

Fossil Group, Inc.

Form 10-K

March 02, 2018

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark
One)

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

For the Fiscal Year Ended December 30, 2017

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 75-2018505

(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

901 S. Central Expressway 75080
Richardson, Texas (Zip Code)

(Address of principal executive offices)

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
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Common Stock, \$0.01 par value	NASDAQ Global Select Market
--------------------------------	-----------------------------

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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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, or a smaller reporting 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 "	Accelerated filer	Non-accelerated filer "	Smaller reporting company "	Emerging growth company "
	x	(Do not check if a smaller reporting 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 July 1, 2017 was \$323.3 million.

As of February 20, 2018, 48,645,361 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 2018 Annual Meeting of Stockholders are incorporated by reference in Part III, Items 10-14 of this Annual Report on Form 10-K.

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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 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 and through our FOSSIL® website. 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 United States ("U.S."), our network of Company-owned stores included 80 retail stores located in premier retail sites and 123 outlet stores located in major outlet malls as of December 30, 2017. In addition, we offer an extensive collection of products through both owned and third party websites.

Internationally, our products are sold to department stores, specialty retail stores, and specialty watch and jewelry stores in approximately 150 countries worldwide through 23 Company-owned foreign sales subsidiaries and through a network of approximately 80 independent distributors. Our products are offered on airlines and cruise ships and in international Company-owned retail stores. Internationally, our network of Company-owned stores included 208 retail stores and 133 outlet stores as of December 30, 2017. Our products are also sold through licensed and franchised FOSSIL retail stores, retail concessions operated by us and kiosks in certain international markets, as well as owned websites and third party websites in certain countries.

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.

Business segments

Our operations and financial reporting are primarily divided into three distinct geographic segments: (i) Americas; (ii) Europe; and (iii) Asia. Each segment includes wholesale, retail and e-commerce activities based on the geographic location of those activities. Except to the extent that differences between operating segments are material to an understanding of our business taken as a whole, the description of our business in this report is presented on a consolidated basis. Corporate expenses include certain administrative, legal, accounting, technology support costs, equity compensation costs, payroll costs attributable to executive management, brand management, product

development, art, creative/product design, marketing, strategy, compliance and back office supply chain expenses. For financial information about our operating segments and geographic areas, refer to Management's Discussion and Analysis of Financial Condition and Results of Operations set forth in Part II, Item 7 and Note 18—Major Customer, Segment and Geographic Information to our consolidated financial statements set forth in Part II, Item 8 of this Annual Report on Form 10-K.

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Business strengths

We believe that we have several business strengths which allow us to differentiate ourselves and achieve our key operating and financial goals. These business strengths include:

Brand strength. We believe a brand's image, individuality, consistency and connection with its customers is paramount in building and sustaining the brand. We believe that our FOSSIL brand name is recognized on a global basis as an American vintage-inspired aspirational lifestyle brand with a focus on fashion accessories. The FOSSIL brand has developed from its origin as a watch brand to encompass other accessory categories, including handbags, belts, small leather goods, jewelry and sunglasses. We believe the FOSSIL brand is one of our most valuable assets, serves as a foundational piece of our business and remains very marketable across product lines, geographic areas and distribution channels. We have continued to develop, acquire or license other nationally or internationally recognized brand names, such as ARMANI EXCHANGE®, CHAPS BY RALPH LAUREN®, DIESEL®, DKNY®, EMPORIO ARMANI®, KARL LAGERFELD®, KATE SPADE NEW YORK®, MARC JACOBS®, MICHAEL KORS®, MICHELE®, MISFIT®, RELIC®, SKAGEN®, TORY BURCH® and ZODIAC®, in order to appeal to a wide range of consumers. Our industry is highly competitive and subject to changing preferences in style, taste and price points. The success of our business model depends upon offering a wide range of branded products that appeal to the various tastes and fashion preferences of our customers. We must also maintain the relevance of these products by continually anticipating customer needs and desires as they relate to both the brands and categories of products we offer. We have teams of designers and brand specialists assigned to each of our brands. The objectives of these designers and brand specialists are to immerse themselves in their assigned brand and product area, identify their customers' preferences, interpret global fashion trends and develop style-right offerings to generate volume purchasing. By owning the vast majority of our global distribution, we are also able to create and execute consistent pricing strategies and brand image presentations that protect and enhance our proprietary brands and those of our licensors.

Licensing strength. Since 1997, we have attracted highly recognized and respected brand names to license within our watch and jewelry portfolios. We believe we attract such quality brands due to our ability to provide them with access to our global design, production, distribution and marketing infrastructure. As a result of our vertical integration, we, unlike many of our competitors, can offer an integrated solution to launch or increase an accessory category presence on a worldwide basis in a consistent, timely and focused manner. All of our major licensing relationships are exclusive to us and the licensors, which substantially minimizes risks to the licensor associated with dealing with multiple licensees in different geographic regions. Additionally, in order to develop a broader relationship and maintain brand consistency across the accessory categories, we have broadened our infrastructure, which allows us to expand our licensing activities to products beyond the watch category, such as our DIESEL, EMPORIO ARMANI and MICHAEL KORS jewelry product lines.

Breadth of brands and retail price points. Through the multiple brands we distribute, we have developed a broad spectrum of retail price points. Within our watch collections, core retail price points vary from approximately \$7 in the mass market channel up to retail price points of \$5,995 in the luxury distribution channel, although the majority of our collections focus on price points ranging from \$85 to \$600. The breadth of our brands allows us to anchor a brand to a given price point range and distribution channel, thereby maintaining a consistent brand image while focusing on the quality/value relationship important to the customer and not diluting the brand through overlapping distribution channels. Our breadth of price points allows us to cater to various age and income groups while continuing to participate in sales consistently, regardless of a shift in income or the price/value preferences of our customers.

Wearable technology. We are leveraging our owned technology platform along with our partnership with Google to add incremental functionality to our fashion accessories across our portfolio of brands. Our in-house engineering team keeps us on the leading edge of technology, while providing a scalable, cost efficient infrastructure to support our growing connected accessory line of products. Due to the scale we have recently achieved in wearables, and by leveraging our scale in traditional watches, we are able to drive supply chain efficiencies, reduce costs and improve margins, and we believe we are in a unique position to compete in the evolving wristwear business.

International penetration. Since our initial public offering in 1993, we have continued to extend our reach beyond the U.S. by forming and acquiring internationally-based subsidiaries, licensing and developing internationally recognized brands and investing in the growth of our business within many major countries of the world. Net sales

generated outside the U.S. were 58.5%, 55.4% and 53.8% for fiscal years 2017, 2016 and 2015, respectively. Breadth of distribution channels. Our products are sold through multiple distribution channels including department stores, specialty retail stores, specialty watch and jewelry stores, mass market stores, consumer electronics stores, cruise ships, airlines, Company-owned retail stores, licensed and franchised FOSSIL stores, retail concessions operated by us and e-commerce sites. As we expand our presence in existing distribution channels and add new distribution channels, as well as develop new product lines and expand our geographic reach, our revenues have become less dependent on any one distribution

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channel or geographic region. Our Company-owned retail stores and websites allow us to enhance the related brand image by offering a targeted message to the customer, showcasing the array of product availability, influencing the merchandising and presentation of the products and testing new product introductions.

In-house creative team. Since our inception, we have developed a talented pool of creative individuals who design our retail stores, websites, products, packaging, graphics, presentation displays and marketing materials, allowing us to deliver a unique and cohesive style and image for each of our brands. We believe our emphasis on constant innovation and distinctive design has made us a leader in the branded accessory category.

International 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 from Asia is coordinated through our Hong Kong subsidiary, Fossil (East) Limited ("Fossil East"). During fiscal year 2017, approximately 55% of our non-Swiss made watch production was assembled or procured 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 facilities and relationships for manufacturing our wearable technology products as well as enhanced our own factories to enable assembly and production of hybrid smart watches. 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.

Centralized distribution. We distribute substantially all of our products sold in North America from our warehouse and distribution centers located in Texas. In Europe, we distribute our products primarily through our warehouse and distribution center located in Germany. In Asia, we primarily distribute our products through our distribution warehouse located in Hong Kong and through smaller distribution warehouses in those countries where we maintain a physical presence. We believe our centralized distribution capabilities in the U.S. and Europe enable us to reduce inventory risk, increase flexibility in achieving delivery requirements of our customers and maintain cost advantages as compared to our competitors.

Operating cash flow. Our business model has historically generated strong operating cash flows, including \$0.2 billion in fiscal year 2017, and \$0.8 billion and \$1.6 billion over the past three fiscal years and five fiscal years, respectively. This strong cash flow has allowed us to fund debt repayments and invest in our New World Fossil initiative. For more information on our New World Fossil initiative, see Note 19—Restructuring to our consolidated financial statements set forth in Part II, Item 8 of this Annual Report on Form 10-K.

Information systems. Operating and managing a global company requires sophisticated and reliable management information systems to assist in the planning, order processing, production and distribution functions and accounting of each relevant business. We mainly operate an SAP Enterprise Resource Planning system ("ERP") in the U.S. and most of Europe. For our subsidiaries in Asia, we operate Microsoft's Dynamics Navision Enterprise Resource Planning System ("Navision"). Our e-commerce platform is based on IBM's WebSphere Commerce platform and Adobe's Experience Manager platform. We continue to invest in other feature/functions and e-commerce infrastructure, which will allow us to provide a branded and omni-channel web experience in key markets. We operate SAP's IS Retail platform combined with the Aptos point-of-sale in Americas and Europe and the WINCOR point-of-sale in Asia. Our products are principally distributed from three primary warehouses, one located in Texas near our headquarters, one located in southern Germany and the other located in Hong Kong. Our facilities in Texas and Germany utilize sophisticated automated material handling equipment and software designed to improve

accuracy, speed and quality in our warehousing operations.

For financial reporting, we use software solutions from Oracle Corporation: Hyperion Financial Management, Essbase and Hyperion Planning. This software was implemented in 2014 to increase the overall efficiency of our consolidation and financial reporting process, provide an analytical application to view and interpret data, and to improve predictability in the budgeting and forecasting process.

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Operating strategy

Our goal is to drive shareholder value by increasing profits and cash flows. While we currently operate in challenging retail, watch, leather and jewelry environments, we intend to leverage our business strengths while continuing to undergo a significant transformation to strengthen our business model. We plan to achieve our business strategy by focusing on the following strategic initiatives:

Improve profitability. While we expect sales to contract in the near future due to store closures and the expiration of our ADIDAS and BURBERRY licenses, we intend to improve overall profitability. We believe that closing certain stores and exiting certain unprofitable businesses as part of our restructuring plan can positively impact our net income. In addition, we are seeking to improve our gross margins through increasing economies of scale with our wearables products, through renegotiation of pricing with our suppliers and by further reducing other supply chain costs. While we will incur additional restructuring expenses in fiscal year 2018, we plan to lower our base expenses by leveraging lower sales with lower variable expenses and by achieving organizational efficiencies. We are also focused on improving our return on working capital and further reducing our outstanding debt position.

Innovation. We remain committed to succeeding in the traditional watch, leathers and jewelry categories, and are supported by our in-house creative teams which continue to innovate with new designs, colors and materials. We believe our vertical structure, size and scale and both owned and licensed portfolios give us advantages over our competition in these categories. While wearables continue to grow the overall watch market, traditional products still retain a large percentage of the overall watch market and represent a significant opportunity. We plan to continue to introduce new brands through the development of proprietary brands or through licensing arrangements with recognizable global fashion lifestyle brands to attract a wide range of consumers with differing tastes and lifestyles. Our strength in innovation has expanded into smartwatches, in both display and hybrid models. While our smartwatches retain each brand's style and fashion, they continue to add additional functionality and applications, improving the overall user experience. Since our connected business began, it has allowed us to expand our addressable market through new distribution channels. Our objective remains to bring fashion, branding and style to the connected watch business by tailoring the technology that our customers want with each of our brand's unique point of view. We will continue to launch new formats of both display and hybrid smartwatches, and we believe these new offerings will continue to support growth in our connected products category.

E-commerce and digitalization. With consumers' shopping preferences continuing to evolve beyond traditional retail stores, we are seeking further reduction of our store fleet and continuing to invest in our digital infrastructure and e-commerce capabilities. We plan to expand our digital capabilities for consumer insight, analytics and the use of data throughout the organization. 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 into new markets. Based on the success of our social media campaigns in fiscal year 2017, we intend to expand our social media programs, including our celebrity influencer campaigns, to increase our social media platform engagement. Additionally, we plan to continue to expand our omni-channel initiatives across more of our global markets.

Industry overview

Traditional watches

We believe that the current traditional watch market can generally be divided into four segments. One segment of the market consists of fine watches characterized by internationally known brand names such as Audemars Piguet, Cartier, Omega, Patek Philippe, Piaget and Rolex. Watches offered in this segment are usually made of precious metals or stainless steel and may be set with precious gems. These watches are almost exclusively manufactured in Switzerland and are sold by trade jewelers and in the fine jewelry departments of select department stores and other purveyors of luxury goods at retail prices ranging from \$4,000 to in excess of \$20,000. Selected limited editions of our MICHELE line compete in this market. A second segment of the traditional watch market consists of fine premium branded and designer watches produced in Switzerland and Asia such as Gucci, Movado, Raymond Weil, Seiko, TAG Heuer and Tissot. These watches are sold at retail prices generally ranging from \$495 to \$4,000. Our EMPORIO ARMANI, EMPORIO ARMANI Swiss, MICHELE, and ZODIAC lines generally compete in this market segment. A third segment of the traditional watch market consists of watches sold by mass marketers, which typically

consist of digital and analog watches manufactured in Asia. Well-known brands in this segment include Armitron, Casio and Timex. Retail prices in this segment range from \$7 to \$60. We compete in this segment through the design and production of private label watch products for Kmart, Target and Wal-Mart.

The fourth segment of the traditional watch market consists of moderately priced watches characterized by contemporary fashion and well-known fashion brand names. Moderately priced watches are typically produced in China or Hong Kong and

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are sold by department stores and specialty stores at retail prices ranging from \$60 to \$1,000. We target this market segment with our FOSSIL, RELIC and SKAGEN lines, along with our principal competitors, including the companies that market watches under the Anne Klein II, Guess?, Kenneth Cole and Swatch brand names, whose products attempt to reflect emerging fashion trends in accessories and clothing. Our ARMANI EXCHANGE, DIESEL, DKNY, KARL LAGERFELD, MARC JACOBS, KATE SPADE NEW YORK, MICHAEL KORS and TORY BURCH lines generally compete in this segment as well. We believe that a number of consumers regard branded fashion watches not only as timepieces, but also as fashion accessories, and that has historically resulted in consumers owning multiple watches that may differ significantly in terms of style, features and cost.

Traditional watches typically utilize either a mechanical or quartz-analog movement to maintain their time keeping function. Mechanical watches utilize intricate arrangements of wheels, jewels and winding and regulating mechanisms to keep time, while quartz-analog watches are precisely calibrated to the regular frequency of the vibration of a quartz crystal powered by a battery. Although quartz-analog movements typically maintain their time keeping functions more precisely than mechanical movements, mechanical movements are prized for their craftsmanship and are generally associated with high-end luxury.

Wearable technology / connected accessories

Wearable technology has quickly emerged as a meaningful segment within accessories as consumers continue to be drawn to technology enabled products that complement their connected lifestyles. Our industry research strongly correlates this segment with younger and largely female aspirational fashion customers. We believe there is a major opportunity to combine fashion and technology, important attributes to consumers wearing these devices, to differentiate ourselves from competitors. With our Misfit technology platform, we believe we are in position to lead this convergence of fashion and technology by bringing leading-edge technology across our world-class portfolio of brands through our global distribution.

We believe our wearables market is broken up into two distinct segments. The first segment is touchscreen smart watches which includes highly visible products such as the Apple Watch and Samsung Gear S3. In 2017, we partnered closely with Google to expand our Android Wear watch offerings from FOSSIL and MICHAEL KORS and to introduce new Android Wear devices under the EMPORIO ARMANI, DIESEL and MISFIT brands. Our latest generation of products includes slimmer cases, brighter displays and new functionality, serving both iPhone and Android phone users across more than 50 countries globally.

The second segment is hybrid smart watches. Hybrid smart watches combine the attractive aesthetics of a traditional analog watch with embedded technology to enhance a consumer's life without detracting from his or her sense of style. This is an emerging market that has a limited number of brands competing, including technology companies like Withings and Samsung, as well as traditional watch brands like Movado. In the hybrid category, we have scaled this technology platform across 14 brands, including six new brand introductions in 2017 under the TORY BURCH, MICHELE, MARC JACOBS, DKNY, ARMANI EXCHANGE and RELIC brands.

Fashion accessories

In addition to watches, the fashion accessories market also includes an array of products such as small leather goods, handbags, belts, sunglasses and jewelry. We believe that a number of consumers view accessories as fashion statements, and as a result, purchase brand name, quality items that complement other fashion items. These fashion accessory products are generally marketed through department stores, e-commerce sites, specialty retailers and mass merchandisers, depending upon price and quality. Higher price point items include products offered by fashion names such as Louis Vuitton and Prada.

Moderately priced fashion accessories are typically marketed in department stores and are characterized by contemporary fashion and well-known brand names at reasonable price points, such as our FOSSIL and RELIC brands. We currently offer small leather goods, handbags, belts and sunglasses for both men and women through department stores, e-commerce sites and specialty retailers in the moderate to upper-moderate price ranges. Our competitors in this market include companies such as Coach, Guess?, Kenneth Cole, Liz Claiborne and Nine West. In

addition, we currently offer fashion jewelry sold under the DIESEL, EMPORIO ARMANI, FOSSIL, MICHAEL KORS and SKAGEN brands.

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Our products

We design, develop, market and distribute watches, wearable technology, handbags, jewelry, belts and small leather goods under proprietary and licensed brand names. Additionally, we manufacture or distribute private label brands as well as branded products we purchase for resale in certain of our non-FOSSIL branded retail stores. The following table sets forth certain information with respect to the breakdown of our net sales and percentage of growth between proprietary, licensed and other brands for the fiscal years indicated (in millions, except for percentage data).

	Fiscal Year		2016		2015
	Dollars	% Change	Dollars	% Change	Dollars
Net sales					
Proprietary	\$1,371.9	(7.2)%	\$1,479.0	1.4 %	\$1,458.6
Licensed	1,311.4	(9.5)	1,449.6	(12.1)	1,648.7
Other	104.9	(7.8)	113.8	(6.3)	121.5
Total	\$2,788.2	(8.4)%	\$3,042.4	(5.8)%	\$3,228.8

Traditional and connected watch products

We offer an extensive line of branded lifestyle watches under our proprietary brands and, pursuant to license agreements, under some of the most prestigious brands in the world. Sales of watches for fiscal years 2017, 2016 and 2015 accounted for approximately 78.9%, 76.6% and 76.7%, respectively, of our consolidated net sales.

Proprietary brands. The following table sets forth information about our primary proprietary brand watches:

Brand	Suggested Retail Price Point Range
FOSSIL	\$85 - 295
MICHELE	\$345 - 5,995
MISFIT	\$60 - 220
RELIC	\$45 - 150
SKAGEN	\$95 - 295
ZODIAC	\$595 - 1,800

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 companies. The following table sets forth information with respect to our primary licensed watch products:

Brand	Suggested Retail Price Point Range	Expiration Date*
ARMANI EXCHANGE	\$100 - 295	12/31/2023
CHAPS	\$75 - 195	12/31/2020
DIESEL	\$100 - 495	12/31/2025
DKNY	\$95 - 275	12/31/2019
EMPORIO ARMANI	\$175 - 2,995	12/31/2023
KARL LAGERFELD	\$125 - 300	12/31/2020
KATE SPADE NEW YORK	\$150 - 350	12/31/2025
MARC JACOBS	\$150 - 300	12/31/2020
MICHAEL KORS	\$195 - 550	12/31/2024
TORY BURCH	\$195 - 395	12/31/2018

* subject to early termination

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Sales of our licensed watch products accounted for 43.1% of our consolidated net sales for fiscal year 2017. Our MICHAEL KORS product sales, including jewelry, accounted for 22.6% of our consolidated net sales for fiscal year 2017.

Private label and other. We design, market and source manufacturing of certain retailers' private label and owned brand watches or as premium and incentive items for use 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 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 the strengthening of business relationships with our manufacturing sources.

Fashion accessories

In order to leverage our design and marketing expertise and our close relationships with our principal retail customers, primarily in the U.S. and Europe, we have developed a line of fashion accessories for both men and women, including belts, handbags, jewelry and small leather goods. Our handbags are made of a variety of fine leathers and other materials that emphasize classic styles and incorporate a variety of creative designs. Our small leather goods are typically made of fine leathers or other man-made materials and include items such as coin purses, cosmetic bags, mini-bags and wallets. Our jewelry lines include bracelets, cufflinks, earrings, necklaces and rings marketed under the DIESEL, EMPORIO ARMANI, FOSSIL, MICHAEL KORS and SKAGEN brands and typically include materials such as base metals, stainless steel, semi-precious stones and sterling silver. We offer 100% UV protected fashion sunglasses under our FOSSIL brand. We currently sell our fashion accessories through a number of our existing major department store and specialty retail store customers, as well as through our Company-owned retail stores, www.fossil.com and other internationally-owned e-commerce sites. 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 in-store presentations, graphics and packaging. These 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 19.7% of our consolidated net sales in fiscal year 2017 and 21.6% of our consolidated net sales in both fiscal years 2016 and 2015.

The following table sets forth information about our fashion accessories:

Brand	Accessory Category	Suggested Retail Price Point Range
DIESEL	Jewelry	\$50 - 150
EMPORIO ARMANI	Jewelry	\$65 - 295
	Bags	\$88 - 448
	Small Leather Goods	\$12 - 148
FOSSIL	Belts	\$24 - 58
	Eyewear	\$55 - 135
	Jewelry	\$14 - 98
MICHAEL KORS	Jewelry	\$45 - 595
	Handbags	\$40 - 78
RELIC	Small Leather Goods	\$22 - 40
	Belts	\$22 - 32

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SKAGEN	Handbags	\$165 - 295
	Small Leather Goods	\$35 - 175
	Jewelry	\$35 - 90

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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 for fiscal years 2017, 2016 and 2015 accounted for approximately 0.4%, 0.4% and 0.5%, respectively, of our consolidated net sales.

Design and development

We believe one of our key strengths is our internal creative team. Our watch and accessory products are created and developed by our in-house design staff primarily located in the U.S., Germany, Hong Kong and Switzerland. When developing products under our various licensed brands, we often coordinate our efforts with our licensors' design teams to provide for a more fluid design approval process and to fully incorporate the image of the respective brand into the product. Product design ideas are drawn from various sources and are reviewed and modified by our design staff to ensure consistency with our existing product offerings and the themes and images associated with our brands. Senior management is actively involved in the design process.

In order to respond effectively to changing consumer preferences, we attempt to stay abreast of emerging lifestyle and fashion trends impacting our product categories. In addition, we attempt to take advantage of the constant flow of information from our customers, retail stores and e-commerce sites regarding the retail performance of our products. We review weekly sales reports provided by a substantial number of our customers, as well as daily sales reports generated from our Company-owned retail stores and e-commerce sites, containing information with respect to sales and inventories by product category and style. Once a trend in the retail performance of a product category or style has been identified, our design and marketing staff review their product design decisions to ensure that key features of successful products are incorporated into future designs. Other factors having an influence on the design process include the availability of components, the capabilities of the factories that will manufacture the products for us and the anticipated retail prices and profit margins for the products. Our creative teams have access to our product design archives and are regularly updated on all the various new components, hardware and materials that become available. Over the last few years, our focus has been on transforming our approach in design and development from an assortment-rich offering to an iconic platform presentation. This has enhanced our ability to develop and share compelling stories within the platforms through a narrower range of product offerings, thereby reducing inventory risk and improving lead times. We initially developed this approach in our watch business, and we are now applying a similar approach to our leather and jewelry businesses.

We differentiate our products from those of our competitors principally by incorporating into our product designs innovations in fashion details, including variations in the materials and treatments used for dials, crystals, cases, straps and bracelets for our watches and innovative details and treatments in our other accessories. We also incorporate certain proprietary technology or integrate our suppliers' technologies in certain of our wearables products. In some instances, we believe that such innovations have allowed us to achieve significant improvements in consumer acceptance of our product offerings. We believe that the substantial experience of our design staff will assist us in maintaining our current leadership position in the watch category, continuing to enhance our handbag offering and expanding the scope of our product offerings.

Marketing and promotion

Our marketing strategy for each of our proprietary brands is to deliver a consistent and engaging brand experience to the consumer regardless of where the consumer comes into contact with the brand. This includes point-of-sale merchandise displays, retail stores, our websites, digital advertising, catalogs, print marketing and product packaging. We are especially focused on strengthening our digital marketing ecosystem, which includes investing in e-commerce, improving our Customer Relationship Management ("CRM") capabilities, continuing to build a seamless omni-channel experience (like Buy Online, Pickup In Store) and investing in influencer marketing. Our holistic global marketing approach encourages ongoing communication with our customers, fosters brand loyalty and facilitates engagement and repeat purchases. In addition, we are attracting, educating and engaging our newest customer segment - the smart watch customer - through robust customer profiling and targeted communication strategies.

We participate in cooperative advertising programs with our major retail customers, whereby we share the cost of certain of their advertising and promotional expenses. An important facet of the marketing process involves the use of

in-store visual support and other merchandising materials, including packages, signs, posters and fixtures. Through the use of these materials, we differentiate the space used to sell our products from other areas of our customers' stores. We also develop strong digital programs to continue to drive engagement and conversation across all channels.

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Our in-house art department designs and develops packaging, advertising, marketing and other promotional aspects of our products. Senior management is involved in monitoring our advertising and promotional activities to ensure that all of our communications strengthen our brands, engage consumer audiences and ultimately drive sales.

Sales and customers

General. Domestically, we sell our products in retail locations in the U.S. through a diversified distribution network that includes department stores, specialty retail locations, specialty watch and jewelry stores and mass market stores. For our FOSSIL, MICHELE and licensed branded products, our primary department store customers include Bloomingdale's, Dillard's, Macy's, Neiman Marcus, Nordstrom and Saks Fifth Avenue. For our RELIC brand, our primary customers include JCPenney and Kohl's. For our SKAGEN brand, our primary customers include Dillard's, Macy's and Nordstrom. Many of our licensed branded products are also sold through each respective licensor's boutique stores and websites. We maintain sales offices in several major cities across the U.S. staffed with sales associates to assist in managing our department and specialty store accounts. We also sell certain of our FOSSIL branded products at Company-owned FOSSIL retail stores and outlet stores located throughout the U.S., and through our website at www.fossil.com. In addition, we sell certain of our proprietary and licensed watch products, as well as upscale watch brands of other companies, such as Citizen and Swiss Army, at our Company-owned Watch Station International retail stores in the U.S. and through our website at www.watchstation.com.

We maintain subsidiary offices in Australia, Austria, Canada, China, Denmark, France, Germany, Hong Kong, India, Italy, Japan, Malaysia, Mexico, the Netherlands, Poland, Singapore, South Africa, South Korea, Spain, Sweden, Switzerland, Taiwan, the United Kingdom and Vietnam. Our European headquarters is located in Basel, Switzerland, and our Asian headquarters is located in Hong Kong.

Internationally, our products are sold to department stores and specialty retail stores in approximately 150 countries worldwide through 23 Company-owned foreign subsidiaries, a network of approximately 80 independent distributors, Company-owned retail stores and websites and licensed or franchised FOSSIL retail stores, retail concessions operated by us and kiosks. Foreign distributors generally purchase products from us at prices established by us for international sales and resell them to department stores and specialty retail stores. We generally receive payment from our foreign distributors in U.S. dollars. We generally do not have long-term contracts with any of our retail customers. All transactions between us and our retail customers are conducted on the basis of purchase orders, which generally require payment of amounts due to us on a net 30 day basis for most of our U.S.-based customers and up to 120 days for certain international customers. No customer accounted for 10% or more of our consolidated net sales in fiscal years 2017, 2016 or 2015. Net sales for geographic segments are based on the location of the selling entity. For more information on our geographic segments, see Note 18—Major Customer, Segment and Geographic Information to our consolidated financial statements set forth in Part II, Item 8 of this Annual Report on Form 10-K.

United States sales. For fiscal years 2017, 2016 and 2015, U.S. sales accounted for 41.5%, 44.6% and 46.2% of our consolidated net sales, respectively, and the aggregate sales to our 10 largest U.S. customers represented approximately 20.0%, 21.0% and 21.3% of consolidated net sales, respectively.

International sales. For fiscal years 2017, 2016 and 2015, Europe sales accounted for 34.9%, 32.9% and 33.1% of consolidated net sales, respectively, Asia sales accounted for 17.9%, 16.9% and 15.4% of consolidated net sales, respectively, and other international sales accounted for 5.7%, 5.6% and 5.3% of consolidated net sales, respectively. Net sales from Germany accounted for more than 10% of our consolidated net sales and were approximately \$406.2 million, \$467.7 million and \$505.4 million in fiscal years 2017, 2016 and 2015, respectively.

Company-owned stores

Our various retail store formats focus on creating emotional connections with our customers through an intense branding experience and personalized customer service. We strive to provide an inviting and welcoming environment for our customers that enhances our brand image and seek brand loyalty by continually delivering innovative vintage-inspired products that meet our customers' tastes. Our goal is to provide the customer with a consistent brand experience and message across the various channels we serve, including our retail stores, wholesale partners and e-commerce channels. Our on-going investments in our omni-channel initiatives help facilitate this goal and are critical components of our growth strategy going forward.

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The following table sets forth the number of stores by concept as of December 30, 2017 and December 31, 2016:

	December 30, 2017				December 31, 2016			
	Americas	Europe	Asia	Total	Americas	Europe	Asia	Total
Accessory stores	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

Accessory stores

We operate full-price FOSSIL and SKAGEN accessory retail stores ("Accessory Stores") in order to broaden the recognition of our brand names. Accessory Stores carry a full assortment of FOSSIL or SKAGEN watches and other accessories. At the end of fiscal year 2017, the average size of our Accessory Stores was 1,500 square feet, but each store can vary in size based on its geographic location. For example, our international-based stores are generally smaller in square footage than our U.S.-based stores due to smaller retail store configurations generally available in international markets. The table below sets forth information about our Accessory Stores for the last five fiscal years:

Fiscal Year	Open At Beginning of Period	Opened During Period	Closed During Period	Open at End of Period	Total Gross Square Footage (in thousands)	Percentage Increase (Decrease) in Square Footage	Average Gross Square Footage Per Retail Store
2013	260	30	14	276	402.3	10.7 %	1,458
2014	276	29	16	289	432.2	7.4 %	1,496
2015	289	45	(1)13	321	496.4	14.9 %	1,546
2016	321	10	27	304	467.8	(5.8)%	1,539
2017	304	2	33	273	409.6	(12.4)%	1,500

(1) Includes stores added through our acquisition of the South Africa-based distributor S.Keren Watch Group ("SKWG").

Outlet stores

The majority of our outlet stores are FOSSIL branded and are located at select outlet malls throughout the U.S. and in certain international locations. We also operate outlets under the SKAGEN and Watch Station International names. Our outlets operating under the FOSSIL and SKAGEN names not only increase our brand awareness, but also enable us to liquidate excess inventory generally at significantly better prices than we would obtain through third-party liquidators. We generally discount excess inventory products in our outlet stores from 30% to 60% off our suggested retail price. The table below sets forth information about our outlet stores during the last five fiscal years:

Fiscal Year	Open At Beginning of Period	Opened During Period	Closed During Period	Open at End of Period	Total Gross Square Footage (in thousands)	Percentage Increase (Decrease) in Square Footage	Average Gross Square Footage Per Retail Store
2013	162	46	2	206	427.9	20.1 %	2,077
2014	206	41	4	243	497.4	16.2 %	2,047
2015	243	29	(1)2	270	543.0	9.2 %	2,011
2016	270	6	15	261	525.8	(3.2)%	2,015
2017	261	7	12	256	505.1	(3.9)%	1,973

(1) Includes stores added through our SKWG acquisition.

Other retail and e-commerce

We sell certain of our proprietary and licensed brand watches, as well as watches manufactured by other companies, in our Watch Station International stores.

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We have an agreement with the House of Fraser ("HOF"), a U.K.-based department store, which allows us to operate a watch and jewelry department in certain HOF stores. Under this agreement, we own the inventory within the HOF store, provide the labor to operate the department and pay HOF a commission on the retail sales generated in the stores. As of December 30, 2017, we operated the watch and jewelry department in 52 HOF stores and HOF Online, although we do not include the number of locations associated with this arrangement in our retail store count. Internet sales. Our U.S. e-commerce website for FOSSIL branded products is www.fossil.com. We also operate e-commerce websites in Australia, France, Germany, Italy, Japan and the United Kingdom. We also ship to Canada and Mexico through the use of a third-party e-commerce website to process transactions. Each of our websites features a full selection of geographically specific FOSSIL branded products. Certain of our websites also provide customer service, company news and shareholder information. Our websites are continually updated to provide a fresh look and an easy-to-navigate interface that enhances our brand image, while allowing consumers a pleasing shopping experience or a preview of what they may find at their local store carrying the brand. Since its launch, the www.fossil.com website has been promoted consistently in support of online brand and direct sales goals. Our online marketing efforts include the following: search/keyword marketing programs through major search partners including Google, Bing and Yahoo!; regular e-mail communications sent using our e-mail service provider to over one million registered consumers; product and promotional banners presented on affiliate networks and display banner networks; and online brand initiatives through social networks such as Facebook, Twitter, Instagram, Pinterest, YouTube, WeChat and Weibo in support of viral and traditional brand initiatives. We have leveraged our e-commerce infrastructure through websites to support our licensed and owned brands, including www.michele.com, www.misfit.com, www.skagen.com and www.watchstation.com.

Facilitating our wholesale distribution

We utilize an in-house sales staff and, to a lesser extent, independent sales representatives to promote the sale of our products to retail accounts. Our in-house sales personnel receive a salary and, in some cases, a commission based on a percentage of sales attributable to specified accounts. Independent sales representatives generally do not sell competing product lines and are under contracts with us that are generally terminable by either party upon notice ranging from 15 days to six months. These independent contractors are primarily compensated on a commission basis. We have developed an approach to managing the retail sales process that involves monitoring our customers' sales and inventories by product category and style, primarily through electronic data interchange. We review weekly selling and inventory information to ensure our products are properly stocked and replenished on a timely basis. We also assist many of our customers in the conception, development and implementation of their marketing programs. We also participate in cooperative advertising programs with our major retail customers. We believe that management of the retail sales process has resulted in close relationships with our principal wholesale customers, often allowing us to influence the mix, quantity and timing of their purchasing decisions.

We believe that our sales approach has historically accounted for high retail turnover in our products, which can result in attractive profit margins for our wholesale customers. We believe that the resulting profit margins for our wholesale customers encourage them to devote greater selling space to our products within their stores. We are also able to work closely with buyers for our wholesale customers in determining the mix of products a store should carry. In addition, we believe that the buyers' familiarity with our sales approach has facilitated, and should continue to facilitate, the introduction of new products through our existing distribution network.

We permit the return of damaged or defective products. In addition, although we have no obligation to do so, we accept limited amounts of product returns from our wholesale customers in other instances. Accordingly, we provide allowances for the estimated amount of product returns. The allowances for product returns as of the end of fiscal years 2017, 2016 and 2015 were \$75.2 million, \$66.9 million and \$68.7 million, respectively. We have not historically experienced returns in excess of our aggregate allowances.

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 2017, we had unfilled customer orders of approximately \$74.1 million, compared to \$104.5 million and \$84.9 million at the end of fiscal years 2016 and 2015, respectively.

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Manufacturing

Watches and jewelry. During fiscal year 2017, approximately 55% of the watches we procured from Asia were assembled or procured through our two majority-owned entities. The remaining watches we procured from Asia were assembled by approximately 39 unrelated factories located primarily in China and Hong Kong, which includes almost all the production and assembly of our display, digital and mass market watches. During fiscal year 2017, our Swiss-made watches were assembled primarily by two of our majority-owned entities and three third-party factories in Switzerland. During fiscal year 2017, approximately 63% of our jewelry products were manufactured by one of our majority-owned entities. The remaining 37% of our jewelry products were manufactured by approximately 18 factories located primarily in China. Although we have no ownership interest in these unrelated watch and jewelry factories, Fossil East maintains oversight and control of the supply chain from design through final delivery of the finished product as it does with our related factories. We believe substantial ownership of the assembly factories that produce a significant amount of our fashion watches and jewelry is critical to our operating model, as we believe this allows us to keep our designs proprietary, control the size of our production runs and vertically manage our supply chain.

The principal components used in the assembly of our watches are cases, crystals, dials, hands, movements and connected modules, bracelets and straps. These components are obtained from a large number of suppliers located principally in China, Hong Kong, India, Italy, Japan, South Korea and Thailand. The majority of the movements, cases, dials, bracelets and hands used in the assembly of our watches are supplied by eleven principal vendors. During fiscal years 2017, 2016 and 2015, two vendors were responsible for supplying approximately 49%, 37% and 43% of our case and bracelet components, respectively. Additionally, three vendors were responsible for supplying approximately 78%, 76% and 73% of our movements in fiscal years 2017, 2016 and 2015, respectively. The principal materials used in the manufacture of our jewelry products are base metals, stainless steel, semi-precious stones or silver jewelry with 18K gold plating on top. These components are primarily obtained from the same factories that we use for our watches. Except for the two case and bracelet vendors and the three movement vendors noted above, we do not believe that our business is materially dependent on any single component supplier.

We believe that we have established and maintain close relationships with a number of component manufacturers and assembly factories primarily located in China, Hong Kong and Switzerland. The loss of any one of these manufacturers could temporarily disrupt shipments of certain of our watch and jewelry products. In addition, we believe that losing one or more of the component vendors, watch assembly factories or jewelry manufacturers could have a material impact on our ability to source these products and meet our sales plans. Our future success will generally depend upon our ability to maintain close relationships with, or ownership of, our current watch assembly and jewelry manufacturing factories and to develop long-term relationships with other vendors and manufacturers that satisfy our requirements for price, quality and production flexibility.

Other Accessories. During fiscal year 2017, all of the manufacturing of our handbags, small leather goods and belts was outsourced. We believe that our policy of outsourcing the production of these product categories allows us flexibility in selecting our suppliers while avoiding significant capital expenditures, build-ups of work-in-process inventory and the costs of managing a substantial production work force.

General. We have a Code of Conduct for Manufacturers ("Manufacturer Code") that sets forth the corporate responsibility requirements for our suppliers, including compliance with international labor and human rights standards and environmental laws and regulations. Before supplying products to us, our manufacturers sign an agreement that includes a commitment to abide by our Manufacturer Code. For more information on our Manufacturer Code, see "Code of Conduct for Manufacturers."

Our products are assembled or manufactured according to plans that reflect management's estimates of product performance based on recent sales results, current economic conditions and prior experience with manufacturing sources. The average lead time from the commitment to purchase products through the production and shipment thereof ranges from two to four months for our watches, leather goods, and jewelry. We believe that the close relationships, including ownership interests in some cases, we have established and maintain with our principal assembly or manufacturing sources constitute a significant competitive advantage and allow us to quickly and efficiently introduce innovative product designs and alter production in response to the retail performance of our

products.

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.

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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.

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.

Distribution

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 operated by software from SAP and Manhattan Associates. 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. 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.

Information technology systems

General. We believe that automation, reliable and scalable systems, accurate reporting and rapid flow of communication is essential to maintain our competitive position and support our key operating and financial goals. Therefore, we continue to invest in computer hardware, system applications and telecommunication networks. Our information technology systems consist of a wide spectrum of financial, distribution, human resources, merchandising, planning, point-of-sale, supply chain and other solutions. Where possible and cost effective, we leverage our various systems on a global basis, which enhances the accuracy, timeliness and accessibility of the relevant data.

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, or consumer in the case of our retail stores, concessions 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. Our management believes that our electronic data interchange efforts will continue to grow in the future as customers focus further on increasing operating efficiencies. In

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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.

Enterprise resource planning. We have implemented SAP ERP in our Americas and Europe operations. This software is installed on a single site platform located in our U.S. headquarters facility. The software currently supports the human resources, sales and distribution, inventory planning, retail merchandising and operational and financial reporting systems of our U.S. businesses and most subsidiary operations in Europe. It also supports manufacturing operations in India and Europe. Additionally, we have implemented other non-SAP systems for the purpose of merchandise planning and product lifecycle management.

We continue to monitor the growth of our subsidiary sales operations in Asia and will migrate these operations at the appropriate time to effectively benefit from our global SAP platform. However, we do operate SAP human resource, financial planning and warehouse management modules in Hong Kong to provide efficiencies to further support our regional warehouse in Hong Kong and the related supply chain associated with our local country operations, including our Company-owned retail stores throughout Asia. We have implemented Navision as our standard system throughout most of our Asia distribution and manufacturing subsidiary operations. The Navision system supports many of the same functions as our SAP system on a local country level.

Enterprise performance management systems. We have implemented customized Hyperion financial reporting software from Oracle Corporation. The software increases the efficiency of our consolidation and reporting process and provides a more dynamic way to view and analyze data. The Hyperion planning tool also provides more dynamic and robust budgeting and forecasting capabilities.

Product lifecycle management. We have implemented Dassault Systems Enovia in our product development function. This system enables our global product development process across our multiple brands and product categories. In addition to aligning this process, the platform enables a global solution for collaboration, sample management, design tool integration, and calendar management.

Cyber/Data security. Our business involves the receipt and storage of personal information about customers and employees, the protection of which is critical to us. If we experience a significant breach of customer, employee, and/or company data it could attract a substantial amount of media attention, damage our customer relationships and reputation and result in lost sales, fines, or lawsuits. Our Board of Directors and/or our Audit Committee review our data security risks and strategy on a regular basis, and we have obtained insurance liability coverage for certain data security or privacy breaches.

IT support services. Our global IT support operations are managed by us within a managed service model with a global IT service provider in order to gain long-term IT operational maturity, resource flexibility and improved financial leverage of our IT support costs related to: service desk, application support, administration and infrastructure administration.

Warranty and repair

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. The majority of our defective watch products returned by consumers in the Americas are processed at our repair facilities in Texas while defective watch products returned by consumers in Europe are processed at our repair facilities in France. We also maintain repair facilities at a majority of our subsidiaries, as well as through our network of third-party distributors to handle repairs which are minor in nature or are not convenient to one of our centralized repair facilities. In most cases, defective products under warranty are repaired by our personnel or third-party distributors. We attempt to retain adequate levels of component parts to facilitate after-sales service of our watches, even after specific styles are discontinued. We have a component parts system that tracks the inventory of our various component replacement parts that can be utilized by our repair facilities for identifying stock levels and availability for procurement. Watch and non-watch products under warranty that cannot be repaired in a cost-effective manner are replaced by us at no cost to the customer. Our warranty

liability at the end of fiscal years 2017, 2016 and 2015 was \$19.4 million, \$15.4 million and \$13.7 million, respectively. Our warranty liability is estimated using historical warranty repair expense. 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 product mix from traditional to connected products generally results in an increase in our warranty liabilities. Repair services accounted for approximately 1.2% of our consolidated net sales in fiscal year 2017, 1.2% in fiscal year 2016 and 1.1% in fiscal year 2015.

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Governmental regulations

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 antidumping 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.

Intellectual property

Trademarks. We use our FOSSIL, MICHELE, MISFIT, RELIC, SKAGEN and ZODIAC trademarks, as well as other trademarks, on certain of our watches, smart watches, 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 both domestically and internationally. We also pursue counterfeiters both domestically and internationally through third party on-line monitoring 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, smart watch, 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 of our product designs, features, and technologies. As of December 30, 2017, none of our patents were material to our business.

License agreements. 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 licensing 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. Our significant license agreements have various expiration dates between 2018 and 2025.

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

Although the majority of our products are not seasonal, our business is seasonal by nature. A significant portion of our net sales and operating income is generated during the third and fourth quarters of our fiscal year, which includes the "back to school" and Christmas seasons. Additionally, as our retail and e-commerce sales continue to maintain a significant percentage of our sales mix, they will benefit our sales and profitability in our fiscal fourth quarter, generally at the expense of our fiscal first and second quarters when it is more difficult to leverage our retail and e-commerce expenses against the related sales. The amount of net sales and operating income generated during our

fiscal fourth quarter also depends upon the anticipated level of retail sales during the Christmas 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 Christmas season. For example, lower levels of inventory held by our wholesale customers at the end of the Christmas season may result in higher levels of restocking orders placed by them during our fiscal first quarter.

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Competition

The businesses in which we compete are highly competitive and fragmented. We believe that the current market for traditional watches can be divided into four segments, 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 segments 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. 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.

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 segment 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.

Although the level and nature of competition varies among our product categories and geographic regions, we believe that we compete on the basis of style and technical features, price, value, quality, brand name, advertising, marketing, distribution and customer service. We believe that 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. We also believe that 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 "ownership of the market" 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.

Employees

As of December 30, 2017, we employed approximately 12,300 persons, including approximately 7,300 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.

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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. The words "may", "believes", "expects", "plans", "intends", "anticipates" and similar expressions identify forward-looking statements. 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 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 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 all product categories; in particular, net sales of watches have declined, reflecting the decline in the traditional watch market. 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 smart watches. 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 reserves for sales returns, warranty reserves, 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, 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.

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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.

Recently enacted U.S. tax legislation 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 makes 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 will increase our effective tax rate in future years. We are not yet able to reasonably estimate the effect of the GILTI provision of the Tax Cuts and Job Act and have not made any adjustments related to potential GILTI tax in our financial statements. If applicable, GILTI tax would first apply to our fiscal year 2018 and will be accounted for as incurred under the period cost method. We are currently in the process of analyzing the effects of this new legislation on our business, results of operations, financial condition and cash flow. The impact of these new rules is uncertain and could be adverse.

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, 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, KARL LAGERFELD, KATE SPADE NEW YORK, MARC JACOBS, MICHAEL KORS and TORY BURCH. Sales of our licensed products amounted to approximately 47.0% of our consolidated net sales for fiscal year 2017, including MICHAEL KORS

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product sales, which accounted for approximately 22.6% of our consolidated net sales, and product sales under the ARMANI brands, which accounted for approximately 12.1% of our consolidated net sales.

Our significant license agreements have various expiration dates between 2018 and 2025. 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. In addition, each of our license agreements with MICHAEL KORS and ARMANI may be terminated by the licensor effective at the end of 2019 if we fail to meet certain net sales thresholds in 2018. 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.

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. For example, in fiscal year 2017, our licensing agreements with ADIDAS and BURBERRY were not renewed upon their expiration. 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 total restructuring charges will be approximately \$150.0 million. During fiscal years 2017 and 2016, we recorded \$48.2 million and \$27.8 million of restructuring charges, respectively, and we anticipate the remaining restructuring charges will be recorded predominately during fiscal year 2018. 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

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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. In fiscal 2017, the Company took a non-cash intangible asset impairment charge of \$7.07 per diluted share triggered by the sustained compression of the Company's market capitalization that occurred throughout most of the latter part of the second fiscal quarter.

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

During fiscal year 2017, our global comparable store sales decreased 5.5%. During fiscal year 2018, we intend to open approximately five new stores globally and close 60 to 80 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;
- manage and expand our infrastructure to accommodate growth;
- 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.

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

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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. Kartsothis, our 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.

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.

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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 Christmas 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 Christmas 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 Christmas 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 primarily 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, Vietnam and Switzerland. 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 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 30, 2017, we operated 544 stores worldwide. The costs associated with leasehold improvements to 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

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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, 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. 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, 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.

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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 Internet 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.

As part of our growth strategy, 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. 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 smart watch 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.

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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 Internet 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 2018.

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.

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

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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 Chief Executive Officer and Chief Financial Officer, 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 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

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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 2017, we generated 58.5% 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.

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In addition, changes in currency exchange rates may also affect the prices at which we sell products in foreign markets. For fiscal years 2017, 2016 and 2015, 58.5%, 55.4% and 53.8% of our consolidated net sales were generated outside of the U.S. 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 2017, the translation of foreign based net sales into U.S. dollars improved our reported net sales by approximately \$23.3 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, Australian dollar and U.S. 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 2017, we generated 34.9% 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 were 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 tastes.

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, can 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 2017, 2016 and 2015, we generated 58.5%, 55.4% and 53.8%, respectively, of our net sales outside the U.S. In addition, we source the vast majority of our products from outside the U.S.

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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 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;

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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 7.8% of our outstanding common stock.

Mr. Kosta Kartsothis owns approximately 7.8% of our common stock as of December 30, 2017. 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. Kartsothis may not coincide with the interests of other stockholders, Mr. Kartsothis 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. Kartsothis 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.

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. Kartsothis 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. Kartsothis to sell additional shares. Any sales by Mr. Kartsothis 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.

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Item 2. Properties

Company facilities. As of the end of fiscal year 2017, 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 ⁽¹⁾
Richardson, Texas	Corporate headquarters	536,000	Lease expiring in 2021
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 2018
Hong Kong	Asia headquarters	42,000	Lease expiring in 2019
New York, New York	General office and showroom	27,000	Lease expiring in 2027

⁽¹⁾ Facility is classified as held for sale as of the end of fiscal year 2017

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 2017, we had 546 lease agreements for retail space for the sale of our products. The leases, including renewal options, expire at various times from 2018 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.

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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." The following table sets forth the range of quarterly high and low sales prices per share of our common stock on the NASDAQ Global Select Market for the fiscal years ended December 30, 2017 and December 31, 2016.

	High	Low
Fiscal year ended December 30, 2017:		
First quarter	\$27.33	\$15.79
Second quarter	\$18.44	\$8.98
Third quarter	\$12.59	\$6.80
Fourth quarter	\$9.60	\$5.50
Fiscal year ended December 31, 2016:		
First quarter	\$51.93	\$28.26
Second quarter	\$43.79	\$26.03
Third quarter	\$33.05	\$26.30
Fourth quarter	\$36.87	\$23.10

As of February 20, 2018, there were 70 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.

Cash Dividend Policy. We did not pay any cash dividends in fiscal years 2017, 2016 or 2015. We expect that for the foreseeable future, we will retain all available earnings generated by our operations for the development and growth of our business. Any future determination as to a cash dividend policy will be made at the discretion of our Board of Directors and will depend on a number of factors, including our future earnings, capital requirements, financial condition, future prospects, restrictive covenants and such other factors as our Board of Directors may deem relevant.

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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, 2012 and is calculated assuming quarterly reinvestment of dividends and quarterly weighting by market capitalization.

2017 COMPARATIVE TOTAL RETURNS

Fossil Group, Inc.,
NASDAQ Retail Trades and S&P 500 Index
(Performance Results through 12/31/2017)

	12/31/2012	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017
Fossil Group, Inc.	\$ 100.00	\$ 128.83	\$ 118.95	\$ 39.27	\$ 27.78	\$ 8.35
S&P 500 Index	\$ 100.00	\$ 129.60	\$ 144.36	\$ 143.31	\$ 156.98	\$ 187.47
Nasdaq Retail Trades	\$ 100.00	\$ 137.79	\$ 158.97	\$ 177.68	\$ 181.93	\$ 226.83

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 30, 2017, 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 with an expiration date of December 31, 2018. As of December 30, 2017, the Company had \$824.2 million of repurchase authorizations remaining under its combined repurchase programs. However, under the Company's credit agreement, the Company is restricted from making open market repurchases of its common stock.

Common stock repurchases acquired from grantees in connection with income tax withholding obligations arising from vesting of restricted stock grants were 3,316 shares, 6,763 shares and 11,175 shares for fiscal years 2017, 2016 and 2015, respectively.

There were no shares of common stock repurchased during the fourth quarter of fiscal year 2017.

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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	2017	2016	2015	2014	2013	
Net sales	\$2,788,163	\$3,042,371	\$3,228,836	\$3,509,691	\$3,259,971	
Gross profit	1,358,839	1,578,186	1,753,467	2,001,172	1,861,686	
Operating income (loss)	(424,276)	127,146	291,234	566,536	561,596	
Net income (loss)	(473,559)	85,603	229,902	386,611	388,048	
Net income (loss) attributable to Fossil Group, Inc.	(478,172)	78,868	220,637	376,707	378,152	
Earnings (loss) per share:						
Basic	(9.87)	1.64	4.52	7.12	6.59	
Diluted	(9.87)	1.63	4.51	7.10	6.56	
Weighted average common shares and common equivalent shares outstanding:						
Basic	48,468	48,136	48,800	52,882	57,401	
Diluted	48,468	48,323	48,924	53,080	57,676	
Working capital	\$781,900	\$932,705	\$953,141	\$1,008,264	\$939,573	
Total assets	1,658,372	2,186,897	2,355,661	2,177,460	2,186,251	
Total long-term liabilities	568,337	756,874	933,589	747,351	618,978	
Stockholders' equity attributable to Fossil Group, Inc.	576,133	1,006,236	921,388	977,860	1,068,677	
Return on average stockholders' equity attributable to Fossil Group, Inc. ⁽¹⁾	(62.3)%	8.2	% 24.7	% 37.5	% 33.1	%

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

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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 and through our FOSSIL website. 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 80 retail stores located in premier retail sites and 123 outlet stores located in major outlet malls as of December 30, 2017. 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 and specialty watch and jewelry stores in approximately 150 countries worldwide through 23 Company-owned foreign sales subsidiaries and through a network of approximately 80 independent distributors. Internationally, our network of Company-owned stores included 208 retail stores and 133 outlet stores as of December 30, 2017. 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.

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

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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, hedge accounting, litigation liabilities and stock-based compensation. 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 result, 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, the price to the buyer is determinable and collectability is reasonably assured.

Impairment of Goodwill and Trade Names. We evaluate goodwill for impairment annually as of the end of the fiscal year by comparing the fair value of the reporting unit to its recorded value. Additionally, if events or conditions were to indicate the carrying value of a reporting unit may not be recoverable, we would evaluate goodwill for impairment at that time. We have three reporting units for which we evaluated goodwill for impairment: Americas, Europe and Asia. The fair value of each reporting unit was estimated using market comparable information and discounted cash flows. 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. The MICHELE trade name represented approximately 29% of our total trade name balances at the end of fiscal year 2017, 21% at the end of fiscal year 2016 and 19% at the end of fiscal year 2015. The SKAGEN trade name represented approximately 71% of our total trade name balance at the end of fiscal year 2017, 63% at the end of fiscal year 2016 and 65% at the end of fiscal year 2015. In fiscal year 2017, as a result of interim impairment testing, we recorded impairment charges of \$28.3 million and \$7.6 million related to the SKAGEN and MICHELE trade names, respectively. In fiscal year 2016, no impairment charges were recorded related to the SKAGEN or the MICHELE trade names. In fiscal year 2015, \$9.1 million in impairment charges were recorded related to the SKAGEN trade name, and no impairment charges were recorded to the MICHELE trade name. As of December 30, 2017, the fair value of the MICHELE trade

name exceeded its carrying value by approximately 12%, and the fair value of the SKAGEN trade name exceeded its carrying value by approximately 13%.

The MISFIT trade name represented approximately 15% of our total trade name balance at the end of fiscal year 2016 and 17% at the end of fiscal year 2015. 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.

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.

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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 goodwill and trade names may be incurred.

Other Asset Impairment. We test for asset impairment of property, plant and equipment and other long-lived 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 \$8.3 million, \$13.5 million and \$3.4 million in fiscal years 2017, 2016 and 2015, respectively. We recorded impairment losses in selling, general, and administrative expenses of approximately \$1.6 million, \$2.8 million and \$7.7 million in fiscal years 2017, 2016 and 2015, respectively. In fiscal year 2017, 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 \$0.4 million and \$1.5 million in fiscal years 2017 and 2016, respectively.

We record impairment charges on long-lived assets held for sale when the carrying amount of those assets exceeds their fair value. We recorded impairment charges on long-lived assets held for sale of approximately \$0.7 million in fiscal year 2017 based on a preliminary sales contract.

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 2017, 2016 and 2015 was \$78.3 million, \$19.4 million and \$10.8 million, respectively. In addition, in fiscal year 2017, we recorded a state deferred tax liability of \$1.0 million on foreign earnings not considered to be indefinitely reinvested outside of the U.S. Due to the imposition of the one-time repatriation tax, we reversed the prior year federal deferred tax liability of \$53.7 million.

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 Act requiring the inclusion of certain foreign earnings in U.S. taxable income will increase our effective tax rate in future years. Due to the complexity of these new tax rules, we are continuing to evaluate these provisions of the Tax Act. We are not yet able to reasonably estimate the effect of the GILTI provision of the Tax Act and have not made any adjustments related to potential GILTI tax in our financial statements. If applicable, GILTI tax would first apply to our fiscal year 2018, and 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 have 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. As we collect and prepare necessary data, and interpret any additional guidance issued by the U.S. Treasury Department or the Internal Revenue Service, we may make 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 may materially impact the provision for income taxes and the effective tax rate in the period in which the adjustments are made. The accounting for the tax effects of the enactment of the Tax Act will be completed in fiscal year 2018.

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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 product mix from traditional to connected products generally results in an increase in warranty liabilities. The year-end warranty liability for fiscal years 2017, 2016 and 2015 was \$19.4 million, \$15.4 million and \$13.7 million, respectively.

Hedge Accounting. The Company is exposed to certain market risks relating to foreign exchange rates and interest rates. The Company actively monitors and attempts to manage these exposures using derivative instruments including foreign exchange forward contracts ("forward contracts") and interest rate swaps. The Company's main objective is to hedge the variability in forecasted cash flows due to the foreign currency risks primarily associated with certain anticipated inventory purchases. Changes in the fair value of forward contracts designated as cash flow hedges are recorded in the cumulative translation adjustment component of accumulated other comprehensive income (loss) within stockholders' equity, and are recognized in other income (expense) - net in the period which the intercompany cash payment for inventory is made. Additionally, to the extent that any of these contracts are not considered to be effective in offsetting the change in the value of the cash flows being hedged, any changes in fair value relating to the ineffective portion of these contracts would be recognized in other income (expense) - net on the Company's consolidated statements of income (loss) and comprehensive income (loss). Also, the Company has entered into interest rate swap agreements to effectively convert portions of its variable rate debt obligations to fixed rates. Changes in the fair value of the interest rate swaps that are designated as cash flow hedges are recorded as a component of accumulated other comprehensive income (loss) within stockholders' equity, and are recognized in interest expense in the period in which the payment is settled. Changes in the fair value of the interest rate swaps that are not designated as cash flow hedges are recorded in other income (expense) - net as they occur. To reduce exposure to changes in currency exchange rates adversely affecting the Company's investment in foreign currency-denominated subsidiaries, the Company periodically enters into forward contracts designated as net investment hedges. Both realized and unrealized gains and losses from net investment hedges are recognized in the cumulative translation adjustment component of other comprehensive income (loss), and will be reclassified into earnings in the event the Company's underlying investments are liquidated or disposed. The Company does not enter into derivative financial instruments for trading or speculative purposes. The Company has elected to apply the hedge accounting rules as required by ASC 815, Derivatives and Hedging, for designated cash flow hedging instruments.

Stock-Based Compensation. We utilize the Black-Scholes model to determine the fair value of stock options and stock appreciation rights on the date of grant. The model requires us to make assumptions concerning (i) the length of time employees will retain their vested stock options and stock appreciation rights before exercising them ("expected term"), (ii) the volatility of our common stock price over the expected term and (iii) the number of stock options and stock appreciation rights that will be forfeited. Changes in these assumptions can materially affect the estimate of fair value of stock-based compensation and, consequently, the related expense amounts recognized on our consolidated statements of income (loss) and comprehensive income (loss). If the fair value of our stock-based compensation were to change by 10%, excluding taxes, the result would have been a \$3.2 million change to net income (loss) in fiscal 2017.

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Results of Operations

Executive Summary

During fiscal year 2017, net sales decreased 8% (9% in constant currency) as compared to the prior fiscal year, as the retail environment remains challenging. During fiscal 2017, net sales declined in all three reporting segments.

However, sales trends improved in the second half of the fiscal year across all regions mainly driven by the wearables category. In constant currency, sales in watches declined in all segments, with increases in connected watches more than offset by declines in traditional watches. We remain confident wearables can be one of the key catalysts that could eventually offset the sales declines we have seen in our traditional watch business in recent years. Wearables products accounted for approximately 11% of our net sales in fiscal year 2017 with wearable sales nearly doubling as compared to fiscal year 2016. Leather and jewelry categories declined in all segments. While both our wholesale and retail businesses declined during fiscal 2017, our retail business was stronger than wholesale in all regions, and the U.S. department store business continued to be the most challenging. Our retail sales were negatively impacted by store closures globally, as well as continued traffic declines. During the 2017 fiscal year, we made significant progress in our strategic objectives, advancing our wearables business, leveraging scale in our supply chain, becoming more digitally enabled and continuing our transformation under our New World Fossil ("NWF") initiative.

During fiscal year 2017, FOSSIL branded products decreased 5% (7% in constant currency), driven by weakness in our leathers and jewelry categories, which were partially offset by modest growth in watches. In addition, our SKAGEN branded products decreased 8% (9% in constant currency), with decreases in watches and leathers. Our FOSSIL and SKAGEN watch performance was favorably impacted by wearables. While display watches continue to represent the largest percentage of wearables for the FOSSIL brand, we have had some success in hybrids as well, led by our marketing efforts, store experience and celebrity influencer campaigns. FOSSIL watch sales increased in Europe and Asia partially offset by a decrease in the Americas in fiscal 2017 as compared to the prior fiscal year. SKAGEN watch sales decreased in the Americas and Europe and were flat in Asia over the same period.

The following table presents as reported and constant currency net sales percentage change information by brand for fiscal year 2017 as compared to fiscal year 2016:

Brand	Growth	
	Percentage	
	As Reported	Constant Currency
FOSSIL	(5.4)%	(6.5)%
SKAGEN	(8.2)	(9.0)

Our multi-brand global watch portfolio decreased 6% (same in constant currency) during fiscal year 2017. Growth in EMPORIO ARMANI, ARMANI EXCHANGE and FOSSIL branded watches, driven by wearables, was more than offset by declines in most other brands. We launched ARMANI EXCHANGE hybrid watches at the beginning of fiscal year 2017, and launched EMPORIO ARMANI display and hybrid connected watches late in the third quarter of fiscal year 2017. Our FOSSIL connected watches are now on their third generation. In fiscal 2017, our most significant declines were in MICHAEL KORS and MARC JACOBS watches. Although we have seen some stabilization in the trajectory of MICHAEL KORS, the growth in connected watches was not able to compensate for the declines in traditional watches. Sales of watches declined in the wholesale channel in all three regions and in the Americas retail channel, which were partially offset by strong growth in e-commerce in all regions and to a lesser extent retail store growth in Asia and Europe.

During fiscal 2017, global comparable retail sales (including e-commerce) declined 6% year-over-year, with increases in watches in Asia and Europe more than offset by declines in watches in the Americas and declines in leathers and jewelry in all regions. While comparable retail sales were negative for fiscal year 2017, we did see stronger performance in the fourth quarter with positive comparable retail sales (including e-commerce) of 2%.

During fiscal year 2016, we began working on a multi-year restructuring plan, focused on our growth opportunities, including connected accessories, and improving overall profitability. Our goal continues to be to build a leaner and more nimble operating platform that can support improved profitability in the future, all while better serving our customers and competing in the new retail environment. This transformation will take time, but we are making

significant progress to evolve our key categories and streamline our business to position us for profitable growth over the long term. During fiscal year 2017, through a combination of category management programs, direct and indirect sourcing efforts and organizational efficiency initiatives, approximately \$80 million in benefits were reflected in operating income. We expect NWF benefits to expand to \$200 million when completed in 2019.

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During fiscal year 2017, gross profit decreased as compared to fiscal year 2016 primarily resulting from decreased sales and a lower gross margin rate. The decrease in gross margin rate was 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. Although we nearly doubled our connected sales volumes in fiscal 2017 compared to fiscal 2016, and have exceeded expectations for unit cost savings, we came up short of our aggressive connected sales plan. Consequently, having higher levels of connected inventory than plan and 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.

During the second quarter of fiscal year 2017, due to the sustained declines in our market capitalization and sales trends, we recorded \$359 million of goodwill impairment and \$48 million of impairment related to writing down our SKAGEN, MISFIT and MICHELE trade names. As a result, operating expenses for fiscal year 2017 increased to \$1,783 million including the \$407 million of non-cash intangible asset impairment charges and \$48 million of restructuring costs associated with our NWF initiative. 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. During fiscal year 2017, interest expense increased \$16.3 million to \$43.2 million and other income decreased \$0.3 million to \$13.7 million. Income tax expenses were \$19.8 million for fiscal year 2017 and included impacts from the Tax Cuts and Jobs Act (the "Tax Act") that was signed into law in December 2017 and valuation allowances. 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.

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 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 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.

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

	Fiscal Year		2016		Growth (Decline)		Percentage as Reported	Percentage Constant Currency
	2017		Amounts	Percentage of Total	Dollars			
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		2016		Growth (Decline)		Percentage as Reported	Percentage Constant Currency
	2017		Amounts	Percentage of Total	Dollars			
Americas	\$1,316.2	47.2 %	\$1,524.9	50.1 %	\$(208.7)	(13.7)%	(13.8)%	
Europe	974.2	34.9	1,002.1	32.9	(27.9)	(2.8)	(4.7)	
Asia	497.8	17.9	515.4	17.0	(17.6)	(3.4)	(3.9)	
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 remained our most challenging. Americas net sales decreased \$208.7 million or 13.7% (13.8% 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):

	Fiscal Year		Growth (Decline)		Percentage as Reported	Percentage Constant Currency
	2017	2016	Dollars			
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	17.3	23.2	(5.9)	(25.4)	(25.0)	
Total	\$1,316.2	\$1,524.9	\$(208.7)	(13.7)%	(13.8)%	

Europe Net Sales. During fiscal year 2017, Europe net sales decreased \$27.9 million or 2.8% (4.7% 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), 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

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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		Growth (Decline)			
Fiscal Year		Dollars	Percentage		
2017	2016		as Reported	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	22.4	30.7	(8.3)	(27.0)	(27.4)
Total	\$974.2	\$1,002.1	\$(27.9)	(2.8)%	(4.7)%

Asia Net Sales. In fiscal year 2017, Asia net sales decreased \$17.6 million or 3.4% (3.9% 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		Growth (Decline)			
Fiscal Year		Dollars	Percentage		
2017	2016		as Reported	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	12.2	13.0	(0.8)	(6.2)	(5.4)
Total	\$497.8	\$515.4	\$(17.6)	(3.4)%	(3.9)%

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
Accessory stores	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 8 new stores and closed 49 stores. During fiscal year 2018, we anticipate opening approximately five additional retail stores and closing approximately 60 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.

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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, please 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 \$424.2 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	\$(46.0)	\$241.1	\$(287.1)	(119.1)%	(3.5)%	15.8 %
Europe	33.8	174.2	(140.4)	(80.6)	3.5	17.4
Asia	(10.9)	77.6	(88.5)	(114.0)	(2.2)	15.1
Corporate	(401.1)	(365.8)	(35.3)	9.7		

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Total operating income (loss) \$(424.2) \$127.1 \$(551.3) (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

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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. For additional information, please refer to "Note 12 - Taxes" in the consolidated financial statements.

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).

Fiscal Year 2016 Compared to Fiscal Year 2015

Consolidated Net Sales. Net sales decreased \$186.4 million or 5.8%, (4.4% in constant currency) for fiscal year 2016 as compared to fiscal year 2015. Global watch sales decreased \$145.5 million or 5.9% (4.5% in constant currency) as a result of increases in our owned brands FOSSIL and SKAGEN and licensed brands KATE SPADE NEW YORK and TORY BURCH, being more than offset by declines in most other brands in our portfolio. Our leathers business decreased \$15.6 million or 3.8% (2.5% in constant currency). Our jewelry category decreased \$20.7 million or 7.6% (5.9% in constant currency), mostly as a result of a decrease in sales of MICHAEL KORS and FOSSIL branded products during fiscal year 2016 as compared to fiscal year 2015.

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

	Fiscal Year 2016		2015		Growth (Decline)		
	Amounts	Percentage of Total	Amounts	Percentage of Total	Dollars	Percentage as Reported	Percentage Constant Currency
Watches	\$2,330.3	76.6 %	\$2,475.8	76.7 %	\$(145.5)	(5.9)%	(4.5)%
Leathers	393.8	12.9	409.4	12.7	(15.6)	(3.8)	(2.5)
Jewelry	251.4	8.3	272.1	8.4	(20.7)	(7.6)	(5.9)
Other	66.9	2.2	71.5	2.2	(4.6)	(6.4)	(5.6)
Total net sales	\$3,042.4	100.0 %	\$3,228.8	100.0 %	\$(186.4)	(5.8)%	(4.4)%

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

	Fiscal Year 2016		2015		Growth (Decline)		
	Amounts	Percentage of Total	Amounts	Percentage of Total	Dollars	Percentage as Reported	Percentage Constant Currency

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Americas	\$1,524.9	50.1	%	\$1,661.9	51.5	%	\$(137.0)	(8.2))%	(7.5))%	
Europe	1,002.1	32.9		1,069.8	33.1		(67.7))	(6.3))	(3.5))
Asia	515.4	17.0		497.1	15.4		18.3		3.7		4.0	
Total net sales	\$3,042.4	100.0	%	\$3,228.8	100.0	%	\$(186.4)	(5.8))%	(4.4))%	

Americas Net Sales. During fiscal year 2016, we experienced the most significant retail headwinds in the Americas segment. Americas net sales decreased \$137.0 million or 8.2% (7.5% in constant currency), driven by watches but with jewelry

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and leathers contributing to the declines as well. During fiscal year 2016, our multi-brand watch portfolio decreased \$100.6 million or 8.0% (7.1% in constant currency) and our leathers category decreased \$21.9 million or 8.1% (7.7% in constant currency). Our Americas watch sales decline during fiscal year 2016 was primarily driven by MICHAEL KORS and partially offset by increases in KATE SPADE NEW YORK and TORY BURCH. Our jewelry business decreased \$8.1 million or 8.1% (7.7% in constant currency) in fiscal year 2016 as compared to the fiscal year 2015 primarily driven by declines in MICHAEL KORS jewelry partially offset by increases from the MISFIT brand. Within the region, sales declined in the U.S. and were slightly offset by growth in Mexico and Canada on a constant currency basis. Comparable retail store sales decreased modestly in our owned retail stores, most notably in our outlets.

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		Growth (Decline)			
Fiscal Year		Percentage Percentage			
		as Constant			
2016	2015	Dollars	Reported	Currency	
Watches	\$1,162.3	\$1,262.9	\$(100.6)	(8.0)%	(7.1)%
Leathers	247.7	269.6	(21.9)	(8.1)	(7.7)
Jewelry	91.7	99.8	(8.1)	(8.1)	(7.7)
Other	23.2	29.6	(6.4)	(21.6)	(20.9)
Total	\$1,524.9	\$1,661.9	\$(137.0)	(8.2)%	(7.5)%

Europe Net Sales. During fiscal year 2016, Europe net sales decreased \$67.7 million or 6.3% (3.5% in constant currency). We experienced declines in most countries, with the most significant sales declines in the United Kingdom and our distributor markets. Our multi-brand watch portfolio decreased \$49.8 million or 6.3% (3.4% in constant currency) while our jewelry category decreased \$18.0 million or 10.9% (8.5% in constant currency) and our leathers business remained flat (increased 3.7% in constant currency) in fiscal year 2016 as compared to fiscal year 2015. Comparable retail store sales in our owned retail stores in the European region remained flat, with increases in our outlets and watch categories offset by decreases in our full-priced stores and other product categories.

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		Growth (Decline)			
Fiscal Year		Percentage Percentage			
		as Constant			
2016	2015	Dollars	Reported	Currency	
Watches	\$739.9	\$789.7	\$(49.8)	(6.3)%	(3.4)%
Leathers	84.4	84.4	—	—	3.7
Jewelry	147.1	165.1	(18.0)	(10.9)	(8.5)
Other	30.7	30.6	0.1	0.3	2.9
Total	\$1,002.1	\$1,069.8	\$(67.7)	(6.3)%	(3.5)%

Asia Net Sales. In fiscal year 2016, Asia net sales increased \$18.3 million or 3.7% (4.0% in constant currency). Sales growth was led by India, our distributor markets, South Korea, Australia and China and was partially offset by decreases in Hong Kong, Taiwan and Macau on a constant currency basis. Our watch category increased \$4.9 million or 1.2% (1.4% in constant currency), while our leathers products increased \$6.4 million or 11.6% (13.2% in constant currency). Our jewelry business increased \$5.4 million or 75.0% (76.4% in constant currency). Comparable retail

store sales in our owned retail stores in the Asia region increased slightly with modest comparable store sale increases in our full-priced and outlet FOSSIL branded stores partially offset by declines in our other store concepts.

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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		Growth (Decline)					
Fiscal Year		Percentage			Percentage		
		as			Constant		
2016	2015	Dollars	Reported	Currency			
Watches	\$428.1	\$423.2	\$4.9	1.2	%	1.4	%
Leathers	61.7	55.3	6.4	11.6		13.2	
Jewelry	12.6	7.2	5.4	75.0		76.4	
Other	13.0	11.4	1.6	14.0		10.5	
Total	\$515.4	\$497.1	\$18.3	3.7	%	4.0	%

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

	December 31, 2016				January 2, 2016			
	Americas	Europe	Asia	Total	Americas	Europe	Asia	Total
Full price	122	119	63	304	128	126	68	322
Outlets	143	73	45	261	153	71	46	270
Full priced multi-brand	—	8	12	20	—	7	20	27
Total stores	265	200	120	585	281	204	134	619

During fiscal year 2016, we opened 18 new stores and closed 52 stores.

Gross Profit. Gross profit of \$1.6 billion in fiscal year 2016 decreased 10.0% in comparison to \$1.8 billion in fiscal year 2015 mainly as a result of decreased sales. Gross profit margin decreased 240 basis points to 51.9% in fiscal year 2016 compared to 54.3% in fiscal year 2015. The gross margin rate decreased as compared to fiscal year 2015 primarily due to increased promotional activity in our outlet stores and an increased mix of connected product sales. Additionally, our wholesale channel was burdened by an increased mix of off-price sales at lower margin rates and the impacts of currency decreased our gross profit margin rate by 70 basis points. Partially offsetting these headwinds were the favorable impacts of our margin improvement initiatives.

Operating Expenses. For fiscal year 2016, total operating expenses decreased by \$11.2 million and, as a percentage of net sales, increased to 47.7%, compared to 45.3% in fiscal year 2015. Operating expenses decreased due to lower store and core infrastructure costs, a \$14.9 million favorable impact from changes in foreign currency, the non-recurrence of both the SKAGEN trade name impairment and Misfit acquisition-related professional services recorded in fiscal year 2015, partially offset by an increase in expenses associated with wearables infrastructure and Misfit intangible amortization.

Consolidated Operating Income. Operating income decreased by \$164.1 million, or 56.4%, in fiscal year 2016 as compared to fiscal year 2015 mainly driven by decreased sales and gross margin rate and included a \$31.7 million unfavorable impact from changes in foreign currencies. As a percentage of net sales, operating income decreased to 4.2% in fiscal year 2016 as compared to 9.0% in fiscal year 2015 and was negatively impacted by approximately 90 basis points due to changes in foreign currencies.

Sales and gross profit margins were negatively impacted by currencies in all regional segments in fiscal year 2016 as compared to fiscal year 2015, although not as extensively as in fiscal year 2015 compared to fiscal year 2014. On a constant currency basis, sales and gross profit margins decreased in the Americas and Europe and increased in Asia while the gross profit margin rate decreased across all segments. The gross margin rate declined primarily as a result of promotional activity in our outlet stores and an increased mix of connected product sales in all geographies. Additionally, the Americas gross profit margin rate was unfavorably impacted by an increased mix of sales in the wholesale off-price channel to manage inventory levels. These unfavorable impacts to the gross profit margin rate

were partially offset by a favorable impact from our margin improvement initiatives in all segments. In fiscal year 2016, total operating expenses decreased compared to fiscal year 2015 as reduced store expenses and lower core infrastructure costs were partially offset by corporate cost increases in wearables infrastructure and Misfit purchase accounting related costs. Our operating expenses in fiscal year 2016 also benefited from real estate sales in the Americas and Europe. During fiscal year 2016 as compared to fiscal 2015, operating expense leverage was

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relatively flat in Europe and improved in Asia while weakening in the Americas largely due to fixed expenses on lower sales and increased restructuring costs related to store closures.

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

	Fiscal Year		Growth (Decline)		Operating Margin %	
	2016	2015	Dollars	Percentage	2016	2015
Americas	\$241.1	\$354.3	\$(113.2)	(32.0)%	15.8%	21.3%
Europe	174.2	210.5	(36.3)	(17.2)	17.4	19.7
Asia	77.6	71.7	5.9	8.2	15.1	14.4
Corporate	(365.8)	(345.3)	(20.5)	5.9		
Total operating income	\$127.1	\$291.2	\$(164.1)	(56.4)%	4.2 %	9.0 %

Interest Expense. Interest expense increased by \$6.9 million in fiscal year 2016 as a result of increased interest rates in comparison to the fiscal year 2015.

Other Income (Expense)—Net. During fiscal year 2016, other income (expense) - net decreased by approximately \$26.4 million, largely driven by decreased net foreign currency gains resulting from cash flow hedging and other transactional activities as compared to fiscal year 2015. Additionally, the fiscal year 2015 other income (expense) - net amount included a \$5.2 million gain related to an interest rate hedge settlement related to a potential debt issuance which did not occur. Fiscal year 2016 includes a gain of \$3.5 million for the liquidation of some non-operating Misfit assets, which partially offset our unfavorable other income (expense) - net change.

Provision for Income Taxes. Income tax expense for fiscal year 2016 was \$28.7 million, resulting in an effective tax rate of 25.1%, compared to 26.2% in fiscal year 2015. The lower effective tax rate for fiscal year 2016 as compared to fiscal year 2015 was mostly attributable to lower U.S. taxable income taxed at higher effective tax rates.

Net Income Attributable to Fossil Group, Inc. Fiscal year 2016 net income attributable to Fossil Group, Inc. was \$1.63 per diluted share in comparison to \$4.51 per diluted share in fiscal year 2015, mainly driven by the sales decline and reduced margin rate. Diluted earnings per share decreased \$0.87 due to the translation impact of a stronger U.S. dollar and less net foreign currency gains resulting from cash flow hedging and other transactional activities. Diluted earnings per share was also unfavorably impacted by a \$0.37 per diluted share decrease due to the amortization of acquired Misfit intangible assets and of related contingent equity grants. An increase in interest expense negatively impacted our diluted earnings per share by \$0.11 due to increased interest rates. Partially offsetting these decreases was a \$0.16 favorable impact to diluted earnings per share due to the sale of real estate.

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Liquidity and Capital Resources

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 the number of new stores we open, other capital expenditures and strategic investments such as acquisitions. Our cash and cash equivalents balance at the end of fiscal year 2017 was \$231.2 million, including \$186.4 million held by foreign subsidiaries outside the U.S., in comparison to \$297.3 million at the end of fiscal year 2016.

For fiscal year 2017, we generated operating cash flow of \$179.5 million. This operating cash flow combined with cash on hand was utilized to fund \$190.1 million in net repayments on our credit facilities and \$25.5 million in capital expenditures. Net losses of \$473.6 million were offset by net non-cash items of \$498.0 million and a net decrease in working capital items of \$155.1 million. Non-cash items primarily consisted of goodwill and trade name impairment charges of \$407.1 million, depreciation, amortization and accretion charges of \$81.0 million, stock-based compensation of \$30.4 million, partially offset by deferred income taxes and other of \$43.5 million.

Accounts receivable decreased by 2.3% to \$367.0 million at the end of fiscal year 2017 compared to \$375.5 million at the end of the prior fiscal year. Average days sales outstanding for our wholesale business for fiscal year 2017 was 55 days compared to 50 days in the prior fiscal year due to shifts in customer mix and the elimination of an early pay discount customer program in parts of Europe.

Inventory at the end of fiscal year 2017 was \$573.8 million, representing an increase of 5.8% from the prior fiscal year inventory balance of \$542.5 million driven by our connected business. We have significantly reduced our inventories of traditional watches, and we are working to clear the previous generation connected products over the next few quarters.

The following table reflects our common stock repurchase activity under our repurchase programs for the periods indicated (in millions):

Fiscal Year Authorized	Dollar Value Authorized	Termination Date	For the 2017 Fiscal Year		For the 2016 Fiscal Year	
			Number of Shares Repurchased	Dollar Value Repurchased	Number of Shares Repurchased	Dollar Value Repurchased
2014	\$ 1,000.0	December 2018	—	\$ —	0.1	\$ 5.2
2010	\$ 30.0	None	—	\$ —	—	\$ —

We did not repurchase any shares of common stock under our repurchase programs during fiscal year 2017. During fiscal year 2016, we effectively retired approximately 0.1 million shares of common stock repurchased under our repurchase programs. The effective retirement of common stock repurchased during the 2016 fiscal year decreased common stock by \$1,100, additional paid-in capital by \$0.2 million, retained earnings by \$5.0 million and treasury stock by \$5.2 million. At December 31, 2016 and December 30, 2017, all treasury stock had been effectively retired. We are currently prohibited by the terms of our revolving credit facility from repurchasing additional shares of common stock under our repurchase programs.

At the end of fiscal year 2017, we had working capital of \$781.9 million compared to working capital of \$932.7 million at the end of the prior fiscal year. Additionally, at the end of fiscal year 2017, we had approximately \$2.1 million of outstanding short-term borrowings and \$443.9 million in long-term debt.

As of December 30, 2017, we do not consider \$650.3 million of undistributed earnings of our foreign subsidiaries to be indefinitely reinvested. Tax legislation enacted in 2017 allows a federal tax exemption on foreign dividends, and foreign withholding tax is not applicable. As such, we have only accrued state income taxes on these amounts. We have not provided taxes on the remaining \$378.0 million of undistributed earnings of our foreign subsidiaries because we consider such earnings to be indefinitely reinvested outside the U.S and our current plans do not indicate a need to repatriate them to fund our U.S. operations.

For the fiscal year ending December 29, 2018, we expect total capital expenditures to be approximately \$25 million. Of this amount, we expect approximately 40% will be for technology and facilities maintenance, approximately 35% will be for strategic growth, including investments in omni-channel, global concessions and technology 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.

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Debt Facilities

On March 9, 2015, we entered into an Amended and Restated Credit Agreement (as amended, the "Credit Agreement"). The Credit Agreement provided for (i) revolving credit loans (the "Revolving Credit Facility"), with an up to \$20.0 million subfacility for swingline loans (the "Swingline Loan"), and an up to \$10.0 million subfacility for letters of credit, and (ii) a term loan in the amount of \$231.3 million (the "Term Loan"). The Credit Agreement amended and restated that certain credit agreement, dated as of May 17, 2013, as amended (the "Prior Agreement").

On March 10, 2017, we entered into the Second Amendment to the Amended and Restated Credit Agreement (the "Second Amendment"). The Second Amendment reduced the Revolving Credit Facility under the Credit Agreement from \$1.05 billion to \$850.0 million. The Second Amendment also removed the incremental term loan that was available under the Credit Agreement, extended the maturity date of the Credit Agreement to May 17, 2019 and removed our ability to make offers to the lenders to extend the maturity date of the Term Loan or the Revolving Credit Facility. The Second Amendment also amended the repayment schedule for the Term Loan and required us to make monthly payments on the last business day of each month beginning April 30, 2018. The Second Amendment also amended the mandatory prepayment provisions under the Credit Agreement and provided that to the extent there were excess proceeds remaining from the issuance of debt following the repayment in full of the Term Loan, we were required to repay the Revolving Credit Facility in the amount of such excess proceeds, with a corresponding permanent reduction in the Revolving Credit Facility in the amount of up to \$50.0 million.

The Second Amendment amended the applicable margin used to calculate the interest rate that was applicable to base rate loans and London Interbank Offer Rate ("LIBOR") rate loans and provided that the interest rate margin for base rate loans was 2.50% per annum and the interest rate margin for LIBOR rate loans was 3.50% per annum. On October 1, 2017, the applicable margin on the Term Loan automatically increased to 2.75% per annum for base rate loans and 3.75% per annum for LIBOR rate loans. The Second Amendment also changed the commitment fee payable with respect to the Revolving Credit Facility to 0.50% per annum. Furthermore, the Second Amendment changed the consolidated total leverage ratio that we were required to comply with from 3.25 to 1.00 to the ratios as set forth below:

Period	Maximum Ratio
October 1, 2017 through and including March 31, 2018	3.25 to 1.00
April 1, 2018 through and including September 29, 2018	3.50 to 1.00
September 30, 2018 and thereafter	3.25 to 1.00

As of December 30, 2017, amounts outstanding under the Revolving Credit Facility and the Term Loan under the Credit Agreement bore interest, at our option, at (i) the base rate plus 2.75% or (ii) the LIBOR rate (defined as the quotient obtained by dividing (a) LIBOR by (b) 1.00 minus the Eurodollar reserve percentage) plus 3.75%.

During fiscal year 2017, we made principal payments of \$193.8 million under the Term Loan, which repaid the outstanding balance. During fiscal year 2017, we had average outstanding borrowings of \$618.7 million under the Revolving Credit Facility at an average interest rate of 4.45%. As of December 30, 2017, we had \$445.0 million outstanding under the Revolving Credit Facility. As of December 30, 2017, we also had unamortized debt issuance costs of \$4.7 million, which reduce the corresponding debt liability. In addition, we had \$0.8 million of outstanding standby letters of credit at December 30, 2017. Amounts available under the Revolving Credit Facility are reduced by any amounts outstanding under standby letters of credit. As of December 30, 2017, we had \$199.8 million available for borrowing under the Revolving Credit Facility, which was favorably impacted by a \$149.6 million international cash balance. At December 30, 2017, we were in compliance with all debt covenants related to all our credit facilities. On January 29, 2018, we and certain of our foreign subsidiaries entered into a Second Amended and Restated Credit Agreement (the "Second A&R Credit Agreement"). The Second A&R Credit Agreement provides for (i) revolving credit loans in the amount of \$325 million, subject to a borrowing base (as described below) (the "Second A&R 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 Second A&R Credit Agreement expires and is due and payable on December 31, 2020. Borrowings under the Second A&R Credit Agreement were used to pay the

outstanding balance under the Revolving Credit Facility.

Availability under the Second A&R 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.

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credit card receivables (less any dilution reserve), (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, and (iii) until the earlier of (x) March 31, 2018 and (y) the date on which certain of our foreign subsidiaries join the Second A&R Credit Agreement as non-U.S. borrowers, (A) 35% of eligible foreign accounts receivable of certain pledged foreign subsidiaries, plus (B) the least of (x) 35% of the lower of cost or market value of eligible foreign finished good inventory of such pledged foreign subsidiaries, (y) 35% of the appraised net orderly liquidation value of eligible foreign finished good inventory of such pledged foreign subsidiaries, and (z) \$100,000,000, minus (C) all indebtedness for borrowed money of such pledged foreign subsidiaries (subject to exceptions) minus (iv) 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 Second A&R 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 Second A&R 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 Second A&R 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.

As of January 29, 2018, amounts outstanding under the Second A&R Revolving Credit Facility bear interest at (a) the LIBOR rate plus the applicable interest margin, (b) the daily LIBOR rate plus the applicable interest margin or (c) the base rate plus the applicable interest margin. The applicable interest margin varies from 4.00% to 5.00% for LIBOR rate loans and daily LIBOR rate loans and 1.50% to 3.00% for base rate loans and is based on our average daily excess availability under the revolving credit loans under the Second A&R Credit Agreement for the most recently ended calendar quarter, which is an amount equal to (a) the lesser of (i) \$325 million and (ii) the aggregate borrowing base minus (b) the amount of all outstanding borrowings and letter of credit obligations under the revolving credit facility under the Second A&R Credit Agreement, for each day during the applicable period divided by the number of days in such period.

Amounts outstanding under the Term Loan Facility bear interest at a rate per annum equal to (a) the LIBOR rate plus 7%, increasing to the LIBOR rate plus 8% on the first anniversary of the closing of the Second A&R Credit Agreement and the LIBOR rate plus 9% on the second anniversary of the closing of the Second A&R Credit Agreement and thereafter or (b) the base rate plus 5.5%, increasing to the base rate plus 6.5% on the first anniversary of the closing of the Second A&R Credit Agreement and to the base rate plus 7.5% on the second anniversary of the closing of the Second A&R Credit Agreement and thereafter.

We are required to repay the outstanding principal balance of the Term Loan Facility in the amount of \$25 million on March 31, 2018, \$125 million on March 31, 2019, \$75 million on March 31, 2020 and the outstanding balance on December 31, 2020. Additionally, loans under the Second A&R Credit Agreement may be prepaid, in whole or in part, at our option, in minimum principal amounts of (a) \$1.0 million or increments of \$1.0 million in excess thereof, with respect to a base rate loan under the Second A&R Revolving Credit Facility, (b) \$5.0 million or increments of \$1.0 million in excess thereof, with respect to a LIBOR rate loan or a daily LIBOR rate loan under the Second A&R Revolving Credit Facility, and (c) \$5.0 million or increments of \$1.0 million in excess thereof, with respect to the Term Loan Facility. Loans under the Second A&R Credit Agreement must be repaid with the net cash proceeds of

certain asset sales, insurance and condemnation events, certain debt and equity issuances and certain cash dividends received from our subsidiaries. We may permanently reduce the revolving credit commitment at any time, in whole or in part, without premium or penalty, in a minimum aggregate principal amount of not less than \$3.0 million or increments of \$1.0 million in excess thereof.

We are required to pay a commitment fee on the unused amounts of the commitments under the Second A&R Revolving Credit Facility, payable quarterly in arrears, of 0.5% on the average daily unused portion of the overall commitment under the Second A&R Revolving Credit Facility.

The repayment obligation under the Second A&R Credit Agreement can be accelerated upon the occurrence of an event of default, including the failure to pay principal or interest, a material inaccuracy of a representation or warranty, violation of

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covenants, cross-default, change in control, bankruptcy events, failure of a loan document provision, certain ERISA events and material judgments.

Financial covenants governing the Second A&R Credit Agreement require us to maintain (a) a minimum fixed charge coverage ratio measured quarterly on a rolling twelve-month basis of 1.15 to 1.00 if our quarter-end balances of cash and cash equivalents plus the excess availability under the Second A&R Revolving Credit Facility is less than \$200 million; (b) a maximum leverage ratio measured as of the last day of each fiscal quarter for the period of four fiscal quarters ending on such date of (i) 4.5 to 1.0 for the period ending March 31, 2018, (ii) 4.75 to 1.0 for the period ending June 30, 2018, (iii) 5.0 to 1.0 for the period ending September 29, 2018, (iv) 4.25 to 1.0 for the period ending December 29, 2018, (v) 3.75 to 1.0 for each fiscal quarter ending during the period from December 30, 2018 through September 28, 2019, and (vi) 3.5 to 1.0 thereafter; (c) a minimum trailing twelve-month EBITDA tested quarterly of \$110 million (beginning with the fiscal quarter ending December 29, 2018); (d) a minimum liquidity covenant of unrestricted cash and cash equivalents plus available and unused capacity under the Second A&R Revolving Credit Facility equal to \$160 million; and (e) maximum capital expenditures of \$35 million per year.

On June 23, 2016, Fossil Accessories South Africa Pty Ltd, entered into a 20 million South African rand short-term note with First National Bank (the "Fossil South Africa Note") that is used for working capital purposes. The Fossil South Africa Note bears interest at the bank's prime rate, 10.25% as of year end 2017. The Fossil South Africa Note is reviewed annually for renewal. South African rand-based borrowings, in U.S. dollars, under the Fossil South Africa Note were approximately \$0.9 million at the end of fiscal year 2017.

Contractual Obligations

The following table identifies our contractual obligations as of December 30, 2017 (in thousands):

	Total	Less than 1 Year	1 - 3 Years	3 - 5 Years	More than 5 Years
Debt obligations ⁽¹⁾	\$445,906	\$906	\$445,000	\$—	\$—
Interest payments on debt ⁽²⁾	32,370	23,565	8,805	—	—
Minimum royalty payments ⁽³⁾	164,701	154,115	10,586	—	—
Capital lease obligations ⁽⁴⁾	4,960	1,285	2,108	1,567	—
Operating lease obligations	712,955	144,108	227,245	155,167	186,435
Purchase obligations ⁽⁵⁾	357,253	317,326	38,269	1,524	134
Uncertain tax positions ⁽⁶⁾	5,360	5,360	—	—	—
Total contractual obligations ^{(7) (8)}	\$1,723,505	\$646,665	\$732,013	\$158,258	\$186,569

(1) Consists of borrowings, excluding contractual interest payments and unamortized debt issuance costs of \$4.7 million.

(2) Consists of estimated interest payments under the Revolving Credit Facility.

(3) Consists primarily of minimum royalty commitments under exclusive licenses to manufacture watches and jewelry under trademarks not owned by us. However these minimum royalty commitments do not include amounts owed pursuant to various license and design service agreements under which we are obligated to pay the licensors a percentage of our net sales of these licensed products.

(4) Payments shown include interest.

(5) Consists primarily of open non-cancelable purchase orders.

(6) Management has only included its current ASC 740 liability in the table above. Long-term amounts of \$30.0 million have been excluded because the payment timing cannot be reasonably estimated.

(7) Pension obligations of \$13.8 million and deferred compensation liabilities of \$5.2 million have been excluded because the payment timing cannot be reasonably estimated.

(8) The contingent consideration liability of \$6.5 million related to Fossil Accessories South Africa Pty. Ltd. has been excluded because the payment timing cannot be reasonably estimated.

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Off Balance Sheet Arrangements

We are the guarantor for a 5.0 million Swiss franc credit facility agreement entered into by Swiss Technology Components Ltd. ("STC"), our equity method investee. We are obligated to pay up to 5.5 million Swiss francs in the event of default by STC.

There are no other off balance sheet arrangements other than those disclosed in Note 13—Commitments and Contingencies to our consolidated financial statements set forth in Part II, Item 8 of this Annual Report on Form 10-K.

Selected Quarterly Consolidated Financial Data

The table below sets forth selected quarterly consolidated financial information. The information is derived from our unaudited consolidated financial statements and includes all normal and recurring adjustments that management considers necessary for a fair statement of results for such periods. The operating results for any quarter are not necessarily indicative of results for any future period. Certain line items presented in the tables below, when aggregated, may not agree with the corresponding line items on our consolidated statements of income (loss) and comprehensive income (loss) for fiscal years 2017 and 2016 due to rounding (in thousands, except percentage and per share data).

Fiscal Year 2017	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
Net sales	\$581,790	\$596,846	\$688,722	\$920,805
Gross profit	289,519	301,347	319,893	448,080
Net income (loss)	(46,789)	(343,099)	(5,479)	(78,192)
Net income (loss) attributable to noncontrolling interest	1,397	1,613	(80)	1,683
Net income (loss) attributable to Fossil Group, Inc.	\$(48,186)	\$(344,712)	\$(5,399)	\$(79,875)
Earnings (loss) per share:				
Basic	\$(1.00)	\$(7.11)	\$(0.11)	\$(1.65)
Diluted	\$(1.00)	\$(7.11)	\$(0.11)	\$(1.65)
Gross profit as a percentage of net sales	49.8	% 50.5	% 46.4	% 48.7
				%
Fiscal Year 2016	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
Net sales	\$659,847	\$685,368	\$737,990	\$959,166
Gross profit	348,337	355,750	385,080	489,019
Net income	7,396	8,072	19,348	50,786
Net income attributable to noncontrolling interest	1,603	2,051	1,992	1,088
Net income attributable to Fossil Group, Inc.	\$5,793	\$6,021	\$17,356	\$49,698
Earnings per share:				
Basic	\$0.12	\$0.13	\$0.36	\$1.03
Diluted	\$0.12	\$0.12	\$0.36	\$1.03
Gross profit as a percentage of net sales	52.8	% 51.9	% 52.2	% 51.0
				%

While the majority of our products are not seasonal in nature, a significant portion of our net sales and operating income is generally derived in the second half of the fiscal year. Our third and fourth quarters, which include the "back to school" and Christmas seasons, have historically generated a significant portion of our annual operating income. Connected products appear to be more seasonal than traditional products which may further impact our operational performance in the third and fourth quarters as compared to the first half of the year. The amount of net sales and operating income generated during the first quarter is affected by the levels of inventory held by retailers at the end of the Christmas season, as well as general economic conditions and other factors beyond our control. In general, lower levels of inventory held by retailers at the end of the Christmas season may have a positive impact on our net sales and operating income in the first quarter of the following fiscal year as a result of higher levels of restocking orders placed by retailers.

As we expand our e-commerce business and improve productivity in our retail store base, sales from the direct to consumer distribution channel may increase as a percentage of the total sales mix. Based upon the historical seasonality of

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direct to consumer sales, we believe this expansion could result in higher levels of profitability in the fourth quarter and lower levels of profitability in the first and second quarters when, due to seasonality, it is more difficult to leverage retail store four wall operating costs and back office expenses against a lower level of sales productivity. In addition, new product launches would generally augment the sales and operating expense levels in the quarter the product launch takes place. The results of operations for a particular quarter may also vary due to a number of factors, including retail, economic and monetary conditions, timing of orders or holidays, the timing of investments and the mix of products sold by us.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Foreign Currency Exchange Rate Risk

As a multinational enterprise, we are exposed to changes in foreign currency exchange rates. Our most significant foreign currency risk relates to the euro and, to a lesser extent, the Canadian dollar, British pound, Japanese yen, Mexican peso and Australian dollar as compared to the U.S. dollar. Due to our vertical nature whereby a significant portion of goods are sourced from our owned entities, the foreign currency risks relate primarily to the necessary current settlement of intercompany inventory transactions. We employ a variety of operating practices to manage these market risks relative to foreign currency exchange rate changes and, where deemed appropriate, utilize forward contracts. These operating practices include, among others, our ability to convert foreign currency into U.S. dollars at spot rates and to maintain U.S. dollar pricing relative to sales of our products to certain distributors located outside the U.S. The use of forward contracts allows us to offset exposure to rate fluctuations because the gains or losses incurred on the derivative instruments will offset, in whole or in part, losses or gains on the underlying foreign currency exposure. We use derivative instruments only for risk management purposes and do not use them for speculation or for trading. There were no significant changes in how we managed foreign currency transactional exposure in fiscal year 2017 and management does not anticipate any significant changes in such exposures or in the strategies we employ to manage such exposure in the near future.

The following table shows our outstanding forward contracts designated as cash flow hedges for intercompany inventory transactions (in millions) at December 30, 2017 and their expiration dates.

Functional Currency		Contract Currency		Expiring Through
Type	Amount	Type	Amount	
Euro	245.2	U.S. dollar	286.6	November 2019
Canadian dollar	88.4	U.S. dollar	68.7	December 2019
British pound	41.1	U.S. dollar	54.8	December 2019
Japanese yen	4,105.7	U.S. dollar	37.9	December 2019
Mexican peso	388.5	U.S. dollar	20.2	September 2018
Australian dollar	8.6	U.S. dollar	6.7	June 2018
U.S. Dollar	33.5	Japanese Yen	3,670.0	November 2018

If we were to settle our euro, Canadian dollar, British pound, Japanese yen, Mexican peso, Australian dollar and U.S. dollar based forward contracts hedging intercompany inventory transactions as of December 30, 2017, the net result would have been a net loss of approximately \$11.0 million, net of taxes. As of December 30, 2017, a 10% unfavorable change in the U.S. dollar strengthening against foreign currencies to which we have balance sheet transactional exposures would have decreased net pre-tax income by \$28.8 million. The translation of the balance sheets of our foreign-based operations from their local currencies into U.S. dollars is also sensitive to changes in foreign currency exchange rates. As of December 30, 2017, a 10% unfavorable change in the exchange rate of the U.S. dollar strengthening against the foreign currencies to which we have exposure would have reduced consolidated stockholders' equity by approximately \$61.1 million.

Interest Rate Risk

We are subject to interest rate volatility with regard to debt borrowings. Based on our variable-rate debt outstanding as of December 30, 2017, a 100 basis point increase in interest rates would increase annual interest expense by approximately \$4.5 million.

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Item 8. Consolidated Financial Statements and Supplementary Data

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the stockholders and the Board of Directors of Fossil Group, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Fossil Group, Inc. and subsidiaries (the "Company") as of December 30, 2017 and December 31, 2016, and the related consolidated statements of income (loss) and comprehensive income (loss), stockholders' equity, and cash flows for each of the three years in the period ended December 30, 2017, and the related notes and the schedule listed in the Index at Item 15 (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 30, 2017 and December 31, 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 30, 2017, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 30, 2017, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 2, 2018, expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Deloitte & Touche LLP

Dallas, Texas
March 2, 2018

We have served as the Company's auditor since 1988.

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CONSOLIDATED BALANCE SHEETS
IN THOUSANDS

	December 30, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 231,244	\$ 297,330
Accounts receivable-net	367,013	375,520
Inventories	573,788	542,487
Prepaid expenses and other current assets	118,943	131,953
Total current assets	1,290,988	1,347,290
Property, plant and equipment-net	219,742	273,851
Goodwill	—	355,263
Intangible and other assets-net	147,642	210,493
Total long-term assets	367,384	839,607
Total assets	\$ 1,658,372	\$ 2,186,897
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 204,981	\$ 163,644
Short-term and current portion of long-term debt	2,144	26,368
Accrued expenses:		
Compensation	70,725	52,993
Royalties	39,874	30,062
Co-op advertising	27,946	29,111
Transaction taxes	36,547	26,743
Other	109,211	69,565
Income taxes payable	17,660	16,099
Total current liabilities	509,088	414,585
Long-term income taxes payable	47,093	18,584
Deferred income tax liabilities	1,096	55,877
Long-term debt	443,942	609,961
Other long-term liabilities	76,206	72,452
Total long-term liabilities	568,337	756,874
Commitments and contingencies (Note 13)		
Stockholders' equity:		
Common stock, 48,643 and 48,269 shares issued and outstanding at December 30, 2017 and December 31, 2016, respectively	486	483
Additional paid-in capital	242,263	213,352
Retained earnings	409,653	887,825
Accumulated other comprehensive income (loss)	(76,269)	(95,424)
Total Fossil Group, Inc. stockholders' equity	576,133	1,006,236
Noncontrolling interest	4,814	9,202
Total stockholders' equity	580,947	1,015,438
Total liabilities and stockholders' equity	\$ 1,658,372	\$ 2,186,897
See notes to the consolidated financial statements.		

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FOSSIL GROUP, INC.

CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)
IN THOUSANDS, EXCEPT PER SHARE DATA

Fiscal Year	2017	2016	2015
Net sales	\$2,788,163	\$3,042,371	\$3,228,836
Cost of sales	1,429,324	1,464,185	1,475,369
Gross profit	1,358,839	1,578,186	1,753,467
Operating expenses:			
Selling, general and administrative expenses	1,327,816	1,423,262	1,428,717
Goodwill and trade name impairments	407,128	—	9,116
Restructuring charges	48,171	27,778	24,400
Total operating expenses	1,783,115	1,451,040	1,462,233
Operating income (loss)	(424,276)	127,146	291,234
Interest expense	43,214	26,894	20,018
Other income (expense) - net	13,736	14,056	40,443
Income (loss) before income taxes	(453,754)	114,308	311,659
Provision for income taxes	19,805	28,705	81,757
Net income (loss)	(473,559)	85,603	229,902
Less: Net income attributable to noncontrolling interest	4,613	6,735	9,265
Net income (loss) attributable to Fossil Group, Inc.	\$(478,172)	\$78,868	\$220,637
Other comprehensive income (loss), net of taxes:			
Currency translation adjustment	\$37,368	\$(20,160)	\$(54,466)
Cash flow hedges - net change	(20,448)	2,929	(7,057)
Pension plan activity	2,235	2,313	(2,573)
Total other comprehensive income (loss)	19,155	(14,918)	(64,096)
Total comprehensive income (loss)	(454,404)	70,685	165,806
Less: Comprehensive income attributable to noncontrolling interest	4,613	6,735	9,265
Comprehensive income (loss) attributable to Fossil Group, Inc.	\$(459,017)	\$63,950	\$156,541
Earnings (loss) per share:			
Basic	\$(9.87)	\$1.64	\$4.52
Diluted	\$(9.87)	\$1.63	\$4.51
Weighted average common shares outstanding:			
Basic	48,468	48,136	48,800
Diluted	48,468	48,323	48,924
See notes to the consolidated financial statements.			

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FOSSIL GROUP, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
AMOUNTS IN THOUSANDS

	Common stock		Additional paid-in capital	Treasury stock	Retained earnings	Accumulated other comprehensive income (loss)	Stockholders' equity attributable to Fossil Group, Inc.	Noncontrolling interest	Total stockholders' equity
	Shares	Par value							
Balance, January 4, 2015	50,771	\$ 508	\$ 171,669	\$ —	\$ 822,093	\$ (16,410)	\$ 977,860	\$ 5,941	\$ 983,801
Common stock issued upon exercise of stock options and stock appreciation rights	113	1	769	—	—	—	770	—	770
Tax benefit derived from stock-based compensation	—	—	(1,128)	—	—	—	(1,128)	—	(1,128)
Acquisition of common stock	—	—	887	(232,169)	—	—	(231,282)	—	(231,282)
Retirement of common stock	(2,759)	(28)	(3,368)	232,169	(228,773)	—	—	—	—
Stock-based compensation	—	—	18,627	—	—	—	18,627	—	18,627
Net income	—	—	—	—	220,637	—	220,637	9,265	229,902
Other comprehensive income (loss)	—	—	—	—	—	(64,096)	(64,096)	—	(64,096)
Distribution of noncontrolling interest earnings and other	—	—	—	—	—	—	—	(9,883)	(9,883)
Purchase of noncontrolling interest shares	—	—	—	—	—	—	—	5,832	5,832
Balance, January 2, 2016	48,125	\$ 481	\$ 187,456	\$ —	\$ 813,957	\$ (80,506)	\$ 921,388	\$ 11,155	\$ 932,543
Common stock issued upon exercise of stock options and stock appreciation rights	310	3	93	—	—	—	96	—	96
Tax expense derived from stock-based compensation	—	—	(2,995)	—	—	—	(2,995)	—	(2,995)
Acquisition of common stock	—	—	247	(7,484)	—	—	(7,237)	—	(7,237)
	(166)	(1)	(2,483)	7,484	(5,000)	—	—	—	—

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Retirement of common stock									
Stock-based compensation	—	—	31,034	—	—	—	31,034	—	31,034
Net income	—	—	—	—	78,868	—	78,868	6,735	85,603
Other comprehensive income (loss)	—	—	—	—	—	(14,918)	(14,918)	—	(14,918)
Distribution of noncontrolling interest earnings and other	—	—	—	—	—	—	—	(8,688)	(8,688)
Balance, December 31, 2016	48,269	\$483	\$213,352	\$ —	\$887,825	\$(95,424)	\$1,006,236	\$9,202	\$1,015,438
Common stock issued upon exercise of stock options, stock appreciation rights and restricted stock units	467	4	(4)	—	—	—	—	—	—
Acquisition of common stock	—	—	126	(1,344)	—	—	(1,218)	—	(1,218)
Retirement of common stock	(93)	(1)	(1,343)	1,344	—	—	—	—	—
Stock-based compensation	—	—	31,604	—	—	—	31,604	—	31,604
Net income (loss)	—	—	—	—	(478,172)	—	(478,172)	4,613	(473,559)
Other comprehensive income (loss)	—	—	—	—	—	19,155	19,155	—	19,155
Distribution of noncontrolling interest earnings and other	—	—	—	—	—	—	—	—	—