Fossil Group, Inc.
Form 10-K
February 21, 2019
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K
(Mark One)

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

For the Fiscal Year Ended December 29, 2018
OR

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

For the transition period from to
Commission File Number 0-19848
FOSSIL GROUP, INC.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	75-2018505 (I.R.S. Employer Identification No.)
901 S. Central Expressway Richardson, Texas (Address of principal executive offices)	75080 (Zip Code)

Registrant's telephone number, including area code: (972) 234-2525
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $0.01 par value	The Nasdaq stock market LLC

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

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes x No o
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or

information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer ¨	Non-accelerated filer ¨	Smaller reporting company ¨	Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x
The aggregate market value of Common Stock, $0.01 par value per share (the "Common Stock"), held by non-affiliates of the registrant, based on the last sale price of the Common Stock as reported by the NASDAQ Global Select Market on June 30, 2018 was $838.5 million.
As of February 14, 2019, 49,607,772 shares of Common Stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE
Portions of the registrant's proxy statement to be furnished to shareholders in connection with its 2019 Annual Meeting of Stockholders are incorporated by reference in Part III, Items 10-14 of this Annual Report on Form 10-K.

Table of Contents

FOSSIL GROUP, INC.
FORM 10-K
FOR THE FISCAL YEAR ENDED DECEMBER 29, 2018
INDEX

Table of Contents

In this Form 10-K, references to "we," "our," and the "Company" refer to Fossil Group, Inc. and its subsidiaries on a consolidated basis.

PART I

Item 1. Business

General

We are a design, innovation and distribution company specializing in consumer fashion accessories. Our products include traditional watches, smartwatches, jewelry, handbags, small leather goods, belts and sunglasses. We design, develop, market and distribute products under our owned brands FOSSIL®, SKAGEN®, MICHELE®, MISFIT®, RELIC® and ZODIAC® and licensed brands ARMANI EXCHANGE®, BMW®, CHAPS BY RALPH LAUREN®, DIESEL®, DKNY®, EMPORIO ARMANI®, KATE SPADE NEW YORK®, MARC JACOBS®, MICHAEL KORS®, PUMA®, and TORY BURCH®. Based on our 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.

Owned Brands

Our ability to build and evolve strong lifestyle brands is key to our success. Across our owned brands, we create great products at competitive prices and deliver engaging experiences directly to our consumers—through our owned channels of distribution and via third party distributors.

Our consumer-first mindset drives every decision we make. By capitalizing on major fashion trends and leveraging proprietary data and insights, we are able to deliver relevant, high-value product and experiences to consumers across a diverse range of price points, style preferences and geographies.

Licensed Brands

As a result of our vertical integration, we are uniquely positioned to launch and amplify an accessory category in partnership with a licensor in a timely and consistent manner. All of our major licensing relationships are exclusive, and may include traditional watches, smartwatches and jewelry.

Incorporation

We are a Delaware corporation formed in 1991 and are the successor to a Texas corporation formed in 1984. In 1993, we completed an initial public offering of 13,972,500 shares of our common stock. Domestically, we conduct a majority of our operations through Fossil Partners, L.P., a Texas limited partnership formed in 1994 of which we are the sole general partner. We also conduct operations domestically and in certain international markets through various owned subsidiaries. Our principal executive offices are located at 901 S. Central Expressway, Richardson, Texas 75080, and our telephone number at that address is (972) 234-2525. Our European headquarters is located in Basel, Switzerland, and our Asian headquarters is located in Hong Kong. Our common stock is traded on the NASDAQ Global Select Market under the trading symbol FOSL. We make available free of charge through our website at www.fossilgroup.com our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to these reports filed or furnished pursuant to Section 13(a) or 15(a) of the Securities Exchange Act of 1934 as soon as reasonably practicable after such materials are electronically filed with, or furnished to, the U.S. Securities and Exchange Commission ("SEC"). You may also obtain any materials we file with, or furnish to, the SEC on its website at www.sec.gov.

Products

We design, develop, market and distribute accessories across a variety of product categories: traditional watches, smartwatches, jewelry, handbags, small leather goods, belts and sunglasses. Additionally, we manufacture and/or distribute private label brands, as well as branded products purchased for resale in certain of our non-FOSSIL branded retail stores.

Table of Contents

	Fiscal Year				
	2018		2017		2016
	Dollars	% Change	Dollars	% Change	Dollars
Net sales					
Proprietary	$1,262.1	(8.0)%	$1,371.9	(7.2)%	$1,479.0
Licensed	1,183.7	(9.7)	1,311.4	(9.5)	1,449.6
Other	95.7	(8.8)	104.9	(7.8)	113.8
Total	$2,541.5	(8.8)%	$2,788.2	(8.4)%	$3,042.4

Traditional Watches and Smartwatches

Traditional watches and smartwatches are our core global business. Sales of watches for fiscal years 2018, 2017 and 2016 accounted for approximately 80.0%, 78.9% and 76.6%, respectively, of our consolidated net sales.

Owned Brands

Our primary owned watch brands include FOSSIL, MICHELE, MISFIT, RELIC, SKAGEN and ZODIAC.

Licensed Brands

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

Brand	Expiration Date [1]
ARMANI EXCHANGE	12/31/2023
BMW	12/31/2023
CHAPS	3/31/2020
DIESEL	12/31/2025
DKNY	12/31/2019
EMPORIO ARMANI	12/31/2023
KATE SPADE NEW YORK	12/31/2025
MARC JACOBS	6/30/2019
MICHAEL KORS	12/31/2024
PUMA	12/31/2028
TORY BURCH	2/28/2019

1. Subject to early termination

We signed license agreements with BMW and Puma in 2018 and expect to launch products under these brands in the first and second quarters of 2018, respectively. The Tory Burch license was extended to February 28, 2019 from its original expiration date of December 31, 2018, and we are negotiating a new long-term agreement to continue the distribution of our Tory Burch products.

Fashion Accessories

In addition to our core watch business, we also design and create jewelry, handbags, small leather goods, and belts across our owned brands and watches and jewelry under our licensed brands. In the U.S. and certain international markets, we generally market our fashion accessory lines through the same distribution channels as our watches using similar marketing approaches. Our fashion accessories are typically sold in locations adjacent to watch departments, which may lead to purchases by persons who are familiar with our watch brands. Sales of our accessory lines accounted for 18.4%, 19.7% and 21.6% of our consolidated net sales in fiscal years 2018, 2017 and 2016, respectively.

Table of Contents

The following table sets forth information about our fashion accessories:

Brand	Accessory Category
DIESEL	Jewelry
EMPORIO ARMANI	Jewelry
FOSSIL	Handbags, small leather goods, belts, eyewear, jewelry
MICHAEL KORS	Jewelry
RELIC	Handbags, small leather goods, belts
SKAGEN	Jewelry, small leather goods

Licensed Eyewear

In January 2014, we entered into a license agreement with the Safilo Group for both FOSSIL branded sunglasses and optical frames worldwide. The license agreement provides for royalties to be paid to us based on a percentage of net sales and includes certain guaranteed minimum royalties. Sales of licensed eyewear accounted for approximately 0.4% of our consolidated net sales for fiscal years 2018, 2017 and 2016.

Private Label

We design, market and source manufacturing of certain retailers' private label and owned brand watches as well as other company brands to be used as premium and incentive items in various corporate events. Under these arrangements, we perform design and product development functions, as well as act as a sourcing agent for our customers by contracting for and managing the manufacturing process, purchasing and inspecting of the finished product and arranging for shipment. Participation in the private label and premium businesses provides us with certain advantages, including increased assembly volume, which may reduce the costs of assembling our other products, and strengthen business relationships with our manufacturing sources.

Building Strong Brands

Brand building is critical to the success of our Company. We take a consumer-first approach to creating product and brand experiences, with the goal of building meaningful, long-term relationships with our consumers.

Product Design and Development

Our product designs are fueled by a combination of creativity, fashion trends and consumer insights. Over the past 30 plus years, we have built an incredible in-house design team that works in partnership with our consumer insights and trend teams to ideate, design, test and deliver new product concepts to market. We also employ more than 200 research and development ("R&D") team members who focus on innovation and product development across our watch and smartwatch categories.

In order to respond to and capitalize on fast-paced changes in the global marketplace, we have created a process that allows us to design and develop consumer insight driven product in as little as 30 days. We have found speed coupled with insight-driven product to be a true differentiator and key revenue driver across our business.

Marketing and Promotion

We are embracing the changing retail environment and meeting consumers where they are, both on and offline. Our focus on creating the best possible brand experiences requires a blend of art and science—which means prioritizing both creativity and data in everything we do. We have created an in-house digital marketing center of excellence serving both our owned and licensed brands to connect with consumers and to serve up personalized, engaging content. This allows us to learn about their behavior across all channels including digital marketing, social media, Customer Relationship Management ("CRM") and digital media. We drive innovation using a rapid test-and-learn approach with continuous optimization. We are also able to deliver a high level of personalization through the consumer insight and predictive analytics capabilities we have built over the past few years and through our partnerships with leading online third-party retailers.

Table of Contents

Operating Strategy

Our goal is to drive shareholder value by increasing earnings and making a positive impact on our people, planet and communities. While we currently operate in a challenging business environment we are leveraging our business strengths while continuing to lead a significant internal transformation to strengthen our business model. We plan to achieve our business strategy by focusing on the following strategic initiatives:

Profitability

We are focused on improving our overall profitability through revenue-management strategies to price and position our products optimally and most effectively. This includes improving our gross margins by increasing economies of scale with our smartwatches, re-negotiating pricing with our suppliers, and further reducing our supply chain costs. We are also focused on lowering our base expenses by leveraging lower sales with lower variable expenses and by achieving organizational efficiencies through our New World Fossil initiatives. We continue to close our low-performing stores and exit unprofitable businesses as we improve our net income and working capital and reduce our outstanding debt position.

Innovation

We are driving innovation across every aspect of our business. We continue to form new partnerships with leading brands, which helps us leverage our vertical structure, size and scale. We are bringing new and innovative functions to smartwatches across both our hybrid and display platforms—as well as expanding our distribution and increasing our addressable market. We are also driving innovations in traditional watches and our accessory categories through our investment in R&D and data analytics.

E-commerce and Digitalization

We are investing in our digital infrastructure and commerce capabilities across our owned and third-party e-commerce sites. We plan to continue to expand our digital capabilities for consumer insight, analytics and the use of data throughout our organization, as well as shifting to a new marketing and commerce platform to drive greater personalization and a better consumer experience.

We will continue to collaborate with our wholesale partners to optimize online performance, and we will seek out opportunities to expand our direct to consumer e-commerce business into new markets, with a focus on the Asia Pacific region. Based on the success of our digital marketing campaigns in fiscal year 2018, we intend to expand our social media and digital marketing programs in fiscal 2019 and across more global markets.

Sustainability

We care about our people, our customers, our shareholders, our communities and our planet. Our newly-launched sustainability platform, Make Time for Good, is setting the tone for our innovative efforts to make a positive social and environmental impact. We are committed to challenging the norms of the watch and accessory industry by designing our products with the future in mind, reducing our footprint, empowering women, respecting human rights, enhancing our communities and strengthening diversity.

Distribution

We have an extensive distribution network that allows us to reach a diverse global customer base. We sell our products through a range of channels including e-commerce, Company-owned retail stores, department and specialty retail stores, airlines, mass markets and concessions.

Stores

Internationally, our products are sold across approximately 150 countries worldwide through 23 Company-owned sales subsidiaries and through a network of approximately 70 independent distributors. Our products are offered on airlines and cruise ships and in international Company-owned retail stores. Our international network of Company-owned stores included 181 retail stores and 127 outlet stores as of December 29, 2018. In certain international markets, our products are also sold through licensed and franchised FOSSIL retail stores, retail concessions operated by us and kiosks, as well as through owned and third-party websites.

E-commerce

Our owned global e-commerce websites deliver engaging brand content, mobile-friendly experiences, and seamless integration with retail stores, including the ability to buy certain products online and pick them up in one of our retail stores and shipping consumer orders from our stores. Our websites work in conjunction with our digital marketing efforts to deliver personalized and compelling brand experiences that strengthen consumer loyalty and ultimately drive profitability. We also distribute our products through leading third-party e-commerce retailers, as well as our wholesalers' e-commerce websites and a wide network of additional online retailers. We take a holistic approach to our e-commerce distribution to ensure that both owned and licensed brands deliver an engaging customer experience at every digital touch point.

Sourcing

The vast majority of our products are sourced internationally, with a substantial percentage of our watches and jewelry products assembled or manufactured by entities that are majority owned by us. Most watch product sourcing is coordinated through our Hong Kong subsidiary, Fossil (East) Limited ("Fossil East"). During fiscal year 2018, approximately 49% of our global watch production was assembled or sourced through wholly or majority owned factories. This vertical integration of our business allows for better flow of communication, consistent quality, product design protection and improved supply chain speed, while still allowing us to utilize non-owned production facilities for their unique capabilities and to cover production needs over internal capacities. Establishing our watch assembly facilities near the component manufacturers also allows us to operate a more efficient supply chain. In addition, although we do not have long-term contracts with our unrelated watch and accessory manufacturers, we maintain long-term relationships with several manufacturers. These relationships developed due to the significant length of time we have conducted business with the same manufacturers. We believe that we are able to exert significant operational control with regard to our principal watch assemblers because of our level of ownership and long standing relationships. In addition, we believe that the relative size of our business with non-owned watch manufacturers gives us priority within their production schedules. Furthermore, the manufacturers understand our quality standards, which allow us to produce quality products and reduce the delivery time to market, improving overall operating margins. We have also added new third-party facilities and relationships for manufacturing our wearable technology products as well as enhanced our own factories to enable assembly and production of hybrid smartwatches. Increased volume in the wearables category would allow us to further reduce costs through improved volume pricing and enable our suppliers to continue to invest in automation.

Trademarks and Patents

We use our FOSSIL, MICHELE, MISFIT, RELIC, SKAGEN and ZODIAC trademarks, as well as other trademarks, on certain watches, smartwatches, activity trackers, jewelry, leather goods and other fashion accessories in the U.S. and in a significant number of foreign countries. We also use FOSSIL, SKAGEN, WATCH STATION INTERNATIONAL®, and WSI® as trademarks on retail stores and FOSSIL, SKAGEN, WATCH STATION INTERNATIONAL, WSI, MISFIT, ZODIAC and MICHELE as trademarks on online e-commerce sites. We have taken steps to establish or provide additional protection for our trademarks by registering or applying to register our trademarks for relevant classes of products in each country where our products are sold in addition to certain foreign countries where it is our intent to market our products in the future. Each registered trademark may be renewable indefinitely, so long as we continue to use the mark in the applicable jurisdiction and make the appropriate filings when required. We aggressively protect our trademarks and trade dress and pursue infringement claims both domestically and internationally. We also pursue counterfeiters both domestically and internationally through third-party online monitoring tools and through leads generated internally, as well as through our business partners worldwide.

Patents

We continue to explore innovations in the design and assembly of our watch, smartwatch, activity tracker and related products. As a result, we have been granted, and have pending, various U.S. and international design and utility patents related to certain product designs, features, and technologies. As of December 29, 2018, none of our patents were material to our business.

Other

We rely upon unpatented trade secrets, know-how, and continuing technological innovation to develop and maintain our competitive position, particularly in the wearable technology space. We strive to protect our trade secrets and other proprietary information through agreements with current and prospective product development partners, confidentiality agreements with employees, consultants and others that may have access to our proprietary information and through the use of other security measures.

Seasonality

Table of Contents

Our business has a seasonal pattern, with a significant portion of our sales occurring during the end-of-year holiday period.

Inventory Control

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

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

Significant Customer

No customer accounted for 10% or more of our consolidated net sales in fiscal years 2018, 2017 or 2016.

Backlog

It is the practice of a substantial number of our customers not to confirm orders by delivering a formal purchase order until a relatively short time prior to the shipment of goods. As a result, the amount of unfilled customer orders includes confirmed orders and orders that we believe will be confirmed by delivery of a formal purchase order. A majority of such amounts represent orders that have been confirmed. The remainder of such amounts represents orders that we believe, based on industry practice and prior experience, will be confirmed in the ordinary course of business. Our backlog at a particular time is affected by a number of factors, including seasonality and the scheduling of the manufacture and shipment of our products. Accordingly, a comparison of backlog from period to period is not necessarily meaningful and may not be indicative of eventual actual shipments. At the end of fiscal year 2018, we had unfilled customer orders of approximately $96.2 million, compared to $74.1 million and $104.5 million at the end of fiscal years 2017 and 2016, respectively.

Competition

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

We believe the risk of significant new competitors for traditional watches is mitigated to some extent by barriers to entry such as high startup costs and the development of long-term relationships with customers and manufacturing sources. However, in the expanding wearable technology industry, we face competition from technology brands such as Apple and Samsung, from fitness brands such as Fitbit, as well as from many established traditional watch manufacturers that have launched wearable technology products. As this industry evolves and grows, there will likely be increased competition as well. However, we believe our design, branding, significant scale and distribution are strong competitive advantages.

Table of Contents

Although the level and nature of competition varies among our product categories and geographic regions, we compete on the basis of style and technical features, price, value, quality, brand name, advertising, marketing, distribution and customer service. Our ability to identify and respond to changing fashion trends and consumer preferences (including wearable technology), to maintain existing relationships and develop new relationships with manufacturing sources, to deliver quality merchandise in a timely manner, to manage the retail sales process, and to continue to integrate technology into our business model are important factors in our ability to compete. Our distinctive business model of owning the distribution in many key markets and offering a globally recognized portfolio of proprietary and licensed products allows for many competitive advantages over smaller, regional or local competitors. This allows us to bypass the local distributor's cost structure in certain countries, resulting in more competitively priced products, while also generating higher product and operating margins.

Governmental Regulation

Imports and Import Restrictions

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

General

We are subject to laws regarding customs, tax, employment, privacy, truth-in-advertising, consumer product safety, zoning and occupancy and other laws and regulations that regulate and/or govern the importation, promotion and sale of consumer products and our corporate, retail and distribution operations.

Compliance and Trade

Code of Conduct for Manufacturers

We are committed to ethical and responsible conduct in all of our operations and respect for the rights of all individuals. We strive to ensure that human rights are upheld for all workers involved in our supply chain, and that individuals experience safe, fair and non-discriminatory working conditions. In addition, we are committed to compliance with applicable environmental requirements and are committed to seeing that all of our products are manufactured and distributed in compliance with applicable environmental laws and regulations. We expect that our business partners will share these commitments, which we enforce through our Manufacturer Code.

Our Manufacturer Code specifically requires our manufacturers to not use child, forced or involuntary labor and to comply with applicable environmental laws and regulations. We provide training to our factories related to our Manufacturer Code and the applicable laws in the country in which the factory is located. The training provides the factories with a more in-depth explanation of our Manufacturer Code.

In addition to the contractual obligation, we evaluate our suppliers' compliance with our Manufacturer Code through audits conducted both by our employees and third-party compliance auditing firms. In most cases, the audits are announced. If we believe that a supplier is failing to live up to the standards of our Manufacturer Code, we may terminate the supplier or provide the supplier with an opportunity to remedy the non-compliance through the implementation of a corrective action plan. For those suppliers on a corrective action plan, we will work with the supplier as necessary to help them understand the non-compliance and provide advice on how to remedy the non-compliance. We conduct a follow-up audit to confirm compliance after the implementation of the corrective action plan. Should the supplier continue to fail to meet our standards, we may seek to eliminate such supplier from our supply chain.

7

Table of Contents

Quality Control

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

Trade

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

Employees

As of December 29, 2018, we employed approximately 10,800 persons, including approximately 6,600 persons employed by our foreign operating subsidiaries.

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

Item 1A. Risk Factors

The statements contained in this Annual Report on Form 10-K that are not historical facts, including, but not limited to, statements regarding our expected financial position, results of operations, business and financing plans found in Item 1. Business and Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, constitute forward-looking statements within the meaning of the Securities Litigation Reform Act of 1995 and involve a number of risks and uncertainties. Forward-looking statements include statements preceded by, followed by or that include the words “may,” “could,” “would,” “should,” believe,” “expect,” anticipate,” “plan,” “seek,” “mig
“estimate,” “target,” “project,” “forecast,” “predict,” “objective,” “intend,” “understand,” “ongoing,” “continue,” or similar exp
the negative of such words and expressions, although not all forward-looking statements contain such words or expressions. These forward-looking statements are based on our current expectations and beliefs concerning future developments and their potential effect on us. While management believes that these forward-looking statements are reasonable as and when made, there can be no assurance that future developments affecting us will be those that we anticipate. The actual results of the future events described in such forward-looking statements could differ materially from those stated in such forward-looking statements.

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

Risk Factors Relating to Our Business

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

Our success depends upon our ability to anticipate and respond to changing fashion and product trends and consumer preferences in a timely manner. The purchasing decisions of consumers are highly subjective and can be influenced by many factors, such as brand image, marketing programs, functionality and product design. Our success depends, in part, on our ability to anticipate, gauge and respond to these changing consumer preferences in a timely manner while preserving the authenticity and the quality of our brands. Although we attempt to stay abreast of emerging lifestyle and fashion trends and technology

8

Table of Contents

advances affecting accessories, any failure by us to identify and respond to such trends could adversely affect consumer acceptance of our existing brand names and product lines, which in turn could adversely affect sales of our products. If we misjudge the market for our products, we may be faced with a significant amount of unsold finished goods inventory, which could adversely affect our results of operations. In recent years, we have experienced decreasing net sales across most product categories; in particular, net sales of watches have declined, reflecting the decline in the traditional watch market partly offset by wearables. If we are unable to adjust our product offerings and reverse the decrease in net sales, our results of operations and financial condition could be adversely affected.

Our success depends upon our ability to continue to develop innovative products, including wearable technology.

Our success depends upon our ability to continue to develop innovative products in the respective markets in which we compete. Wearable technology is a growing category of fashion that offers customers new functionality with accessories, including jewelry and smartwatches. Our ability to respond to consumer preferences for wearable technology will depend in part on establishing successful partnerships with or acquiring companies that are involved in developing wearable technology. If we are unable to establish such partnerships or make meaningful acquisitions, this could negatively impact our ability to meet customer demands for wearable technology. Additionally, we may be unable to enhance and develop our products to satisfy consumer demands for wearable technology or we may fail to do so in a timely manner or at competitive prices. We may also fail to understand or estimate correctly the dynamics of this new market, such as allowances for sales returns, warranty liabilities, inventory reserves or the allowance for bad debts attributable to this new product category. The process of developing new products is complex and uncertain, and involves time, substantial costs and risks, which are further magnified when the development process involves a transition to a new technology platform. Our inability or the inability of our partners, for technological or other reasons, some of which may be beyond our or our partners' control, to enhance, develop, manufacture, distribute and monetize wearable technology products in a timely manner, or at all, in response to changing consumer preferences for wearable technology, could have a material adverse effect on our business, results of operations and financial condition or could result in our products not achieving market acceptance or becoming obsolete. If we are unable to successfully introduce new products, or if our competitors introduce new or superior products, customers may purchase increasing amounts of products from our competitors, which could adversely affect our sales and results of operations. Further, it may take time to establish a stable position in the wearable technology category and any initial results should not be taken as a guarantee of future trends.

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

Uncertainty in global markets, slowing economic growth, high levels of unemployment and eroding consumer confidence can negatively impact the level of consumer spending for discretionary items. This can affect our business as it is dependent on consumer demand for our products. Global economic conditions remain uncertain, and the possibility remains that domestic or global economies, or certain industry sectors of those economies that are key to our sales, may slow or deteriorate, which could result in a corresponding decrease in demand for our products and negatively impact our results of operations and financial condition.

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

We have recently expanded, and intend to further expand, the scope of our product offerings, particularly in the wearable technology space. As is typical with new products, market acceptance of new designs and products is subject to uncertainty. In addition, we generally make decisions regarding product designs and technology development several months in advance of the time when consumer acceptance can be measured. If trends shift away from our products, if our wearable technology becomes outdated or if we misjudge the market for our product lines, we may be faced with significant amounts of unsold inventory or other conditions which could have a material adverse effect on our financial condition and results of operations.

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

If additional tariffs or other restrictions are placed on imports from China or any retaliatory trade measures are taken by China, our revenue and results of operations may be materially harmed.

Table of Contents

If significant tariffs or other restrictions are placed on imports from China or any retaliatory trade measures are taken by China, our revenue and results of operations may be materially harmed. In July 2018, the Trump Administration announced a list of thousands of categories of goods, including electronics, that could face tariffs of 10% to 25%. While certain of our packaging and handbag products were impacted with an additional 10% tariff on the first cost price of these products as imported into the United States beginning in September 2018, our smartwatches that are assembled and manufactured in China were excluded. However, the Trump Administration has further stated that if a trade agreement with China is not reached on or around March 1, 2019, the 10% tariff will be increased to 25%. The Trump Administration has also announced that tariffs on additional trade with China may be imposed if a trade agreement is not reached.

If additional duties are imposed on our products, particularly any of our watch products, we may be required to raise our prices, which may result in the loss of customers and harm our operating performance. Alternatively, we may seek to shift production outside of China, resulting in significant costs and disruption to our operations. Additionally, the Trump Administration continues to signal that it may alter trade agreements and terms between China and the United States, including limiting trade with China, and potentially impose other restrictions on exports from China to the United States. Even if additional duties are not imposed on our products, it is possible further tariffs will be imposed on imports of our products, or that our business will be impacted by retaliatory trade measures taken by China or other countries in response to existing or future tariffs, causing us to raise prices or make changes to our operations, any of which could materially harm our revenue or operating results.

U.S. tax legislation enacted in December 2017 may adversely affect our business, results of operations, financial condition and cash flow.

On December 22, 2017, the President signed into law Public Law No. 115-97, commonly referred to as the Tax Cuts and Jobs Act, following its passage by the United States Congress. The Tax Cuts and Jobs Act made significant changes to U.S. federal income tax laws, including changing the corporate tax rate to a flat 21% rate, introducing a capital investment deduction in certain circumstances, placing certain limitations on the interest deduction, modifying the rules regarding the usability of certain net operating losses, and making extensive changes to the U.S. international tax system. The new Global Intangible Low-Taxed Income ("GILTI") provisions of the Tax Cuts and Job Act requiring the inclusion of certain foreign earnings in U.S. taxable income increased our effective tax rate in fiscal year 2018 and will continue to increase it in future years. Technically, corporate shareholders of foreign corporations generating GILTI are generally entitled to a 50% deduction against such income, lowering the effective rate of tax from 21% to 10.5%. Furthermore, they are able to recognize a foreign tax credit for 80% of local taxes paid on GILTI income. Therefore, as long as the foreign group's average effective rate is 13.125% or more, the tax associated with GILTI should be fully offset by foreign tax credits. However, when a corporation has a domestic source loss, the GILTI absorbs this loss, eliminating any ability to carry the loss forward to offset future income. Our effective foreign income tax rate is significantly higher than the intended 13.125% threshold. However, the GILTI consumed our domestic source loss for fiscal year 2018, creating excess GILTI foreign tax credits that could not be utilized. The impact of the GILTI provision of the Tax Cuts and Jobs Act was included in our financial statements for fiscal year 2018. We account for GILTI as incurred under the period cost method. As a result of these new provisions, especially the GILTI, our effective tax rate in fiscal 2018 was 104.7%, which substantially exceeded the federal statutory rate of 21.0%. The impact of these new rules could be adverse in future years.

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

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

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

A significant portion of our sales and net income is, and is expected to continue to be, derived from the sales of products produced under license agreements with third parties. Under these license agreements, we generally have the right to produce, market and distribute certain products utilizing the brand names of other companies. We sell products under certain licensed brands, including, but not limited to, ARMANI EXCHANGE, CHAPS, DIESEL, DKNY, EMPORIO ARMANI, KATE SPADE NEW YORK, MARC JACOBS, MICHAEL KORS and TORY BURCH. Sales of our licensed products amounted to approximately 46.6% of our consolidated net sales for fiscal year 2018, including MICHAEL KORS product sales, which

Table of Contents

accounted for approximately 22.6% of our consolidated net sales, and product sales under the ARMANI brands, which accounted for approximately 14.7% of our consolidated net sales.

Our significant license agreements have various expiration dates between the years 2019 and 2028. In addition, many of our license agreements require us to make minimum royalty payments, subject us to restrictive covenants or require us to comply with certain other obligations and may be terminated by the licensor if these or other conditions are not met or upon certain events. For example, our license agreement with MICHAEL KORS provides the licensor with a right to terminate some or all of the licensing rights if we fail to meet certain net sales thresholds for two consecutive years. For fiscal year 2018, we met net sales thresholds for MICHAEL KORS. If we are unable to achieve the minimum net sales thresholds, restrictive covenants and/or other obligations of a license in the future, we would need to seek a waiver of the non-compliance from the applicable licensor or amend the agreement to modify the thresholds, covenants or obligations or face the possibility that the licensor could terminate the license agreement before its expiration date. Though waivers may be obtained for non-compliance, we, or the licensor, may instead elect to modify or terminate the license agreement. For example, in 2018, we mutually agreed with MARC JACOBS to an earlier termination date of our license agreement in 2019 from the original expiration date at the end of 2020.

In addition, we may be unable to renew our existing license agreements beyond the current term or obtain new license agreements to replace any lost license agreements on similar economic terms or at all. The failure by us to maintain or renew one or more of our existing license agreements could result in a significant decrease in our sales and have a material adverse effect on our results of operations.

Our restructuring program may not be successful or we may not fully realize the expected cost savings and/or operating efficiencies from our restructuring plans.

As we announced in the fourth quarter of fiscal 2016, we have implemented, and plan to continue to implement, a restructuring plan to reinvent the Company, strengthen the foundation of the Company for the future and support long-term sales growth and profitability objectives. The program is intended to touch all aspects of the business, enhance operating capabilities, create greater efficiencies and take advantage of the Company's considerable scale. We estimate our restructuring charges in fiscal year 2019 will be approximately $50.0 million. During fiscal years 2018, 2017 and 2016, we recorded $46.6 million, $48.2 million and $27.8 million of restructuring charges, respectively. Restructuring plans present significant potential risks that may impair our ability to achieve anticipated operating enhancements and/or cost reductions, or otherwise harm our business, including higher than anticipated costs in implementing our restructuring plan, management distraction and employee attrition in excess of headcount reductions. If this program is not successful, then our results of operations and financial condition could be materially adversely affected.

Our Second A&R Credit Agreement subjects us to certain covenants.

On January 29, 2018, the Company, as the U.S. borrower, Fossil Group Europe GMBH, a wholly-owned subsidiary of the Company, as a non-U.S. borrower, and certain of the Company’s foreign subsidiaries from time to time party thereto, entered into a Second Amended and Restated Credit Agreement (the “Second A&R Credit Agreement”) with certain lenders party thereto, Wells Fargo Bank, National Association, as administrative agent and an issuing lender, Bank of America, N.A. and JPMorgan Chase Bank, N.A., as syndication agents, HSBC Bank USA, National Association, Compass Bank and Fifth Third Bank, as documentation agents, and Wells Fargo Securities, LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated and JPMorgan Chase Bank, N.A., as joint lead arrangers and joint bookrunners. The Second A&R Credit Agreement subjects us to certain covenants, including that we maintain a specific consolidated leverage ratio. These covenants may limit how we are able to conduct our business. The terms of any future indebtedness that we incur could include more restrictive covenants or ratios. We cannot assure you that we will be able to maintain compliance with these covenants in the future and, if we fail to do so, that we will be able to obtain waivers from the lenders and/or amend the covenants. Our failure to comply with any such covenants could result in an event of default, which, if not cured or waived, could result in our being required to repay those borrowings before their maturity. If we are forced to refinance those borrowings on less favorable terms, our results of operations and financial condition could be adversely affected.

We have recorded impairment charges in the past and may record impairment charges in the future.
We are required, at least annually, or as facts and circumstances warrant, to test trade names to determine if impairment has occurred. We are also required to test property plant and equipment and other long lived assets for impairment as facts and circumstances warrant. Impairment may result from any number of factors, including adverse changes in assumptions used for valuation purposes, such as actual or projected net sales, growth rates, profitability or discount rates, or other variables. If the

Table of Contents

testing indicates that impairment has occurred, we are required to record a non-cash impairment charge. Should the value of trade names, property plant and equipment and other long lived assets become impaired, it would have an adverse effect on our results of operations.

Our inability to effectively manage our retail store operations could adversely affect our results of operations.

During fiscal year 2018, our global comparable retail store sales decreased 2% as sales shifted to other channels, including our own e-commerce sales channel, which increased 16%. During fiscal year 2019, we intend to open approximately 10 new stores globally and close approximately 30 stores, depending on lease negotiations. The success of our retail business depends, in part, on our ability to open new profitable stores, close low performing stores and renew our existing store leases on terms that meet our financial targets. Our ability to open new stores on schedule or at all, to close low performing stores and to renew existing store leases on favorable terms or to operate them on a profitable basis will depend on various factors, including our ability to:

- identify suitable markets for new stores and available store locations;
- negotiate acceptable lease terms for new locations or renewal terms for existing locations;
- hire and train qualified sales associates;
- develop new merchandise and manage inventory effectively to meet the needs of new and existing stores on a timely basis;
- maintain favorable relationships with major developers and other landlords; and
- avoid construction delays and cost overruns in connection with the build-out of new stores.

Our plans to manage our store base may not be successful and the opening of new stores may not result in an increase in our net sales even though they increase our costs. Our inability to effectively manage our retail store base could have a material adverse effect on the amount of net sales we generate and on our financial condition and results of operations.

New technologies could render our wearable technology obsolete.

New developments in technology may negatively affect the development or sale of our wearable technology or make such products obsolete. Our inability to enhance our existing wearable technology in a timely manner or to develop and introduce new products that incorporate new technologies and achieve market acceptance in a timely manner could negatively impact our competitive position, which could have a material adverse effect on our business or results of operations.

Increased competition from online only retailers and a highly promotional retail environment may increase pressure on our margins.

The continued increase in e-commerce competitors for retail sales and slowing mall traffic has resulted in significant pricing pressure and a highly promotional retail environment. In addition, the traditional watch market has declined in recent years. These factors may cause us to reduce our sales prices to retailers and consumers, which could cause our gross margin to decline if we are unable to appropriately manage inventory levels and/or otherwise offset price reductions with comparable reductions in our costs. If our sales prices decline and we fail to sufficiently reduce our product costs or operating expenses, our profitability will decline. This could have a material adverse effect on our business, results of operations, and financial condition.

Table of Contents

Certain key components in our products come from limited sources of supply, which exposes us to potential supply shortages that could disrupt the manufacture and sale of our products.

We and our contract manufacturers currently purchase a number of key components used to manufacture our products from limited sources of supply for which alternative sources may not be readily available. Any interruption or delay in the supply of any of these components could significantly harm our ability to meet scheduled product deliveries to our customers and cause us to lose sales. Interruptions or delays in supply may be caused by a number of factors that are outside of our and our contract or manufacturers' control. In addition, the purchase of these components on a limited source basis subjects us to risks of price increases and potential quality assurance problems. An increase in the cost of components could make our products less competitive and result in lower gross margins. In the event that we can no longer obtain materials from these limited sources of supply, we might not be able to qualify or identify alternative suppliers in a timely fashion. Any extended interruption in the supply of any of the key components currently obtained from a limited source or delay in transitioning to a replacement supplier could disrupt our operations and significantly harm our business in any given period. If our supply of certain components is disrupted, our lead times are extended or the cost of our components increases, our business, operating results and financial condition could be materially affected.

The loss of key senior management personnel could negatively affect our business.

We depend on our senior management and other key personnel, particularly Kosta N. Kartsotis, our Chief Executive Officer ("CEO") and Chairman. We do not have "key person" life insurance policies for any of our personnel. The loss of any of our executive officers or other key employees could harm our business.

A data security or privacy breach could damage our reputation, harm our customer relationships, expose us to litigation or government actions, and result in a material adverse effect to our business, financial condition and results of operations.

We depend on information technology systems, the Internet and computer networks for a substantial portion of our retail and e-commerce businesses, including credit card transaction authorization and processing. We also receive and store personal information about our customers and employees, the protection of which is critical to us. In the normal course of our business, we collect, retain, and transmit certain sensitive and confidential customer information, including credit card information, over public networks. Our customers have a high expectation that we will adequately protect their personal information. In addition, personal information is highly regulated at the international, federal and state level.

Despite the security measures we currently have in place, our facilities and systems and those of our third party service providers may be vulnerable to theft of physical information, security breaches, hacking attempts, computer viruses and malware, lost data and programming and/or human errors. Any electronic or physical security breach involving the misappropriation, loss, or other unauthorized disclosure of confidential or personally identifiable information, including penetration of our network security or those of our third party service providers, could disrupt our business, severely damage our reputation and our customer relationships, expose us to litigation and liability, subject us to governmental investigations, fines and enforcement actions, result in negative media coverage and distraction to management and result in a material adverse effect to our business, financial condition, and results of operations. In addition, as a result of security breaches at a number of prominent retailers and other companies, the media and public scrutiny of information security and privacy has become more intense and the regulatory environment related thereto has become more uncertain. As a result, we may incur significant costs in complying with new and existing state, federal, and foreign laws regarding protection of, and unauthorized disclosure of, personal information.

We are subject to laws and regulations in the U.S. and the many countries in which we operate. Violations of laws and regulations, or changes to existing laws or regulations, could have a material adverse effect on our financial condition or results of operations.

Our operations are subject to domestic and international laws and regulations in a number of areas, including, but not limited to, labor, advertising, consumer protection, real estate, product safety, e-commerce, promotions, intellectual property, tax, import and export, anti-corruption, anti-bribery, foreign exchange controls and cash repatriation, data privacy, anti-competition, environmental, health and safety. Compliance with these numerous laws and regulations is complicated, time consuming and expensive, and the laws and regulations may be inconsistent from jurisdiction to jurisdiction, further increasing the difficulty and cost to comply with them. New laws and regulations, or changes to existing laws and regulations, could individually or in the aggregate make our products more costly to produce, delay the introduction of new products in one or more regions, cause us to change or limit our business practices, or affect our financial condition and results of operations. We have implemented policies and procedures designed to ensure compliance with the numerous laws and regulations affecting our business, but there can be no assurance that our employees, contractors, or agents will not violate such laws, regulations or our policies related thereto. Any such violations could have a material adverse effect on our financial condition or operating results.

Table of Contents

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

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

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

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

The amount of traffic to our retail stores depends heavily on the success of the shopping malls and retail centers in which our stores are located.

There continues to be a significant decrease in traffic in many of the shopping malls and retail centers in which our stores are located, which has resulted in decreased traffic to our stores. The resulting decrease in customers for our retail stores has had an adverse effect on our results of operations. Additionally, several national department store anchors have closed or will be closing a number of their locations in shopping malls, which is likely to further decrease traffic and put increasing financial strain on the operators of those shopping mall locations. The loss of an anchor or other significant tenant in a shopping mall in which we have a store, or the closure of a significant number of shopping malls in which we have stores, may have a material adverse effect on our results of operations.

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

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

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

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

Our ability to grow our sales is dependent on the successful implementation of our business strategy. This includes diversification and innovation of our product offerings, continuing to develop wearable technology, improving our omni-channel capabilities and strategic acquisitions. If we are not successful in the expansion or development of our product offerings or our new products are not profitable or do not generate sales comparable to those of our existing businesses, our results of operations could be negatively impacted.

We also operate FOSSIL brand stores and other non-FOSSIL branded stores globally to further strengthen our brand image. As of December 29, 2018, we operated 484 stores worldwide. The costs associated with leasehold improvements to

Table of Contents

current stores and the costs associated with opening new stores and closing low performing stores could materially increase our costs of operation.

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

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

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

Under our license agreements, we have in the past experienced, and could again in the future experience, instances where our minimum royalty commitments exceeded the royalties payable based upon our sales of the licensed products. Payments of minimum royalties in excess of the royalties based on our sales of the licensed products reduce our margins and could adversely affect our results of operations.

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

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

We rely on third-party assembly factories and manufacturers and problems with, or loss of, our assembly factories or manufacturing sources could harm our business and results of operations.

A substantial percentage of our watch and jewelry products are currently assembled or manufactured to our specifications by our majority-owned entities in China, with the remainder assembled or manufactured by independent entities. All of our handbags, small leather goods, belts and soft accessories are produced by independent manufacturers. We have no long-term contracts with these independent assembly factories or manufacturers and compete with other companies for production facilities. All transactions between us and our independent assembly factories or manufacturers are conducted on the basis of purchase orders. We face the risk that these independent assembly factories or manufacturers may not produce and deliver our products on a timely basis, or at all. As a result, we cannot be certain that these assembly factories or manufacturers will continue to assemble or manufacture products for us or that we will not experience operational difficulties with our manufacturers, such as reductions in the availability of production capacity, errors in complying with product specifications, insufficient quality control, shortages of raw materials, failures to meet production deadlines or increases in manufacturing costs. Our future success will depend upon our ability to maintain close relationships with, or ownership of, our current assembly factories and manufacturers and to develop long-term relationships with other manufacturers that satisfy our requirements for price, quality and production flexibility. Our ability to establish new manufacturing relationships involves numerous uncertainties, including those relating to payment terms, costs of manufacturing, adequacy of manufacturing capacity, quality control and timeliness of delivery. Any failure by us to maintain long-term relationships with, or ownership of, our current assembly factories and manufacturers or to develop relationships with other manufacturers could have a material adverse effect on our ability to manufacture and distribute our products.

If an independent manufacturer or license partner of ours fails to use acceptable labor practices or otherwise comply with laws or suffers reputation harm, our business could suffer.

While we have a code of conduct for our manufacturing partners, we have no control over the ultimate actions or labor practices of our independent manufacturers. The violation of labor or other laws by one of our independent manufacturers, or by one of our license partners, or the divergence of an independent manufacturer's or license partner's labor practices from those generally accepted as ethical in the U.S. or other countries in which the violation or divergence occurred, could interrupt or otherwise disrupt the shipment of finished products to us or damage our reputation. In addition, certain of our license agreements are with named globally recognized fashion designers. Should one of these fashion designers, or any or our licensor companies, conduct themselves inappropriately or make controversial statements, the underlying brand, and consequently our business under that brand, could suffer. Any of these, in turn, could have a material adverse effect on our financial condition and results of operations. As a result, should one of our independent manufacturers or licensors be found in violation of state or international laws or receive negative publicity, we could suffer financial or other unforeseen consequences.

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

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

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

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

We face intense competition in the specialty retail and e-commerce industries and the size and resources of some of our competitors are substantially greater than ours, which may allow them to compete more effectively.

We face intense competition in the specialty retail and e-commerce industry where we compete primarily with specialty retailers, department stores and e-commerce businesses that engage in the retail sale of watches and accessories. We believe that the principal basis upon which we compete is the quality and design of merchandise and the quality of customer service. We also believe that price is an important factor in our customers' decision-making processes. Many of our competitors are, and many of our potential competitors may be, larger and have greater financial, marketing and other resources than we have and therefore may be able to adapt to changes in customer requirements more quickly, devote greater resources to the marketing and sale of their products and generate greater national brand recognition than we can, especially in the developing area of omni-channel retailing. Omni-channel retailing may include retail stores, e-commerce sites, mobile channels and other direct-to-consumer points of contact that enhance the consumer’s ability to interact with a retailer in the research, purchase, returning and serving of products. The intense competition and greater size and resources of some of our competitors could have a material adverse effect on the amount of net sales we generate and on our results of operations.

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

We have made, and may consider in the future, certain acquisitions, domestically and internationally, including acquisitions of certain watch brands and acquisitions of independent distributors of our products. The integration of future acquisitions may not be successful or generate sales increases. When we have acquired businesses, such as Misfit in December 2015, we have acquired businesses that we believe could enhance our business opportunities and our growth prospects. Acquisitions involve risks that could materially affect our business, financial condition and operating results. These risks include:

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

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

We face competition from traditional competitors as well as new competitors in the wearable technology category.

16

Table of Contents

There is intense competition in each of the businesses in which we compete. In all of our businesses, we compete with numerous manufacturers, importers and distributors who may have significantly greater financial, distribution, advertising and marketing resources than us. Our competitors include distributors that import watches and accessories from abroad, U.S. companies that have established foreign manufacturing relationships and companies that produce accessories domestically. In addition, we face growing competition from technology companies that have or are launching smartwatch products and other wearable technology. These new competitors have not historically competed with us, and many have significantly greater financial, distribution, advertising and marketing resources than us. The impact of the introduction of wearable technology on sales of our traditional product lines, is uncertain, but could be materially adverse. Our results of operations and market position may be adversely affected by our competitors and their competitive pressures in the watch, wearable technology and fashion accessory industries.

Any material disruption of our information systems could disrupt our business and reduce our sales.

We are increasingly dependent on information systems to operate our websites, process transactions, manage inventory, monitor sales and purchase, sell and ship goods on a timely basis. We utilize SAP ERP in our U.S. operations and throughout most of our European operations to support our human resources, sales and distribution, inventory planning, retail merchandising and operational and financial reporting systems of our business, and Navision in our Asian operations to support many of the same functions on a local country level. We may experience operational problems with our information systems as a result of system failures, viruses, computer "hackers" or other causes. Any material disruption or slowdown of our systems could cause information, including data related to customer orders, to be lost or delayed which could result in delays in the delivery of merchandise to our stores and customers or lost sales, which could reduce demand for our merchandise and cause our sales to decline. Moreover, the failure to maintain, or a disruption in, financial and management control systems could have a material adverse effect on our ability to respond to trends in our target markets, market our products and meet our customers' requirements.

In addition, we have e-commerce and other websites in the U.S. and internationally. In addition to changing consumer preferences and buying trends relating to Internet usage, we are vulnerable to certain additional risks and uncertainties associated with the Internet, including changes in required technology interfaces, website downtime and other technical failures, security breaches, and consumer privacy concerns. Our failure to successfully respond to these risks and uncertainties could reduce e-commerce sales, increase costs and damage the reputation of our brands.

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

Our gross profit margins are impacted by our sales mix as follows:

Sales channel mix: sales from our direct retail and e-commerce channels typically provide gross margins in excess of our historical consolidated gross profit margins, while sales from our distributor, mass market and off-price channels typically provide gross margins below our historical consolidated gross profit margins.

Product mix: traditional watch and jewelry sales typically provide gross margins in excess of historical consolidated gross profit margins, while leather goods and private label products typically provide gross margins below our historical consolidated gross profit margins. In addition, sales of our wearable technology products have produced gross profit margins below our historical consolidated gross profit margins, which we anticipate continuing in fiscal 2019.

Geographic mix: international sales typically produce gross margins in excess of our historical consolidated gross profit margins, while domestic sales typically provide gross margins below our historical consolidated gross profit margins.

If future sales from our higher gross margin businesses do not increase at a faster rate than our lower gross margin businesses, our gross profit margins may grow at a slower pace, cease to grow, or decrease relative to our historical consolidated gross profit margin.

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

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

Table of Contents

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

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

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

We cannot be certain that our products do not and will not infringe upon the intellectual property rights of others. The wearable technology space is rapidly developing with new innovation, which will likely result in a significant number of domestic and international patent filings for new technology. As a result, wearable technology companies may be subject to an increasing number of claims that their products infringe the intellectual property rights of competitors or non-practicing entities. As we increase our wearable technology and other product offerings, we have been, are and may in the future be subject to legal proceedings, including claims of alleged infringement of the intellectual property rights of third parties by us and our customers in connection with their marketing and sale of our products. Any such claims, whether or not meritorious, could result in costly litigation and divert the efforts of our personnel. Moreover, should we be found liable for infringement, we may be required to enter into agreements (if available on acceptable terms or at all) or to pay damages and cease making or selling certain products. Moreover, we may need to redesign or rename some of our products to avoid future infringement liability. Any of the foregoing could cause us to incur significant costs and prevent us from manufacturing or selling certain of our products.

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

We accept limited returns and will request that a customer return a product if we feel the customer has an excess of any style that we have identified as being a poor performer for that customer or geographic location. We continually monitor returns and maintain a provision for estimated returns based upon historical experience and any specific issues identified. However, as we continue to increase our wearable technology product offerings, we do not have the same level of historical experience estimating returns as we have with our other more mature products, which could result in us underestimating the level of returns. In addition, consumer acceptance of wearable technology products and the inherent outdating of technology over time may result in an increase in the amount of returns we accept from our customers. While returns have historically been within our expectations and the provisions established, future return rates may differ from those experienced in the past. In the event that our products are performing poorly in the retail market and/or we experience product damages or defects at a rate significantly higher than our historical rate, the resulting credit returns could have an adverse impact on our operating results for the period or periods in which such returns occur.

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

We are subject to the ongoing internal control provisions of Section 404 of the Sarbanes-Oxley Act of 2002. These provisions provide for the identification of material weaknesses in internal control over financial reporting, which is a process to provide reasonable assurance regarding the reliability of financial reporting for external purposes in accordance with accounting principles generally accepted in the United States of America. Our management, including our CEO and Chief Financial Officer ("CFO"), does not expect that our internal controls and disclosure controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. In addition, the design of a control system must reflect the fact that there are resource constraints and the benefit of controls must be relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, in our Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that

Table of Contents

breakdowns can occur because of simple errors or mistakes. Further, controls can be circumvented by individual acts of some persons, by collusion of two or more persons, or by management override of the controls. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, a control may be inadequate because of changes in conditions, such as growth of the Company or increased transaction volume, or the degree of compliance with the policies or procedures may deteriorate. Because of inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

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

Risk Factors Relating to Our International Operations

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

During fiscal year 2018, we generated 59.9% of our net sales from outside of the U.S., and we anticipate that revenue from our international operations could account for an increasingly larger portion of our net sales in the future. Our international operations are directly related to, and dependent on, the volume of international trade and foreign market conditions. International commerce and our international operations are subject to many risks, some of which are discussed in more detail below, including:

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

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

Foreign currency fluctuations could adversely impact our financial condition.

We generally purchase our products in U.S. dollars. However, we source a significant amount of our products overseas and, as such, the cost of these products may be affected by changes in the value of the currencies of these countries, including the Australian dollar, British pound, Canadian dollar, Chilean peso, Chinese yuan, Danish krone, euro, Hong Kong dollar, Indian rupee, Japanese yen, South Korean won, Malaysian ringgit, Mexican peso, Norwegian kroner, Singapore dollar, Swedish krona, Swiss franc and Taiwanese dollar. Due to our dependence on manufacturing operations in China, changes in the value of the Chinese yuan may have a material impact on our supply channels and manufacturing costs, including component and assembly costs.

In addition, changes in currency exchange rates may also affect the prices at which we sell products in foreign markets. For fiscal years 2018, 2017 and 2016, 59.9%, 58.5% and 55.4% of our consolidated net sales were generated outside of the U.S.

Table of Contents

In general, our overall financial results are affected positively by a weaker U.S. dollar and are affected negatively by a stronger U.S. dollar as compared to the foreign currencies in which we conduct our business. For example, due to a generally weaker U.S. dollar in fiscal year 2018, the translation of foreign based net sales into U.S. dollars improved our reported net sales by approximately $21.6 million. If the value of the U.S. dollar remains at its current levels or strengthens further against foreign currencies, particularly against the euro, Canadian dollar, British pound, Japanese yen, Mexican peso, and Australian dollar, our financial condition and results of operations could be materially and adversely impacted. Although we utilize forward contracts to help mitigate foreign currency risks (mostly relating to the euro, Canadian dollar, British pound, Japanese yen, Mexican peso and Australian dollar), foreign currency fluctuations may have a material adverse impact on our financial condition and results of operations.

The European economic uncertainty and any further debt crisis could adversely impact our financial condition.

The European economic situation, particularly with the planned withdrawal by the United Kingdom from the European Union, has contributed to instability in certain international credit markets. During fiscal year 2018, we generated 33.8% of our consolidated net sales from our Europe segment. If global economic and market conditions, or economic conditions in Europe remain uncertain or deteriorate, the value of the euro could decline. Any additional financial instability in stressed European countries could have a contagion effect on the region and contribute to the general instability and uncertainty in the European Union. If this were to occur or if the value of the euro were to weaken against the U.S. dollar, our financial condition and results of operations could be materially and adversely impacted.

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

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

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

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

We face risks associated with increased political uncertainty.

In the U.S., the change in the U.S. government administration has resulted in uncertainty regarding potential changes in regulations, fiscal policy, social programs, domestic and foreign relations and international trade policies. Potential changes in relationships among the U.S., China, Russia and other countries could have significant impacts on global trade and regional economic conditions, among other things. In addition, changes in the relationships between the U.S. and its neighbors, such as Mexico, could have significant, potentially negative, impacts on commerce. Further, anti-American sentiment could harm the reputation and success of U.S. companies doing business abroad.

In Europe, the populist movement resulted in the Brexit vote, and other election results are signaling increasing populist demands and rises in nationalism, which could have a negative impact on economic policy and consequently pose a potential threat to the unity of the European Union.

Our business is dependent upon its international operations, particularly in Asia and Europe. During fiscal years 2018, 2017 and 2016, we generated 59.9%, 58.5% and 55.4%, respectively, of our net sales outside the U.S. In addition, we source the vast majority of our products from outside the U.S.

Table of Contents

Our ability to respond to these developments or comply with any resulting new legal or regulatory requirements, including those involving economic and trade sanctions, could reduce our sales, increase our costs of doing business, reduce our financial flexibility and otherwise have a material adverse effect on our business, financial condition and results of our operations.

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

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

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

Risk Factors Relating to Our Common Stock

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

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

- fluctuations in market demand for our products;
- increased competition and pricing pressures;
- our ability to anticipate changing customer demands and preferences;
- our ability to compete in the wearable technology space;
- growth in our international operations;
- our failure to efficiently manage our inventory levels;
- our inability to manage and maintain our debt obligations;
- seasonality in our business;
- changes in our, and our competitors', business strategy or pricing;
- implementation of our restructuring plan;
- the successful management of our Company-owned retail store operations;

21

Table of Contents

- the timing of certain selling, general and administrative expenses;
- completing acquisitions and the costs of integrating acquired operations;
- international currency fluctuations, operating challenges and trade regulations;
- acts of terrorism or acts of war; and
- government regulation.

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

Our CEO owns approximately 6.8% of our outstanding common stock.

Mr. Kosta Kartsotis owns approximately 6.8% of our common stock as of December 29, 2018. As a result, he is in a position to influence the outcome of elections of our directors, the adoption, amendment or repeal of our bylaws and any other actions requiring the vote or consent of our stockholders, and to otherwise influence our affairs.

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

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

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

Reports published by securities or industry analysts, including projections in those reports that exceed our actual results, could adversely affect our stock price and trading volume.

Research analysts publish their own quarterly projections regarding our operating results. These projections may vary widely from one another and may not accurately predict the results we actually achieve. Our stock price may decline if we fail to meet securities research analysts' projections. Similarly, if one or more of the analysts who covers us downgrades our stock or publishes inaccurate or unfavorable research about our business, our stock price could decline. If one or more of these analysts ceases coverage of us or fails to publish reports on us regularly, our stock price or trading volume could decline. In 2018, the number of analysts covering our stock decreased from ten to six.

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

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

Item 1B. Unresolved Staff Comments

None.

Table of Contents

Item 2. Properties

Company facilities. As of the end of fiscal year 2018, we owned or leased the following material facilities in connection with our U.S. and international operations:

Location	Use	Approximate Square Footage	Owned / Leased
Eggstätt, Germany	Office, warehouse and distribution	383,000	Owned
Grabenstätt, Germany	Office	92,000	Owned
Richardson, Texas	Corporate headquarters	536,000	Lease expiring in 2031
Dallas, Texas	Office, warehouse and distribution	518,000	Lease expiring in 2026
Hong Kong	Warehouse and distribution	205,000	Lease expiring in 2023
Garland, Texas	Warehouse	154,000	Lease expiring in 2022
Basel, Switzerland	Europe headquarters	140,000	Lease expiring in 2036
Shenzhen, China	Manufacturing	110,000	Lease expiring in 2021
Hong Kong	Asia headquarters	42,000	Lease expiring in 2022
New York, New York	General office and showroom	27,000	Lease expiring in 2027

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

Retail store facilities. As of the end of fiscal year 2018, we had 486 lease agreements for retail space for the sale of our products. The leases, including renewal options, expire at various times from 2019 to 2029. The leases provide for minimum annual rentals and, in certain cases, for the payment of additional rent when sales exceed specified net sales amounts. We are also generally required to pay our pro rata share of common area maintenance costs, real estate taxes, insurance, maintenance expenses and utilities.

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

Item 3. Legal Proceedings

The Company is occasionally subject to litigation or other legal proceedings in the normal course of its business. The Company does not believe that the outcome of any currently pending legal matters, individually or collectively, will have a material effect on the business or financial condition of the Company.

Item 4. Mine Safety Disclosures

Not applicable.

Table of Contents

PART II

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

General. Our common stock is listed on the NASDAQ Global Select Market under the symbol "FOSL."

As of February 14, 2019, there were approximately 62 holders of record of our shares of common stock (including nominee holders such as banks and brokerage firms who hold shares for beneficial owners), although we believe that the number of beneficial owners is much higher.

Common Stock Performance Graph

The following performance graph compares the cumulative return of our shares of common stock over the preceding five year periods with that of the broad market Standard & Poor's 500 Stock Index ("S&P 500 Index") and the NASDAQ Retail Trades Group. Each index assumes $100 invested at December 31, 2013 and is calculated assuming quarterly reinvestment of dividends and quarterly weighting by market capitalization.

2018 COMPARATIVE TOTAL RETURNS

Fossil Group, Inc.,

NASDAQ Retail Trades and S&P 500 Index

(Performance Results through 12/31/2018)

	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017	12/31/2018
Fossil Group, Inc.	$ 100.00	$ 92.33	$ 30.48	$ 21.56	$ 6.48	$ 13.53
S&P 500 Index	$ 100.00	$ 111.39	$ 110.58	$ 121.13	$ 144.65	$ 135.63
NASDAQ Retail Trades	$ 100.00	$ 115.37	$ 128.95	$ 132.03	$ 164.62	$ 175.96

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

In August 2010, our Board of Directors approved a common stock repurchase program pursuant to which up to $30 million could be used to repurchase outstanding shares of our common stock. The $30 million repurchase program has no termination date, and as of December 29, 2018, no shares had been repurchased under it. On November 10, 2014, the Company's Board of Directors authorized a $1.0 billion share repurchase program, which expired December 31, 2018. As of January 1, 2019, the Company had $30.0 million of repurchase authorizations remaining under its repurchase program. However, under the Company's credit agreement, the Company is restricted from making open market repurchases of its common stock.

Table of Contents

Common stock repurchases acquired from grantees in connection with income tax withholding obligations arising from vesting of restricted stock grants were 3,316 shares and 6,763 shares for fiscal years 2017 and 2016, respectively. There were no shares of common stock repurchased during the fourth quarter of fiscal year 2018.

Item 6. Selected Financial Data

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

Fiscal Year	2018	2017	2016	2015	2014
Net sales	$2,541,488	$2,788,163	$3,042,371	$3,228,836	$3,509,691
Gross profit	1,340,137	1,358,839	1,578,186	1,753,467	2,001,172
Operating income (loss)	62,711	(424,276)	127,146	291,234	566,536
Net income (loss)	(938)	(473,559)	85,603	229,902	386,611
Net income (loss) attributable to Fossil Group, Inc.	(3,478)	(478,172)	78,868	220,637	376,707
Earnings (loss) per share:					
Basic	(0.07)	(9.87)	1.64	4.52	7.12
Diluted	(0.07)	(9.87)	1.63	4.51	7.10
Weighted average common shares and common equivalent shares outstanding:					
Basic	49,196	48,468	48,136	48,800	52,882
Diluted	49,196	48,468	48,323	48,924	53,080
Working capital	$652,766	$781,900	$932,705	$953,141	$1,008,264
Total assets	1,575,198	1,658,372	2,186,897	2,355,661	2,177,460
Total long-term liabilities	380,764	568,337	756,874	933,589	747,351
Stockholders' equity attributable to Fossil Group, Inc.	585,543	576,133	1,006,236	921,388	977,860
Return on average stockholders' equity attributable to Fossil Group, Inc.[1]	(0.6)%	(62.3)%	8.2%	24.7%	37.5%

(1) Calculated by dividing net income (loss) attributable to Fossil Group, Inc. by five quarter average stockholders' equity attributable to Fossil Group, Inc.

Table of Contents

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

Summary

We are a global design, marketing and distribution company that specializes in consumer fashion accessories. Our principal offerings include an extensive line of men's and women's fashion watches and jewelry, handbags, small leather goods, belts, and sunglasses. In the watch and jewelry product categories, we have a diverse portfolio of globally recognized owned and licensed brand names under which our products are marketed. Our products are distributed globally through various distribution channels including wholesale in countries where we have a physical presence, direct to the consumer through our retail stores and commercial websites and through third-party distributors in countries where we do not maintain a physical presence. Our products are offered at varying price points to meet 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, Company-owned retail and outlet stores, mass market stores, through our FOSSIL website and third party websites. Our wholesale customer base includes, among others, Amazon, Best Buy, Dillard's, JCPenney, Kohl's, Macy's, Neiman Marcus, Nordstrom, Saks Fifth Avenue, Target and Wal-Mart. In the U.S., our network of Company-owned stores included 63 retail stores located in premier retail sites and 113 outlet stores located in major outlet malls as of December 29, 2018. In addition, we offer an extensive collection of our FOSSIL brand products on our website, www.fossil.com, as well as proprietary and licensed watch and jewelry brands through other managed and affiliated websites.

Internationally, our products are sold to department stores, specialty retail stores, specialty watch and jewelry stores and through third party websites in approximately 150 countries worldwide through 23 Company-owned foreign sales subsidiaries and through a network of approximately 70 independent distributors. Internationally, our network of Company-owned stores included 181 retail stores and 127 outlet stores as of December 29, 2018. Our products are also sold through licensed and franchised FOSSIL retail stores, retail concessions operated by us and kiosks in certain international markets. In addition, we offer an extensive collection of our FOSSIL brand products on our websites in certain countries.

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

Our business is subject to the risks inherent in global sourcing supply. Certain key components in our products come from limited sources of supply, which exposes us to potential supply shortages that could disrupt the manufacture and sale of our products. Any interruption or delay in the supply of key components could significantly harm our ability to meet scheduled product deliveries to our customers and cause us to lose sales. Interruptions or delays in supply may be caused by a number of factors that are outside of our and our contractor manufacturers' control.

Effective for the fourth quarter of fiscal year 2018, we made changes to the presentation of reportable segments to reflect changes in the way our chief operating decision maker evaluates the performance of our operations, develops strategy, and allocates capital resources. Certain peripheral revenue generating activities related to our factories and intellectual property previously recorded within the Americas, Asia and Europe segments have been reclassified to Corporate. For comparison purposes, our historical segment disclosures have been recast to be consistent with the current presentation.

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

Critical Accounting Policies and Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the U.S. 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, we evaluate our estimates and judgments, including those related to product returns, bad debt, inventories, long-lived asset impairment, impairment of goodwill and trade names, income taxes, warranty costs and litigation liabilities. We base our estimates and judgments on historical experience and on various other factors that we believe to be reasonable under the circumstances. Our estimates form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. We believe the following critical accounting policies require the most significant estimates and judgments.

Product Returns. We accept limited returns and may request that a customer return a product if we feel the customer has an excess of any style that we have identified as being a poor performer for that customer or geographic location. We monitor returns and maintain a provision for estimated returns based upon historical experience and any specific issues identified. While returns have historically been within our expectations and the provisions established, future return rates may differ from those experienced in the past. In the event that our products are performing poorly in the retail market and/or we experience product damages or defects at a rate significantly higher than our historical rate, the resulting returns could have an adverse impact on the operating results for the period or periods in which such returns occur. If our allowance for product returns were to change by 10%, the impact, excluding taxes, would have been an approximate $3.5 million change to net income (loss).

Inventories. Inventories are stated at the lower of cost and net realizable value, including any applicable duty and freight charges. We account for estimated obsolescence or unmarketable inventory equal to the difference between the average cost of inventory and the estimated net realizable value based upon assumptions about future demand, market conditions and available liquidation channels. If actual future demand or market conditions are less favorable than those projected by management, or if liquidation channels are not readily available, additional inventory valuation reductions may be required. We assess our off-price sales on an ongoing basis and update our estimates accordingly. Revenue from sales of our products that are subject to inventory consignment agreements is recognized when title and risk of loss transfers, delivery has occurred and in an amount that reflects the consideration we expect to be entitled in exchange for the product.

Impairment of Goodwill and Trade Names. In fiscal year 2017, we determined goodwill was fully impaired and recognized a pre-tax impairment charge in operations of $202.3 million, $114.3 million and $42.9 million in the Americas, Europe and Asia segments, respectively.

We evaluate indefinite-lived trade names by comparing the fair value of the asset to its recorded value annually as of the end of the fiscal year and whenever events or conditions indicate that the carrying value of the trade name may not be recoverable. The fair value of the asset is estimated using discounted cash flow methodologies. For fiscal year 2018, a discount rate of 12% and a royalty rate of 3% were used to estimate the SKAGEN trade name fair value. For fiscal year 2018, a discount rate of 11% and a royalty rate of 4.5% were used to estimate the MICHELE trade name fair value. The SKAGEN trade name represented approximately 66% of our total trade name balance at the end of fiscal year 2018, 71% at the end of fiscal year 2017 and 63% at the end of fiscal year 2016. The MICHELE trade name represented approximately 34% of our total trade name balances at the end of fiscal year 2018, 29% at the end of fiscal year 2017 and 21% at the end of fiscal year 2016. In fiscal year 2018, as a result of interim impairment testing, we recorded impairment charges of $6.2 million related to the SKAGEN trade name, and no impairment charges were recorded to the MICHELE trade name. In fiscal year 2017, we recorded impairment charges of $28.3 million and $7.6 million related to the SKAGEN and the MICHELE trade names, respectively. In fiscal year 2016, no impairment charges were recorded related to the SKAGEN or MICHELE trade names. As of December 29, 2018, the fair value of the SKAGEN trade name exceeded its carrying value by approximately 6%, and the fair value of the MICHELE trade name exceeded its carrying value by approximately 24%.

The MISFIT trade name was being amortized over its estimated useful life; however, during fiscal year 2017, the trade name was deemed not recoverable, resulting in an impairment charge of $11.8 million. The MISFIT trade name represented approximately 15% of our total trade name balance at the end of fiscal year 2016.

Due to the inherent uncertainties involved in making the estimates and assumptions used in the fair value analysis, actual results may differ, which could alter the fair value of the trade names and possibly cause impairment charges to occur in future periods.

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

Property, Plant and Equipment Impairment. We test for asset impairment of property, plant and equipment assets whenever events or conditions indicate that the carrying value of an asset might not be recoverable based on expected undiscounted cash flows related to the asset. In evaluating long-lived assets for recoverability, we calculate fair value using our best estimate of future cash flows expected to result from the use of the asset and its eventual disposition. When undiscounted cash flows estimated to be generated through the operations of our Company-owned retail stores are less than the carrying value of the underlying assets, the assets are impaired. If it is determined that assets are impaired, an impairment loss is recognized for the amount that the asset's book value exceeds its fair value. Should actual results or market conditions differ from those anticipated, additional losses may be recorded. We recorded impairment losses in restructuring charges of approximately $1.7 million, $8.0 million and $13.5 million in fiscal years 2018, 2017 and 2016, respectively. We recorded impairment losses in selling, general, and administrative expenses of approximately $1.9 million, $1.3 million and $0.8 million in fiscal years 2018, 2017 and 2016, respectively. In fiscal year 2018, an increase of 100 basis points to the discount rate used in our impairment testing would not have resulted in additional impairment expense. A 10% decrease in future expected cash flows would have increased impairment expense by $0.3 million. We recorded non-impairment restructuring charges related to the write off of property, plant and equipment of approximately $0.6 million, $0.4 million and $1.5 million in fiscal years 2018, 2017 and 2016, respectively.

Income Taxes. We record valuation allowances against our deferred tax assets, when necessary, in accordance with ASC 740, Income Taxes ("ASC 740"). Realization of deferred tax assets is dependent on future taxable earnings and is therefore uncertain. At least quarterly, we assess the likelihood that our deferred tax asset balance will be recovered from future taxable income. To the extent we believe that recovery is not likely, we establish a valuation allowance against our deferred tax asset, increasing our income tax expense in the period such determination is made. The valuation allowance for fiscal years 2018, 2017 and 2016 was $95.8 million, $78.3 million, and $19.4 million, respectively. In addition, in fiscal year 2018, we recorded a state deferred tax liability of $0.5 million on foreign earnings not considered to be indefinitely reinvested outside of the U.S.

Our continuing practice is to recognize interest and penalties related to income tax matters in income tax expense. We accrue an amount for our estimate of additional income tax liability which we believe we are more likely than not to incur as a result of the ultimate resolution of tax audits ("uncertain tax positions"). We review and update the estimates used in the accrual for uncertain tax positions as more definitive information becomes available from taxing authorities, upon completion of tax audits, upon expiration of statutes of limitation, or upon occurrence of other events. The results of operations and financial position for future periods could be impacted by changes in assumptions or resolutions of tax audits.

The new Global Intangible Low-Taxed Income (“GILTI”) provisions of the Tax Cuts and Jobs Act (the "Tax Act") requiring the inclusion of certain foreign earnings in U.S. taxable income increased our effective tax rate in fiscal 2018 and could have an adverse impact in future years. Due to the complexity of these new tax rules, we are continuing to evaluate these provisions of the Tax Act as the Internal Revenue Service ("IRS") and the U.S. Treasury Department ("Treasury") issue guidance and regulations. The GILTI impact will be accounted for as incurred under the period cost method.

Accounting for the income tax effects of the Tax Act requires significant judgments and estimates in the interpretation and calculations of the provisions of the Tax Act. Due to the timing of the enactment and the complexity involved in applying the provisions of the Tax Act, we made reasonable estimates of the effects and recorded provisional amounts in our financial statements for fiscal year 2017 as permitted under Staff Accounting Bulletin No. 118, (“SAB 118”) Income Tax Accounting Implications of the Tax Cuts and Jobs Act, which provides guidance on accounting for the Tax Act’s impact. Additional guidance was subsequently issued by Treasury and the IRS, particularly with regard to the one-time repatriation tax on deferred foreign earnings. During fiscal 2018, we completed our accounting for the tax effects of the Tax Act and made adjustments to the provisional amounts. In addition, our valuation allowance analysis is affected by various aspects of the Tax Act, including the new limitation on the deductibility of interest expense and the impact of the GILTI. Those adjustments materially impacted the provision for income taxes and the effective tax rate in fiscal 2018.

Warranty Costs. Our watch products are covered by limited warranties against defects in materials or workmanship. Historically, our FOSSIL and RELIC watch products sold in the U.S. have been covered for warranty periods of 11 years and 12 years, respectively, and our SKAGEN branded watches have been covered by a lifetime warranty. Beginning in 2017, these brands are covered by a two year warranty. Generally, all other products, including leathers and jewelry, sold in the U.S. and internationally are covered by a comparable one to two year warranty. We determine our warranty liability using historical warranty repair experience. As changes occur in sales volumes and warranty costs, the warranty accrual is adjusted as necessary. Due to the nature of connected products, their warranty costs are usually more than traditional products. A shift in

Table of Contents

product mix from traditional to connected products generally results in an increase in warranty liabilities. The year-end warranty liability for fiscal years 2018, 2017 and 2016 was $22.8 million, $19.4 million and $15.4 million, respectively.

Results of Operations

Executive Summary

Our approach for fiscal 2018 was to plan our sales prudently, but operate all elements of our business with the goal of improving profitability. During fiscal year 2018, net sales decreased 9% (10% in constant currency) as compared to fiscal year 2017. The watch and accessory business is changing at a rapid pace around the globe, and we are on a multi-year journey to transform our Company. Consumer preferences and shopping patterns continue to shift. Product innovation, particularly in watches, has expanded the category overall, but has caused a move away from traditional product to connected watches. Marketing, product information and consumer research on watches and fashion accessories are shifting from our traditional brick and mortar channels to online sites. With our focus on profitability, we are exiting marginal businesses, closing underperforming store locations, and as previously announced, we have terminated certain licensing agreements. These exits and store closures had a negative impact on net sales year-over-year, reducing fiscal year 2018 net sales by approximately 490 basis points when compared to fiscal year 2017, while improving overall profitability. We also continued to make progress strengthening our overall financial position and our capital structure, as we improved the efficiency of our working capital, with particular focus on inventory productivity and turnover.

We have four overall objectives driving our strategies and initiatives. Our first and most important priority this past year was to improve our profitability and our financial condition. Due to structural changes in the watch and accessory categories, we recognized the need to be highly focused on our overall profitability, which meant, at times, exiting less profitable parts of our business, such as unprofitable stores, businesses and product lines. During fiscal year 2018 our sales decreased, but our actions drove dramatic improvements in profitability, as operating income, excluding non-cash intangible asset impairment charges and restructuring, increased significantly as compared to fiscal year 2017. Our New World Fossil ("NWF") initiatives continue to contribute significantly to our profit improvement efforts through a combination of pricing programs, direct and indirect sourcing efforts and organizational efficiency initiatives. Since we began the NWF program late in fiscal year 2016, we have been pleased with the Company's efforts and remain on track to achieve our NWF objectives.

Our second key objective was to continue to focus on innovation and design in the watch category. In traditional watches, we used bold color and designs as a way to capture the consumer’s attention. Our “black-out” approach for FOSSIL brand, strong color offerings for SKAGEN, and striking design statements in DIESEL drove improvements in sales trends and demonstrated the impact that newness can bring to the traditional category. In connected watches, our new Gen4 product with heart rate monitoring, GPS, and Google Pay sold at higher rates than Gen3 product in both direct and indirect channels. Our new FOSSIL sport offering generated strong sales on limited availability. This watch has the latest Qualcomm 3100 chip which has improved battery life and faster processing. Our connected product represented 20% of our total watch sales in 2018, with our America’s region reaching 22%. For FOSSIL brand, wearables were 28% of total brand watch sales for 2018, and exceeded 30% in our America’s region.

Our third key strategy was to invest in digital marketing and expand our efforts in e-commerce, particularly for our FOSSIL brand. We continue to focus our media mix on digital, investing in digital channels, including social media, digital media and paid search. We continue to enhance our consumer targeting and social content initiatives to further improve engagement while driving product sales through search, affiliates and re-targeting efforts. Social influencers remain a critical part of our marketing program and include celebrity influencers and brand ambassadors. As a result of our efforts and the success of these programs, unique visitors to our sites continue to increase, and our own e-commerce platforms continue to drive comparable sales growth. We will continue to generate strong brand moments online to build momentum and awareness.

Our fourth key initiative was the business model transformation work under our NWF initiatives. This is our ongoing comprehensive program to reinvent our Company to address changing consumer trends, drive efficiencies and speed throughout the organization, streamline the way we work, enhance our margins and ultimately drive significantly improved economics to the bottom line. We remain on track to achieve our NWF objective of $200 million in run rate savings by the end of 2019.

During fiscal year 2018, sales of FOSSIL branded products decreased 6% (7% in constant currency), as compared to fiscal year 2017, with declines across all product categories. FOSSIL brand watch sales decreased 4% (same in constant currency) during fiscal year 2018, driven mainly by the closure of underperforming stores and significant declines in the traditional wholesale business in Europe. Our connected business continued to gain traction, positively impacting the category growth rate by approximately 9% on a constant currency basis. Our FOSSIL brand performance benefited from our marketing efforts, store experience and celebrity influencer campaigns in our full price stores and our own e-commerce sites. Sales decreases in our outlet stores, driven by a reduction in promotional activity to increase profitability, drove the overall decrease in our total direct channel.

Table of Contents

Our multi-brand global watch portfolio declined 8% (same in constant currency) during fiscal year 2018 compared to fiscal year 2017, as growth in connected watches was more than offset by continued traditional watch sales declines in our Americas and Europe wholesale channels. Fiscal year 2018 sales were also negatively impacted by the BURBERRY® and ADIDAS® licensed brand exits. Sales trends of our traditional watches remained soft during fiscal year 2018 in both the Americas and Europe, and we experienced some connected inventory delays during our important holiday season. Sales increases in ARMANI watches, driven by a strong performance in Asia, were offset by declines in most other brands. MICHAEL KORS watch sales decreased 5% (same in constant currency) with decreases in all segments. We continued to grow our connected watch business, delivering $395 million in sales, representing 19% of total watch sales for fiscal year 2018 and an increase of 32% over fiscal year 2017.

Global comparable retail sales, including our stores and our own e-commerce, declined 2% for fiscal year 2018 with sales declines across all product categories. Comparable sales decreases were driven by our outlet stores as a result of reduced promotional activity to increase profitability, partially offset by both strong sales growth in e-commerce and improved store conversion.

During fiscal year 2018, our gross profit margin rate increased 400 basis points to 52.7% compared to 48.7% in the prior fiscal year, driven in part by a favorable comparison against an inventory valuation reserve primarily for excess levels of connected products recorded in fiscal year 2017, lower promotional activity and markdowns and favorable product mix. Gross profit margin was also favorably impacted by approximately 80 basis points due to currency movements, as well as benefits from NWF driven by direct sourcing and design to value initiatives. Other income (expense) decreased unfavorably primarily due to net foreign currency losses during fiscal year 2018 as compared to net gains in fiscal year 2017. During fiscal year 2018, our financial performance resulted in a net loss of $0.07 per diluted share and included NWF restructuring charges of $0.75 per diluted share and non-cash intangible asset impairment charges of $0.10 per diluted share. During fiscal year 2017, our financial performance resulted in a loss of $9.87 per diluted share, including non-cash intangible asset impairment charges of $7.07 per diluted share, tax charges resulting from the Tax Act and valuation allowances of $2.20 per diluted share and restructuring charges of $0.65 per diluted share. Currencies, including both the translation impact on operating earnings and the impact of foreign currency hedging contracts, favorably impacted the earnings comparison for fiscal year 2018 by $0.09 per diluted share.

As we look at 2019, our focus and priorities will remain consistent with the past year; however, we will pivot appropriately to address the changing landscape. One priority that will not change is our focus on improving our profitability as well as strengthening our financial position to ensure the long-term success of the Company. Also, product innovation and differentiation are more important than ever, in both connected and traditional products. We will endeavor to maximize sales growth across multiple channels by adapting to the evolving shopping habits of our customers. While we are focused on driving sales through product innovation and sales channel optimization, we need to further transform our business model. Part of that transformation has already taken place in our connected watch business. During the fourth quarter of fiscal year 2018, we announced a strategic partnership with Citizen Watch Co., Ltd. ("Citizen") to grow and expand the hybrid smartwatch category, an innovative product in our connected watch portfolio. Under a licensing agreement, we provide Citizen with our proprietary hybrid technology for use in both their brands and third-party watch brands. In January 2019, we announced an agreement to transfer intellectual property related to smartwatch technology to Google. Both of these agreements are expected to drive innovation and reduce costs in our wearables business. We made significant progress on all fronts this year, but we continue to have further work ahead of us to address the structural changes in our categories and channels. We remain confident in our strategies and believe we have the talent, operating platform and balance sheet strength to achieve our goals.

Constant Currency Financial Information

As a multinational enterprise, we are exposed to changes in foreign currency exchange rates. The translation of the operations of our foreign-based entities from their local currencies into U.S. dollars is sensitive to changes in foreign currency exchange rates and can have a significant impact on our reported financial results. In general, our overall financial results are affected positively by a weaker U.S. dollar and are affected negatively by a stronger U.S. dollar as compared to the foreign currencies in which we conduct our business.

As a result, in addition to presenting financial measures in accordance with accounting principles generally accepted in the United States of America ("GAAP"), our discussion contains references to constant currency financial information, which is a non-GAAP financial measure. To calculate net sales on a constant currency basis, net sales for the current fiscal year for entities reporting in currencies other than the U.S. dollar are translated into U.S. dollars at the average rates during the comparable period of the prior fiscal year. We present constant currency information to provide investors with a basis to evaluate how our underlying business performed excluding the effects of foreign currency exchange rate fluctuations. The constant currency financial information presented herein should not be considered a substitute for, or superior to, the measures

Table of Contents

of financial performance prepared in accordance with GAAP. Reconciliations between constant currency financial information and the most directly comparable GAAP measure are included where applicable.

Fiscal Year 2018 Compared to Fiscal Year 2017

Consolidated Net Sales. Net sales decreased $246.7 million or 8.8% (9.6% in constant currency) for fiscal year 2018, as compared to fiscal year 2017. Global watch sales decreased $166.0 million or 7.5% (8.2% in constant currency), with increases in EMPORIO ARMANI and ARMANI EXCHANGE more than offset by declines in most other brands in our portfolio. Our jewelry category decreased $43.9 million or 20.7% (22.3% in constant currency), mostly as a result of a decrease in sales of MICHAEL KORS and FOSSIL branded products during fiscal year 2018 as compared to fiscal year 2017. Our leathers business decreased $36.1 million or 11.1% (11.9% in constant currency). Net sales information by product category is summarized on a reported and constant currency basis as follows (dollars in millions):

	Fiscal Year 2018		2017		Growth (Decline)		
	Amounts	Percentage of Total	Amounts	Percentage of Total	Dollars	Percentage as Reported	Percentage Constant Currency
Watches	$2,033.0	80.0 %	$2,199.0	78.9 %	$(166.0)	(7.5)%	(8.2)%
Leathers	289.4	11.4	325.5	11.7	(36.1)	(11.1)	(11.9)
Jewelry	167.8	6.6	211.7	7.6	(43.9)	(20.7)	(22.3)
Other	51.3	2.0	52.0	1.8	(0.7)	(1.3)	(2.9)
Total net sales	$2,541.5	100.0 %	$2,788.2	100.0 %	$(246.7)	(8.8)%	(9.6)%

The following table sets forth consolidated net sales by segment on a reported and constant currency basis (dollars in millions):

	Fiscal Year 2018		2017		Growth (Decline)		
	Amounts	Percentage of Total	Amounts	Percentage of Total	Dollars	Percentage as Reported	Percentage Constant Currency
Americas	$1,174.5	46.2 %	$1,314.4	47.1 %	$(139.9)	(10.6)%	(10.5)%
Europe	856.3	33.7	971.8	34.9	(115.5)	(11.9)	(14.3)
Asia	505.5	19.9	496.4	17.8	9.1	1.8	1.7
Corporate	5.2	0.2	5.6	0.2	(0.4)	(7.1)	(7.1)
Total net sales	$2,541.5	100.0 %	$2,788.2	100.0 %	$(246.7)	(8.8)%	(9.6)%

Americas Net Sales. Americas net sales decreased $139.9 million or 10.6% (10.5% in constant currency), largely driven by decreases in watches. During fiscal year 2018, our multi-brand watch portfolio decreased $93.2 million or 9.0% (8.9% in constant currency), with declines across nearly all brands. The business exits of BURBERRY and ADIDAS, as well as store closures negatively impacted our watch performance. Within FOSSIL brand watches, connected watches nearly offset the declines in traditional watches. Our leathers category decreased $26.4 million or 13.3% (13.2% in constant currency), mainly driven by FOSSIL branded products and our jewelry business decreased $20.3 million or 28.8% (28.9% in constant currency), mostly driven by MICHAEL KORS branded product. Within the region, sales declined in the U.S. and Canada, while sales in Mexico increased. Comparable retail sales (including e-commerce) decreased slightly in the region, as negative comparable sales in our stores were mostly offset by strong positive comparable sales in our e-commerce business.

Table of Contents

The following table sets forth product net sales for the Americas segment on a reported and constant currency basis by fiscal year (dollars in millions):

	Net Sales Fiscal Year		Growth (Decline)		
	2018	2017	Dollars	Percentage as Reported	Percentage Constant Currency
Watches	$936.9	$1,030.1	$(93.2)	(9.0)%	(8.9)%
Leathers	171.8	198.2	(26.4)	(13.3)	(13.2)
Jewelry	50.3	70.6	(20.3)	(28.8)	(28.9)
Other	15.5	15.5	—	—	0.6
Total	$1,174.5	$1,314.4	$(139.9)	(10.6)%	(10.5)%

Europe Net Sales. During fiscal year 2018, Europe net sales decreased $115.5 million or 11.9% (14.3% in constant currency). Across the Eurozone, sales were down moderately with the sharpest sales declines in the U.K., France and Germany. During fiscal year 2018, sales trends softened across all channels, reflective of the challenging macro-economic environment and general softness in the European markets. Our multi-brand watch portfolio decreased $85.4 million or 11.5% (13.8% in constant currency), with growth in connected watches partially offsetting declines in traditional watches on a constant currency basis. Within our watch portfolio, most brands declined with the most significant sales decreases in FOSSIL and SKAGEN brand watches. Our jewelry category decreased $22.6 million or 16.8% (19.4% in constant currency), and our leathers business decreased $8.1 million or 10.7% (13.8% in constant currency) in fiscal year 2018, as compared to fiscal year 2017. Comparable retail sales in the Europe segment (including e-commerce) decreased modestly, with decreases in all major product categories. Slight comparable retail sales increases in e-commerce and our outlets were more than offset by declines in our other store concepts.

The following table sets forth product net sales for the Europe segment on a reported and constant currency basis by fiscal year (dollars in millions):

	Net Sales Fiscal Year		Growth (Decline)		
	2018	2017	Dollars	Percentage as Reported	Percentage Constant Currency
Watches	$656.8	$742.2	$(85.4)	(11.5)%	(13.8)%
Leathers	67.3	75.4	(8.1)	(10.7)	(13.8)
Jewelry	111.6	134.2	(22.6)	(16.8)	(19.4)
Other	20.6	20.0	0.6	3.0	(0.5)
Total	$856.3	$971.8	$(115.5)	(11.9)%	(14.3)%

Asia Net Sales. In fiscal year 2018, Asia net sales increased $9.1 million or 1.8% (1.7% in constant currency). On a constant currency basis, sales growth in India and China more than offset decreases in most other markets, with the sharpest declines in Japan. Our watch category increased $12.2 million or 2.9% (2.9% in constant currency), with the growth led by EMPORIO ARMANI and FOSSIL watches. Our leathers products decreased $1.7 million or 3.3% (4.2% in constant currency), and our jewelry business decreased $0.9 million or 13.2% (14.7% in constant currency). Comparable retail sales (including e-commerce) in the Asia region decreased moderately, with similar decreases in all major product categories. Comparable store sales declines were partially offset by strong e-commerce sales increases.

Table of Contents

The following table sets forth product net sales for the Asia segment on a reported and constant currency basis by fiscal year (dollars in millions):

	Net Sales Fiscal Year		Growth (Decline)		
	2018	2017	Dollars	Percentage as Reported	Percentage Constant Currency
Watches	$439.0	$426.8	$12.2	2.9 %	2.9 %
Leathers	50.3	52.0	(1.7)	(3.3)	(4.2)
Jewelry	5.9	6.8	(0.9)	(13.2)	(14.7)
Other	10.3	10.8	(0.5)	(4.6)	(5.6)
Total	$505.5	$496.4	$9.1	1.8 %	1.7 %

Stores. The following table sets forth the number of stores by concept for the fiscal years ended below:

	December 29, 2018				December 30, 2017			
	Americas	Europe	Asia	Total	Americas	Europe	Asia	Total
Accessory stores	89	94	53	236	108	106	59	273
Outlets	126	74	40	240	136	74	46	256
Full priced multi-brand	—	5	3	8	—	8	7	15
Total stores	215	173	96	484	244	188	112	544

During fiscal year 2018, we opened seven new stores and closed 67 stores. During fiscal year 2019, we anticipate opening approximately 10 additional retail stores and closing approximately 30 stores globally, depending on lease negotiations.

Both stores and e-commerce sites are included in comparable retail sales in the thirteenth month of operation. Stores that experience a gross square footage increase of 10% or more due to an expansion and/or relocation are removed from the comparable store sales base, but are included in total sales. These stores are returned to the comparable store sales base in the thirteenth month following the expansion and/or relocation. Comparable retail sales also exclude the effects of foreign currency fluctuations.

Gross Profit. Gross profit of $1.3 billion in fiscal year 2018 decreased 1.4% compared to $1.4 billion in fiscal year 2017, mainly as a result of decreased sales and mostly offset by a higher gross margin rate. Gross profit margin increased 400 basis points to 52.7% in fiscal year 2018 compared to 48.7% in the prior fiscal year, driven in part by a favorable comparison against an inventory valuation reserve of approximately $40 million, primarily for excess levels of connected products recorded in fiscal year 2017, lower promotional activity and markdowns and favorable product mix. Gross profit margin was also favorably impacted by approximately 80 basis points due to currency movements, as well as benefits from NWF driven by direct sourcing and design to value initiatives.

Operating Expenses. For fiscal year 2018, total operating expenses decreased by $505.7 million and, as a percentage of net sales, decreased to 50.3%, compared to 64.0% in fiscal year 2017, largely due to decreased non-cash intangible impairment charges of $6.2 million in fiscal year 2018 compared to $407.1 million recorded in fiscal 2017. During fiscal year 2018, we incurred restructuring charges of $46.6 million under our NWF initiative compared to restructuring charges of $48.2 million in fiscal year 2017. During fiscal year 2018, excluding non-cash intangible impairment charges and restructuring, operating expenses decreased, primarily due to corporate and regional infrastructure reductions, lower store costs due to store closures and lower variable marketing expenses. The translation of foreign-denominated expenses during fiscal year 2018 increased operating expenses by approximately $13.7 million as a result of the weaker U.S. dollar. As a percentage of net sales, SG&A expenses increased to 48.2% in fiscal 2018, as compared to 47.6% in fiscal 2017 due to the lower sales base.

Consolidated Operating Income (Loss). Operating income (loss) increased to income of $62.7 million in fiscal year 2018, as compared to a loss of $424.3 million in the prior fiscal year, primarily driven by decreased non-cash intangible impairment charges of $6.2 million in fiscal year 2018 compared to $407.1 million in fiscal year 2017. Operating expenses in fiscal year 2017 included non-cash intangible impairment charges on our goodwill of $202.3 million, $114.3 million and $42.9 million in the Americas, Europe and Asia segments, respectively, and impairment charges on our trade names of $47.6 million in corporate, while fiscal year 2018 included trade name impairment charges of $6.2 million in corporate. Decreased sales were largely offset by an increased gross margin rate. As a percentage of net sales, operating margin improved to 2.5% in fiscal year 2018 as compared to (15.2)% in fiscal year 2017. Excluding non-cash intangible impairment charges and restructuring expenses, operating income improved $84.5 million for fiscal 2018 as compared to fiscal 2017.

Table of Contents

Operating income (loss) by operating segment is summarized as follows (dollars in millions):

	Fiscal Year		Growth (Decline)		Operating Margin %	
	2018	2017	Dollars	Percentage	2018	2017
Americas	$185.1	$(47.9)	$233.0	(486.4)%	15.8%	(3.6)%
Europe	129.6	32.9	96.7	293.9	15.1	3.4
Asia	87.5	(12.5)	100.0	(800.0)	17.3	(2.5)
Corporate	(339.5)	(396.8)	57.3	(14.4)	—	
Total operating income (loss)	$62.7	$(424.3)	$487.0	(114.8)%	2.5 %	(15.2)%

Interest Expense. Interest expense decreased by $0.7 million in fiscal year 2018, as a result of lower debt levels, partially offset by higher interest rates on our amended credit facility.

Other Income (Expense)—Net. During fiscal year 2018, other income (expense) - net was expense of $38,000 compared to income of $13.7 million in fiscal year 2017, primarily driven by net foreign currency losses in fiscal year 2018 compared to net foreign currency gains in fiscal year 2017 resulting from cash flow hedging and other transactional activities.

Provision for Income Taxes. Income tax expense for fiscal year 2018 was $21.1 million, resulting in an effective tax rate of 104.7%, compared to (4.4)% in fiscal year 2017. The 2018 effective rate was negatively impacted by the accrual of valuation allowances on U.S. and some foreign deferred tax assets and the inclusion of foreign income taxed in the U.S. which was partially offset by certain favorable permanent differences. The 2017 effective rate was negatively impacted by the accrual of a valuation allowance on U.S. net deferred tax assets as well as some foreign deferred tax assets, the non-deductibility of intangible asset impairments, and the impact of a one-time repatriation tax on deferred foreign earnings under the Tax Act.

Net Income (Loss) Attributable to Fossil Group, Inc. Fiscal year 2018 net income (loss) attributable to Fossil Group, Inc. was a loss of $0.07 per diluted share in comparison to a loss of $9.87 per diluted share in the prior fiscal year. Fiscal year 2018 included restructuring charges of $0.75 per diluted share and non-cash intangible asset impairment charges of $0.10 per diluted share. In comparison, fiscal year 2017 diluted earnings (loss) per share included non-cash intangible asset impairment charges of $7.07 per diluted share, tax charges resulting from the Tax Act and valuation allowances established on deferred tax assets of $2.20 per diluted share and restructuring charges of $0.65 per diluted share. Excluding the impacts from restructuring expenses, non-cash intangible asset impairment charges, and the Tax Act and valuation allowance, net income attributable to Fossil, Group, Inc. increased $0.73 per diluted share in fiscal year 2018 as compared to fiscal year 2017 largely due to the impacts from NWF benefits, a favorable comparison against an inventory valuation reserve of approximately $40 million, primarily for excess levels of connected products recorded in fiscal year 2017, and store closures. Fiscal year 2018 net income (loss) attributable to Fossil Group, Inc. was negatively impacted by lower sales which was partly offset by an increased gross margin rate. Currencies, including both the translation impact on operating earnings and the impact of foreign currency hedging contracts, favorably affected the year-over-year diluted earnings (loss) per share comparison by $0.09.

Fiscal Year 2017 Compared to Fiscal Year 2016

Consolidated Net Sales. Net sales decreased $254.2 million or 8.4% (9.1% in constant currency) for fiscal year 2017, as compared to fiscal year 2016. Global watch sales decreased $131.3 million or 5.6% (6.4% in constant currency), with increases in EMPORIO ARMANI, ARMANI EXCHANGE and FOSSIL more than offset by declines in most other brands in our portfolio. Our leathers business decreased $68.3 million or 17.3% (18.0% in constant currency). Our jewelry category decreased $39.7 million or 15.8% (16.7% in constant currency), mostly as a result of a decrease in sales of MICHAEL KORS, FOSSIL and MISFIT branded products during fiscal year 2017 as compared to fiscal year 2016.

Table of Contents

Net sales information by product category is summarized on a reported and constant currency basis as follows (dollars in millions):

	Fiscal Year 2017		2016		Growth (Decline)		
	Amounts	Percentage of Total	Amounts	Percentage of Total	Dollars	Percentage as Reported	Percentage Constant Currency
Watches	$2,199.0	78.9 %	$2,330.3	76.6 %	$(131.3)	(5.6)%	(6.4)%
Leathers	325.5	11.7	393.8	12.9	(68.3)	(17.3)	(18.0)
Jewelry	211.7	7.6	251.4	8.3	(39.7)	(15.8)	(16.7)
Other	52.0	1.8	66.9	2.2	(14.9)	(22.3)	(22.6)
Total net sales	$2,788.2	100.0 %	$3,042.4	100.0 %	$(254.2)	(8.4)%	(9.1)%

The following table sets forth consolidated net sales by segment on a reported and constant currency basis (dollars in millions):

	Fiscal Year 2017		2016		Growth (Decline)		
	Amounts	Percentage of Total	Amounts	Percentage of Total	Dollars	Percentage as Reported	Percentage Constant Currency
Americas	$1,314.4	47.1 %	$1,523.5	50.1 %	$(209.1)	(13.7)%	(13.9)%
Europe	971.8	34.9	996.8	32.8	(25.0)	(2.5)	(4.4)
Asia	496.4	17.8	514.7	16.9	(18.3)	(3.6)	(4.1)
Corporate	5.6	0.2	7.4	0.2	(1.8)	(24.3)	(24.3)
Total net sales	$2,788.2	100.0 %	$3,042.4	100.0 %	$(254.2)	(8.4)%	(9.1)%

Americas Net Sales. During fiscal year 2017, the Americas segment was our most challenging. Americas net sales decreased $209.1 million or 13.7% (13.9% in constant currency), largely driven by watches. During fiscal year 2017, our multi-brand watch portfolio decreased $132.2 million or 11.4% (11.5% in constant currency), with declines across all brands. Continued softness in traditional watches was partially offset by increases in connected watches, with the strongest performances coming from FOSSIL and MICHAEL KORS connected watches. Our leathers category decreased $49.5 million or 20.0% (20.2% in constant currency), largely driven by FOSSIL branded product, and our jewelry business decreased $21.1 million or 23.0% (23.3% in constant currency), largely due to MISFIT branded product. Within the region, sales declined in the U.S. and Canada, while sales in Mexico were flat. Comparable retail sales (including e-commerce) decreased moderately in the region, as negative comparable sales in our stores were partially offset by positive comparable sales in our e-commerce business.

The following table sets forth product net sales for the Americas segment on a reported and constant currency basis by fiscal year (dollars in millions):

	Net Sales Fiscal Year		Growth (Decline)		
	2017	2016	Dollars	Percentage as Reported	Percentage Constant Currency
Watches	$1,030.1	$1,162.3	$(132.2)	(11.4)%	(11.5)%
Leathers	198.2	247.7	(49.5)	(20.0)	(20.2)
Jewelry	70.6	91.7	(21.1)	(23.0)	(23.3)
Other	15.5	21.8	(6.3)	(28.9)	(28.4)
Total	$1,314.4	$1,523.5	$(209.1)	(13.7)%	(13.9)%

Europe Net Sales. During fiscal year 2017, Europe net sales decreased $25.0 million or 2.5% (4.4% in constant currency). Across the Eurozone, sales were down modestly while distributor markets in Eastern Europe and the Middle East declined significantly. Our multi-brand watch portfolio increased $2.3 million or 0.3% (decreased 1.7% in constant currency),

Table of Contents

with growth in connected watches largely offsetting declines in traditional watches on a constant currency basis. Within our watch portfolio, ARMANI EXCHANGE, ARMANI and FOSSIL increased, while all other brands declined. Our jewelry category decreased $12.9 million or 8.8% (10.3% in constant currency), and our leathers business decreased $9.0 million or 10.7% (12.4% in constant currency) in fiscal year 2017, as compared to fiscal year 2016. Comparable retail sales in the Europe segment (including e-commerce) decreased modestly, with increases in the watch category more than offset by decreases in our other product categories. Strong e-commerce increases were more than offset by declines in our owned retail stores driven by both store closures and negative comparable retail sales.

The following table sets forth product net sales for the Europe segment on a reported and constant currency basis by fiscal year (dollars in millions):

	Net Sales Fiscal Year		Growth (Decline)		
	2017	2016	Dollars	Percentage as Reported	Percentage Constant Currency
Watches	$742.2	$739.9	$2.3	0.3 %	(1.7)%
Leathers	75.4	84.4	(9.0)	(10.7)	(12.4)
Jewelry	134.2	147.1	(12.9)	(8.8)	(10.3)
Other	20.0	25.4	(5.4)	(21.3)	(21.3)
Total	$971.8	$996.8	$(25.0)	(2.5)%	(4.4)%

Asia Net Sales. In fiscal year 2017, Asia net sales decreased $18.3 million or 3.6% (4.1% in constant currency). On a constant currency basis, sales growth in India and China was more than offset by decreases in most other markets, with the sharpest declines in Japan and South Korea. Our watch category decreased $1.3 million or 0.3% (0.8% in constant currency), with increases in EMPORIO ARMANI, driven by both traditional and connected watches, and FOSSIL watches more than offset by decreases in most other brands. Our leathers products decreased $9.7 million or 15.7% (16.5% in constant currency), and our jewelry business decreased $5.8 million or 46.0% (45.2% in constant currency). Comparable retail sales (including e-commerce) in the Asia region decreased moderately, with declines in leathers and jewelry partially offset by increases in watches.

The following table sets forth product net sales for the Asia segment on a reported and constant currency basis by fiscal year (dollars in millions):

	Net Sales Fiscal Year		Growth (Decline)		
	2017	2016	Dollars	Percentage as Reported	Percentage Constant Currency
Watches	$426.8	$428.1	$(1.3)	(0.3)%	(0.8)%
Leathers	52.0	61.7	(9.7)	(15.7)	(16.5)
Jewelry	6.8	12.6	(5.8)	(46.0)	(45.2)
Other	10.8	12.3	(1.5)	(12.2)	(12.2)
Total	$496.4	$514.7	$(18.3)	(3.6)%	(4.1)%

Stores. The following table sets forth the number of stores by concept for the fiscal years ended below:

	December 30, 2017				December 31, 2016			
	Americas	Europe	Asia	Total	Americas	Europe	Asia	Total
Full price	108	106	59	273	122	119	63	304
Outlets	136	74	46	256	143	73	45	261
Full priced multi-brand	—	8	7	15	—	8	12	20

Total stores	244	188	112	544	265	200	120	585

During fiscal year 2017, we opened eight new stores and closed 49 stores.

36

Table of Contents

Gross Profit. Gross profit of $1.4 billion in fiscal year 2017 decreased 13.9% compared to $1.6 billion in fiscal year 2016, mainly as a result of decreased sales and a lower gross margin rate. Gross profit margin decreased 320 basis points to 48.7% in fiscal year 2017 compared to 51.9% in the prior fiscal year. The decrease in gross margin rate as compared to fiscal year 2016 was primarily driven by the impact of connected products due to both the increase in sales mix of connected products which carry relatively lower margins than traditional products, as well as additional product valuation charges. Our strategy in fiscal 2017 was to invest in margin to drive significant volume in wearables and leverage that volume to drive future cost efficiencies. During fiscal 2017, we nearly doubled our connected sales volumes and finished ahead of the initial cost goals that we set for ourselves in fiscal year 2017. However, we did not achieve the aggressive sales goals that we set for ourselves in this new category, resulting in carrying greater levels of connected product inventory. Consequently, having higher levels of connected inventory than planned and even deferring some receipts to fiscal year 2018 resulted in additional valuation charges of approximately $40 million to support our efforts to clear this inventory. The shift in sales mix towards connected product and the related valuation charges reduced our gross margin rate by 280 basis points. The gross margin rate was also negatively impacted by increased promotional activity in our outlets and e-commerce channels. Product cost benefits generated from our NWF supply chain initiatives partially offset these headwinds, and the currency impact for the year remained neutral.
Operating Expenses. For fiscal year 2017, total operating expenses increased by $332.1 million and, as a percentage of net sales, increased to 64.0%, compared to 47.7% in fiscal year 2016, primarily due to intangible impairment charges recorded in the second quarter of fiscal 2017. During the second quarter of fiscal year 2017, interim impairment tests were performed on goodwill and trade names due to the sustained declines in our market capitalization and sales trends, resulting in impairment expenses of $359.5 million for goodwill and $47.6 million for trade names. For additional information, refer to Note 1-Significant Accounting Policies in the consolidated financial statements. During fiscal year 2017, we incurred restructuring charges of $48.2 million under our NWF initiative compared to restructuring charges of $27.8 million in fiscal year 2016. During fiscal year 2017, SG&A expenses decreased, primarily due to corporate overhead reductions and cost reductions in our regional organizations across the globe, as well as a lower store base and reduced marketing expenses. The translation of foreign-denominated expenses during fiscal year 2017 increased operating expenses by approximately $8.1 million as a result of the weaker U.S. dollar. As a percentage of net sales, SG&A expenses increased to 47.6% in fiscal 2017, as compared to 46.8% in fiscal 2016.
Consolidated Operating Income (Loss). Operating income (loss) decreased to a loss of $424.3 million in fiscal year 2017, as compared to income of $127.1 million in the prior fiscal year, primarily driven by non-cash intangible impairment charges of $407.1 million and also by decreased sales and gross margin rate. As a percentage of net sales, operating margin decreased to (15.2)% in fiscal year 2017 as compared to 4.2% in fiscal year 2016. For fiscal year 2017, the positive currency impact on gross margin was offset by the negative currency impact on expenses, resulting in a neutral impact to operating income (loss). In fiscal year 2017, we continued to face retail pressure, most significantly in our traditional watch business in all segments. Additionally, the gross margin rate was negatively impacted by connected products, due to both lower connected margins as well as additional product valuation charges, and lower retail margins due to increased promotional activity in outlets and the e-commerce channel in all segments. Operating expenses increased significantly, primarily due to non-cash impairment charges on our goodwill of $202.3 million, $114.3 million and $42.9 million in the Americas, Europe and Asia segments, respectively, and impairment charges on our trade names of $47.6 million in corporate. Increased restructuring charges were more than offset by savings in our infrastructure, store costs and marketing expenses.
Operating income (loss) by operating segment is summarized as follows (dollars in millions):

	Fiscal Year		Growth (Decline)		Operating Margin %	
	2017	2016	Dollars	Percentage	2017	2016
Americas	$(47.9)	$239.7	$(287.6)	(120.0)%	(3.6)%	15.7%
Europe	32.9	172.5	(139.6)	(80.9)	3.4	17.3
Asia	(12.5)	76.7	(89.2)	(116.3)	(2.5)	14.9
Corporate	(396.8)	(361.8)	(35.0)	9.7		—

Total operating income (loss)	$(424.3)	$127.1	$(551.4)	(433.8)%	(15.2)%	4.2 %

Interest Expense. Interest expense increased by $16.3 million in fiscal year 2017, primarily as a result of increased interest rates in comparison to the prior fiscal year.

Other Income (Expense)—Net. During fiscal year 2017, other income (expense) - net decreased by approximately $0.3 million, driven by fewer gains on the liquidation of non-operating assets, losses on the extinguishment of our term loan in fiscal year 2017 and decreased net foreign currency gains resulting from cash flow hedging and other transactional activities as

Table of Contents

compared to fiscal year 2016. These headwinds were mostly offset by increased interest income and decreased losses on our equity method investment.

Provision for Income Taxes. Income tax expense for fiscal year 2017 was $19.8 million, resulting in an effective tax rate of (4.4)%, compared to 25.1% in fiscal year 2016. The 2017 effective rate was negatively impacted by the accrual of a valuation allowance on U.S. net deferred tax assets as well as some foreign deferred tax assets, the non-deductibility of intangible asset impairments, and the imposition of a one-time repatriation tax on deferred foreign earnings under the Tax Act. The impacts from the tax reform and the U.S. valuation allowances resulted in combined charges of $106.7 million or $2.20 per diluted share.

Net Income (Loss) Attributable to Fossil Group, Inc. Fiscal year 2017 net income (loss) attributable to Fossil Group, Inc. was a loss of $9.87 per diluted share in comparison to net income of $1.63 per diluted share in the prior fiscal year. Diluted earnings (loss) per share included non-cash intangible asset impairment charges of $7.07 per diluted share, tax charges resulting from the Tax Act and valuation allowances established on deferred tax assets of $2.20 per diluted share and restructuring charges of $0.65 per diluted share. Fiscal year 2016 diluted earnings (loss) per share included restructuring charges of $0.37 per diluted share. Fiscal year 2017 net income (loss) attributable to Fossil Group, Inc. was also negatively impacted by lower sales and gross margin rate. Currencies, including both the translation impact on operating earnings and the impact of foreign currency hedging contracts, unfavorably affected the year-over-year diluted earnings (loss) per share comparison by $0.01.

Liquidity and Capital Resources

Our cash and cash equivalents balance at the end of fiscal year 2018 was $403.4 million, including $274.6 million held by foreign subsidiaries outside the U.S., in comparison to $231.2 million at the end of fiscal year 2017. Historically, our business operations have not required substantial cash during the first several months of our fiscal year. Generally, starting in the third quarter, our cash needs begin to increase, typically reaching a peak in the September-November time frame as we increase inventory levels in advance of the holiday season. Our quarterly cash requirements are also impacted by strategic investments such as acquisitions, other capital expenditures, restructuring charges and debt repayments. We believe that cash flows from operations combined with existing cash on hand and amounts available under our credit facilities will be sufficient to fund our cash needs for the next twelve months.

For fiscal year 2018, we generated operating cash flow of $248.1 million. This operating cash flow combined with cash on hand was utilized to fund $46.5 million in net repayments on our credit facilities and $18.0 million in capital expenditures. Net losses of $0.9 million were offset by net non-cash items of $108.8 million and a net decrease in working capital items of $140.3 million driven mainly by inventory reduction initiatives. Non-cash items primarily consisted of depreciation, amortization and accretion charges of $67.6 million and stock-based compensation of $23.0 million.

Accounts receivable decreased by 10.6% to $328.0 million at the end of fiscal year 2018 compared to $367.0 million at the end of the prior fiscal year. Average days sales outstanding for our wholesale business for fiscal year 2018 decreased one day as compared to fiscal year 2017.

Inventory at the end of fiscal year 2018 was $377.6 million, representing a decrease of 34.2% from the prior fiscal year inventory balance of $573.8 million driven by our focus on reducing inventory to clear our previous generation connected products and other slow moving inventory.

At the end of fiscal year 2018, we had working capital of $652.8 million compared to working capital of $781.9 million at the end of the prior fiscal year. Additionally, at the end of fiscal year 2018, we had approximately $126.4 million of outstanding short-term borrowings and $269.8 million in long-term debt.

For the fiscal year ending December 28, 2019, we expect total capital expenditures to be approximately $30 million. Of this amount, we expect approximately 40% will be for strategic growth, including investments in omni-channel, global concessions and technology, approximately 35% will be for technology and facilities maintenance and approximately 25% will be for retail store expansion and renovation. Our capital expenditure budget and allocation of it to the foregoing investments are estimates and are subject to change. We believe that cash flows from operations combined with existing cash on hand and amounts available under our credit facilities will be sufficient to fund our working capital needs and planned capital expenditures for the next twelve months.

Debt Facilities

On January 29, 2018, we and certain of our foreign subsidiaries entered into a Second Amended and Restated Credit Agreement (the "Credit Agreement"). The Credit Agreement provides for (i) revolving credit loans in the amount of $325 million, subject to a borrowing base (as described below) (the "Revolving Credit Facility"), with an up to $45.0 million subfacility for letters of credit, and (ii) a term loan in the amount of $425 million (the "Term Loan Facility"). The Credit Agreement expires and is due and payable on December 31, 2020.

Availability under the Revolving Credit Facility and any letters of credit are subject to a borrowing base equal to, (a) with respect to Fossil Group, Inc., the sum of (i) 85% of eligible U.S. accounts receivable and 90% of net U.S. credit card receivables (less any dilution reserve), and (ii) the lesser of (A) 65% of the lower of cost or market value of eligible U.S. finished good inventory and (B) 85% of the appraised net orderly liquidation value of eligible U.S. finished goods inventory, minus (iii) the aggregate amount of reserves, if any, established by the Administrative Agent in good faith and in the exercise of reasonable business judgment from the perspective of a secured asset-based lender; and (b) with respect to each non-U.S. borrower, the sum of (i) 85% of eligible accounts receivable of the non-U.S. borrowers (less any dilution reserve) and (ii) the least of (A) 65% of the lower of cost or market value of eligible foreign finished goods inventory of the non-U.S. borrowers, (B) 85% of the appraised net orderly liquidation value of eligible foreign finished goods inventory of the non-U.S. borrowers, and (C) $185,000,000 minus (iii) the aggregate amount of reserves, if any, established by the Administrative Agent in good faith and in the exercise of reasonable business judgment from the perspective of a secured asset-based lender.

In connection with the Credit Agreement, we and all of our domestic subsidiaries entered into a Collateral Agreement in favor of the Administrative Agent, pursuant to which we and our subsidiaries granted liens on all or substantially all of our assets in order to secure our obligations under the Credit Agreement and the other loan documents (the "Obligations"). Additionally, all of our domestic subsidiaries entered into a Guaranty Agreement in favor of the Administrative Agent, pursuant to which such subsidiaries guarantee the payment and performance of the Obligations. Additionally, Fossil Group Europe and the other non-U.S. borrowers from time to time party to the Credit Agreement are required to enter into security instruments with respect to all or substantially all of their assets that can be pledged under applicable local law.

The Credit Agreement amended and restated that certain credit agreement, dated as of March 9, 2015, as amended, which was scheduled to mature on May 17, 2019 (the "Prior Agreement"). As of January 29, 2018, we had $497.0 million in aggregate principal amount of revolving credit loans and no term loans outstanding under the Prior Agreement, all of which was refinanced on January 29, 2018 with borrowings under the Credit Agreement. No penalties or other early termination fees were incurred in connection with the amendment and restatement of the