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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 28, 2019

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 incorporation or organization)	(I.R.S. Employer Identification No.)
901 S. Central Expressway, Richardson, Texas	**75080**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: **(972) 234-2525**

Securities registered pursuant to Section 12(b) of the Act:

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

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer	☐	Accelerated filer	☒	Non-accelerated filer	☐	Smaller reporting company	☐	Emerging growth company	☐

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The aggregate market value of Common Stock, $0.01 par value per share (the "Common Stock"), held by non-affiliates of the registrant, based on the last sale price of the Common Stock as reported by the NASDAQ Global Select Market on June 29, 2019 was $291.6 million.

As of February 12, 2020, 50,574,345 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 2020 Annual Meeting of Stockholders are incorporated by reference in Part III, Items 10-14 of this Annual Report on Form 10-K.

FOSSIL GROUP, INC.
FORM 10-K
FOR THE FISCAL YEAR ENDED DECEMBER 28, 2019
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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 design, innovation and distribution company specializing in consumer fashion accessories. Our products include traditional watches, smartwatches, jewelry, handbags, small leather goods, belts and sunglasses. We design, develop, market and distribute products under our owned brands FOSSIL®, SKAGEN®, MICHELE®, MISFIT®, RELIC® and ZODIAC® and licensed brands ARMANI EXCHANGE®, BMW®, CHAPS BY RALPH LAUREN®, DIESEL®, DKNY®, EMPORIO ARMANI®, KATE SPADE NEW YORK®, MICHAEL KORS®, PUMA®, and TORY BURCH®. Based on our range of accessory products, brands, distribution channels and price points, we are able to target style-conscious consumers across a wide age spectrum on a global basis.

Owned Brands

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

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

Licensed Brands

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

Incorporation

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

Products

We design, develop, market and distribute accessories across a variety of product categories: traditional watches, smartwatches, jewelry, handbags, small leather goods, belts and sunglasses. Additionally, we manufacture and/or distribute private label brands, as well as branded products purchased for resale in certain of our non-FOSSIL branded retail stores. 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				
	2019		2018		2017
	Dollars	% Change	Dollars	% Change	Dollars
Net sales					
Proprietary	$ 1,103.4	(12.6)%	$ 1,262.1	(8.0)%	$ 1,371.9
Licensed	1,013.7	(14.4)	1,183.7	(9.7)	1,311.4
Other	100.6	5.1	95.7	(8.8)	104.9
Total	$ 2,217.7	(12.7)%	$ 2,541.5	(8.8)%	$ 2,788.2

Traditional Watches and Smartwatches

Traditional watches and smartwatches are our core global business. Sales of watches for fiscal years 2019, 2018 and 2017 accounted for approximately 81.3%, 80.0% and 78.9%, respectively, of our consolidated net sales.

Owned Brands

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

Licensed Brands

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

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

1. Subject to early termination
2. We do not expect to renew our license for CHAPS when it expires this year

Smartwatches

Our full display smartwatches use Google’s WEAR OS operating system. We have a current license for WEAR OS that expires on May 1, 2020. We are currently negotiating with Google on the renewal of our WEAR OS license. Certain of our hybrid smartwatches use operating systems developed by us or as otherwise licensed to us by Google.

Fashion Accessories

In addition to our core watch business, we also design and create jewelry, handbags, small leather goods, and belts across our owned brands and watches and jewelry under our licensed brands. In the U.S. and certain international markets, we generally market our fashion accessory lines through the same distribution channels as our watches using similar marketing approaches. Our fashion accessories are typically sold in locations adjacent to watch departments, which may lead to purchases by persons who are familiar with our watch brands. Sales of our accessory lines accounted for 16.3%, 18.4% and 19.7% of our consolidated net sales in fiscal years 2019, 2018 and 2017, respectively.

The following table sets forth information about our fashion accessories:

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

Licensed Eyewear

In January 2014, we entered into a license agreement with the Safilo Group for both FOSSIL branded sunglasses and optical frames worldwide. The license agreement provides for royalties to be paid to us based on a percentage of net sales and includes certain guaranteed minimum royalties. Sales of licensed eyewear accounted for approximately 0.5% of our consolidated net sales for fiscal year 2019 and 0.4% of consolidated net sales for both fiscal years 2018 and 2017.

Private Label

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

Building Strong Brands

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

Product Design and Development

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

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

Marketing and Promotion

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

Operating Strategy

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

Profitability

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

Innovation

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

E-commerce and Digitalization

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

We will continue to collaborate with our wholesale partners to optimize online performance, and we will seek out opportunities to expand our direct to consumer e-commerce business into new markets, with a focus on the Asia Pacific region.

Sustainability

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

Distribution

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

Stores

Internationally, our products are sold across approximately 150 countries worldwide through 23 Company-owned sales subsidiaries and through a network of approximately 80 independent distributors. Our products are offered on airlines and cruise ships and in international Company-owned retail stores. Our international network of Company-owned stores included 162 retail stores and 122 outlet stores as of December 28, 2019. In certain international markets, our products are also sold through licensed and franchised FOSSIL retail stores, retail concessions operated by us and kiosks, as well as through owned and third-party websites.

E-commerce

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

Sourcing

The vast majority of our products are sourced internationally, with a substantial percentage of our watches and jewelry products assembled or manufactured by entities that are majority owned by us. Most watch product sourcing is coordinated through our Hong Kong subsidiary, Fossil (East) Limited ("Fossil East"). During fiscal year 2019, approximately 47% of our global watch production was assembled or sourced through wholly or majority owned factories. This vertical integration of our business allows for better flow of communication, consistent quality, product design protection and improved supply chain speed, while still allowing us to utilize non-owned production facilities for their unique capabilities and to cover production needs over internal capacities. Establishing our watch assembly facilities near the component manufacturers also allows us to operate a more efficient supply chain. In addition, although we do not have long-term contracts with our unrelated watch and accessory manufacturers, we maintain long-term relationships with several manufacturers. These relationships developed due to the significant length of time we have conducted business with the same manufacturers. We believe that we are able to exert significant operational control with regard to our principal watch assemblers because of our level of ownership and long standing relationships. In addition, we believe that the relative size of our business with non-owned watch manufacturers gives us priority within their production schedules. Furthermore, the manufacturers understand our quality standards, which allow us to produce quality products and reduce the delivery time to market, improving overall operating margins. We have also added new third-party facilities and relationships for manufacturing our wearable technology products as well as enhanced our own factories to enable assembly and production of hybrid smartwatches. Increased volume in the wearables category would allow us to further reduce costs through improved volume pricing and enable our suppliers to continue to invest in automation.

Trademarks and Patents

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

Patents

We continue to explore innovations in the design and assembly of our watch, smartwatch, activity tracker and related products. As a result, we have been granted, and have pending, various U.S. and international design and utility patents related to certain product designs, features, and technologies. As of December 28, 2019, none of our patents were material to our business.

Other

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

Seasonality

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

Inventory Control

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

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

Significant Customer

No customer accounted for 10% or more of our consolidated net sales in fiscal years 2019, 2018 or 2017.

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 2019, we had unfilled customer orders of approximately $87.6 million, compared to $96.2 million and $74.1 million at the end of fiscal years 2018 and 2017, respectively.

Competition

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

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

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

Governmental Regulation

Imports and Import Restrictions

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

General

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

Compliance and Trade

Code of Conduct for Manufacturers

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

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

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

Quality Control

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

Trade

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

Employees

As of December 28, 2019, we employed approximately 10,200 persons, including approximately 6,000 persons employed by our foreign operating subsidiaries.

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

Item 1A. Risk Factors

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

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

Risk Factors Relating to Our Business

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

Our success depends upon our ability to anticipate and respond to changing fashion, functionality and product trends and consumer preferences in a timely manner, especially in the wearable technology market. The purchasing decisions of consumers are highly subjective and can be influenced by many factors, such as brand image, marketing programs, functionality and product design. Our success depends, in part, on our ability to anticipate, gauge and respond to these changing consumer preferences in a timely manner while preserving the authenticity and the quality of our brands. Although we attempt to stay abreast of emerging lifestyle and fashion trends and technology 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 result in inventory valuation reserves and adversely affect sales of our products. If we misjudge the market for our products, we may be faced with a significant amount of unsold finished goods inventory, which could adversely affect our results of operations. In recent years, we have experienced decreasing net sales across most product categories; in particular, net sales of watches have declined, reflecting the decline in the traditional watch market partly offset by wearables. If we are unable to adjust our product offerings and reverse the decrease in net sales, our results of operations and financial condition could be adversely affected.

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

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

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

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

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

We have recently expanded, and intend to further expand, the scope of our product offerings, particularly in the wearable technology space. As is typical with new products, market acceptance of new designs and products is subject to uncertainty. In addition, we generally make decisions regarding product designs and technology development several months in advance of the time when consumer acceptance can be measured. If trends shift away from our products, if our wearable technology becomes outdated or if we misjudge the market for our product lines, including demand for older generation technology products, 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. For example, in fiscal 2019, we booked a $38 million inventory valuation adjustment primarily for excess levels of older generation connected watches.

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.

Tariffs or other restrictions placed on imports from China and any retaliatory trade measures taken by China could materially harm our revenue and results of operations.

In July and August 2018, the Trump Administration imposed 25% ad valorem duties on certain goods comprising an estimated $50 billion of inbound trade from China ("List 1" and "List 2"). Certain of our packaging and handbag products were impacted with these additional 25% ad valorem tariffs, based on the first sale export price as imported into the United States. In September 2018, the Trump Administration imposed additional tariffs amounting to 10% ad valorem on thousands of categories of goods covering an estimated $200 billion of inbound trade from China, including certain electronics ("List 3"). On June 15, 2019, the Trump Administration increased these tariffs to 25% ad valorem. Certain of our handbag and wallet products were also impacted with these additional 25% ad valorem tariffs, based on the first sale export price as imported into the United States. In September 2019, the Trump Administration issued a proposal to further increase Lists 1-3 tariffs to 30% ad valorem, but these increases were postponed indefinitely on October 11, 2019.

In August 2019, the Trump Administration announced new 10% ad valorem tariffs that cover the remaining estimated $300 billion of inbound trade from China, including smart watches and several of our traditional watch products. The Trump Administration increased these tariffs to 15% ad valorem in a subsequent notice. The 15% ad valorem tariffs went into effect on September 1, 2019 for some products, including smart watches, certain traditional watches, and certain jewelry products ("List 4A"). Smart watches had received an exemption from List 3 in 2018, but the Trump Administration re-included smart watches as subject to tariffs effective September 1, 2019.

On December 18, 2019, in anticipation of reaching an agreement with China, the Trump Administration postponed indefinitely the imposition of additional tariffs on the remaining items ("List 4B"). On January 15, 2020, the United States and China signed the "Economic and Trade Agreement Between the United States of America and the People's Republic of China - Phase One." In conjunction with that agreement, the Trump Administration announced that it would reduce the List 4A tariffs from 15% ad valorem to 7.5% ad valorem, effective February 14, 2020.

Following a ruling by U.S. Customs and Border Protection, which is currently being contested, the List 4A tariffs apply broadly to our traditional watches that incorporate a watch movement from China. They also generally apply to China-sourced cases and bands on watches assembled in China and other countries.

It is difficult to accurately estimate the impact on our business from these tariff actions or similar actions. However, assuming no further offsets from price increases, sourcing changes, or other changes to regulatory rulings, all of which are currently under review, the estimated gross profit exposure from the List 4A tariffs is $9.5 million in fiscal year 2020.

The Trump Administration intends to negotiate with China toward a "Phase Two" agreement, which could lead to the lowering or removal of additional tariffs. However, if the tariffs continue or increase, we may be required to raise our prices, which may result in the loss of customers and harm our operating performance. Alternatively, we may seek to shift production outside of China or otherwise change our sourcing strategy for these products, resulting in significant costs and disruption to our operations. Even if the United States further modifies these tariffs, it is always possible that our business will be impacted by retaliatory trade measures taken by China or other countries in response to existing or future tariffs, causing us to raise prices or make changes to our operations, any of which could materially harm our revenue or operating results.

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

On December 22, 2017, the President signed into law Public Law No. 115-97, commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"), following its passage by the United States Congress. The Tax Act made significant changes to U.S. federal income tax laws, including changing the corporate tax rate to a flat 21% rate, introducing a capital investment deduction in certain circumstances, placing certain limitations on the interest deduction, modifying the rules regarding the usability of certain net operating losses, and making extensive changes to the U.S. international tax system. The new Global Intangible Low-Taxed Income ("GILTI") provisions of the Tax Act requiring the inclusion of certain foreign earnings in U.S. taxable income increased our effective tax rate in fiscal years 2018 and 2019 and will continue to increase it in future years. Technically, corporate shareholders of foreign corporations generating GILTI are generally entitled to a 50% deduction against such income, lowering the effective rate of tax from 21% to 10.5%. Furthermore, they are able to recognize a foreign tax credit for 80% of local taxes paid on GILTI income. Therefore, as long as the foreign group's average effective rate is 13.125% or more, the tax associated with GILTI should be fully offset by foreign tax credits. However, when a corporation has a domestic source loss, the GILTI absorbs this loss, eliminating any ability to carry the loss forward to offset future income. Our effective foreign income tax rate is significantly higher than the intended 13.125% threshold. However, the GILTI consumed our domestic source loss for fiscal years 2018 and 2019, preventing the recognition of a tax benefit on the domestic source loss. The impact of the GILTI provision of the Tax Act was included in our financial statements for fiscal years 2018 and 2019. We account for GILTI as incurred under the period cost method. As a result of these new provisions, especially the GILTI, our effective tax rates in fiscal 2018 and 2019 were 104.7% and (59.6)%, respectively, which substantially exceeded the federal statutory rate of 21.0%. The impact of these new rules could be adverse in future years.

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

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

The loss of any of our license agreements for globally recognized fashion brand names may result in the loss of significant revenues and may adversely affect our business.

We have entered into multi-year, worldwide exclusive license agreements for the manufacture, distribution and sale of products bearing the brand names of certain globally recognized fashion brands. We sell products under certain licensed brands, including, but not limited to, ARMANI EXCHANGE, BMW, CHAPS, DIESEL, DKNY, EMPORIO ARMANI, KATE SPADE NEW YORK, MICHAEL KORS, PUMA and TORY BURCH. Sales of our licensed products amounted to approximately 45.7% of our consolidated net sales for fiscal year 2019, including MICHAEL KORS product sales, which accounted for approximately 19.2% of our consolidated net sales, and product sales under the ARMANI brands, which accounted for approximately 18.3% of our consolidated net sales.

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

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

The loss of our license for Google's WEAR OS operating system may result in the loss of significant revenues and may adversely affect our business.

Our full display smartwatches use Google's WEAR OS operating system. We have a current license for WEAR OS that expires on May 1, 2020. We are currently negotiating with Google on the renewal of our WEAR OS license. Sales of our full display smartwatches running the WEAR OS operating system amounted to approximately 12.6% of our consolidated net sales for fiscal year 2019. We may be unable to renew our existing license for WEAR OS beyond the current term. The failure by us to maintain or renew our license for WEAR OS could result in us being unable to produce and market full display smartwatches, which 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. During fiscal years 2019, 2018 and 2017, we recorded $29.6 million, $46.6 million and $48.2 million of restructuring charges, respectively. Restructuring plans present significant potential risks that may impair our ability to achieve anticipated operating enhancements and/or cost reductions, or otherwise harm our business, including higher than anticipated costs in implementing our restructuring plan, management distraction and employee attrition in excess of headcount reductions. If this program is not successful, then our results of operations and financial condition could be materially adversely affected.

Our Credit Agreements subject us to certain covenants, which may restrict our ability to operate our business and to pursue our business strategies. Our failure to comply with the covenants contained in the Credit Agreements or any agreement under which we have incurred other indebtedness, including as a result of events beyond our control, could result in an event of default which could materially and adversely affect our operating results and our financial condition.

On September 26, 2019, the Company and Fossil Partners L.P., as the U.S. borrowers, and Fossil Group Europe GmbH, Fossil Asia Pacific Limited, Fossil (Europe) GmbH, Fossil (UK) Limited and Fossil Canada Inc., as the non-U.S. borrowers, certain other subsidiaries of the Company from time to time party thereto designated as borrowers, and certain subsidiaries of the Company from time to time party thereto as guarantors, entered into a $275.0 million secured asset-based revolving credit agreement (the “Revolving Facility”) with JPMorgan Chase Bank, N.A. as administrative agent, J.P. Morgan AG, as French collateral agent, JPMorgan Chase Bank, N.A., Citizens Bank, N.A. and Wells Fargo Bank, National Association as joint bookrunners and joint lead arrangers, and Citizens Bank, N.A. and Wells Fargo Bank, National Association, as co-syndication agents and each of the lenders from time to time party thereto. In addition, on September 26, 2019, the Company, as borrower, entered into a $200.0 million secured Term Credit Agreement with JPMorgan Chase Bank, N.A. as administrative agent, JPMorgan Chase Bank, N.A., Citizens Bank, National Association and Wells Fargo Securities, LLC, as joint bookrunners and joint lead arrangers and the lenders party thereto, which was amended on February 20, 2020, by that certain Amendment No. 1 to Term Credit Agreement (as amended to date, the “Term Loan Facility”).

The Revolving Facility and Term Loan Facility impose, and future financing agreements are likely to impose, affirmative and negative covenants that restrict our activities. These restrictions limit or prohibit our ability to, among other things:
- incur additional indebtedness or issue certain types of stock;
- pay dividends or make other distributions, repurchase or redeem our stock;
- make certain investments;
- prepay, redeem, or repurchase certain debt;
- sell assets and issue capital stock of our restricted subsidiaries;
- incur liens;
- enter into agreements restricting our restricted subsidiaries’ ability to pay dividends, make loans to other Fossil entities or restrict the ability to incur liens;
- enter into transactions with affiliates; and
- consolidate or merge.

These restrictions on our ability to operate our business, along with restrictions that may be contained in agreements evidencing or governing future indebtedness, could seriously harm our business and our ability to grow in accordance with our growth strategy by, among other things, limiting our ability to take advantage of merger and acquisition and other corporate opportunities. In addition, the limitations imposed by financing agreements on our ability to incur additional debt might significantly impair our ability to obtain other financing.

As a result of these restrictions, we may be:
- limited in how we conduct our business;
- unable to raise additional debt or equity financing to operate during general economic or business downturns; or
- unable to compete effectively or to take advantage of new business opportunities.

The Revolving Facility and Term Loan Facility also require us to maintain specified financial ratios and satisfy other financial condition tests in certain circumstances.

The Revolving Facility contains a fixed charge coverage ratio covenant if our Availability (as defined in the Revolving Facility) falls below a certain threshold. The Term Loan Facility contains a total leverage ratio covenant requiring the total leverage ratio to be not greater than 2.75 to 1.00 as of the last day of each fiscal quarter during 2020, 2.25 to 1.00 as of the last day of each of the first three fiscal quarters of 2021, and 1.50 to 1.00 as of the last day of each subsequent fiscal quarter. The Term Loan Facility also requires that the Company not permit Liquidity (as defined in the Term Loan Facility) as of the last day of any fiscal month to be less than $150.0 million. See Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" under the heading "Debt Facilities" for an additional discussion of the financial covenants contained in the Revolving Facility and Term Loan Facility.

Various risks, uncertainties and events beyond our control could affect our ability to comply with these covenants and maintain these financial tests. Failure to comply with any of the covenants in our existing or future financing agreements could result in a default under those agreements and under other agreements containing cross-default provisions. A default would permit lenders to accelerate the maturity of the debt under these agreements. Under these circumstances, we might not have sufficient funds or other resources to satisfy all of our obligations. We cannot assure you that we will be granted waivers or amendments to these agreements if for any reason we are unable to comply with these agreements or that we will be able to refinance our debt on terms acceptable to us, or at all. In addition, an event of default under the Revolving Facility would permit the lenders to terminate all commitments to extend further credit under the Revolving Facility, and a payment default under the Revolving Facility would trigger a cross default under the Term Loan Facility. Furthermore, both the Revolving Facility and the Term Loan Facility are secured by liens on our assets. If we were unable to repay the amounts due and payable under our Revolving Facility or Term Loan Facility, the applicable lenders could proceed against the collateral granted to them to secure that indebtedness.

The Revolving Facility provides the lenders considerable discretion to impose reserves or availability blocks or to determine that certain assets are not eligible for inclusion in our borrowing base, which could materially impair the amount of borrowings that would otherwise be available to us. There can be no assurance that the lenders under the Revolving Facility will not take such actions during the term of that facility and, further, were they to do so, the resulting impact of such actions could materially and adversely impair our ability to meet our other obligations as they become due, among other matters.

The amount of borrowings permitted under our Revolving Facility may fluctuate significantly, which may adversely affect our liquidity, results of operations and financial position.

The amount of borrowings permitted at any time under our Revolving Facility is limited to a periodic borrowing base valuation of, among other things, our eligible accounts receivable and inventory. As a result, our access to credit under our Revolving Facility is potentially subject to significant fluctuations depending on the value of the borrowing base eligible assets as of any measurement date, as well as certain discretionary rights of the administrative agent of our Revolving Facility in respect of the calculation of such borrowing base value. In addition, the Term Loan Facility limits the amount of borrowings in aggregate principal amount at any time outstanding under the Revolving Facility to $200.0 million. Our inability to borrow at current advance rates or at all under, or the early termination of, our Revolving Facility may adversely affect our liquidity, results of operations and financial position.

Our variable rate indebtedness subjects us to interest rate risk, which could cause our debt service obligations to increase significantly.

Our variable rate indebtedness subjects us to interest rate risk, which could cause our debt service obligations to increase significantly. Borrowings under our Revolving Facility and Term Loan Facility are at variable rates of interest based on the base rate or the London interbank offered rate ("LIBOR") and expose us to interest rate risk. If interest rates increase, our debt service obligations on the variable rate indebtedness could increase even though the amount borrowed remains the same, and our net income and cash flows, including cash available for servicing our indebtedness, would correspondingly decrease.

To the extent we make borrowings based on LIBOR, LIBOR tends to fluctuate based on multiple factors, including general short-term interest rates, rates set by the U.S. Federal Reserve and other central banks, the supply of and demand for credit in the London interbank market and general economic conditions. On July 27, 2017, the U.K. Financial Conduct Authority (the authority that regulates LIBOR) announced that it intends to stop compelling banks to submit rates for the calculation of LIBOR after 2021. It is unclear whether new methods of calculating LIBOR will be established or if LIBOR continues to exist after 2021. The U.S. Federal Reserve, in conjunction with the Alternative Reference Rates Committee, is considering replacing U.S. dollar LIBOR with a newly created index. These changes may have a negative impact on our interest expense and profitability.

Our substantial indebtedness could adversely affect our financial condition and prevent us from fulfilling our obligations.

The Revolving Facility provides that the lenders thereunder may extend revolving loans in an aggregate principal amount not to exceed $275.0 million at any time outstanding, subject to the Term Loan Facility and borrowing base availability limitations. The Term Loan Facility provides for term loans to us in the aggregate principal amount of $200.0 million. As of December 28, 2019, we had $200.0 million outstanding under the Term Loan Facility and $28.0 million outstanding under the Revolving Facility.

The covenants under the Revolving Facility and Term Loan Facility allow us to incur additional indebtedness from other sources in certain circumstances.

As a result of our existing indebtedness and our capacity to incur additional indebtedness, we are, and anticipate continuing to be, a highly leveraged company. A significant portion of our cash flow will be required to pay interest and principal on our outstanding indebtedness, and we may be unable to generate sufficient cash flow from operations, or have future borrowings available under our Revolving Facility or Term Loan Facility, to enable us to repay our indebtedness or to fund other liquidity needs. This level of indebtedness could have important consequences, including the following:

- it requires us to use a significant percentage of our cash flow from operations for debt service and the repayment of our indebtedness, including indebtedness we may incur in the future, and such cash flow may not be available for other purposes;
- it limits our ability to borrow money or sell stock to fund our working capital, capital expenditures, acquisitions and debt service requirements;
- it may limit our flexibility in planning for, or reacting to, changes in our business and future business opportunities;
- we are more highly leveraged than some of our competitors, which may place us at a competitive disadvantage;
- it may make us more vulnerable to a downturn in our business or the economy;
- it may increase our cost of borrowing;
- it may restrict us from exploiting business opportunities;
- debt service requirements could make it more difficult for us to make payments on our other indebtedness; and
- there would be a material adverse effect on our business and financial condition if we were unable to service our indebtedness or obtain additional financing as needed.

We may not be able to generate sufficient cash flows to meet our debt service obligations and may be forced to take other actions to satisfy our obligations under our indebtedness, which may not be successful.

Our ability to make payments on and to refinance our indebtedness and to fund planned capital expenditures will depend on our ability to generate cash from our operations in the future. This, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control.

Our business may not generate sufficient cash flow from operations and future sources of capital under the Revolving Facility, Term Loan Facility or otherwise may not be available to us in an amount sufficient to enable us to pay our indebtedness or to fund our other liquidity needs. If we complete an acquisition, our debt service requirements could increase. We may need to refinance or restructure all or a portion of our indebtedness on or before maturity. We may not be able to refinance any of our indebtedness, including the Revolving Facility and Term Loan Facility, on commercially reasonable terms, or at all. If we cannot service our indebtedness, we may have to take actions such as selling assets, seeking additional equity, reducing or delaying capital expenditures, strategic acquisitions, investments and alliances or restructuring or refinancing our indebtedness. We may not be able to effect such actions, if necessary, on commercially reasonable terms, or at all.

Any refinancing of our debt could be at higher interest rates and may require us to comply with more onerous covenants. These alternative measures may not be successful and may not permit us to meet our scheduled debt service obligations. The Revolving Facility and Term Loan Facility restrict our ability to conduct asset sales and to use the proceeds from asset sales. We may not be able to consummate these asset sales to raise capital or sell assets at prices and on terms that we believe are fair, and any proceeds that we do receive may not be adequate to meet any debt service obligations then due. If we cannot meet our debt service obligations, the holders of our debt may accelerate our debt and, to the extent such debt is secured, foreclose on our assets. In such an event, we may not have sufficient assets to repay all of our debt.

We may still be able to incur significantly more debt, including secured debt. This could intensify already-existing risks related to our indebtedness.

The terms of the Revolving Facility and Term Loan Facility contain restrictions on our and the guarantors' ability to incur additional indebtedness. However, these restrictions are subject to a number of important qualifications and exceptions, and the indebtedness incurred in compliance with these restrictions could be substantial. Accordingly, we or the guarantors could incur significant additional indebtedness in the future, much of which could constitute secured, senior, or pari passu indebtedness. As of December 28, 2019, our Revolving Facility provided for unused borrowing capacity of up to $120.1 million. If new debt is added to our currently anticipated debt levels, the related risks that we and the guarantors now face could intensify.

Repayment of our debt is dependent on cash flow generated by our subsidiaries.

Repayment of our indebtedness, to a certain degree, is dependent on the generation of cash flows by our subsidiaries (including any subsidiaries that are not guarantors) and their ability to make such cash available to us, by dividend, loan, debt repayment, or otherwise. Our subsidiaries may not be able to, or be permitted to, make distributions or other payments to enable us to make payments in respect of our indebtedness. Each of our subsidiaries is a distinct legal entity and, under certain circumstances, applicable U.S. and foreign legal and contractual restrictions or our permanently invested assertion may limit our ability to obtain cash from our subsidiaries. While the terms of the Revolving Facility and Term Loan Facility limit the ability of certain of our subsidiaries to incur consensual restrictions on their ability to pay dividends or make other intercompany payments, these limitations are subject to important qualifications and exceptions. In the event that we do not receive distributions or other payments from our subsidiaries, we may be unable to make required payments on our indebtedness.

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

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

During fiscal year 2019, our global comparable retail store sales decreased 4%. During fiscal year 2020, we intend to open approximately 10 new stores globally and close approximately 20 stores, depending on lease negotiations. The success of our retail business depends, in part, on our ability to open new profitable stores, close low performing stores and renew our existing store leases on terms that meet our financial targets. Our ability to open new stores on schedule or at all, to close low performing stores and to renew existing store leases on favorable terms or to operate them on a profitable basis will depend on various factors, including our ability to:

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

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

New technologies could render our wearable technology obsolete.

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

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

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

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

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

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

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

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

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

Despite the security measures we currently have in place, our facilities and systems and those of our third party service providers may be vulnerable to theft of physical information, security breaches, hacking attempts, computer viruses and malware, ransomware, phishing, 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. A successful ransomware attack on our systems could make them inaccessible for a period of time pending the payment of a ransom to unlock the systems or our ability to otherwise restore our access to our systems.

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.

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

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

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

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

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

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

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

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

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

We also operate FOSSIL brand stores and other non-FOSSIL branded stores globally to further strengthen our brand image. As of December 28, 2019, we operated 451 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, particularly in the smartwatch category where customer demand for products with older generation technology may be difficult to predict. These events could significantly harm our operating results and impair the image of our brands. Conversely, if we underestimate consumer demand for our products or if our manufacturers fail to supply quality products in a timely manner, we may experience inventory shortages, which might result in unfilled orders, negatively impact customer relationships, diminish brand loyalty and result in lost revenues, any of which could harm our business.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We are subject to the ongoing internal control provisions of Section 404 of the Sarbanes-Oxley Act of 2002. These provisions provide for the identification of material weaknesses in internal control over financial reporting, which is a process to provide reasonable assurance regarding the reliability of financial reporting for external purposes in accordance with accounting principles generally accepted in the United States of America. Our management, including our CEO and Chief Financial Officer ("CFO"), does not expect that our internal controls and disclosure controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. In addition, the design of a control system must reflect the fact that there are resource constraints and the benefit of controls must be relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, in our Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple errors or mistakes. Further, controls can be circumvented by individual acts of some persons, by collusion of two or more persons, or by management override of the controls. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, a control may be inadequate because of changes in conditions, such as growth of the Company or increased transaction volume, or the degree of compliance with the policies or procedures may deteriorate. Because of inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

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

Risk Factors Relating to Our International Operations

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

During fiscal year 2019, we generated 63.0% 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;
- restrictions on travel to and from international locations as a result of viruses, such as the recent outbreak of coronavirus;
- 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, Chinese yuan, Danish krone, euro, Hong Kong dollar, Indian rupee, Japanese yen, South Korean won, Malaysian ringgit, Mexican peso, Norwegian kroner, Singapore dollar, Swedish krona, Swiss franc and Taiwanese dollar. Due to our dependence on manufacturing operations in China, changes in the value of the Chinese yuan may have a material impact on our supply channels and manufacturing costs, including component and assembly costs.

In addition, changes in currency exchange rates may also affect the prices at which we sell products in foreign markets. For fiscal years 2019, 2018 and 2017, 63.0%, 59.9% and 58.5% 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 stronger U.S. dollar in fiscal year 2019, the translation of foreign based net sales into U.S. dollars reduced our reported net sales by approximately $48.8 million. If the value of the U.S. dollar remains at its current levels or strengthens further against foreign currencies, particularly against the euro, Chinese yuan, Indian rupee, Canadian dollar, South Korean won, British pound and Japanese yen, our financial condition and results of operations could be materially and adversely impacted. Although we utilize forward contracts to help mitigate foreign currency risks (mostly relating to the euro, Canadian dollar, British pound, Japanese yen, Mexican peso and Australian dollar), foreign currency fluctuations may have a material adverse impact on our financial condition and results of operations.

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

The European economic situation, particularly with the withdrawal by the United Kingdom from the European Union, has contributed to instability in certain international credit markets. During fiscal year 2019, we generated 32.4% of our consolidated net sales from our Europe segment. If global economic and market conditions, or economic conditions in Europe remain uncertain or deteriorate, the value of the euro could decline. Any additional financial instability in stressed European countries could have a contagion effect on the region and contribute to the general instability and uncertainty in the European Union. If this were to occur or if the value of the euro were to weaken against the U.S. dollar, our financial condition and results of operations could be materially and adversely impacted.

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

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

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

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

We face risks associated with increased political uncertainty.

In the U.S., the change in the U.S. government administration has resulted in uncertainty regarding potential changes in regulations, fiscal policy, social programs, domestic and foreign relations and international trade policies. Potential changes in relationships among the U.S., China, Russia and other countries could have significant impacts on global trade and regional economic conditions, among other things. In addition, changes in the relationships between the U.S. and its neighbors, such as

Mexico, could have significant, potentially negative, impacts on commerce. Further, anti-American sentiment could harm the reputation and success of U.S. companies doing business abroad.

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

Our business is dependent upon its international operations, particularly in Asia and Europe. During fiscal years 2019, 2018 and 2017, we generated 63.0%, 59.9% and 58.5%, respectively, of our net sales outside the U.S. In addition, we source the vast majority of our products from outside the U.S.

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, the historical involvement of the Chinese government in the industry and recent trade tensions between China and the U.S. 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;
- the timing of certain selling, general and administrative expenses;
- completing acquisitions and the costs of integrating acquired operations;
- international currency fluctuations, operating challenges and trade regulations;
- acts of terrorism or acts of war; and
- government regulation.

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

Our CEO owns approximately 6.6% of our outstanding common stock.

Mr. Kosta Kartsotis owns approximately 6.6% of our common stock as of December 28, 2019. As a result, he is in a position to influence the outcome of elections of our directors, the adoption, amendment or repeal of our bylaws and any other actions requiring the vote or consent of our stockholders, and to otherwise influence our affairs.

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

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

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

Failure to meet our financial guidance or achieve other forward-looking statements we have provided to the public could result in a decline in our stock price.

From time to time, we provide public guidance on our expected financial results or disclose other forward-looking information for future periods. We manage our business to maximize our growth and profitability and not to achieve financial or operating targets for any particular reporting period. Although we believe that public guidance may provide investors with a better understanding of our expectations for the future and is useful to our existing and potential stockholders, such guidance is subject to risks, uncertainties and assumptions. Any such guidance or other forward-looking statements are predictions based on our then existing expectations and projections about future events that we believe are reasonable. Actual events or results may differ materially from our expectations, and as such, our actual results may not be in line with guidance we have provided. We are under no duty to update any of our forward-looking statements to conform to actual results or to changes in our expectations, except as required by federal securities laws. If our financial results for a particular period do not meet our guidance or the expectations of investors, or if we reduce our guidance for future periods, the market price of our common stock may decline and stockholders could be adversely affected. Investors who rely on these predictions when making investment decisions with respect to our securities do so at their own risk.

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

Research analysts publish their own quarterly projections regarding our operating results. These projections may vary widely from one another and may not accurately predict the results we actually achieve. Our stock price may decline if we fail to meet securities research analysts' projections. Similarly, if one or more of the analysts who covers us downgrades our stock or publishes inaccurate or unfavorable research about our business, our stock price could decline. If one or more of these analysts ceases coverage of us or fails to publish reports on us regularly, our stock price or trading volume could decline. In 2019, the number of analysts covering our stock decreased from six to three.

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

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

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Company facilities. As of the end of fiscal year 2019, we owned or leased the following material facilities in connection with our U.S. and international operations:

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

Retail store facilities. As of the end of fiscal year 2019, we had 457 lease agreements for retail space for the sale of our products. The leases, including renewal options, expire at various times through 2030. 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.

PART II

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

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

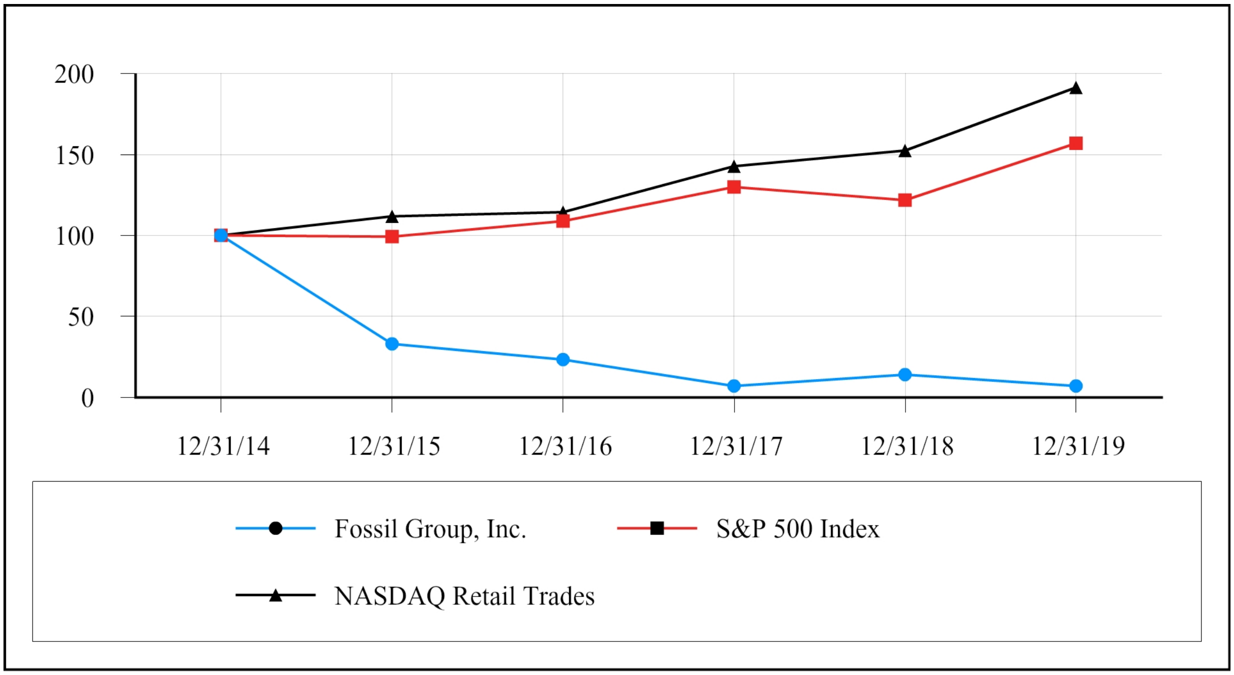
As of February 12, 2020, there were approximately 66 holders of record of our shares of common stock (including nominee holders such as banks and brokerage firms who hold shares for beneficial owners), although we believe that the number of beneficial owners is much higher.

We have not declared or paid any dividends since our formation and currently do not intend to pay dividends for the foreseeable future. Our current business plan is to retain any future earnings to finance the growth of our business.

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, 2014 and is calculated assuming quarterly reinvestment of dividends and quarterly weighting by market capitalization.

2019 COMPARATIVE TOTAL RETURNS
Fossil Group, Inc.,
NASDAQ Retail Trades and S&P 500 Index
(Performance Results through 12/31/2019)



	12/31/2014	12/31/2015	12/31/2016	12/31/2017	12/31/2018	12/31/2019
Fossil Group, Inc.	$ 100.00	$ 33.01	$ 23.35	$ 7.02	$ 14.20	$ 7.12
S&P 500 Index	$ 100.00	$ 99.27	$ 108.74	$ 129.86	$ 121.76	$ 156.92
NASDAQ Retail Trades	$ 100.00	$ 111.76	$ 114.44	$ 142.69	$ 152.51	$ 191.27

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 28, 2019, no shares had been repurchased under it. As of December 28, 2019, the Company had $30.0 million of repurchase authorizations remaining under its repurchase program.

Common stock repurchases acquired from grantees in connection with income tax withholding obligations arising from vesting of restricted stock grants were 3,316 shares for fiscal year 2017.

There were no shares of common stock repurchased during fiscal year 2019 or 2018.

Item 6. Selected Financial Data

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

Fiscal Year	2019	2018	2017	2016	2015
Net sales	$ 2,217,712	$ 2,541,488	$ 2,788,163	$ 3,042,371	$ 3,228,836
Gross profit	1,099,438	1,340,137	1,358,839	1,578,186	1,753,467
Operating income (loss)	(28,383)	62,711	(424,276)	127,146	291,234
Net income (loss)	(50,012)	(938)	(473,559)	85,603	229,902
Net income (loss) attributable to Fossil Group, Inc.	(52,365)	(3,478)	(478,172)	78,868	220,637
Earnings (loss) per share:					
Basic	(1.04)	(0.07)	(9.87)	1.64	4.52
Diluted	(1.04)	(0.07)	(9.87)	1.63	4.51
Weighted average common shares and common equivalent shares outstanding:					
Basic	50,230	49,196	48,468	48,136	48,800
Diluted	50,230	49,196	48,468	48,323	48,924
Working capital	$ 500,278	$ 652,766	$ 781,900	$ 932,705	$ 953,141
Total assets	1,604,732	1,575,198	1,658,372	2,186,897	2,355,661
Total long-term liabilities	541,711	380,764	568,337	756,874	933,589
Stockholders' equity attributable to Fossil Group, Inc.	503,054	585,543	576,133	1,006,236	921,388
Return on average stockholders' equity attributable to Fossil Group, Inc.[1]	(9.8)%	(0.6)%	(62.3)%	8.2%	24.7%

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

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

Summary

We are a global design, marketing and distribution company that specializes in consumer fashion accessories. Our principal offerings include an extensive line of men's and women's fashion watches and jewelry, handbags, small leather goods, belts, and sunglasses. In the watch and jewelry product categories, we have a diverse portfolio of globally recognized owned and licensed brand names under which our products are marketed. Our products are distributed globally through various distribution channels including wholesale in countries where we have a physical presence, direct to the consumer through our retail stores and commercial websites and through third-party distributors in countries where we do not maintain a physical presence. Our products are offered at varying price points to meet the needs of our customers, whether they are value-conscious or luxury oriented. Based on our extensive range of accessory products, brands, distribution channels and price points, we are able to target style-conscious consumers across a wide age spectrum on a global basis.

Domestically, we sell our products through a diversified distribution network that includes department stores, specialty retail locations, specialty watch and jewelry stores, Company-owned retail and outlet stores, mass market stores, through our FOSSIL website and third party websites. Our wholesale customer base includes, among others, Amazon, Best Buy, Dillard's, JCPenney, Kohl's, Macy's, Neiman Marcus, Nordstrom, Saks Fifth Avenue, Target and Wal-Mart. In the U.S., our network of Company-owned stores included 59 retail stores located in premier retail sites and 101 outlet stores located in major outlet malls as of December 28, 2019. In addition, we offer an extensive collection of our FOSSIL brand products on our website, *www.fossil.com*, as well as proprietary and licensed watch and jewelry brands through other managed and affiliated websites.

Internationally, our products are sold to department stores, specialty retail stores, specialty watch and jewelry stores and through third party websites in approximately 150 countries worldwide through 23 Company-owned foreign sales subsidiaries and through a network of approximately 80 independent distributors. Internationally, our network of Company-owned stores included 162 retail stores and 122 outlet stores as of December 28, 2019. 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.

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 trade names, income taxes, warranty costs and litigation liabilities. We base our estimates and judgments on historical experience and on various other factors that we believe to be reasonable under the circumstances. Our estimates form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. We believe the following critical accounting policies require the most significant estimates and judgments.

Product Returns. We accept limited returns from customers. We monitor returns and maintain a provision for estimated returns based upon historical experience and any specific issues identified. While returns have historically been within our expectations and the provisions established, future return rates may differ from those experienced in the past. In the event that our products are performing poorly in the retail market and/or we experience product damages or defects at a rate significantly higher than our historical rate, the resulting returns could have an adverse impact on the operating results for the period or periods in which such returns occur. If our allowance for product returns were to change by 10%, the impact, excluding taxes, would have been an approximate $3.8 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 forecasted sales demand, market conditions and available liquidation channels. Valuation of existing connected inventory can be negatively impacted by the emergence of newer generation product. If actual future demand or market conditions are less favorable than those projected by management, or if liquidation channels are not readily available, additional inventory valuation reductions may be required. We assess our off-price sales on an ongoing basis and update our estimates accordingly. Revenue from sales of our products that are subject to inventory consignment agreements is recognized when title and risk of loss transfers, delivery has occurred and in an amount that reflects the consideration we expect to be entitled in exchange for the product.

Impairment of Trade Names. 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. Due to the inherent uncertainties involved in making the estimates and assumptions used in the fair value analysis, actual results may differ, which could alter the fair value of the trade names and possibly cause impairment charges to occur in future periods. Judgments and assumptions are inherent in our estimate of future cash flows used to determine the estimate of our fair values. The most significant assumptions associated with the fair value calculations include net sales growth rates and discount rates. If the actual future sales results do not meet the assumed growth rates, future impairments of trade names may be incurred.

For fiscal year 2019, a discount rate of 10.2% and a royalty rate of 5% were used to estimate the MICHELE trade name fair value. The MICHELE trade name represented approximately 71%, 34% and 29% of our total trade name balances at the end of fiscal years 2019, 2018 and 2017, respectively. No impairment charges were recorded to the MICHELE trade name in fiscal years 2019 or 2018 and $7.6 million of impairment charges were recorded in fiscal year 2017. As of December 28, 2019, the fair value of the MICHELE trade name exceeded its carrying value by approximately 70%.

In fiscal year 2019, as a result of interim impairment testing, the Company recorded impairment charges of $16.6 million related to the SKAGEN trade name fair value. Concurrent with the impairment testing, the Company determined the trade name would no longer have an indefinite useful life. As a result of the change in estimate, the useful life of the trade name changed from indefinite to definite, and the trade name is being fully amortized on a straight-line basis over the estimated useful life of 6 years. The SKAGEN trade name represented approximately 29%, 66% and 71% of our total trade name balance at the end of fiscal years 2019, 2018 and 2017, respectively. We recorded impairment charges of $6.2 million and $28.3 million for fiscal years 2018 and 2017, respectively, related to the SKAGEN trade name.

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.

Property, Plant and Equipment and Lease Impairment. We test for asset impairment of property, plant and equipment and lease 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 selling, general, and administrative ("SG&A") of approximately $7.9 million in fiscal year 2019 related to lease assets. We recorded impairment losses in SG&A of approximately $0.7 million, $1.9 million and $1.3 million in fiscal years 2019, 2018 and 2017, respectively, related to property, plant and equipment. We recorded impairment losses in restructuring charges of approximately $1.7 million in fiscal year 2019 related to lease assets. We recorded impairment losses in restructuring charges of approximately $0.6 million, $1.7 million and $8.0 million in fiscal years 2019, 2018 and 2017, respectively, related to property, plant and equipment. In fiscal year 2019, an increase of 100 basis points to the discount rate would have increased property, plant and equipment and lease impairment expense by $0.1 million. A 10% decrease in future expected cash flows would have increased impairment expense by $3.6 million. We recorded non-impairment restructuring charges related to the write off of property, plant and equipment of approximately $0.5 million, $0.6 million and $0.4 million in fiscal years 2019, 2018 and 2017, respectively.

Income Taxes. We record valuation allowances against our deferred tax assets, when necessary, in accordance with ASC 740, *Income Taxes* ("ASC 740"). Realization of deferred tax assets is dependent on future taxable earnings and is therefore uncertain. At least quarterly, we assess the likelihood that our deferred tax asset balance will be recovered from future taxable income. To the extent we believe that recovery is not likely, we establish a valuation allowance against our deferred tax asset, increasing our income tax expense in the period such determination is made. The valuation allowance for fiscal years 2019, 2018 and 2017 was $118.1 million, $95.8 million and $78.3 million, respectively. In addition, in fiscal year 2019, we recorded a state deferred tax liability of $0.3 million on foreign earnings not considered to be indefinitely reinvested outside of the U.S.

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

The GILTI provisions of the Tax Act, requiring the inclusion of certain foreign earnings in U.S. taxable income, increased our effective tax rate in fiscal 2018 and 2019 and could have an adverse impact in future years. Due to the complexity of these new tax rules, we are continuing to evaluate these provisions of the Tax Act as the Internal Revenue Service and the U.S. Treasury Department issue guidance and regulations. The GILTI impact will be accounted for as incurred under the period cost method. In addition, our valuation allowance analysis is affected by various aspects of the Tax Act, including the limitation on the deductibility of interest expense and the impact of the GILTI. Those adjustments materially impacted the provision for income taxes and the effective tax rate in fiscal 2019.

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.

At the time of sale, we accrue a warranty liability for estimated costs in connection with future warranty claims. We determine our warranty liability using historical warranty repair experience. We periodically assess the adequacy of our warranty liability, and as changes occur in sales volumes and warranty costs, the warranty accrual is adjusted as necessary. Actual claims could be higher or lower than amounts estimated, as the number and value of warranty claims can vary due to such factors as performance of new products, significant manufacturing or design defects not discovered until after the product is delivered to customers, product failure rates, and higher or lower than expected service costs for a repair. We believe that analysis of historical trends and knowledge of potential manufacturing or design problems provide sufficient information to establish a reasonable estimate for warranty claims at the time of sale. However, since we cannot predict with certainty future warranty claims or costs associated with servicing those claims, our actual warranty costs may differ.

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 2019, 2018 and 2017 was $23.1 million, $22.8 million and $19.4 million, respectively.

Recently Issued and Adopted Accounting Standards

See Note 1 - Significant Accounting Policies to the consolidated financial statements, which are contained in Item 8 of this report and are incorporated by reference herein.

Results of Operations

Executive Summary

During fiscal year 2019, net sales decreased 13% (11% in constant currency) as compared to fiscal year 2018. We generated a net loss of $52 million in fiscal year 2019, as compared to a net loss of $3 million in fiscal year 2018. Consistent with the recent past, the operating environment has continued to be challenging as consumer interests and shopping patterns in the watch and accessory categories evolve. We continue to see softness, principally in the wholesale channel in the U.S. and Europe and within traditional watches, which is largely reflective of both the ongoing shift from brick and mortar to e-commerce and the consumer preference shift to connected product. Partially offsetting our trends in the Americas and Europe is our growth in Asia, particularly in China and India. While demand for our latest generation product has been positive, we expected to drive sales through our older Gen 4 product offerings as a lower tiered pricing option, especially during the fiscal 2019 holiday season. Due to a combination of competitive pricing in the marketplace for older generation product and our Gen 5 offering appealing to consumers as a better value, we fell short of our goals in fiscal 2019. This softness pressured our margins and drove operating profits significantly below expectations. Although we faced considerable headwinds in fiscal 2019, we executed against our strategic priorities and made significant progress under our restructuring programs throughout the year.

The New World Fossil ("NWF") restructuring program we began in fiscal year 2016 ("NWF 1.0") was completed during the third quarter of fiscal year 2019 and delivered $200 million of run-rate cost savings over a three year period. The program has been critical to our ability to reduce costs while also funding investments such as digital marketing capabilities and product innovation. We are continuing to optimize our operating model under NWF 2.0 - Transform to Grow ("NWF 2.0"). The program will be even more critical to our ability to invest in the business and reduce costs. As disruption continues across retail and consumer shopping behavior evolves, there are significant opportunities to capture market share in the growing watch market. Capitalizing on those market share opportunities will require investments and a reallocation of resources which we will fund through NWF 2.0. Within the NWF 2.0 program, we see significant opportunities to drive value within our revenue management, supply chain, and procurement processes. We are also taking a zero-based budgeting approach across the organization in order to rework our business model and create organizational and operational efficiencies. Given the structural changes occurring across the industry and within our business in particular, we have been pivoting our model accordingly. We are deploying greater resources to the direct channel for both our owned and licensed businesses. We have been accelerating our connected product offerings and successfully driving growth in key Asian markets including China and India. Equally important, we are taking actions to strengthen our operations and build scale as we evolve our model in tandem with industry dynamics.

During fiscal year 2019, sales of FOSSIL branded products decreased 10% (8% in constant currency), as compared to fiscal year 2018, with declines across all product categories. FOSSIL brand watch sales decreased 8% (6% in constant currency) during fiscal year 2019, driven by declines in Americas and Europe while Asia increased modestly. Our FOSSIL connected business grew modestly, driven by sales increases in Europe and Asia partially offset by declines in Americas. Our multi-brand global watch portfolio declined 11% (9% in constant currency) during fiscal year 2019 compared to fiscal year 2018, with traditional watch sales declining high single digits in constant currency. MICHAEL KORS watch sales decreased 22% (20% in constant currency) with decreases in all segments. While most brands in the portfolio decreased, EMPORIO ARMANI posted strong growth, driven by third party e-commerce and wholesale growth in China. During fiscal year 2019, our connected watch business delivered $323 million in sales, representing 18% of total watch sales for the year. Excluding store closures and business exits, our core sales declined high single digits, primarily driven by lower sales in our wholesale channel. Global comparable retail sales, including our stores and our own e-commerce, declined 4% for fiscal year 2019 with sales declines across all regions and product categories. Double-digit positive international e-commerce comparable sales were more than offset by comparable sales declines in Americas e-commerce and declines in Company full-price stores.

During fiscal year 2019, our gross profit margin rate decreased 310 basis points to 49.6% compared to 52.7% in the prior fiscal year, largely driven by inventory valuation adjustments, of which $38 million were recorded in fiscal year 2019 primarily for excess levels of older generation connected watches, increased product costs including tariffs and freight, and an unfavorable currency impact of approximately 60 basis points. These additional costs were partially offset by higher margin sales growth in Asia and benefits from our NWF initiatives. Other income (expense) increased favorably primarily due to a $21.6 million gain on the sale of intellectual property to Google and net foreign currency gains during fiscal 2019 as compared to net losses in fiscal year 2018. During fiscal year 2019, our financial performance resulted in a net loss of $1.04 per diluted share and included NWF restructuring charges of $0.47 per diluted share and non-cash intangible asset impairment charges of $0.25 per diluted share. During fiscal year 2018, our financial performance resulted in a loss of $0.07 per diluted share and included NWF restructuring charges of $0.75 per diluted share and non-cash intangible asset impairment charges of $0.10 per diluted share. Currencies, including both translation and the impact of foreign currency hedging contracts, unfavorably impacted the earnings comparison for fiscal year 2019 by $0.18 per diluted share.

As we look at 2020, we are focusing on four strategic priorities structured to drive operational efficiency in 2020 and with the goal of beginning to stabilize the net sales trajectory and building scale in 2021. Priority number one is delivering exceptional story-telling and innovation. The path forward to changing our sales trajectory will come first and foremost from product innovation and creativity. Priority number two is driving commercial transformation. We are moving quickly to improve our digital capabilities, including but not limited to, our multi-brand omni-channel capabilities, digital marketing and CRM, to analysis, targeting and retention. The implementation of our new e-commerce platform is in process now and brings us a set of tools to support a larger direct to consumer business in the coming years. Our third strategic priority is to expand our presence in China and India. Our fourth priority is strengthening our supply chain. We have a significant opportunity to improve our end-to-end manufacturing and distribution capabilities, which will allow us to reduce lead times, lower costs and enhance our overall competitiveness. We remain confident in our strategies and believe we have the talent and operating platform to achieve our goals.

Constant Currency Financial Information

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

As a result, in addition to presenting financial measures in accordance with accounting principles generally accepted in the United States of America (“GAAP”), our discussion contains references to constant currency financial information, which is a non-GAAP financial measure. To calculate net sales on a constant currency basis, net sales for the current fiscal year for entities reporting in currencies other than the U.S. dollar are translated into U.S. dollars at the average rates during the comparable period of the prior fiscal year. We present constant currency information to provide investors with a basis to evaluate how our underlying business performed excluding the effects of foreign currency exchange rate fluctuations. The constant currency financial information presented herein should not be considered a substitute for, or superior to, the measures 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 2019 Compared to Fiscal Year 2018

Consolidated Net Sales. Net sales decreased $323.8 million or 12.7% (10.8% in constant currency) for fiscal year 2019, as compared to fiscal year 2018. Global watch sales decreased $230.5 million or 11.3% (9.4% in constant currency), with declines in most brands in our portfolio and partially offset by growth in EMPORIO ARMANI. Our leathers business decreased $50.8 million or 17.6% (16.1% in constant currency). Our jewelry category decreased $44.6 million or 26.6% (24.1% in constant currency), mostly as a result of a decrease in sales of MICHAEL KORS branded products during fiscal year 2019 as compared to fiscal year 2018. Our most significant declines were in wholesale watches in the Americas and Europe segments. During fiscal year 2019, sales results were negatively impacted by store closures, less off-price and liquidation sales and licensed brand exits. Global comparable retail sales declined moderately for fiscal year 2019, with negative comparable sales in stores and e-commerce. Double-digit positive international e-commerce comparable sales were more than offset by comparable sales declines in Americas e-commerce and declines in Company full-price stores.

The following table sets forth product net sales and the changes in product net sales on both a reported and constant currency basis from period to period (dollars in millions):

	Fiscal Year				Growth (Decline)		
	2019		2018				
	Amounts	Percentage of Total	Amounts	Percentage of Total	Dollars	Percentage as Reported	Percentage Constant Currency
Watches	$ 1,802.5	81.3%	$ 2,033.0	80.0%	$ (230.5)	(11.3)%	(9.4)%
Leathers	238.6	10.8	289.4	11.4	(50.8)	(17.6)	(16.1)
Jewelry	123.2	5.6	167.8	6.6	(44.6)	(26.6)	(24.1)
Other	53.4	2.3	51.3	2.0	2.1	4.1	6.4
Total net sales	$ 2,217.7	100.0%	$ 2,541.5	100.0%	$ (323.8)	(12.7)%	(10.8)%

The following table sets forth consolidated net sales by segment and the changes in net sales by segment on both a reported and constant currency basis from period to period (dollars in millions):

	Fiscal Year				Growth (Decline)		
	2019		2018				
	Amounts	Percentage of Total	Amounts	Percentage of Total	Dollars	Percentage as Reported	Percentage Constant Currency
Americas	$ 950.0	42.8%	$ 1,174.5	46.2%	$ (224.5)	(19.1)%	(19.0)%
Europe	715.5	32.3	856.3	33.7	(140.8)	(16.4)	(12.8)
Asia	535.1	24.1	505.5	19.9	29.6	5.9	9.0
Corporate	17.1	0.8	5.2	0.2	11.9	228.8	228.8
Total net sales	$ 2,217.7	100.0%	$ 2,541.5	100.0%	$ (323.8)	(12.7)%	(10.8)%

Americas Net Sales. Americas net sales decreased $224.5 million or 19.1% (19.0% in constant currency), largely driven by decreases in watches. During fiscal year 2019, our multi-brand watch portfolio decreased $167.3 million or 17.9% (17.7% in constant currency), with declines across nearly all brands and the largest decreases in MICHAEL KORS and FOSSIL. Sales also declined due to the termination of the BURBERRY and MARC JACOBS licenses. Our leathers category decreased $26.2 million or 15.3% (15.0% in constant currency), mainly driven by FOSSIL branded products and our jewelry business decreased $25.5 million or 50.7% (50.9% in constant currency), mostly driven by MICHAEL KORS branded product. Within the region, sales declined in the U.S., Mexico and Canada. Comparable retail sales decreased moderately in the region, with negative comparable sales in full price stores, outlet stores and e-commerce.

The following table sets forth product net sales and the changes in product net sales on both a reported and constant currency basis from period to period for the Americas segment (dollars in millions):

	Net Sales Fiscal Year		Growth (Decline)		
	2019	2018	Dollars	Percentage as Reported	Percentage Constant Currency
Watches	$ 769.6	$ 936.9	$ (167.3)	(17.9)%	(17.7)%
Leathers	145.6	171.8	(26.2)	(15.3)	(15.0)
Jewelry	24.8	50.3	(25.5)	(50.7)	(50.9)
Other	10.0	15.5	(5.5)	(35.5)	(35.5)
Total	$ 950.0	$ 1,174.5	$ (224.5)	(19.1)%	(19.0)%

Europe Net Sales. During fiscal year 2019, Europe net sales decreased $140.8 million or 16.4% (12.8% in constant currency). Our multi-brand watch portfolio decreased $99.3 million or 15.1% (11.5% in constant currency), our leathers business decreased $20.0 million or 29.7% (26.3% in constant currency) and our jewelry category decreased $18.7 million or 16.8% (13.1% in constant currency) in fiscal year 2019, as compared to fiscal year 2018. During fiscal year 2019, most of the brands in the portfolio declined, driven by weakness in the wholesale channel and retail store closures. Sales decreased in all markets, most notably in the U.K. and Germany. Comparable retail sales were modestly negative during fiscal year 2019, with positive comparable sales in e-commerce more than offset by negative comparable sales in our store concepts.

The following table sets forth product net sales and the changes in product net sales on both a reported and constant currency basis from period to period for the Europe segment (dollars in millions):

	Net Sales Fiscal Year		Growth (Decline)		
	2019	2018	Dollars	Percentage as Reported	Percentage Constant Currency
Watches	$ 557.5	$ 656.8	$ (99.3)	(15.1)%	(11.5)%
Leathers	47.3	67.3	(20.0)	(29.7)	(26.3)
Jewelry	92.9	111.6	(18.7)	(16.8)	(13.1)
Other	17.8	20.6	(2.8)	(13.6)	(8.7)
Total	$ 715.5	$ 856.3	$ (140.8)	(16.4)%	(12.8)%

Asia Net Sales. In fiscal year 2019, Asia net sales increased $29.6 million or 5.9% (9.0% in constant currency). Our watch category increased $36.4 million or 8.3% (11.5% in constant currency), our leathers products decreased $4.6 million or 9.1% (6.6% in constant currency), and our jewelry business decreased $0.5 million or 8.5% (6.8% in constant currency). In our watch portfolio, we had strong sales growth in EMPORIO ARMANI products and modest growth in ARMANI EXCHANGE and FOSSIL, while most other brands declined. Fiscal year 2019 sales were negatively impacted by the termination of the MARC JACOBS and BURBERRY licenses. Within the region, we had strong sales growth in mainland China and India, which were partially offset by sales decreases in Taiwan (China), Japan and Australia. For fiscal year 2019, comparable retail sales decreased modestly, with positive comparable sales in our e-commerce business offset by negative comparable sales in our stores.

The following table sets forth product net sales and the changes in product net sales on both a reported and constant currency basis from period to period for the Asia segment (dollars in millions):

	Net Sales Fiscal Year		Growth (Decline)		
	2019	2018	Dollars	Percentage as Reported	Percentage Constant Currency
Watches	$ 475.4	$ 439.0	$ 36.4	8.3%	11.5%
Leathers	45.7	50.3	(4.6)	(9.1)	(6.6)
Jewelry	5.4	5.9	(0.5)	(8.5)	(6.8)
Other	8.6	10.3	(1.7)	(16.5)	(13.6)
Total	$ 535.1	$ 505.5	$ 29.6	5.9%	9.0%

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

	December 28, 2019				December 29, 2018			
	Americas	Europe	Asia	Total	Americas	Europe	Asia	Total
Accessory stores	85	83	53	221	89	94	53	236
Outlets	114	74	35	223	126	74	40	240
Full priced multi-brand	—	4	3	7	—	5	3	8
Total stores	199	161	91	451	215	173	96	484

During fiscal year 2019, we opened 12 new stores and closed 45 stores. During fiscal year 2020, we anticipate opening approximately 10 additional retail stores and closing approximately 20 stores globally, depending on lease negotiations.

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

Gross Profit. Gross profit in fiscal year 2019 was $1.1 billion or 49.6% of net sales compared to $1.3 billion or 52.7% in fiscal year 2018. The decrease in gross profit of $0.2 billion was primarily due to decreased net sales and a lower gross margin percentage. The gross margin percentage decreased 310 basis points in 2019 compared to fiscal year 2018, largely driven by inventory valuation adjustments, of which $38 million were recorded in fiscal year 2019 primarily for excess levels of older generation connected watches, increased product costs including tariffs and freight and an unfavorable currency impact of approximately 60 basis points. These costs were partially offset by higher margin sales growth in Asia and benefits from our NWF initiatives.

Operating Expenses. For fiscal year 2019, total operating expenses decreased by $149.6 million and, as a percentage of net sales, increased to 50.9%, compared to 50.3% in fiscal year 2018. SG&A expenses were $143.0 million lower in fiscal year 2019 compared to fiscal year 2018 mainly due to corporate and regional infrastructure reductions driven by our NWF initiatives and lower store costs due to store closures. During fiscal year 2019, we incurred restructuring costs of $29.6 million under our NWF initiatives compared with restructuring costs of $46.6 million in fiscal year 2018. We incurred non-cash intangible asset impairment charges of $16.6 million in fiscal year 2019 compared to $6.2 million in fiscal year 2018. The translation of foreign-denominated expenses during fiscal year 2019 decreased operating expenses by approximately $22.3 million as a result of the stronger U.S. dollar. As a percentage of net sales, SG&A expenses increased to 48.8% in fiscal year 2019 as compared to 48.2% in fiscal year 2018.

Consolidated Operating Income (Loss). Operating income (loss) was $(28.4) million in fiscal year 2019, as compared to $62.7 million in the prior fiscal year, primarily driven by decreased sales volume and gross margin rate, partially offset by decreased operating expenses. Within operating expenses, SG&A decreased $143.0 million driven by corporate and regional infrastructure reductions and lower store costs due to store closures, restructuring charges decreased $17.0 million, and trade name impairment increased $10.4 million. The gross margin rate decreased largely driven by (i) inventory valuation adjustments, of which $38 million were recorded in fiscal year 2019, primarily for excess levels of older generation connected watches, (ii) increased product costs, including tariffs and freight and (iii) an unfavorable currency impact of approximately 60 basis points. These costs were partially offset by higher margin sales growth in Asia and benefits from our NWF initiatives. As a percentage of net sales, operating margin decreased to (1.3)% in fiscal year 2019 as compared to 2.5% in fiscal year 2018.

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

	Fiscal Year		Growth (Decline)		Operating Margin %	
	2019	2018	Dollars	Percentage	2019	2018
Americas	$ 66.7	$ 185.1	$ (118.4)	(64.0)%	7.0 %	15.8%
Europe	88.3	129.6	(41.3)	(31.9)	12.3	15.1
Asia	101.2	87.5	13.7	15.7	18.9	17.3
Corporate	(284.6)	(339.5)	54.9	(16.2)		
Total operating income (loss)	$ (28.4)	$ 62.7	$ (91.1)	(145.3)%	(1.3)%	2.5%

Interest Expense. Interest expense decreased by $12.6 million in fiscal year 2019, as a result of a smaller borrowing base.

Other Income (Expense)—Net. During fiscal year 2019, other income (expense) - net was income of $27.0 million compared to loss of $38,000 the prior fiscal year. This change was primarily driven by a $21.6 million gain on the sale of intellectual property to Google and net foreign currency gains during fiscal year 2019 as compared to net losses in the prior fiscal year. Other income in fiscal year 2019 was partially offset by a $3.0 million loss on the extinguishment of debt.

Provision for Income Taxes. Income tax expense for fiscal year 2019 was $18.7 million, resulting in an effective tax rate of (59.6)%, compared to 104.7% in fiscal year 2018. The 2019 effective rate was negatively impacted by the accrual of valuation allowances on U.S. net deferred tax assets and the inclusion of foreign income taxed in the U.S. which was partially offset by certain favorable permanent differences and the release of foreign valuation allowances. The 2018 effective rate was negatively impacted by the accrual of valuation allowances on U.S. and some foreign net deferred tax assets as well as the inclusion of foreign income taxed in the U.S.

Net Income (Loss) Attributable to Fossil Group, Inc. Fiscal year 2019 net income (loss) attributable to Fossil Group, Inc. was a net loss of $1.04 per diluted share in comparison to a net loss of $0.07 per diluted share in the prior fiscal year. Fiscal year 2019 included restructuring charges of $0.47 per diluted share and non-cash intangible asset impairment charges of $0.25 per diluted share. In comparison, fiscal year 2018 included restructuring charges of $0.75 per diluted share and non-cash intangible asset impairment charges of $0.10 per diluted share. Fiscal year 2019 net income (loss) attributable to Fossil Group, Inc. was negatively impacted by a decline in gross margin, partially offset by reduced operating expenses and a $21.6 million gain on the sale of intellectual property to Google in fiscal year 2019. 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 $0.18.

Fiscal Year 2018 Compared to Fiscal Year 2017

For a discussion of our results of operations in fiscal year 2018 compared to fiscal year 2017, please see Item 7 of our Annual Report on Form 10-K for the fiscal year ended December 29, 2018 filed with the SEC.

Liquidity and Capital Resources

Our cash and cash equivalents balance at the end of fiscal year 2019 was $200.2 million, including $189.7 million held by foreign subsidiaries outside the U.S., in comparison to $403.4 million at the end of fiscal year 2018, including $274.6 million held by foreign subsidiaries outside the U.S. 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 debt repayments, restructuring charges, strategic investments such as acquisitions and other capital expenditures. We believe that cash flows from operations combined with existing cash on hand and amounts available under our credit facilities will be sufficient to fund our cash needs for the next twelve months.

For fiscal year 2019, we used $14.2 million of cash to fund our operations. A net loss of $50.0 million and an increase in working capital items of $177.3 million was partially offset by net non-cash items of $213.1 million. Non-cash items primarily consisted of non-cash lease expense of $120.0 million and depreciation, amortization and accretion charges of $54.8 million.

Accounts receivable decreased by 11.7% to $289.7 million at the end of fiscal year 2019 compared to $328.0 million at the end of the prior fiscal year. Average days sales outstanding for our wholesale business for fiscal year 2019 decreased two days as compared to fiscal year 2018.

Inventory at the end of fiscal year 2019 was $452.3 million, representing an increase of 19.8% from the prior fiscal year inventory balance of $377.6 million primarily driven by sales under-performance of older generation connected watches in fiscal year 2019.

At the end of fiscal year 2019, we had working capital of $500.3 million compared to working capital of $652.8 million at the end of the prior fiscal year. Additionally, at the end of fiscal year 2019, we had approximately $26.2 million of outstanding short-term borrowings and $178.8 million in long-term debt.

For the fiscal year ending January 2, 2021, we expect total capital expenditures to be approximately $25 million. Of this amount, we expect approximately 40% will be for retail store expansion and renovation, approximately 30% will be for strategic growth, including investments in omni-channel, global concessions and technology, and approximately 30% will be for technology and facilities maintenance. Our capital expenditure budget and allocation of it to the foregoing investments are estimates and are subject to change. We believe that cash flows from operations combined with existing cash on hand and amounts available under our credit facilities will be sufficient to fund our working capital needs and planned capital expenditures for the next twelve months.

Debt Facilities

On September 26, 2019, we, as the U.S. borrower, and certain of our foreign subsidiaries, as the non-U.S. borrowers, and certain of our other subsidiaries from time to time party thereto designated as borrowers (collectively the “ABL Borrowers”), and certain of our subsidiaries from time to time party thereto as guarantors, entered into the Revolving Facility with JPMorgan Chase Bank, N.A. as administrative agent (the “ABL Agent”), J.P. Morgan AG, as French collateral agent, JPMorgan Chase Bank, N.A., Citizens Bank, N.A. and Wells Fargo Bank, National Association as joint bookrunners and joint lead arrangers, and Citizens Bank, N.A. and Wells Fargo Bank, National Association, as co-syndication agents and each of the lenders from time to time party thereto (the “ABL Lenders”). In addition, on September 26, 2019, we, as borrower, entered into a term credit agreement with JPMorgan Chase Bank, N.A. as administrative agent (the “Term Agent”), JPMorgan Chase Bank, N.A., Citizens Bank, National Association and Wells Fargo Securities, LLC, as joint bookrunners and joint lead arrangers and the lenders party thereto (the “Term Loan Lenders”), which was amended on February 20, 2020, by that certain Amendment No. 1 to Term Credit Agreement.

Contemporaneously with entering into the Revolving Facility and the Term Loan Facility, on September 26, 2019, the proceeds of the Revolving Facility and the Term Loan Facility were used to pay off in full the $275.8 million in aggregate outstanding principal amount of the loans, interest, fees, expenses and other obligations under our Second Amended and Restated Credit Agreement, dated as of January 29, 2018 (the “Prior Credit Agreement”). We recorded a loss of $3.0 million in other income (expense) - net during fiscal 2019 for debt issuance costs associated with the Prior Credit Agreement.

The Revolving Facility provides that the ABL Lenders may extend revolving loans in an aggregate principal amount not to exceed $275.0 million at any time outstanding (the “Revolving Credit Commitment”), of which up to $160.0 million is available under a U.S. facility, an aggregate of $70.0 million is available under a European facility, $30.0 million is available under a Hong Kong facility, $10.0 million will be available under a French facility, and $5.0 million is available under a Canadian facility, in each case, subject to the borrowing base availability limitations described below. The Revolving Facility also includes an up to $45.0 million subfacility for the issuance of letters of credit (the “Letters of Credit”). The Revolving

Facility expires and is due and payable on September 26, 2024, provided that, if on the date that is the 121st day prior to the final maturity date of any class or tranche of term loans under the Term Credit Agreement, any such term loans are outstanding on such date, then the maturity date of the Revolving Facility shall be such date. Unless the maturity of the term loans is extended beyond the current maturity date of September 26, 2024, the Revolving Facility will expire and be due and payable on May 28, 2024. The French facility includes a $1.0 million subfacility for swingline loans, and the European facility includes a $7.0 million subfacility for swingline loans. The Revolving Facility is subject to a line cap (the “Line Cap”) equal to the lesser of the total Revolving Credit Commitment and the aggregate borrowing bases under the U.S. facility, the European facility, the Hong Kong facility, the French facility and the Canadian facility. The loans under the Revolving Facility were used to repay the Prior Credit Agreement, as described above, pay transaction expenses and for general corporate purposes. Loans under the Revolving Facility may be made in U.S. dollars, Canadian dollars, euros, Hong Kong dollars or pounds sterling.

The Revolving Facility is an asset-based facility, in which borrowing availability is subject to a borrowing base equal to: (a) with respect to us, the sum of (i) the lesser of (x) 90% of the appraised net orderly liquidation value of eligible U.S. finished goods inventory and (y) 65% of the lower of cost or market value of eligible U.S. finished goods inventory, plus (ii) 85% of the eligible U.S. accounts receivable, plus (iii) 90% of eligible U.S. credit card accounts receivable, minus (iv) the aggregate amount of reserves, if any, established by the ABL Agent; (b) with respect to each non-U.S. borrower (except for the French Borrower), the sum of (i) the lesser of (x) 90% of the appraised net orderly liquidation value of eligible foreign finished goods inventory of such non-U.S. borrower and (y) 65% of the lower of cost or market value of eligible foreign finished goods inventory of such non-U.S. borrower, plus (ii) 85% of the eligible foreign accounts receivable of such non-U.S. borrower, minus (iii) the aggregate amount of reserves, if any, established by the ABL Agent; and (c) with respect to the French Borrower, (i) 85% of eligible French accounts receivable minus (ii) the aggregate amount of reserves, if any, established by the ABL Agent. Not more than 60% of the aggregate borrowing base under the Revolving Facility may consist of the non-U.S. borrowing bases.

Eurodollar loans under the U.S. facility will bear interest at the adjusted LIBO rate plus the applicable rate, and Eurodollar loans under the Canadian facility, European facility, French facility and Hong Kong facility will bear interest at the LIBO rate plus the applicable rate. Base rate loans under the U.S. facility will bear interest at the alternate base rate plus the applicable rate. Under the Canadian facility, Canadian prime rate loans will bear interest at the Canadian prime rate plus the applicable rate, and Canadian dollar loans will bear interest at the CDOR rate plus the applicable rate. Under the Hong Kong facility, Hong Kong dollar loans will bear interest at the HIBOR rate plus the applicable rate. Each swingline loan shall bear interest at the overnight LIBO rate plus the applicable rate for overnight LIBO rate loans. The applicable rate varies from 1.25% to 1.75% for adjusted LIBO, CDOR and HIBOR rate loans and from 0.25% to 0.75% for alternate base rate and Canadian prime rate loans depending on our average daily excess availability under the Revolving Facility for the most recently ended fiscal quarter, which is an amount equal to (x)(1) the lesser of the total revolving commitments then in effect and (2) the aggregate borrowing base, minus (y) the total credit exposure of all ABL Lenders at such time.

The Revolving Facility also includes a commitment fee, payable quarterly in arrears, of 0.250% or 0.375% determined by reference to the average daily unused portion of the overall commitment under the Revolving Facility. The ABL Borrowers will pay the ABL Agent, on the account of the issuing ABL Lenders, an issuance fee of 0.125% for any issued letters of credit.

The ABL Borrowers are permitted to voluntarily prepay the revolving loans, in whole or in part, without premium or penalty. The ABL Borrowers may reduce the commitments at any time, in whole or in part, without premium or penalty, in a minimum aggregate principal amount of not less than $5.0 million or increments of $1.0 million in excess thereof. If the total amount of outstanding revolving loans and Letters of Credit exceeds the total commitment under the Revolving Facility, the ABL Borrowers must prepay the revolving loans in an amount equal to such excess.

During any periods (each, a “Covenant Period”) while availability under the Revolving Facility is less than the greater of (x) 15% of the Line Cap and (y) $30.0 million, we will be subject to a financial covenant which requires us to not permit the fixed charge coverage ratio to be less than 1.00 to 1.00 on the first day of such Covenant Period or the last day of each fiscal quarter during such Covenant Period.

The ABL Borrowers have the right to request an increase to the commitments under the Revolving Facility or any subfacility in an aggregate principal amount not to exceed $75.0 million in increments no less than $10.0 million, subject to certain terms and conditions as defined in the Revolving Facility, including that the Term Loan Facility has been amended, restated or otherwise modified to permit any additional commitments.

The Revolving Facility is secured by guarantees by us and certain of our domestic subsidiaries. Additionally, we and our subsidiaries have granted liens on all or substantially all of our assets in order to secure the obligations under the Revolving Facility. In addition, the non-U.S. borrowers from time to time party to the Revolving Facility 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, and certain of their respective subsidiaries may guarantee the respective non-U.S. obligations under the Revolving Facility.

The Revolving Facility contains customary affirmative and negative covenants and events of default, such as compliance with annual audited and quarterly unaudited financial statements disclosures. Upon an event of default, the ABL Agent will have the right to declare the revolving loans and other obligations outstanding immediately due and payable and all commitments immediately terminated or reduced, subject to cure periods and grace periods set forth in the Revolving Facility.

The Term Loan Facility provides for term loans to us in the aggregate principal amount of $200 million. Proceeds from the Term Loan Facility were reduced by a $12.0 million original issue discount, which is presented as a reduction of the Term Loan Facility on the Company's consolidated balance sheet and is being amortized to interest expense over the life of the term loan. The term loans under the Term Loan Facility bore interest at (a) the adjusted LIBO rate plus 6.50% for Eurodollar loans or (b) the alternate base rate plus 5.50% for alternate base rate loans as of December 28, 2019. In connection with the amendment entered into on February 20, 2020, the term loans under the Term Loan Facility bear interest at (a) the adjusted LIBO rate plus 8.00% for Eurodollar loans or (b) the alternate base rate plus 7.00% for alternate base rate loans. The Term Loan Facility amortizes in quarterly installments in an aggregate amount equal (x) to 2.50% of its original principal amount until September 30, 2021 and, thereafter, (y) to 3.75% of its original principal amount until June 30, 2024. The Term Loan Facility expires and is due and payable on September 26, 2024, subject to possible extensions.

We are permitted to voluntarily prepay the term loans, in whole or in part, without premium or penalty; provided, that if we voluntarily prepay the term loans prior to February 20, 2022 or if we incur certain indebtedness which results in a mandatory prepayment under the Term Loan Facility prior to February 20, 2022, we are required to pay a prepayment fee of 2.00% with respect to the principal amount prepaid prior to February 20, 2021 and 1.00% with respect to the principal amount prepaid between February 21, 2021 and February 20, 2022. The foregoing prepayment premiums are also payable upon an acceleration of the Term Loan Facility during these periods as well. The Term Loan Facility will be required to be prepaid with the net cash proceeds of certain asset sales, insurance and condemnation events, debt and equity issuances, cash dividends received from certain of our subsidiaries and an annual excess cash flow sweep.

In connection with the amendment entered into on February 20, 2020, the maximum total leverage ratio was revised to increase the maximum total leverage ratio permitted under the covenant from 1.50 to 1.00 as of December 28, 2019 to (i) 2.75 to 1.00 as of the last day of each fiscal quarter ending April 4, 2020, July 4, 2020, October 3, 2020 and January 2, 2021, (ii) 2.25 to 1.00 as of the last day of each fiscal quarter ending April 3, 2021, July 3, 2021 and October 2, 2021, and (iii) 1.50 to 1.00 as of the last day of each subsequent fiscal quarter. The Term Loan Facility also limits the Revolving Credit Commitment under the Revolving Facility to the lesser of the borrowing base or $200.0 million. A payment default under the Revolving Facility triggers a cross default under the Term Loan Facility.

The Term Loan Facility is secured by guarantees by us and certain of our domestic subsidiaries.   Additionally, we and such subsidiaries have granted liens on all or substantially all of their assets in order to secure the obligations under the Term Loan Facility.

The Term Loan Facility contains customary affirmative and negative covenants and events of default such as compliance with annual audited and quarterly unaudited financial statements disclosures. Upon an event of default, the Term Agent will have the right to declare the term loans and other obligations outstanding immediately due and payable and all commitments immediately terminated or reduced, subject to cure periods and grace periods set forth in the Term Loan Facility.

The obligations under the Revolving Facility and the Term Loan Facility are governed by a customary intercreditor agreement (the “Intercreditor Agreement”). The Intercreditor Agreement specifies that (i) the Term Loan Facility is secured by (a) a perfected first priority security interest in U.S. fixed assets and (b) a perfected second priority security interest in the U.S. liquid assets and accounts receivable, and (ii) the Revolving Facility is secured by (a) a perfected first priority security interest in the U.S. liquid assets and accounts receivable and (b) a perfected second priority security interest in U.S. fixed assets.

During fiscal year 2019, we had net payments of $200.0 million under the Term Loan Facility and the term loan under the Prior Credit Agreement at an average annual interest rate of 9.9%. Additionally, we had net borrowings of $28.0 million under the Revolving Facility and revolving credit loans under the Prior Agreement during fiscal year 2019 at an average interest rate of 2.4%. As of December 28, 2019, we had $200.0 million outstanding under the Term Loan Facility and $28.0 million outstanding under the Revolving Facility. As of December 28, 2019, we had unamortized debt issuance costs of $14.5 million and an unamortized original issue discount of $11.2 million, which reduce the corresponding debt liability. In addition, we had $2.7 million of outstanding standby Letters of Credit at December 28, 2019. Amounts available under the Revolving Facility are reduced by any amounts outstanding under standby Letters of Credit. As of December 28, 2019, we had $120.1 million available for borrowing under the Revolving Facility. Borrowings under the Revolving Facility were mainly used to fund normal operating expenses, capital expenditures, and refinancing activities. At December 28, 2019, we were in compliance with all debt covenants related to all our credit facilities.

Contractual Obligations

The following table identifies our contractual obligations as of December 28, 2019 (in thousands):

	Total	Less than 1 Year	1 - 3 Years	3 - 5 Years	More than 5 Years
Debt obligations [(1)]	$ 228,217	$ 25,217	$ 52,500	$ 150,500	$ —
Interest payments on debt [(2)]	57,542	16,689	26,904	13,949	—
Minimum royalty payments [(3)]	233,652	133,129	37,164	38,608	24,751
Finance lease obligations [(4)]	2,508	1,042	1,466	—	—
Operating lease obligations [(4)]	556,792	116,778	176,331	110,428	153,255
Purchase obligations [(5)]	333,731	319,043	11,675	3,013	—
Uncertain tax positions [(6)]	11,441	11,441	—	—	—
Total contractual obligations [(7)] [(8)]	$ 1,423,883	$ 623,339	$ 306,040	$ 316,498	$ 178,006

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(1) Consists of borrowings, excluding contractual interest payments, unamortized debt issuance costs of $14.5 million and original issue discount of $11.2 million.

(2) Consists of estimated interest payments under the Term Loan and 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 $24.2 million have been excluded because the payment timing cannot be reasonably estimated.

(7) Pension obligations of $18.3 million and deferred compensation liabilities of $4.6 million have been excluded because the payment timing cannot be reasonably estimated.

(8) The contingent consideration liability of $1.1 million related to Fossil Accessories South Africa Pty. Ltd. has been excluded because the payment timing cannot be reasonably estimated.

Off Balance Sheet Arrangements

We are the guarantor for a 3.0 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 3.3 million Swiss francs in the event of default by STC.

There are no other off balance sheet arrangements other than those disclosed in Note 14—Commitments and Contingencies to our consolidated financial statements set forth in Part II, Item 8 of this Annual Report on Form 10-K.

Inflation

We do not believe that inflation has had a material effect on our results for fiscal years 2019, 2018 or 2017; however, our business could be affected by inflation in the future.

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 2019 and 2018 due to rounding (in thousands, except percentage and per share data).

Fiscal Year 2019	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
Net sales	$ 465,268	$ 501,393	$ 539,488	$ 711,563
Gross profit	247,927	265,108	278,542	307,862
Net income (loss)	(11,762) (1)	(6,609)	(24,938) (2)	(6,704)
Net income (loss) attributable to noncontrolling interest	480	702	997	174
Net income (loss) attributable to Fossil Group, Inc.	$ (12,242) (1)	$ (7,311)	$ (25,935) (2)	$ (6,878)
Earnings (loss) per share:				
Basic	$ (0.25) (1)	$ (0.15)	$ (0.51) (2)	$ (0.14)
Diluted	$ (0.25) (1)	$ (0.15)	$ (0.51) (2)	$ (0.14)
Gross profit as a percentage of net sales	53.3%	52.9%	51.6%	43.3%

Fiscal Year 2018	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
Net sales	$ 569,156	$ 576,583	$ 608,827	$ 786,922
Gross profit	287,691	309,009	326,532	416,904
Net income (loss)	(47,505)	(7,237) (3)	5,922	47,882
Net income (loss) attributable to noncontrolling interest	768	563	916	293
Net income (loss) attributable to Fossil Group, Inc.	$ (48,273)	$ (7,800) (3)	$ 5,006	$ 47,589
Earnings (loss) per share:				
Basic	$ (0.99)	$ (0.16) (3)	$ 0.10	$ 0.96
Diluted	$ (0.99)	$ (0.16) (3)	$ 0.10	$ 0.94
Gross profit as a percentage of net sales	50.5%	53.6%	53.6%	53.0%

(1) Included a $21.6 million gain, excluding taxes, on the sale of our intellectual property to Google, Inc.
(2) Included a $16.6 million impairment charge, excluding taxes, related to our Skagen trade name.
(3) Included a $6.2 million impairment charge, excluding taxes, related to our Skagen trade name.

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 holiday 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 holiday 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 holiday 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 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 Australian dollar, British pound, Canadian dollar, Chinese yuan, Danish krone, 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. Due to our vertical nature whereby a significant portion of goods are sourced from our owned entities, we also have foreign currency risk relating to the 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 2019 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 28, 2019 and their expiration dates.

Functional Currency		Contract Currency		
Type	Amount	Type	Amount	Expiring Through
Euro	106.0	U.S. dollar	122.7	March 2021
Canadian dollar	41.4	U.S. dollar	31.3	March 2021
British pound	13.6	U.S. dollar	17.7	March 2021
Japanese yen	1,320.5	U.S. dollar	12.4	March 2021
Mexican peso	167.8	U.S. dollar	8.4	June 2020
Australian dollar	6.7	U.S. dollar	4.6	June 2020
U.S. Dollar	18.7	Japanese Yen	1,985.0	March 2021

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 28, 2019, the net result would have been a net gain of approximately $1.4 million, net of taxes. As of December 28, 2019, 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 $23.3 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 28, 2019, 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 $54.6 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 28, 2019, a 100 basis point increase in interest rates would increase annual interest expense by approximately $2.0 million.

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 28, 2019 and December 29, 2018, 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 28, 2019, 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 28, 2019 and December 29, 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 28, 2019, 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 28, 2019, 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 February 27, 2020, expressed an unqualified opinion on the Company's internal control over financial reporting.

Change in Accounting Principle

As discussed in Note 13 to the financial statements, effective December 30, 2018, the Company adopted FASB ASC Topic 842, *Leases*, using the modified retrospective approach.

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
February 27, 2020

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

FOSSIL GROUP, INC.

CONSOLIDATED BALANCE SHEETS

IN THOUSANDS

	December 28, 2019	December 29, 2018
Assets		
Current assets:		
Cash and cash equivalents	$ 200,218	$ 403,373
Accounts receivable-net	289,744	328,022
Inventories	452,278	377,622
Prepaid expenses and other current assets	117,218	149,552
Total current assets	1,059,458	1,258,569
Property, plant and equipment-net	151,500	183,203
Operating lease right-of-use assets	288,166	—
Intangible and other assets-net	105,608	133,426
Total long-term assets	545,274	316,629
Total assets	$ 1,604,732	$ 1,575,198
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 172,191	$ 169,561
Short-term and current portion of long-term debt	26,228	126,427
Accrued expenses:		
Current operating lease liabilities	68,838	—
Compensation	51,573	76,467
Royalties	28,427	30,582
Customer liabilities	80,803	71,252
Transaction taxes	25,683	32,438
Other	76,209	70,614
Income taxes payable	29,228	28,462
Total current liabilities	559,180	605,803
Long-term income taxes payable	31,284	28,110
Deferred income tax liabilities	2,097	2,439
Long-term debt	178,796	269,788
Long-term operating lease liabilities	288,689	—
Other long-term liabilities	40,845	80,427
Total long-term liabilities	541,711	380,764
Commitments and contingencies (Note 14)		
Stockholders' equity:		
Common stock, 50,516 and 49,518 shares issued and outstanding at December 28, 2019 and December 29, 2018, respectively	505	495
Additional paid-in capital	283,371	268,113
Retained earnings	299,793	381,626
Accumulated other comprehensive income (loss)	(80,615)	(64,691)
Total Fossil Group, Inc. stockholders' equity	503,054	585,543
Noncontrolling interest	787	3,088
Total stockholders' equity	503,841	588,631
Total liabilities and stockholders' equity	$ 1,604,732	$ 1,575,198

See notes to the consolidated financial statements.

FOSSIL GROUP, INC.

CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

IN THOUSANDS, EXCEPT PER SHARE DATA

Fiscal Year	2019	2018	2017
Net sales	$ 2,217,712	$ 2,541,488	$ 2,788,163
Cost of sales	1,118,274	1,201,351	1,429,324
Gross profit	1,099,438	1,340,137	1,358,839
Operating expenses:			
Selling, general and administrative expenses	1,081,572	1,224,584	1,327,816
Goodwill and trade name impairments	16,613	6,212	407,128
Restructuring charges	29,636	46,630	48,171
Total operating expenses	1,127,821	1,277,426	1,783,115
Operating income (loss)	(28,383)	62,711	(424,276)
Interest expense	29,932	42,503	43,214
Other income (expense) - net	26,984	(38)	13,736
Income (loss) before income taxes	(31,331)	20,170	(453,754)
Provision for income taxes	18,681	21,108	19,805
Net income (loss)	(50,012)	(938)	(473,559)
Less: Net income attributable to noncontrolling interest	2,353	2,540	4,613
Net income (loss) attributable to Fossil Group, Inc.	$ (52,365)	$ (3,478)	$ (478,172)
Other comprehensive income (loss), net of taxes:			
Currency translation adjustment	$ (5,606)	$ (10,369)	$ 37,368
Cash flow hedges - net change	(5,599)	20,673	(20,448)
Pension plan activity	(4,719)	3,267	2,235
Total other comprehensive income (loss)	(15,924)	13,571	19,155
Total comprehensive income (loss)	(65,936)	12,633	(454,404)
Less: Comprehensive income attributable to noncontrolling interest	2,353	2,540	4,613
Comprehensive income (loss) attributable to Fossil Group, Inc.	$ (68,289)	$ 10,093	$ (459,017)
Earnings (loss) per share:			
Basic	$ (1.04)	$ (0.07)	$ (9.87)
Diluted	$ (1.04)	$ (0.07)	$ (9.87)
Weighted average common shares outstanding:			
Basic	50,230	49,196	48,468
Diluted	50,230	49,196	48,468

See notes to the consolidated financial statements.

FOSSIL GROUP, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

AMOUNTS IN THOUSANDS

	Common Stock								
	Shares	Par Value	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
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 and stock appreciation rights	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
Purchase of noncontrolling interest shares	—	—	(1,472)	—	—	—	(1,472)	(4,979)	(6,451)
Distribution of noncontrolling interest earnings and other	—	—	—	—	—	—	—	(4,022)	(4,022)
Balance, December 30, 2017	48,643	$ 486	$ 242,263	$ —	$ 409,653	$ (76,269)	$ 576,133	$ 4,814	$ 580,947
Common stock issued upon exercise of stock options and stock appreciation rights and restricted stock units	1,055	11	287	—	—	—	298	—	298
Acquisition of common stock	—	—	—	(2,856)	—	—	(2,856)	—	(2,856)
Retirement of common stock	(180)	(2)	(2,854)	2,856	—	—	—	—	—
Stock-based compensation	—	—	28,376	—	—	—	28,376	—	28,376
Net income (loss)	—	—	—	—	(3,478)	—	(3,478)	2,540	(938)
Other comprehensive income (loss)	—	—	—	—	—	13,571	13,571	—	13,571
Distribution of noncontrolling interest earnings and other	—	—	41	—	—	—	41	(4,266)	(4,225)
Adoption of Accounting Standards Update ("ASU") 2014-09	—	—	—	—	(26,542)	—	(26,542)	—	(26,542)
Adoption of ASU 2018-02	—	—	—	—	1,993	(1,993)	—	—	—
Balance, December 29, 2018	49,518	$ 495	$ 268,113	$ —	$ 381,626	$ (64,691)	$ 585,543	$ 3,088	$ 588,631
Common stock issued upon exercise of stock options and stock appreciation rights and restricted stock units	1,302	13	157	—	—	—	170	—	170
Acquisition of common stock	—	—	—	(4,197)	—	—	(4,197)	—	(4,197)
Retirement of common stock	(304)	(3)	(4,194)	4,197	—	—	—	—	—
Stock-based compensation	—	—	19,064	—	—	—	19,064	—	19,064
Net income (loss)	—	—	—	—	(52,365)	—	(52,365)	2,353	(50,012)
Other comprehensive income (loss)	—	—	—	—	—	(15,924)	(15,924)	—	(15,924)
Purchase of noncontrolling interest shares	—	—	231	—	—	—	231	(793)	(562)
Distribution of noncontrolling interest earnings and other	—	—	—	—	—	—	—	(3,861)	(3,861)
Adoption of ASU 2016-02	—	—	—	—	(29,468)	—	(29,468)	—	(29,468)
Balance, December 28, 2019	50,516	$ 505	$ 283,371	$ —	$ 299,793	$ (80,615)	$ 503,054	$ 787	$ 503,841

See notes to consolidated financial statements.

FOSSIL GROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

AMOUNTS IN THOUSANDS

Fiscal Year	2019	2018	2017
Operating Activities:			
Net income (loss)	$ (50,012)	$ (938)	$ (473,559)
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:			
Depreciation, amortization and accretion	54,792	67,584	80,973
Non-cash lease expense	120,011	—	—
Stock-based compensation	15,845	23,044	30,400
Decrease (increase) in allowance for returns and markdowns	15,752	(13,987)	(336)
(Gain) loss on disposal of assets	(4,584)	656	2,510
Property, plant and equipment and other long-lived asset impairment losses	8,660	2,039	3,213
Goodwill and trade name impairment losses	16,613	6,212	407,128
Non-cash restructuring charges	5,196	6,252	10,684
Equity method investment losses	371	558	460
Bad debt expense	2,921	8,921	7,140
Loss on extinguishment of debt	3,044	718	1,029
Debt discount and debt issuance costs amortization	4,621	3,714	3,724
Deferred income taxes and other	(6,416)	6,435	(47,215)
Gain on asset divestitures	(23,134)	—	(1,750)
Contingent consideration remeasurement	(601)	(3,381)	—
Changes in operating assets and liabilities:			
Accounts receivable	30,940	68,308	14,367
Inventories	(78,135)	153,445	6,829
Prepaid expenses and other current assets	10,994	(15,356)	13,509
Accounts payable	4,862	(38,365)	34,864
Accrued expenses	(150,519)	(13,477)	52,761
Income taxes	4,570	(14,243)	32,811
Net cash (used in) provided by operating activities	(14,209)	248,139	179,542
Investing Activities:			
Additions to property, plant and equipment	(20,894)	(17,961)	(25,520)
(Increase) decrease in intangible and other assets	(3,252)	1,626	(1,639)
Proceeds from the sale of property, plant, equipment	1,255	717	548
Proceeds from asset divestitures	41,570	—	1,750
Net cash provided by (used in) investing activities	18,679	(15,618)	(24,861)
Financing Activities:			
Acquisition of common stock	(4,197)	(2,856)	(1,218)
Distribution of noncontrolling interest earnings and other	(3,861)	(4,224)	(4,022)
Purchase of noncontrolling interest shares	(562)	—	—
Debt borrowings	685,332	811,007	2,128,181
Debt payments	(870,552)	(857,474)	(2,318,246)
Payment for shares of Fossil Accessories South Africa Pty. Ltd.	(1,169)	(1,947)	—
Debt issuance costs and other	(13,477)	(7,163)	(6,405)
Net cash used in financing activities	(208,486)	(62,657)	(201,710)
Effect of exchange rate changes on cash and cash equivalents, and restricted cash	882	9,364	(19,178)
Net (decrease) increase in cash and cash equivalents, and restricted cash	(203,134)	179,228	(66,207)
Cash and cash equivalents, and restricted cash:			
Beginning of year	410,883	231,655	297,862
End of year	$ 207,749	$ 410,883	$ 231,655

See notes to the consolidated financial statements.

FOSSIL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Significant Accounting Policies

Consolidated Financial Statements include the accounts of Fossil Group, Inc., a Delaware corporation, and its subsidiaries (the "Company"). The Company is a leader in the design, development, marketing and distribution of contemporary, high quality fashion accessories on a global basis. The Company's products are sold primarily through department stores, specialty retailers, Company-owned retail stores and commercial websites worldwide. The Company reports on a fiscal year reflecting the retail-based calendar (containing 4-4-5 week calendar quarters). References to fiscal years 2019, 2018 and 2017 are for the fiscal years ended December 28, 2019, December 29, 2018 and December 30, 2017, respectively. All intercompany balances and transactions are eliminated in consolidation.

Use of Estimates is required in the preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America. Management makes estimates and assumptions that affect the reported amounts of assets and liabilities, 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, management evaluates its estimates and judgments, including those related to product returns, bad debt, inventories, long-lived asset impairment, impairment of trade names, income taxes, warranty costs and litigation liabilities. Management bases its estimates and judgments on historical experience and on various other factors that it believes are reasonable under the circumstances. Management estimates form the basis for making judgments about the carrying value of the assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates under different assumptions or conditions.

Concentration of Risk involves financial instruments that potentially expose the Company to concentration of credit risk and consist primarily of cash investments and accounts receivable. The Company places its cash investments with high-credit quality financial institutions and currently invests primarily in corporate debt securities and money market funds with major banks and financial institutions. Accounts receivable are generally diversified due to the number of entities comprising the Company's customer base and their dispersion across many geographic regions. The Company believes no significant concentration of credit risk exists with respect to these cash investments and accounts receivable.

A significant portion of sales of the Company's products are supplied by manufacturers located outside of the U.S., primarily in Asia. While the Company is not dependent on any single manufacturer outside the U.S., the Company could be adversely affected by political, economic or other disruptions affecting the business or operations of third-party manufacturers located outside of the U.S. In fiscal year 2019, 47% of the Company's global watch production was assembled or procured through wholly or majority-owned factories.

The Company has entered into multi-year, worldwide exclusive license agreements for the manufacture, distribution and sale of products bearing the brand names of certain globally recognized fashion companies. Sales of the Company's licensed products amounted to 45.7%, 46.6% and 47.0% of the consolidated net sales for fiscal years 2019, 2018 and 2017, respectively, of which MICHAEL KORS® product sales accounted for 19.2%, 22.6% and 22.6% of the consolidated net sales for fiscal years 2019, 2018 and 2017, respectively and EMPORIO ARMANI® product sales accounted for 15.2%, 12.0% and 9.7% of the consolidated net sales for fiscal years 2019, 2018 and 2017, respectively.

Cash Equivalents are considered all highly liquid investments with original maturities of three months or less.

Restricted Cash was comprised primarily of restricted cash balances for pledged collateral to secure bank guarantees for the purpose of obtaining retail space. The following table provides a reconciliation of the cash, cash equivalents, and restricted cash balances as of December 28, 2019, December 29, 2018 and December 30, 2017 that are presented in the consolidated statement of cash flows (in thousands):

	December 28, 2019	December 29, 2018	December 30, 2017
Cash and cash equivalents	$ 200,218	$ 403,373	$ 231,244
Restricted cash included in prepaid expenses and other current assets	30	31	34
Restricted cash included in intangible and other assets-net	7,501	7,479	377
Cash, cash equivalents and restricted cash	$ 207,749	$ 410,883	$ 231,655

Accounts Receivable at the end of fiscal years 2019 and 2018 are stated net of doubtful accounts of approximately $13.2 million and $14.0 million, respectively.

Inventories are stated at the lower of cost and net realizable value, including any applicable duty and freight charges. Inventory held at consignment locations is included in the Company's finished goods inventory, and at the end of fiscal years 2019 and 2018, was $51.0 million and $43.7 million, respectively.

Investments in which the Company has significant influence over the investee are accounted for utilizing the equity method. If the Company does not have significant influence over the investee, the cost method is utilized. The Company's cost method investment was $0.5 million at the end of both fiscal years 2019 and 2018.

Lease assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease. These assets and liabilities are initially recognized based on the present value of lease payments over the lease term calculated using the Company's incremental borrowing rate, adjusted for the lease term and lease country, unless the implicit rate is readily determinable. Lease assets also include any upfront lease payments made and are reduced by lease incentives. Some lease terms include options to extend or terminate the lease and they are included in the measurement of the lease assets and lease liabilities if the Company is reasonably certain that those options will be exercised. Variable lease payments are expensed as incurred and include certain index-based changes in rent and certain non-lease components such as maintenance and other services provided by the lessor to the extent the charges are variable. The Company evaluates contractual arrangements at inception to determine if individual agreements are a lease or contain an identifiable lease component as defined by Accounting Standards Codification ("ASC") 842, *Leases* ("ASC 842"). When evaluating contracts to determine appropriate classification and recognition under ASC 842, significant judgment may be necessary to determine, among other criteria, if an embedded leasing arrangement exists, the length of the term, classification as either an operating or financing lease and whether renewal or termination options are reasonably certain to be exercised. Leases with an initial term of 12 months or less are not recorded on the balance sheet. Lease agreements with lease and non-lease components are combined as a single lease component for all classes of underlying assets. The depreciable life of lease assets and leasehold improvements is limited by the expected lease term, unless there is a transfer of title or purchase option reasonably certain of exercise.

Lease assets are evaluated for impairment whenever events or conditions indicate that the carrying value of an asset may not be recoverable based on expected undiscounted cash flows related to the asset. In fiscal year 2019, lease impairment losses of $7.9 million and $1.7 million were recorded in selling, general, and administrative ("SG&A") and restructuring charges, respectively.

Property, Plant and Equipment is stated at cost less accumulated depreciation and amortization. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets of 30 years for buildings, generally five years for machinery and equipment and furniture and fixtures and two to seven years for computer equipment and software. Leasehold improvements are amortized over the shorter of the lease term or the asset's estimated useful life.

Property, plant and equipment are evaluated for impairment whenever events or conditions indicate that the carrying value of an asset may not be recoverable based on expected undiscounted cash flows related to the asset. Property, plant and equipment impairment losses of underperforming Company-owned retail stores of approximately $0.7 million, $1.9 million and $1.3 million were recorded in SG&A and impairment losses of approximately $0.6 million, $1.7 million and $8.0 million were recorded in restructuring charges in fiscal years 2019, 2018 and 2017, respectively. Additionally, in fiscal years 2019, 2018 and 2017, the Company recorded non-impairment losses related to the disposal of property, plant and equipment of $0.5 million, $0.6 million and $0.4 million, respectively, included in restructuring charges in the Company’s consolidated statements of income (loss) and comprehensive income (loss).

Goodwill and Other Intangible Assets include trademarks, trade names, developed technology, customer lists and patents. Trademarks, trade names with finite lives, developed technology, customer lists and patents are amortized using the straight-line method over their estimated useful lives, which are generally three to 20 years. Indefinite-lived trade names are evaluated for impairment annually as of the end of the fiscal year. Additionally, if events or conditions were to indicate an indefinite-lived trade name may not be recoverable, the Company would evaluate the asset for impairment at that time. Impairment testing compares the carrying amount of an intangible asset with its fair value. When the carrying amount of an intangible asset exceeds its fair value, an impairment charge is recorded.

The fair values of the Company's SKAGEN® and MICHELE® trade names were estimated using the relief from royalty method. During fiscal 2019, the SKAGEN trade name with a carrying amount of $21.1 million was written down to its implied fair value of $4.5 million, resulting in a pre-tax impairment charge of $16.6 million. Concurrent with the impairment testing, the Company determined the trade name would no longer have an indefinite useful life. In fiscal year 2018, an impairment charge of $6.2 million was recorded related to the SKAGEN trade name. For fiscal year 2019, a discount rate of 10.2% and a royalty rate of 5% were used to estimate the MICHELE trade name fair value. No impairment charges were recorded to the MICHELE trade name during fiscal years 2019 or 2018. In fiscal year 2017, impairment charges of $28.3 million, $11.8 million and $7.6 million were recorded related to the SKAGEN, MISFIT® and MICHELE trade names, respectively.

The Company had three reporting units for which it evaluated goodwill for impairment. In fiscal year 2017, goodwill was deemed fully impaired and accordingly the Company 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.

Accrued Expenses includes liabilities relating to warranties, duty, deferred compensation, gift cards, foreign exchange forward contracts ("forward contracts"), deferred rent, and other accrued liabilities which are current in nature.

Other Long-Term Liabilities includes obligations relating to asset retirements, deferred rent, forward contracts and defined benefits relating to certain international employees that are not current in nature.

Cumulative Translation Adjustment is included as a component of accumulated other comprehensive income (loss) and reflects the adjustments resulting from translating the financial statements of foreign subsidiaries into U.S. dollars. The functional currency of the Company's foreign subsidiaries is the currency of the primary economic environment in which the entity operates, which is generally the local currency of the country. Accordingly, assets and liabilities of the foreign subsidiaries are translated to U.S. dollars at fiscal year-end exchange rates. Income and expense items are translated at average monthly exchange rates. Cumulative translation adjustments remain in accumulated other comprehensive income (loss) and are reclassified into earnings in the event the related foreign subsidiary is sold or liquidated.

Foreign Transaction Gains and Losses are those changes in exchange rates of currencies not considered the functional currency that affects cash flows and the related receivables or payables. The Company incurred net foreign currency transaction gains (losses) of approximately $3.9 million, $(5.8) million and $7.8 million for fiscal years 2019, 2018 and 2017, respectively. These net gains (losses) have been included in other income (expense)—net in the Company's consolidated statements of income (loss) and comprehensive income (loss).

Revenues from sales of the Company's products, including those that are subject to inventory consignment agreements, are recognized when control of the product is transferred to the customer and in an amount that reflects the consideration the Company expects to be entitled in exchange for the product. The Company accepts limited returns from customers. The Company continually monitors returns and maintains a provision for estimated returns based upon historical experience and any specific issues identified. Product returns are accounted for as reductions to revenue and cost of sales and increases to customer liabilities and other current assets to the extent the returned product is resalable. While returns have historically been within management's expectations and the provisions established, future return rates may differ from those experienced in the past. In the event that the Company's products are performing poorly in the retail market and/or it experiences product damages or defects at a rate significantly higher than the historical rate, the resulting returns could have an adverse impact on the operating results for the period or periods in which such returns occur. The Company recorded an estimated returns provision of approximately $77.5 million and $67.1 million in accrued expenses as of the end of fiscal years 2019 and 2018, respectively. Taxes imposed by governmental authorities on the Company's revenue-producing activities with customers, such as sales taxes and value added taxes, are excluded from net sales. See Note 2—Revenue, for more information regarding the Company's revenue recognition policy.

Cost of Sales includes raw material costs, assembly labor, assembly overhead including depreciation expense, assembly warehousing costs and shipping and handling costs related to the movement of finished goods from assembly locations to sales distribution centers and from sales distribution centers to customer locations. Additionally, cost of sales includes customs duties, product packaging cost, royalty cost associated with sales of licensed products, the cost of molding and tooling and inventory shrinkage and damages.

Operating Expenses include SG&A, goodwill and trade name impairments and restructuring charges. SG&A expenses include selling and distribution expenses primarily consisting of sales and distribution labor costs, sales distribution center and warehouse facility costs, depreciation expense related to sales distribution and warehouse facilities, the four-wall operating costs of the Company's retail stores, point-of-sale expenses, advertising expenses and art, design and product development labor costs. SG&A also includes general and administrative expenses primarily consisting of administrative support labor and "back office" or support costs such as treasury, legal, information services, accounting, internal audit, human resources, executive management costs and costs associated with stock-based compensation. Restructuring charges include costs to reorganize, refine and optimize the Company's infrastructure and store closures. See Note 20—Restructuring for additional information on the Company's restructuring plan.

Advertising Costs for in-store and media advertising as well as co-op advertising, catalog costs, product displays, show/exhibit costs, advertising royalties related to the sales of licensed brands, internet costs associated with affiliation fees, printing, sample costs and promotional allowances are expensed as incurred within SG&A. Advertising costs were $171.0 million, $181.0 million and $207.1 million for fiscal years 2019, 2018 and 2017, respectively.

Warranty Costs are included in SG&A. The Company records an estimate for future warranty costs based on historical repair costs and adjusts the liability as required. Warranty costs have historically been within the Company's expectations and the provisions established. If such costs were to substantially exceed estimates, this could have an adverse effect on the Company's operating results. See Note 4—Warranty Liabilities, for more information regarding warranties.

Research and Development Costs are incurred primarily through the Company's in-house engineering team and also through some outside consulting and labor and consist primarily of personnel-related expenses, tooling and prototype materials and overhead costs. The Company's research and development ("R&D") expenses are related to designing and developing new products and features and improving existing products. The Company's R&D expenses are recorded in SG&A and were $32.4 million, $38.2 million and $42.8 million in fiscal years 2019, 2018 and 2017, respectively.

Noncontrolling Interest is recognized as equity in the Company's consolidated balance sheets, is reflected in net income attributable to noncontrolling interest in the consolidated statements of income (loss) and comprehensive income (loss) and is captured within the summary of changes in equity attributable to controlling and noncontrolling interests. Noncontrolling interests represent ownership interests in the Company's subsidiaries held by third parties.

Other Comprehensive Income (Loss) which is reported in the consolidated statements of income (loss) and comprehensive income (loss) and consolidated statements of stockholders' equity, consists of net income and other gains and losses affecting equity that are excluded from net income. The components of other comprehensive income (loss) primarily consist of foreign currency translation gains and losses and net realized and unrealized gains and losses on the following: (i) derivatives designated as cash flow hedges and (ii) the Company's defined benefit plans.

Earnings (Loss) Per Share ("EPS") is based on the weighted average number of common shares outstanding during each period. Diluted EPS adjusts basic EPS for the effects of dilutive common stock equivalents outstanding during each period using the treasury stock method.

The following table reconciles the numerators and denominators used in the computations of both basic and diluted EPS (in thousands except per share data):

Fiscal Year	2019	2018	2017
Numerator:			
Net income (loss) attributable to Fossil Group, Inc.	$ (52,365)	$ (3,478)	$ (478,172)
Denominator:			
Basic EPS computation:			
Basic weighted average common shares outstanding	50,230	49,196	48,468
Basic EPS	$ (1.04)	$ (0.07)	$ (9.87)
Diluted EPS computation:			
Basic weighted average common shares outstanding	50,230	49,196	48,468
Diluted weighted average common shares outstanding	50,230	49,196	48,468
Diluted EPS	$ (1.04)	$ (0.07)	$ (9.87)

Approximately 3.4 million, 5.1 million and 4.6 million weighted average shares issuable under stock-based awards were not included in the diluted EPS calculation in fiscal years 2019, 2018 and 2017, respectively, because they were antidilutive, including approximately 0.6 million, 1.2 million and 1.2 million weighted performance-based shares in fiscal years 2019, 2018 and 2017, respectively.

Income Taxes are provided for under the asset and liability method for temporary differences in assets and liabilities recognized for income tax and financial reporting purposes. Deferred tax assets are periodically assessed for the likelihood of whether they are more likely than not to be realized. Tax benefits associated with uncertain tax positions are recognized in the period in which one of the following conditions is satisfied: (i) the more likely than not recognition threshold is satisfied; (ii) the position is ultimately settled through negotiation or litigation; or (iii) the statute of limitations for the taxing authority to examine and challenge the position has expired. Tax benefits associated with an uncertain tax position are derecognized in the period in which the more likely than not recognition threshold is no longer satisfied.

The Global Intangible Low-Taxed Income (“GILTI”) provisions of the Tax Cuts and Jobs Act (the "Tax Act") requiring the inclusion of certain foreign earnings in U.S. taxable income first applied in fiscal year 2018. The GILTI tax was accounted for as incurred under the period cost method. The Company's 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 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.

Recently Issued Accounting Standards

In December 2019, the Financial Accounting Standards Board ("FASB") issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes* ("ASU 2019-12"). ASU 2019-12 simplifies the accounting for income taxes by removing certain exceptions to general principles in *Income Taxes (Topic 740).* It also clarifies and amends existing guidance to improve consistent application. The guidance is effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. The Company does not expect this standard to have a material impact on the Company's consolidated results of operations or financial position.

In August 2018, the FASB issued ASU 2018-15, *Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40)* ("ASU 2018-15"). ASU 2018-15 aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The guidance is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. The standard will not have a material impact on the Company's consolidated results of operations or financial position.

In August 2018, the FASB issued ASU 2018-14, *Compensation-Retirement Benefits-Defined Benefit Plans-General (Subtopic 715-20): Disclosure Framework-Changes to the Disclosure Requirements for Defined Benefit Plans* ("ASU 2018-14"). ASU 2018-14 removes certain disclosures that are not considered cost beneficial, clarifies certain required disclosures and adds additional disclosures. The guidance is effective for fiscal years ending after December 15, 2020. The Company does not expect this standard to have a material impact on the Company's consolidated results of operations or financial position.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement* ("ASU 2018-13"). ASU 2018-13 eliminates certain disclosure requirements related to the fair value hierarchy, adds new disclosure requirements related to the changes in unrealized gains and losses for recurring Level 3 fair value measurements and disclosing the range and weighted average of significant observable inputs used to develop Level 3 fair value measurements and modifies certain disclosure requirements related to measurement uncertainty for fair value measurements. The guidance is effective for annual reporting periods and interim periods within those annual periods beginning after December 15, 2019.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"). ASU 2016-13 modifies the measurement of expected credit losses of certain financial instruments, including trade receivables. The estimate of expected credit losses will require the consideration of historical information, current information and reasonable and supportable forecasts. ASU 2016-13 is effective for annual reporting periods and interim periods within those annual periods beginning after December 15, 2019. The standard will not have a material impact on the Company's consolidated results of operations or financial position.

Recently Adopted Accounting Standards

The Company adopted ASU 2016-02 on December 30, 2018, the first day of fiscal 2019, using the modified retrospective approach, and accordingly, information for periods prior to December 30, 2018 are presented under ASC 840, *Leases* ("ASC 840"), the predecessor to ASC 842. The Company has elected to use the transition practical expedient. The transition practical expedient allows companies to recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption rather than the earliest period presented.

The Company used the package of practical expedients that allows companies to not reassess: (1) whether any expired or existing contracts are or contain leases, (2) lease classification for any expired or existing leases and (3) initial direct costs for any expired or existing leases. The Company did not elect to adopt the hindsight practical expedient and therefore maintained the lease terms previously determined under ASC 840.

Adoption of ASU 2016-02 resulted in recording right-of-use ("ROU") lease assets of $370.3 million which were written down to $327.3 million as a result of $43.0 million of previous store impairment, excluding taxes, and lease liabilities of $390.6 million as of December 30, 2018. The Company recognized a cumulative-effect adjustment to the opening balance of retained earnings of approximately $29.5 million as of December 30, 2018 as a result of previous store impairment and a previous sale leaseback transaction, net of tax effects. Under ASC 840, the gain on the sale leaseback transaction was deferred over the lease term; however under ASC 842, the gain is recognized at the time of sale. Accordingly, a retained earnings adjustment to recognize the remaining gain was recorded upon the adoption of ASC 842. The standard did not have a material impact on the Company's consolidated results of operations or cash flows. See "Note 13—Leases" for additional lease disclosures.

In August 2017, the FASB issued ASU 2017-12. ASU 2017-12 amends and simplifies hedge accounting guidance in order to enable entities to better portray the economics of their risk management activities. The Company adopted ASU 2017-12 on the first day of fiscal year 2019. Adoption resulted in $9.9 million of net gains being recorded in cost of sales for fiscal year 2019 which would have been recognized in other income (expense) - net under previous accounting guidance.

2. REVENUE

The Company's revenue consists of sales of finished products to customers through wholesale and retail channels. Revenue from the sale of products, including those that are subject to inventory consignment agreements, is recognized when control of the product is transferred to the customer and in an amount that reflects the consideration the Company expects to be entitled in exchange for the product. The Company generally considers control to transfer either when products ship or when products are delivered depending on the shipping terms in the agreement or purchase order. The Company considers control to have transferred upon shipment or delivery because the Company has a present right to payment, the customer has legal title to the product, the Company has transferred physical possession of the product, and the customer has the significant risks and rewards of the product. Taxes imposed by governmental authorities on the Company's revenue-producing activities with customers, such as sales taxes and value added taxes, are excluded from net sales.

Markdowns. The Company provides markdowns to certain customers in order to facilitate sales of select styles. Markdowns are estimated at the time of sale using historical data and are recorded as a reduction to revenue. The Company's policy is to record its markdown allowance as a reduction of accounts receivable.

Returns. The Company accepts limited returns from customers. The Company continually monitors returns and maintains a provision for estimated returns based upon historical experience and any specific issues identified. Product returns are accounted for as reductions to revenue, cost of sales, customer liabilities and an increase to other current assets to the extent the returned product is resalable. While returns have historically been within management's expectations and the provisions established, future return rates may differ from those experienced in the past. In the event that the Company's products are performing poorly in the retail market and/or it experiences product damages or defects at a rate significantly higher than the historical rate, the resulting returns could have an adverse impact on the operating results for the period or periods in which such returns occur.

Cooperative Advertising. The Company participates in cooperative advertising programs with its major retail customers, whereby the Company shares the cost of certain of their advertising and promotional expenses. Certain advertising expenses which are not considered separate performance obligations are recorded as sales discounts. All other cooperative advertising expenses are recorded in SG&A.

FOSSIL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Multiple Performance Obligations. The Company enters into contracts with customers for its wearable technology that includes multiple performance obligations. Each distinct performance obligation was determined by whether the customer could benefit from the good or service on its own or together with readily available resources. The Company allocates revenue to each performance obligation based on its relative standalone selling price. The Company's process for determining standalone selling price considers multiple factors including the Company's internal pricing model and market trends that may vary depending upon the facts and circumstances related to each performance obligation. Revenue allocated to the hardware and software essential to the functionality of the product represents the majority of the arrangement consideration and is recognized at the time of product delivery, provided the other conditions for revenue recognition have been met. Revenue allocated to free software services provided through the Company's online dashboard and mobile apps as well as revenue allocated to the right to receive future unspecified software updates is deferred and recognized on a straight-line basis over the product's estimated usage period of two years.

Licensing Income. In fiscal year 2018, the Company entered into a seven year agreement to provide hybrid smartwatch technology and related support to its customer, Citizen Watch Co, Ltd. The Company determined the material rights in the contract, which include the infrastructure setup to design and manufacture hybrid watches, are one performance obligation. The contract contains fixed consideration related to upfront setup and access to the technology. The contract also contains variable consideration related to maintenance and royalties. The total variable consideration was estimated using a probability-weighted range of possible consideration amounts. The transfer of services takes place at varying times over the duration of the contract. The Company uses the input method, using projected labor hours as its measure of progress, to recognize revenue associated with this contract. The Company has determined the input method best reflects the Company's progress towards the completion of its performance obligation. When this input method is applied, the allocation of revenue is mostly recorded early in the agreement, when the specialization and setup work is being performed, as opposed to later on in the agreement when only the regular ongoing services are provided.

Disaggregation of Revenue. The Company's revenue disaggregated by major product category and timing of revenue recognition was as follows (in thousands):

	Fiscal Year 2019				
	Americas	**Europe**	**Asia**	**Corporate**	**Total**
Product Type					
Watches	$ 769,581	$ 557,460	$ 475,361	$ 79	$ 1,802,481
Leathers	145,632	47,308	45,679	—	238,619
Jewelry	24,826	92,935	5,416	—	123,177
Other	9,926	17,791	8,700	17,018	53,435
Consolidated	$ 949,965	$ 715,494	$ 535,156	$ 17,097	$ 2,217,712
Timing of Revenue Recognition					
Revenue recognized at a point in time	$ 947,353	$ 714,056	$ 534,403	$ 6,145	$ 2,201,957
Revenue recognized over time	2,612	1,438	753	10,952	15,755
Consolidated	$ 949,965	$ 715,494	$ 535,156	$ 17,097	$ 2,217,712

FOSSIL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Fiscal Year 2018				
	Americas	Europe	Asia	Corporate	Total
Product Type					
Watches	$ 936,875	$ 656,948	$ 439,029	$ 169	$ 2,033,021
Leathers	171,808	67,264	50,313	—	289,385
Jewelry	50,266	111,603	5,906	—	167,775
Other	15,558	20,476	10,225	5,048	51,307
Consolidated	$ 1,174,507	$ 856,291	$ 505,473	$ 5,217	$ 2,541,488
Timing of Revenue Recognition					
Revenue recognized at a point in time	$ 1,172,200	$ 855,219	$ 504,956	$ 4,477	$ 2,536,852
Revenue recognized over time	2,307	1,072	517	740	4,636
Consolidated	$ 1,174,507	$ 856,291	$ 505,473	$ 5,217	$ 2,541,488

Contract Balances. As of December 28, 2019, the Company had no material contract assets on the consolidated balance sheets and no deferred contract costs. The Company had contract liabilities of (i) $13.4 million and $21.8 million as of December 28, 2019 and December 29, 2018, respectively, related to remaining performance obligations on licensing income, (ii) $5.3 million and $6.2 million as of December 28, 2019 and December 29, 2018, respectively, primarily related to remaining performance obligations on wearable technology products and (iii) $3.3 million and $3.8 million as of December 28, 2019 and December 29, 2018, respectively, related to gift cards issued.

Shipping and Handling Fees. The Company accounts for shipping and handling activities that occur after control of the related good transfers as fulfillment activities instead of assessing such activities as performance obligations.

3. Inventories

Inventories consisted of the following (in thousands):

At Fiscal Year End	2019	2018
Components and parts	$ 35,626	$ 28,183
Work-in-process	11,034	9,458
Finished goods	405,618	339,981
Inventories	$ 452,278	$ 377,622

4. Warranty Liabilities

The Company's warranty liabilities are primarily related to watch products and are included in accrued expenses—other in the consolidated balance sheets. The Company's watch products are covered by limited warranties against defects in materials or workmanship. Historically, the Company's FOSSIL® and RELIC® watch products sold in the U.S. have been covered for warranty periods of 11 years and 12 years, respectively, and SKAGEN brand watches have been covered by a lifetime warranty. Beginning in 2017, these brands are covered by a two year warranty. Generally, all other products sold in the U.S. and internationally are covered by a comparable one to two year warranty. The Company's 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 the Company's warranty liabilities. Warranty liability activity consisted of the following (in thousands):

Fiscal Year	2019	2018	2017
Beginning balance	$ 22,807	$ 19,405	$ 15,421
Settlements in cash or kind	(18,073)	(15,197)	(15,177)
Warranties issued and adjustments to preexisting warranties[1]	18,361	18,599	19,161
Ending balance	$ 23,095	$ 22,807	$ 19,405

(1) Changes in cost estimates related to preexisting warranties are aggregated with accruals for new standard warranties issued and foreign currency changes.

5. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consisted of the following (in thousands):

At Fiscal Year End	2019	2018
Prepaid royalties	$ 22,258	$ 43,074
Prepaid taxes and tax receivables	34,712	37,587
Other receivables	10,581	7,092
Forward contracts	3,327	9,232
Inventory returns	22,402	23,509
Prepaid rent	429	7,700
Property held for sale	—	1,135
Short term deposits	1,530	876
Other	21,979	19,347
Prepaid expenses and other current assets	$ 117,218	$ 149,552

6. Property, Plant and Equipment

Property, plant and equipment—net consisted of the following (in thousands):

At Fiscal Year End	2019	2018
Land	$ 7,579	$ 7,736
Buildings	37,012	37,766
Machinery and equipment	39,756	39,583
Furniture and fixtures	96,940	102,141
Computer equipment and software	235,757	243,490
Leasehold improvements	192,114	198,703
Construction in progress	7,255	7,103
	616,413	636,522
Less accumulated depreciation and amortization	464,913	453,319
Property, plant and equipment-net	$ 151,500	$ 183,203

7. Intangible and Other Assets

Intangible and other assets-net consisted of the following (in thousands):

		2019		2018	
At Fiscal Year End	Useful Lives	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
Intangibles-subject to amortization:					
Trademarks	10 yrs.	$ 3,612	$ 2,993	$ 4,293	$ 3,859
Customer lists	5 - 10 yrs.	52,517	44,013	52,635	38,028
Patents	3 - 20 yrs.	2,308	1,937	2,310	2,154
Developed technology	7 yrs.	2,193	548	36,100	15,471
Trade name	6 yrs.	4,502	188	—	—
Other	7 - 20 yrs.	383	272	261	247
Total intangibles-subject to amortization		65,515	49,951	95,599	59,759
Intangibles-not subject to amortization:					
Trade names		11,315		32,427	
Other assets:					
Other deposits		18,558		19,641	
Deferred compensation plan assets		5,243		4,442	
Deferred tax asset-net		38,275		23,695	
Restricted cash		7,501		7,479	
Tax receivable		6,507		7,060	
Investments		500		500	
Other		2,145		2,342	
Total other assets		78,729		65,159	
Total intangible and other assets		$ 155,559	$ 49,951	$ 193,185	$ 59,759
Total intangible and other assets-net			$ 105,608		$ 133,426

During fiscal year 2019, the Company impaired the SKAGEN trade name down to the implied fair value of $4.5 million, as a result of a continued decline in performance throughout fiscal year 2019 and a challenging market dynamic that is not expected to improve in the near-term. Concurrent with the impairment testing, the Company determined the trade name would no longer have an indefinite useful life. As a result of the change in estimate, the useful life of the trade name changed from indefinite to definite, and the trade name will be fully amortized on a straight-line basis over the estimated useful life of 6 years.

Amortization expense for intangible assets was approximately $7.1 million, $11.9 million and $13.5 million for fiscal years 2019, 2018 and 2017, respectively. Estimated aggregate future amortization expense by fiscal year for intangible assets is as follows (in thousands):

Fiscal Year	Amortization Expense
2020	$ 6,833
2021	3,003
2022	2,127
2023	1,085
2024	1,068
Thereafter	1,448

On January 16, 2019, the Company sold intellectual property related to a smartwatch technology under development by the Company to Google, Inc. for a cash purchase price of $40.0 million. As a result of the sale, the Company reduced intangible assets by $18.4 million and recorded a gain of $21.6 million in other income (expense) - net in the Company's consolidated statements of income (loss) and comprehensive income (loss).

8. Derivatives and Risk Management

Cash Flow Hedges. The primary risks managed by using derivative instruments are the fluctuations in global currencies that will ultimately be used by non-U.S. dollar functional currency subsidiaries to settle future payments of intercompany inventory transactions denominated in U.S. dollars. Specifically, the Company projects future intercompany purchases by its non-U.S. dollar functional currency subsidiaries generally over a period of up to 24 months. The Company enters into forward contracts generally for up to 85% of its forecasted purchases to manage fluctuations in global currencies that will ultimately be used to settle such U.S. dollar denominated inventory purchases. Additionally, the Company enters into forward contracts to manage fluctuations in Japanese yen exchange rates that will be used to settle future third-party inventory component purchases by a U.S. dollar functional currency subsidiary. Forward contracts represent agreements to exchange the currency of one country for the currency of another country at an agreed-upon settlement date and exchange rate. These forward contracts are designated as single cash flow hedges. Fluctuations in exchange rates will either increase or decrease the Company’s U.S. dollar equivalent cash flows from these inventory transactions, which will affect the Company’s U.S. dollar earnings. Gains or losses on the forward contracts are expected to offset these fluctuations to the extent the cash flows are hedged by the forward contracts.

These forward contracts meet the criteria for hedge accounting, which requires that they represent foreign currency-denominated forecasted transactions in which (i) the operating unit that has the foreign currency exposure is a party to the hedging instrument and (ii) the hedged transaction is denominated in a currency other than the hedging unit's functional currency.

At the inception of each forward contract designated as a cash flow hedge, the hedging relationship is expected to be highly effective in achieving offsetting cash flows attributable to the hedged risk. The Company assesses hedge effectiveness under the critical terms matched method at inception and at least quarterly throughout the life of the hedging relationship. If the critical terms (i.e., amounts, currencies and settlement dates) of the forward contract match the terms of the forecasted transaction, the Company concludes that the hedge is effective. Hedge accounting is discontinued if it is determined that the derivative is not highly effective.

For a derivative instrument that is designated and qualifies as a cash flow hedge, the gain or loss on the derivative is reported as a component of other comprehensive income (loss), net of taxes and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings.

All derivative instruments are recognized as either assets or liabilities at fair value in the consolidated balance sheets. The Company records all forward contract hedge assets and liabilities on a gross basis as they do not meet the balance sheet netting criteria because the Company does not have master netting agreements established with the derivative counterparties that would allow for net settlement. Derivatives designated as cash flow hedges are recorded at fair value at each balance sheet date and the change in fair value is recorded to accumulated other comprehensive income (loss) within the equity section of the Company's consolidated balance sheets until such derivative's gains or losses become realized or the cash flow hedge relationship is terminated.

If the cash flow hedge relationship is terminated, the derivative's gains or losses that are recorded in accumulated other comprehensive income (loss) will be immediately recognized in earnings. There were no gains or losses reclassified into earnings for fiscal years 2019 or 2018 and a gain of $0.2 million for fiscal year 2017 was recognized as a result of the discontinuance of cash flow hedges.

As of December 28, 2019, the Company had the following outstanding forward contracts designated as cash flow hedges that were entered into to hedge the future payments of intercompany inventory transactions (in millions):

Functional Currency		Contract Currency	
Type	**Amount**	**Type**	**Amount**
Euro	106.0	U.S. dollar	122.7
Canadian dollar	41.4	U.S. dollar	31.3
British pound	13.6	U.S. dollar	17.7
Japanese yen	1,320.5	U.S. dollar	12.4
Mexican peso	167.8	U.S. dollar	8.4
Australian dollar	6.7	U.S. dollar	4.6
U.S. dollar	18.7	Japanese Yen	1,985.0

Non-designated Hedges. The Company also periodically enters into forward contracts to manage exchange rate risks associated with certain intercompany transactions and for which the Company does not elect hedge accounting treatment. As of December 28, 2019, the Company had non-designated forward contracts of approximately $1.5 million on 22.6 million rand, and as of December 29, 2018, the Company had non-designated forward contracts of approximately $1.2 million on 17.5 million rand associated with a South African rand-denominated foreign subsidiary. Changes in the fair value of derivatives not designated as hedging instruments are recognized in earnings when they occur.

The effective portion of gains and losses on cash flow hedges that were recognized in other comprehensive income (loss), net of taxes during fiscal years 2019, 2018 and 2017 are set forth below (in thousands):

Fiscal Year	2019	2018	2017
Cash flow hedges:			
Forward contracts	$ 6,060	$ 18,044	$ (25,088)
Interest rate swaps	—	—	278
Total gain (loss) recognized in other comprehensive income (loss), net of taxes	$ 6,060	$ 18,044	$ (24,810)

The following table illustrates the effective portion of gains and losses on derivative instruments recorded in other comprehensive income (loss), net of taxes during the term of the hedging relationship and reclassified into earnings, and gains and losses on derivatives not designated as hedging instruments recorded directly to earnings during fiscal years 2019, 2018 and 2017 (in thousands):

Derivative Instruments	Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) Location	Effect of Derivative Instruments	Fiscal Year 2019	Fiscal Year 2018	Fiscal Year 2017
Forward contracts designated as cash flow hedging instruments	Cost of sales [(1)]	Total gain (loss) reclassified from accumulated other comprehensive income (loss)	$ 9,939	$ —	$ —
Forward contracts designated as cash flow hedging instruments	Other income (expense)-net	Total gain (loss) reclassified from accumulated other comprehensive income (loss)	$ 1,720	$ (2,629)	$ (4,297)
Forward contracts not designated as hedging instruments	Other income (expense)-net	Total gain (loss) recognized in income	$ (88)	$ 244	$ (652)
Interest rate swap designated as a cash flow hedging instrument	Interest expense	Total gain (loss) reclassified from accumulated other comprehensive income (loss)	$ —	$ —	$ (260)
Interest rate swap not designated as a cash flow hedging instrument	Other income (expense)-net	Total gain (loss) recognized in income	$ —	$ 67	$ —
Interest rate swap not designated as a cash flow hedging instrument	Other income (expense)-net	Total gain (loss) reclassified from accumulated other comprehensive income (loss)	$ —	$ —	$ 195

(1) The adoption of ASU 2017-12 resulted in net gains being recorded in cost of sales for fiscal year 2019 which would have been recognized in other income (expense) - net under previous accounting guidance.

The following table discloses the fair value amounts for the Company's derivative instruments as separate asset and liability values, presents the fair value of derivative instruments on a gross basis, and identifies the line items in the consolidated balance sheets in which the fair value amounts for these categories of derivative instruments are included (in thousands):

	Asset Derivatives				Liability Derivatives			
	December 28, 2019		December 29, 2018		December 28, 2019		December 29, 2018	
	Consolidated Balance Sheets Location	Fair Value	Consolidated Balance Sheets Location	Fair Value	Consolidated Balance Sheets Location	Fair Value	Consolidated Balance Sheets Location	Fair Value
Forward contracts designated as cash flow hedging instruments	Prepaid expenses and other current assets	$ 3,327	Prepaid expenses and other current assets	$ 9,217	Accrued expenses-other	$ 1,657	Accrued expenses-other	$ 660
Forward contracts not designated as cash flow hedging instruments	Prepaid expenses and other current assets	—	Prepaid expenses and other current assets	15	Accrued expenses-other	63	Accrued expenses-other	—
Forward contracts designated as cash flow hedging instruments	Intangible and other assets-net	21	Intangible and other assets-net	453	Other long-term liabilities	104	Other long-term liabilities	70
Total		$ 3,348		$ 9,685		$ 1,824		$ 730

The following table summarizes the effects of the Company's derivative instruments on earnings (in thousands):

	Effect of Derivative Instruments			
	Fiscal Year 2019		Fiscal Year 2018	
	Cost of Sales	Other Income (Expense)-net	Cost of Sales	Other Income (Expense)-net
Total amounts of income and expense line items presented in the consolidated statements of income (loss) and comprehensive income (loss) in which the effects of cash flow hedges are recorded	$ 1,118,274	$ 26,984	$ 1,201,351	$ (38)
Gain (loss) on cash flow hedging relationships:				
Forward contracts designated as cash flow hedging instruments:				
Total gain (loss) reclassified from other comprehensive income (loss)	9,939	1,720	—	(2,629)

At the end of fiscal year 2019, the Company had forward contracts designated as cash flow hedges with maturities extending through March 2021. As of December 28, 2019, an estimated net gain of $1.5 million is expected to be reclassified into earnings within the next twelve months at prevailing foreign currency exchange rates.

9. Fair Value Measurements

The Company defines fair value as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date.

ASC 820, *Fair Value Measurement and Disclosures* ("ASC 820"), establishes a fair value hierarchy, which prioritizes the inputs used in measuring fair value into three broad levels as follows:

- Level 1—Quoted prices in active markets for identical assets or liabilities.
- Level 2—Inputs, other than quoted prices in active markets, that are observable either directly or indirectly.
- Level 3—Unobservable inputs based on the Company's assumptions.

ASC 820 requires the use of observable market data if such data is available without undue cost and effort.

The following table presents the fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of December 28, 2019 (in thousands):

	Fair Value at December 28, 2019			
	Level 1	Level 2	Level 3	Total
Assets:				
Forward contracts	$ —	$ 3,348	$ —	$ 3,348
Deferred compensation plan assets:				
Investment in publicly traded mutual funds	5,243	—	—	5,243
Total	$ 5,243	$ 3,348	$ —	$ 8,591
Liabilities:				
Contingent consideration	$ —	$ —	$ 1,141	$ 1,141
Forward contracts	—	1,824	—	1,824
Total	$ —	$ 1,824	$ 1,141	$ 2,965

The following table presents the fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of December 29, 2018 (in thousands):

	Fair Value at December 29, 2018			
	Level 1	Level 2	Level 3	Total
Assets:				
Forward contracts	$ —	$ 9,685	$ —	$ 9,685
Deferred compensation plan assets:				
Investment in publicly traded mutual funds	4,442	—	—	4,442
Total	$ 4,442	$ 9,685	$ —	$ 14,127
Liabilities:				
Contingent consideration	$ —	$ —	$ 2,174	$ 2,174
Forward contracts	—	730	—	730
Total	$ —	$ 730	$ 2,174	$ 2,904

The fair values of the Company's deferred compensation plan assets are based on quoted prices. The deferred compensation plan assets are recorded in intangible and other assets—net in the Company's consolidated balance sheets. The fair values of the Company's forward contracts are based on published quotations of spot currency rates and forward points, which are converted into implied forward currency rates.

As of December 28, 2019 and December 29, 2018, the fair value of the Company's debt approximated its carrying amount. The fair value of debt was obtained using observable market inputs.

Operating lease right-of-use assets with a carrying amount of $18.3 million and property, plant and equipment—net with a carrying amount of $1.8 million related to retail store leasehold improvements, fixturing and shop-in-shops were written down to a fair value of $8.7 million and $0.5 million, respectively, resulting in total impairment charges of $10.9 million for fiscal year 2019.

The fair values of operating lease right-of-use assets and fixed assets related to retail stores were determined using Level 3 inputs, including forecasted cash flows and discount rates. Of the $10.9 million impairment expense, $5.0 million, $3.4 million and $0.2 million were recorded in SG&A in the Americas, Europe and Asia segments, respectively and $1.9 million and $0.4 million were recorded in restructuring charges in the Americas and Europe segments, respectively.

In fiscal year 2018, property, plant and equipment—net with a carrying amount of $3.8 million related to retail store leasehold improvements and fixturing was written down to a fair value of $0.2 million and related key money in the amount of $0.2 million was deemed not recoverable, resulting in total impairment charges of $3.8 million for fiscal year 2018.

The fair value of trade names are measured on a non-recurring basis using Level 3 inputs, including forecasted cash flows, discounts rates and implied royalty rates. Trade name impairment charges are recorded in the Corporate cost area. See Note 1—Significant Accounting Policies for additional disclosures about trade name impairment.

In fiscal year 2019, the SKAGEN trade name with a carrying amount of $21.1 million was written down to its implied fair value of $4.5 million, resulting in a pre-tax impairment charge of $16.6 million.

In fiscal year 2018, the SKAGEN trade name with a carrying amount of $27.3 million was written down to its implied fair value of $21.1 million, resulting in a pre-tax impairment charge of $6.2 million.

The fair value of the contingent consideration liability related to Fossil Accessories South Africa Pty. Ltd. (“Fossil South Africa”) was determined using Level 3 inputs. See Note 15—Stockholders' Equity for additional disclosures about the equity transaction. The contingent consideration is based on Fossil South Africa's projected earnings and dividends through fiscal year 2020 with the final payments expected the following year. A discount rate of 14% was used to calculate the present value of the contingent consideration. The present value of the contingent consideration liability was valued at $1.1 million as of December 28, 2019.

10. Debt

The Company's debt consisted of the following, excluding finance lease obligations, (in millions):

	December 28, 2019	December 29, 2018
U.S. revolving line of credit [(1)]	$ 20.1	$ —
U.S. term loan[(2)]	182.2	392.3
Other international	0.2	0.4
Total debt	$ 202.5	$ 392.7
Less current portion	25.2	125.4
Long-term debt	$ 177.3	$ 267.3

(1) Net of debt issuance costs of $7.9 million at December 28, 2019

(2) Net of debt issuance costs and original issue discount of $6.6 million and $11.2 million, respectively at December 28, 2019. Net of debt issuance costs of $7.7 million at December 29, 2018.

U.S.-Based. On September 26, 2019, the Company and Fossil Partners L.P., as the U.S. borrowers (the "U.S. Borrowers"), and Fossil Group Europe GmbH (the "Swiss Borrower"), Fossil Asia Pacific Limited (the "Hong Kong Borrower"), Fossil (Europe) GmbH (the "German Borrower"), Fossil (UK) Limited (the "UK Borrower") and Fossil Canada Inc. (the "Canadian Borrower"), as the non-U.S. borrowers, certain other subsidiaries of the Company from time to time party thereto designated as borrowers (such subsidiaries, together with the U.S. Borrowers, the Swiss Borrower, the Hong Kong Borrower, the German Borrower, the UK Borrower and the Canadian Borrower, the "ABL Borrowers"), and certain subsidiaries of the Company from time to time party thereto as guarantors, entered into an asset-based revolving credit agreement (the "Revolving Facility") with JPMorgan Chase Bank, N.A. as administrative agent (the "ABL Agent"), J.P. Morgan AG, as French collateral agent, JPMorgan Chase Bank, N.A., Citizens Bank, N.A. and Wells Fargo Bank, National Association as joint bookrunners and joint lead arrangers, and Citizens Bank, N.A. and Wells Fargo Bank, National Association, as co-syndication agents and each of the lenders from time to time party thereto (the "ABL Lenders"). In addition, on September 26, 2019, the Company, as borrower, entered into a term credit agreement with JPMorgan Chase Bank, N.A. as administrative agent (the "Term Agent"), JPMorgan Chase Bank, N.A., Citizens Bank, National Association and Wells Fargo Securities, LLC, as joint bookrunners and joint lead arrangers and the lenders party thereto (the "Term Loan Lenders"), which was amended on February 20, 2020, by that certain Amendment No. 1 to Term Credit Agreement (as amended, the "Term Loan Facility").

Contemporaneously with entering into the Revolving Facility and the Term Loan Facility, on September 26, 2019, the proceeds of the Revolving Facility and the Term Loan Facility were used to pay off in full the $275.8 million in aggregate outstanding principal amount of the loans, interest, fees, expenses and other obligations under the Second Amended and Restated Credit Agreement, dated as of January 29, 2018 (the "Prior Credit Agreement"). The Company recorded a loss of $3.0 million in other income (expense) - net during fiscal 2019 for debt issuance costs associated with the Prior Credit Agreement.

The Revolving Facility provides that the ABL Lenders may extend revolving loans in an aggregate principal amount not to exceed $275.0 million at any time outstanding (the "Revolving Credit Commitment"), of which up to $160.0 million is available under a U.S. facility, an aggregate of $70.0 million is available under a European facility, $30.0 million is available under a Hong Kong facility, $10.0 million will be available under a French facility, and $5.0 million is available under a Canadian facility, in each case, subject to the borrowing base availability limitations described below. The Revolving Facility also includes an up to $45.0 million subfacility for the issuance of letters of credit (the "Letters of Credit"). The Revolving Facility expires and is due and payable on September 26, 2024, provided that, if on the date that is the 121st day prior to the final maturity date of any class or tranche of term loans under the Term Loan Facility, any such term loans are outstanding on such date, then the maturity date of the Revolving Facility shall be such date. Unless the maturity of the term loans is extended beyond the current maturity date of September 26, 2024, the Revolving Facility will expire and be due and payable on May 28, 2024. The French facility includes a $1.0 million subfacility for swingline loans, and the European facility includes a $7.0 million subfacility for swingline loans. The Revolving Facility is subject to a line cap (the "Line Cap") equal to the lesser of the total Revolving Credit Commitment and the aggregate borrowing bases under the U.S. facility, the European facility, the Hong Kong facility, the French facility and the Canadian facility. The loans under the Revolving Facility were used to repay the Prior Credit Agreement, as described above, pay transaction expenses and for general corporate purposes. Loans under the Revolving Facility may be made in U.S. dollars, Canadian dollars, euros, Hong Kong dollars or pounds sterling.

The Revolving Facility is an asset-based facility, in which borrowing availability is subject to a borrowing base equal to: (a) with respect to the Company, the sum of (i) the lesser of (x) 90% of the appraised net orderly liquidation value of eligible U.S. finished goods inventory and (y) 65% of the lower of cost or market value of eligible U.S. finished goods inventory, plus (ii) 85% of the eligible U.S. accounts receivable, plus (iii) 90% of eligible U.S. credit card accounts receivable, minus (iv) the aggregate amount of reserves, if any, established by the ABL Agent; (b) with respect to each non-U.S. borrower (except for the French Borrower), the sum of (i) the lesser of (x) 90% of the appraised net orderly liquidation value of eligible foreign finished goods inventory of such non-U.S. borrower and (y) 65% of the lower of cost or market value of eligible foreign finished goods inventory of such non-U.S. borrower, plus (ii) 85% of the eligible foreign accounts receivable of such non-U.S. borrower, minus (iii) the aggregate amount of reserves, if any, established by the ABL Agent; and (c) with respect to the French Borrower, (i) 85% of eligible French accounts receivable minus (ii) the aggregate amount of reserves, if any, established by the ABL Agent. Not more than 60% of the aggregate borrowing base under the Revolving Facility may consist of the non-U.S. borrowing bases.

Eurodollar loans under the U.S. facility will bear interest at the adjusted LIBO rate plus the applicable rate, and Eurodollar loans under the Canadian facility, European facility, French facility and Hong Kong facility will bear interest at the LIBO rate plus the applicable rate. Base rate loans under the U.S. facility will bear interest at the alternate base rate plus the applicable rate. Under the Canadian facility, Canadian prime rate loans will bear interest at the Canadian prime rate plus the applicable rate, and Canadian dollar loans will bear interest at the CDOR rate plus the applicable rate. Under the Hong Kong facility, Hong Kong dollar loans will bear interest at the HIBOR rate plus the applicable rate. Each swingline loan shall bear interest at the overnight LIBO rate plus the applicable rate for overnight LIBO rate loans. The applicable rate varies from 1.25% to 1.75% for adjusted LIBO, CDOR and HIBOR rate loans and from 0.25% to 0.75% for alternate base rate and Canadian prime rate loans depending on the Company's average daily excess availability under the Revolving Facility for the most recently ended fiscal quarter, which is an amount equal to (x)(1) the lesser of the total revolving commitments then in effect and (2) the aggregate borrowing base, minus (y) the total credit exposure of all ABL Lenders at such time.

The Revolving Facility also includes a commitment fee, payable quarterly in arrears, of 0.250% or 0.375% determined by reference to the average daily unused portion of the overall commitment under the Revolving Facility. The ABL Borrowers will pay the ABL Agent, on the account of the issuing ABL Lenders, an issuance fee of 0.125% for any issued Letters of Credit.

The ABL Borrowers are permitted to voluntarily prepay the revolving loans, in whole or in part, without premium or penalty. The ABL Borrowers may reduce the commitments at any time, in whole or in part, without premium or penalty, in a minimum aggregate principal amount of not less than $5.0 million or increments of $1.0 million in excess thereof. If the total amount of outstanding revolving loans and Letters of Credit exceeds the total commitment under the Revolving Facility, the ABL Borrowers must prepay the revolving loans in an amount equal to such excess.

During any periods (each, a "Covenant Period") while availability under the Revolving Facility is less than the greater of (x) 15% of the Line Cap and (y) $30.0 million, the Company will be subject to a financial covenant which requires the Company to not permit the fixed charge coverage ratio to be less than 1.00 to 1.00 on the first day of such Covenant Period or the last day of each fiscal quarter during such Covenant Period.

The ABL Borrowers have the right to request an increase to the commitments under the Revolving Facility or any subfacility in an aggregate principal amount not to exceed $75.0 million in increments no less than $10.0 million, subject to certain terms and conditions as defined in the Revolving Facility, including that the Term Loan Facility has been amended, restated or otherwise modified to permit any additional commitments.

The Revolving Facility is secured by guarantees by the Company and certain of its domestic subsidiaries. Additionally, the Company and such subsidiaries have granted liens on all or substantially all of their assets in order to secure the obligations under the Revolving Facility. In addition, the Swiss Borrower, the Hong Kong Borrower, the German Borrower and the Canadian Borrower, and the other non-U.S. borrowers from time to time party to the Revolving Facility 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, and certain of their respective subsidiaries may guarantee the respective non-U.S. obligations under the Revolving Facility.

The Revolving Facility contains customary affirmative and negative covenants and events of default, such as compliance with annual audited and quarterly unaudited financial statements disclosures. Upon an event of default, the ABL Agent will have the right to declare the revolving loans and other obligations outstanding immediately due and payable and all commitments immediately terminated or reduced, subject to cure periods and grace periods set forth in the Revolving Facility.

The Term Loan Facility provides for term loans to the Company in the aggregate principal amount of $200 million. Proceeds from the Term Loan Facility were reduced by a $12.0 million original issue discount, which is presented as a reduction of the Term Loan Facility on the Company's consolidated balance sheet and is being amortized to interest expense over the life of the term loan. The term loans under the Term Loan Facility bore interest at (a) the adjusted LIBO rate plus 6.50% for Eurodollar loans or (b) the alternate base rate plus 5.50% for alternate base rate loans as of December 28, 2019. In connection with the amendment entered into on February 20, 2020, the term loans under the Term Loan Facility bear interest at (a) the adjusted LIBO rate plus 8.00% for Eurodollar loans or (b) the alternate base rate plus 7.00% for alternate base rate loans. The Term Loan Facility amortizes in quarterly installments in an aggregate amount equal (x) to 2.50% of its original principal amount until September 30, 2021 and, thereafter, (y) to 3.75% of its original principal amount until June 30, 2024. The Term Loan Facility expires and is due and payable on September 26, 2024, subject to possible extensions.

The Company is permitted to voluntarily prepay the term loans, in whole or in part, without premium or penalty; provided, that if the Company voluntarily prepays the term loans prior to February 20, 2022 or if the Company incurs certain indebtedness which results in a mandatory prepayment under the Term Loan Facility prior to February 20, 2022, the Company is required to pay a prepayment fee of 2.00% with respect to the principal amount prepaid prior to February 20, 2022 and 1.00% with respect to the principal amount prepaid between February 21, 2021 and February 20, 2022. The Term Loan Facility will be required to be prepaid with the net cash proceeds of certain asset sales, insurance and condemnation events, debt and equity issuances, cash dividends received from certain of the Company’s subsidiaries and an annual excess cash flow sweep.

In connection with the amendment entered into on February 20, 2020, the maximum total leverage ratio was revised to increase the maximum total leverage ratio permitted under the covenant from 1.50 to 1.00 as of December 28, 2019 to (i) 2.75 to 1.00 as of the last day of each fiscal quarter ending April 4, 2020, July 4, 2020, October 3, 2020 and January 2, 2021, (ii) 2.25 to 1.00 as of the last day of each fiscal quarter ending April 3, 2021, July 3, 2021 and October 2, 2021, and (iii) 1.50 to 1.00 as of the last day of each subsequent fiscal quarter. The Term Loan Facility also limits the Revolving Credit Commitment under the Revolving Facility to the lesser of the borrowing base or $200.0 million. A payment default under the Revolving Facility triggers a cross default under the Term Loan Facility.

The Term Loan Facility is secured by guarantees by the Company and certain of its Company’s domestic subsidiaries. Additionally, the Company and such subsidiaries have granted liens on all or substantially all of their assets in order to secure the obligations under the Term Loan Facility.

The Term Loan Facility contains customary affirmative and negative covenants and events of default such as compliance with annual audited and quarterly unaudited financial statements disclosures. Upon an event of default, the Term Agent will have the right to declare the term loans and other obligations outstanding immediately due and payable and all commitments immediately terminated or reduced, subject to cure periods and grace periods set forth in the Term Loan Facility.

The obligations under the Revolving Facility and the Term Loan Facility are governed by a customary intercreditor agreement (the “Intercreditor Agreement”). The Intercreditor Agreement specifies that (i) the Term Loan Facility is secured by (a) a perfected first priority security interest in U.S. fixed assets and (b) a perfected second priority security interest in the U.S. liquid assets and accounts receivable, and (ii) the Revolving Facility is secured by (a) a perfected first priority security interest in the U.S. liquid assets and accounts receivable and (b) a perfected second priority security interest in U.S. fixed assets.

During fiscal year 2019, the Company had net payments of $200.0 million under the Term Loan Facility and the term loan under the Prior Credit Agreement. The Company had net borrowings of $28.0 million under the Revolving Facility and revolving credit loans under the Prior Credit Agreement during fiscal year 2019. Amounts available under the Revolving Facility were reduced by any amounts outstanding under standby Letters of Credit. As of December 28, 2019, the Company had available borrowing capacity of approximately $120.1 million under the Revolving Facility. The Company incurred approximately $22.6 million of interest expense under the Term Loan Facility and the term loan under the Prior Credit Agreement during fiscal year 2019. The Company incurred approximately $0.9 million of interest expense under the Revolving

Facility and revolving credit loans under the Prior Credit Agreement during fiscal year 2019. The Company incurred approximately $4.6 million of interest expense related to the amortization of debt issuance costs and the original issue discount during fiscal year 2019. At December 28, 2019 the Company was in compliance with all debt covenants related to the Company's credit facilities.

Foreign-Based. Fossil South Africa entered into a 25 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, 10.00% as of year end 2019. 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 $0.2 million as of December 28, 2019.

The Company's debt as of December 28, 2019, excluding finance lease obligations, matures as follows (in millions):

Less than 1 Year	$ 25.2
Year 2	22.5
Year 3	30.0
Year 4	22.5
Year 5	128.0
Principal amounts repayable	228.2
Debt issuance costs	(14.5)
Original issue discount	(11.2)
Total debt outstanding	$ 202.5

11. Other Income (Expense)—Net

Other income (expense)—net consisted of the following (in thousands):

Fiscal Year	2019	2018	2017
Interest income	$ 2,075	$ 2,605	$ 4,729
Contingent consideration remeasurement	601	3,381	—
Gain on interest rate swap	—	—	195
Equity in losses of unconsolidated investment	(371)	(558)	(460)
Extinguishment of debt	(3,044)	(718)	(1,029)
Gain on asset divestitures	23,134	—	1,750
Net currency (losses) gains	3,932	(5,820)	7,849
Other net gains	657	1,072	702
Other income (expense) - net	$ 26,984	$ (38)	$ 13,736

12. Taxes

Income Taxes. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the consolidated deferred tax assets and liabilities were (in thousands):

Fiscal Year	2019	2018
Deferred income tax assets:		
Bad debt allowance	$ 2,048	$ 1,974
Returns allowance	3,990	4,935
Inventory	6,856	4,519
Warranty liabilities	3,465	3,317
Markdown allowance	3,480	2,800
Compensation	11,998	18,772
Accrued liabilities	6,672	5,903
Deferred rent	—	7,996
Deferred income	3,582	5,706
Unrealized exchange gains (losses)	3,816	637
State income tax and interest on tax contingencies	887	1,189
Fixed assets	220	(8,009)
Trade names and customer lists	4,345	1,703
Goodwill	14,947	17,957
Foreign accruals	10,446	8,528
Loss carryforwards	32,158	31,582
Tax credit carryforwards	4,281	512
Capitalized R&D	8,362	2,546
Interest disallowance	16,683	9,642
Lease liabilities	82,511	—
Deferred income tax assets total	$ 220,747	$ 122,209
Deferred income tax liabilities:		
Tenant allowance	$ (801)	$ —
Other intangibles	(235)	(4,562)
Undistributed earnings of certain foreign subsidiaries	(329)	(541)
Right-of-use assets	(65,070)	—
Other	(45)	(32)
Deferred income tax liabilities total	$ (66,480)	$ (5,135)
Valuation allowance	(118,089)	(95,818)
Net deferred income tax assets	$ 36,178	$ 21,256
Net deferred income tax assets	$ 38,275	$ 23,695
Net deferred income tax liabilities	(2,097)	(2,439)
Net deferred income tax assets	$ 36,178	$ 21,256

Operating Loss Carryforwards. The balance sheet includes $27.8 million of deferred tax assets for net operating losses of foreign subsidiaries. The amounts and the fiscal year of expiration of the loss carryforwards are (in thousands):

Expires 2020 through 2024	$ 18,923
Expires 2025 through 2029	14,931
Expires 2030 through 2034	—
Expires 2035 through 2039	74,315
Indefinite	10,428
Total loss carryforwards	$ 118,597

The balance sheet includes $4.3 million of deferred tax assets for state income tax net operating losses. The state apportioned amounts and the fiscal year of expiration of the loss carryforwards are (in thousands):

Expires 2020 through 2024	$ 632
Expires 2025 through 2029	9,199
Expires 2030 through 2034	3,096
Expires 2035 through 2039	46,749
Indefinite	26,270
Total loss carryforwards	$ 85,946

The following table identifies income (loss) before income taxes for the Company's U.S. and non-U.S. based operations for the fiscal years indicated (in thousands):

Fiscal Year	2019	2018	2017
U.S	$ (142,141)	$ (102,810)	$ (517,227)
Non-U.S	110,810	122,980	63,473
Total	$ (31,331)	$ 20,170	$ (453,754)

The Company's provision for income taxes consisted of the following for the fiscal years indicated (in thousands):

Fiscal Year	2019	2018	2017
Current provision:			
U.S. federal	$ 2,338	$ (14,386)	$ 30,817
Non-U.S	28,109	35,854	40,423
State and local	(2,330)	(2,056)	(2,055)
Total current	28,117	19,412	69,185
Deferred provision (benefit):			
U.S. federal	—	—	(45,990)
Non-U.S	(9,436)	1,696	(3,770)
State and local	—	—	380
Total deferred	(9,436)	1,696	(49,380)
Provision for income taxes	$ 18,681	$ 21,108	$ 19,805

A reconciliation of the U.S. federal statutory income tax rates to the Company's effective tax rate is as follows:

Fiscal Year	2019	2018	2017
Tax at statutory rate	21.0 %	21.0%	35.0 %
Permanent differences	(2.0)	(0.2)	(0.1)
State, net of federal tax benefit	17.6	(3.8)	1.0
Foreign rate differential	12.8	(12.3)	3.7
Withholding taxes	(11.1)	16.3	—
GILTI Tax-net of foreign tax credits	(24.2)	11.8	—
U.S. tax on foreign income-net of foreign tax credits	0.3	6.4	(1.7)
Income tax contingencies	3.2	(5.0)	(0.1)
Valuation allowances	(53.2)	65.0	(12.5)
Repatriation tax - net impact	—	5.9	(7.4)
Deficiencies on employee stock awards	(10.9)	10.1	(0.9)
Non-deductible goodwill impairment	—	—	(15.2)
Tax reform rate reduction impact on deferred tax assets	—	(15.8)	(6.2)
Foreign deferred tax rate change	(4.5)	—	—
Non deductible foreign equity awards	(3.2)	5.3	(0.5)
Non deductible officer compensation	(3.7)	—	—
Tax exempt foreign capital gain income	6.3	—	—
Deferred adjustment	(8.0)	—	—
Other	—	—	0.5
Provision for income taxes	(59.6)%	104.7%	(4.4)%

On December 22, 2017, the U.S. government enacted comprehensive tax legislation that significantly revised the Internal Revenue Code of 1986, including a corporate income tax rate reduction from 35% to 21%, under the Tax Act. The Tax Act contained significant changes in the taxation of foreign income earned by U.S. shareholders, specifically the new GILTI provisions requiring the taxation of certain foreign earnings in U.S. taxable income. The intent behind the legislation was to increase a corporation’s U.S. taxable income by any low-taxed foreign income earned by its subsidiaries. Instead, the statute was written such that corporate shareholders of foreign corporations must include all foreign income in their taxable income. If the corporate shareholder has a domestic source loss, the benefits of carrying that loss forward to future tax returns are lost if the included foreign income exceeds the domestic loss.

The Company records a valuation allowance against its deferred tax assets when recovery of those amounts on a jurisdictional basis is not more likely than not. In addition, the Company's valuation allowance analysis is affected by various aspects of the Tax Act, including the limitation on the deductibility of interest expense and planning initiatives to defer deductions to mitigate the impact of the GILTI. During fiscal year 2019, the Company accrued valuation allowances of $28.5 million on net U.S. deferred tax assets and $(6.2) million on net foreign deferred tax assets, including $6.6 million recorded directly to equity. The total valuation allowance of $118.1 million at December 28, 2019 is comprised of $85.0 million and $33.1 million attributable to the U.S. and foreign operations, respectively.

The Company will not indefinitely reinvest $279.1 million of previously taxed but undistributed earnings of its foreign subsidiaries as of December 28, 2019. Since under the Tax Act there will be no additional federal income tax when these amounts are repatriated, and the foreign jurisdictions within which these earnings are held do not impose a withholding tax on dividends, the Company has only accrued U.S. state income taxes on these earnings. Deferred U.S. federal and state income taxes and foreign taxes are not recorded on the remaining $481.6 million of undistributed earnings of foreign subsidiaries where management plans to continue reinvesting these earnings outside the U.S. As the majority of these earnings have previously been taxed in the U.S., the distribution of the earnings considered indefinitely reinvested would generally be subject only to local country withholding and U.S. state income taxes when distributed, the amount of which is not material.

The total amount of unrecognized tax benefits, excluding interest and penalties that would favorably impact the effective tax rate in future periods if recognized, was $35.7 million, $33.5 million and $33.0 million for fiscal years 2019, 2018 and 2017, respectively. The U.S. Internal Revenue Service has completed examinations of the Company's federal income tax returns through 2013. Fiscal years 2016-2018 remain open for federal income tax examination. The Company is also subject to examinations in various state and foreign jurisdictions for its 2011-2018 tax years, none of which the Company believes are significant, individually or in the aggregate. Tax audit outcomes and timing of tax audit settlements are subject to significant uncertainty.

The Company has classified uncertain tax positions as long-term income taxes payable unless such amounts are expected to be paid within twelve months from December 28, 2019. As of December 28, 2019, the Company had recorded $11.4 million of unrecognized tax benefits, excluding interest and penalties, for positions that could be settled or not assessed within the next twelve months. Consistent with its past practice, the Company recognizes interest and/or penalties related to income tax overpayments and income tax underpayments in income tax expense and income taxes receivable/payable, respectively. The total amount of accrued income tax-related interest in the Company's consolidated balance sheets was $4.8 million and $3.7 million at December 28, 2019 and December 29, 2018, respectively. The total amount of accrued income tax-related penalties in the Company's consolidated balance sheets was $1.0 million and $1.0 million at December 28, 2019 and December 29, 2018, respectively. The Company accrued income tax-related interest expense of $1.2 million, $0.8 million and $0.5 million in fiscal years 2019, 2018 and 2017, respectively.

The following is a tabular reconciliation of the total amounts of unrecognized tax benefits for the fiscal years indicated (in thousands):

Fiscal Year	2019	2018	2017
Balance at beginning of year	$ 39,909	$ 35,355	$ 23,399
Gross increases—tax positions in prior years	6,639	7,183	2,104
Gross decreases—tax positions in prior years	(4)	(124)	(845)
Gross increases—tax positions in current year	184	576	13,444
Settlements	(1,901)	—	(81)
Lapse in statute of limitations	(8,912)	(2,980)	(2,706)
Change due to currency revaluation	(239)	(101)	40
Balance at end of year	$ 35,676	$ 39,909	$ 35,355

13. Leases

The Company's leases consist primarily of retail space, offices, warehouses, distribution centers, equipment and vehicles. The Company determines if an agreement contains a lease at inception based on the Company's right to the economic benefits of the leased assets and its right to direct the use of the leased asset. ROU assets represent the Company's right to use an underlying asset, and ROU liabilities represent the Company's obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at the lease commencement date based on the present value of the lease payments over the lease term. As the Company's leases do not provide an implicit rate, the Company uses its estimated collateralized incremental borrowing rate, which is based on the yield curve for the respective lease terms and adjusted for each lease country to determine the present value of the lease payments.

Some leases include one or more options to renew at the Company's discretion, with renewal terms that can extend the lease from one to ten additional years. The renewal options are not included in the measurement of ROU assets and ROU liabilities unless the Company is reasonably certain to exercise the optional renewal periods. Short-term leases are leases having a term of twelve months or less at inception. The Company does not record a related lease asset or liability for short-term leases. The Company has certain leases containing lease and non-lease components which are accounted for as a single lease component. The Company has certain lease agreements where lease payments are based on a percentage of retail sales over contractual levels and others include rental payments adjusted periodically for inflation. The variable portion of these lease payments is not included in the Company's lease liabilities. The Company's lease agreements do not contain any significant restrictions or covenants other than those that are customary in such arrangements.

The components of lease expense were as follows (in thousands):

Lease Cost	Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) Location	Fiscal Year 2019	
Operating lease cost[1]	SG&A	$	117,932
Finance lease cost:			
Amortization of ROU assets	SG&A	$	475
Interest on lease liabilities	Interest expense	$	38
Short-term lease cost	SG&A	$	1,302
Variable lease cost	SG&A	$	36,476

[1]Includes sublease income, which was immaterial.

The following table discloses supplemental balance sheet information for the Company’s leases (in thousands):

Leases	Consolidated Balance Sheets Location	December 28, 2019	
Assets			
Operating	Operating lease right-of-use assets	$	288,166
Finance	Property, plant and equipment - net of accumulated depreciation of $4,015	$	5,918
Liabilities			
Current:			
Operating	Current operating lease liabilities	$	68,838
Finance	Short-term and current portion of long-term debt	$	1,011
Noncurrent:			
Operating	Long-term operating lease liabilities	$	288,689
Finance	Long-term debt	$	1,468

The following table discloses the weighted-average remaining lease term and weighted-average discount rate for the Company's leases:

Lease Term and Discount Rate	December 28, 2019
Weighted-average remaining lease term:	
Operating leases	6.1 years
Finance leases	2.3 years
Weighted-average discount rate:	
Operating leases	13.9%
Finance leases	1.2%

Future minimum lease payments by year as of December 28, 2019 were as follows (in thousands):

Fiscal Year	Operating Leases	Finance Leases
2020	$ 116,778	$ 1,042
2021	94,795	978
2022	81,536	488
2023	64,582	—
2024	45,846	—
Thereafter	153,255	—
Total lease payments	$ 556,792	$ 2,508
Less: Interest	199,265	30
Total lease obligations	$ 357,527	$ 2,478

Future minimum lease payments by year as of December 29, 2018 were as follows (in thousands):

Fiscal Year	Operating Leases	Finance Leases
2019	$ 135,025	$ 951
2020	105,668	947
2021	84,230	947
2022	73,928	696
2023	61,710	—
Thereafter	186,201	—
Total lease payments	$ 646,762	$ 3,541
Less: Interest		84
Finance lease obligations		$ 3,457

Supplemental cash flow information related to leases was as follows (in thousands):

	Fiscal Year 2019
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	$ 116,846
Operating cash flows from finance leases	38
Financing cash flows from finance leases	945
Leased assets obtained in exchange for new finance lease liabilities	83
Leased assets obtained in exchange for new operating lease liabilities	41,510

As of December 28, 2019, the Company did not have any material operating or finance leases that have been signed but not commenced.

14. Commitments and Contingencies

License Agreements. The Company has various license agreements to market watches and jewelry bearing certain trademarks or incorporating certain technology owned by third parties. In accordance with these agreements, the Company incurred royalty expense of approximately $161.8 million, $173.0 million and $190.0 million in fiscal years 2019, 2018 and 2017, respectively. These amounts are included in the Company's cost of sales or, if advertising-related, in SG&A. These license agreements have expiration dates between years 2020 and 2028 and require the Company to pay royalties ranging from 7% to 15% of defined net sales. The Company has future minimum royalty commitments through fiscal year 2028 under these license agreements as follows by fiscal year (in thousands):

Fiscal Year	Minimum Royalty Commitments
2020	$ 133,129
2021	18,252
2022	18,912
2023	19,573
2024	19,035
Thereafter	24,751
Total	$ 233,652

These minimum royalty commitments do not include amounts owed under these license agreements for obligations of the Company to pay the licensors a percentage of net sales of these licensed products.

Purchase Obligations. As of December 28, 2019, the Company had purchase obligations totaling $333.7 million that consisted primarily of open non-cancelable purchase orders.

Asset Retirement Obligations. ASC 410, *Asset Retirement and Environmental Obligations* requires (i) that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made and (ii) that the associated asset retirement costs be capitalized as part of the carrying amount of the long-lived asset. The Company's asset retirement obligations relate to costs associated with the retirement of leasehold improvements under office leases and retail store leases within the Americas, Europe and Asia segments.

The following table summarizes the changes in the Company's asset retirement obligations (in thousands):

Fiscal Year	2019	2018
Beginning asset retirement obligation	$ 11,862	$ 13,086
Liabilities incurred during the period	563	166
Liabilities settled during the period	(681)	(1,150)
Accretion expense	366	366
Currency translation	(17)	(606)
Ending asset retirement obligations	$ 12,093	$ 11,862

Litigation. 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.

15. Stockholders' Equity

Common and Preferred Stock. The Company has 100,000,000 shares of common stock, par value $0.01 per share, authorized, with 50,516,477 and 49,517,817 shares issued and outstanding at fiscal year-end 2019 and 2018, respectively. The Company has 1,000,000 shares of preferred stock, par value $0.01 per share, authorized, with none issued or outstanding at fiscal year-end 2019 and 2018. Rights, preferences and other terms of preferred stock will be determined by the Board of Directors at the time of issuance.

Common Stock Repurchase Programs. Purchases of the Company's common stock have been made from time to time pursuant to its repurchase programs, subject to market conditions and at prevailing market prices, through the open market. Repurchased shares of common stock are recorded at cost and become authorized but unissued shares which may be issued in the future for general corporate or other purposes. In the event the repurchased shares are canceled, the Company accounts for retirements by allocating the repurchase price to common stock, additional paid-in capital and retained earnings. The repurchase price allocation is based upon the equity contribution associated with historical issuances. The repurchase programs have been conducted pursuant to Rule 10b-18 of the Securities Exchange Act of 1934.

During the period from December 2012 to the end of fiscal year 2019, the Company repurchased approximately $1.2 billion of its common stock, representing approximately 11.8 million shares. At December 28, 2019 and December 29, 2018, all treasury stock had been effectively retired. As of December 28, 2019, the Company had $30.0 million of repurchase authorizations remaining under its repurchase plan.

Noncontrolling Interest. The Company entered into an agreement to purchase the outstanding minority interest shares in Fossil South Africa, representing the entire noncontrolling interest in the subsidiary. The purchase price is based on variable payments through fiscal year 2021, the present value of which the Company has measured at $1.1 million as of December 28, 2019. The Company made payments of $1.2 million during fiscal year 2019 towards the purchase price. The transaction was accounted for as an equity transaction. The Company recorded $0.5 million of the variable consideration in accrued expenses-other and $0.6 million in other long-term liabilities in the consolidated balance sheets at December 28, 2019.

16. Employee Benefit Plans

Deferred Compensation and Savings Plans. The Company has a defined contribution savings plan (the "401(k) Plan") for substantially all U.S.-based full-time employees of the Company, which includes a Roth 401(k) option. The Company's common stock is one of several investment alternatives available under the 401(k) Plan. The Company has a discretionary match for the 401(k) Plan. After 90 days of service (minimum of 250 hours worked), the Company matches 50% of employee contributions up to 8% of their compensation. Matching contributions made by the Company to the 401(k) Plan totaled approximately $3.2 million, $2.8 million and $2.9 million for fiscal years 2019, 2018 and 2017, respectively. The Company also has the right to make additional matching contributions not to exceed 15% of employee compensation. The Company did not make any additional matching contributions during fiscal years 2019, 2018 and 2017.

Under the Fossil Group, Inc. and Affiliates Deferred Compensation Plan (the "Deferred Plan") eligible participants may elect to defer up to 50% of their salary or up to 100% of any bonuses paid pursuant to the terms and conditions of the Deferred Plan. In addition, the Company may make employer contributions to participants under the Deferred Plan from time to time. The Company made no contributions to the Deferred Plan during fiscal years 2019, 2018 and 2017. In prior periods, the Company made payments pursuant to the Deferred Plan into a Rabbi Trust. The funds held in the Rabbi Trust are directed to certain investments available through life insurance products. The Company had assets of $5.2 million and $4.4 million related to the Company's invested balances recorded in intangible and other assets—net and liabilities of $4.6 million and $3.9 million related to the participants' invested balances recorded in accrued expenses—other, each on the Company's consolidated balance sheets at the end of fiscal years 2019 and 2018, respectively.

Stock-Based Compensation Plans. The Company’s grants under its current stock-based compensation plans generally include: (i) stock options, restricted stock units, and performance restricted stock units for its international employees, (ii) restricted stock units for its nonemployee directors, and (iii) stock appreciation rights, performance stock appreciation rights, restricted stock, restricted stock units, and performance restricted stock units for its U.S.-based employees. As of December 28, 2019, the Company had approximately $18.7 million of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Company's stock based compensation plans. This cost is expected to be recognized over a weighted-average period of approximately 1.4 years. All time-based or performance-based stock appreciation rights and restricted stock units are settled in shares of the Company's common stock.

Long-Term Incentive Plans. An aggregate of 3,000,000 shares of the Company's common stock were reserved for issuance pursuant to the Company's 2016 Long-Term Incentive Plan ("2016 LTIP"), adopted in March 2016. Pursuant to the First Amendment to the Company’s 2016 Long-Term Incentive Plan, which was approved by our shareholders on May 23, 2018, the number of shares of the Company’s common stock authorized for issuance under the Company’s 2016 Long-Term Incentive Plan, as amended (the “2016 Plan”), was increased from 3,000,000 to 10,288,468, such additional shares consisting of (i) 5,000,000 additional shares of common stock and (ii) up to 2,288,468 shares of common stock subject to awards under the

Company’s 2008 Long-Term Incentive Plan (the “2008 Plan”) that were outstanding on March 31, 2018 and, on or after March 31, 2018, are forfeited, expire or are canceled.

Under the 2016 Plan, designated employees of the Company, including officers, certain contractors, and outside directors of the Company, are eligible to receive (i) stock options, (ii) stock appreciation rights, (iii) restricted or non-restricted stock awards, (iv) restricted stock units, (v) performance awards, (vi) cash awards, or (vii) any combination of the foregoing. The 2016 Plan is administered by the Compensation Committee of the Company's Board of Directors (the "Compensation Committee"). Each award issued under the 2016 Plan terminates at the time designated by the Compensation Committee, not to exceed ten years. The current outstanding stock options, stock appreciation rights, performance stock appreciation rights, restricted stock, restricted stock units and performance restricted stock units issued under the 2016 Plan predominantly have original vesting periods of three years. Time-based or performance-based stock appreciation rights and restricted stock units are predominately settled in shares of the Company's common stock. On the date of the Company’s annual stockholders meeting, each nonemployee director automatically receives restricted stock units with a fair market value of approximately $130,000, which vest 100% on the earlier of one year from the date of grant or the date of the Company's next annual stockholders meeting, provided such director is providing services to the Company or a subsidiary of the Company on that date. Notwithstanding the foregoing, the Company’s Board of Directors elected to take a one-time 25% reduction of such annual grant in 2019 and 2018, and each nonemployee director thus received a grant on May 22, 2019 of restricted stock units with a fair market value of approximately $97,500.

Stock Options, Stock Appreciation Rights and Performance Stock Appreciation Rights. The fair value of stock options, stock appreciation rights and performance stock appreciation rights granted under the Company's stock-based compensation plans were estimated on the date of grant using the Black-Scholes option pricing model.

The expected term of the stock options represents the estimated period of time until exercise and is based on historical experience of similar awards. Expected stock price volatility is based on the historical volatility of the Company’s common stock. The risk-free interest rate is based on the implied yield available on U.S. Treasury securities with an equivalent remaining term. The Company did not issue stock options, stock appreciation rights and performance stock appreciation rights in fiscal years 2019, 2018 and 2017.

The following table summarizes stock option, stock appreciation rights and performance stock appreciation rights activity:

Stock Options and Stock Appreciation Rights	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
	in thousands			in thousands
Outstanding at December 31, 2016	2,287	$ 50.58	6.2	$ 627
Granted	—	—		
Exercised	(13)	13.65		35
Forfeited or expired	(97)	67.99		
Outstanding at December 30, 2017	2,177	50.01	5.3	—
Granted	—	—		
Exercised	(21)	14.46		37
Forfeited or expired	(226)	59.58		
Outstanding at December 29, 2018	1,930	49.25	1.3	37
Granted	—	—		
Exercised	(13)	13.65		18
Forfeited or expired	(1,408)	39.84		
Outstanding at December 28, 2019	509	76.13	2.5	—
Exercisable at December 28, 2019	509	$ 76.13	2.5	$ —

The aggregate intrinsic value in the table above is before income taxes and is based on the exercise price for outstanding and exercisable options/rights at December 28, 2019 and based on the fair market value of the Company's common stock on the exercise date for options/rights that were exercised during the fiscal year.

Stock Options, Stock Appreciation Rights and Performance Stock Appreciation Rights Outstanding and Exercisable. The following tables summarize information with respect to stock options, stock appreciation rights and performance stock appreciation rights outstanding and exercisable at December 28, 2019:

	Stock Options Outstanding			Stock Options Exercisable	
Range of Exercise Prices	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Number of Shares	Weighted-Average Exercise Price
	in thousands			in thousands	
$29.49 - $47.99	33	38.40	0.2	33	38.40
$55.04 - $83.83	64	81.40	1.2	64	81.40
$95.91 - $131.46	87	128.04	2.1	87	128.04
Total	184	$ 95.63	1.5	184	$ 95.63

	Stock Appreciation Rights Outstanding			Stock Appreciation Rights Exercisable	
Range of Exercise Prices	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Number of Shares	Weighted-Average Exercise Price
	in thousands			in thousands	
$29.49 - $47.99	182	42.30	3.8	182	42.30
$55.04 - $83.83	77	78.92	2.5	77	78.92
$95.91 - $131.46	66	111.90	1.6	66	111.90
Total	325	$ 65.08	3.0	325	$ 65.08

Restricted Stock, Restricted Stock Units and Performance Restricted Stock Units. The following table summarizes restricted stock, restricted stock unit and performance restricted stock unit activity:

Restricted Stock, Restricted Stock Units and Performance Restricted Stock Units	Number of Shares	Weighted-Average Grant Date Fair Value Per Share
	in thousands	
Nonvested at December 31, 2016	1,405	$ 40.41
Granted	2,381	14.81
Vested	(479)	44.79
Forfeited	(326)	25.62
Nonvested at December 30, 2017	2,981	$ 20.84
Granted	1,456	14.35
Vested	(1,040)	25.21
Forfeited	(386)	19.87
Nonvested at December 29, 2018	3,011	$ 17.86
Granted	1,008	13.01
Vested	(1,293)	17.92
Forfeited	(397)	21.49
Nonvested at December 28, 2019	2,329	$ 15.16

The total fair value of shares/units vested during fiscal years 2019, 2018 and 2017 was $17.6 million, $16.6 million and $6.3 million, respectively.

Other Retirement Plans. The Company maintains a defined benefit plan for its employees located in Switzerland. The plan is funded through payments to an insurance company. The payments are determined by periodic actuarial calculations. During fiscal years 2019, 2018 and 2017, the Company recorded pension gains (expenses) of $0.7 million, $(0.6) million and $(1.8) million, respectively, related to this plan. The liability for the Company's defined benefit plan was $17.0 million and $9.5 million at the end of fiscal years 2019 and 2018, respectively. This liability is recorded in other long-term liabilities on the Company's consolidated balance sheets.

Under French law, the Company is required to maintain a defined benefit plan for its employees located in France, which is referred to as a "retirement indemnity." The amount of the retirement indemnity is based on the employee's last salary and duration of employment with the Company. The employee's right to receive the retirement indemnity is subject to the employee remaining with the Company until retirement. During fiscal years 2019, 2018 and 2017, the Company recorded pension gains (expenses) of $(0.4) million, $0.4 million and $0.7 million, respectively, for its retirement indemnity obligations. The liability for the Company's retirement indemnity was $1.2 million and $0.8 million at the end of fiscal years 2019 and 2018, respectively. This liability is recorded in other long-term liabilities on the Company's consolidated balance sheets.

17. Supplemental Cash Flow Information

The following table summarizes supplemental cash flow information (in thousands):

Fiscal Year	2019	2018	2017
Cash paid during the year for:			
Interest	$ 25,310	$ 38,855	$ 43,245
Income taxes, net of refunds	$ 18,025	$ 28,460	$ 36,571
Supplemental disclosures of non-cash investing and financing activities:			
Additions to property, plant and equipment included in accounts payable	$ 2,060	$ 3,868	$ 2,300
Additions to property, plant and equipment acquired under finance leases	$ 83	$ —	$ —

18. Supplemental Disclosure for Accumulated Other Comprehensive Income (Loss)

The following table illustrates changes in the balances of each component of accumulated other comprehensive income (loss), net of taxes (in thousands):

	December 28, 2019			
		Cash Flow Hedges		
	Currency Translation Adjustments	Forward Contracts	Pension Plan	Total
Beginning balance	$ (74,868)	$ 8,582	$ 1,595	$ (64,691)
Other comprehensive income (loss) before reclassifications	(5,606)	6,510	(5,165)	(4,261)
Tax (expense) benefit	—	(450)	446	(4)
Amounts reclassed from accumulated other comprehensive income (loss)	—	12,688	—	12,688
Tax (expense) benefit	—	(1,029)	—	(1,029)
Total other comprehensive income (loss)	(5,606)	(5,599)	(4,719)	(15,924)
Ending balance	$ (80,474)	$ 2,983	$ (3,124)	$ (80,615)

	December 29, 2018			
		Cash Flow Hedges		
	Currency Translation Adjustments	Forward Contracts	Pension Plan	Total
Beginning balance	$ (64,499)	$ (10,098)	$ (1,672)	$ (76,269)
Other comprehensive income (loss) before reclassifications	(10,369)	18,044	3,757	11,432
Tax (expense) benefit	—	—	(490)	(490)
Amounts reclassed from accumulated other comprehensive income (loss)	—	(4,283)	—	(4,283)
Tax (expense) benefit	—	1,654	—	1,654
Total other comprehensive income (loss)	(10,369)	20,673	3,267	13,571
Adoption of ASU 2018-02	—	(1,993)	—	(1,993)
Ending balance	$ (74,868)	$ 8,582	$ 1,595	$ (64,691)

	December 30, 2017				
		Cash Flow Hedges			
	Currency Translation Adjustments	Forward Contracts	Interest Rate Swaps	Pension Plan	Total
Beginning balance	$ (101,867)	$ 10,693	$ (343)	$ (3,907)	$ (95,424)
Other comprehensive income (loss) before reclassifications	37,368	(34,873)	437	2,677	5,609
Tax (expense) benefit	—	9,785	(159)	(442)	9,184
Amounts reclassed from accumulated other comprehensive income (loss)	—	(1,076)	(214)	—	(1,290)
Tax (expense) benefit	—	(3,221)	149	—	(3,072)
Total other comprehensive income (loss)	37,368	(20,791)	343	2,235	19,155
Ending balance	$ (64,499)	$ (10,098)	$ —	$ (1,672)	$ (76,269)

FOSSIL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19. Major Customer, Segment and Geographic Information

Major Customer

Wholesale customers of the Company consist principally of major department stores and specialty retail stores located throughout the world. No individual customer accounts for 10% or more of the Company's net sales.

Segment Information

The Company reports segment information based on the "management approach". The management approach designates the internal reporting used by management for making decisions and assessing performance as the source of the Company's reportable segments.

The Company manages its business primarily on a geographic basis. The Company's reportable operating segments are comprised of (i) Americas, (ii) Europe and (iii) Asia. Each reportable operating segment includes sales to wholesale and distributor customers, and sales through Company-owned retail stores and e-commerce activities based on the location of the selling entity. The Americas segment primarily includes sales to customers based in Canada, Latin America and the United States. The Europe segment primarily includes sales to customers based in European countries, the Middle East and Africa. The Asia segment primarily includes sales to customers based in Australia, China (including Hong Kong, Macau and Taiwan), India, Indonesia, Japan, Malaysia, New Zealand, Singapore, South Korea and Thailand. Each reportable operating segment provides similar products and services.

The Company evaluates the performance of its reportable segments based on net sales and operating income (loss). Net sales for geographic segments are based on the location of the selling entity. Operating income (loss) for each segment includes net sales to third parties, related cost of sales and operating expenses directly attributable to the segment. Corporate includes peripheral revenue generating activities from factories and intellectual property and general corporate expenses, including 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 that are not allocated to the various segments because they are managed at the corporate level internally. The Company does not include intercompany transfers between segments for management reporting purposes.

Summary information by operating segment was as follows (in thousands):

	Fiscal Year 2019				
	Net Sales	Operating Income (Loss)	Depreciation and Amortization	Long-term Assets	Total Assets
Americas	$ 949,965	$ 66,703	$ 15,104	$ 164,097	$ 474,428
Europe	715,494	88,323	15,099	171,952	406,603
Asia	535,156	101,209	6,724	89,434	298,034
Corporate	17,097	(284,618)	16,515	119,791	425,667
Consolidated	$ 2,217,712	$ (28,383)	$ 53,442	$ 545,274	$1,604,732

	Fiscal Year 2018				
	Net Sales	Operating Income (Loss)	Depreciation and Amortization	Long-term Assets	Total Assets
Americas	$ 1,174,507	$ 185,094	$ 16,542	$ 61,914	$ 393,273
Europe	856,291	129,610	18,933	99,253	353,797
Asia	505,473	87,515	8,016	29,990	173,666
Corporate	5,217	(339,508)	23,588	125,472	654,462
Consolidated	$ 2,541,488	$ 62,711	$ 67,079	$ 316,629	$1,575,198

FOSSIL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Fiscal Year 2017				
	Net Sales	Operating Income	Depreciation and Amortization	Long-term Assets	Total Assets
Americas	$ 1,314,348	$ (47,836)	$ 21,214	$ 81,444	$ 463,175
Europe	971,820	32,871	21,368	113,621	471,375
Asia	496,392	(12,490)	10,798	33,160	216,660
Corporate	5,603	(396,821)	28,197	139,159	507,162
Consolidated	$ 2,788,163	$ (424,276)	$ 81,577	$ 367,384	$ 1,658,372

The following table shows revenue for each class of similar products for fiscal years 2019, 2018 and 2017 (in thousands):

	Fiscal Year 2019		Fiscal Year 2018		Fiscal Year 2017	
	Net Sales	Percentage of Total	Net Sales	Percentage of Total	Net Sales	Percentage of Total
Watches	$1,802,481	81.3%	$2,033,021	80.0%	$2,199,031	78.9%
Leathers	238,619	10.8	289,385	11.4	325,502	11.7
Jewelry	123,177	5.6	167,775	6.6	211,694	7.6
Other	53,435	2.3	51,307	2.0	51,936	1.8
Total	$2,217,712	100.0%	$2,541,488	100.0%	$2,788,163	100.0%

Geographic Information

Net sales and long-lived assets related to the Company's operations in the U.S., Europe, Asia and all other international markets were as follows (in thousands):

	Fiscal Year 2019	
	Net Sales (1)	Long-term Assets
United States	$ 819,825	$ 239,032
Europe	718,216 (2)	184,507
Asia	537,503	99,565
All other international	142,168	22,170
Consolidated	$ 2,217,712	$ 545,274

	Fiscal Year 2018	
	Net Sales (1)	Long-term Assets
United States	$ 1,017,919	$ 159,062
Europe	857,972 (2)	111,964
Asia	507,523	36,945
All other international	158,074	8,658
Consolidated	$ 2,541,488	$ 316,629

FOSSIL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Fiscal Year 2017	
	Net Sales [1]	Long-term Assets
United States	$ 1,157,568	$ 189,209
Europe	974,198 [2]	127,344
Asia	497,816	40,874
All other international	158,581	9,957
Consolidated	$ 2,788,163	$ 367,384

(1) Net sales are based on the location of the selling entity (including exports).

(2) Net sales from Germany (including exports) accounted for more than 10% of the Company's consolidated net sales and were approximately $310.1 million, $359.9 million and $406.2 million in fiscal years 2019, 2018 and 2017, respectively.

20. Restructuring

The Company implemented a multi-year restructuring program that began in fiscal year 2016 called New World Fossil ("NWF 1.0") and concluded in the third quarter of fiscal 2019. As part of NWF 1.0, the Company worked to improve operating profit and support sales growth through a leaner infrastructure and an enhanced business model. Restructuring costs under the program included store impairment, lease exit obligations and termination fees and accelerated depreciation. Total restructuring charges under NWF 1.0 since inception in fiscal year 2016 are $133.4 million, of which $10.8 million, $46.6 million and $48.2 million were recorded during fiscal years 2019, 2018 and 2017, respectively.

The following tables show a rollforward of the accrued liability related to the Company's NWF 1.0 restructuring plan (in thousands):

	Fiscal Year 2019				
	Liabilities December 29, 2018	Charges	Cash Payments	Non-cash Items	Liabilities December 28, 2019
Store closures	$ 2,818	$ 2,971	$ 1,673	$ 2,253	$ 1,863
Professional services	2,198	485	1,368	—	1,315
Severance and employee-related benefits	3,011	7,349	7,460	2,368	532
Total	$ 8,027	$ 10,805	$ 10,501	$ 4,621	$ 3,710

	Fiscal Year 2018				
	Liabilities December 30, 2017	Charges	Cash Payments	Non-cash Items	Liabilities December 29, 2018
Store closures	$ 2,973	$ 14,906	$ 14,141	$ 920	$ 2,818
Professional services	185	12,439	10,426	—	2,198
Severance and employee-related benefits	1,317	19,285	12,259	5,332	3,011
Total	$ 4,475	$ 46,630	$ 36,826	$ 6,252	$ 8,027

	Fiscal Year 2017				
	Liabilities December 31, 2016	Charges	Cash Payments	Non-cash Items	Liabilities December 30, 2017
Store closures	$ 4,546	$ 13,045	$ 6,636	$ 7,982	$ 2,973
Professional services and other	794	3,507	2,618	1,498	185
Severance and employee-related benefits	—	31,619	29,098	1,204	1,317
Total	$ 5,340	$ 48,171	$ 38,352	$ 10,684	$ 4,475

NWF 1.0 restructuring charges by operating segment were as follows (in thousands):

	2019	2018	2017
Americas	$ 2,941	$ 17,197	$ 12,964
Europe	1,272	10,116	12,606
Asia	793	2,946	9,894
Corporate	5,799	16,371	12,707
Consolidated	$ 10,805	$ 46,630	$ 48,171

Additionally, during fiscal year 2019, the Company launched a new restructuring program, New World Fossil 2.0 ("NWF 2.0"), which is focused on optimizing the Company's operating structure to be more efficient, with faster decision-making and a more customer-centric focus. In addition to optimizing the way the Company goes to market, the Company is also pursuing additional gross margin expansion opportunities. The Company is taking a zero-based budgeting approach to adjust its business model to enable more investment in digital capabilities and marketing, move closer to the consumer and react more quickly to the ever-evolving consumer shopping patterns. The Company estimates total NWF 2.0 charges of up to approximately $130.0 million will be recorded. NWF 2.0 restructuring charges of $18.8 million were recorded during fiscal year 2019.

The following tables show a rollforward of the accrued liability related to the Company's NWF 2.0 restructuring plan (in thousands):

	Fiscal Year 2019				
	Liabilities December 29, 2018	Charges	Cash Payments	Non-cash Items	Liabilities December 28, 2019
Store closures	$ —	$ 597	$ —	$ 575	$ 22
Professional services and other	—	8,039	5,215	—	2,824
Severance and employee-related benefits	—	10,195	5,957	—	4,238
Total	$ —	$ 18,831	$ 11,172	$ 575	$ 7,084

NWF 2.0 restructuring charges by operating segment were as follows (in thousands):

	2019
Americas	$ 2,048
Europe	9,333
Asia	773
Corporate	6,677
Consolidated	$ 18,831

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We conducted an evaluation of the effectiveness of our "disclosure controls and procedures" ("Disclosure Controls"), as defined by Rules 13a-15(e) and 15d-15(e) of the Exchange Act as of December 28, 2019, the end of the period covered by this Annual Report on Form 10-K. The Disclosure Controls evaluation was done under the supervision and with the participation of management, including our CEO and CFO. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

Based upon this evaluation, our CEO and CFO have concluded that our Disclosure Controls were effective at the reasonable assurance level as of December 28, 2019.

Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the consolidated financial statements for external reporting purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of the effectiveness of internal control over financial reporting to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate over time.

Management, including our CEO and our CFO, assessed the effectiveness of the Company's internal control over financial reporting as of December 28, 2019. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control—Integrated Framework (2013)*. Based on its assessment and those criteria, management has concluded that the Company maintained effective internal control over financial reporting as of December 28, 2019.

Deloitte & Touche LLP, the independent registered public accounting firm that audited the Company's consolidated financial statements included in this Annual Report on Form 10-K, has issued an attestation report on the Company's internal control over financial reporting, which is included herein.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended December 28, 2019 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Fossil Group, Inc. and subsidiaries (the "Company") as of December 28, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 28, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements and financial statement schedule as of and for the year ended December 28, 2019 of the Company and our report, dated February 27, 2020, expressed an unqualified opinion on those consolidated financial statements and financial statement schedule and included an explanatory paragraph regarding the adoption of Accounting Standards Codification (ASC) Topic 842, "Leases", on December 30, 2018.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. 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 audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Deloitte & Touche LLP

Dallas, Texas
February 27, 2020

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information under the headings "Directors and Nominees," "Executive Officers," "Delinquent Section 16(a) Reports" and "Board Committees and Meetings" in our proxy statement to be filed with the SEC pursuant to Regulation 14A, not later than 120 days after the end of the fiscal year covered by this report, is incorporated herein by reference.

We have adopted a code of ethics that applies to all our directors and employees, including the principal executive officer, principal financial officer, principal accounting officer and controller. The full text of our Code of Conduct and Ethics is published on the Investors section of our website at *www.fossilgroup.com*. We intend to disclose any future amendments to certain provisions of the Code of Conduct and Ethics, or waivers of such provisions granted to executive officers and directors, on this website within five business days following the date of any such amendment or waiver.

Item 11. Executive Compensation

The information required in response to this Item is incorporated herein by reference to our proxy statement to be filed with the SEC pursuant to Regulation 14A, not later than 120 days after the end of the fiscal year covered by this report.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required in response to this Item is incorporated herein by reference to our proxy statement to be filed with the SEC pursuant to Regulation 14A, not later than 120 days after the end of the fiscal year covered by this report.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required in response to this Item is incorporated herein by reference to our proxy statement to be filed with the SEC pursuant to Regulation 14A, not later than 120 days after the end of the fiscal year covered by this report.

Item 14. Principal Accountant Fees and Services

The information required in response to this Item is incorporated herein by reference to our proxy statement to be filed with the SEC pursuant to Regulation 14A, not later than 120 days after the end of the fiscal year covered by this report.

PART IV

Item 15. Exhibits and Consolidated Financial Statement Schedules

(a) Documents filed as part of Report.

The exhibits required to be filed by this Item 15 are set forth in the Exhibit Index accompanying this report.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

February 27, 2020

FOSSIL GROUP, INC.

/s/ KOSTA N. KARTSOTIS

Kosta N. Kartsotis,
Chairman of the Board of Directors and Chief Executive Officer

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Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Capacity	Date
/s/ KOSTA N. KARTSOTIS Kosta N. Kartsotis	Chairman of the Board of Directors and Chief Executive Officer (Principal Executive Officer)	February 27, 2020
/s/ JEFFREY N. BOYER Jeffrey N. Boyer	Executive Vice President, Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)	February 27, 2020
/s/ MARK R. BELGYA Mark R. Belgya	Director	February 27, 2020
/s/ WILLIAM B. CHIASSON William B. Chiasson	Director	February 27, 2020
/s/ KIM H. JONES Kim H. Jones	Director	February 27, 2020
/s/ KEVIN MANSELL Kevin Mansell	Director	February 27, 2020
/s/ DIANE L. NEAL Diane L.Neal	Director	February 27, 2020
/s/ THOMAS M. NEALON Thomas M. Nealon	Director	February 27, 2020
/s/ JAMES E. SKINNER James E. Skinner	Director	February 27, 2020
/s/ GAIL B. TIFFORD Gail B. Tifford	Director	February 27, 2020
/s/ JAMES M. ZIMMERMAN James M. Zimmerman	Director	February 27, 2020

SCHEDULE II
FOSSIL GROUP, INC. AND SUBSIDIARIES
VALUATIONS AND QUALIFYING ACCOUNTS
Fiscal Years 2017, 2018 and 2019
(in thousands)

		Additions		Deductions	
Classification	Balance at Beginning of Period	Charged to Operations	Charged to Other Accounts	Actual Returns or Writeoffs	Balance at End of Period
Fiscal Year 2017:					
Account receivable allowances:					
Sales returns	$ 66,901	$ 148,814	$ —	$ 140,515	$ 75,200
Bad debts	$ 12,805	$ 7,140	$ —	$ 7,017	$ 12,928
Deferred tax asset valuation allowance	$ 19,415	$ 59,676	$ —	$ 777	$ 78,314
Fiscal Year 2018:					
Account receivable allowances:					
Bad debts	$ 12,928	$ 8,921	$ —	$ 7,848	$ 14,001
Markdowns	$ —	$ 37,904	$ 28,416	$ 47,301	$ 19,019
Sales returns	$ 75,200	$ 108,485	$ —	$ 116,553	$ 67,132
Deferred tax asset valuation allowance	$ 78,314	$ 13,102	$ 4,402	$ —	$ 95,818
Fiscal Year 2019:					
Account receivable allowances:					
Bad debts	$ 14,001	$ 2,921	$ —	$ 3,688	$ 13,234
Markdowns	$ 19,019	$ 49,915	$ —	$ 45,848	$ 23,086
Sales returns	$ 67,132	$ 139,350	$ —	$ 129,015	$ 77,467
Deferred tax asset valuation allowance	$ 95,818	$ 15,672	$ 6,599	$ —	$ 118,089

EXHIBIT INDEX

Exhibit Number		Description
3.1		Third Amended and Restated Certificate of Incorporation of Fossil Group, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on May 25, 2010).
3.2		Certificate of Amendment of the Third Amended and Restated Certificate of Incorporation of Fossil, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on May 28, 2013).
3.3		Fifth Amended and Restated Bylaws of Fossil Group, Inc. (incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K filed on April 3, 2017).
4.1	(1)	The description of Fossil Group, Inc.'s Common Stock.
10.1	(2)	Fossil Group, Inc. Savings and Retirement Plan (incorporated by reference to Exhibit 10.1 to the Company's Annual Report on Form 10-K filed on March 2, 2018).
10.2	(2)	Fossil Group, Inc. 2008 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 23, 2008).
10.3	(2)	Amendment Number One to the 2008 Long-Term Incentive Plan of Fossil Group, Inc. (incorporated by reference to Exhibit 10.23 to the Company's Annual Report on Form 10-K filed on February 29, 2012).
10.4	(2)	Amendment Number Two to the 2008 Long-Term Incentive Plan of Fossil Group, Inc. (incorporated by reference to Exhibit 10.24 to the Company's Annual Report on Form 10-K filed on February 29, 2012).
10.5	(2)	Amendment Number Three to the Fossil Group, Inc. 2008 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on May 7, 2015).
10.6	(2)	Third Amended and Restated Fossil Group, Inc. and Affiliates Deferred Compensation Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on December 21, 2010).
10.7		Master License Agreement dated as of August 30, 1994, by and between Fossil Group, Inc. and Fossil Partners, L.P. (incorporated by reference to Exhibit 10.6 to the Company's Annual Report on Form 10-K filed on March 2, 2011).
10.8		Agreement of Limited Partnership of Fossil Partners, L.P. (incorporated by reference to Exhibit 10.7 to the Company's Annual Report on Form 10-K filed on March 2, 2011).
10.9	(2)	Form of Stock Appreciation Rights Award (2012) under the Fossil Group, Inc. 2008 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on March 14, 2012).
10.10	(2)	Amendment to the Stock Appreciation Rights Award Under the Fossil Group, Inc. 2008 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed on August 11, 2016).
10.11	(2)	Restricted Stock Unit Award Under the Fossil Group, Inc. 2016 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q filed on August 11, 2016).
10.12	(2)	Stock Appreciation Rights Award Under the Fossil Group, Inc. 2016 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q filed on August 11, 2016).
10.13	(2)	Restricted Stock Unit Award Under the Fossil Group, Inc. 2016 Long-Term Incentive Plan for Performance Grants (incorporated by reference to Exhibit 10.6 to the Company's Quarterly Report on Form 10-Q filed on August 11, 2016).
10.14	(2)	Form of Executive Severance Agreement (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on January 8, 2016).
10.15	(2)	Fossil Group, Inc. 2015 Cash Incentive Plan (incorporated by reference to Exhibit 10.26 to the Company's Annual Report on Form 10-K filed on March 1, 2017).
10.16	(2)	Fossil Group, Inc. 2016 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.27 to the Company's Annual Report on Form 10-K filed on March 1, 2017).
10.17	(2)	Restricted Stock Unit Award under the Fossil Group, Inc. 2016 Long Term Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed November 9, 2017).
10.18	(2)	First Amendment to the Fossil Group, Inc. 2016 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed August 9, 2018).

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Exhibit Number		Description
10.19		Credit Agreement, dated as of September 26, 2019, by and among Fossil Group, Inc., Fossil Partners, L.P., Fossil Group Europe GmbH, Fossil Asia Pacific Limited, Fossil (Europe) GmbH, Fossil (UK) Limited, Fossil Canada Inc. and certain lenders party thereto, JPMorgan Chase Bank, N.A., as administrative agent and an issuing lender, J.P. Morgan AG, as French collateral agent, JPMorgan Chase Bank, N.A., Citizens Bank, N.A. and Wells Fargo Bank, National Association, as joint bookrunners and joint lead arrangers and Citizens Bank, N.A. and Wells Fargo Bank, National Association, as co-syndication agents (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on October 1, 2019).
10.20		Term Credit Agreement, dated as of September 26, 2019, by and among Fossil Group, Inc., certain lenders party thereto, JPMorgan Chase Bank, N.A, as administrative agent, and JPMorgan Chase Bank, N.A., Citizens Bank, National Association and Wells Fargo Securities, LLC, as joint lead arrangers and joint bookrunners (incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed on October 1, 2019).
10.21		Amendment No. 1 to the Term Credit Agreement, dated as of February 20, 2020, by and among Fossil Group, Inc., the lenders party thereto and JPMorgan Chase Bank, N.A., as administrative agent (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on February 26, 2020).
10.22		Fossil Group, Inc. 2020 Cash Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on January 3, 2020).
21.1	(1)	Subsidiaries of Fossil Group, Inc.
23.1	(1)	Consent of Independent Registered Public Accounting Firm.
31.1	(1)	Certification of Chief Executive Officer Pursuant to Section 302 of Sarbanes-Oxley Act of 2002.
31.2	(1)	Certification of Chief Financial Officer Pursuant to Section 302 of Sarbanes-Oxley Act of 2002.
32.1	(3)	Certification of Chief Executive Officer Pursuant to Section 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	(3)	Certification of Chief Financial Officer Pursuant to Section 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	(1)	Inline XBRL Instance Document.
101.SCH	(1)	Inline XBRL Taxonomy Extension Schema Document.
101.DEF	(1)	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.CAL	(1)	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB	(1)	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	(1)	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104		Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

(1) Filed herewith.
(2) Management contract or compensatory plan or arrangement.
(3) Furnished herewith.

EXHIBIT 4.1

DESCRIPTION OF THE REGISTRANT'S SECURITIES REGISTERED PURSUANT TO SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934

As of December 28, 2019, Fossil Group, Inc. (the "Company," "we," "us," and "our") had one class of securities registered under Section 12 of the Securities Exchange Act of 1934, as amended: our common stock, $0.01 par value per share ("Common Stock"). The Common Stock is listed on The Nasdaq Stock Market LLC under the symbol "FOSL."

Description of Capital Stock

The following is a description of the material terms of our capital stock. It does not purport to be complete and is subject to and qualified in its entirety by our Third Amended and Restated Certificate of Incorporation, or any supplement or amendment thereto (the "Certificate of Incorporation"), our Fifth Amended and Restated Bylaws, or any supplement or amendment thereto (the "Bylaws"), and the General Corporation Law of the State of Delaware ("DGCL"). Copies of the Certificate of Incorporation and Bylaws have been filed with the Securities and Exchange Commission as Exhibits 3.1, 3.2 and 3.3 to our Annual Report on Form 10-K.

Authorized Capital Stock

Under the Certificate of Incorporation, our authorized capital stock consists of:

- 100,000,000 shares of Common Stock; and
- 1,000,000 shares of undesignated preferred stock, par value $0.01 per share ("Preferred Stock").

As of December 28, 2019, we had 50,516,477 shares of Common Stock outstanding and no shares of Preferred Stock issued or outstanding. As of December 28, 2019, we had reserved approximately 10,288,468 additional shares of Common Stock for issuance under our long-term incentive plan.

Common Stock

The holders of Common Stock are entitled to one vote per share on all matters submitted to a vote of the stockholders. Unless otherwise required by law, the Certificate of Incorporation or the Bylaws, any question brought before any meeting of stockholders shall be decided by the vote of the holders of a majority of the stock present in person or represented by proxy and entitled to vote thereat. Each member of our board of directors (the "Board") shall be elected by the vote of the majority of the votes cast with respect to the director. Cumulative voting of shares of Common Stock is prohibited.

The holders of Common Stock are entitled to receive ratably such dividends, if any, as may be declared from time to time by the Board out of funds legally available therefor, subject to the payment of any preferential dividends with respect to any Preferred Stock that from time to time may be outstanding. In the event of the liquidation, dissolution or winding up of the Company, the holders of Common Stock are entitled to share ratably in all assets remaining after payment of liabilities, subject to prior distribution rights of the holders of any outstanding Preferred Stock. The holders of Common Stock have no preemptive or conversion rights or other subscription rights, and there are no redemptive or sinking fund provisions applicable to the Common Stock. All of the outstanding shares of Common Stock are fully paid and nonassessable. The rights, preferences and privileges of the holders of Common Stock are subject to, and may be adversely affected by, the rights of the holders of shares of any series of Preferred Stock that the Board may designate in the future.

Preferred Stock

The Board, without further action by the stockholders, is authorized to fix and determine as to any series of Preferred Stock any and all of the relative rights and preferences of shares in such series, including, without limitation, preferences, limitations or relative rights with respect to redemption rights, conversion rights, voting rights, dividend rights and preferences on liquidation.

Certain Provisions of the Certificate of Incorporation and Bylaws

The Certificate of Incorporation and Bylaws of the Company contain certain provisions that may delay, defer or prevent a change in control of the Company.

Issuance of Common or Preferred Stock

As indicated above, the Certificate of Incorporation gives the Board the authority, without further action by the stockholders, to issue from time to time Preferred Stock in one or more series and to fix the number of shares, designations, preferences and relative, participating, optional or other special rights and the qualifications, limitations or restrictions on the Preferred Stock. The issuance of, or the right to issue, Preferred Stock could have anti-takeover effects.

Any issuance of Common Stock or Preferred Stock with voting rights could, under certain circumstances, have the effect of delaying or preventing a change in control of the Company by increasing the number of outstanding shares entitled to vote and by increasing the number of votes required to approve a change in control. Shares of voting or convertible Preferred Stock could be issued, or rights to purchase such shares could be issued, to render more difficult or discourage an attempt to obtain control of the Company by means of a tender offer, proxy contest, merger or otherwise. Such issuances could therefore deprive stockholders of benefits that could result from such an attempt, such as the realization of a premium over the market price. Moreover, the issuance of additional shares of Common Stock or Preferred Stock to persons friendly to the Board could make it more difficult to remove incumbent management and directors from office even if such change were to be favorable to stockholders generally.

Number of Directors and Vacancies and Removal of Directors

Our Bylaws provide that the number of directors shall be fixed and determined from time to time by resolution adopted by the Board. Our Bylaws also provide that if a proposal to remove a Board member is properly brought before a meeting of the stockholders, a Board member may be removed by the vote of the holders of a majority of the stock present in person or represented by proxy and entitled to vote thereat. Any vacancy on the Board may be filled by the majority vote of the directors then in office, though less than a quorum.

Advance Notice

The Company's Bylaws establish advance notice procedures with regard to stockholder nomination or removal of persons for election to the Board or other business to be brought before meetings of stockholders of the Company. These procedures provide that notice of such stockholder nominations or proposals must be timely given in writing to the Secretary of the Company prior to the meeting at which the action is to be taken. The notice must contain certain information specified in the Bylaws. To be timely in connection with an annual meeting, the notice must be received between 90 and 120 days prior to the date on which the immediately preceding year's annual meeting of stockholders was held. If the date of the annual meeting is 30 days earlier or more than 60 days later than such anniversary date, notice must be received no earlier than 120 days before the meeting and no later than the later of (i) 90 days before the meeting or (ii) the 10^{th} day following the day on which the public announcement of the date of the annual meeting is first made by the Company. To be timely in connection with a special meeting, the notice must be received no earlier than 120 days before the meeting and no later than the later of (i) 90 days before the meeting or (ii) the 10^{th} day following the day on which the public announcement of the date of the special meeting is first made by the Company. An adjournment or postponement of an annual or special meeting does not commence a new time period for the giving of notice. With respect to stockholder nominations of directors and stockholder proposals relating to the removal of directors, in addition to complying with the procedures set forth in the Bylaws, a stockholder who wishes to include such business in a proxy statement prepared by the Company must also comply with Rule 14a-8 under the Exchange Act, as the same exists or may hereafter be amended or any other applicable laws as presently or hereafter in effect.

Bylaw Amendments

The Company's Bylaws require that any action taken by the Board to alter, amend or repeal the Bylaws or adopted new Bylaws be approved by the affirmative vote of at least 80% of all directors then in office, subject to repeal or change by the affirmative vote of the holders of at least 80% of the voting power of all outstanding shares of capital stock of the Company entitled to vote in the election of directors, voting together as a single class.

Special Meetings of Stockholders

Special meetings of stockholders may be called only by the Chairman of the Board, the President, at the request in writing of a majority of the Board of Directors or on the written request of holders of at least 50% of the total number of shares of capital stock of the Company issued and outstanding and entitled to vote.

Section 203 of DGCL

The Company is a Delaware corporation and is subject to Section 203 of the DGCL. In general, subject to certain exceptions, Section 203 prohibits a Delaware corporation from engaging in a "business combination" with an "interested stockholder" for a period of three years following the date that such stockholder became an interested stockholder, unless (i) prior to such date the board of directors of the corporation approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder or (ii) upon consummation of the transaction which resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced (excluding for purposes of determining the number of shares outstanding those shares owned by (x) persons who are directors and also officers and (y) employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer), or (iii) on or subsequent to such date the business combination is approved by the board of directors and authorized at an annual or special meeting of stockholders, and not by written consent, by the affirmative vote of at least 66 2/3% of the outstanding voting stock which is not owned by the interested stockholder. Section 203 defines a "business combination" to include certain mergers, consolidation, asset sales and stock issuances and certain other transactions resulting in a financial benefit to an "interested stockholder." In addition, Section 203 defines an "interested stockholder" to include any entity or person beneficially owning 15% or more of the outstanding voting stock of the corporation and any entity or person affiliated with such an entity or person.

Limitation of Liability of Directors

The Certificate of Incorporation generally provides that, to the fullest extent permitted by the DGCL, no director shall be liable to the Company or its stockholders for monetary damages for breach of certain fiduciary duties as a director. Under the DGCL, a director's liability may not be eliminated:

- for any breach(es) of the director's duty of loyalty to us or to our stockholders;
- for acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law;
- for certain unlawful dividend payments or stock redemptions or repurchases; and
- for any transaction from which the director derives an improper personal benefit.

The effect of this provision is to restrict the rights of the Company and its stockholders to recover monetary damages against a director for breach of certain fiduciary duties as a director.

EXHIBIT 21.1

Subsidiaries of Fossil Group, Inc.
as of December 28, 2019

Name of Subsidiary	Place of Incorporation	Parent Company	Percent Ownership
Fossil Intermediate, Inc.	Delaware	Fossil Group, Inc.	100
Fossil Stores I, Inc.	Delaware	Fossil Group, Inc.	100
Fossil Canada, Inc.	Canada	Fossil Group, Inc.	100
Fossil Europe B.V.	the Netherlands	Fossil Group, Inc.	100
Fossil Japan, Inc	Japan	Fossil Group, Inc.	100
Fossil Holdings, LLC	Delaware	Fossil Group, Inc.	100
Fossil (Gibraltar) Ltd.	Gibraltar	Fossil Group, Inc.	100
Fossil International Holdings, Inc.	Delaware	Fossil Group, Inc.	100
Fossil (East) Limited	Hong Kong	Fossil Group, Inc.	100
Swiss Technology Holding GmbH	Switzerland	Fossil Group, Inc.	100
Fossil Trust	Delaware	Fossil Intermediate, Inc.	100
Fossil Holdings LLC Luxembourg, SCS	Luxembourg	Fossil Group, Inc.	100
Fossil Partners, L.P.	Texas	Fossil Trust	99
Fossil Mexico, S.A. de C.V.	Mexico	Fossil International Holdings, Inc.	100
Servicios Fossil Mexico, S.A. de C.V.	Mexico	Fossil International Holdings, Inc.	100
Fossil Luxembourg Sarl	Luxembourg	Fossil Holdings LLC Luxembourg, SCS	100
Pulse Time Center Company, Ltd.	Hong Kong	Fossil (East) Limited	100
Fossil (Hong Kong) Ltd	Hong Kong	Fossil (East) Limited	100
Fossil Singapore Pte. Ltd.	Singapore	Fossil (East) Limited	100
FDT, Ltd.	Hong Kong	Fossil (East) Limited	51
Fossil (Australia) Pty Ltd.	Australia	Fossil (East) Limited	100
Fossil Time Malaysia Sdn. Bhd.	Malaysia	Fossil (East) Limited	100
Fossil Industries Ltd.	Hong Kong	Fossil (East) Limited	100
Fossil Trading (Shanghai) Company Ltd.	China	Fossil (East) Limited	100
Fossil (Asia) Holdings Ltd.	Hong Kong	Fossil (East) Limited	100
Fossil (Korea) Limited	Korea	Fossil (East) Limited	100
Fossil India Private Ltd.	India	Fossil (East) Limited	100
Fossil Asia Pacific Ltd.	Hong Kong	Fossil (East) Limited	100
Fossil Commercial (Shanghai) Company Ltd.	China	Fossil (East) Limited	100
Fossil Vietnam LLC	Vietnam	Fossil (East) Limited	100
Fossil Services (Shenzhen) Co. Ltd.	China	Fossil (East) Limited	100
Skagen Designs, Ltd.	Hong Kong	Fossil (East) Limited	100
Fossil (New Zealand) Limited	New Zealand	Fossil (Australia) Pty Ltd.	100

Fossil Retail Stores (Australia) Pty. Ltd.	Australia	Fossil (Australia) Pty Ltd.	100
Fossil Management Services Pty. Ltd.	Australia	Fossil (Australia) Pty Ltd.	100
Pulse Time Center (Shenzhen) Co. Ltd.	China	Pulse Time Center Company, Ltd.	100
Fossil (Macau) Limited	Macau	Fossil (Hong Kong) Ltd	100
Fossil Europe GmbH	Germany	Fossil Europe B.V.	100
Fossil Italia, S.r.l.	Italy	Fossil Europe B.V.	100
GUM S.A.	France	Fossil Europe B.V.	100
Fossil S.L.U.	Spain	Fossil Europe B.V.	100
Fossil U.K. Holdings Ltd.	United Kingdom	Fossil Europe B.V.	100
FESCO GmbH	Germany	Fossil Europe B.V.	100
Fossil Switzerland GmbH	Switzerland	Fossil Europe B.V.	100
Fossil (Austria) GmbH	Austria	Fossil Europe B.V.	100
Fossil Sweden AB	Sweden	Fossil Europe B.V.	100
Fossil Stores Belgium BVBA	Belgium	Fossil Europe B.V.	100
Fossil Belgium BVBA	Belgium	Fossil Europe B.V.	100
Fossil Accessories South Africa Pty Ltd	South Africa	Fossil Europe B.V.	75
Fossil Poland Spolka ZOO	Poland	Fossil Europe B.V.	100
Fossil France SA	France	GUM, SA	100
Fast Europe Sarl	France	Fossil France SA	100
Fossil Norway AS	Norway	Fossil Sweden AB	100
Fossil Denmark A/S	Denmark	Fossil Sweden AB	100
Fossil Stores France SAS	France	Fossil France SA	100
Fossil Stores S.r.l.	Italy	Fossil Italia, S.r.l.	100
Fossil U.K. Ltd.	United Kingdom	Fossil U.K. Holdings Ltd.	100
Montres Antima SA	Switzerland	Swiss Technology Holding GmbH	100
In Time-Distribuicao de Relogios, SUL	Portugal	Fossil S.L.	100
Fossil Group Europe, GmbH	Switzerland	Swiss Technology Holding GmbH	100
Swiss Technology Production SA	Switzerland	Swiss Technology Holding GmbH	51
Latin America Services, Ltd	British Virgin Islands	Fossil International Holdings, Inc.	100
Fossil Shared Services GmbH	Germany	Fossil Europe B.V.	100
Misfit, Inc.	Delaware	Fossil Group, Inc.	100
Fossil Services LLC	Delaware	Fossil Group, Inc.	100
FGFIS Global Services India LLP	India	Fossil Services LLC	100

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos. 33-65980, 333-151645, 333-212293, and 333-225667 on Form S-8 of our reports dated February 27, 2020, relating to the financial statements of Fossil Group, Inc. and subsidiaries (which report expresses an unqualified opinion and includes an explanatory paragraph), and the effectiveness of Fossil Group, Inc. and subsidiaries' internal control over financial reporting, appearing in this Annual Report on Form 10-K of Fossil Group, Inc. for the year ended December 28, 2019.

/s/ Deloitte & Touche LLP

Dallas, Texas
February 27, 2020

EXHIBIT 31.1

CERTIFICATION

I, Kosta N. Kartsotis, certify that:

1. I have reviewed this Annual Report on Form 10-K of Fossil Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

February 27, 2020

/s/ KOSTA N. KARTSOTIS

Kosta N. Kartsotis
Chief Executive Officer

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EXHIBIT 31.1

CERTIFICATION

EXHIBIT 31.2

CERTIFICATION

I, Jeffrey N. Boyer, certify that:

1. I have reviewed this Annual Report on Form 10-K of Fossil Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

February 27, 2020

/s/ JEFFREY N. BOYER

Jeffrey N. Boyer
Executive Vice President
Chief Financial Officer and Treasurer

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EXHIBIT 31.2

CERTIFICATION

EXHIBIT 32.1

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Fossil Group, Inc. (the "Company") on Form 10-K for the fiscal year ended December 28, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Form 10-K"), I, Kosta N. Kartsotis, Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(1) The Form 10-K fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 27, 2020

/s/ KOSTA N. KARTSOTIS

Kosta N. Kartsotis
Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to Fossil Group, Inc. and will be retained by Fossil Group, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

The foregoing certification is being furnished as an exhibit to the Form 10-K pursuant to Item 601(b)(32) of Regulation S-K and Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) and, accordingly, is not being filed as part of the Form 10-K for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

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Exhibit 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

EXHIBIT 32.2

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Fossil Group, Inc. (the "Company") on Form 10-K for the fiscal year ended December 28, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Form 10-K"), I, Jeffrey N. Boyer, Executive Vice President, Chief Financial Officer and Treasurer of the Company, hereby certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(1) The Form 10-K fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 27, 2020

/s/ JEFFREY N. BOYER

Jeffrey N. Boyer
Executive Vice President
Chief Financial Officer and Treasurer

A signed original of this written statement required by Section 906 has been provided to Fossil Group, Inc. and will be retained by Fossil Group, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

The foregoing certification is being furnished as an exhibit to the Form 10-K pursuant to Item 601(b)(32) of Regulation S-K and Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) and, accordingly, is not being filed as part of the Form 10-K for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

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Exhibit 32.2

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002