

FOSSIL INC
Form 10-Q
May 09, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended: **March 30, 2013**

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: **000-19848**

FOSSIL, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

75-2018505
(I.R.S. Employer
Identification No.)

901 S. Central Expressway, Richardson, Texas
(Address of principal executive offices)

75080
(Zip Code)

(972) 234-2525

(Registrant's telephone number, including area code)

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 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 (check one):

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 number of shares of the registrant's common stock outstanding as of May 3, 2013: 58,672,408.

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

FOSSIL, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

UNAUDITED

IN THOUSANDS

	March 30, 2013	December 29, 2012
Assets		
Current assets:		
Cash and cash equivalents	\$ 241,396	\$ 177,236
Securities available for sale	56	127
Accounts receivable - net of allowances of \$75,762 and \$82,362, respectively	272,860	363,456
Inventories	520,306	506,314
Deferred income tax assets-net	31,442	34,238
Prepaid expenses and other current assets	81,598	62,741
Total current assets	1,147,658	1,144,112
Investments	0	6,965
Property, plant and equipment - net of accumulated depreciation of \$269,411 and \$262,041, respectively	329,223	335,446
Goodwill	201,356	184,793
Intangible and other assets-net	178,332	170,673
Total long-term assets	708,911	697,877
Total assets	\$ 1,856,569	\$ 1,841,989
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	\$ 124,859	\$ 149,561
Short-term debt	1,600	2,794
Accrued expenses:		
Compensation	50,044	55,563
Royalties	29,819	53,547
Co-op advertising	15,048	24,500
Transaction taxes	17,908	27,973
Other	56,733	61,575
Income taxes payable	18,307	31,265
Total current liabilities	314,318	406,778
Long-term income taxes payable	10,172	8,662
Deferred income tax liabilities	87,292	79,756
Long-term debt	151,129	75,140
Other long-term liabilities	48,304	31,189
Total long-term liabilities	296,897	194,747

Edgar Filing: FOSSIL INC - Form 10-Q

Commitments and contingencies (Note 12)

Stockholders' equity:

Common stock, 59,203 and 59,631 shares issued at March 30, 2013 and December 29, 2012, respectively		592		596
Additional paid-in capital		140,083		138,097
Retained earnings		1,083,717		1,066,082
Accumulated other comprehensive income		12,243		28,760
Total Fossil, Inc. stockholders' equity		1,236,635		1,233,535
Noncontrolling interest		8,719		6,929
Total stockholders' equity		1,245,354		1,240,464
Total liabilities and stockholders' equity	\$	1,856,569	\$	1,841,989

See notes to the condensed consolidated financial statements.

FOSSIL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

UNAUDITED

IN THOUSANDS, EXCEPT PER SHARE DATA

	For the 13 Weeks Ended	
	March 30, 2013	March 31, 2012
Net sales	\$ 680,899	\$ 589,533
Cost of sales	302,428	260,553
Gross profit	378,471	328,980
Operating expenses:		
Selling and distribution	203,189	181,438
General and administrative	80,961	64,681
Total operating expenses	284,150	246,119
Operating income	94,321	82,861
Interest expense	1,231	814
Other income-net	9,784	2,549
Income before income taxes	102,874	84,596
Provision for income taxes	28,894	23,524
Net income	73,980	61,072
Less: Net income attributable to noncontrolling interest	1,794	2,932
Net income attributable to Fossil, Inc.	\$ 72,186	\$ 58,140
Other comprehensive (loss) income, net of taxes:		
Currency translation adjustment	\$ (19,837)	\$ 10,071
Unrealized (loss) gain on securities available for sale	(71)	50
Forward contracts hedging intercompany foreign currency payments-change in fair values	3,391	(1,349)
Total other comprehensive (loss) income	(16,517)	8,772
Total comprehensive income	57,463	69,844
Less: Comprehensive income attributable to noncontrolling interest	1,794	2,932
Comprehensive income attributable to Fossil, Inc.	\$ 55,669	\$ 66,912
Earnings per share:		
Basic	\$ 1.22	\$ 0.94
Diluted	\$ 1.21	\$ 0.93
Weighted average common shares outstanding:		
Basic	59,393	61,859
Diluted	59,783	62,459

See notes to the condensed consolidated financial statements.

FOSSIL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

UNAUDITED

IN THOUSANDS

	For the 13 Weeks Ended	
	March 30, 2013	March 31, 2012
Operating Activities:		
Net income	\$ 73,980	\$ 61,072
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion	18,758	15,227
Stock-based compensation	2,546	3,144
Decrease in allowance for returns-net of inventory in transit	(238)	(2,917)
Loss on disposal of assets	266	517
Equity in income of joint venture	0	(270)
Gain on equity method investment	(6,410)	0
Decrease in allowance for doubtful accounts	(4,202)	(1,396)
Excess tax benefits from stock-based compensation	(4,082)	(9,901)
Deferred income taxes and other	8,292	3,919
Changes in operating assets and liabilities:		
Accounts receivable	99,403	88,197
Inventories	(11,507)	(19,355)
Prepaid expenses and other current assets	(14,721)	(5,527)
Accounts payable	(20,369)	(45,310)
Accrued expenses	(49,000)	(60,930)
Income taxes payable	(6,813)	9,029
Net cash provided by operating activities	85,903	35,499
Investing Activities:		
Additions to property, plant and equipment	(19,485)	(10,029)
Increase in intangible and other assets	(723)	(27)
Net change in restricted cash	452	(157)
Business acquisitions-net of cash acquired	(15,165)	0
Net cash used in investing activities	(34,921)	(10,213)
Financing Activities:		
Acquisition of common stock	(61,188)	(67,878)
Distribution of noncontrolling interest earnings	(4)	(3,786)
Excess tax benefits from stock-based compensation	4,082	9,901
Debt borrowings	218,098	3,899
Debt payments	(142,718)	(4)
Proceeds from exercise of stock options	1,991	4,352
Net cash provided by (used in) financing activities	20,261	(53,516)
Effect of exchange rate changes on cash and cash equivalents	(7,083)	1,210
Net increase (decrease) in cash and cash equivalents	64,160	(27,020)
Cash and cash equivalents:		
Beginning of period	177,236	287,498

Edgar Filing: FOSSIL INC - Form 10-Q

End of period	\$	241,396	\$	260,478
---------------	----	---------	----	---------

See notes to the condensed consolidated financial statements.

FOSSIL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

1. FINANCIAL STATEMENT POLICIES

Basis of Presentation. The condensed consolidated financial statements include the accounts of Fossil, Inc., a Delaware corporation, and its wholly and majority-owned subsidiaries (the Company). The condensed consolidated financial statements reflect all adjustments that are, in the opinion of management, necessary to present a fair statement of the Company's financial position as of March 30, 2013, and the results of operations for the thirteen week periods ended March 30, 2013 (First Quarter) and March 31, 2012 (Prior Year Quarter), respectively. All adjustments are of a normal, recurring nature.

These interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in the Annual Report on Form 10-K filed by the Company pursuant to the Securities Exchange Act of 1934, as amended (the Exchange Act), for the fiscal year ended December 29, 2012 (the 2012 Form 10-K). Operating results for the First Quarter are not necessarily indicative of the results to be achieved for the full fiscal year.

The condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), which require the Company 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 condensed consolidated financial statements and the reported amounts of revenues and expenses during the periods reported. Actual results could differ from those estimates. The Company has not made any changes in its significant accounting policies from those disclosed in the 2012 Form 10-K.

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

Foreign Currency Hedging Instruments. The Company's foreign subsidiaries periodically enter into foreign exchange forward contracts to hedge the future payment of intercompany inventory transactions denominated in U.S. dollars. If the Company's foreign subsidiaries were to settle their contracts designated as cash flow hedges that were denominated in Euros, British Pounds, Mexican Pesos, Australian Dollars, Canadian Dollars and Japanese Yen, the net result would have been a gain of approximately \$4.4 million, net of taxes, as of March 30, 2013. The Company applies the hedge accounting rules as required by Accounting Standard Codification (ASC) 815, *Derivatives and Hedging* (ASC 815). See Note 8 Derivatives and Risk Management for additional disclosures about the Company's use of forward contracts.

Edgar Filing: FOSSIL INC - Form 10-Q

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.

Edgar Filing: FOSSIL INC - Form 10-Q

The following table reconciles the numerators and denominators used in the computations of both basic and diluted EPS (in thousands except per share data):

	For the 13 Weeks Ended	
	March 30, 2013	March 31, 2012
Numerator:		
Net income attributable to Fossil, Inc.	\$ 72,186	\$ 58,140
Denominator:		
Basic EPS computation:		
Basic weighted average common shares outstanding	59,393	61,859
Basic EPS	\$ 1.22	\$ 0.94