FOSSIL INC
Form 10-Q
November 15, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended: October 6, 2007

OR

o	**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)

(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 x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer o Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

The number of shares of registrant s common stock outstanding as of November 13, 2007: 69,398,430

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

FOSSIL, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

UNAUDITED

AMOUNTS IN THOUSANDS

		October 6, 2007		January 6, 2007
ASSETS				
Current assets:				
Cash and cash equivalents	$	184,762	$	133,304
Securities available for sale		8,595		6,894
Accounts receivable net of allowances of $46,406 and $48,070, respectively		203,447		155,236
Inventories net		266,225		228,225
Deferred income tax assets		21,018		20,406
Prepaid expenses and other current assets		56,405		36,923
Total current assets		740,452		580,988
Investments		12,953		10,855
Property, plant and equipment net of accumulated depreciation of $127,787 and $109,183, respectively		178,213		171,499
Goodwill		45,395		43,038
Intangible and other assets net of accumulated amortization of $5,036 and $3,990, respectively		50,465		46,217
Total assets		1,027,478	$	852,597
LIABILITIES AND STOCKHOLDERS EQUITY				
Current liabilities:				
Short-term debt	$	11,872	$	11,338
Accounts payable		86,680		53,306
Accrued expenses:				
Accrued accounts payable		22,065		23,562
Accrued royalties		15,498		14,265
Compensation		40,320		28,896
Coop advertising		11,758		11,554
Other		33,720		27,388
Income taxes payable		27,565		53,071
Total current liabilities		249,478		223,380
Long-term income taxes payable		37,251		
Deferred income tax liabilities		15,924		15,021
Long-term debt		3,396		
Other long-term liabilities		8,226		7,893
Total long-term liabilities		64,797		22,914

Minority interest in subsidiaries	4,831		4,102
Stockholders equity:			
Common stock, 69,487 and 67,794 shares issued, respectively	694		678
Additional paid-in capital	84,293		53,459
Retained earnings	593,389		529,376
Accumulated other comprehensive income	30,454		20,025
Treasury stock at cost, 20 and 69 shares, respectively	(458)		(1,337)
Total stockholders equity	708,372		602,201
Total liabilities and stockholders equity	1,027,478	$	852,597

See notes to condensed consolidated financial statements.

FOSSIL, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

AND COMPREHENSIVE INCOME

UNAUDITED

AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA

	For the 13 Weeks Ended October 6, 2007	For the 13 Weeks Ended October 7, 2006	For the 39 Weeks Ended October 6, 2007	For the 40 Weeks Ended October 7, 2006
Net sales	$ 358,582	$ 299,697	$ 969,871	$ 823,160
Cost of sales	171,626	151,591	476,265	415,007
Gross profit	186,956	148,106	493,606	408,153
Operating expenses:				
Selling and distribution	98,567	82,341	273,023	246,995
General and administrative	39,935	32,812	116,458	95,018
Total operating expenses	138,502	115,153	389,481	342,013
Operating income	48,454	32,953	104,125	66,140
Interest expense	174	1,009	613	2,556
Other income (expense) net	1,391	(3)	3,228	(541)
Income before income taxes	49,671	31,941	106,740	63,043
Provision for income taxes	19,218	10,400	36,583	20,547
Net income	30,453	21,541	70,157	42,496
Other comprehensive income, net of taxes:				
Currency translation adjustment	6,630	(2,542)	14,336	8,629
Unrealized gain (loss) on securities available for sale	(276)	308	(339)	(53)
Forward contracts hedging intercompany foreign currency payments change in fair values	(2,309)	1,223	(3,568)	(929)
Total comprehensive income	34,498	20,530	80,586	50,143
Earnings per share:				
Basic	0.45	0.32	1.03	0.63
Diluted	0.43	0.31	1.00	0.62
Weighted average common shares outstanding:				
Basic	68,143	67,127	67,844	67,116
Diluted	70,302	68,691	70,112	68,537

See notes to condensed consolidated financial statements.

FOSSIL, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

UNAUDITED

AMOUNTS IN THOUSANDS

	For the 39 Weeks Ended October 6, 2007	For the 40 Weeks Ended October 7, 2006
Operating activities:		
Net income	$ 70,157	$ 42,496
Noncash items affecting net income:		
Minority interest in subsidiaries	3,469	3,269
Equity in earnings of joint venture	(1,447)	(1,247)
Depreciation and amortization	23,819	23,730
Stock-based compensation	3,558	4,037
Excess tax benefits from stock-based compensation	(9,391)	(1,312)
Loss on disposal of assets	256	28
Increase (decrease) in allowance for doubtful accounts	57	(1,771)
Increase in allowance for returns - net of related inventory	1,066	75
Deferred income taxes	(717)	2,448
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable	(46,547)	(27,507)
Inventories	(40,788)	(24,910)
Prepaid expenses and other current assets	(19,482)	(858)
Accounts payable	27,117	(1,656)
Accrued expenses	17,414	6,738
Income taxes payable	16,330	6,197
Net cash from operating activities	44,871	29,757
Investing activities:		
Business acquisitions, net of cash acquired	(1,326)	(7,227)
Additions to property, plant and equipment	(24,074)	(39,589)
Purchase of securities available for sale	(2,176)	(530)
Sales/maturities of securities available for sale	496	58
Increase in intangible and other assets	(4,847)	(1,855)
Net cash used in investing activities	(31,927)	(49,143)
Financing activities:		
Proceeds from exercise of stock options	19,691	4,355
Acquisition and retirement of common stock	(287)	(25,930)
Excess tax benefits from stock-based compensation	9,391	1,312
Distribution of minority interest earnings	(2,107)	(186)
Net (payments on)/borrowings of debt	3,262	45,649
Net cash from financing activities	29,950	25,200
Effect of exchange rate changes on cash and cash equivalents	8,564	5,343
Net increase in cash and cash equivalents	51,458	11,157
Cash and cash equivalents:		
Beginning of period	133,304	58,222
End of period	$ 184,762	69,379

See notes to condensed consolidated financial statements.

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FOSSIL, INC. AND SUBSIDIARIES

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 October 6, 2007, and the results of operations for the thirteen-week periods ended October 6, 2007 (Third Quarter) and October 7, 2006 (Prior Year Quarter), the thirty-nine week period ended October 6, 2007 (Year To Date Period) and the forty week period ended October 7, 2006 (Prior Year YTD Period). All adjustments are of a normal, recurring nature. The Company noted that fiscal 2007 is a 52-week year as compared to a 53-week year in fiscal 2006. For financial reporting purposes, this extra week was included in the first quarter of fiscal year 2006.

These interim financial statements should be read in conjunction with the audited 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 (the Exchange Act) for the year ended January 6, 2007. Operating results for the thirty-nine week period ended October 6, 2007 are not necessarily indicative of the results to be achieved for the full year.

The condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America which require the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and 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 its most recent annual report.

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, and apparel. In the watch and jewelry product category, 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, export and direct to the consumer at varying price points to service 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 forward contracts principally to hedge the future payment of intercompany inventory transactions in U.S. dollars. At October 6, 2007, the Company s foreign subsidiaries had forward contracts to sell (i) 53.1 million Euro for approximately $71.2 million, expiring through December 2008 and (ii) approximately 6.2 million British Pounds for $12.3 million, expiring through July 2008. If the Company s foreign subsidiaries were to settle their Euro and British Pound based contracts at the reporting date, the net result would be a net loss of approximately $3.9 million, net of taxes, as of October 6, 2007. The net decrease in fair value for the Year To Date Period and the Prior Year YTD Period of approximately $3.6 million and $0.9 million, respectively, is included in other comprehensive income. The net decrease for the Year To Date Period consisted of net losses from these hedges of $3.9 million and approximately $0.4 million of net losses reclassified into earnings.

Earnings Per Share. The following table reconciles the numerators and denominators used in the computations of both basic and diluted earnings per share (EPS):

	For the 13 Weeks Ended October 6, 2007	For the 13 Weeks Ended October 7, 2006	For the 39 Weeks Ended October 6, 2007	For the 40 Weeks Ended October 7, 2006
		IN THOUSANDS, EXCEPT PER SHARE DATA		
Numerator:				
Net income	$ 30,453	$ 21,541	$ 70,157	$ 42,496
Denominator:				
Basic EPS computation:				
Weighted average common shares outstanding	68,143	67,127	67,844	67,116
Basic EPS	$ 0.45	$ 0.32	$ 1.03	$ 0.63
Denominator:				
Diluted EPS computation:				
Basic weighted average common shares outstanding	68,143	67,127	67,844	67,116
Dilutive effect of stock-based compensation	2,159	1,564	2,268	1,421
	70,302	68,691	70,112	68,537
Diluted EPS	$ 0.43	$ 0.31	$ 1.00	$ 0.62

Approximately 2,000, 900,000, 115,000 and 1.7 million weighted average shares issuable under stock-based awards were not included in the diluted earnings per share calculation at the end of the Third Quarter, Prior Year Quarter, Year To Date Period and Prior Year YTD Period, respectively, because they were antidilutive. These common share equivalents may be dilutive in future EPS calculations.

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

	Domestic Wholesale	Europe Wholesale	Other International Wholesale	Direct to Consumer	Total
			IN THOUSANDS		
Balance at January 6, 2007	$ 21,799	$ 17,518	$ 3,721	$	$ 43,038
Acquisitions			1,326		1,326
Currency		1,029	2		1,031
Balance at October 6, 2007	$ 21,799	$ 18,547	$ 5,049	$	$ 45,395

New Accounting Standards. In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS 157). This Standard provides guidance for using fair value to measure assets and liabilities. Under SFAS 157, fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts. SFAS 157 is effective beginning in the Company s fiscal year 2008. The Company is currently evaluating the effect of adopting SFAS 157, but does not expect it to have a material impact on its consolidated results of operations or financial condition.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115* (SFAS 159). The fair value option permits entities to choose to measure eligible financial instruments at fair value at specified election dates. The entity will report unrealized gains and losses on the items on which it has elected the fair value option in earnings. SFAS 159 is effective beginning in the Company s fiscal year 2008. The Company is currently evaluating the effect of adopting SFAS 159, but does not expect it to have a material impact on its consolidated results of operations or financial condition.

There are no other recently issued accounting standards effective after October 6, 2007 that are expected to materially impact the Company.

2. INVENTORIES

Inventories net consist of the following:

Fiscal Year		October 6, 2007		January 6, 2007
		IN THOUSANDS		
Components and parts	$	15,734	$	9,786
Work-in-process		3,411		1,691
Finished goods		260,231		228,822
		279,376		240,299
Inventory reserve for obsolescence		(13,151)		(12,074)
Inventories net	$	266,225	$	228,225

3. INCOME TAXES

The provision for income taxes reflects the Company s estimate of the effective tax rate expected to be applicable for the full fiscal year, adjusted for any discrete events, which are reported in the period that they occur. This estimate is re-evaluated each quarter based upon the Company s estimated tax expense for the full fiscal year. The Company s income tax expense for the Third Quarter and Prior Year Quarter was $19.2 million and $10.4 million, respectively, resulting in an effective income tax rate of 38.7% and 32.6%, respectively. The lower effective rate for the Prior Year Quarter is attributable to the impact of foreign operations. Income tax expense was $36.6 million for the Year To Date (YTD) Period, with an effective rate of 34.3%. For the comparable Prior Year YTD Period, income tax expense was $20.5 million, resulting in an effective rate of 32.6%. The lower effective tax rate for the Prior Year YTD period is, for the most part, attributable to the impact of foreign operations.

Effective January 7, 2007, the Company adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes- an Interpretation of FASB Statement No. 109 (FIN 48). Under FIN 48, the Company must recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate resolution. This interpretation also provides guidance on de-recognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, accounting for income taxes in interim periods and income tax disclosures. The cumulative effects of applying this interpretation have been recorded as a decrease of $6.1 million to retained earnings, an increase of $1.3 million to net deferred income tax liabilities, and an increase of $4.8 million in the liability for uncertain tax benefits as of January 7, 2007.

As of October 6, 2007 and January 7, 2007, the total amount of unrecognized tax benefits, excluding interest and penalties, was $50.9 million and $51.4 million, respectively, of which $29.7 million and $33.5 million would favorably impact the effective tax rate in future periods, if recognized. As of January 7, 2007, the Company was subject to an Internal Revenue Service (IRS) examination for the 2003 and 2004 tax years. The Company is also subject to examinations in various state and foreign jurisdictions for the 2001 through 2006 tax years, none of which are individually significant. During the first quarter, the examination phase of the IRS audit for tax years 2003 and 2004 was completed. The IRS has proposed certain adjustments and the Company has filed a protest at this time. This protest is under review by the IRS Office of Appeals and it is possible that it may be resolved within the next twelve months. As of October 6, 2007, and January 7, 2007, the Company has recorded $15.4 million and $19.3 million, respectively, of unrecognized tax benefits, excluding interest and penalties for positions that could be settled within the next twelve months. At this time, an estimate of the range of the reasonably possible outcomes cannot be made. Audit outcomes and the 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 in twelve months. Consistent with its past practice, the Company recognizes interest and/or penalties related to income tax overpayments and underpayments in income tax expense and income taxes payable. The total amount of accrued income tax-related interest and penalties included in the condensed consolidated balance sheet at adoption was $9.4 million (net). For the nine months ended October 6, 2007, the Company accrued interest expense of $2.3 million.

4. STOCK-BASED COMPENSATION PLANS

The Company accounts for stock-based compensation in accordance with the provisions of Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment* (SFAS 123R) using the Black-Scholes option pricing model to determine the fair value of stock options 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 for its non-employee directors, and c) stock appreciation rights, restricted stock and restricted stock units for its U.S.-based employees. Prior to 2006, the Company s stock based-compensation plans included stock options for its non-employee directors and stock options and restricted stock for its employees, including its executive officers.

Long-Term Incentive Plan. Designated employees of the Company, including officers, are eligible to receive a) stock options, b) stock appreciation rights, c) restricted or non-restricted stock awards, d) restricted stock units, e) cash awards or f) any combination of the foregoing. As of October 6, 2007, approximately 20,346 shares issued to employees in prior years were forfeited and are held in the Company treasury to be issued as future awards are granted. The current stock options, stock appreciation rights, restricted stock and restricted stock units outstanding include an original vesting term ranging from three to five years. All stock options, stock appreciation rights, restricted stock and restricted stock units are accounted for at fair value at the date of grant. All stock appreciation rights and restricted stock units are settled in shares of Company stock.

Restricted Stock Plan. Shares awarded under the 2002 Restricted Stock Plan have been funded with shares contributed to the Company from a significant stockholder. The current restricted shares outstanding include an original vesting term ranging from one to nine years.

Non-employee Director Stock Option Plan. During the first year individuals are elected as non-employee directors of the Company, they receive a grant of 5,000 non-qualified stock options. In addition, on the first day of each subsequent calendar year, each non-employee director automatically receives a grant of an additional 4,000 non-qualified stock options as long as the individual is serving as a non-employee director. Pursuant to this plan, 50% of the options granted will become exercisable on the first anniversary of the date of grant and in two additional installments of 25% on the second and third anniversaries. All stock options granted under this plan are accounted for at fair value at the date of grant.

The following table summarizes stock option and stock appreciation right activity during the Third Quarter:

	Number of Shares IN THOUSANDS		Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (Yrs.)		Aggregate Intrinsic Value IN THOUSANDS
Outstanding at July 7, 2007	4,843	$	15.41	5.3	$	74,615
Granted	15		34.90			
Exercised	(1,249)		11.79			30,184
Forfeited or expired	(13)		19.71			
Outstanding at October 6, 2007	3,596		17.55	5.7		63,117
Exercisable at October 6, 2007	2,768		15.89	5.0		43,987
Nonvested at October 6, 2007	828		23.10	8.0		19,130
Expected to vest	745	$	23.10	8.0	$	17,217

The aggregate intrinsic value in the table above is before income taxes and is based on the exercise price for outstanding and exercisable options and rights at October 6, 2007 and based on the fair market value on the exercise date for options and rights that have been exercised during the Third Quarter.

Stock Options and Stock Appreciation Rights Outstanding and Exercisable. The following table summarizes information with respect to stock options and stock appreciation rights outstanding and exercisable at October 6, 2007 (number of shares in thousands):

	Stock Options and Stock Appreciation Rights Outstanding				Stock Options and Stock Appreciation Rights Exercisable		
Range of Exercise Prices	Number of Shares IN THOUSANDS		Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (Yrs.)	Number of Shares IN THOUSANDS		Weighted-Average Exercise Price
$3.62 - $7.24	278		6.18	2.5	278		6.18
7.24 - 10.85	594		8.49	3.1	594		8.49
10.85 - 14.47	729		12.00	4.9	623		12.04
14.47 - 18.09	5		15.95	5.4	5		15.80
18.09 - 21.71	527		18.86	7.0	246		19.05
21.71 - 25.33	560		22.33	6.3	448		22.22
25.33 - 28.94	596		25.95	7.1	546		25.94
28.94 - 32.56	292		31.10	9.4	28		29.80
$32.56 - $36.18	15		34.90	8.6			
Total	3,596	$	17.55	5.7	2,768	$	15.89

The Company has elected to apply the long-form method to determine the hypothetical additional paid-in capital (APIC) pool provided by FASB Staff Position FAS 123R-3, *Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards*. 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 SFAS No. 123R, related to historical stock option exercises. In future periods, excess tax benefits resulting from 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 the 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 during the Third Quarter:

	Number of Shares IN THOUSANDS	Weighted-Average Grant-Date Fair Value
Nonvested at July 7, 2007	486	$ 21.69
Granted	3	19.64
Vested	(12)	18.25
Forfeited	(6)	22.59
Nonvested at October 6, 2007	471	21.75
Expected to vest	423	$ 21.75

The total fair value of restricted stock and restricted stock units vested during the Third Quarter was approximately $430,000.

5. SEGMENT AND GEOGRAPHIC INFORMATION

The Company manages its business primarily on a geographic basis. The Company s reportable operating segments are comprised of the United States wholesale, Europe wholesale, other international wholesale and direct to consumer. The United States wholesale, Europe wholesale, and other international wholesale reportable segments do not include activities related to the direct to consumer segment. The Europe wholesale segment primarily includes sales to wholesale or distributor customers based in European countries as well as the Middle East and Africa. The other international wholesale segment primarily includes sales to wholesale or distributor customers based in Australia, Canada, China (including the Company s assembly and procurement operations), India, Indonesia, Japan, Korea, Malaysia, Mexico, New Zealand, Singapore, South America, Taiwan and Thailand. The direct to consumer segment includes company-owned retail stores and sales generated from e-commerce activities. Each reportable operating segment provides similar products and services.

The Company evaluates the performance of its operating 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. Operating income for each segment includes the impact of intercompany profits associated with the sale of products by one segment to another. Costs associated with various corporate expenses and amounts related to intercompany eliminations are not allocated to the various segments but are included in the United States wholesale segment. Intercompany sales of products between segments are referred to as intersegment items. Summary information by reportable operating segment follows:

	For the 13 Weeks Ended October 6, 2007		For the 13 Weeks Ended October 7, 2006	
	Net Sales	Operating Income (Loss)	Net Sales	Operating Income (Loss)
	IN THOUSANDS			
United States wholesale:				
External customers	$ 117,399	$ (3,416)	$ 112,076	$ 734
Intersegment	40,732		35,869	
Direct to consumer	62,045	2,640	52,259	2,748
Europe wholesale:				
External customers	120,574	26,009	94,155	12,841
Intersegment	9,657		7,773	
Other international wholesale:				
External customers	58,564	23,221	41,207	16,630
Intersegment	108,641		94,978	
Intersegment items	(159,030)		(138,620)	
Consolidated	$ 358,582	$ 48,454	$ 299,697	$ 32,953

	For the 39 Weeks Ended October 6, 2007		For the 40 Weeks Ended October 7, 2006	
	Net Sales	Operating Income (Loss)	Net Sales	Operating Income (Loss)
	IN THOUSANDS			
United States wholesale:				
External customers	$ 320,950	$ (21,121)	$ 314,761	$ (13,456)
Intersegment	106,811		91,353	
Direct to consumer	164,568	5,511	137,978	4,583
Europe wholesale:				
External customers	320,882	55,628	252,784	27,288
Intersegment	25,644		23,098	
Other international wholesale:				
External customers	163,471	64,107	117,637	47,725
Intersegment	284,349		256,519	
Intersegment items	(416,804)		(370,970)	
Consolidated	$ 969,871	$ 104,125	$ 823,160	$ 66,140

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

The following is a discussion of the financial condition and results of operations of Fossil, Inc. and its wholly and majority-owned subsidiaries for the thirteen and thirty-nine week periods ended October 6, 2007 (the Third Quarter and Year To Date Period, respectively), as compared to the thirteen and forty week periods ended October 7, 2006 (the Prior Year Quarter and Prior Year YTD Period, respectively). Fiscal 2007 is a 52-week year as compared to a 53-week year for fiscal 2006. This extra week was included in the first quarter of fiscal year 2006. This discussion should be read in conjunction with the Condensed Consolidated Financial Statements and the related Notes attached hereto.

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 and handbags, small leather goods, belts, sunglasses, and apparel. 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, export and direct to the consumer 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 affiliated internet sites and through our FOSSIL® catalog. Our wholesale customer base includes, but is not limited to, Neiman Marcus, Nordstrom, 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 87 full price stores located in premier retail sites and 74 outlet stores located in major outlet malls as of October 6, 2007. In addition, we offer an extensive collection of our FOSSIL brand products through our catalog 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 through 22 company-owned foreign sales subsidiaries and through a network of approximately 56 independent distributors to department stores, specialty retail stores and specialty watch and jewelry stores in over 90 countries worldwide. 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 59 full price stores and 5 outlet stores in select international markets as of October 6, 2007. Additionally, our products are sold through independently-owned FOSSIL retail stores and kiosks in certain international markets.

Significant 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 debts, inventories, long-lived asset impairment, impairment of goodwill and income taxes. We base these estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which 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 there have been no changes to the significant accounting policies disclosed in Management s Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K filed for the year ended January 6, 2007 except as it relates to our adoption of FIN 48 on January 7, 2007.

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS 157). This Standard provides guidance for using fair value to measure assets and liabilities. Under SFAS 157, fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts. SFAS 157 is effective beginning in our fiscal year 2008. We are currently evaluating the effect of adopting SFAS 157, but do not expect it to have a material impact on our consolidated results of operations or financial condition.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115* (SFAS 159). The fair value option permits entities to choose to measure eligible financial instruments at fair value at specified election dates. The entity will report unrealized gains and losses on the items on which it has elected the fair value option in earnings. SFAS 159 is effective beginning in our fiscal year 2008. We are currently evaluating the effect of adopting SFAS 159, but do not expect it to have a material impact on our consolidated results of operations or financial condition.

There are no other recently issued accounting standards effective after October 6, 2007 that are expected to materially impact us.

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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 condensed consolidated statements of income and comprehensive income and (ii) the percentage changes in these line items. Fiscal 2007 is a 52-week year as compared to a 53-week year in fiscal 2006. This extra week was included in our first quarter of fiscal year 2006. We estimate the extra week increased net sales and operating expenses by approximately $16.0 million and $5.0 million, respectively, during the Prior Year YTD period.

	Percentage of Net Sales For the 13 Weeks Ended October 6, 2007	For the 13 Weeks Ended October 7, 2006	Percentage Change from 2006
Net sales	100.0%	100.0%	19.6%
Cost of sales	47.9	50.6	13.2
Gross profit	52.1	49.4	26.2
Selling and distribution expenses	27.5	27.5	19.7
General and administrative expenses	11.1	10.9	21.7
Operating income	13.5	11.0	47.0
Interest expense		0.3	*
Other income - net	0.4		*
Income before income taxes	13.9	10.7	55.5
Income taxes	5.4	3.5	84.8
Net income	8.5%	7.2%	41.4%

	Percentage of Net Sales For the 39 Weeks Ended October 6, 2007	For the 40 Weeks Ended October 7, 2006	Percentage Change from 2006
Net sales	100.0%	100.0%	17.8%
Cost of sales	49.1	50.4	14.8
Gross profit	50.9	49.6	20.9
Selling and distribution expenses	28.2	30.0	10.5
General and administrative expenses	12.0	11.5	22.6
Operating income	10.7	8.1	57.4
Interest expense	0.1	0.3	*
Other income (expense) - net	0.4	(0.1)	*
Income before income taxes	11.0	7.7	69.3
Income taxes	3.8	2.5	78.0
Net income	7.2%	5.2%	65.1%

* not meaningful

Net Sales. The following table sets forth certain components of our consolidated net sales and the percentage relationship of the components to consolidated net sales for the periods indicated (in millions, except percentage data):

	Amounts		% of Total	
	For the 13 Weeks Ended October 6, 2007	For the 13 Weeks Ended October 7, 2006	For the 13 Weeks Ended October 6, 2007	For the 13 Weeks Ended October 7, 2006
International wholesale:				
Europe	$ 120.6	$ 94.2	33.6%	31.4%
Other	58.6	41.2	16.4	13.8
Total international wholesale	179.2	135.4	50.0	45.2
United States wholesale:				
Watch products	62.6	63.2	17.4	21.1
Other products	54.8	48.8	15.3	16.3
Total United States wholesale	117.4	112.0	32.7	37.4
Direct to consumer	62.0	52.3	17.3	17.4
Total net sales	$ 358.6	$ 299.7	100.0%	100.0%

	Amounts		% of Total	
	For the 39 Weeks Ended October 6, 2007	For the 40 Weeks Ended October 7, 2006	For the 39 Weeks Ended October 6, 2007	For the 40 Weeks Ended October 7, 2006
International wholesale:				
Europe	$ 320.9	$ 252.9	33.1%	30.7%
Other	163.5	117.6	16.8	14.3
Total international wholesale	484.4	370.5	49.9	45.0
United States wholesale:				
Watch products	164.6	161.4	17.0	19.6
Other products	156.4	153.2	16.1	18.6
Total United States wholesale	321.0	314.6	33.1	38.2
Direct to consumer	164.5	138.1	17.0	16.8
Total net sales	$ 969.9	$ 823.2	100.0%	100.0%

The following tables are intended to illustrate by factor the total of the percentage change in sales by segment and on a consolidated basis:

	Analysis of Percentage Change in Sales Versus Prior Year Quarter Attributable to Changes in the Following Factors			
	Exchange Rates	Acquisitions	Organic Growth	Total Change
Europe wholesale	9.6%	0.0%	18.4%	28.0%
Other international wholesale	2.2%	0.0%	40.0%	42.2%
United States wholesale	0.0%	0.0%	4.8%	4.8%
Direct to consumer	1.6%	0.0%	16.9%	18.5%
Total	3.6%	0.0%	16.0%	19.6%

	Analysis of Percentage Change in Sales Versus Prior Year YTD Attributable to Changes in the Following Factors			
	Exchange Rates	Acquisitions	Organic Growth	Total Change
Europe wholesale	9.0%	0.0%	17.9%	26.9%
Other international wholesale	1.1%	0.9%	37.0%	39.0%
United States wholesale	0.0%	0.0%	2.0%	2.0%
Direct to consumer	1.3%	0.0%	17.8%	19.1%
Total	3.1%	0.1%	14.6%	17.8%

Europe Wholesale Net Sales (excluding the impact of sales growth attributable to foreign currency rate change as noted in the above table). During the Third Quarter, Europe wholesale net sales increased as a result of sales volume growth in licensed watch brands and FOSSIL watch and jewelry businesses. Licensed brand watch sales increased by 26.2% led by DKNY®, EMPORIO ARMANI® and DIESEL® brands. Net sales of FOSSIL watch and jewelry products increased by 20.9% and 21.2%, respectively. Each of our subsidiaries in Europe achieved double-digit net sales increases during the Third Quarter. We believe this performance is a result of consumers responding favorably to our new watch and jewelry styles delivered into the market during the last twelve months as well as a stronger economy in many parts of Europe in comparison to the prior year. We believe our branding efforts in Europe, including the expansion of our company-owned retail stores, are also benefiting our net sales growth in this segment. Additionally, in September we launched our first commercial website outside the U.S. in the German market. We believe this initiative will also provide us an opportunity to further build brand awareness for FOSSIL, as well as create an additional distribution channel for this brand over the long-term.

Other International Wholesale Net Sales (excluding the impact of sales growth attributable to foreign currency rate changes and acquisitions as noted in the above table). Increased net sales from our other international wholesale segment was primarily the result of a 46.3% increase in licensed brand watches and a 42.1% increase in FOSSIL watches resulting from sales volume growth across all major markets. From a geographic standpoint, Asia Pacific sales increased 44.8% primarily driven by our shop-in-shop concepts in this region that continue to build awareness for our portfolio of brands, resulting in increased market penetration in the stores that distribute such brands. Net sales from our Mexico subsidiary that we acquired in February 2006 increased 61.4% during the Third Quarter while sales in our Canadian wholesale operations grew by 30.4%. Export sales from the U.S. grew 34.7% as a result of increased shipments to our distributors in South America and increases in our wholesale shipments to the Caribbean. We believe our other international wholesale segment will continue to grow at rates in excess of other wholesale segments of our business. We remain confident that we have opportunities to increase our market presence in most regions that comprise this segment due primarily to the relatively shorter periods of time our products have been distributed in most of these regions as compared to our United States and Europe wholesale segments.

Total international wholesale net sales increases for the Year To Date Period were consistent from a brand and category perspective as those experienced in the Third Quarter. We believe we maintain a competitive advantage as a result of our long-term relationships and strength of our business with retailers throughout the international marketplace. We believe the global recognition of our branded portfolio of watches and jewelry positions us as a significant resource to retailers throughout the international marketplace. Our strategy is not to force any one brand into a specific market, but rather allow the market to dictate which brands are important based upon consumer preference. We further believe our global distribution network and design and marketing capabilities will allow us to acquire additional brands that will position us for further penetration internationally as we continue to take shelf space from lesser known local and regional brands.

United States Wholesale Net Sales. Net sales from our U.S.wholesale watch business decreased 1.0% during the Third Quarter. We experienced significantly lower sales related to off-price channels during the Third Quarter in comparison to the Prior Year Quarter primarily due to tighter inventory management and the improved sell through rates at retail as a result of newer watch styles sold over the last twelve months. Excluding the impact of off-price channel sales during the Third Quarter and Prior Year Quarter, domestic watch net sales increased 5.7%. This performance is primarily related to sales volume increases in licensed brand and MICHELE® watches, partially offset by sales volume declines in FOSSIL and mass market watches. The increase in licensed brand watch sales was principally due to sales volume growth in MICHAEL KORS®, BURBERRY® and DKNY® brands due primarily to the increasing number of department store doors these brands are distributed through. We believe the sales volume decline in FOSSIL watches is reflective of an uneasy retail environment which has resulted in the tightening of inventory levels at our retail customers. Excluding off-price channels sales from both the Third Quarter and the Prior Year Quarter, FOSSIL watch sales declined by 6.1%. We believe the decline in our mass market business is a result of certain shipments moving from the Third Quarter to the second quarter of this year as evidenced by a 69% increase in this business during the second quarter of 2007 compared to the second quarter of 2006. Net sales from our domestic accessories businesses increased by 12.3% during the Third Quarter compared to the Prior Year Quarter. Sales growth in our accessories category was fueled by sales volume growth in FOSSIL and RELIC® handbags and the impact of new product launches, including FOSSIL accessory jewelry and cold weather accessories, which contributed approximately $3.4 million of net sales to the quarter. U.S. wholesale watch net sales for the Year To Date Period of $164.6 million increased $3.2 million from the Prior Year YTD Period. This increase is principally attributable to sales volume growth in licensed watch brands, partially offset by a decrease in FOSSIL watch sales. FOSSIL watch net sales, excluding off-price channel sales from both year-to-date periods were relatively unchanged. Domestic accessory net sales for the Year To Date Period increased by $3.2 million, or 2.1%, to $156.4 million in comparison to $153.2 million in the Prior Year YTD Period, primarily due to the launch of FOSSIL accessory jewelry and cold weather accessories and sales volume increases in RELIC leather and sunglasses businesses, partially offset by sales volume declines in FOSSIL belts and small leather goods and RELIC belts.

Direct to Consumer Net Sales (Excluding the impact on sales growth attributable to foreign currency rate changes as noted in the above table). Net sales from our direct to consumer segment for the Third Quarter increased 16.9% as compared to the Prior Year Quarter primarily due to a 14.5% increase in the average number of company-owned retail stores opened during the period and comparable store sales increases of 4.7%. Third Quarter net sales from our e-commerce businesses increased by 13.9% in comparison to the Prior Year Quarter. For the Year To Date Period, net sales from our direct to consumer segment increased 19.1% in comparison to the Prior Year YTD Period as a result of a 19.5% increase in the average number of stores opened and comparable store sales increases of 4.4%. Net sales from our e-commerce businesses increased by 14.2% for the Year To Date Period. Comparable store sales related to our global full price accessory concept increased by 9.6% and 6.2% for the Third Quarter and Year To Date Period, respectively. We ended the Third Quarter with 225 stores, including 97 full price accessory stores, 48 of which were outside the U.S., 79 outlet locations, including five outside the U.S., 33 apparel stores and 16 multi-brand stores. This compares to 191 stores at the end of the Prior Year Quarter, including 69 full price accessory stores, 29 of which were outside the U.S., 76 outlet locations, including three outside the U.S., 32 apparel stores and 14 multi-brand stores. During the Third Quarter we opened 24 new stores, including 19 full price accessory stores. We had no store closings during the Third Quarter. We expect to open 80 to 85 company-owned retail stores in fiscal year 2008, primarily under our full price accessory concept with equal distribution of these stores inside and outside the U.S. Currently, we have firm commitments for thirty-six stores to be opened next year.

Gross Profit. Third Quarter gross profit increased by $38.9 million to $187.0 million, compared to $148.1 million in the Prior Year Quarter. Gross profit margin increased by 270 basis points to 52.1% in the Third Quarter compared to 49.4% in the Prior Year Quarter. Our gross profit margin was favorably affected by an approximate 140 basis point improvement as a result of a weaker U.S. dollar. Additionally, a sales mix shift toward higher margin international sales, lower levels of off-priced channel sales and improved gross margins as a result of management s focus on product margin improvement and inventory initiatives also contributed favorably to the increase in gross profit margins. To a lesser extent, gross profit margins were favorably impacted by an increase in outlet store gross margins and decreased sales of lower margin mass market product. Offsetting these favorable increases in gross profit margin was an increase in inventory reserves for apparel product and slightly higher freight cost. For the Year To Date Period, gross profit margin increased by 130 basis points to 50.9% compared to 49.6% in the comparable Prior Year YTD Period. This increase was primarily related to a 121 basis point increase from a weaker U.S. dollar as well as a sales mix shift toward higher margin international sales, increased gross margin related to outlet store sales and a reduction in lower margin off-price channel sales. These favorable increases in gross profit margin for the Year To Date Period were partially offset by a reduced gross margin performance on many of our watch businesses during the first six months of fiscal year 2007.

Operating Expenses. Operating expenses as a percentage of net sales increased 20 basis points in the Third Quarter to 38.6% compared to 38.4% in the Prior Year Quarter. Total operating expenses increased by $23.3 million in comparison to the Prior Year Quarter to $138.5 million, including $3.0 million in expenses related to our equity granting practices review (the Grant Review). Excluding the expenses associated with the Grant Review, Third Quarter operating expenses increased by $20.3 million, or 17.6%, in comparison to the Prior Year Quarter and, as a percent of net sales, decreased to 37.8%. This operating expense increase is driven principally by an $8.2 million increase in expenses in our direct to consumer segment, primarily due to retail store growth and related infrastructure additions and $3.5 million related to the translation impact of foreign-based expenses as a result of a weaker U.S. dollar. To a lesser extent, operating expense increases were a result of expenses associated with new category launches during the Third Quarter and increases in expenses as a result of higher levels of sales. For the Year To Date Period, operating expenses as a percentage of net sales decreased to 40.2% compared to 41.5% for the Prior Year YTD Period. The Year To Date Period included approximately $13.0 million of Grant Review expenses, an additional $8.9 million of expenses due to a weaker U.S. dollar, and a $17.5 million increase in expenses in our direct to consumer segment.

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 periods indicated (in millions, except for percentage data):

	Amounts		% of Net Sales	
Segment	**For the 13 Weeks Ended October 6, 2007**	**For the 13 Weeks Ended October 7, 2006**	**For the 13 Weeks Ended October 6, 2007**	**For the 13 Weeks Ended October 7, 2006**
Europe wholesale	$ 36.5	$ 32.6	30.2%	34.6%
Other international wholesale	16.4	12.4	28.1	30.1
United States wholesale (1)	53.0	45.8	45.1	40.8
Direct to consumer	32.6	24.4	52.6	46.7
Total	$ 138.5	$ 115.2	38.6%	38.4%

	Amounts		% of Net Sales	
Segment	**For the 39 Weeks Ended October 6, 2007**	**For the 40 Weeks Ended October 7, 2006**	**For the 39 Weeks Ended October 6, 2007**	**For the 40 Weeks Ended October 7, 2006**
Europe wholesale	$ 106.8	$ 95.6	33.3%	37.8%
Other international wholesale	46.1	38.6	28.2	32.8
United States wholesale (1)	150.9	139.6	47.0	44.4
Direct to consumer	85.7	68.2	52.1	49.4
Total	$ 389.5	$ 342.0	40.2%	41.5%

(1) Certain corporate costs not allocated to individual operating segments for management reporting purposes and intercompany eliminations for specific income statement items are reflected in the United States wholesale segment. Additionally, for the Third Quarter and Year To Date Period, the United States wholesale segment includes approximately $3.0 million and $13.0 million, respectively, related to legal, accounting and payroll costs incurred in connection with the Grant Review by a Special Committee of the Board of Directors.

Operating Income. Operating profit increased by 47.0% in the Third Quarter to 13.5% of net sales compared to 11.0% of net sales in the Prior Year Quarter as a result of increased gross profit margins, partially offset by slightly higher levels of operating expenses as a percentage of sales. Operating income was favorably impacted by approximately $7.2 million as a result of the translation of foreign sales and expenses into U.S. dollars. During the Year To Date Period operating profit margin increased to 10.7% compared to 8.1% in the Prior Year YTD period. The Year To Date Period operating income included approximately $15.7 million of net currency gains related to the translation of foreign sales and expenses into U.S. dollars.

Interest Expense. Interest expense of $174,000 during the Third Quarter decreased from $1.0 million during the Prior Year Quarter. Interest expense of $613,000 during the Year To Date Period decreased from $2.6 million during the comparable Prior Year YTD Period. These decreases are principally due to the payment of previously outstanding borrowings on our U.S.-based revolving line of credit at the end of fiscal year 2006, which was primarily used for common stock repurchases in late 2005 and early 2006.

Other Income (Expense) - Net. Other income (expense)-net increased favorably by $1.4 million and $3.8 million during the Third Quarter and Year To Date Period, respectively, in comparison to the prior year periods. These increases are primarily driven by increased interest income resulting from higher levels of invested cash balances and increased foreign currency transaction gains.

Provision For Income Taxes. Income tax expense for the Third Quarter and Prior Year Quarter was $19.2 million and $10.4 million, respectively, resulting in an effective income tax rate of 38.7% and 32.6%, respectively. The lower effective rate for the Prior Year Quarter is attributable to the impact of foreign operations. Income tax expense was $36.6 million for the Year To Date Period, with an effective rate of 34.3%. For the Prior Year YTD Period, income tax expense was $20.5 million, resulting in an effective rate of 32.6%. The lower effective tax rate for the Prior Year YTD period is attributable to the impact of foreign operations. For the fourth quarter of fiscal year 2007, we estimate our effective tax rate will approximate 37 - 38%.

2007 Net Sales and Earnings Estimates. We currently estimate fourth quarter and full year 2007 diluted earnings per share will approximate $0.67 and $1.67, respectively, inclusive of $0.12 diluted earnings per share of expenses related to our Grant Review. We estimate net sales growth in the 13% to 15% range for the fourth quarter of fiscal year 2007. This guidance reflects the current spot rate of the U.S. dollar compared to other foreign currencies, primarily the Euro and British Pound.

Liquidity and Capital Resources

Our general business operations historically have not required substantial cash needs during the first several months of our fiscal year. Generally, starting in our second quarter, our cash needs begin to increase, typically reaching their peak in the September-November time frame. Our cash and cash equivalents as of the end of the Third Quarter amounted to $184.8 million in comparison to $69.4 million at the end of the Prior Year Quarter and $133.3 million at the end of fiscal year 2006. The $51.5 million increase in cash and cash equivalents since the end of fiscal year 2006 is primarily the result of net cash from operating activities and financing activities of $44.9 million and $30.0 million, respectively, partially offset by cash used in investing activities of $31.9 million. The effect of exchange rate changes had an $8.6 million favorable impact on cash balances. Net cash from operating activities was primarily related to net income of $70.2 million and favorable non-cash activities of $20.7 million partially offset by $46.0 million in unfavorable changes in operating assets and liabilities. Cash from financing activities was principally comprised of proceeds from exercise of stock options of $19.7 million and excess tax benefits from stock-based compensation of $9.4 million partially offset by distribution of minority interest earnings. Cash used in investing activities consisted mainly of $24.1 million of capital additions.

Accounts receivable increased to $203.4 million at the end of the Third Quarter compared to $168.7 million at the end of the Prior Year Quarter. Days sales outstanding for the Third Quarter was 52 days which increased from 51 days in the Prior Year Quarter, primarily due to higher levels of international sales that generally result in longer collection cycles than those experienced in the U.S. Inventory at quarter-end was $266.2 million, representing a decline of 1.4% from the Prior Year Quarter inventory balance of $269.9 million despite an additional 34 retail stores being opened since the end of the Prior Year Quarter and higher reported inventory balances associated with certain of our foreign subsidiaries as a result of a weaker U.S. dollar in comparison to the Prior Year Quarter.

At the end of the Third Quarter, we had working capital of $491.0 million compared to working capital of $337.9 million at the end of the Prior Year Quarter and approximately $11.9 million of outstanding short-term borrowings, primarily related to our U.K. and Japanese revolving lines of credit. Borrowings under our U.S. credit facility bear interest, at our option, at (i) the lesser of (a) the prime rate (7.75% at the end of the Third Quarter) less 1% or 3% or (b) the maximum rate allowed by law or (ii) London Interbank Offer Rate (LIBOR) base rate (5.12% at the end of the Third Quarter) plus one-half percent. The U.S. credit facility is secured by 65% of the issued and outstanding shares of certain of our subsidiaries pursuant to a Stock Pledge Agreement. The U.S. credit facility requires the maintenance of net worth, quarterly income, working capital and certain financial ratios. Available borrowings under our U.S. credit facility are reduced by amounts outstanding related to open letters of credit. We intend to use the proceeds available under our U.S. credit facility for working capital needs, potential acquisitions and general corporate purposes, which may include additional common stock repurchases. We also maintain a 400 million Yen short-term credit facility in Japan, bearing interest based upon the Euroyen rate (approximately 1.16% at the end of the Third Quarter), and a 3 million British Pound credit facility in the U.K., bearing interest at the aggregate of the Margin, LIBOR and Mandatory Lending Agreement (MLA) costs (7.26% on a combined basis at the end of the Third Quarter). Our revolving short-term credit facilities in the United States, Japan and the U.K. renew each year in September, November and May, respectively. At the end of the Third Quarter, we had combined available borrowings of approximately $62.5 million relating to these facilities. On October 1, 2007 Fossil Group Europe, Gmbh (FGE), a wholly-owned subsidiary of the Company, entered into a long term note payable related to the purchase of a building in Basel, Switzerland, in the amount of 4.0 million Swiss Francs, currently bearing interest at 3.0%. This note requires minimum payments of 100,000 Swiss Francs per year with no stated maturity.

Effective January 7, 2007, the Company adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). The unrecognized tax benefits recorded in the financial statements will be included in the contractual obligations table in the Company s Annual Report on Form 10-K, to the extent the Company is able to make reliable estimates of the timing of cash settlements with respective taxing authorities. If not, the total amount of unrecognized tax benefits will be disclosed in a footnote to the contractual obligations table. At this time, the Company cannot make a reliable estimate of the timing of cash settlements.

Forward-Looking Statements

The statements contained in this Quarterly Report on Form 10-Q and incorporated by reference 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 this Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations and Item 3. Quantitative and Qualitative Disclosures About Market Risk, 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, estimates, anticipates and similar expres 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. Among the factors that could cause actual results to differ materially are: the effect of worldwide economic conditions; significant changes in consumer spending patterns or preferences; acts of war or acts of terrorism; changes in foreign currency valuations in relation to the U.S. dollar, principally the Euro, British Pound and Swiss Franc; lowered levels of consumer spending resulting from a general economic downturn or generally reduced shopping activity caused by public safety or consumer confidence concerns; the performance of our products within the prevailing retail environment; customer acceptance of both new designs and newly-introduced product lines; financial difficulties encountered by customers; the effects of vigorous competition in the markets in which we operate; the integration of the organizations and operations of any acquired businesses into our existing organization and operations; the termination or non-renewal of material licenses, foreign operations and manufacturing; changes in the costs of materials, labor and advertising; government regulation; our ability to secure and protect trademarks and other intellectual property rights; the costs associated with our voluntary review of historical equity granting practices; the recent restatement of our consolidated financial statements; and the outcome of current and possible future litigation.

In addition to the factors listed above, our actual results may differ materially due to the other risks and uncertainties discussed in this Quarterly Report and the risks and uncertainties set forth in our Annual Report on Form 10-K for the year ended January 6, 2007. Accordingly, readers of this Quarterly Report should consider these facts in evaluating the information 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.

Item 3. 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 risks relate to the Euro, British Pound and, to a lesser extent the Swiss Franc, 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 practices to manage this market risk, including our operating and financing activities and, where deemed appropriate, the use of foreign currency forward contracts. The use of these instruments 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 the Third Quarter and we do not anticipate any significant changes in such exposures or in the strategies we employ to manage such exposure in the near future.

At the end of the Third Quarter, we had outstanding foreign exchange contracts to sell 53.1 million Euro for approximately $71.2 million, expiring through December 2008 and approximately 6.2 million British Pounds for $12.3 million, expiring through July 2008. If we were to settle our Euro and British Pound based contracts at the reporting date, the net result would be a net loss of approximately $3.9 million, net of taxes. Exclusive of these outstanding foreign exchange contracts or other operating or financing activities that may be employed by us, a measurement of the unfavorable impact of a 10 percent change in the Euro, British Pound and Swiss Franc as compared to the U.S. dollar on our operating profits and stockholders equity is presented in the following paragraph.

At the end of the Third Quarter, a 10 percent unfavorable change in the U.S. dollar strengthening against the Euro, British Pound, and Swiss Franc involving balance sheet transactional exposures would have reduced net pre-tax income by $5.6 million. The translation of the balance sheets of our European, United Kingdom and Switzerland-based operations from their local currencies into U.S. dollars is also sensitive to changes in foreign currency exchange rates. At the end of the Third Quarter, a 10 percent unfavorable change in the exchange rate of the U.S. dollar strengthening against the Euro, British Pound and Swiss Franc would have reduced consolidated stockholders equity by approximately $18.6 million. In our view, the risks associated with exchange rate changes in other currencies to which we have exposure are not material, and 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 4. Controls and Procedures

Background of Equity Granting Practices Review

Following an internal investigation by a special committee of our Board of Directors into our equity granting practices during the period from 1993 through 2006, we and our Audit Committee concluded that our consolidated financial statements for the thirteen and thirty-nine week periods ended October 1, 2005, and our fiscal years ended December 31, 2005, January 1, 2005, January 3, 2004 and January 4, 2003 should be restated to record additional stock-based compensation expense and the related tax effects resulting from equity grants awarded from 1993 through 2005 that were incorrectly accounted for under generally accepted accounting principles. The decision was based on the determination that the actual measurement dates for determining the accounting treatment of certain equity grants differed from the measurement dates we used in preparing our consolidated financial statements.

We previously reported a material weakness in our internal control over financial reporting in our Form 10-Q for the quarter ended July 7, 2007 and our Annual Report on Form 10-K for the fiscal year ended January 6, 2007 (2006 Form 10-K), filed on August 8, 2007, regarding this restatement. Specifically, we did not design and implement controls necessary to provide reasonable assurance that the measurement date for stock option grants was appropriately determined. As a result, the measurement date used for certain option grants was not appropriate and such grants were not accounted for in accordance with accounting principles generally accepted in the United States.

Evaluation of Disclosure Controls and Procedures

We have established and maintained disclosure controls and procedures that are designed to ensure that material information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 (the Exchange Act) is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s (SEC) rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), as appropriate to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, we recognized that any controls and procedures, no matter how well designed and operated, can provide only a reasonable assurance of achieving the desired control objectives, and management was necessarily required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Our management, with the participation of our CEO and CFO, evaluated the effectiveness of the design and operation of our disclosure controls and procedures and concluded that, because of the material weakness in our internal controls over financial reporting relating to our equity award plan administration and accounting for and disclosure of equity grants, our disclosure controls and procedures were not effective as of October 6, 2007.

Rule 12b-2 of the Exchange Act defines a material weakness as a deficiency, or a combination of deficiencies in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the registrant s annual or interim financial statements will not be prevented or detected on a timely basis. Specifically, we did not design and implement controls necessary to provide reasonable assurance that the grant dates we used for equity awards was in conformity with the measurement date as defined in APB No. 25. As a result, the measurement date used for certain equity grants was not appropriate and such grants were not accounted for in conformity with generally accepted accounting principles in the United States of America.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the three months ended October 6, 2007 that has materially affected, or is reasonably likely to materially affect our internal control over financial reporting.

As previously discussed in our Annual Report on Form 10-K for the fiscal year ended on January 6, 2007, we are in the process of adopting and testing certain actions concerning corporate governance to enhance the process for granting equity-based compensation awards in the future, and we have implemented and are in the process of implementing, remedial actions to address the material weakness described above. These actions include:

We will institute internal audit procedures relating to the equity-based compensation awards approval and documentation process; engage an independent compensation consultant and/or independent counsel (at least for a transitional period) and focus on improving the Compensation Committee approval and oversight process; designate specific members of in-house legal, accounting, and human resources staffs to oversee documentation, accounting and disclosure of all equity-based compensation awards; widely distribute and explain enhanced equity grant processes and documentation requirements; increase automation of the equity grant record keeping process; improve process and controls regarding delegated grant authority; and improve training and education designed to ensure that all relevant personnel involved in the administration of equity-based compensation awards understand relevant policies and requirements.

Annual grants will be determined in connection with annual performance reviews of employees, including executives. Generally, one annual grant date will apply to all annual grants to U.S. employees, and another annual grant date will apply to all annual grants to employees outside of the U.S.

We are continuing to implement the recommendations of the Special Committee of our Board of Directors and intend to take additional actions at a later date.

PART II - OTHER INFORMATION

Item 1. 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. We believe that we have meritorious defenses to these claims, and we intend to assert a vigorous defense to the litigation. The ultimate liability with respect to these claims cannot be determined at this time; however, we do not expect this matter to have a material impact on our financial position, operations or liquidity.

On November 14, 2006, we self-reported to the staff of the SEC that a Special Committee, consisting of certain independent members of our Board of Directors, was voluntarily reviewing our historical equity granting practices. In a letter dated November 28, 2006, the SEC staff advised us that it had commenced an informal inquiry regarding our stock option grants and related accounting. We cooperated fully with this inquiry. In a letter dated July 20, 2007, the SEC staff has informed us that their investigation has been completed and they do not intend to recommend any enforcement action by the SEC.

As a result of the review of our historical equity granting practices, we were delinquent in filing certain of our periodic reports with the SEC, and consequently we were not in compliance with Nasdaq s Marketplace Rules. As a result, we received a total of three delisting notices from the Nasdaq, and we underwent a review and hearing process with the Nasdaq to determine our listing status. On August 15, 2007, we received a letter from the Nasdaq Listing and Hearing Review Council (the Council) that we have demonstrated compliance with all Nasdaq Marketplace Rules. The pending review of our listing status by the Council has been closed and our securities will continue to be listed on The Nasdaq Global Select Market.

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

Item 1A. Risk Factors.

During the Third Quarter, there were no material changes to the Risk Factors disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended January 6, 2007.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

On November 13, 2007, we announced that our Board of Directors has authorized the repurchase of up to 2 million shares of our common stock. We intend to acquire such shares through a 10b-18 plan and expect such repurchases to commence following the expiration of our blackout period for insiders and certain other employees on November 15, 2007. The primary purpose of this repurchase program is to minimize the dilutive effect on earnings per share related to common shares granted and stock options exercised under our equity-based compensation program. We did not repurchase any of our common stock under this or any other plan during the Third Quarter.

Item 5. Other Information.

On July 18, 2007 and July 24, 2007, we issued an aggregate of 5,256 shares of our common stock upon the exercise of stock options granted to our employees for an aggregate of $71,292. These shares were issued in reliance upon the exemptions from registration provided pursuant to Section 4(2) of the Securities Act of 1933, as amended.

Item 6. Exhibits.

(a) Exhibits

3.1	Second Amended and Restated Certificate of Incorporation of Fossil, Inc. (incorporated by reference to Exhibit 3.1 of the Company s Report on Form 10-K for the year ended January 1, 2005).
3.2	Certificate of Amendment of the Second Amended and Restated Certificate of Incorporation of Fossil, Inc. (incorporated by reference to Exhibit 3.2 of the Company s Report on Form 10-K for the year ended January 1, 2005).
3.3	Amended and Restated Bylaws of Fossil, Inc. (incorporated by reference to Exhibit 3.3 of the Company s Report on Form 10-K for the year ended January 1, 2005).
3.4	Amendment to Bylaws, effective as of March 15, 2006 (incorporated by reference to Exhibit 3.1 of the Company s Report on Form 8-K filed on March 20, 2006).
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
32.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

Pursuant to the requirements 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.

FOSSIL, INC.

Date: November 15, 2007

/s/ Mike L. Kovar
Mike L. Kovar
Senior Vice President and Chief Financial Officer
(Principal financial and accounting officer duly
authorized to sign on behalf of Registrant)

EXHIBIT INDEX

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