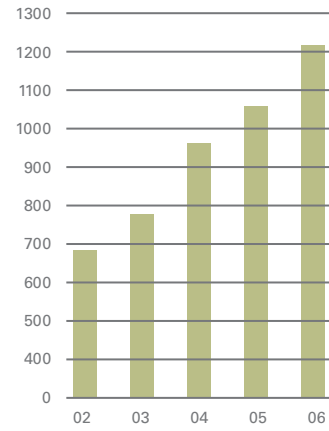


What *Vintage* are you?



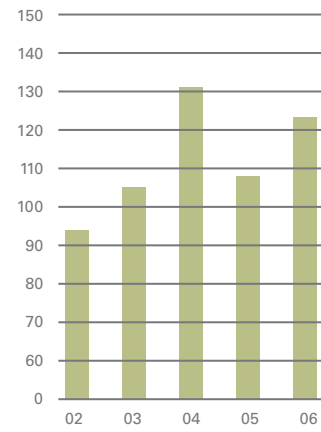
NET SALES

(in millions of dollars)



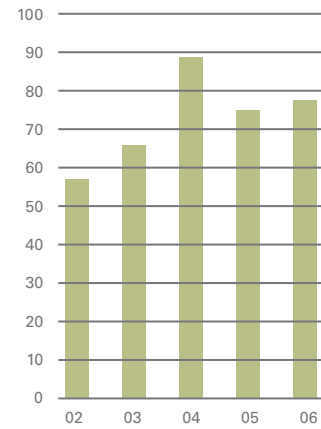
OPERATING INCOME

(in millions of dollars)



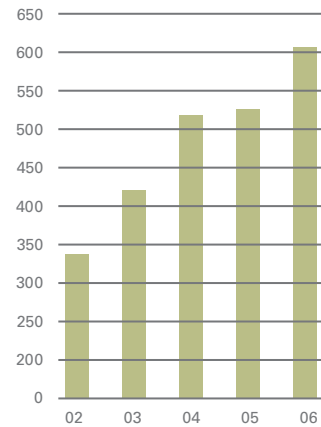
NET INCOME

(in millions of dollars)



STOCKHOLDER'S EQUITY

(in millions of dollars)



FINANCIAL HIGHLIGHTS

| Fiscal Year | 2006 | 2005 (1) | 2004 (1) | 2003 (1) | 2002 (1) |
|---|--------------|--------------------|--------------------|--------------------|--------------------|
| | | As Restated | As Restated | As Restated | As Restated |
| <i>IN THOUSANDS, EXCEPT PER SHARE DATA</i> | | | | | |
| Net sales..... | \$ 1,213,965 | \$ 1,043,120 | \$ 957,309 | \$ 781,175 | \$ 663,338 |
| Gross profit..... | 608,919 | 535,140 | 502,610 | 398,018 | 334,008 |
| Operating income..... | 123,325 | 108,988 | 130,744 | 105,645 | 94,931 |
| Income before taxes..... | 118,795 | 102,948 | 136,208 | 106,492 | 94,680 |
| Net income..... | 77,582 | 75,670 | 89,545 | 66,076 | 57,728 |
| Earnings per share:(4) | | | | | |
| Basic..... | 1.15 | 1.07(2) | 1.27(3) | 0.95 | 0.84 |
| Diluted..... | 1.13 | 1.04(2) | 1.23(3) | 0.92 | 0.81 |
| Weighted average common and common equivalent shares outstanding:(4) | | | | | |
| Basic..... | 67,177 | 70,476 | 70,367 | 69,591 | 68,987 |
| Diluted..... | 68,817 | 72,424 | 72,998 | 71,935 | 71,316 |
| Working capital..... | \$ 357,608 | \$ 326,502 | \$ 369,864 | \$ 311,709 | \$ 242,404 |
| Total assets..... | 852,597 | 745,142 | 783,423 | 587,738 | 483,287 |
| Long-term debt..... | 7,893 | 6,692 | 1,487 | — | — |
| Stockholders' equity..... | 602,201 | 526,317 | 524,426 | 422,974 | 341,576 |
| Return on average stockholders' equity..... | 14.2% | 14.0% | 19.2% | 17.8% | 23.6% |

(1) See the "Explanatory Note" immediately preceding Part I, Item 1 and Note 2, "Restatement of Consolidated Financial Statements," in Notes to Consolidated Financial Statements included the Company's Annual Report on Form 10-K for the fiscal year ended January 6, 2007.

(2) Includes a one time tax benefit of \$12 million related to the repatriation of subsidiary earnings which were not considered permanently invested pursuant to the American Jobs Creation Act of 2004. Excluding this benefit, net income, basic earnings per share and diluted earnings per share would have been approximately \$63.7 million, \$0.90, and \$0.88, respectively.

(3) Includes one time after tax charges related to cumulative rent expense adjustments and settlement of a supplier claim of \$2.0 million and \$550,000 respectively. Excluding these one-time charges, net income, basic earnings per share and diluted earnings per share were \$92.1 million, \$1.31 and \$1.26, respectively.

(4) All share and per share price data have been adjusted to reflect three-for-two stock splits effected in the form of stock dividends paid on June 7, 2002, and April 8, 2004.

Management has provided the following non-GAAP financial information so that investors can more easily compare financial performance of the Company's current business operations from period to period. A reconciliation to the nearest GAAP financial measure is shown in the table below.

| Fiscal Year | 2005 | 2004 |
|-------------------------------|-------------|-------------|
| Net income | \$ 75,670 | \$ 89,545 |
| Less tax benefit..... | 12,000(2) | |
| Plus: | | |
| Rent adjustment..... | | 2,000(3) |
| Supplier claim..... | | 550(3) |
| Pro forma net income..... | 63,670 | 92,095 |
| Pro forma earnings per share: | | |
| Basic..... | 0.90 | 1.31 |
| Diluted..... | 0.88 | 1.26 |

LETTER TO STOCKHOLDERS

Dear Stockholders,

Fiscal 2006 produced a year of solid growth in sales and earnings and the achievement of several initiatives that have set our company in a favorable direction for continued success. Our creative designs, product innovation and superior execution across all of our product offerings led to a 16% increase in sales and a 28% increase in diluted earnings per share, adjusted to exclude the one-time tax benefit in fiscal year 2005. Our business model, which is based on distributing fashion accessories under a portfolio of globally recognized brands across multiple categories, distribution channels, price points and geographic regions, continues to position us as a leader in the global fashion accessories market.

While delivering solid financial results, we accomplished several market and operational objectives:

- » Strengthened the FOSSIL brand across all categories;
- » Expanded our licensed brand portfolio;
- » Continued the dynamic sales growth within the international marketplace;
- » Improved the efficiency of our company; and
- » Expanded the presence and improved the financial performance of our full price retail stores.

The following more specifically outlines each of the above mentioned accomplishments.

FOSSIL Brand Strength

FOSSIL remains a strong and a highly desirable brand, as evidenced by an 11% increase in total sales for 2006. During the year, we enhanced the visibility of the FOSSIL brand through brand building initiatives that include our retail stores, catalog and e-commerce businesses. We have focused our efforts across all of the FOSSIL brand products and distribution channels to offer vintage inspired products for the authentic individual with a modern, contemporary feel, that we refer to as "Modern-Vintage." Our customers seem to be positively reacting to this image, as evidenced by the growth in both the global wholesale channel and our retail stores during 2006.

FOSSIL Brand Product Extensions

Our domestic leather and sunglass businesses continued to record double-digit growth and we believe this category is poised for significant expansion opportunities both in the U.S. and throughout the international market over the next several years. We are working towards this expansion by broadening our offerings with the launch of FOSSIL FIFTY-FOUR, a higher priced collection of handbags, as well as the introduction of a cold-weather accessory collection of gloves, scarves and hats. Both of these initiatives are scheduled to launch in the fall of 2007.

Licensed Brand Portfolio Expansion

During 2006, we further expanded our global watch portfolio with the launch of ADIDAS and MARC BY MARC JACOBS. ADIDAS is a compelling performance brand that enables us to extend our reach into the athletic category. This launch was the largest in our history and provides us with exciting long-term growth potential and a catalyst to penetrate the sporting good distribution channels and digital watch marketplace. MARC BY MARC JACOBS is a leading-edge fashion brand with a whimsical flair. The brand's initial watch offering was well received this past fall as a result of its innovative styling and global recognition.

International Penetration

On the international front, we increased our market share by growing our businesses in Europe and Asia. Total international based sales for fiscal year 2006 increased 20% in comparison to fiscal year 2005, primarily through organic sales growth across our owned and licensed brands. We also used our successful operating model to expand into new geographic areas through a joint venture with our Mexico distributor as well as the launch of our business into mainland China with the opening of

our office in Shanghai. In addition, FOSSIL's non-watch accessories businesses, which are significant to our US-based sales mix, are growing in demand internationally. We believe this growth is due to the continual increase in FOSSIL brand recognition and is aided by our increased retail presence internationally, inclusive of our own growing chain of owned retail locations.

Improved Efficiency

We improved the efficiency of our organization, focusing on inventory management and cost containment. Our balance sheet remains impressive with working capital of \$358 million, cash and cash equivalent balances in excess of \$133 million and no long-term debt. Additionally, our focus on reducing our inventories while still demonstrating strong sales growth resulted in a 5.3% reduction in inventories in comparison to fiscal year 2005. The composition of our inventories also improved significantly as we were opportunistic in reducing our discontinued styles through our outlet stores and other off-price channels. Although this put some pressure on our gross margins during 2006, we believe it will result in margin expansion in 2007. Additionally, we met our objectives in leveraging our operating expenses reporting a 90 basis point reduction in selling, distribution and administrative expenses in comparison to fiscal year 2005. We expect this trend to continue during 2007.

Owned Retail Performance

At the end of 2006, we had 198 stores worldwide, 186 of which are FOSSIL branded. While our full-price accessory stores have provided us a vehicle for heightening awareness of the brand and showcasing the full line of products, over the last few years this concept has become increasingly profitable. Our domestic full-priced accessory stores achieved, on a four-wall basis, an average pre-tax income margin of approximately 25% in 2006, with many of our international based locations performing at even higher levels. As a result, it is our objective to expand our full-price accessory concept by 50 to 60 locations in 2007 in both the U.S. and internationally, given the appropriate economics and retail locations.

Unfortunately, communicating some of these accomplishments to our stockholders was delayed while a review of our historical equity granting practices was being conducted. Based on the independent review by a special committee of our Board of Directors with assistance from legal counsel and accounting experts, it was determined that additional compensation expense should have been recorded in prior years and as a result we have restated certain of our historical filings with the Securities and Exchange Commission. The cumulative pre-tax financial impact of recording additional stock-based compensation expense associated with equity grants from 1993 to 2005 approximated \$13.9 million. We appreciate the patience and support of our stockholders during this delay and are pleased to have this matter behind us.

We believe we are well positioned for continued growth and profitability. Our brands are resonating with consumers and we have several initiatives in place to further our global expansion across all brands, categories and distribution channels while continuing to improve our operating margins and further strengthen our balance sheet. We remain confident in our ability to execute our business model and accomplish our near and long-term goals.

We want to thank our employees, stockholders and customers for their support and loyalty this past year and for their continued contributions to our future.

Sincerely,



Tom Kartsotis
Chairman



Kosta N. Kartsotis
Chief Executive Officer

CORPORATE INFORMATION

EXECUTIVE OFFICERS AND DIRECTORS

Tom Kartsotis
Chairman of the Board

Kosta N. Kartsotis
Chief Executive Officer
and Director

Michael W. Barnes
President,
Chief Operating
Officer and Director

Jal S. Shroff
Managing Director –
Fossil East and Director

Harold S. Brooks
President,
Fashion Watch Division

Mike L. Kovar
Senior Vice President,
Chief Financial Officer
and Treasurer

Jennifer Pritchard
President,
Retail Division

Mark D. Quick
Vice Chairman

Elaine Agather
Director

Kenneth W. Anderson
Director

Alan J. Gold
Director

Michael Steinberg
Director

Donald J. Stone
Director

James M. Zimmerman
Director

CORPORATE INFORMATION

Transfer Agent and Registrar:
Mellon Investor Services LLC
480 Washington Boulevard
Jersey City, NJ 07310

Principal Independent Auditors:
Deloitte & Touche LLP
2200 Ross Avenue
Dallas, TX 75201

Corporate Counsel:
Haynes and Boone, LLP
901 Main Street
Suite 3100
Dallas, TX 75202

OUR WEBSITE

The Company maintains a website at the worldwide internet address of www.fossil.com. Certain product, event, and investor relations information concerning the Company is available at the site.

ANNUAL MEETING

The Annual Meeting of Stockholders will be held on Wednesday, November 14, 2007, at 9:00 am at the Company's headquarters, 2280 N. Greenville Ave., Richardson, Texas.

COMPANY INFORMATION

A copy of the Company's Annual Report on Form 10-K, as filed with the Securities and Exchange Commission, and the Annual Report to Stockholders, in addition to other Company information, is available to stockholders without charge upon written request to Fossil, Investor Relations, 2280 N. Greenville Ave., Richardson, Texas 75082-4412, or online at www.fossil.com.