which they would share in the Profits of the Partnership for such year.

(f) Any Partner Nonrecourse Deductions for any fiscal year or other period shall be specially allocated to the Partner who bears the economic risk of loss with respect to the Partner Nonrecourse Debt to which such Partner Nonrecourse Deductions are attributable in accordance with Section 1.704-1T(h)(4)(iv)(h) of the Regulations.

(g) To the extent an adjustment to the adjusted tax basis of any Partnership asset pursuant to Section 734(b) of the Code or Section 743(b) of the Code is required, pursuant to Section 1.704-1(b)(2)(iv)(m) of the Regulations, to be taken into account in determining Capital Accounts, the amount of such adjustment to the Capital Accounts shall be treated as an item of gain (if the adjustment increases the basis of the asset) or loss (if the adjustment decreases such basis) and such gain or loss shall be specially allocated to the Partners in a manner consistent with the manner m which their Capital Accounts are required to be adjusted pursuant to such Section of the Regulations.

(h) The allocation set forth in Sections 5.3(a) through 5.3(g) hereof (the "Regulatory Allocations") are intended to comply with certain requirements of Section 1.704-1(b) of the Regulations. The Partners understand and acknowledge that the Regulatory Allocations may not be consistent with the manner in which the Partners intend to divide Partnership Profits, Losses and distributions. These Regulatory Allocations shall be taken into account in allocating times of income, gain, loss and deduction among the Partners so that, to the extent possible, the net amount of such allocations of the other items and these Regulatory Allocations to each Partner shall be equal to the net amount that would have been allocated to each Partner if the Regulatory Allocations had not occurred. Accordingly, the General Partner shall have reasonable discretion. with respect to each fiscal year, to divide the Regulatory Allocations among he Partners in whatever order is made in any manner that is likely to minimize the above economic distortions.

(i) In accordance with Section 704(c) of the Code thereunder, income, gain, loss, and deduction with respect to any Property contributed to the capital of the Partnership shall, solely for tax purposes, be allocated among the Partners as to take account of any variation between the adjusted basis of such Property to the Partnership for federal income tax purposes and its initial Gross Asset Value (computed in accordance with Section 1.13 of this Agreement).

In the event the Gross Asset Value of any Partnership Property is adjusted pursuant to Section 1.13(b) of this Agreement, subsequent allocations of income, gain, loss, and deduction with respect to such Property shall take account of any variation between the adjusted basis of such Property for federal income tax purposes and its Gross Asset Value in the same manner as under Section 704(c) of the Code and the Regulations thereunder.

Any elections or other decisions relating to such allocations shall be made by the General Partner in any manner that reasonably reflects the purpose and intention of this

Agreement. Allocations pursuant to this Section 5.3(i) are solely for purposes of federal, state, and local taxes and shall not affect, or in any way be taken into account in computing, any Partner's Capital Account or share of Profits, Losses, other items, or distributions pursuant to any provision of this Agreement.

(j) It is the intention of the Partners that each Partner's distributive share of Profits, Losses and other tax items be determined and allocated in accordance with this Article V to the extent permitted or required by Section 704(b) of the Code and the Regulations promulgated thereunder. Therefore, if the General Partner is advised by Counsel or accountants to the Partnership that the allocation provisions of this Agreement are unlikely to be respected for federal income tax purposes, the General Partner is granted the authority in Article XI to amend the allocation provisions of this Agreement, on advice of counsel or accountants, to the minimum extent necessary to effect the plan of allocations and distributions provided in this Agreement. The General Partner shall have the discretion to adopt such rules, conventions and procedures as it believes appropriate and/or advantageous with respect to the admission of Limited Partners to reflect the Partners' Interests in the Partnership.

5.4 Distributions. Except as otherwise provided in Section 5.5, Section 5.6 and Article XIII hereof, Net Cash From Operations, if any, and Net Cash From Sales and Refinancings, if any, shall be distributed as follows:

(a) When and as the General Partner, in its sole discretion shall decide, some or all of the Net Cash From Operations and/or some or all of the Net Cash from Sales and Refinancing shall be made to all Partners in amounts proportionate to their respective positive Capital Account balances and shall be in cash or in kind, or combination thereof, as the General Partner shall specify; or

(b) When approved by a majority in interest of the Partners, some or all of the Net Cash From Operations and/or some or all of the Net Cash From Sales and Refinancing shall be made to less than all Partners (to the designated Partner or Partners), or to all Partners but in varying amounts, and in any case shall be in cash or in kind, or a combination thereof, as the General Partner shall specify.

5.5 Amounts Withheld. All amounts withheld pursuant to the Code or any provision of any state or local tax law with respect to any payment or distribution to the Partnership or the Partners shall be treated as amounts distributed to the Partners pursuant to this Article V for all purposes under this Agreement. The General Partner may allocate any such amounts among the Partners in any manner that is in accordance with applicable law.

5.6 Minimum Distribution For Tax Payments. The General Partner shall distribute each Partner, upon request from such Partner, for each fiscal year an amount of cash from its Capital Account equal to the amount of corporate tax due on the Profits of the Partnership, if any, allocated to the Partner for such year, at a time so as to enable such Partner to pay its respective federal income taxes with respect to such Profits. Such distribution shall on the applicable tax rates under the Code; and such amount shall be automatically as applicable tax rates are increased.

ARTICLE VI

MANAGEMENT AND OPERATION OF BUSINESS

6.1 Management.

(a) Except to the extent otherwise provided herein, the General Partner shall have the sole and exclusive right and authority to manage the business and affairs of the Partnership. In addition to the powers that may be possessed by a general partner of a limited Partnership under the Act or other applicable state laws, or that are granted to the General Partner under any other provisions of this Agreement, the General Partner shall have, subject to the other provisions of this Agreement, full power and authority to do all things and on such terms as it, in its sole and complete discretion, may deem necessary, appropriate, convenient or incidental to managing the affairs of the Partnership or to conducting the business of the Partnership including, without limitation, and for and by the Partnership: (i) acquire by purchase, lease, or otherwise any real or personal property that may be necessary, convenient or incidental to the accomplishment of the purposes of the Partnership; (ii) operate, finance, maintain, hold, own, grant options with respect to, sell, convey, assign, mortgage, and lease any real of personal property necessary. convenient, or incidental to the accomplishment of the of the purpose of the Partnership; (iii) execute any and all agreements, contracts, documents, certifications and instruments necessary or convenient in connection with managing the affairs of the Partnership, including executing amendments to the Agreement and Certificate in accordance with the terms of the Agreement, pursuant to any power of attorney granted by the Limited Partner to the General Partner: (iv) the making of any expenditures, the borrowing of money and guaranteeing of indebtedness and other liabilities, the issuance of evidences of indebtedness and the incurring of obligations in connection with the business of the Partnership; (v) the use of the Property of the Partnership for any Partnership purpose and on any terms, including, without limitation, the financing of the conduct of the operations of the Partnership, of funds to other Persons (other than Partners) and the repayment of obligations of the Partnership; (vi) the negotiation, execution and performance of any contracts, conveyances or other instruments; (vii) care for and distribute funds to the Partners by way of cash, income, in kind distributions, return of capital, or otherwise, all in accordance with the provisions of this Agreement; (viii) the selection and dismissal of employees and outside attorneys, accountants. consultants and contractors and the determination of their compensation and other terms of employment or hiring; (ix) the maintenance of insurance for the benefit of the Partnership and the Partner; (x) the formation of or participation in any further limited or general partnerships, joint ventures or other relationships; (xi) institute, prosecute, defend, settle, compromise, and lawsuits or other judicial or administrative proceedings brought on or in behalf of, or the Partnership or the Partners in connection with activities arising out of, corrected incidental to this Agreement, and to engage counsel or others in connection therewith; (xii) the purchase, sale or other acquisition or disposition of Partnership interests; (xiii) the indemnification of any person against liabilities and contingencies to the extent permitted by law; (xiv)engage in any hind of activity and perform and carry out contracts of any kind necessary or incidental to, or in connection with, the accomplishment of the purposes of the Partnership, he lawfully carried on or performed by a Partnership under the laws of each state in the Partnership is then formed or qualified; (xv) take, or refrain from taking, all actions not expressly proscribed or limited by this Agreement, as may be necessary or appropriate to accomplish the purposes of the Partnership.

In the event more than one person is a General Partner, the rights and powers of the General Partner hereunder shall be exercised by them in such manner as they shall agree. In the absence of an agreement among the General Partners, no General Partner shall exercise any of such rights and powers without the unanimous consent of all General Partners.

(b) Without the prior approval of all of the Limited Partners, the General Partner shall not have the authority to: (i) do any act in contravention of this Agreement:

(ii) do any act that would make it impossible to carry on the ordinary business of the Partnership, except as otherwise provided by this Agreement; (iii) confess a judgment against the Partnership: (iv) possess Property, or assign rights in specific Property, for other than a Partnership purpose; (v) knowingly perform any act that would subject any Limited Partner to liability as a general partner in any jurisdiction; (vi) sell or exchange all or substantially all of the Property of the Partnership in a single transaction or a series of related transactions, except for a liquidating sale of Property after the dissolution of the Partnership, provided that this provision shall not preclude or limit the mortgage, pledge, hypothecation or grant of a security interest in ail or substantially all of the Partnership's Property; (vii) merge the Partnership with or into other entity; (viii) make any assignment for the benefit of the Partnership's creditors; (ix) provide for compensation or remuneration, whether direct or indirect, to any Partner for services Performed for the Partnership in excess of amounts specifically permitted hereunder; or (x) undertake any act or action by the Partnership that requires the consent of all Partners pursuant to the terms of this Agreement or the Act.

6.2 Compensation and Reimbursement of the General Partners.

(a) Except as provided in this Section 6.2 or elsewhere in this Agreement, the General Partner shall not be compensated for its services as General Partner to the Partnership.

(b) The General Partner shall be reimbursed for all expenses, disbursements and advances incurred or made in connection with the organization of the Partnership and the qualification of the Partnership to do business in any state.

(c) The General Partner shall be reimbursed on a monthly basis, or on other basis as the General Partner may determine in its sole and complete discretion, for ct expenses it incurs or makes on behalf of the Partnership (including amounts paid to any person to perform services to the Partnership, other than those services described in Section 6.2(b) hereof).

6.3 Limitations on Liability of the Partners to the Limited Partners and Partnership. The General Partner shall not be required to devote all of its time or business efforts to the affairs of the Partnership, but shall devote so much of its time and attention to the Partnership as is necessary and advisable to successfully manage the affairs of the Partnership. The General Partner, its officers, directors, shareholders, agents and employees, shall not be liable to the Partnership or the Limited Partner, and shall be indemnified for any loss or damage resulting from, any act or omission performed or omitted in good faith, which shall not constitute fraud, gross negligence or willful misconduct, in pursuance of the authority granted to promote the interests of the Partnership. Moreover, the General Partner shall not be liable Partnership or the Limited Partner because any taxing authorities disallow or adjust any deduction or credits in the Partnership income tax returns. Subject to Article XIII hereof, the General Partner shall not be liable for the return of the Capital Contributions of the Limited or for any portion thereof, it being expressly understood that any return of capital shall be made solely from the Property of the Partnership; nor shall a General Partner be required to pay the Partnership or the Limited Partner any Capital Account deficits of any other Partner (other then its own or another General Partner's deficit), upon dissolution or otherwise.

6.4 Partnership Funds. The funds of the Partnership shall be deposited in such account or accounts as are designated by the General Partner. All withdrawals from or charges against such accounts shall be made by the General Partner or by its officers, employees or agents. Funds of the Partnership may be invested as determined by the General Partner, except in connection with acts otherwise prohibited by this Agreement.

6.5 Loans from the General Partner- Other Agreements.

(a) The General Partner may lend to the Partnership funds needed by Partnership for such periods of time as the General Partner may determine; provided, however, that the General Partner may not charge the Partnership interest at a rate greater than (including points or other financing charges or fees) that would be charged the Partnership (without reference to the General Partner's financial abilities or guaranties) by unrelated lenders on comparable loans. The Partnership shall reimburse the General Partner for any cost incurred by it in connection with the borrowing of funds obtained by the General Partner and loaned to the Partnership.

(b) The General Partner and its Affiliates may, pursuant to a written agreement or otherwise, render services to (other than those described in Section 6.2 (b)) or receive services from the Partnership and furnish properties to or receive properties from the Partnership, provided that any such activities shall be on terms that are fair and reasonable to the Partnership, and provided further that the terms shall be deemed fair and reasonable if they are no less favorable to the Partnership than those generally being provided to or available from unrelated third parties.

(c) The Partnership may transfer Property to other Entities in which it is or hereby becomes a participant, upon such terms and subject to such conditions consistent with applicable law as the General Partner deems necessary or appropriate.

6.6 Title to Partnership Property. Title to Partnership Property, whether real, personal or mixed, tangible or intangible, shall be deemed to be owned by the Partnership as an entity and no Partner, individually or collectively, shall have any ownership interest in such Partnership Property or any portion thereof. Title to any or all of the Partnership Property may be held in the name of the Partnership, the General Partner or one or more nominees, as the Partner may determine. The General Partner hereby declares and warrants that any Partnership Property for which legal title is held in the name of the General Partner shall be held in trust by the General Partner for the use and benefit of the Partnership in accordance with the or provisions of this Agreement. All Partnership assets shall be recorded as the property of the Partnership on its books and records, irrespective of the name in which legal title to such Partnership assets is held.

6.7 General Partner Net Worth. The General Partner covenants and agrees that so long as it is the general partner of the Partnership, it will use all reasonable efforts to maintain a net worth (exclusive of its interests in, or claims against, the Partnership) of an amount required by the Code and Regulations, provided that neither the General Partner nor any other Partner shall have any obligation to contribute assets to the Partnership after the date hereof. The General Partner covenants and agrees that it will use all reasonable efforts to establish and maintain the classification of the Partnership as a "partnership" for federal income tax purposes and not as an "association" taxable as a corporation.

ARTICLE VII

LIABILITY AND RIGHTS OF LIMITED PARTNERS

7.1 Limitation of Liability. The Limited Partners shall have no liability under Agreement, except as provided in this Agreement or in the Act.

7.2 Management of Business. Except for the right to vote on the matters set forth in this Agreement. the Limited Partner shall not have the right or power to take part in the operation, management or control of the Partnership's business or affairs, transact any business in the Partnership's name, or have the power to sign documents for or otherwise bind the Partnership.

7.3 Rights of Limited Partners Relating to the Partnership. In addition to other rights provided by this Agreement or by applicable law, each Limited Partner, and each Limited Partner's duly authorized representatives, shall have the right upon reasonable notice and at reasonable times, but only for a purpose reasonably related to such person's interest as a Limited Partner (a) to have true and full information regarding the status of the business, affairs and condition of the Partnership; (b) to inspect and copy, promptly after they become available, the Partnership's federal, state, and local income tax returns for each year; (c) to have true and full information regarding any Capital Contribution made by any General Partner and any Limited Partner; (d) to have a copy of this Agreement and the Certificate and all Amendments thereto, together with executed copies of any powers of attorney pursuant to which Agreement or any such Certificate has been executed; and (e) to have any other information regarding the affairs of the Partnership as is just and reasonable.

ARTICLE VIII

TRANSFER OF LIMITED PARTNER INTERESTS

8.1 Restriction on Transfers. Except as otherwise permitted by this Agreement no Limited Partner shall Transfer all or any portion of its Interest.

8.2 Permitted Transfer. Subject to the conditions and restrictions set forth in Section 8.3 hereof, a Limited Partner may at any time Transfer all or any portion of its interest to: (a) any other Partner; (b) any Affiliate of the transferor; (c) the transferor's trustee or personal representative to whom such Interests are transferred involuntarily by operation of law; or (d) any Purchaser in accordance with Section 8.4 here (any such Transfer being referred to this Agreement as a "Permitted Transfer").

8.3 Conditions to Permitted Transfers. A Transfer shall not be treated as a Permitted Transfer under Section 8.2 hereof unless and until the following conditions are satisfied:

(a) Except in the case of a Transfer involuntarily by operation of law, the transferor and transferee shall execute and deliver to the Partnership such documents and instruments of conveyance as may be necessary or appropriate in the opinion of counsel to the Partnership to effect such Transfer and to confirm the agreement of the transferee to be bound by the provisions of this Article VIII. In any case not described in the preceding sentence, the Transfer shall be confirmed by presentation to the Partnership of legal evidence of such Transfer, in form and substance satisfactory to counsel to the Partnership. In all cases, the Partnership shall be reimbursed by the transferor and/or transferee for all costs and expenses that it reasonably incurs in connection with such Transfer.

(b) Except in the case of a Transfer involuntarily by operation of law, the transferor shall furnish to the Partnership an opinion of counsel, which counsel and opinion shall be satisfactory to the Partnership, that the Transfer will not cause the Partnership to terminate for federal income tax purposes or to be classified other than a partnership for federal income tax purposes.

(c) The transferor and transferee shall furnish the Partnership with the transferee's taxpayer identification number, sufficient information to determine the transferee's initial tax basis in the Interests transferred, and any other information reasonably necessary to permit the Partnership to file all required federal and state tax returns and other legally required information statements or returns. Without limiting the generality of the foregoing, the Partnership shall not be required to make any distribution otherwise provided for in this Agreement with respect to any transferred Interests until it has received such information.

(d) Except in the case of a Transfer involuntarily by operation of law, either: (i) such Interests shall be registered under the Securities Act of 1933, as amended, and any applicable state securities laws; or (ii) the transferor shall provide an opinion of counsel, which opinion of counsel shall be satisfactory to the Partnership, to the effect that such Transfer is exempt from all applicable registration requirements and that such Transfer will not violate any applicable laws regulating the Transfer of securities.

(e) Except in the case of a Transfer involuntarily by operation of law, the transferor may not Transfer all or any part of its Partnership interest, or any rights therein, without the consent of the General Partner and Limited Partners owning more than 50% of the Partnership Interests of the Limited Partners.

8.4 Right of First Refusal. In addition to the other limitations and restrictions set forth in this Article VIII, except as permitted by Section 8.2 hereof, no Limited Partner shall transfer all or any portion of its Interest (the "Offered Interest") unless such selling Limited Partner (the "Seller") first offers to sell the Offered Interest pursuant to the terms of this Section 8.4.

(a) Limitation on Transfers. No Transfer may be made under this Section 8.4 unless the Seller has received a bona fide written offer (the "Purchase Offer") from a Person (the "Purchaser") to purchase the Offered Interest for a purchase price (the "Offer Price) denominated and payable in United States dollars at closing or according to specified terms, with or without interest, which offer shall be in writing signed by the Purchaser and shall be irrevocable for a period ending no sooner than the day following the end of the Offer Period, hereinafter defined.

(b) Offer Notice. Prior to making any Transfer that is subject to the of this Section 8.4, the Seller shall deliver to the Partnership and each other Partner written notice (the "Offer Notice"), which shall include a copy of the Purchase Offer and an offer (the "First Offer") to sell the Offered Interests to the other Partners (the "Offerees") for the Offer Price, payable according to the same terms as (or more favorable terms than) those contained in the Purchase Offer, provided that the First Offer shall be made without regard to the requirement of any earnest money or similar deposit required of the Purchaser prior to closing, and without regard to any security (other than the Offered Interest) to be provided by the Purchaser for any deferred portion of the Offer Price.

(c) Offer Period. The First Offer shall be irrevocable for a period (the "Offer Period") ending at 11:59 p.m., local time at the Partnership's principal office, on the ninetieth day following the day of the Offer Notice.

(d) Acceptance of First Offer. At the time during the first sixty days of the Offer Period, any Offeree who is a Partner may accept the First Offer as to that portion of the Offered Interest that corresponds to the ratio of Adjusted Capital Contributions to the total Adjusted Capital Contributions of all Offerees who are Partners, by giving written notice of such acceptance to the Seller and the General Partner. At any time after the sixtieth day of the Offer the General Partner may accept the First Offer as to any portion of the Offered Interest that has not been previously accepted by giving written notice of such acceptance to the Seller. In the event that Offerees ("Accepting Offerees"), in the aggregate, accept the First Offer with respect to all of the Offered Interest, the First Offer shall be deemed to be accepted. If Offerees do not accept the First Offer as to all of the Offered Interest during the Offer Period, the First Offer shall be deemed to be rejected in its entirety.

(e) Closing of Purchase Pursuant to First Offer. In the event that the First Offer is accepted, the closing of the sale of the Offered Interest shall take place within thirty days after the First Offer is accepted or, if later, the date of closing set forth in the Purchase Offer. The Seller and all Accepting Offerees shall execute such documents and instruments as may be necessary or appropriate to effect the sale of the Offered Interest pursuant to the terms of the First Offer and this Article VIII.

(f) Sale Pursuant to Purchase Offer If First Offer Rejected. If the First Offer is not accepted in the manner hereinabove provided, the Seller may sell the Offered Interest to the Purchaser at any time within sixty days after the last day of the Offer Period, provided that such sale shall be made on terms no more favorable to the Purchaser than the terms contained in the Purchase Offer and provided further that such sale complies with other terms, conditions, and restrictions of this Agreement that are applicable to sales of Interests and are not expressly made inapplicable to sales occurring under this Section 8.4. In the event that the Offered Interest is not sold in accordance with the terms of the preceding sentence, the Offered Interest shall again become a subject to all of the conditions and restrictions of this Section 8.4.

8.5 Prohibited Transfers. Any purported Transfer of Limited Partner Interests that is not a Permitted Transfer shall be null and void and of no effect whatever; provided that, if the Partnership is required to recognize a Transfer that is not a Permitted Transfer (or if the General Partner, in its sole discretion, elects to recognize a Transfer that is not a Permitted Transfer), the Interest transferred shall be strictly limited to the transferor's rights to allocations and distributions as provided by this Agreement with respect to the transferred Interest, which allocations and distributions may be applied (without limiting any other legal or equitable rights of the Partnership) to satisfy any debts, obligations, or liabilities for damages that the transferor to transferee of such interest may have to the Partnership.

In the case of a Transfer or attempted Transfer of interest that is not a Permitted the parties engaging or attempting to engage in such Transfer shall be liable to indemnity and hold harmless the Partnership and the other Partners from all cost, liability, and damage that any of such indemnified Persons may incur (including, without limitation, incremental tax liability and attorneys' fees and expenses) as a result of such Transfer or Transfer and efforts to enforce the indemnity granted hereby.

8.6 Rights of Unadmitted Assignees. A Person who acquires one or more Limited Partner Interests, but who is not admitted as a Substituted Limited Partner pursuant to Section 8.7 hereof, shall be entitled only to allocations and distributions with respect to such Interests in accordance with this Agreement, but shall have no right to any information or accounting of the affairs of the Partnership, shall not be entitled to inspect the books or records of the Partnership, and shall not have any of the rights of a General Partner or a Limited Partner under the Act or the Agreement.

8.7 Admission of Substitute Limited Partners. Subject to the other provisions of this Article VIII, a transferee of Limited Partner Interests may be admitted to the Partnership as a "Substituted Limited Partner" only upon satisfaction of the conditions set forth below in this Section 8.7:

(a) Each General Partner and a majority in interest of the Limited Partners consent to such admission;

(b) The Limited Partner Interests with respect to which the transferee is being admitted were acquired by means of a Permitted Transfer;

(c) The transferee becomes a party to this Agreement as a Limited Partner and executes such documents and instruments as the General Partner may reasonably request (including, without limitation, a power-of- attorney in favor of the General Partner as provided in Article XII hereof) as may be necessary or appropriate to confirm such transferee as a Limited Partner in the Partnership and such transferee's agreement to be bound by the terms and conditions hereof; and

(d) The transferee pays or reimburses the Partnership for all reasonable legal, filing, and publication costs that the Partnership incurs in connection with the admission of the transferee as a Limited Partner with respect to the Transferred Interests.

8.8 Representations: Legend.

(a) Each Limited Partner hereby covenants and agrees with the Partnership for the benefit of the Partnership and all of its Partners, that: (i) it is not currently making a market in Interests and will not in the future make a market in Interests; (ii) it will not Transfer its Interests on an established securities market, a secondary market (or the substantial equivalent thereof) within the meaning of Section 7704(b) of the Code (and any Regulations, revenue rulings, or other official pronouncements of the Internal Revenue Service or Treasury Department that may be promulgated or published thereunder); and (iii) in the event such Regulations, revenue rulings, or other pronouncements treat any of or all arrangements that the selling of partnership interests and that are commonly referred to as "matching as being a secondary market or substantial equivalent thereof, it will not Transfer any Interest through a matching service that is not approved in advance by the General Partner. Each Limited Partner further agrees that it will not Transfer any Interest to any Person unless such Person agrees to be bound by this Section 8.8(a) and to Transfer such Interests only to who agree to be similarly bound. The Partnership shall, from time to time, at the request of a Partner consider whether to approve a matching service and shall notify all Partners matching service that is so approved.

(b) Each Limited Partner hereby represents and warrants to the Partnership and the General Partner that such Partner's acquisition of Interests hereunder is made as principal for such Partner's own account and not for resale or distribution of such Interests.

Each Limited Partner further hereby agrees that the following legend may be placed upon any counterpart of this Agreement, the Certificate, or any other document or instrument evidencing ownership of Interests:

THE LIMITED PARTNERSHIP INTERESTS REPRESENTED BY THIS DOCUMENT HAVE NOT BEEN REGISTERED UNDER ANY SECURITIES LAWS AND THE TRANSFERABILITY OF SUCH INTERESTS IS RESTRICTED. SUCH INTERESTS MAY NOT BE SOLD, ASSIGNED OR TRANSFERRED, NOR WILL ANY ASSIGNEE, VENDEE, TRANSFEREE OR ENDORSEE THEREOF BE RECOGNIZED AS HAVING ACQURED ANY SUCH INTERESTS BY THE ISSUER FOR ANY PURPOSES, UNLESS: (1) A REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933, AS AMENDED, WITH RESPECT TO SUCH INTERESTS SHALL THEN BE IN EFFECT AND SUCH TRANSFER HAS BEEN QUALIFIED UNDER ALL APPLICABLE STATE SECURITIES LAWS; OR (2) THE AVAILABILITY OF AN EXEMPTION FROM SUCH REGISTRATION AND QUALIFICATION SHALL BE ESTABLISHED TO THE SATISFACTION OF COUNSEL TO THE PARTNERSHIP.

THE INTERESTS REPRESENTED BY THIS DOCUMENT ARE SUBJECT TO FURTHER RESTRICTION AS TO THEIR SALE, TRANSFER, HYPOTHECATION, OR ASSIGNMENT AS SET FORTH IN THE AGREEMENT OF LIMITED PARTNERSHIP AND AGREED TO BY EACH LIMITED PARTNER. SAID RESTRICTION PROVIDES, AMONG OTHER THINGS, THAT NO INTEREST MAY BE TRANSFERRED WITHOUT FIRST OFFERING SUCH INTEREST TO THE OTHER LIMITED PARTNERS AND THE GENERAL PARTNER, AND THAT NO VENDEE, TRANSFEREE, ASSIGNEE, OR ENDORSEE SHALL HAVE THE RIGHT TO BECOME A SUBSTITUTED LIMITED PARTNER WITHOUT THE CONSENT OF THE GENERAL PARTNER AND A MAJORITY IN INTEREST OF THE LIMITED PARTNERS.

8.9 <u>Distributions and Allocations in Respect to Transferred Interests</u>.

(a) If any Partnership Interest is sold, assigned, or transferred during any accounting period in compliance with the provisions of this Article VIII, Profits, Losses, each item thereof, and all other items attributable to the transferred Interest for such period shall be divided and allocated between the transferor and the transferee by taking into account their varying interests during the period in accordance with Section 706(d) of the Code, using any conventions permitted by law and selected by the General Partner. All distributions on or before the date of such transfer shall be made to the transferor, and all distributions thereafter shall be made to the transferee.

(b) Solely for purposes of making such allocations and distributions section 8.9(a) hereof, the Partnership shall recognize such transfer not later than the end of the calendar month during which it is given Notice of such transfer, provided that if the Partnership does not receive a Notice stating the date such Interest was transferred and such other information as the General Partner may reasonably require within thirty days after the end of the accounting period during which the transfer occurs, then all of such items shall be allocated and all distributions shall be made, to the Person who, according to the books and records of the Partnership, on the last day of the accounting period during which the transfer occurs, was the owner of the Interest. Neither the Partnership nor any General Partner shall incur any liability far making allocations and distributions in accordance with the provisions of Section 8.9 hereof, whether or not any General Partner or the Partnership has knowledge of any transfer of ownership of any Interest.

ARTICLE IX

GENERAL PARTNERS

9.1 Additional General Partners. Except as provided in this Article IX and Section 13.1 hereof, no Person shall be admitted to the Partnership as a General Partner without the unanimous consent of the Partners.

9.2 Withdrawal of General Partner: Successor General Partner. No General Partner may resign or withdraw from the Partnership, dispose of its General Partner Interest in a manner other than a Transfer, or dissolve or otherwise cease to serve as a General Partner (collectively, a "Withdrawal"}, without providing ninety days prior written Notice of such Withdrawal to the remaining General Partners (if any) and the Limited Partners. Within such ninety day period after the Notice has been given, the remaining General Partners (if any), or, if none, the Limited Partners, may meet to appoint and admit a successor General Partner. Any appointment and admission, and the terms of such appointment and admission, of a successor General Partner shall be approved by all of the remaining General Partners (if any) and a majority in interest of the Limited Partners, and such approval shall also designate and identify the date upon which such appointment and admission shall be first effective. For this purpose, an express approval by a majority in interest of the Limited Partners to such appointment and admission shall be deemed to be an act of all of the Limited Partners.

9.3 Permitted Transfers.

(a) A General Partner may Transfer all or any portion of its General Partner Interest in the Partnership as a General Partner: (i) at any time to any other General Partner: (ii) at any time to any Person who is such General Partner's Affiliate; (iii) at any time involuntary by operation of law; or (iv) to any Person who is approved by all of the other Partners (if any) and a majority in interest of the Limited Partners, provided that no such Transfer shall be permitted unless and until: (A) all of the conditions set forth in Section 8.3 hereof are satisfied as if the Partnership Interest being Transferred were a Limited Partner Interest and (B) the transferor and transferee provide the Partnership with an opinion of counsel, which opinion and counsel shall be acceptable to the other General Partners (or, if none, to a majority in interest of the Limited Partners) to the effect that such Transfer will not cause the Partnership to terminate for federal income tax purposes, or to fail to meet any condition precedent, then in effect pursuant to an official pronouncement of the Internal Revenue Service, to the issuance of a private letter ruling by the Internal Revenue Service confirming that the Partnership will be treated as a "partnership" for federal tax purposes, whether or not such a ruling is being or has been requested.

(b) A transferee of a General Partnership Interest from a General Partner pursuant to Section 9.3(a) shall be admitted as a General Partner with respect to such Interest if, but only if: (i) at the time of such Transfer, such transferee is otherwise a General Partner; or (ii) the admission of such transferee as a General Partner is approved by all of the General Partners (if any) and a majority in interest of the Limited Partners.

(c) A transferee who acquires a General Partnership Interest from a General Partner hereunder by means of a Transfer that is permitted under Section 9.3 (a), but who is not admitted as a General Partner pursuant to Section 9.3(b) hereof, shall have no authority to act for or bind the Partnership, to inspect the Partnership's books, or otherwise to be treated as a General Partner, but such transferee shall be treated as a Person who acquired an Interest in the Partnership in a Permitted Transfer under Article VIII hereof.

9.4 Prohibited Transfers. Any purported Transfer of any Partnership Interest held by a General Partner that is not permitted by Section 9.3 above shall be null and void and of no effect whatever; provided that, if the Partnership is required to recognize a Transfer that is not so permitted (or if all of the remaining General Partners, if any, and a majority in interest of the Limited Partners, in their sole discretion, elect to recognize a Transfer that is not so permitted), the Interest transferred shall be strictly limited to the transferor's rights to allocations and distributions as provided by this Agreement with respect to the transferred Interest, which allocations and distributions may be applied (without limiting any other legal or equitable rights Partnership) to satisfy any debts, obligations, or liabilities for damages that the transferor or transferee of such Interest may have to the Partnership.

In the case of a Transfer or attempted Transfer of a Partnership interest that is not permitted by Section 9.3 above, the parties engaging or attempting to engage in such Transfer nall he liable to indemnify and hold harmless the Partnership and the other Partners from all cost, liability, and damage that any of such indemnified Persons may incur (including, without limitation, incremental tax liability and attorneys' fees and expenses) as a result of such Transfer or attempted Transfer and efforts to enforce the indemnity granted hereby.

9.5 Termination of Status as General Partner.

(a) A General Partner shall cease to be a General Partner upon the first of: (i) the Bankruptcy or dissolution of a General Partner; (ii) the involuntary Transfer operation of law of such General Partner's Interest in the Partnership; (iii) the vote of all of the remaining General Partners, if any, and a majority in interest of the Limited Partners to remove such General Partner after such General Partner has attempted to make a Transfer of its Partnership Interest that is not permitted by Section 9.3 hereof, engaged in intentional misconduct or gross negligence in the discharge of its duties as General Partner, intentionally failed to meet its material obligations or covenants under the Act or this Agreement, conducted its own business or affairs or those of the Partnership in such a manner as would intentionally cause the termination of the Partnership for federal income tax purposes or would cause it to be treated as an "association" taxable as a corporation for federal income tax purposes, committed a material breach of this Agreement or applicable law, or committed any other act or suffered any other condition that would justify a decree of dissolution of the Partnership under the laws of the State of Texas or would cause the General Partner to cease being a general partner under the Act: or (iv) a Withdrawal, or a Permitted or non-Permitted Transfer pursuant to Section 9.2 through 9.4 hereof. In the event a Person ceases to be a General Partner without having Transferred its entire Interest as a General Partner, such Person shall be treated as an unadmitted transferee of a Partnership Interest as a result of an unpermitted Transfer (but recognized) of an Interest pursuant to Section 9.4 hereof.

(b) If a General Partner ceases to be a Partner for any reason hereunder such Person shall continue to be liable as a Partner for all debts and obligations of the Partnership that have accrued or that exist at the time such Person ceases to be a General Partner, regardless of whether, at such time, such debts or liabilities were known or unknown, actual or contingent. A Person shall not be liable as a General Partner for Partnership debts and obligations arising after such Person ceases to be a General Partner. Any debts, obligations, or liabilities in damages to the Partnership of any Person who ceases to be a General Partner shall be collectible by any legal means, and the Partnership is authorized, in addition to any other remedies at law or in equity, to apply any amounts otherwise distributable or payable by the Partnership to such Person to satisfy such debts, obligations, or liabilities.

(c) It is the intention of the Partners that the Partnership not dissolve is a result of the cessation of any General Partner's status as a General Partner; provided, however, that if a dissolution nevertheless occurs under the Act, the Partnership's property, business and affairs shall continue to be held and conducted in a new limited partnership under this Agreement, with any remaining General Partners as general partners, the Limited Partners as limited partners, and any unadmitted assignees of Interests as "Interest Holders". Notwithstanding any provision of the Act to the contrary, each Partner and Interest Holder (including any successor to the Partnership Interest of a General Partner) hereby: (i) waives any right that such Person may have as a result of any such unintended dissolution to demand or receive an accounting of the Partnership or any distribution in satisfaction of such Person's Interest in the Partnership or any security for the return or distribution thereof; and (ii) agrees to indemnify and hold the Partnership and each other Partner and Interest Holder wholly and completely harmless from all costs or damage (including, without limitation, legal fees and expenses of enforcing this indemnity) that any such indemnified Person may incur as a result of any action inconsistent with part (i) of this sentence.

(d) Notwithstanding any provision to the contrary herein, if a Person ceases to be a General Partner, the remaining General Partner shall refile the Certificate as if the Partnership had dissolved as a result of such cessation and a new limited partnership were formed to this Agreement to hold the Property and continue the business and affairs of the Partnership.

(e) If, at the time a Person ceases to be a General Partner, such Person is also a Limited Partner or an Interest Holder with respect to interests other than its Interest as General Partner, such cessation shall not affect such Person's rights and obligations with respect to such Limited Partner Interests.

9.6 Election of New General Partner. Provided the Partnership has one or more General Partners, any Partner may nominate one or more Persons for election as additional General Partners. The election of an additional General Partner shall require unanimous vote or the Partners.

ARTICLE X

BOOKS, RECORDS, ACCOUNTING AND REPORTS

10.1 Records and Accounting. The General Partner shall keep or cause to be kept complete and accurate books and records with respect to the Partnership's business and affairs, which books and records shall at all times be kept at the principal office of the Partnership. Any records maintained by the Partnership in the regular course of its business and affairs, including the name and address of the Limited Partners, books of account and records of Partnership proceedings, may be kept on or be in the form of punch cards, magnetic tape, photographs, micrographics or any other information storage device, provided that the records so kept are convertible into clearly legible written form within a reasonable period of time. The books of the Partnership shall be maintained, for financial reporting purposes, on the accrual basis in accordance with generally accepted accounting principles. The Partnership may keep its books for federal, state and local tax purposes on the accounting method (e.g., cash, accrual) selected by the General Partner.

10.2 Fiscal Year. The fiscal year of the Partnership shall end as of the close of business on the close of business on December 31 of each calendar year.

10.3 Reports. As soon as reasonably practicable after the end of each fiscal year of the Partnership, and in any event within seventy-five days of each such fiscal year end, and at such other times as the General Partner may deem appropriate, the General Partner shall cause to be prepared and delivered to each Partner financial statements disclosing fully, as of the end of and for such fiscal year or other period, the results of operations for such period and the financial condition of the Partnership as of the end of such period.

10.4 Preparation of Tax Returns. The General Partner shall arrange for the preparation and timely filing of all returns relating to Partnership income, gains, losses, deductions and credits, as necessary for federal, state and local income tax purposes. The Partner shall use its best efforts to furnish to the Limited Partners following the close of the taxable year the tax information reasonably required for federal, state and local income tax reporting purposes. The classification, realization and recognition of income, gains, losses, credits and other items shall be on the method of accounting chosen by the General Partner for federal income tax purposes.

10.5 Tax Elections. The General Partner shall have the authority to make any election or other determination on behalf of the Partnership provided for under the Code or any provision of state or local tax law, including, without limitation: (a) to adjust the basis of property of the Partnership pursuant to Sections 754, 734(b), and 743(b) of the Code, or comparable provisions of state or local law, in connection with transfers of Partnership Interests and Partnership distributions; (b) to extend the statute of limitations for the assessment of tax deficiencies against the Partners with respect to adjustments to the Partnership's federal, state, or local tax returns: (c) to represent the Partnership and its Partners before taxing authorities or courts of competent jurisdiction in tax matters affecting the Partnership and its Partners in their capacities as Partners; (d) to execute any agreements or other documents that bind the Partners with respect to such tax matters or otherwise affect the rights of the Partnership and its Partners; and (e) any actions on behalf of the Partnership and its Partners as may be necessary or appropriate to satisfy applicable conditions so as to enable the Partnership to file "group" or "composite" state income tax returns on behalf of nonresident Partners in states where the Partnership conducts business to the extent applicable state law permits or requires the filing of such returns, and the General Partner determines that the interests of the Partners as a whole would thereby be served; provided, however, that the amount of any Partner's share of tax paid with such return shall be treated as a distribution of such amount to such Partner hereunder.

10.6 Tax Matters Partner. The initial General Partner is designated the "Tax Matters Partner" (within the meaning of Section 6231(a)(7) of the Code) of the Partnership and shall have all the powers and duties assigned to a Tax Matters Partner under the Code and in any similar capacity under state or local law.

ARTICLE XI

AMENDMENT OF PARTNERSHIP AGREEMENT

11.1 Amendments to Be Adopted Solely by the General Partner. The General Partner (pursuant to its power of attorney granted pursuant to Article XII without the approval at the time of the Limited Partner may amend any provision of this Agreement, and execute, swear to, acknowledge, deliver, file and record whatever documents may be required in connection therewith, to reflect:

(a) a change in the name of the Partnership or its registered agent, the location of the principal place of business or the registered office of the Partnership;

(b) the admission, substitution or withdrawal of Partners in accordance with this Agreement;

(c) a change that is necessary or advisable in the sole judgment of the General Partner to qualify the Partnership as a "limited partnership" under the laws of any state or to ensure that the Partnership will not he treated as a "corporation" or as an "association" taxable as a corporation for federal income tax purposes;

(d) a change that in the sole judgment of the General Partner: (i) does not adversely affect the Limited Partner in any material respect; or (ii) is required to effect the intent of the provisions of this Agreement, or is otherwise contemplated by this Agreement: or

(e) any other amendments similar to the foregoing.

11.2 Amendment Procedures. Except as provided in Section 11.1, all amendments to this Agreement shall be effective upon approval by the affirmative vote of a majority in interest of the Partners.

ARTICLE XII

POWER OF ATTORNEY

12.1 Appointment of General Partners. Each Limited Partner does irrevocably constitute and appoint the General Partner and each successor General Partner, with full power of substitution and resubstitution as its true and lawful attorney-in-fact, and in its name, place and stead, and for its use and benefit, to execute, acknowledge, swear to, deliver, record and file: (a) this Agreement and any amendment to this Agreement; (b) the Certificate and all amendments and restatements required or permitted by law or the provisions of this Agreement; (c) all certificates and other instruments deemed necessary or advisable by the General Partner to carry out the provisions of this Agreement or to register, qualify or continue the Partnership as a limited partnership or partnership wherein the Limited Partners have limited liability in the state where the Partnership may be, or may be intending to be, doing business; (d) all instruments that the General Partner deems appropriate to reflect a change or modification of this Agreement or the Partnership in accordance with this Agreement; (e) all conveyances and other instruments deemed necessary or advisable by the General Partner to effect the dissolution and termination of the Partnership pursuant to the terms of this Agreement; (f) all fictitious or assumed name certificates required or permitted to be filed on behalf of the Partnership; and (g) all other instruments or documents that may be required or permitted by law to be filed on behalf of the Partnership.

12.2 Duration of Power. The power of attorney granted pursuant to Section 12.1: (a) is coupled with an interest and shall be irrevocable; (b) shall be exercised by any attorney-in-fact by listing the Limited Partner executing any agreement, certificate, instrument, document with the single signature of any such attorney-in-fact acting as attorney-in-fact for such Limited Partner: and (c) shall survive the Bankruptcy, insolvency, dissolution, or cessation of

existence of a Limited Partner and shall survive the delivery of an assignment by a Limited Partner of the whole or a portion of its Interest in the Partnership, except that where the assignment is of such Limited Partner's entire Interest in the Partnership and the assignee, with the consent of the Partners pursuant to Section 8.7 hereof, is admitted as a Substituted Limited Partner, the power of attorney shall survive the delivery of such assignment for the sole purpose of enabling any such attorney-in-fact to effect such substitution, by signing as attorney-in-fact for the Limited Partner. In the event of any conflict between this Agreement and any document, instrument, conveyance or certificate executed or filed by the General Partner pursuant to such power of attorney, this Agreement shall control.

12.3 Further Assurances. Each Limited Partner shall execute and deliver to the General Partner, within fifteen days after receipt of the General Partner's request therefor, such further designation, powers of attorney and other instruments as the General Partner deems necessary or appropriate to carry out the provisions of this Agreement.

ARTICLE XIII

DISSOLUTION AND WINDING UP

13.1 Liquidating Events. The Partnership shall dissolve and commence winding up and liquidation upon the first to occur of any of the following ("Liquidating Events"):

(a) August 31, 2044;

(b) The sale of all or substantially all of the Property;

(c) The vote by a majority in interest of the Partners to dissolve, wind up, and liquidate the Partnership;

(d) The happening of any other event that makes it unlawful, impossible, or impractical to carry on the business of the Partnership; or

(e) Any event that causes there to be no General Partner.

The Partners hereby agree that, notwithstanding any provision of the Act or the Uniform Partnership Act, the Partnership shall not dissolve prior to the occurrence of a Liquidating Event. Furthermore. if an event specified in Section 13.1(e) hereof occurs, the Limited Partners may, within ninety days of the date such event occurs, by an affirmative vote of a majority in interest of the Limited Partners, elect a successor General Partner and continue the Partnership business, in which case the Partnership shall not dissolve. If it is determined, by a court of competent jurisdiction, that the Partnership has dissolved: (i) prior to the occurrence of a Liquidating Event: or (ii) upon the occurrence of an event specified in Section 13.1(e) hereof, following which the Limited Partners elect a successor General Partner pursuant to the previous sentence, the Partners hereby agree to continue the business of the Partnership without a winding up or liquidation.

13.2 Winding Up.

(a) Upon the occurrence of a Liquidating Event, the Partnership shall continue solely for the purposes of winding up its affairs in an orderly manner, liquidating its

assets, and satisfying the claims of its creditors and Partners. No Partner shall take any action that is inconsistent with, or not necessary to or appropriate for, the winding up of the Partnership's business and affairs.

(b) The General Partner (or, in the event there is no remaining General Partner, any Person elected by a majority in interest of the Limited Partner(s)) shall be the "Liquidating Trustee" and shall be responsible for overseeing the winding up and dissolution of the Partnership and shall take full account of their Partnership's liabilities and Property. The Liquidating Trustee shall cause to be prepared a statement setting forth the Property and of the Partnership as of the date of the Liquidating Event, and such statement shall be furnished to all of the Partners. The Liquidating Trustee shall liquidate the Property of the Partnership as promptly as possible, but in an orderly and businesslike manner so as not to involve undue sacrifice and to obtain fair market value.

(c) Notwithstanding the foregoing, the Liquidating Trustee may determine not to sell all or any portion of the Property of the Partnership, in which event such Property shall be distributed in kind pursuant to Section 13.3.

(d) All proceeds from liquidation and all other Property of the Partnership shall be distributed in the following order of priority:

(i) to the payment of the debts and liabilities of the Partnership to creditors (other than Partners or their respective Affiliates), and expenses of liquidation;

(ii) to the payment of the debts and liabilities of the Partnership to Partners and their respective Affiliates; and

(iii) the balance to the Partners in proportion to their Capital Accounts, after giving effect to all contributions, distributions and allocations for all periods.

13.3 Distribution in Kind. If the Liquidating Trustee shall determine that a portion of the Partnership's Property should be distributed in kind to the Partners, such Person shall obtain an independent appraisal of the fair market value of each such Property as of a date reasonable close to the date of distribution. Distribution of any such Property in kind to a Partner shall be considered a sale of such Property followed by a distribution of an amount equal to the Property's appraised fair market value for purposes of Section 13.2.

13.4 Cancellation of Certificate. On the completion of the distribution of Partnership Property as provided in Sections 13.2 and 13.3, the Partnership shall be terminated, and the Liquidating Trustee shall cause the cancellation of the Partnership's Certificate of Limited Partnership and shall take such other actions as may be appropriate to terminate the Partnership.

13.5 Compensation of the Liquidating Trustee.

(a) The Liquidating Trustee, if other than a General Partner, shall be entitled to receive such compensation for its services as Liquidating Trustee as may be approved by a majority in interest of the Limited Partners. The Liquidating Trustee shall agree not to resign at any time without 60 days prior written notice and, if other than a General Partner, may be removed at any time, with or without cause, by written notice of removal approved by a majority in interest of the Limited Partners.

(b) Upon dissolution, removal or resignation of the Liquidating Trustee, a successor and substitute Liquidating Trustee (who shall have and succeed to all rights, powers and duties of the original Liquidating Trustee) shall be approved within 90 days thereafter by a majority in interest of the Limited Partners. The right to appoint a successor or substitute Liquidating Trustee in the manner provided herein shall be recurring and continuing for so long as the functions and services of the Liquidating Trustee are authorized to continue under the provisions hereof, and every reference herein to the Liquidating Trustee will be deemed to refer also any such successor or substitute Liquidating Trustee appointed in the manner herein provided.

(c) Except as expressly provided in this Article XIII, the Liquidating Trustee appointed in the manner provided herein shall have and may exercise, without further authorization or approval of any of the Partners, all of the powers conferred upon the General Partner under the terms of this Agreement (but subject to all of the applicable limitations, contractual or otherwise, upon the exercise of such powers) to the extent necessary or desirable in the good faith judgment of the Liquidating Trustee to carry out the duties and functions of the Liquidating Trustee hereunder (including the establishment of reserves for liabilities that are contingent or uncertain in amount) for and during such period of time as shall be reasonably in the good faith judgment of the Liquidating Trustee to complete the winding up and liquidation of the Partnership as provided for herein.

(d) In the event that no Person is selected to be the Liquidating Trustee within the time period set forth above, any Partner may make application to an appropriate Court of the State of Texas to wind up the affairs of the Partnership and, if deemed appropriate, to a Liquidating Trustee.

13.6 Compliance With Timing Requirements of Regulations.

(a) In the event the Partnership is "liquidated" within the meaning of Section 1.704-1(b)(2)(ii)(g) of the Regulations: (i) distributions shall be made pursuant to this Article XIII to the General Partner and Limited Partners who have positive Capital Accounts in compliance with Section 1.704-1(b)(2)(ii)(b)(2) of the Regulations; and (ii) if any General Partner's Capital Account has a deficit balance (after giving effect to all contributions, distributions, and allocations for all taxable years, including the year during which such liquidation occurs), such General Partner shall contribute to the capital of the Partnership the amount necessary to restore such deficit balance to zero in compliance with Section 1.704-1(b)(2)(ii)(b)(3) of the Regulations. If any Limited Partner has a deficit balance in its Capital Account (after giving effect to all contributions, distributions and allocations for all taxable years, including the year during which such liquidation occurs), such Limited Partner shall have no obligation to make any contribution to the capital of the Partnership with respect to such deficit, and such deficit shall not be considered a debt owed to the Partnership or to any other Person for any purpose whatsoever.

(b) In the discretion of the General Partner, a pro rata portion of the distributions that would otherwise be made to the Partners pursuant to this Article XIII may be:

(i) distributed to a trust established for the benefit of the Partners for the purposes of liquidating Partnership Property, collecting amounts owed to the Partnership, and paying any contingent or unforeseen liabilities or obligations of the Partnership or of the General Partner arising out of or in connection with the Partnership. The Property and other assets of any

such trust shall be distributed to the Partners from time to time, in the reasonable discretion of the General Partner, in the same proportions as the amount distributed to such trust by the Partnership would otherwise have been distributed to the Partners pursuant to this Agreement; or

(ii) withheld to provide a reasonable reserve for Partnership liabilities (contingent or otherwise) or to reflect the unrealized portion of any installment obligations owed to the Partnership, provided that such withheld amounts shall be distributed to the Partners as soon as practicable.

13.7 Deemed Distribution and Recontribution. Notwithstanding any other provision of this Article XIII, in the event the Partnership is "liquidated" within the meaning of Section 1.704-1(b)(2)(ii)(g) of the Regulations, but no Liquidating Event has occurred, the Property shall not be liquidated, the Partnership's liabilities shall not be paid or discharged, and the Partnership's affairs shall not be wound up. Instead, the Partnership shall be deemed to have distributed the Property in kind to the Partners, who shall be deemed to have assumed and taken subject to all Partnership liabilities, all in accordance with their respective Capital Accounts. Immediately thereafter, the Partners shall be deemed to have recontributed the Property in kind Partnership, which shall be deemed to have assumed and taken subject to all such liabilities.

13.8 Rights of and Among Limited Partners. Except as otherwise provided in this Agreement, each Limited Partner shall look solely to the Property of the Partnership for the return of its Capital Contribution and shall have no right or power to demand or receive Property other than cash from the Partnership. No Limited Partner shall have priority over any other Limited Partner as to the return of its Capital Contributions, distributions or allocations.

13.9 Notice of Dissolution. In the event a Liquidating Event occurs or an event occurs that would, but for provisions of Section 13.1, result in a dissolution of the Partnership, the General Partner shall, within 30 days thereafter, provide written notice thereof to each of the Partners and to all other parties with whom the Partnership regularly conducts business (as determined in the discretion of the General Partner) and shall publish notice thereof in a newspaper of general circulation in each place in which the Partnership regularly conducts business (as determined in the discretion of the General Partner).

ARTICLE XIV

MISCELLANEOUS

14.1 Notices. Any notice, demand, request, consent communication or report (collectively a "Notice") required or permitted to be given or made to a Person under this Agreement shall be effective only if in writing and (a) delivered in person, (b) sent by registered or certified mail, return receipt requested, postage prepaid, (c) sent by a nationally recognized overnight delivery service, with delivery confirmed, or (d) telexed or telecopied, with receipt confirmed, addressed as follows: (i) in the case of the Limited Partners, at the address as shown on the books and records of the Partnership; and (ii) in the case of the General Partner, 2280 N. Greenville Avenue, Richardson, Texas 75082-4412. or as otherwise shown on the books and records of the Partnership.

A Notice shall be deemed to have been given as of the date when (i) personally delivered; (ii) three days after its deposit with the United States mail properly addressed; (iii) the next day when delivered to said overnight delivery service, properly addressed and prior to such delivery service's cut-off time for next day delivery; or (iv) when receipt of the telex or telecopy is confirmed, as the case may be, unless the sending party has actual knowledge that a Notice was not received by the intended recipient.

14.2 Remedies. Except as provided elsewhere herein, each Partner hereby recognizes that a default by it with respect to its obligations under this Agreement will cause irreparable harm, injury and damage to the Partnership and the other Partner. Therefore, each Partner hereby agrees that in the event of a default by any Partner of one or more of its obligation hereunder, the Partnership or any other Partner may, if it so elects, seek specific performance of such obligation or obligations by the defaulting Partner, and the defaulting Partner agrees not to oppose any attempt to obtain specific performance on the ground that there exists adequate legal remedy (in damages or otherwise) for such default. The remedies referred to in this Section 14.2 shall be non-exclusive, cumulative of and additional to all other remedies of the parties hereto.

14.3 No Breach or Default. The execution, delivery and performance by such Partner of this Agreement and the transactions contemplated hereby will not constitute a breach of any term or provision of or constitute a default under: (a) any outstanding indenture, mortgage, loan agreement or other similar contract or agreement to which such Partner or any of its Affiliates is a party or by which it or any of its Affiliates or it or their property is bound; (b) any law, rule or regulation; or (c) any order, writ, judgment or decree applicable to it.

14.1 No Governmental Consents. No consent, license, approval or authorization of any governmental body, authority, bureau or agency is required on the part of such Partner or any of its Affiliates in connection with the execution, delivery and performance of this Agreement or the consummation of the transactions contemplated herein.

14.5 Accuracy of Information. Each Partner shall furnish to the Partnership all information regarding such Partner or its Affiliates required for inclusion in any documents to be prepared or filed in connection with the business and affairs of the Partnership, and all such information shall be true and correct in all material respects and shall not omit to state any material fact necessary to be stated therein in order that such information not be misleading.

14.6 Section Headings. Headings contained in this Agreement are inserted only as a matter of convenience and in no way define, limit or extend the scope or intent of this Agreement or any provisions hereof.

14.7 Waiver of Default. No consent or waiver, express or implied, by the Partnership or a Partner with respect to any breach or default by another Partner hereunder shall be deemed or construed to be a consent or waiver with respect to any other breach or default by such Partner of the same provision or any other provision of this Agreement. Failure on the part of the Partnership or a Partner to complain of any act or failure to act of another Partner or to declare such other Partner in default, irrespective of how long such failure continues, shall not be deemed or constitute a waiver by the Partnership or the Partners of any rights hereunder.

14.8 Creditors. None of the provisions of this Agreement shall be for the benefit of or enforceable by any creditors of the Partnership.

14.9 Meetings. Meetings of the Partners may be called by the General Partner, or by one of more Limited Partners whose Interests total at least one-third of the Interests of the Partnership, upon three days Notice to the other Partners. The Limited Partners shall not vote on matters that would cause the Limited Partners to be deemed to be participating in the control of the business and affairs of the Partnership so as to negate the limited liability of the Limited Partners.

14.10 Entire Agreement. This Agreement constitutes the entire agreement among the parties with respect to the formation, operation and continuation of the Partnership and the rights and duties of its Partners, and supersedes any prior agreement or understanding among the parties with respect to the subject matter hereof.

14.11 Amendment; Waiver. Except as provided otherwise herein, this Agreement may not be changed, altered or amended, nor may any rights hereunder be waived, by an instrument in writing signed by the party sought to be charged with such amendment or waiver.

14.12 Governing Law. This Agreement and the rights and obligations of the hereunder shall be subject to, governed by, and construed in accordance with and governed by the Act and the laws of the State of Texas, without giving effect to the provisions, polices or principles thereof relating to choice or conflict of laws.

14.13 Binding Effect. Except as provided otherwise herein, every covenant, term and provision of this Agreement shall be binding upon and shall inure to the benefit of the Partners and their respective donees, personal representatives, successors, transferees and assigns.

14.14 Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original and all of which shall constitute one and the same agreement.

14.15 Separability. The provisions of this Agreement are severable, and if any provision shall be held illegal, invalid or unenforceable, the parties affected thereby shall substitute for the affected provision an enforceable provision that approximates the intent and economic benefit of the affected provision as closely as possible, but all other provisions shall continue in full force and effect.

14.16 Gender and Number. Whenever required by the context hereof, the singular shall include the plural and the plural shall include the singular. The masculine gender shall include the feminine and neuter genders, and the neuter gender shall include the masculine and feminine genders.

14.17 Waiver of Partition. Each Partner hereby irrevocably waives, during the term of the Partnership, any right that it may have to maintain any action for partition with to any Partnership Property.

14.18 Further Action. Each Partner, upon request of any General Partner, agrees to perform all further acts and execute, acknowledge and deliver any documents which may be reasonably necessary, appropriate, or desirable to carry out the provisions of this Agreement.

IN WITNESS WHFREOF, the undersigned have executed this Agreement of Limited Partnership of the date first written above.

GENERAL PARTNER:
FOSSIL., INC.

By: /s/ Tom Kartsotis
Tom Kartsotis. Chief Executive Officer

LIMITED PARTNER:
FOSSIL TRUST

By: /s/ Alan D. Moore
Alan D. Moore. Trustee

STATE OF TEXAS
COUNTY OF DALLAS

I, Suzi A. Rowley, notary public, do hereby certify that on this 3rd day of August, 1994 personally appeared before me Tom Kartsotis who, being by me first duly sworn, declared that he is the Chief Executive Officer of Fossil, Inc., a Delaware corporation, that he signed the foregoing document as the Chief Executive Officer of the corporation, and that the statements contained therein are true.

/s/ Suzy A. Rowley
Notary Public

(NOTARIAL SEAL)
My Commission Expires:
6-19-97

STATE OF TEXAS
COUNTY OF DALLAS

I, Suzi A. Rowley, notary public, do hereby certify that on this 3rd day of August, 1994 personally appeared before me Alan D. Moore who, being by me first duly sworn, declared that he is the Trustee of Fossil Trust, a Delaware Business Trust, that he signed the foregoing document as the Trustee of the Trust, and that the statements contained therein are true.

/s/ Suzy A. Rowley
Notary Public

(NOTARIAL SEAL)
My Commission Expires:
6-19-97

Exhibit 10.8

AMENDMENT NUMBER ONE
TO THE
1993 LONG-TERM INCENTIVE PLAN
OF
FOSSIL, INC.

The following Amendment to the 1993 Long-Term Incentive Plan of Fossil, Inc. (The "Incentive Plan"), as authorized by the Board of Directors of Fossil, Inc. (the "Company"), is adopted as of the effective date specified herein:

The first sentence of paragraph 4 of the Incentive Plan is amended to read as follows:

"*Common Stock Available for Award.* There shall be available for Awards granted wholly or partly in Common Stock (including rights or options which may be exercised for or settled in Common Stock) during the term of this Plan an aggregate of 1,750,000 shares of Common Stock."

This amendment shall become effective immediately upon the approval of the Amendment by the Stockholders of the Company at the 1995 Annual Meeting of Stockholders.

Adopted this 30th day of March 1995.

Fossil, Inc.

By: /s/ Tom Kartsotis
Tom Kartsotis, Chairman and Chief Executive Officer

Exhibit 10.9

AMENDMENT NUMBER TWO
TO THE
1993 LONG-TERM INCENTIVE PLAN
OF
FOSSIL, INC.

The following Amendment to the 1993 Long-Term Incentive Plan of Fossil, Inc. (The "Incentive Plan"), as authorized by the Board of Directors of Fossil, Inc. (the "Company"), is adopted as of the effective date specified herein:

The first sentence of paragraph 4 of the Incentive Plan is amended to read as follows:

"*Common Stock Available for Award.* There shall be available for Awards granted wholly or partly in Common Stock (including rights or options which may be exercised for or settled in Common Stock) during the term of this Plan an aggregate of 3,525,000 shares of Common Stock."

This amendment shall become effective immediately upon the approval of the Amendment by the Stockholders of the Company at the 1998 Annual Meeting of Stockholders.

Adopted this 3rd day of March 1998.

Fossil, Inc.

By: /s/ T. R. Tunnell
T.R. Tunnell
Senior Vice President, Development,
Chief Legal Officer & Secretary

Exhibit 10.10

AMENDMENT NUMBER ONE
TO THE
1993 NONEMPLOYEE DIRECTOR STOCK OPTION PLAN
OF
FOSSIL, INC.

The following Amendment to the 1993 Nonemployee Director Stock Option Plan of Fossil, Inc. (the "Plan"), as authorized by the Board of Directors of Fossil, Inc. (the "Company"), is adopted as of the effective date specified herein:

Notwithstanding the provisions of paragraph 13 of the Plan, grants of Options under the Plan commencing on January 1, 1999, shall not be adjusted for the 3-for-2 split of the Common Stock of the Company effected as a stock dividend on April 8, 1998 to all stockholders of record on March 25, 1998.

All other terms and conditions of the Plan shall remain in full force and effect.

This amendment shall become effective as of December 31, 1998

Fossil, Inc.

By: /s/ Tom Kartsotis
Tom Kartsotis
Chairman and Chief Executive Officer

Exhibit 10.12

2002 RESTRICTED STOCK PLAN
OF
FOSSIL, INC.

ARTICLE I. GENERAL

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

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

NOW, THEREFORE, the Plan is as follows:

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

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

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

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

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

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

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

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

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

(iii) The stockholders of the Company approve (A) any consolidation or merger of the Company or any Subsidiary that results in the holders of the Company's voting securities immediately prior to the consolidation or merger having (directly or indirectly) less than a majority ownership interest

in the outstanding voting securities of the surviving entity immediately after the consolidation or merger, (B) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all or substantially all of the assets of the Company or (C) any plan or proposal for the liquidation or dissolution of the Company;

(iv) The stockholders of the Company accept a share exchange, with the result that stockholders of the Company immediately before such share exchange do not own, immediately following such share exchange, at least a majority of the voting securities of the entity resulting from such share exchange in substantially the same proportion as their ownership of the voting securities outstanding immediately before such share exchange; or

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

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

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

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

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

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

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

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

“Eligible Participant” has the meaning given in Section 1.4.

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

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

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

“Plan” means this 2002 Restricted Stock Plan of Fossil, Inc.

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

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

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

SECTION 1.3. Administration of the Plan.

(a) The Plan shall be administered by the Committee. The Committee shall have authority to interpret conclusively the provisions of the Plan, to adopt such rules and regulations for carrying out the Plan as it may deem advisable, to decide conclusively all questions of fact arising in the application of the Plan, to establish performance criteria in respect of Awards under the Plan, to certify that Plan requirements have been met for any Participant in the Plan, to submit such matters as it may deem advisable to the Company’s stockholders for their approval, and to make all other determinations and take all other actions necessary or desirable for the administration of the Plan. The Committee is

expressly authorized to adopt rules and regulations limiting or eliminating its discretion with respect to certain matters as it may deem advisable to comply with, or obtain preferential treatment under, any applicable tax or other law, rule, or regulation. All decisions and acts of the Committee shall be final and binding upon all affected Eligible Participants.

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

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

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

SECTION 1.6. Shares Subject to the Plan.

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

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

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

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

ARTICLE II. RESTRICTED STOCK

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

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

(b) Restrictions on Transfer. Unless otherwise provided in the grant relating to the Restricted Stock Award, stock certificates representing the Restricted Stock granted to a Participant shall be registered in the Participant's name. Prior to the shares of Restricted Stock becoming vested, such certificates shall either be held by the Company on behalf of the Participant, or delivered to the Participant bearing a legend to restrict transfer of the certificate until the Restricted Stock has vested, as determined by the Committee. The Participant shall have the right to vote and/or receive dividends on the Restricted Stock before it has vested. Except as may otherwise be expressly permitted by the Committee, no share of Restricted Stock may be sold, transferred, assigned, or pledged by the Participant until such share has vested in accordance with the terms of the Restricted Stock Award. Unless the grant of a Restricted Stock Award specifies otherwise, in the event of a Participant's termination of employment before all the Participant's Restricted Stock has vested, or in the event other conditions to the vesting of Restricted Stock have not been satisfied prior to any deadline for the satisfaction of such conditions set forth in the Award, the shares of Restricted Stock that have not vested shall be forfeited and any purchase price paid by the employee shall be returned to the Participant. At the time Restricted Stock vests (and upon the return of such certificates to the Company), a certificate for such vested shares shall be delivered to the Participant (or the beneficiary designated by the Participant in the event of death), free of all restrictions.

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

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

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

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

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

ARTICLE III. ADDITIONAL PROVISIONS

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

SECTION 3.2. Adjustments for Changes in Capitalization. In the event of any stock dividends, stock splits, recapitalizations, combinations, exchanges of shares, mergers, consolidations, liquidations, split-ups, split-offs, spin-offs or other similar changes in capitalization, or any distributions to stockholders, including a rights offering, other than regular cash dividends, changes in the outstanding stock of the Company by reason of any increase or decrease in the number of issued shares of Common Stock resulting from a split-up or consolidation of shares or any similar capital adjustment or the payment of any stock dividend, any share repurchase at a price in excess of the market price of the Common Stock at the time such repurchase is announced or other increase or decrease in the number of such shares, the Committee shall make appropriate adjustment in the number and kind of shares authorized by the Plan, in the number, price or kind of shares covered by the Awards and in any outstanding Awards under the Plan. In the event of any adjustment in the number of shares covered by any Award, any fractional shares resulting from such adjustment shall be disregarded and each such Award shall cover only the number of full shares resulting from such adjustment.

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

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

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

SECTION 3.6. Withholding. Whenever the Company proposes or is required to issue or transfer shares of Common Stock under the Plan, the Company shall have the right to require the holder to pay an amount in cash or to retain or sell without notice, or demand surrender of, shares of Common Stock in value sufficient to satisfy any Withholding Tax prior to the delivery of any certificate for such shares (or

remainder of shares if Common Stock is retained to satisfy such Withholding Tax). Whenever Common Stock is so retained, sold or surrendered to satisfy Withholding Tax, the value of shares of Common Stock so retained, sold or surrendered shall be determined by the Committee, and the value of shares of Common Stock so sold shall be the net proceeds (after deduction of commissions) received by the Company from such sale, as determined by the Committee.

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

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

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

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

SECTION 3.11. Duration and Termination.

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

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

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

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

FOSSIL, INC.

By: /s/ T. R. Tunnell
Print Name: T. R. Tunnell
Title: EVP

FORM OF RESTRICTED STOCK AWARD AGREEMENT

This **RESTRICTED STOCK AWARD AGREEMENT** (the "Agreement"), entered into as of «Grant_Date», between Fossil, Inc., a Delaware corporation (the "Company"), and «FirstName» «LastName» (the "Employee").

WHEREAS, the Company has adopted the 2002 Restricted Stock Plan of Fossil, Inc. (the "Restricted Stock Plan") effective as of the Effective Date with the objective of advancing the best interests of the Company, its Subsidiaries and its stockholders in order to attract, retain and motivate key employees with additional incentives through the award of shares of Restricted Stock;

WHEREAS, the Restricted Stock Plan provides that Eligible Participants of the Company or its Subsidiaries, as determined in the judgment of the Committee, may be granted an Award which may consist of grants of restricted shares of common stock, par value $.01 per share ("Common Stock"), of the Company; and

WHEREAS, the Employee holds a position of responsibility within the Company and the Committee has determined that the Employee is an Eligible Participant under the Restricted Stock Plan;

NOW, THEREFORE, in consideration of the premises, the terms and conditions set forth herein, the mutual benefits to be gained by the performance thereof and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. **Grant of Restricted Stock**. Subject to the terms and conditions set forth herein and in the Restricted Stock Plan, the Company hereby grants to the Employee an Award of «Shares» shares of Common Stock (the "Restricted Stock"), such number of shares being subject to adjustment from time to time as provided in Section 3.2 of the Restricted Stock Plan and paragraph 12 hereof.

2. **Restrictions on Transfer**. Stock certificates representing the Restricted Stock granted hereunder shall be registered in the Employee's name. Prior to the shares of Restricted Stock becoming vested, such certificates shall be held by the Company on behalf of the Employee and shall bear a legend to restrict transfer of the certificate until the Restricted Stock has vested, as set forth in Paragraph 3 hereof. The Employee shall have the right to vote and/or receive dividends on the Restricted Stock before it has vested. Except as may otherwise may be expressly permitted by the Committee, no share of Restricted Stock may be sold, transferred, assigned, or pledged by the Employee until such share has vested in accordance with the terms hereof. In the event of Employee's termination of employment before all the Employee's Restricted Stock has vested, or in the event other conditions to the vesting of Restricted Stock have not been satisfied prior to any deadline for the satisfaction of such conditions set forth herein, the shares of Restricted Stock that have not vested shall be forfeited and any purchase price paid by the Employee shall be returned to the Employee. At the time Restricted Stock vests (and upon the return of such certificates to the Company), a certificate for such vested shares shall be delivered to the Participant (or the beneficiary designated by the Participant in the event of death), free of all such restrictions.

3. **Option Period and Vesting**. The Restricted Shares granted pursuant to this Agreement shall vest and become transferable with respect to «Vesting» of the date hereof (it being understood that the right to transfer the Restricted Shares shall be cumulative, so that the Employee may transfer on or after any such anniversary that number of Restricted Shares which the Employee was entitled to transfer but did not transfer during any preceding period or periods).

4. **Termination in Event of Nonemployment**. In the event that the Employee ceases to be employed by the Company or any of its Subsidiaries for any reason other than death, the Restricted Shares granted pursuant to this Agreement shall be forfeited, except to the extent that they have vested and become transferable in accordance with the provisions of paragraph 3 on the date the Employee ceases to be so employed.

5. **Accelerated Vesting**. Notwithstanding the vesting conditions set forth herein: (i) the Committee may in its discretion at any time accelerate the vesting of Restricted Stock or otherwise waive or amend any conditions of a grant of a Restricted Stock Award; (ii) all the shares of Restricted Stock shall vest upon a Change of Control of the Company; and (iii) all the shares of Restricted Stock shall vest upon the death of the Employee.

6. **Assignability**. The rights granted pursuant hereto shall not be assignable or transferable by the Employee other than in accordance with Section 3.7 of the Restricted Stock Plan. No assignment of the rights herein granted shall be effective to bind the Company unless the Company shall have been furnished with written notice thereof and a copy of such documents and evidence as the Company may deem necessary to establish the validity of the assignment and the acceptance by the assignee or assignees of the terms and conditions hereof.

7. **Section 83(b) Election**. If Employee is subject to a "substantial risk of forfeiture" of the Restricted Shares granted hereunder, such Employee may elect under Section 83(b) of the Internal Revenue Code of 1986, as amended, to include in his gross income, for the taxable year in which the Restricted Stock is received, the excess of the Fair Market Value of such Restricted Stock on the date of grant (determined without regard to any restriction other than one which by its terms will never lapse), over the amount paid for the Restricted Stock. If the Employee makes the Section 83(b) election, the Employee shall (a) make such election in a manner that is satisfactory to the Committee, (b) provide the Company with a copy of such election, (c) agree to promptly notify the Company if any Internal Revenue Service or state tax agent, on audit or otherwise, questions the validity or correctness of such election or of the amount of income reportable on account of such election, and (d) agree to such federal and state income tax withholding as the Committee may reasonably require in its sole discretion.

8. **Restrictions and Related Representations**. Upon the acquisition of any Restricted Shares hereunder, the Employee may be required to enter into such written representations, warranties and agreements as the Company may reasonably request in order to comply with applicable securities laws, the Restricted Stock Plan or with this Agreement. In addition, the certificate or certificates representing any Restricted Shares issued hereunder will be stamped or otherwise imprinted with a legend in such form as the Company may require with respect to any applicable restrictions on sale or transfer, and the stock transfer records of the Company will reflect stop-transfer instructions, as appropriate, with respect to such Restricted Shares.

9. **Notices**. Unless otherwise provided herein, any notice or other communication hereunder shall be in writing and shall be given by registered or certified mail. All notices by the Employee hereunder shall be directed to Fossil, Inc., Attention: Secretary, at the Company's then current address. Any notice given by the Company to the Employee hereunder shall be directed to him at his address on file with the Company. The Company shall be under no obligation whatsoever to advise or notify the Employee of the existence, maturity or termination of any rights hereunder and the Employee shall be deemed to have familiarized himself with all matters contained herein and in the Restricted Stock Plan which may affect any of the Employee's rights or privileges hereunder.

10. **Scope of Certain Terms**. Whenever the term “Employee” is used herein under circumstances applicable to any other person or persons to whom this Award may be assigned in accordance with the provisions of Paragraph 6 of this Agreement, the term “Employee” shall be deemed to include such person or persons. The term “Restricted Stock Plan” as used herein shall be deemed to include the 2002 Restricted Stock Plan of Fossil, Inc. and any subsequent amendments thereto, together with any administrative interpretations which have been adopted thereunder by the Committee pursuant to Section 1.3 of the Restricted Stock Plan. Unless otherwise indicated, defined terms herein shall have the meaning ascribed to them in the Restricted Stock Plan.

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

12. **Adjustments for Changes in Capitalization**. In the event of any stock dividends, stock splits, recapitalizations, combinations, exchanges of shares, mergers, consolidations, liquidations, split-ups, split-offs, spin-offs or other similar changes in capitalization, or any distributions to stockholders, including a rights offering, other than regular cash dividends, changes in the outstanding stock of the Company by reason of any increase or decrease in the number of issued shares of Common Stock resulting from a split-up or consolidation of shares or any similar capital adjustment or the payment of any stock dividend, any share repurchase at a price in excess of the market price of the Common Stock at the time such repurchase is announced or other increase or decrease in the number of such shares, the Committee shall make appropriate adjustment in the number and kind of shares authorized by the Restricted Stock Plan, in the number, price or kind of shares covered by the Awards and in any outstanding Awards under the Restricted Stock Plan. In the event of any adjustment in the number of shares covered by any Award, any fractional shares resulting from such adjustment shall be disregarded and each such Award shall cover only the number of full shares resulting from such adjustment.

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

14. **Incorporation of Restricted Stock Plan**. This Agreement is subject to the Restricted Stock Plan, a copy of which has been furnished to the Employee herewith and for which the Employee acknowledges receipt. The terms and provisions of the Restricted Stock Plan are incorporated by reference herein. In the event of a conflict between any term or provision contained herein and a term or provision of the Restricted Stock Plan, the applicable terms and provisions of the Restricted Stock Plan shall govern and prevail.

IN WITNESS WHEREOF, this Agreement has been executed as of «Grant_Date».

COMPANY:

FOSSIL, INC.

By: ______________________________

«FirstName» «LastName»

____

Enclosure: 2002 Restricted Stock Plan of Fossil, Inc.

Exhibit 10.14

FIRST AMENDMENT TO LOAN AGREEMENT

THIS FIRST AMENDMENT TO LOAN AGREEMENT (this "Amendment") is made and entered into as of the 22nd day of September, 2005 by and among **WELLS FARGO BANK, NATIONAL ASSOCIATION,** a national banking association (the "Bank"), **FOSSIL PARTNERS, L.P.** (the "Borrower"), **FOSSIL, INC.** (the "Company"), **FOSSIL INTERMEDIATE, INC.** ("Fossil Intermediate"), **FOSSIL TRUST** ("Fossil Trust"), **FOSSIL STORES I, INC.** ("Fossil I"), **INTERMEDIATE LEASING, INC.** ("Intermediate Leasing"), **ARROW MERCHANDISING, INC.** ("Arrow Merchandising") and **FOSSIL HOLDINGS, LLC** ("Fossil Holdings") (the Company, Fossil Intermediate, Fossil Trust, Fossil I, Intermediate Leasing, Arrow Merchandising and Fossil Holdings are sometimes referred to herein individually as a "Guarantor" and collectively as the "Guarantors").

RECITALS

WHEREAS, the Bank, the Borrower and the Guarantors are parties to that certain Loan Agreement, dated as of September 23, 2004 (as amended, modified or supplemented, from time to time, the "Agreement");

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

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

ARTICLE I
Definitions

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

ARTICLE II
Amendments

2.01 Amendment to Section 1. Effective as of the date hereof, Section 1 of the Agreement is hereby deleted in its entirety and replaced with the following:

"1. The Line of Credit. Subject to, and upon the terms, conditions, covenants and agreements contained herein and in the Revolving Note (as hereinafter defined), the Bank agrees to loan the Borrower, at any time, and from time to time prior to the maturity of the Revolving Note, such amounts as the Borrower may request, up to but not exceeding at any time, the aggregate principal amount of $100,000,000 (the "Total Commitment"); within such limits and during such period, the Borrower may borrow, repay, and re-borrow hereunder (the "Line of Credit"). All loans under the Line of Credit shall be evidenced by the a Revolving Line of Credit Note (as amended, modified or supplemented from time to time, the "Revolving Note"), substantially in form and substance satisfactory to the Bank, executed by the Borrower and payable to the order of the Bank, and bearing interest upon the terms provided therein (but in no event to exceed the maximum non-usurious interest rate permitted by law). The principal of, and interest on, the Revolving Note shall be due and payable as provided in the Revolving Note. Notation by the Bank on its records shall constitute prima facie evidence of the amount and date of any payment or borrowing thereunder.

(a) Renewals and Extensions. All renewals, extensions, modifications and rearrangements of the Revolving Note, if any, shall be deemed to be made pursuant to this Agreement, and accordingly, shall be subject to the terms and provisions hereof, and the Borrower and the Guarantors shall be deemed to have ratified, as of such renewal, extension, modification or rearrangement date, all of the representations, covenants and agreements herein set forth.

(b) Letters of Credit. Advances under the Line of Credit may be utilized by the Borrower to fund drawings under any Documentary or Stand-by Letters of Credit (as hereinafter defined) that are issued by the Bank for the account of the Borrower. In the event the Borrower fails to reimburse the Bank for any such drawings, the Bank may, in its own discretion, advance funds under the Line of Credit to fund such drawings and all such advances shall be added to the principal amount of the Revolving Note."

2.02 Amendment to Section 2. Effective as of the date hereof, the reference to "$50,000,000" contained in Section 2 of the Agreement is hereby deleted and "$100,000,000" is substituted in lieu thereof.

2.03 Amendment to Section 12(m). Effective as of the date hereof, Section 12(m) of the Agreement is hereby deleted in its entirety and replaced with the following:

"(m) Domestic/Foreign Subsidiary Guarantees/Stock Pledges. (i) cause each majority-owned subsidiary of the Company or the Borrower which is incorporated or formed in the United States of America and which owns or holds tangible assets having an aggregate book value of $50,000,000 or more (each, a "Significant Domestic Subsidiary") to execute a Guaranty Agreement in the form of Exhibit A attached hereto, and (ii) pledge to the Bank, as collateral security for the Borrower's obligations to the Bank hereunder, a security interest in sixty-five percent (65%) of the stock of each majority owned subsidiary of the Company which is incorporated or formed outside of the United States and which owns or holds tangible assets having an aggregate book value of $50,000,000 or more (each a "Significant Foreign Subsidiary") by executing a Stock Pledge Agreement in the form of Exhibit B attached hereto."

2.04 Amendment to Section 13(b). Effective as of the date hereof, Section 13(b) of the Agreement is hereby deleted in its entirety and replaced with the following:

"(b) Liabilities. Assume, guarantee, endorse, suffer to exist or otherwise become liable upon, or agree to purchase or otherwise furnish funds for the payment of, the obligations of any person, firm or corporation, except for

(i) the obligations hereunder;

(ii) endorsement of negotiable instruments for deposit or collection or similar transactions in the ordinary course of business;

(iii) obligations under operating leases;

(iv) obligations for indebtedness secured by purchase money liens not to exceed $10,000,000 in the aggregate at any time outstanding;

(v) obligations under foreign currency exchange contracts, so long as such obligations are incurred in the ordinary course of its business;

(vi) indebtedness to shareholders, officers or partners, so long as such indebtedness is unsecured, fully subordinated to the indebtedness owing to the Bank in form and substance satisfactory to the Bank, and evidenced by debt instruments satisfactory in form and substance to the Bank;

(vii) obligations under guaranties securing indebtedness not to exceed $10,000,000 in the aggregate at any time outstanding;

(viii) any other unsecured indebtedness owing by Borrower to The Trade Bank, a joint-venture of the Bank and HSCB; and

(ix) any other unsecured indebtedness which is subordinated to the indebtedness owing to the Bank pursuant to a written subordination agreement in form and substance satisfactory to the Bank."

2.05 Amendment to Section 14(a). Effective as of the date hereof, Section 14(a) of the Agreement is hereby deleted in its entirety and replaced with the following:

"(a) Quick Ratio. Maintain, at all times, a ratio of (i) (A) cash, plus (B) cash equivalents, plus (C) account receivables to (ii) current liabilities of not less than 1.0 to 1.0. Cash, cash equivalents, accounts receivable and current liabilities are defined according to generally accepted accounting principles, with the exception that current liabilities will include all indebtedness of the Borrower under the Revolving Note and all Documentary or Stand-by Letters of Credit."

2.06 Amendment to Section 14(c). Effective as of the date hereof, Section 14(c) of the Agreement is hereby deleted in its entirety and replaced with the following:

"(c) Fixed Charge Coverage Ratio. Maintain a Fixed Charge Ratio of not less than 2.0 to 1.0 throughout the term hereof. "Fixed Charge Ratio" shall be defined as net profit after taxes, plus depreciation, plus amortization, plus or minus net distributions divided by the current portion of long term debt, plus twenty-five percent of the outstanding amount of the Line of Credit, plus capitalized lease obligations. The Fixed Charge Ratio shall be determined as of the end of the immediately preceding fiscal quarter for the twelve-month period ended as of the end of such fiscal quarter for which the determination is being made (i.e., on a rolling four-quarter basis)."

ARTICLE III
Conditions Precedent

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

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

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

(ii) An Amended and Restated Revolving Line of Credit Note in the form of Exhibit A to this Amendment (hereinafter, the "Revolving Note"), duly executed by the Borrower;

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

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

(d) The Bank shall have received and be satisfied the results of its credit investigation with respect to certain executives of Borrower;

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

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

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

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

ARTICLE IV
No Waiver

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

ARTICLE V
Ratifications, Representations and Warranties, Covenants

5.01 General Ratifications. The terms and provisions set forth in this Amendment shall modify and supersede all inconsistent terms and provisions set forth in the Agreement and the other Loan Documents, and, except as expressly modified and superseded by this Amendment, the terms and provisions of the Agreement and the other Loan Documents are ratified and confirmed and shall continue

in full force and effect. The parties hereto agree that the Agreement and the other Loan Documents, as amended hereby, shall continue to be legal, valid, binding and enforceable in accordance with their respective terms.

5.02 Ratification of Guaranties. Each of the Guarantors hereby acknowledges and consents to all of the terms and conditions of this Amendment and the Revolving Note and hereby ratifies and confirms the Guaranty Agreement to which it is a party to or for the benefit of the Bank. Each of the Guarantors hereby represents and acknowledges that it has no claims, counterclaims, offsets, credits or defenses to the Loan Documents or the performance of its obligations thereunder. Furthermore, each Guarantor agrees that nothing contained in this Amendment or the Revolving Note shall adversely affect any right or remedy of the Bank under the Guaranty Agreement to which such Guarantor is a party. Each Guarantor hereby agrees that with respect to the Guaranty Agreement to which it is a party, all references in such Guaranty Agreement to the "Guaranteed Obligations" shall include, without limitation, the obligations of Borrower to Bank under the Agreement, as amended hereby, and under the Revolving Note, as amended hereby. Finally, each of the Guarantors hereby represents and acknowledges that the execution and delivery of this Amendment and the other Loan Documents executed in connection herewith shall in no way change or modify its obligations as a guarantor, debtor, pledgor, assignor, obligor and/or grantor under its respective Guaranty Agreement (except as specifically provided in this Section 5.02) and shall not constitute a waiver by the Bank of any of the Bank's rights against such Guarantor.

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

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

ARTICLE VI
Miscellaneous Provisions

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

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

6.03 Expenses of the Bank. As provided in the Agreement, the Borrower agrees to pay on demand all reasonable costs and expenses incurred by the Bank in connection with the preparation, negotiation, and execution of this Amendment and the other Loan Documents executed pursuant hereto and any and all amendments, modifications, and supplements hereto or thereto, including, without limitation, the costs and fees of the Bank's legal counsel, and all costs and expenses incurred by the Bank in connection with the enforcement or preservation of any rights under the Agreement or any other Loan Document, in each case as amended hereby, including, without, limitation, the costs and fees of the Bank's legal counsel.

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

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

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

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

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

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

6.10 Final Agreement. THE AGREEMENT AND THE OTHER LOAN DOCUMENTS, EACH AS AMENDED HEREBY, REPRESENT THE ENTIRE EXPRESSION OF THE PARTIES WITH RESPECT TO THE SUBJECT MATTER HEREOF ON THE DATE THIS AMENDMENT IS EXECUTED. THE AGREEMENT AND THE OTHER LOAN DOCUMENTS, AS AMENDED HEREBY, MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS

OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES. NO MODIFICATION, RESCISSION, WAIVER, RELEASE OR AMENDMENT OF ANY PROVISION OF THIS AMENDMENT SHALL BE MADE, EXCEPT BY A WRITTEN AGREEMENT SIGNED BY THE BORROWER, THE GUARANTORS AND THE BANK.

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

[Remainder of page intentionally left blank.]

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

"BANK"

WELLS FARGO BANK, NATIONAL
ASSSOCIATION

By: /s/ Susan K. Nugent
Susan K. Nugent,
Assistant Vice President

"BORROWER"

FOSSIL PARTNERS, L.P.

By: Fossil, Inc., its general partner

By: /s/ Randy S. Kercho
Randy S. Kercho,
Executive Vice President

"GUARANTORS"

FOSSIL, INC.

By: /s/ Randy S. Kercho
Randy S. Kercho,
Executive Vice President

FOSSIL INTERMEDIATE, INC.

By: /s/ Randy S. Hyne
Name: Randy S. Hyne
Title: Secretary

FOSSIL TRUST

By: /s/ Randy S. Hyne
Name: Randy S. Hyne
Title: Secretary

FOSSIL STORES I, INC.

By: /s/ Mike L. Kovar
Mike L. Kovar, Treasurer

INTERMEDIATE LEASING, INC.

By: /s/ Mike L. Kovar
Mike L. Kovar, Treasurer

ARROW MERCHANDISING, INC.

By: /s/ Mike L. Kovar
Mike L. Kovar, Treasurer

FOSSIL HOLDINGS, LLC

By: /s/ Mike L. Kovar
Mike L. Kovar, Manager

Exhibit :

A - Revolving Note

EXHIBIT A

FORM OF REVOLVING NOTE

(See Attached)

AMENDED AND RESTATED REVOLVING LINE OF CREDIT NOTE

September 22, 2005 Dallas, Texas $100,000,000.00

FOR VALUE RECEIVED, the undersigned (hereinafter called "Maker") does hereby unconditionally promise to pay to the order of **Wells Fargo Bank, National Association,** a national banking association ("Payee"), at its office at 1445 Ross Avenue, 3rd Floor, MAC T5303-031, Dallas, Texas 75202, the principal sum of **ONE HUNDRED MILLION AND NO/100 DOLLARS** ($100,000,000.00), or such lesser amount as has been loaned or advanced by Payee to Maker hereunder, in lawful money of the United States of America, together with interest from the date hereof until maturity at the rates per annum provided below.

1. Definitions. For purposes of this Revolving Line of Credit Note (this "Note"), unless the context otherwise requires, the following terms shall have the definitions assigned to such terms as follows:

"Business Day" shall mean:

(i) for all purposes (other than as covered by clause (ii) below) any day except Saturday, Sunday or a day which in the United States is a legal holiday or a day on which banking institutions are authorized or required by law or other government action to close;

(ii) with respect to all notices and determinations in connection with, and payments of principal and interest on, a LIBOR Balance, any day which is a Business Day described in clause (i) above and which is also a day for trading by and between banks in the interbank eurodollar market.

"Consequential Loss" shall mean, with respect to Maker's payment, or conversion to a different Interest Option, of all or any portion of the then-outstanding principal amount of any LIBOR Balance on a day other than the last day of the LIBOR Interest Period related thereto, any loss, cost or expense incurred by Payee in redepositing such principal amount, including the sum of (i) the interest which, but for such payment, Payee would have earned in respect of such principal amount so paid for the remainder of LIBOR Interest Period applicable to such principal amount, reduced, if Payee is able to redeposit such principal amount so paid for the balance of such LIBOR Interest Period, by the interest earned by Payee as a result of so redepositing such principal amount, plus (ii) any expense or penalty incurred by Payee on redepositing such principal amount.

"Contract Rate" shall mean a rate of interest based upon the LIBOR Base Rate or WFB Base Rate in effect at any time pursuant to an Interest Notice.

"Dollars" and the sign "$" shall mean lawful currency of the United States of America.

"Eurocurrency Reserve Percentage" shall mean, with respect to each LIBOR Interest Period the maximum reserve percentage (expressed as a decimal) in effect on the first day of any LIBOR Interest Period, as prescribed by the Board of Governors of the Federal Reserve System (or any successor), for determining reserve requirements applicable to "eurocurrency liabilities" pursuant to Regulation D or any other then applicable regulation of the Board of Governors (or any successor) which prescribes reserve requirements applicable to "eurocurrency liabilities," as presently defined in Regulation D, or any eurocurrency funding.

"Event of Default" shall mean an Event of Default as such term is defined in the Loan Agreement.

"Excess Interest Amount" shall mean, on any date, the amount by which (i) the amount of all interest which would have accrued prior to such date on the principal of this Note (had the applicable Contract Rate at all times been in effect without limitation by the Maximum Rate) exceeds (ii) the aggregate amount of interest actually received by Payee on this Note on or prior to such date.

"Federal Funds Effective Rate" means, for any day, the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published on the immediately following Business Day by the Federal Reserve Bank of New York or, if such rate is not published for any Business Day, the average of the quotations for the day of the requested advance received by Payee from three Federal funds brokers of recognized standing selected by Payee.

"Interest Notice" shall mean the written notice given by Maker to Payee of the Interest Options selected hereunder. Each Interest Notice shall specify the Interest Option selected, the amount of the unpaid principal balance of this Note to bear interest at the rate selected and, if the LIBOR Base Rate is specified, the length of the applicable LIBOR Interest Period.

"Interest Option" shall have the meaning assigned to such term in paragraph 7 hereof.

"Interest Payment Date" shall mean (i) in the case of any WFB Base Rate Balance, the fifteenth (15th) day of the last month of each calendar quarter during the term hereof, commencing December 15, 2005, and at the maturity of this Note, and (ii) in the case of any LIBOR Balance, the last day of the corresponding LIBOR Interest Period with respect to such LIBOR Balance and at the maturity of this Note.

"LIBOR Balance" shall mean any principal balance of this Note which, pursuant to an Interest Notice, bears interest at a rate based upon the LIBOR Base Rate for the LIBOR Interest Period specified in such Interest Notice.

"LIBOR Base Rate" shall mean, with respect to each LIBOR Interest Period, on any day thereof the quotient of (i) the LIBOR Rate with respect to such LIBOR Interest Period, divided by (ii) the remainder of 1.0 minus the Eurocurrency Reserve Percentage in effect on such day.

"LIBOR Interest Period" shall mean, with respect to any LIBOR Balance, a period commencing: (i) on any date upon which, pursuant to an Interest Notice, the principal amount of such LIBOR Balance begins to accrue interest at the LIBOR Base Rate, or (ii) on the last day of the immediately preceding LIBOR Interest Period in the case of a rollover to a successive LIBOR Interest Period, and ending one month, two months or three months thereafter as Maker shall elect in accordance with the provisions hereof; provided, that: (A) any LIBOR Interest Period which would otherwise end on a day which is not a Business Day shall be extended to the next succeeding Business Day unless such Business Day falls in another calendar month, in which case such LIBOR Interest Period shall end on the next preceding Business Day; and (B) any LIBOR Interest Period which begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such LIBOR Interest Period) shall, subject to clauses (C) below and (A) above, end on the last Business Day of a calendar month; and (C) any LIBOR Interest Period which would otherwise end after September 21, 2006 shall end on September 21, 2006.

"LIBOR Rate" shall mean, with respect to each LIBOR Interest Period, the rate of interest determined by Payee to be the arithmetic average (rounded upward, if necessary to the nearest 1/16th of 1%) of the per annum rates of interest at which Dollar deposits with a maturity equal to the proposed LIBOR Interest Period (and in an amount approximating the LIBOR Balance) would be offered to Payee by major banks in the interbank eurodollar market at approximately 8:00 a.m. (Dallas, Texas time) on the Business Day immediately preceding the first day of such LIBOR Interest Period.

"Loan Agreement" shall mean that certain Loan Agreement, dated as of September 23, 2004, by and among Maker, Payee and the subsidiaries and/or affiliates of Maker from time to time a party thereto, as guarantors, as amended, restated, supplemented and/or modified from time to time.

"Maximum Rate" as used herein, shall mean, with respect to the holder hereof, the maximum non-usurious interest rate, if any, that at any time, or from time to time, may be contracted for, taken, reserved, charged, or received on the indebtedness evidenced by this Note under the laws which are presently in effect of the United States and the State of Texas applicable to such holder and such indebtedness or, to the extent permitted by law, under such applicable laws of the United States and the State of Texas which may hereafter be in effect and which allow a higher maximum non-usurious interest rate than applicable laws now allow. To the extent that any of the optional interest rate ceilings provided in Chapter 303 of the Texas Finance Code, as amended from time to time (as amended, the "Texas Finance Code"), may be available for application to any loan(s) or extension(s) of credit under this Note for the purpose of determining the Maximum Rate hereunder pursuant to the Texas Finance Code, the applicable "monthly ceiling" (as such term is defined in Chapter 303 of the Texas Finance Code) from time to time in effect shall be used to the extent that it is so available, and if such "monthly ceiling" at any time is not so available then the applicable "weekly ceiling" (as such term is defined in Chapter 303 of the Texas Finance Code) from time to time in effect shall be used to the extent that it is so available.

"Regulation D" shall mean Regulation D of the Board of Governors of the Federal Reserve System from time to time in effect and shall include any successor or other regulation relating to reserve requirements applicable to member banks of the Federal Reserve System.

"Total Commitment" shall mean $100,000,000.00.

"WFB" shall mean Wells Fargo Bank, National Association, a national banking association, and its successors and assigns.

"WFB Base Rate" shall mean, on any date of determination, a variable rate of interest per annum equal to the higher of either (a) the WFB Prime Rate, or (b) the Federal Funds Effective Rate plus **one-half of one percent (0.50%)**.

"WFB Base Rate Balance" shall mean that portion of the principal balance of this Note bearing interest at a rate based upon the WFB Base Rate.

"WFB Prime Rate" shall mean the rate of interest most recently announced within Payee at its principal office in San Francisco as its prime rate and is a base rate for calculating interest on certain loans. The rate announced by Payee as its prime rate may or may not be the most favorable rate charged by Payee to its customers. Each change in the WFB Prime Rate shall become effective without prior notice to Maker automatically as of the opening of business on the date such change is announced within Payee.

2. Manner of Borrowing; Advance Requests. A request for an advance under this Note shall be made, or shall be deemed to be made, if Maker gives Payee notice of its intention to borrow, in which

notice Maker shall specify (i) the aggregate principal amount of such advance and (ii) the requested date of such advance, which shall be a Business Day. Any such request for an advance shall be accompanied by an Interest Notice and shall be made (i) no later than 11:00 a.m. Dallas, Texas time at least three (3) Business Days prior to the requested advance date if the principal balance of such advance, pursuant to such Interest Notice, is to bear interest at a rate based upon the LIBOR Base Rate and (ii) no later than 11:00 a.m. Dallas, Texas time or the requested advance date if the principal balance of such advance, pursuant to such Interest Notice, is to bear interest at a rate based upon the WFB Base Rate. Notwithstanding anything herein to the contrary, Payee shall have the right to refuse to accept a request for an advance under this Note if at the date any such request is made or any such advance is to be made there exists a default or an Event of Default under this Note or the Loan Agreement. As an accommodation to Maker, Payee may permit telephonic requests for loans and electronic transmittal of instructions, authorizations, agreements or reports to Payee by Maker. Unless Maker specifically directs Payee in writing not to accept or act upon telephonic or electronic communications from Maker, Payee shall have no liability to Maker for any loss or damage suffered by Maker as a result of Payee's honoring of any requests, execution of any instructions, authorizations or agreements or reliance on any reports communicated to Payee telephonically or electronically and purporting to have been sent to Payee by any individual from time to time designated by Maker as an authorized officer and Payee shall have no duty to verify the origin or authenticity of any such communication.

3. Payments of Interest and Principal. Interest on the unpaid principal balance of this Note shall be due and payable on each Interest Payment Date as it accrues. The unpaid principal balance of this Note shall be due and payable in full on September 21, 2006.

4. Rates of Interest. The unpaid principal of the WFB Base Rate Balance shall bear interest at a rate per annum which shall from day to day be equal to the lesser of (i) the higher of either (a) the WFB Base Rate in effect from day to day, minus one percent (1.00%) or (b) three percent (3.0%) , or (ii) the Maximum Rate. The unpaid principal of each LIBOR Balance shall bear interest at a rate per annum which shall from day to day be equal to the lesser of (i) the LIBOR Base Rate for the LIBOR Interest Period in effect with respect to such LIBOR Balance plus one-half of one percent (0.50%) , or (ii) the Maximum Rate. Each determination by Payee of the LIBOR Base Rate shall, in the absence of manifest error, be conclusive and binding. Interest on this Note with respect to each WFB Base Rate Balance and each LIBOR Balance shall be calculated on the basis of the actual days elapsed in a year consisting of 360 days.

5. Interest Recapture. If on each Interest Payment Date or any other date on which interest payments are required hereunder, Payee does not receive interest on this Note computed at the Contract Rate because such Contract Rate exceeds or has exceeded the Maximum Rate, then Maker shall, upon the written demand of Payee, pay to Payee in addition to the interest otherwise required to be paid hereunder, on each Interest Payment Date thereafter, the Excess Interest Amount (calculated as of such later Interest Payment Date); provided that in no event shall Maker be required to pay interest at a rate exceeding the Maximum Rate effective during such period.

6. Default Rate of Interest. From and after the occurrence and during the continuance of an Event of Default, this Note shall bear interest at any rate equal to or less than the Maximum Rate, as chosen by Payee, at its discretion. All past due principal and, to the extent permitted by applicable law, interest upon this Note shall bear interest at any rate equal to or less than the Maximum Rate, as chosen by Payee, at its discretion.

7. Interest Option. Subject to the provisions hereof, Maker shall have the option (an "Interest Option") to designate portions of the unpaid principal balance hereof to bear interest at a rate based upon the LIBOR Base Rate or WFB Base Rate as provided in paragraph 4 hereof; provided, however, that

(i) in the case of selection of the WFB Base Rate, such advance shall not be less than **$100,000** (or, if greater than **$100,000** in integral multiples of **$100,000**) or (ii) in the case of the selection of the LIBOR Base Rate, the LIBOR Balance for a particular LIBOR Interest Period shall not be less than **$500,000** (or, if greater than **$500,000**, in integral multiples of **$100,000**); provided further, however, that no more than five (5) LIBOR Balances shall be outstanding at any one time under this Note; provided further, however, that the sum of the aggregate amount of all LIBOR Balances and WFB Base Rate Balances outstanding under this Note shall at no time exceed the Total Commitment. The option of Maker to designate portions of the principal of this Note to bear interest at a rate based upon the LIBOR Base Rate or WFB Base Rate shall be exercised in the manner provided below:

(i) At Time of Borrowing. Maker shall request advances under this Note in accordance with, and in the manner prescribed by, paragraph 2 hereof. In connection with any such advance request, Maker shall give Payee an Interest Notice indicating the Interest Option selected with respect to the principal amount of the proposed borrowing.

(ii) At Expiration of LIBOR Interest. At least three (3) Business Days prior to the termination of any LIBOR Interest Period, Maker shall give Payee an Interest Notice indicating the Interest Option to be applicable to the corresponding LIBOR Balance, as appropriate, upon the expiration of such LIBOR Interest Period. If the required Interest Notice shall not have been timely received by Payee prior to the expiration of the then relevant LIBOR Interest Period, Maker shall be deemed (a) to have selected a rate based upon the WFB Base Rate to be applicable to such LIBOR Balance, and such LIBOR Balance shall thereafter be a WFB Base Rate Balance upon the expiration of such LIBOR Interest Period and (b) to have given Payee notice of such selections.

(iii) Conversion From WFB Base Rate. During any period in which any portion of the principal hereof bears interest at a rate based upon the WFB Base Rate, Maker shall have the right, on any Business Day (the "Conversion Date"), to convert all or a portion of such principal amount from the WFB Base Rate Balance to a LIBOR Balance by giving Payee an Interest Notice of such selection at least three (3) Business Days prior to such Conversion Date for any LIBOR Balance.

8. Special Provisions For LIBOR Pricing

(a) Inadequacy of LIBOR Pricing. If Payee reasonably determines that, by reason of circumstances affecting the interbank market generally, deposits in Dollars (in the applicable amounts) are not being offered to Payee in the interbank market for any LIBOR Interest Period, or that the rate at which such Dollar deposits are being offered will not adequately and fairly reflect the cost to Payee of making or maintaining a LIBOR Balance for such LIBOR Interest Period, Payee shall forthwith give notice thereof to Maker, whereupon until Payee notifies Maker that the circumstances giving rise to such suspension no longer exist, (i) the right of Maker to select an Interest Option based upon the LIBOR Base Rate shall be suspended, and (ii) Maker shall convert each LIBOR Balance into the WFB Base Rate Balance in accordance with the provisions hereof on the last day of the then-current LIBOR Interest Period applicable to such LIBOR Balance.

(b) Illegality. If the adoption of any applicable law, rule or regulation, or any change therein, or any change in the interpretation or administration thereof by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by Payee with any request or directive (whether or not having the force of law) of any such authority, central bank or comparable agency shall make it unlawful or impossible for Payee to make or maintain a LIBOR Balance, Payee shall so notify Maker. Upon receipt of such notice, Maker shall convert such LIBOR

Balance into the WFB Base Rate Balance, on either (i) the last day of the then-current LIBOR Interest Period applicable to such LIBOR Balance if Payee may lawfully continue to maintain and fund such LIBOR Balance to such day, or (ii) immediately, if Payee may not lawfully continue to maintain such LIBOR Balance to such day.

(c) Increased Costs for LIBOR Balances.

(i) If the adoption of any applicable law, rule or regulation, or any change therein, or any change in the interpretation or administration thereof by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by Payee with any request or directive (whether or not having the force of law) of any such authority, central bank or comparable agency shall subject Payee to any tax (including without limitation any United States interest equalization or similar tax, however named), duty or other charge with respect to the LIBOR Balances, this Note or Payee's obligation to compute interest on the principal balance of this Note at a rate based upon the LIBOR Base Rate, or shall change the basis of taxation of payments to Payee of the principal of or interest on the LIBOR Balances or any other amounts due under this Note in respect of the LIBOR Balances or Payee's obligation to compute the interest on the balance of this Note at a rate based upon the LIBOR Base Rate (except for changes in the rate on the tax on the overall net income of Payee imposed by the jurisdiction in which Payee's principal executive office is located); or

(ii) if any governmental authority, central bank or other comparable authority shall at any time impose, modify or deem applicable any reserve (including, without limitation, any imposed by the Board of Governors of the Federal Reserve System but excluding any reserve requirement included in the Eurocurrency Reserve Percentage of Payee), special deposit or similar requirement against assets of, deposits with or for the account of, or credit extended by, Payee, or shall impose on Payee (or its eurocurrency lending office) or the interbank market any other condition affecting a LIBOR Balance, this Note or Payee's obligation to compute the interest on the balance of this Note at a rate based upon the LIBOR Base Rate; and the result of any of the foregoing is to increase the cost to Payee of maintaining a LIBOR Balance, or to reduce the amount of any sum received or receivable by Payee under this Note by an amount deemed by Payee to be material, then upon demand by Payee, Maker shall pay to Payee such additional amount or amounts as will compensate Payee for such increased cost or reduction, the amount of which, when aggregated with interest to be paid under the LIBOR Balance, does not exceed the interest which would have been payable had the balance been calculated using the WFB Base Rate. Payee will promptly notify Maker of any event of which it has knowledge, occurring after the date hereof, which will entitle Payee to compensation pursuant to this paragraph. A certificate of Payee claiming compensation under this paragraph and setting forth the additional amount or amounts to be paid to Payee hereunder shall be conclusive in the absence of manifest error.

(d) Effect on Balances. If notice has been given requiring a LIBOR Balance to be repaid or converted to the WFB Base Rate Balance, then unless and until Payee notifies Maker that the circumstances giving rise to such repayment no longer apply, the Interest Option shall be a rate based upon the WFB Base Rate. If Payee notifies Maker that the circumstances giving rise to such repayment or conversion no longer apply, Maker may thereafter select a rate based upon the LIBOR Base Rate in accordance with the terms of this Note.

9. Extension, Place and Application of Payments. Subject to the terms of the definitions of LIBOR Interest Period, should the principal of, or any interest on, this Note become due and payable on any day other than a Business Day, the maturity thereof shall be extended to the next succeeding Business

Day, and interest shall be payable with respect to such extension. All payments of principal of, and interest on, this Note shall be made by Maker to Payee at Payee's principal banking office in Dallas, Texas in federal or other immediately available funds. Payments made to Payee by Maker hereunder shall be applied first to accrued interest and then to principal.

10. Repayments of WFB Base Rate Balances; Prepayments of LIBOR Balances; Consequential Loss. Maker may repay any WFB Base Rate Balance at any time without premium or penalty and without prior notice. Maker may prepay any LIBOR Balance prior to the expiration of the applicable LIBOR Interest Period upon three (3) Business Days prior written notice subject to Maker's payment of the Consequential Loss incurred by Payee as a result of the timing of such prepayment; provided, however, that Maker shall not have the option to designate any portion of the unpaid principal balance hereof to bear interest at a rate based upon the LIBOR Base Rate for a period of ninety (90) days following any such prepayment of any LIBOR Balance. Any repayment or permitted prepayment of principal made hereunder shall not be less than $100,000 (or, if greater than $100,000, in integral multiples of $100,000, or such lesser amount as is then outstanding under this Note). Any repayment or permitted prepayment of principal made hereunder shall be made together with interest accrued through the date of such repayment or prepayment, as applicable.

11. Advance Notice. Payee will use its best efforts to supply the Maker advance notice of the interest and/or principal amounts that the Payee has calculated are due at the scheduled payment dates at least one day in advance, assuming the unpaid principal balance and interest rate remain the same until such scheduled payment date. Notwithstanding the foregoing, no failure by the Payee to give such notice will reduce the obligation of the Maker to pay such amounts on the date they become due.

12. Notices. All notices required or permitted hereunder shall be in writing and shall be deemed to have been given or made as follows: (a) if sent by hand delivery, upon delivery; (b) if sent by registered or certified mail, return receipt requested, upon receipt (as indicated on the return receipt); and (c) if sent by facsimile, upon receipt (which shall be confirmed by a confirmation report from the sender's facsimile machine), addressed to Maker or Payee at the following respective addresses or such other address as such party may from time to time designate by written notice to the other:

Payee: Wells Fargo Bank, National Association
1445 Ross Avenue, 3rd Floor
MAC T5303-031
Dallas, Texas 75202
Attention: Susan K. Nugent, Assistant Vice President
Fax: (214) 969-0370

Maker: Fossil Partners, L.P.
2280 N. Greenville Avenue
Richardson, Texas 75082-4412
Attention: Mike L. Kovar
Fax: (972) 498-9448

13. Legal Fees. If this Note is placed in the hands of any attorney for collection, or if it is collected through any legal proceeding at law or in equity or in bankruptcy, receivership or other court proceedings, Maker agrees to pay all costs of collection including, but not limited to, court costs and reasonable attorneys' fees.

14. Waivers. Maker and each surety, endorser, guarantor and other party ever liable for payment of any sums of money payable on this Note, jointly and severally waive presentment and

demand for payment, protest, notice of protest, intention to accelerate, acceleration and non-payment, or other notice of default, and agree that their liability under this Note shall not be affected by any renewal or extension in the time of payment hereof, or in any indulgences, or by any release or change in any security for the payment of this Note, and hereby consent to any and all renewals, extensions, indulgences, releases or changes, regardless of the number of such renewals, extensions, indulgences, releases or changes.

No waiver by Payee of any of its rights or remedies hereunder or under any other document evidencing or securing this Note or otherwise shall be considered a waiver of any other subsequent right or remedy of Payee; no delay or omission in the exercise or enforcement by Payee of any rights or remedies shall ever be construed as a waiver of any right or remedy of Payee; and no exercise or enforcement of any such rights or remedies shall ever be held to exhaust any right or remedy of Payee.

15. Acceleration. If Maker fails or refuses to pay any part of the principal of or interest upon this Note as the same become due, or upon the occurrence of any Event of Default or other default hereunder or under any other agreement or instrument securing or assuring the payment of this Note or executed in connection herewith, then in any such event the holder hereof may, at its option, declare the entire unpaid balance of principal and accrued interest on this Note to be immediately due and payable, and foreclose all liens and security interests securing payment hereof or any part hereof.

16. Interest Laws; Spreading. Any provision herein, or in any document securing this Note, or any other document executed or delivered in connection herewith, or in any other agreement or commitment, whether written or oral, expressed or implied, to the contrary notwithstanding, neither Payee nor any holder hereof shall in any event be entitled to receive or collect, nor shall or may amounts received hereunder be credited, so that Payee or any holder hereof shall be paid, as interest, a sum greater than the maximum amount permitted by applicable law to be charged to the person, partnership, firm or corporation primarily obligated to pay this Note at the time in question. If any construction of this Note or any document securing this Note, or any and all other papers, agreements or commitments, indicate a different right given to Payee or any holder hereof to ask for, demand or receive any larger sum as interest, such is a mistake in calculation or wording which this clause shall override and control, it being the intention of the parties that this Note, and all other instruments securing the payment of this Note or executed or delivered in connection herewith shall in all things comply with applicable law and proper adjustments shall automatically be made accordingly. In the event that Payee or any holder hereof ever receives, collects or applies as interest, any sum in excess of the Maximum Rate, if any, such excess amount shall be applied to the reduction of the unpaid principal balance of this Note, and if this Note is paid in full, any remaining excess shall be paid to Maker. In determining whether or not the interest paid or payable, under any specific contingency, exceeds the Maximum Rate, if any, Maker and Payee or any holder hereof shall, to the maximum extent permitted under applicable law: (a) characterize any non-principal payment as an expense or fee rather than as interest, (b) exclude voluntary prepayments and the effects thereof, (c) "spread" the total amount of interest throughout the entire term of this Note; provided that if this Note is paid and performed in full prior to the end of the full contemplated term hereof, and if the interest received for the actual period of existence thereof exceeds the Maximum Rate, if any, Payee or any holder hereof shall refund to Maker the amount of such excess, or credit the amount of such excess against the aggregate unpaid principal balance of all advances made by the Payee or any holder hereof under this Note at the time in question.

17. Choice of Law. This Note is being executed and delivered, and is intended to be performed in the State of Texas. Except to the extent that the laws of the United States may apply to the terms hereof, the substantive laws of the State of Texas shall govern the validity, construction, enforcement and interpretation of this Note. In the event of a dispute involving this Note or any other instruments executed in connection herewith, the undersigned irrevocably agrees that venue for such dispute shall lie in any court of competent jurisdiction in Dallas County, Texas to the extent such dispute is not resolved by binding arbitration pursuant to the Payee's current Arbitration Program described in Section 19 below.

18. Loan Agreement. This Note is executed in connection with the Loan Agreement and the holder hereof is entitled to all the benefits provided therein and in the other agreements, documents, instruments and certificates entered into in connection with the Loan Agreement.

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

20. Amendment and Restatement. This Note increases, amends, modifies and restates, but does not extinguish the indebtedness evidenced by, that certain Revolving Line of Credit Note dated September 23, 2004, in the stated principal amount of $50,000,000, executed by Maker and payable to the order of Payee.

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IN WITNESS WHEREOF, Maker has caused this Note to be duly executed and delivered in Dallas, Texas, as of the date first above written.

FOSSIL PARTNERS, L.P.

By: Fossil, Inc., its general partner

By: /s/ Randy S. Kercho
Randy S. Kercho,
Executive Vice President

Exhibit 10.15

SECOND AMENDMENT TO LOAN AGREEMENT

THIS SECOND AMENDMENT TO LOAN AGREEMENT (this "Amendment") is made and entered into as of February 20, 2006 (the "Amendment Closing Date"), to be effective with respect to certain provisions herein as of September 22, 2005 (the "Amendment Effective Date"), by and among **WELLS FARGO BANK, NATIONAL ASSOCIATION,** a national banking association (the "Bank"), **FOSSIL PARTNERS, L.P.** (the "Borrower"), **FOSSIL, INC.** (the "Company"), **FOSSIL INTERMEDIATE, INC.** ("Fossil Intermediate"), **FOSSIL TRUST** ("Fossil Trust"), **FOSSIL STORES I, INC.** ("Fossil I"), **ARROW MERCHANDISING, INC.** ("Arrow Merchandising") and **FOSSIL HOLDINGS, LLC** ("Fossil Holdings") (the Company, Fossil Intermediate, Fossil Trust, Fossil I, Arrow Merchandising and Fossil Holdings are sometimes referred to herein individually as a "Guarantor" and collectively as the "Guarantors").

RECITALS

WHEREAS, the Bank, the Borrower and the Guarantors are parties to that certain Loan Agreement, dated as of September 23, 2004 (as amended, modified or supplemented, from time to time, the "Agreement"); and

WHEREAS, the parties to the Agreement entered into that certain First Amendment to Loan Agreement as of September 22, 2005 whereby, among other things, current liabilities for the purposes of the Quick Ratio in Section 14(a) of the Agreement were expanded to include all indebtedness of the Borrower under all Documentary or Stand-by Letters of Credit; and

WHEREAS, the parties hereto acknowledge and agree that in conjunction with increasing the current liabilities included in the calculation of the Quick Ratio, the Quick Ratio should have also been amended to 0.8 to 1.0 from 1.0 to 1.0, but was inadvertently not so amended; and

WHEREAS, the Bank, the Borrower and the Guarantors desire to amend the Agreement and the other Loan Documents as herein set forth to correct the Quick Ratio effective as of the date of the First Amendment to Loan Agreement.

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

ARTICLE I
Definitions

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

ARTICLE II
Amendments

2.01 Amendment to Section 14(a). Effective as of the Amendment Effective Date, Section 14(a) of the Agreement is hereby deleted in its entirety and replaced with the following:

"(a) Quick Ratio. Maintain, at all times, a ratio of (i) (A) cash, plus (B) cash equivalents, plus (C) account receivables to (ii) current liabilities of not less than 0.80 to 1.00. Cash, cash equivalents, accounts receivable and current liabilities are defined according to generally accepted accounting principles, with the exception that current liabilities will include all indebtedness of the Borrower under the Revolving Note and all Documentary or Stand-by Letters of Credit."

ARTICLE III
Conditions Precedent

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

(a) The Bank shall have received this Amendment, duly executed by the Borrower and each Guarantor, in form and substance satisfactory to the Bank and its counsel;

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

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

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

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

(f) All requisite corporate, partnership or trust proceedings, as appropriate, shall have been taken by the Borrower and each Guarantor to authorize the execution, delivery and performance of this Amendment, and such proceedings and other legal matters incident thereto shall be satisfactory to the Bank and its legal counsel; and

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

ARTICLE IV
No Waiver

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

ARTICLE V
Ratifications, Representations and Warranties, Covenants

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

5.02 Ratification of Guaranties. Each of the Guarantors hereby acknowledges and consents to all of the terms and conditions of this Amendment and the Revolving Note and hereby ratifies and confirms the Guaranty Agreement to which it is a party to or for the benefit of the Bank. Each of the Guarantors hereby represents and acknowledges that it has no claims, counterclaims, offsets, credits or defenses to the Loan Documents or the performance of its obligations thereunder. Furthermore, each Guarantor agrees that nothing contained in this Amendment or the Revolving Note shall adversely affect any right or remedy of the Bank under the Guaranty Agreement to which such Guarantor is a party. Each Guarantor hereby agrees that with respect to the Guaranty Agreement to which it is a party, all references in such Guaranty Agreement to the "Guaranteed Obligations" shall include, without limitation, the obligations of the Borrower to the Bank under the Agreement, as amended hereby. Finally, each of the Guarantors hereby represents and acknowledges that the execution and delivery of this Amendment and the other Loan Documents executed in connection herewith shall in no way change or modify its obligations as a guarantor, debtor, pledgor, assignor, obligor and/or grantor under its respective Guaranty Agreement (except as specifically provided in this Section 5.02) and shall not constitute a waiver by the Bank of any of the Bank's rights against such Guarantor.

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

5.04 Representations and Warranties. The Borrower and each of the Guarantors hereby jointly and severally represent and warrant to the Bank that (a) the execution, delivery and performance of this Amendment and any and all other Loan Documents executed and/or delivered in connection herewith have been duly authorized by all requisite corporate, partnership or trust proceedings, as appropriate, and will not contravene, or constitute a default under, any provision of applicable law or regulation or of the Agreement of Limited Partnership, Articles of Incorporation, By-Laws or Trust Agreement, as applicable, of the Borrower or any Guarantor, or of any mortgage, indenture, contract, agreement or other instrument, or any judgment, order or decree, binding upon the Borrower or any Guarantor; (b) the officer(s) of the Borrower and each Guarantor executing and delivering this Amendment and any and all other Loan Documents executed and/or delivered in connection herewith are duly elected and are authorized, by resolution of the board of directors, board of managers or trustees (or other applicable governing body) of

the Borrower and each such Guarantor, to execute on behalf of each such entity this Amendment and any and all other Loan Documents executed and/or delivered in connection herewith; (c) the representations and warranties contained in the Agreement and the other Loan Documents, as amended hereby, are true and correct on and as of the date hereof and on and as of the date of execution hereof as though made on and as of each such date; (d) no default or Event of Default under the Agreement, as amended hereby, has occurred and is continuing, unless such default or Event of Default has been specifically waived in writing by the Bank; and (e) the Borrower and the Guarantors are in full compliance with all covenants and agreements contained in the Agreement and the other Loan Documents, as amended hereby.

ARTICLE VI
Miscellaneous Provisions

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

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

6.03 Expenses of the Bank. As provided in the Agreement, the Borrower agrees to pay on demand all reasonable costs and expenses incurred by the Bank in connection with the preparation, negotiation, and execution of this Amendment and the other Loan Documents executed pursuant hereto and any and all amendments, modifications, and supplements hereto or thereto, including, without limitation, the costs and fees of the Bank's legal counsel, and all costs and expenses incurred by the Bank in connection with the enforcement or preservation of any rights under the Agreement or any other Loan Document, in each case as amended hereby, including, without, limitation, the costs and fees of the Bank's legal counsel.

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

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

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

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

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

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

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

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

[Remainder of page intentionally left blank.]

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

"BANK"

WELLS FARGO BANK,
NATIONAL ASSOCIATION

By: /s/ Susan K. Nugent
Susan K. Nugent,
Vice President

"BORROWER"

FOSSIL PARTNERS, L.P.

By: Fossil, Inc., its general partner

By: /s/ Randy S. Hyne
Randy S. Hyne,
Vice President, General Counsel and Secretary

"GUARANTORS"

FOSSIL, INC.

By: /s/ Randy S. Hyne
Randy S. Hyne,
Vice President, General Counsel and Secretary

FOSSIL INTERMEDIATE, INC.

By: /s/ Kosta N. Kartsotis
Name: Kosta N. Kartsotis
Title: President

FOSSIL TRUST

By: /s/ Kosta N. Kartsotis
Name: Kosta N. Kartsotis
Title: President and General Manager

FOSSIL STORES I, INC.

By: /s/ Mike L. Kovar
Mike L. Kovar, Treasurer

ARROW MERCHANDISING, INC.

By: /s/ Mike L. Kovar
Mike L. Kovar, Treasurer

FOSSIL HOLDINGS, LLC

By: /s/ Mike L. Kovar
Mike L. Kovar, Manager

Exhibit 21.1

Subsidiaries of Fossil, Inc.
as of January 1, 2011

Name of Subsidiary	Place of Incorporation	Parent Company	Percent Ownership
Fossil Intermediate, Inc.	Delaware	Fossil, Inc.	100
Fossil Stores I, Inc.	Delaware	Fossil, Inc.	100
Arrow Merchandising, Inc.	Texas	Fossil, Inc.	100
Fossil Canada, Inc.	Canada	Fossil, Inc.	100
Fossil Europe B.V.	The Netherlands	Fossil, Inc.	100
Fossil (Austria) GmbH	Austria	Fossil Europe, B.V.	100
Fossil Japan, Inc.	Japan	Fossil, Inc.	100
Fossil Holdings, LLC	Delaware	Fossil, Inc.	100
Fossil Holdings (Gibraltar) Ltd.	Gibraltar	Fossil, Inc.	100
Fossil (Gibraltar) Ltd.	Gibraltar	Fossil Holdings (Gibraltar) Ltd.	100
Fossil International Holdings, Inc.	Delaware	Fossil, Inc.	100
Fossil Mexico, S.A. de C. V.	Mexico	Fossil International Holdings, Inc.	52
Servicios Fossil Mexico, S.A. de C.V.	Mexico	Fossil International Holdings, Inc.	51
Fossil (East) Limited	Hong Kong	Fossil Holdings (Gibraltar) Ltd.	100
Fossil Partners, L.P.	Texas	Fossil Trust	99
Swiss Technology Holding GmbH	Switzerland	Fossil, Inc.	100
Fossil Trust	Delaware	Fossil Intermediate, Inc.	100
Fossil Holding LLC Luxembourg, SCS	Luxembourg	Fossil, Inc.	100
Fossil Luxembourg, Sarl	Luxembourg	Fossil Holding LLC Luxembourg, SCS	100
Pulse Time Center Company, Ltd.	Hong Kong	Fossil (East) Limited	96
Fossil (Hong Kong) Ltd	Hong Kong	Fossil (East) Limited	100
Fossil Singapore Pt Ltd.	Singapore	Fossil (East) Limited	100
FDT, Ltd.	Hong Kong	Fossil (East) Limited	51
Fossil (Australia) Pty Ltd.	Australia	Fossil (East) Limited	100
Fossil (New Zealand) Ltd.	New Zealand	Fossil (Australia) Pty Ltd.	100
Fossil Time Malaysia Sdn. Bhd.	Malaysia	Fossil (East) Limited	100
Fossil Industries Ltd.	Hong Kong	Fossil (East) Limited	100
Fossil Trading (Shanghai) Company Ltd.	China	Fossil (East) Limited	100
Fossil (Asia) Holding Ltd.	Hong Kong	Fossil (East) Limited	100
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, S.L.	Spain	Fossil Europe B.V.	50
Fossil U.K. Holdings Ltd.	United Kingdom	Fossil Europe B.V.	100
FESCO GmbH	Germany	Fossil Europe B.V.	100
Fossil Switzerland GmbH	Switzerland	Fossil Europe B.V.	100
Fossil X Time GmbH	Switzerland	Fossil Europe B.V.	100
In Time—Portugal	Portugal	Fossil Spain, S.L.	50
Fossil U.K. Ltd.	United Kingdom	Fossil U.K. Holdings Ltd	100
Fossil Stores U.K. Ltd.	United Kingdom	Fossil U.K. Holdings Ltd.	100
Montres Antima SA	Switzerland	Swiss Technology Holding GmbH	100
Fossil Group Europe, GmbH	Switzerland	Swiss Technology Holding GmbH	100
Fossil France SA	France	Gum, SA	100
Logisav SARL	France	Fossil France SA	100

Name of Subsidiary	Place of Incorporation	Parent Company	Percent Ownership
Fossil Retail Stores (Australia) Pty. Ltd	Australia	Fossil (Australia) Pty Ltd.	100
Fossil Management Services Pty. Ltd.	Australia	Fossil (Australia) Pty Ltd.	100
Fossil Scandinavia AB	Sweden	Fossil Europe B.V.	100
Fossil Norway AS	Norway	Fossil Scandinavia AB	100
Fossil Denmark AS	Denmark	Fossil Scandinavia AB	100
Fossil Stores France SAS	France	Fossil France S.A.	100
Fossil Stores S.r.l.	Italy	Fossil Italia S.r.l.	100
Fossil (Korea) Ltd.	Korea	Fossil (East) Limited	100
Fossil (Macau) Limited	Macau	Fossil (Hong Kong) Ltd.	96
Fossil India Private Co. Ltd.	India	Fossil (East) Limited	99
Trylink International. Ltd.	Hong Kong	Fossil (East) Limited	85
Fossil Newtime Ltd.	Hong Kong	Fossil (East) Limited	100
Fossil Stores Belgium BVBA	Belgium	Fossil Europe B.V.	100
Fossil Stores Denmark A/S	Denmark	Fossil Denmark A/S	100
Fossil Stores Spain SL	Spain	Fossil Europe B.V.	100
Fossil Belgium BVBA	Belgium	Fossil Europe B.V.	100
Fossil Stores Sweden AB	Sweden	Fossil Scandinavia AB	100
MW Asia Ltd.	Hong Kong	Fossil East Ltd.	100
Fossil Asia Pacific Ltd.	Hong Kong	Fossil East Ltd.	100
Fossil Commercial (Shanghai) Company	China	Fossil East Ltd.	100
Fossil International Sarl	Luxembourg	Fossil, Inc.	100
Fossil Holdings GmbH	Switzerland	Swiss Technology Holding GmbH	100
Fossil Management GmbH	Switzerland	Swiss Technology Holding GmbH	100
Fossil China Sourcing	China	Fossil Group Europe GmbH	99

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 33-65980, Post-Effective Amendment No. 1 to Registration Statement No. 33-77526, Registration Statement No. 333-70477 and Registration Statement No. 333-151645 on Form S-8 of our reports dated March 2, 2011, relating to the consolidated financial statements and the consolidated financial statement schedule of Fossil, Inc. and subsidiaries and the effectiveness of Fossil, Inc. and subsidiaries' internal control over financial reporting, appearing in this Annual Report on Form 10-K of Fossil, Inc. for the year ended January 1, 2011.

/s/ Deloitte & Touche

Dallas, Texas
March 2, 2011

EXHIBIT 31.1

CERTIFICATION

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 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;
    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

March 2, 2011

/s/ KOSTA N. KARTSOTIS

Kosta N. Kartsotis
Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION

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 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;
   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

March 2, 2011

/s/ MIKE L. KOVAR

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

Exhibit 32.1

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Fossil, Inc. (the "Company") on Form 10-K for the year ended January 1, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Form 10-K"), I, Kosta N. Kartsotis, Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(1) The Form 10-K fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 2, 2011

/s/ KOSTA N. KARTSOTIS
Kosta N. Kartsotis
Chief Executive Officer

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

The foregoing certification is being furnished as an exhibit to the Form 10-K pursuant to Item 601(b)(32) of Regulation S-K and Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) and, accordingly, is not being filed as part of the Form 10-K for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

Exhibit 32.2

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Fossil, Inc. (the "Company") on Form 10-K for the year ended January 1, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Form 10-K"), I, Mike L. Kovar, Executive Vice President, Chief Financial Officer and Treasurer of the Company, hereby certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(1) The Form 10-K fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 2, 2011

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

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

The foregoing certification is being furnished as an exhibit to the Form 10-K pursuant to Item 601(b)(32) of Regulation S-K and Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) and, accordingly, is not being filed as part of the Form 10-K for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.