

FOSSIL INC
Form 10-Q
November 10, 2011

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: October 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: 000-19848

FOSSIL, INC.

(Exact name of registrant as specified in its charter)

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Delaware
(State or other jurisdiction of
incorporation or organization)

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

901 S. Central Expressway, Richardson, Texas 75080
(Address of principal executive offices)

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

Indicate by check mark whether 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 November 4, 2011: 62,596,703.

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

FOSSIL, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

UNAUDITED

IN THOUSANDS

	October 1, 2011	January 1, 2011
Assets		
Current assets:		
Cash and cash equivalents	\$ 231,155	\$ 392,794
Securities available for sale	8,420	8,864
Accounts receivable net of allowances of \$79,512 and \$80,659, respectively	273,272	263,218
Inventories	511,683	371,935
Deferred income tax assets	40,827	41,836
Prepaid expenses and other current assets	84,567	62,170
Total current assets	1,149,924	1,140,817
Investments	7,310	9,023
Property, plant and equipment net of accumulated depreciation of \$213,185 and \$205,312, respectively	264,724	217,424
Goodwill	44,426	44,572
Intangible and other assets net	69,806	55,737
Total long-term assets	386,266	326,756
Total assets	\$ 1,536,190	\$ 1,467,573
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	\$ 163,750	\$ 122,266
Short-term debt	10,570	5,314
Accrued expenses:		
Compensation	47,649	51,374
Royalties	31,186	39,731
Co-op advertising	10,679	23,101
Transaction taxes	19,628	18,894
Other	55,987	50,779
Income taxes payable	22,375	28,029
Total current liabilities	361,824	339,488
Long-term income taxes payable	14,617	9,088
Deferred income tax liabilities	63,112	47,893
Long-term debt	4,304	4,513
Other long-term liabilities	25,175	14,883
Total long-term liabilities	107,208	76,377
Commitments and contingencies (Note 9)		
Stockholders equity:		
Common stock, 68,344 and 67,882 shares issued as of October 1, 2011 and January 1, 2011, respectively	683	679

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Treasury stock, at cost, 5,452 and 3,206 shares as of October 1, 2011 and January 1, 2011, respectively	(384,248)	(183,014)
Additional paid-in capital	144,712	117,215
Retained earnings	1,266,612	1,089,820
Accumulated other comprehensive income	27,772	19,418
Noncontrolling interest	11,627	7,590
Total stockholders' equity	1,067,158	1,051,708
Total liabilities and stockholders' equity	\$ 1,536,190	\$ 1,467,573

See notes to the condensed consolidated financial statements.

FOSSIL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

AND COMPREHENSIVE INCOME

UNAUDITED

IN THOUSANDS, EXCEPT PER SHARE DATA

	For the 13 Weeks Ended		For the 39 Weeks Ended	
	October 1, 2011	October 2, 2010	October 1, 2011	October 2, 2010
Net sales	\$ 642,910	\$ 523,825	\$ 1,736,546	\$ 1,329,614
Cost of sales	283,381	225,082	763,229	574,567
Gross profit	359,529	298,743	973,317	755,047
Operating expenses:				
Selling and distribution	172,208	138,424	495,198	392,472
General and administrative	68,512	49,049	180,492	135,696
Total operating expenses	240,720	187,473	675,690	528,168
Operating income	118,809	111,270	297,627	226,879
Interest expense	447	46	1,321	164
Other (expense) income net	(6,551)	33	(13,549)	2,805
Income before income taxes	111,811	111,257	282,757	229,520
Provision for income taxes	39,307	40,353	98,156	64,361
Net income	72,504	70,904	184,601	165,159
Less: Net income attributable to noncontrolling interest	2,895	2,748	7,809	6,611
Net income attributable to Fossil, Inc.	\$ 69,609	\$ 68,156	\$ 176,792	\$ 158,548
Other comprehensive (loss) income, net of taxes:				
Currency translation adjustment	\$ (26,112)	\$ 30,728	\$ 3,795	\$ (4,464)
Unrealized (loss) gain on securities available for sale	(309)	828	(556)	1,127
Forward contracts hedging intercompany foreign currency payments change in fair values	11,985	(13,755)	5,115	(4,298)
Total comprehensive income	58,068	88,705	192,955	157,524
Less: Comprehensive income attributable to noncontrolling interest	2,895	2,764	7,809	6,606
Comprehensive income attributable to Fossil, Inc.	\$ 55,173	\$ 85,941	\$ 185,146	\$ 150,918
Earnings per share:				
Basic	\$ 1.10	\$ 1.02	\$ 2.78	\$ 2.36
Diluted	\$ 1.09	\$ 1.00	\$ 2.75	\$ 2.33
Weighted average common shares outstanding:				
Basic	63,176	67,071	63,542	67,171
Diluted	63,809	67,978	64,241	68,060

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See notes to the condensed consolidated financial statements.

FOSSIL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

UNAUDITED

IN THOUSANDS

	For the 39 Weeks Ended	
	October 1, 2011	October 2, 2010
Operating Activities:		
Net income	\$ 184,601	\$ 165,159
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion	37,743	30,189
Stock-based compensation	10,524	7,630
(Decrease) increase in allowance for returns net of inventory in transit	(717)	4,971
Loss on disposal of assets	1,093	184
Impairment losses	0	2,683
Equity in income of joint venture	(54)	(715)
Distribution from joint venture	2,226	4,726
Increase in allowance for doubtful accounts	1,173	927
Excess tax benefits from stock-based compensation	(9,723)	(6,433)
Deferred income taxes and other	14,808	17,241
Changes in operating assets and liabilities:		
Accounts receivable	(10,817)	(67,058)
Inventories	(143,535)	(140,089)
Prepaid expenses and other current assets	(11,449)	(11,357)
Accounts payable	9,465	8,660
Accrued expenses	(12,333)	39,739
Income taxes payable	9,724	(13,929)
Net cash provided by operating activities	82,729	42,528