

MOVADO GROUP INC  
Form 10-Q  
August 27, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended July 31, 2015

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: 1-16497

MOVADO GROUP, INC.

(Exact Name of Registrant as Specified in its Charter)

New York (State or Other Jurisdiction of Incorporation or Organization)	13-2595932 (IRS Employer Identification No.)
---	--

650 From Road, Ste. 375

Paramus, New Jersey (Address of Principal Executive Offices)	07652-3556 (Zip Code)
---	--------------------------

(201) 267-8000

(Registrant's telephone number, including area code)

Edgar Filing: MOVADO GROUP INC - Form 10-Q

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 that past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, 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.

Large accelerated filer  Accelerated filer  Non-accelerated filer  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 outstanding of the registrant’s Common Stock and Class A Common Stock as of August 20, 2015 were 16,554,358 and 6,644,105, respectively.

MOVADO GROUP, INC.

Index to Quarterly Report on Form 10-Q

July 31, 2015

	Page
Part I <u>Financial Information (Unaudited)</u>	
Item 1. <u>Consolidated Balance Sheets at July 31, 2015, January 31, 2015 and July 31, 2014</u>	3
<u>Consolidated Statements of Operations for the three and six months ended July 31, 2015 and July 31, 2014</u>	4
<u>Consolidated Statements of Comprehensive Income for the three and six months ended July 31, 2015 and July 31, 2014</u>	5
<u>Consolidated Statements of Cash Flows for the six months ended July 31, 2015 and July 31, 2014</u>	6
<u>Notes to Consolidated Financial Statements</u>	7
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	18
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	26
Item 4. <u>Controls and Procedures</u>	27
Part II <u>Other Information</u>	27
Item 1. <u>Legal Proceedings</u>	27
Item 1A. <u>Risk Factors</u>	28
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	28

Item 6. Exhibits

29

Signature

30



## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements

## MOVADO GROUP, INC.

## CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)

(Unaudited)

	July 31, 2015	January 31, 2015	July 31, 2014
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 188,012	\$ 199,852	\$ 169,649
Trade receivables	80,818	74,106	91,214
Inventories	188,515	170,788	195,331
Other current assets	37,962	40,532	41,018
Total current assets	495,307	485,278	497,212
Property, plant and equipment, net	42,723	46,673	46,141
Deferred income taxes	13,625	13,550	14,604
Other non-current assets	38,356	37,522	33,486
Total assets	\$590,011	\$583,023	\$591,443
<b>LIABILITIES AND EQUITY</b>			
Current liabilities:			
Accounts payable	\$31,687	\$27,767	\$37,604
Accrued liabilities	38,182	30,933	40,334
Deferred and current income taxes payable	1,703	7,372	4,819
Total current liabilities	71,572	66,072	82,757
Loans payable to bank	40,000	—	—
Deferred and non-current income taxes payable	3,002	3,470	3,360
Other non-current liabilities	30,353	29,196	28,063
Total liabilities	144,927	98,738	114,180
Commitments and contingencies (Note 7)			
Equity:			
Preferred Stock, \$0.01 par value, 5,000,000 shares authorized; no shares			
issued	—	—	—
Common Stock, \$0.01 par value, 100,000,000 shares authorized;			
26,941,855, 26,849,080 and 26,835,876 shares issued, respectively	269	268	268

Edgar Filing: MOVADO GROUP INC - Form 10-Q

Class A Common Stock, \$0.01 par value, 30,000,000 shares authorized;

6,644,105, 6,642,184 and 6,642,184 shares issued and outstanding,

respectively	66	66	66
Capital in excess of par value	178,251	174,826	171,424
Retained earnings	368,441	358,006	330,791
Accumulated other comprehensive income	85,544	98,854	103,075
Treasury Stock, 10,278,463, 8,784,497 and 8,143,597 shares, respectively,			
at cost	(189,576)	(149,811)	(131,112)
Total Movado Group, Inc. shareholders' equity	442,995	482,209	474,512
Noncontrolling interests	2,089	2,076	2,751
Total equity	445,084	484,285	477,263
Total liabilities and equity	\$590,011	\$583,023	\$591,443

See Notes to Consolidated Financial Statements

## MOVADO GROUP, INC.

## CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended July 31,		Six Months Ended July 31,	
	2015	2014	2015	2014
Net sales	\$ 145,569	\$ 143,591	\$ 266,030	\$ 264,512
Cost of sales	66,531	65,985	124,543	121,755
Gross profit	79,038	77,606	141,487	142,757
Selling, general, and administrative	60,804	60,438	116,378	114,668
Operating income	18,234	17,168	25,109	28,089
Interest expense	(256 )	(100 )	(408 )	(194 )
Interest income	35	11	88	46
Income before income taxes	18,013	17,079	24,789	27,941
Provision for income taxes (Note 8)	6,080	4,909	9,216	8,342
Net income	11,933	12,170	15,573	19,599
Less: Net (loss) / income attributed to noncontrolling interests	(120 )	19	(101 )	83
Net income attributed to Movado Group, Inc.	\$ 12,053	\$ 12,151	\$ 15,674	\$ 19,516
Basic income per share:				
Weighted basic average shares outstanding	23,644	25,384	23,956	25,355
Net income per share attributed to Movado Group, Inc.	\$ 0.51	\$ 0.48	\$ 0.65	\$ 0.77
Diluted income per share:				
Weighted diluted average shares outstanding	23,904	25,674	24,230	25,685
Net income per share attributed to Movado Group, Inc.	\$ 0.50	\$ 0.47	\$ 0.65	\$ 0.76
Dividends declared per share	\$ 0.11	\$ 0.10	\$ 0.22	\$ 0.20

See Notes to Consolidated Financial Statements

MOVADO GROUP, INC.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

	Three Months Ended July 31,		Six Months Ended July 31,	
	2015	2014	2015	2014
Comprehensive income, net of taxes:				
Net income including noncontrolling interests	\$11,933	\$12,170	\$15,573	\$19,599
Net unrealized gain / (loss) on investments, net of tax of \$3, \$0, \$7 and \$39, respectively	5	(1 )	15	69
Gain on available-for-sale securities, net of tax benefit of \$0, \$50, \$0 and \$50, respectively	-	(81 )	-	(81 )
Net change in effective portion of hedging contracts, net of tax of \$100, \$0, \$0 and \$0, respectively	504	-	(4 )	-
Foreign currency translation adjustments	(10,070)	(8,764 )	(13,207)	(633 )
Comprehensive income including noncontrolling interests	2,372	3,324	2,377	18,954
Less: Comprehensive (loss) / income attributable to noncontrolling interests	(4 )	(70 )	13	65
Total comprehensive income attributable to Movado Group, Inc.	\$2,376	\$3,394	\$2,364	\$18,889

See Notes to Consolidated Financial Statements

## MOVADO GROUP, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Six Months Ended July 31,	
	2015	2014
Cash flows from operating activities:		
Net income including noncontrolling interests	\$ 15,573	\$ 19,599
Adjustments to reconcile net income to net cash provided by / (used in) operating activities:		
Depreciation and amortization	6,131	6,097
Transactional (gains) / losses	(1,178 )	1,077
Write-down of inventories	798	872
Deferred income taxes	376	137
Stock-based compensation	3,100	2,612
Excess tax benefit from stock-based compensation	(42 )	(1,204 )
Gain on available-for-sale securities	-	(131 )
Operating efficiency initiatives and other items	2,670	-
Loss on disposal of fixed assets	310	-
Changes in assets and liabilities:		
Trade receivables	(7,192 )	(22,450 )
Inventories	(21,948 )	(15,158 )
Other current assets	(101 )	1,444
Accounts payable	4,329	4,086
Accrued liabilities	5,247	(2,363 )
Income taxes payable	(6,083 )	124
Other non-current assets	(645 )	(2,977 )
Other non-current liabilities	1,229	2,556
Net cash provided by / (used in) operating activities	2,574	(5,679 )
Cash flows from investing activities:		
Capital expenditures	(3,668 )	(4,294 )
Proceeds from short-term investments	-	33,736
Proceeds from available-for-sale securities	-	307
Trademarks	(138 )	(32 )
Net cash (used in) / provided by investing activities	(3,806 )	29,717
Cash flows from financing activities:		
Proceeds from bank borrowings	50,000	-
Repayments of bank borrowings	(10,000 )	-
Stock options exercised and other changes	(489 )	108
Excess tax benefit from stock-based compensation	42	1,204
Dividends paid	(5,239 )	(5,059 )

Edgar Filing: MOVADO GROUP INC - Form 10-Q

Stock repurchase	(39,129 )	(7,684 )
Net cash (used in) financing activities	(4,815 )	(11,431 )
Effect of exchange rate changes on cash and cash equivalents	(5,793 )	(617 )
Net (decrease) / increase in cash and cash equivalents	(11,840 )	11,990
Cash and cash equivalents at beginning of period	199,852	157,659
Cash and cash equivalents at end of period	\$188,012	\$169,649

See Notes to Consolidated Financial Statements

MOVADO GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## BASIS OF PRESENTATION

The accompanying interim unaudited consolidated financial statements have been prepared by Movado Group, Inc. (the “Company”), in a manner consistent with that used in the preparation of the annual audited consolidated financial statements included in the Company’s Annual Report on Form 10-K for the fiscal year ended January 31, 2015 (the “2015 Annual Report on Form 10-K”). In the opinion of management, the accompanying unaudited consolidated financial statements reflect all adjustments, consisting of only normal and recurring adjustments, necessary for a fair statement of the financial position and results of operations for the periods presented. The consolidated balance sheet data at January 31, 2015 is derived from the audited annual financial statements, which are included in the Company’s 2015 Annual Report on Form 10-K and should be read in connection with these interim unaudited financial statements. Operating results for the interim periods presented are not necessarily indicative of the results that may be expected for the full year.

## NOTE 1 – FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Accounting guidance 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.

The following tables present the fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis (in thousands) as of July 31, 2015 and 2014 and January 31, 2015:

	Balance Sheet Location	Fair Value at July 31, 2015			
		Level 1	Level 2	Level 3	Total
<b>Assets:</b>					
Available-for-sale securities	Other current assets	\$331	\$ —	\$ —	\$331
SERP assets - employer	Other non-current assets	1,667	—	—	1,667
SERP assets - employee	Other non-current assets	26,107	—	—	26,107
Hedge derivatives	Other current assets	—	103	—	103
<b>Total</b>		<b>\$28,105</b>	<b>\$ 103</b>	<b>\$ —</b>	<b>\$28,208</b>
<b>Liabilities:</b>					
SERP liabilities - employee	Other non-current liabilities	\$26,107	\$ —	\$ —	\$26,107

Edgar Filing: MOVADO GROUP INC - Form 10-Q

Hedge derivatives	Accrued liabilities	—	645	—	645
Total		\$26,107	\$ 645	\$ —	\$26,752

		Fair Value at January 31, 2015			
Balance Sheet Location		Level 1	Level 2	Level 3	Total
<b>Assets:</b>					
Available-for-sale securities	Other current assets	\$314	\$—	\$—	\$314
Long-term investment	Other non-current assets	—	—	1,240	1,240
SERP assets - employer	Other non-current assets	1,351	—	—	1,351
SERP assets - employee	Other non-current assets	24,811	—	—	24,811
Hedge derivatives	Other current assets	—	1,298	—	1,298
Total		\$26,476	\$ 1,298	\$ 1,240	\$29,014
<b>Liabilities:</b>					
SERP liabilities - employee	Other non-current liabilities	\$24,811	\$—	\$—	\$24,811
Hedge derivatives	Accrued liabilities	—	71	—	71
Total		\$24,811	\$ 71	\$—	\$24,882

7

	Balance Sheet Location	Fair Value at July 31, 2014			Total
		Level 1	Level 2	Level 3	
<b>Assets:</b>					
Available-for-sale securities	Other current assets	\$ 377	\$ —	\$ —	\$ 377
SERP assets - employer	Other non-current assets	1,521	—	—	1,521
SERP assets - employee	Other non-current assets	23,382	—	—	23,382
Hedge derivatives	Other current assets	—	1	—	1
Total		\$25,280	\$ 1	\$ —	\$25,281
<b>Liabilities:</b>					
SERP liabilities - employee	Other non-current liabilities	\$23,382	\$ —	\$ —	\$23,382
Hedge derivatives	Accrued liabilities	—	829	—	829
Total		\$23,382	\$ 829	\$ —	\$24,211

The fair values of the Company's available-for-sale securities are based on quoted prices. The fair value of the long-term investment at January 31, 2015 is based on the purchase price plus eight percent calculated annually. During the three months ended July 31, 2015, this investment converted to common and preferred shares of a privately held company, accounted for under the cost method, with a carrying value of \$1.3 million. This investment will be tested quarterly for any impairment. During the three months ended July 31, 2015 no impairment was recorded for this investment. Time deposits are classified as short-term investments and held to original maturity. The assets related to the Company's defined contribution supplemental executive retirement plan ("SERP") consist of both employer (employee unvested) and employee assets which are invested in investment funds with fair values calculated based on quoted market prices. The SERP liability represents the Company's liability to the employees in the plan for their vested balances. The hedge derivatives are entered into by the Company principally to reduce its exposure to Swiss franc and Euro currency exchange rate risk. Fair values of the Company's hedge derivatives are calculated based on quoted foreign exchange rates, quoted interest rates and market volatility factors.

