UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended: October 3, 2020

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: 000-19848

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)

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

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, par value $0.01 per share	FOSL	The Nasdaq Stock Market LLC

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 (check one):

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 number of shares of the registrant’s common stock outstanding as of November 5, 2020: 51,473,947

FOSSIL GROUP, INC.
FORM 10-Q
FOR THE FISCAL QUARTER ENDED OCTOBER 3, 2020
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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

FOSSIL GROUP, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
UNAUDITED
IN THOUSANDS

	October 3, 2020	December 28, 2019
Assets		
Current assets:		
Cash and cash equivalents	$ 323,560	$ 200,218
Accounts receivable - net of allowances for doubtful accounts of $19,604 and $13,234, respectively	189,801	289,744
Inventories	359,516	452,278
Prepaid expenses and other current assets	134,891	117,218
Total current assets	1,007,768	1,059,458
Property, plant and equipment - net of accumulated depreciation of $479,589 and $464,913, respectively	118,527	151,500
Operating lease right-of-use assets	244,483	288,166
Intangible and other assets-net	151,541	105,608
Total long-term assets	514,551	545,274
Total assets	$ 1,522,319	$ 1,604,732
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 213,120	$ 172,191
Short-term and current portion of long-term debt	21,425	26,228
Accrued expenses:		
Current operating lease liabilities	63,606	68,838
Compensation	59,582	51,573
Royalties	46,720	28,427
Customer liabilities	40,975	80,803
Transaction taxes	18,466	25,683
Other	63,531	76,209
Income taxes payable	22,476	29,228
Total current liabilities	549,901	559,180
Long-term income taxes payable	23,047	31,284
Deferred income tax liabilities	2,152	2,097
Long-term debt	217,862	178,796
Long-term operating lease liabilities	260,692	288,689
Other long-term liabilities	45,114	40,845
Total long-term liabilities	548,867	541,711
Commitments and contingencies (Note 13)		
Stockholders' equity:		
Common stock, 51,299 and 50,516 shares issued and outstanding at October 3, 2020 and December 28, 2019, respectively	513	505
Additional paid-in capital	291,802	283,371
Retained earnings	207,656	299,793
Accumulated other comprehensive income (loss)	(77,163)	(80,615)
Total Fossil Group, Inc. stockholders' equity	422,808	503,054
Noncontrolling interests	743	787
Total stockholders' equity	423,551	503,841
Total liabilities and stockholders' equity	$ 1,522,319	$ 1,604,732

See notes to the unaudited condensed consolidated financial statements.

FOSSIL GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)
UNAUDITED
IN THOUSANDS, EXCEPT PER SHARE DATA

	For the 13 Weeks Ended October 3, 2020	For the 13 Weeks Ended September 28, 2019	For the 40 Weeks Ended October 3, 2020	For the 39 Weeks Ended September 28, 2019
Net sales	$ 435,492	$ 539,488	$ 1,085,218	$ 1,506,149
Cost of sales	205,726	260,946	574,496	714,573
Gross profit	229,766	278,542	510,722	791,576
Operating expenses:				
Selling, general and administrative expenses	206,542	264,103	636,273	777,896
Trade name impairments	—	16,613	2,464	16,613
Restructuring charges	5,713	6,979	25,620	24,483
Total operating expenses	212,255	287,695	664,357	818,992
Operating income (loss)	17,511	(9,153)	(153,635)	(27,416)
Interest expense	8,047	7,422	23,385	22,897
Other income (expense) - net	—	(1,424)	(6,411)	24,995
Income (loss) before income taxes	9,464	(17,999)	(183,431)	(25,318)
Provision for income taxes	(6,759)	6,939	(91,250)	17,991
Net income (loss)	16,223	(24,938)	(92,181)	(43,309)
Less: Net income (loss) attributable to noncontrolling interests	236	997	(44)	2,179
Net income (loss) attributable to Fossil Group, Inc.	$ 15,987	$ (25,935)	$ (92,137)	$ (45,488)
Other comprehensive income (loss), net of taxes:				
Currency translation adjustment	$ 11,240	$ (10,790)	$ 6,544	$ (13,584)
Cash flow hedges - net change	(3,636)	2,424	(3,092)	(430)
Total other comprehensive income (loss)	7,604	(8,366)	3,452	(14,014)
Total comprehensive income (loss)	23,827	(33,304)	(88,729)	(57,323)
Less: Comprehensive income (loss) attributable to noncontrolling interests	236	997	(44)	2,179
Comprehensive income (loss) attributable to Fossil Group, Inc.	$ 23,591	$ (34,301)	$ (88,685)	$ (59,502)
Earnings (loss) per share:				
Basic	$ 0.31	$ (0.51)	$ (1.81)	$ (0.91)
Diluted	$ 0.31	$ (0.51)	$ (1.81)	$ (0.91)
Weighted average common shares outstanding:				
Basic	51,299	50,469	51,007	50,137
Diluted	51,754	50,469	51,007	50,137

See notes to the unaudited condensed consolidated financial statements.

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

For the 13 Weeks Ended October 3, 2020

	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, July 4, 2020	51,293	$ 513	$ 288,641	$ —	$ 191,669	$ (84,767)	$ 396,056	$ 507	$ 396,563
Common stock issued upon exercise of stock options, stock appreciation rights and restricted stock units	9	—	—		—	—	—	—	—
Acquisition of common stock for employee tax withholding				(13)	—	—	(13)	—	(13)
Retirement of common stock	(3)	—	(13)	13	—	—	—	—	—
Stock-based compensation			3,174		—	—	3,174	—	3,174
Net income (loss)	—	—	—	—	15,987	—	15,987	236	16,223
Other comprehensive income (loss)	—	—	—	—	—	7,604	7,604	—	7,604
Balance, October 3, 2020	51,299	$ 513	$ 291,802	$ —	$ 207,656	$ (77,163)	$ 422,808	$ 743	$ 423,551

For the 13 Weeks Ended September 28, 2019

	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, June 29, 2019	50,453	$ 505	$ 276,388	$ —	$ 332,605	$ (70,339)	$ 539,159	$ 479	$ 539,638
Common stock issued upon exercise of stock options, stock appreciation rights and restricted stock units	29	—	—	—	—	—	—	—	—
Acquisition of common stock for employee tax withholding	—	—	—	(97)	—	—	(97)	—	(97)
Retirement of common stock	(8)	—	(97)	97	—	—	—	—	—
Stock-based compensation	—	—	4,267	—	—	—	4,267	—	4,267
Net income (loss)	—	—	—	—	(25,935)	—	(25,935)	997	(24,938)
Other comprehensive income (loss)	—	—	—	—	—	(8,366)	(8,366)	—	(8,366)
Purchase of noncontrolling interest shares	—	—	231	—	—	—	231	(793)	(562)
Distribution of noncontrolling interest earnings	—	—	—	—	—	—	—	(70)	(70)
Balance, September 28, 2019	50,474	$ 505	$ 280,789	$ —	$ 306,670	$ (78,705)	$ 509,259	$ 613	$ 509,872

For the 40 Weeks Ended October 3, 2020

	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 28, 2019	50,516	$ 505	$ 283,371	$ —	$ 299,793	$ (80,615)	$ 503,054	$ 787	$ 503,841
Common stock issued upon exercise of stock options, stock appreciation rights and restricted stock units	949	9	(9)	—	—	—	—	—	—
Acquisition of common stock for employee tax withholding	—	—	—	(712)	—	—	(712)	—	(712)
Retirement of common stock	(166)	(1)	(711)	712	—	—	—	—	—
Stock-based compensation	—	—	9,151	—	—	—	9,151	—	9,151
Net income (loss)	—	—	—	—	(92,137)	—	(92,137)	(44)	(92,181)
Other comprehensive income (loss)	—	—	—	—	—	3,452	3,452		3,452
Balance, October 3, 2020	51,299	$ 513	$ 291,802	$ —	$ 207,656	$ (77,163)	$ 422,808	$ 743	$ 423,551

For the 39 Weeks Ended September 28, 2019

	Common stock Shares	Common stock 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 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, stock appreciation rights and restricted stock units	1,240	13	157	—	—	—	170	—	170
Acquisition of common stock for employee tax withholding	—	—	—	(3,976)	—	—	(3,976)	—	(3,976)
Retirement of common stock	(284)	(3)	(3,973)	3,976	—	—	—	—	—
Stock-based compensation	—	—	16,261	—	—	—	16,261	—	16,261
Net income (loss)	—	—	—	—	(45,488)	—	(45,488)	2,179	(43,309)
Other comprehensive income (loss)	—	—	—	—	—	(14,014)	(14,014)	—	(14,014)
Purchase of noncontrolling interest shares	—	—	231	—	—	—	231	(793)	(562)
Distribution of noncontrolling interest earnings	—	—	—	—	—	—	—	(3,861)	(3,861)
Adoption of Accounting Standards Update ("ASU") 2016-02	—	—	—	—	(29,468)	—	(29,468)	—	(29,468)
Balance, September 28, 2019	50,474	$ 505	$ 280,789	$ —	$ 306,670	$ (78,705)	$ 509,259	$ 613	$ 509,872

See notes to the unaudited condensed consolidated financial statements.

FOSSIL GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
UNAUDITED
IN THOUSANDS

	For the 40 Weeks Ended October 3, 2020	For the 39 Weeks Ended September 28, 2019
Operating Activities:		
Net Income (loss)	$ (92,181)	$ (43,309)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation, amortization and accretion	33,123	41,854
Non-cash lease expense	83,565	90,572
Stock-based compensation	9,152	13,894
Decrease in allowance for returns and markdowns	(40,426)	(8,801)
Gain on disposal of assets	(1,456)	(2,857)
Property, plant and equipment and other long-lived asset impairment losses	24,890	3,957
Trade name impairment losses	2,464	16,613
Non-cash restructuring charges	1,921	4,621
Bad debt expense	6,956	1,476
Loss on extinguishment of debt	—	3,044
Other non-cash items	3,982	574
Gain on asset divestitures	—	(23,134)
Changes in operating assets and liabilities:		
Accounts receivable	101,934	79,642
Inventories	94,389	(201,993)
Prepaid expenses and other current assets	(17,120)	(833)
Accounts payable	40,767	20,576
Accrued expenses	7,540	(48,754)
Income taxes	(66,919)	5,529
Operating lease liabilities	(96,722)	(90,904)
Net cash provided by (used in) operating activities	95,859	(138,233)
Investing Activities:		
Additions to property, plant and equipment	(7,097)	(14,054)
Increase in intangible and other assets	(2,149)	(2,542)
Proceeds from the sale of property, plant and equipment	76	1,255
Proceeds from asset divestitures	—	41,570
Net cash (used in) provided by investing activities	(9,170)	26,229
Financing Activities:		
Acquisition of common stock for employee tax withholdings	(712)	(3,976)
Distribution of noncontrolling interest earnings	—	(4,423)
Debt borrowings	315,224	386,880
Debt payments	(278,845)	(512,144)
Payment for shares of Fossil Accessories South Africa Pty. Ltd.	—	(1,045)
Debt issuance costs and other	(10,000)	(7,444)
Net cash provided by (used in) financing activities	25,667	(142,152)
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	10,981	(1,674)
Net increase (decrease) in cash, cash equivalents, and restricted cash	123,337	(255,830)
Cash, cash equivalents, and restricted cash:		
Beginning of period	207,749	410,883
End of period	$ 331,086	$ 155,053

See notes to the unaudited condensed consolidated financial statements.

FOSSIL GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
UNAUDITED

1. FINANCIAL STATEMENT POLICIES

Basis of Presentation. The condensed consolidated financial statements include the accounts of Fossil Group, Inc., a Delaware corporation, and its wholly and majority-owned subsidiaries (the "Company").

The Company's fiscal year periodically results in a 53-week year instead of a normal 52-week year. The current fiscal year ending January 2, 2021 is a 53-week year, with the additional week being included in the first quarter. Accordingly, the information presented herein includes the thirteen-week periods ended October 3, 2020 ("Third Quarter") and September 28, 2019 ("Prior Year Quarter") and the 40 weeks of operations for the year to date period ended October 3, 2020 ("Year To Date Period") as compared to 39 weeks included in the prior year to date period ended September 28, 2019 ("Prior Year YTD Period"). The condensed consolidated financial statements reflect all adjustments that are, in the opinion of management, necessary to present a fair statement of the Company's financial position as of October 3, 2020, and the results of operations for the Third Quarter, Prior Year Quarter, Year To Date Period and Prior Year YTD Period. All adjustments are of a normal, recurring nature.

These interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in the Annual Report on Form 10-K filed by the Company pursuant to the Securities Exchange Act of 1934, as amended (the "Exchange Act"), for the fiscal year ended December 28, 2019 (the "2019 Form 10-K"). Operating results for the Third Quarter are not necessarily indicative of the results to be achieved for the full fiscal year.

The condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"), which require the Company 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 condensed consolidated financial statements and the reported amounts of revenues and expenses during the periods reported. We base our estimates on the information available at the time and various other assumptions believed to be reasonable under the circumstances, including estimates of the impact of the coronavirus ("COVID-19") pandemic. Actual results could differ from those estimates, including the impact of the COVID-19 pandemic. The Company has not made any changes in its significant accounting policies from those disclosed in the 2019 Form 10-K. Certain prior period amounts have been reclassified to conform to the current period presentation.

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

Operating Expenses. Operating expenses include selling, general and administrative expenses ("SG&A"), 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 as well as store closure expenses.

Earnings (Loss) Per Share ("EPS"). Basic 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):

	For the 13 Weeks Ended October 3, 2020	For the 13 Weeks Ended September 28, 2019	For the 40 Weeks Ended October 3, 2020	For the 39 Weeks Ended September 28, 2019
Numerator:				
Net income (loss) attributable to Fossil Group, Inc.	$ 15,987	$ (25,935)	$ (92,137)	$ (45,488)
Denominator:				
Basic EPS computation:				
Basic weighted average common shares outstanding	51,299	50,469	51,007	50,137
Basic EPS	$ 0.31	$ (0.51)	$ (1.81)	$ (0.91)
Diluted EPS computation:				
Basic weighted average common shares outstanding	51,299	50,469	51,007	50,137
Effect of stock options, stock appreciation rights, restricted stock units and performance restricted stock units	455	—	—	—
Diluted weighted average common shares outstanding	51,754	50,469	51,007	50,137
Diluted EPS	$ 0.31	$ (0.51)	$ (1.81)	$ (0.91)

At the end of the Third Quarter and Year To Date Period, approximately 1.1 million and 2.5 million weighted average shares issuable under stock-based awards, respectively, were not included in the diluted EPS calculation because they were antidilutive. The total antidilutive weighted average shares included 0.1 million and 0.3 million weighted average performance-based shares at the end of the Third Quarter and Year To Date Period, respectively. Additionally, 0.1 million weighted average performance-based shares were not included in the diluted EPS calculation at the end of the Third Quarter because the performance targets were not met.

At the end of the Prior Year Quarter and Prior Year YTD Period, 3.0 million and 3.6 million weighted average shares issuable under stock-based awards, respectively, were not included in the diluted EPS calculation because they were antidilutive. The total antidilutive weighted average shares included 0.4 million and 0.7 million weighted average performance-based shares at the end of the Prior Year Quarter and Prior Year YTD Period, respectively.

Cash, Cash Equivalents and Restricted Cash. The following table provides a reconciliation of the cash, cash equivalents, and restricted cash balances as of October 3, 2020 and September 28, 2019 that are presented in the condensed consolidated statement of cash flows (in thousands):

	October 3, 2020	September 28, 2019
Cash and cash equivalents	$ 323,560	$ 147,482
Restricted cash included in prepaid expenses and other current assets	118	30
Restricted cash included in intangible and other assets-net	7,408	7,541
Cash, cash equivalents and restricted cash	$ 331,086	$ 155,053

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.

Recently Adopted Accounting Standards

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 Company adopted ASU 2018-15 at the beginning of the first quarter of fiscal year 2020, and it did not have a material effect on the Company's condensed consolidated financial statements.

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 Company adopted ASU 2018-14 at the beginning of the first quarter of fiscal year 2020, and it did not have a material effect on the Company's condensed consolidated financial statements.

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 (i) eliminates certain disclosure requirements related to the fair value hierarchy, (ii) adds new disclosure requirements related to the changes in unrealized gains and losses for recurring Level 3 fair value measurements and the range and weighted average of significant observable inputs used to develop Level 3 fair value measurements and (iii) modifies certain disclosure requirements related to measurement uncertainty for fair value measurements. The Company adopted ASU 2018-13 at the beginning of the first quarter of fiscal year 2020, and it did not have a material effect on the Company's condensed consolidated financial statements.

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. The Company adopted ASU 2016-13 at the beginning of the first quarter of fiscal year 2020 on a prospective basis, and it did not have a material effect on the Company's condensed consolidated financial statements.

2. REVENUE

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

	For the 13 Weeks Ended October 3, 2020				
	Americas	Europe	Asia	Corporate	Total
Product type					
Watches	$ 142,881	$ 105,159	$ 108,503	$ 21	$ 356,564
Leathers	22,290	8,094	7,332	—	37,716
Jewelry	8,013	18,560	2,310	—	28,883
Other	1,902	3,479	1,603	5,345	12,329
Consolidated	$ 175,086	$ 135,292	$ 119,748	$ 5,366	$ 435,492
Timing of revenue recognition					
Revenue recognized at a point in time	$ 174,539	$ 134,976	$ 119,585	$ 3,263	$ 432,363
Revenue recognized over time	547	316	163	2,103	3,129
Consolidated	$ 175,086	$ 135,292	$ 119,748	$ 5,366	$ 435,492

	For the 13 Weeks Ended September 28, 2019				
	Americas	Europe	Asia	Corporate	Total
Product type					
Watches	$ 179,369	$ 137,222	$ 128,897	$ 2	$ 445,490
Leathers	33,274	10,848	10,367	—	54,489
Jewelry	4,852	21,530	1,802	—	28,184
Other	2,539	4,268	2,183	2,335	11,325
Consolidated	$ 220,034	$ 173,868	$ 143,249	$ 2,337	$ 539,488
Timing of revenue recognition					
Revenue recognized at a point in time	$ 219,379	$ 173,508	$ 143,069	$ 79	$ 536,035
Revenue recognized over time	655	360	180	2,258	3,453
Consolidated	$ 220,034	$ 173,868	$ 143,249	$ 2,337	$ 539,488

	For the 40 Weeks Ended October 3, 2020				
	Americas	Europe	Asia	Corporate	Total
Product type					
Watches	$ 346,629	$ 265,245	$ 264,078	$ 37	$ 875,989
Leathers	67,661	22,551	21,365	—	111,577
Jewelry	14,706	47,462	5,137	—	67,305
Other	4,755	7,829	4,603	13,160	30,347
Consolidated	$ 433,751	$ 343,087	$ 295,183	$ 13,197	$1,085,218
Timing of revenue recognition					
Revenue recognized at a point in time	$ 431,980	$ 342,113	$ 294,658	$ 7,118	$1,075,869
Revenue recognized over time	1,771	974	525	6,079	9,349
Consolidated	$ 433,751	$ 343,087	$ 295,183	$ 13,197	$1,085,218

	For the 39 Weeks Ended September 28, 2019				
	Americas	Europe	Asia	Corporate	Total
Product type					
Watches	$ 512,816	$ 367,946	$ 344,127	$ 64	$1,224,953
Leathers	97,663	31,435	31,925	—	161,023
Jewelry	15,669	60,705	3,757	—	80,131
Other	7,362	14,141	6,615	11,924	40,042
Consolidated	$ 633,510	$ 474,227	$ 386,424	$ 11,988	$1,506,149
Timing of revenue recognition					
Revenue recognized at a point in time	$ 631,445	$ 473,152	$ 385,859	$ 3,678	$1,494,134
Revenue recognized over time	2,065	1,075	565	8,310	12,015
Consolidated	$ 633,510	$ 474,227	$ 386,424	$ 11,988	$1,506,149

Contract Balances. As of October 3, 2020, the Company had no material contract assets on the Company's condensed consolidated balance sheets and no deferred contract costs. The Company had contract liabilities of (i) $10.7 million and $13.4 million as of October 3, 2020 and December 28, 2019, respectively, related to remaining performance obligations on licensing income, (ii) $4.2 million and $5.3 million as of October 3, 2020 and December 28, 2019, respectively, primarily related to remaining performance obligations on wearable technology products and (iii) $4.1 million and $3.3 million as of October 3, 2020 and December 28, 2019, respectively, related to gift cards issued.

3. INVENTORIES

Inventories consisted of the following (in thousands):

	October 3, 2020	December 28, 2019
Components and parts	$ 35,071	$ 35,626
Work-in-process	3,846	11,034
Finished goods	320,599	405,618
Inventories	$ 359,516	$ 452,278

4. WARRANTY LIABILITIES

The Company's warranty liability is recorded in accrued expenses-other in the Company's condensed consolidated balance sheets. Warranty liability activity consisted of the following (in thousands):

	For the 40 Weeks Ended October 3, 2020	For the 39 Weeks Ended September 28, 2019
Beginning balance	$ 23,095	$ 22,807
Settlements in cash or kind	(10,386)	(12,957)
Warranties issued and adjustments to preexisting warranties [1]	9,361	11,336
Ending balance	$ 22,070	$ 21,186

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

5. INCOME TAXES

The Company's income tax (benefit) expense and related effective rates were as follows (in thousands, except percentage data):

	For the 13 Weeks Ended October 3, 2020	For the 13 Weeks Ended September 28, 2019	For the 40 Weeks Ended October 3, 2020	For the 39 Weeks Ended September 28, 2019
Income tax (benefit) expense	$ (6,759)	$ 6,939	$ (91,250)	$ 17,991
Effective tax rate	(71.4)%	(38.6)%	49.7 %	(71.1)%

For the Third Quarter, the Company computed its effective tax rate using actual year-to-date information rather than a full year forecast to compute the annual effective tax rate, which is consistent with the method used in the second quarter of fiscal year 2020. Estimating a reliable or meaningful annual effective tax rate for fiscal year 2020 was not possible due to the range of potential impacts and resulting uncertainties related to the global COVID-19 pandemic. Accordingly, the Company concluded that computing its effective tax rate using actual year-to-date results is the best estimate of tax expense (benefit) for the Third Quarter and Year To Date Period.

The effective tax rate in the Third Quarter was favorable as compared to the Prior Year Quarter primarily due to changes enacted in the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"), which was signed into law on March 27, 2020. The CARES Act included many beneficial income tax provisions including utilization of net operating losses ("NOLs"), temporary changes to the limitation on interest deductions, and technical corrections to tax depreciation for qualified improvement property. The Tax Cuts and Jobs Act had eliminated the option for most taxpayers to carryback a NOL after 2017. A NOL could only be carried forward and was limited to 80% of taxable income. The CARES Act now allows U.S. taxpayers to carryback a NOL arising in tax years 2018, 2019 and 2020 to prior years when the statutory tax rate was 35%. The

Third Quarter tax benefit was due to the U.S. NOL carryback provision and the release of tax reserves, which was partially offset by foreign income taxes. The effective tax rate can vary from quarter-to-quarter due to changes in the Company's global mix of earnings, impacts of COVID-19, the resolution of income tax audits and changes in tax law.

The Prior Year Quarter effective tax rate was negative because income tax expense was accrued on certain foreign entities with positive taxable income and no benefit was recognized for losses in the U.S. and certain other foreign jurisdictions. Due to the Global Intangible Low-Taxed Income ("GILTI") provision of the Tax Cuts and Jobs Act, certain foreign income is included in U.S. taxable income effectively absorbing the U.S. NOLs, eliminating the availability of any future tax benefit or loss carryback prior to the NOL carryback provision in the CARES Act.

The Year To Date Period effective tax rate was favorable to the Prior Year YTD Period due to the changes from the CARES Act allowing NOL carrybacks. The Prior Year YTD Period effective tax rate was negative because income tax expense was accrued on certain foreign entities with positive taxable income and no benefit was recognized for losses in the U.S. and certain other foreign jurisdictions.

As of October 3, 2020, the Company's total amount of unrecognized tax benefits, excluding interest and penalties, was $34.9 million, of which $28.9 million would favorably impact the effective tax rate in future periods, if recognized. The Company is subject to examinations in various state and foreign jurisdictions for its 2011-2019 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 settled within twelve months of the condensed consolidated balance sheet date. As of October 3, 2020, the Company had recorded $15.4 million of unrecognized tax benefits, excluding interest and penalties, for positions that are expected to be settled 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. At October 3, 2020, the total amount of accrued income tax-related interest and penalties included in the condensed consolidated balance sheets was $6.6 million and $0.8 million, respectively. For the Third Quarter, the Company accrued income tax related interest expense of $0.3 million.

6. STOCKHOLDERS' EQUITY

Common and Preferred Stock. The Company has 100,000,000 shares of common stock, par value $0.01 per share, authorized, with 51,299,222 and 50,516,477 shares issued and outstanding at October 3, 2020 and December 28, 2019, respectively. The Company has 1,000,000 shares of preferred stock, par value $0.01 per share, authorized, with none issued or outstanding at October 3, 2020 or December 28, 2019. 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. At October 3, 2020 and December 28, 2019, all treasury stock had been effectively retired. As of October 3, 2020, the Company had $30.0 million of repurchase authorizations remaining under its repurchase program. The Company did not repurchase any common stock under its authorized stock repurchase plans during the Third Quarter, Prior Year Quarter, Year To Date Period or Prior Year YTD Period.

7. EMPLOYEE BENEFIT PLANS

Stock-Based Compensation Plans. The following table summarizes stock options and stock appreciation rights activity during the Third Quarter:

Stock Options and Stock Appreciation Rights	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
	(in Thousands)		(in Years)	(in Thousands)
Outstanding at July 4, 2020	428	$ 77.92	2.2	$ —
Granted	—	—		
Exercised	—	—		—
Forfeited or expired	(14)	115.63		
Outstanding at October 3, 2020	414	76.59	2.0	—
Exercisable at October 3, 2020	414	$ 76.59	2.0	$ —

The aggregate intrinsic value shown in the table above is before income taxes and is based on the exercise price for outstanding and exercisable options/rights at October 3, 2020.

Stock Options and Stock Appreciation Rights Outstanding and Exercisable. The following tables summarize information with respect to stock options and stock appreciation rights outstanding and exercisable at October 3, 2020:

Stock Options Outstanding				Stock Options Exercisable	
Range of Exercise Prices	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Number of Shares	Weighted-Average Exercise Price
	(in Thousands)		(in Years)	(in Thousands)	
$55.04- $82.55	55	$ 81.23	0.4	55	$ 81.23
$127.84 - $131.46	72	128.08	1.3	72	128.08
Total	127	$ 107.68	0.9	127	$ 107.68

Stock Appreciation Rights Outstanding				Stock Appreciation Rights Exercisable	
Range of Exercise Prices	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Number of Shares	Weighted-Average Exercise Price
	(in Thousands)		(in Years)	(in Thousands)	
$29.49 - $47.99	167	$ 41.77	3.2	167	$ 41.77
$55.04 - $82.55	59	77.98	2.1	59	77.98
$83.83 - $113.04	61	105.77	0.9	61	105.77
Total	287	$ 62.87	2.5	287	$ 62.87

Restricted Stock Units and Performance Restricted Stock Units. The following table summarizes restricted stock unit and performance restricted stock unit activity during the Third Quarter:

Restricted Stock Units and Performance Restricted Stock Units	Number of Shares	Weighted-Average Grant Date Fair Value Per Share
	(in Thousands)	
Nonvested at July 4, 2020	1,977	$ 9.70
Granted	45	4.33
Vested	(9)	13.68
Forfeited	(54)	8.61
Nonvested at October 3, 2020	1,959	$ 9.59

The total fair value of restricted stock units vested during the Third Quarter was approximately $41,500. Vesting of performance restricted stock units is based on achievement of operating margin growth and achievement of sales growth and operating margin targets in relation to the performance of a certain identified peer group.

8. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

	For the 13 Weeks Ended October 3, 2020			
		Cash Flow Hedges		
	Currency Translation Adjustments	Forward Contracts	Pension Plan	Total
Beginning balance	$ (85,170)	$ 3,527	$ (3,124)	$ (84,767)
Other comprehensive income (loss) before reclassifications	11,240	(4,306)	—	6,934
Tax (expense) benefit	—	656	—	656
Amounts reclassed from accumulated other comprehensive income (loss)	—	26	—	26
Tax (expense) benefit	—	(40)	—	(40)
Total other comprehensive income (loss)	11,240	(3,636)	—	7,604
Ending balance	$ (73,930)	$ (109)	$ (3,124)	$ (77,163)

	For the 13 Weeks Ended September 28, 2019			
		Cash Flow Hedges		
	Currency Translation Adjustments	Forward Contracts	Pension Plan	Total
Beginning balance	$ (77,662)	$ 5,728	$ 1,595	$ (70,339)
Other comprehensive income (loss) before reclassifications	(10,790)	7,058	—	(3,732)
Tax (expense) benefit	—	(996)	—	(996)
Amounts reclassed from accumulated other comprehensive income (loss)	—	3,948	—	3,948
Tax (expense) benefit	—	(310)	—	(310)
Total other comprehensive income (loss)	(10,790)	2,424	—	(8,366)
Ending balance	$ (88,452)	$ 8,152	$ 1,595	$ (78,705)

	For the 40 Weeks Ended October 3, 2020			
		Cash Flow Hedges		
	Currency Translation Adjustments	Forward Contracts	Pension Plan	Total
Beginning balance	$ (80,474)	$ 2,983	$ (3,124)	$ (80,615)
Other comprehensive income (loss) before reclassifications	6,544	2,872	—	9,416
Tax (expense) benefit	—	(578)	—	(578)
Amounts reclassed from accumulated other comprehensive income	—	6,307	—	6,307
Tax (expense) benefit	—	(921)	—	(921)
Total other comprehensive income (loss)	6,544	(3,092)	—	3,452
Ending balance	$ (73,930)	$ (109)	$ (3,124)	$ (77,163)

	For the 39 Weeks Ended September 28, 2019			
	Currency Translation Adjustments	Cash Flow Hedges Forward Contracts	Pension Plan	Total
Beginning balance	$ (74,868)	$ 8,582	$ 1,595	$ (64,691)
Other comprehensive income (loss) before reclassifications	(13,584)	9,260	—	(4,324)
Tax (expense) benefit	—	(1,034)	—	(1,034)
Amounts reclassed from accumulated other comprehensive income (loss)	—	9,372	—	9,372
Tax (expense) benefit	—	(716)	—	(716)
Total other comprehensive income (loss)	(13,584)	(430)	—	(14,014)
Ending balance	$ (88,452)	$ 8,152	$ 1,595	$ (78,705)

See "Note 10—Derivatives and Risk Management" for additional disclosures about the Company's use of derivatives.

9. 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):

	For the 13 Weeks Ended October 3, 2020		For the 13 Weeks Ended September 28, 2019	
	Net Sales	Operating Income (Loss)	Net Sales	Operating Income (Loss)
Americas	$ 175,086	$ 45,034	$ 220,034	$ 18,928
Europe	135,292	10,702	173,868	26,396
Asia	119,748	25,285	143,249	32,721
Corporate	5,366	(63,510)	2,337	(87,198)
Consolidated	$ 435,492	$ 17,511	$ 539,488	$ (9,153)

	For the 40 Weeks Ended October 3, 2020		For the 39 Weeks Ended September 28, 2019	
	Net Sales	Operating Income (Loss)[1]	Net Sales	Operating Income (Loss)
Americas	$ 433,751	$ 12,681	$ 633,510	$ 59,385
Europe	343,087	(2,451)	474,227	53,139
Asia	295,183	43,149	386,424	80,722
Corporate	13,197	(207,014)	11,988	(220,662)
Consolidated	$ 1,085,218	$ (153,635)	$ 1,506,149	$ (27,416)

The following tables reflect net sales for each class of similar products in the periods presented (in thousands, except percentage data):

	For the 13 Weeks Ended October 3, 2020		For the 13 Weeks Ended September 28, 2019	
	Net Sales	Percentage of Total	Net Sales	Percentage of Total
Watches	$ 356,564	81.9 %	$ 445,490	82.6 %
Leathers	37,716	8.7	54,489	10.1
Jewelry	28,883	6.6	28,184	5.2
Other	12,329	2.8	11,325	2.1
Total	$ 435,492	100.0 %	$ 539,488	100.0 %

	For the 40 Weeks Ended October 3, 2020		For the 39 Weeks Ended September 28, 2019	
	Net Sales	Percentage of Total	Net Sales	Percentage of Total
Watches	$ 875,989	80.7 %	$ 1,224,953	81.3 %
Leathers	111,577	10.3	161,023	10.7
Jewelry	67,305	6.2	80,131	5.3
Other	30,347	2.8	40,042	2.7
Total	$ 1,085,218	100.0 %	$ 1,506,149	100.0 %

10. 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 the 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 accumulated 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 condensed 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 condensed consolidated balance sheets until such derivative's gains or losses become realized or the cash flow hedge relationship is terminated.

Hedge accounting must be discontinued for a cash flow hedge of a forecasted transaction upon determining that it is no longer probable that the forecasted transaction will occur within the period originally specified at hedge inception. The cumulative hedge accounting gain or loss associated with the discontinued hedge would remain in accumulated other comprehensive income (loss), and would be reclassified into earnings when the forecasted transaction affects earnings, unless it is probable that the forecasted transaction will not occur by the end of the originally specified time period or within an additional two-month period of time thereafter. In that case, the entire amount recorded in accumulated other comprehensive income (loss) would immediately be reclassified into earnings. However, in rare cases, the existence of extenuating circumstances that are related to the nature of the forecasted transaction and are outside the control or influence of the Company may cause the forecasted transaction to be probable of occurring on a date that is beyond the additional two-month period of time, in which case the net derivative instrument gain or loss related to the discontinued cash flow hedge will continue to be reported in accumulated other comprehensive income (loss) until it is reclassified into earnings. The Company has identified some delays in the timing of forecasted inventory transactions and has applied the extenuating case exception since the delays are attributable to the COVID-19 pandemic. The Company determined that the delayed forecasted transactions are still probable of occurring after the additional two-month period, and therefore will retain the amounts associated with the discontinued cash flow hedge in accumulated other comprehensive income (loss) until the forecasted transaction affects earnings.

If the cash flow hedge relationship is terminated, the derivative's gains or losses that are recorded in accumulated other comprehensive income (loss) are immediately recognized in earnings. There were no gains or losses reclassified into earnings as a result of the discontinuance of cash flow hedges in the Third Quarter, Prior Year Quarter, Year To Date Period or Prior Year YTD Period.

As of October 3, 2020, the Company had the following outstanding forward contracts designated as cash flow hedges that were entered into to hedge future payments of inventory transactions (in millions):

Functional Currency		Contract Currency	
Type	**Amount**	**Type**	**Amount**
Euro	48.3	U.S. dollar	55.2
Canadian dollar	16.4	U.S. dollar	12.5
British pound	5.8	U.S. dollar	7.5
Japanese yen	509.5	U.S. dollar	4.8
U.S. dollar	7.8	Japanese yen	825.0

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 October 3, 2020, the Company had non-designated forward contracts of $0.9 million on 15.1 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 gains and losses on cash flow hedges that were recognized in other comprehensive income (loss), net of taxes are set forth below (in thousands):

	For the 13 Weeks Ended October 3, 2020	For the 13 Weeks Ended September 28, 2019
Cash flow hedges:		
Forward contracts	$ (3,650)	$ 6,062
Total gain (loss) recognized in other comprehensive income (loss), net of taxes	$ (3,650)	$ 6,062

	For the 40 Weeks Ended October 3, 2020	For the 39 Weeks Ended September 28, 2019
Cash flow hedges:		
Forward contracts	$ 2,293	$ 8,226
Total gain (loss) recognized in other comprehensive income (loss), net of taxes	$ 2,293	$ 8,226

The following tables disclose the gains and losses on derivative instruments recorded in accumulated 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 (in thousands):

Derivative Instruments	Condensed Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) Location	Effect of Derivative Instruments	For the 13 Weeks Ended October 3, 2020	For the 13 Weeks Ended September 28, 2019
Forward contracts designated as cash flow hedging instruments	Cost of sales	Total gain (loss) reclassified from accumulated other comprehensive income (loss)	$ (27)	$ 2,518
Forward contracts designated as cash flow hedging instruments	Other income (expense)-net	Total gain (loss) reclassified from accumulated other comprehensive income (loss)	$ 13	$ 1,120
Forward contracts not designated as hedging instruments	Other income (expense)-net	Total gain (loss) recognized in income	$ (63)	$ 27

Derivative Instruments	Condensed Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) Location	Effect of Derivative Instruments	For the 40 Weeks Ended October 3, 2020	For the 39 Weeks Ended September 28, 2019
Forward contracts designated as cash flow hedging instruments	Cost of sales	Total gain (loss) reclassified from accumulated other comprehensive income (loss)	$ 5,285	$ 7,309
Forward contracts designated as cash flow hedging instruments	Other income (expense)-net	Total gain (loss) reclassified from accumulated other comprehensive income (loss)	$ 101	$ 1,347
Forward contracts not designated as hedging instruments	Other income (expense)-net	Total gain (loss) recognized in income	$ 30	$ (6)

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 condensed consolidated balance sheets in which the fair value amounts for these categories of derivative instruments are included (in thousands):

	Asset Derivatives				Liability Derivatives			
	October 3, 2020		December 28, 2019		October 3, 2020		December 28, 2019	
Derivative Instruments	Condensed Consolidated Balance Sheets Location	Fair Value	Condensed Consolidated Balance Sheets Location	Fair Value	Condensed Consolidated Balance Sheets Location	Fair Value	Condensed Consolidated Balance Sheets Location	Fair Value
Forward contracts designated as cash flow hedging instruments	Prepaid expenses and other current assets	$ 329	Prepaid expenses and other current assets	$ 3,327	Accrued expenses-other	$ 1,571	Accrued expenses-other	$ 1,657
Forward contracts not designated as cash flow hedging instruments	Prepaid expenses and other current assets	—	Prepaid expenses and other current assets	—	Accrued expenses-other	6	Accrued expenses-other	63
Forward contracts designated as cash flow hedging instruments	Intangible and other assets-net	—	Intangible and other assets-net	21	Other long-term liabilities	—	Other long-term liabilities	104
Total		$ 329		$ 3,348		$ 1,577		$ 1,824

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

	Effect of Derivative Instruments			
	For the 13 Weeks Ended October 3, 2020		For the 13 Weeks Ended September 28, 2019	
	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 condensed consolidated statements of income (loss) and comprehensive income (loss) in which the effects of cash flow hedges are recorded	$205,726	$ —	$260,946	$ (1,424)
Gain (loss) on cash flow hedging relationships:				
Forward contracts designated as cash flow hedging instruments:				
Total gain (loss) reclassified from other comprehensive income (loss)	$ (27)	$ 13	$ 2,518	$ 1,120
Forward contracts not designated as hedging instruments:				
Total gain (loss) recognized in income	$ —	$ (63)	$ —	$ 27

	Effect of Derivative Instruments			
	For the 40 Weeks Ended October 3, 2020		For the 39 Weeks Ended September 28, 2019	
	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 condensed consolidated statements of income (loss) and comprehensive income (loss) in which the effects of cash flow hedges are recorded	$574,496	$ (6,411)	$714,573	$ 24,995
Gain (loss) on cash flow hedging relationships:				
Forward contracts designated as cash flow hedging instruments:				
Total gain (loss) reclassified from other comprehensive income (loss)	$ 5,285	$ 101	$ 7,309	$ 1,347
Forward contracts not designated as hedging instruments:				
Total gain (loss) recognized in income	$ —	$ 30	$ —	$ (6)

At the end of the Third Quarter, the Company had forward contracts designated as cash flow hedges with maturities extending through June 2021. As of October 3, 2020, an estimated net loss of $1.1 million is expected to be reclassified into earnings within the next twelve months at prevailing foreign currency exchange rates.

11. 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 October 3, 2020 (in thousands):

	Fair Value at October 3, 2020			
	Level 1	Level 2	Level 3	Total
Assets:				
Forward contracts	$ —	$ 329	$ —	$ 329
Deferred compensation plan assets:				
Investment in publicly traded mutual funds	5,540	—	—	5,540
Total	$ 5,540	$ 329	$ —	$ 5,869
Liabilities:				
Contingent consideration	$ —	$ —	$ 1,517	$ 1,517
Forward contracts	—	1,577	—	1,577
Total	$ —	$ 1,577	$ 1,517	$ 3,094

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 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 condensed 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. See "Note 10—Derivatives and Risk Management" for additional disclosures about the forward contracts.

As of October 3, 2020, debt, excluding unamortized debt issuance costs and capital leases, was recorded at cost and had a carrying value of $257.0 million and had a fair value of approximately $245.0 million. The fair value of debt was based on observable market inputs.

The fair value of trade names are measured on a non-recurring basis using Level 3 inputs, including forecasted cash flows, discount rates and implied royalty rates. During the first quarter of fiscal year 2020, the MICHELE® trade name with a carrying amount of $10.9 million was written down to its implied fair value of $8.4 million, resulting in a pre-tax impairment charge of $2.5 million in the Year To Date Period. The trade name impairment charge was recorded in the Corporate cost area. No trade name impairment was recorded during the Third Quarter.

During the Year To Date Period, operating lease right-of-use ("ROU") assets with a carrying amount of $38.5 million and property, plant and equipment-net with a carrying amount of $5.8 million related to retail store leasehold improvements, fixturing and shop-in-shops were written down to a fair value of $14.5 million and $1.6 million, respectively, resulting in impairment charges of $28.2 million.

The fair values of operating lease ROU assets and fixed assets related to retail stores were determined using Level 3 inputs, including forecasted cash flows and discount rates. Of the $28.2 million impairment expense, $16.9 million, $6.5 million, and $1.0 million was recorded in SG&A in the Americas, Europe and Asia segments, respectively, and $2.0 million, $1.1 million, and $0.7 million was recorded in restructuring charges in the Americas, Europe and Asia segments, respectively.

The fair value of the contingent consideration liability related to Fossil South Africa was determined using Level 3 inputs. The contingent consideration is based on Fossil South Africa's projected earnings and dividends. The present value of the contingent consideration liability was valued at $1.5 million as of October 3, 2020. The Company recorded $0.1 million of the variable consideration in accrued expenses-other and $1.4 million in other long-term liabilities in the condensed consolidated balance sheets at October 3, 2020.

12. INTANGIBLE AND OTHER ASSETS

The following table summarizes intangible and other assets (in thousands):

		October 3, 2020		December 28, 2019	
	Useful Lives	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
Intangibles-subject to amortization:					
Trademarks	10 yrs.	$ 3,731	$ 3,147	$ 3,612	$ 2,993
Customer lists	5 - 10 yrs.	52,306	48,099	52,517	44,013
Patents	3 - 20 yrs.	2,363	1,964	2,308	1,937
Developed technology	7 yrs.	2,193	959	2,193	548
Trade name	6 yrs.	4,502	750	4,502	188
Other	7 - 20 yrs.	499	293	383	272
Total intangibles-subject to amortization		65,594	55,212	65,515	49,951
Intangibles-not subject to amortization:					
Trade names		8,877		11,315	
Other assets:					
Deposits		20,034		18,558	
Deferred compensation plan assets		5,540		5,243	
Deferred tax asset-net		38,822		38,275	
Restricted cash		7,408		7,501	
Tax receivable		57,666		6,507	
Investments		327		500	
Other		2,485		2,145	
Total other assets		132,282		78,729	
Total intangible and other assets		$ 206,753	$ 55,212	$ 155,559	$ 49,951
Total intangible and other assets-net			$ 151,541		$ 105,608

Amortization expense for intangible assets was approximately $1.8 million and $1.7 million for the Third Quarter and the Prior Year Quarter, respectively, and $5.4 million and $5.1 million for the Year To Date Period and Prior Year YTD Period, respectively. Estimated aggregate future amortization expense by fiscal year for intangible assets is as follows (in thousands):

Fiscal Year		Amortization Expense
2020 (remaining)	$	1,772
2021	$	3,315
2022	$	2,465
2023	$	904
2024	$	884
Thereafter	$	1,042

13. COMMITMENTS AND CONTINGENCIES

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.

14. 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 incremental borrowing rate based on the information available at the commencement date adjusted for the lease term and 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 leases 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.

As a result of the COVID-19 pandemic, the Company received lease concessions from landlords in the form of rent deferrals and rent forgiveness. The Company chose the policy election provided by the FASB in April 2020 to record rent concessions as if no modifications to leases contracts were made, and thus no changes to the ROU assets and ROU liabilities were recorded in respect to these concessions. This guidance is only applicable to COVID-19 related lease concessions that do not result in a substantial increase in the rights of the lessor or the obligations of the lessee. As of October 3, 2020, the Company had outstanding deferred rent payments of $8.8 million, and the Company received rent forgiveness of $4.0 million and $7.6 million in the Third Quarter and Year To Date Period, respectively.

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

Lease Cost	Condensed Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) Location	For the 13 Weeks Ended October 3, 2020	For the 13 Weeks Ended September 28, 2019	For the 40 Weeks Ended October 3, 2020	For the 39 Weeks Ended September 28, 2019
Operating lease cost[1][2]	SG&A	$ 26,579	$ 28,997	$ 81,088	$ 89,240
Finance lease cost:					
Amortization of ROU assets	SG&A	$ 134	$ 114	$ 370	$ 354
Interest on lease liabilities	Interest expense	$ 2	$ 9	$ 19	$ 29
Short-term lease cost	SG&A	$ 78	$ 206	$ 418	$ 1,019
Variable lease cost	SG&A	$ 4,140	$ 9,492	$ 15,318	$ 26,834

(1)Includes sublease income, which was immaterial.
(2)Excludes the impact of deferred or abated rent amounts

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

Leases	Condensed Consolidated Balance Sheets Location	October 3, 2020	December 28, 2019
Assets			
Operating	Operating lease ROU assets	$ 244,483	$ 288,166
Finance	Property, plant and equipment - net of accumulated depreciation of $4,616 and $4,015, respectively	$ 5,928	$ 5,918
Liabilities			
Current:			
Operating	Current operating lease liabilities	$ 63,606	$ 68,838
Finance	Short-term and current portion of long-term debt	$ 966	$ 1,011
Noncurrent:			
Operating	Long-term operating lease liabilities	$ 260,692	$ 288,689
Finance	Long-term debt	$ 808	$ 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	October 3, 2020	December 28, 2019
Weighted-average remaining lease term:		
Operating leases	6.3 years	6.1 years
Finance leases	1.5 years	2.3 years
Weighted-average discount rate:		
Operating leases	14.0 %	13.9 %
Finance leases	1.2 %	1.2 %

Future minimum lease payments by year as of October 3, 2020 were as follows (in thousands):

Fiscal Year	Operating Leases [1]		Finance Leases	
2020 (remaining)	$	29,494	$	242
2021		101,168		1,028
2022		87,133		513
2023		69,416		—
2024		49,592		—
2025		36,381		—
Thereafter		132,603		—
Total lease payments	$	505,787	$	1,783
Less: Interest		181,489		9
Total lease obligations	$	324,298	$	1,774

[1] Future minimum lease payments exclude the impact of deferred or abated rent amounts

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
Finance lease obligations	$	357,527	$	2,478

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

	For the 40 Weeks Ended October 3, 2020		For the 39 Weeks Ended September 28, 2019	
Cash paid for amounts included in the measurement of lease liabilities:				
Operating cash flows from operating leases[1]	$	96,722	$	83,695
Operating cash flows from finance leases		19		29
Financing cash flows from finance leases		840		693
Leased assets obtained in exchange for new operating lease liabilities		30,151		25,854

[1] Cash flows for the 40 weeks ended October 3, 2020 exclude the impact of deferred or abated rent amounts

As of October 3, 2020, the Company did not have any material operating or finance leases that have been signed but not commenced.

15. DEBT ACTIVITY

On February 20, 2020, the Company entered into an Amendment No. 1 (the "First Amendment") to that certain Term Credit Agreement, dated as of September 26, 2019, by and among the Company, as borrower, JPMorgan Chase Bank, N.A., as administrative agent, and the lenders (the “Term Credit Agreement Lenders”) party thereto (as amended to date, the “Term Credit Agreement”).

Pursuant to the terms of the First Amendment, the Company, the administrative agent and the lenders party thereto agreed to modify certain terms of the Term Credit Agreement to, among other things, (i) increase the interest rate applicable to the term loans under the Term Credit Agreement (a) in the case of Eurodollar loans, from the adjusted LIBO rate plus 6.50% to the adjusted LIBO rate plus 8.00%, and (b) in the case of alternate base rate loans, from the alternate base rate plus 5.50% to the alternate base rate plus 7.00%; (ii) increase the maximum total leverage ratio permitted from 1.50 to 1.00 as of the last day of each fiscal quarter to (a) 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, (b) 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 (c) 1.50 to 1.00 as of the last day of each subsequent fiscal quarter; (iii) limit the amount of borrowings in aggregate principal amount at any time outstanding under that certain asset-based revolving credit agreement, dated as of September 26, 2019, by and among 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, certain subsidiaries of the Company from time to time party thereto, as guarantors, JPMorgan Chase Bank, N.A., as administrative agent, and J.P. Morgan AG, as French collateral agent (the "Revolving Facility"), to the lesser of the borrowing base thereunder and $200 million; (iv) extend the applicable periods for certain prepayment fees, so 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 Credit Agreement 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, 2021 and 1.00% with respect to the principal amount prepaid between February 21, 2021 and February 20, 2022; and (v) require the Company to pay the foregoing prepayment fee upon acceleration of the loans under the Term Credit Agreement. The First Amendment also modified the negative covenants and events of default in the Term Credit Agreement to reduce the Company’s flexibility with respect to certain matters. The Company incurred debt issue costs of $8.1 million in connection with the First Amendment.

On May 12, 2020, the Company entered into Amendment No. 2 to the Term Credit Agreement to extend the deadline for delivery of the Company’s unaudited quarterly financial statements and related deliverables for the fiscal quarter ended April 4, 2020 to the earlier of (i) July 6, 2020 and (ii) the date on which the Company was required to file with the SEC its quarterly report on Form 10-Q for the fiscal quarter ended April 4, 2020.

On June 5, 2020, the Company entered into Amendment No. 3 (the “Third Amendment”) to the Term Credit Agreement to modify certain terms of the Term Credit Agreement to, among other things, (i) increase the interest rate applicable to the term loans under the Term Credit Agreement (a) in the case of Eurodollar loans, from the adjusted LIBO rate plus 8.00% to the adjusted LIBO rate plus 8.50%, and (b) in the case of alternate base rate loans, from the alternate base rate plus 7.00% to the alternate base rate plus 7.50%; (ii) (a) require a $15.0 million principal prepayment at the time of the Third Amendment, (b) increase the quarterly amortization payment to be paid on September 30, 2020 to $8.0 million from $5.0 million, and (c) increase each quarterly amortization payment thereafter to $10.0 million; (iii) change provisions related to prepayment fees such that (a) prepayment fees will be waived for a period of 90 days following the date of the Third Amendment for prepayments in connection with certain refinancings of the term loans and (b) prepayment fees will be 2% for a period of twelve months after such 90-day period, and 1% for next twelve-month period; (iv) reduce the minimum liquidity levels required to be maintained by the Company at the end of each fiscal month, through and including November 2020, from $150.0 million to $125.0 million; (v) waive the quarterly test for maximum total leverage ratio for fiscal year 2020 and the first three fiscal quarters of fiscal year 2021, and during such period require the Company to maintain specified minimum levels of EBITDA; and (vi) increase the amount of equity interests in certain “first tier” foreign subsidiaries that must be pledged as collateral securing the obligations under the Term Credit Agreement from 65% to 100% of such equity interests.

While the Third Amendment amended, among other things, certain of the financial covenants in the Term Credit Agreement to address the financial impact of COVID-19, any material further decreases to the Company’s revenues and cash flows, or the Company's inability to successfully achieve its cost reduction targets, could result in the Company not meeting one or more of the amended financial covenants under its Term Credit Agreement within the next twelve months. See “Note 1- Significant Accounting Policies" for additional information.

As of October 3, 2020, the Company had $162.0 million and $103.0 million outstanding under the Term Credit Agreement and Revolving Facility, respectively. The Company had net payments of $8.0 million and $38.0 million under the Term Credit Agreement during the Third Quarter and Year To Date Period, respectively. The Company had net payments of $20.8 million and net borrowings of $75.0 million under the Revolving Facility during the Third Quarter and Year To Date Period, respectively. Amounts available under the Revolving Facility were reduced by any amounts outstanding under standby letters of credit. As of October 3, 2020, the Company had available borrowing capacity of $32.3 million under the Revolving Facility. The Company incurred approximately $4.3 million and $13.5 million of interest expense related to the Term Credit

Agreement during the Third Quarter and Year To Date Period, respectively. The Company incurred approximately $0.4 million and $1.4 million of interest expense related to the Revolving Facility during the Third Quarter and Year To Date Period, respectively. The Company incurred approximately $3.0 million and $7.7 million of interest expense related to the amortization of debt issuance costs and the original issue discount during the Third Quarter and Year To Date Period, respectively. At October 3, 2020, the Company was in compliance with all debt covenants related to its credit facilities.

16. 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 fiscal year 2019. The remaining liability under NWF 1.0 is no longer material.

In fiscal year 2019, the Company launched New World Fossil 2.0 - Transform to Grow Program ("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 also plans to change overall business processes and resources, creating a more centrally directed operating model, reducing complexity and redundancy, and operating at a lower cost base.

The NWF 2.0 restructuring program was expanded to address additional challenges posed by COVID-19, including a number of cost saving measures such as store closures. Effective March 30, 2020, the Company implemented base salary reductions for a substantial number of its global employees, including each of its executive officers. Additionally, the cash fees for all non-employee directors serving on the Company's Board of Directors were deferred for the first quarter of 2020 until the end of 2020 and the cash fees were reduced by 20% for the second quarter of fiscal year 2020. The Company has entered into agreements, or is in discussion with, most of its retail and corporate office landlords to modify its rent payments, receive other concessions or otherwise reduce its operating costs for these locations. The Company has also extended the payment terms with a number of its vendors and suppliers globally and has entered into agreements with licensors of certain third party trademarks to reduce the Company's royalty obligations in 2020. The Company estimates total NWF 2.0 charges of $50 million to $70 million, with approximately $33 million of those charges in fiscal year 2020.

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

	For the 13 Weeks Ended October 3, 2020				
	Liabilities July 4, 2020	Charges	Cash Payments	Non-cash Items	Liabilities October 3, 2020
Store closures	$ 583	$ 731	$ 802	$ 512	$ —
Professional services	323	515	456	—	382
Severance and employee-related benefits	6,348	4,467	6,427	—	4,388
Total	$ 7,254	$ 5,713	$ 7,685	$ 512	$ 4,770

	For the 13 Weeks Ended September 28, 2019			
	Liabilities June 29, 2019	Charges	Cash Payments	Liabilities September 28, 2019
Professional services	$ 730	$ 2,411	$ 962	$ 2,179
Severance and employee-related benefits	3,772	4,568	3,086	5,254
Total	$ 4,502	$ 6,979	$ 4,048	$ 7,433

	For the 40 Weeks Ended October 3, 2020				
	Liabilities				Liabilities
	December 28, 2019	Charges	Cash Payments	Non-cash Items	October 3, 2020
Store closures	$ 22	$ 3,424	$ 1,525	$ 1,921	$ —
Professional services	2,824	5,177	7,619	—	382
Severance and employee-related benefits	4,238	17,019	16,869	—	4,388
Total	$ 7,084	$ 25,620	$ 26,013	$ 1,921	$ 4,770

	For the 39 Weeks Ended September 28, 2019			
	Liabilities			Liabilities
	December 29, 2018	Charges	Cash Payments	September 28, 2019
Professional services	$ —	$ 5,049	$ 2,870	$ 2,179
Severance and employee-related benefits	—	8,629	3,375	5,254
Total	$ —	$ 13,678	$ 6,245	$ 7,433

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

	For the 13 Weeks Ended October 3, 2020	For the 13 Weeks Ended September 28, 2019	For the 40 Weeks Ended October 3, 2020	For the 39 Weeks Ended September 28, 2019
Americas	$ 415	$ 549	$ 4,372	$ 549
Europe	2,869	3,286	6,551	8,680
Asia	2,331	136	6,776	136
Corporate	98	3,008	7,921	4,313
Consolidated	$ 5,713	$ 6,979	$ 25,620	$ 13,678

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

The following is a discussion of the financial condition and results of operations of Fossil Group, Inc. and its subsidiaries for the thirteen and 40 week periods ended October 3, 2020 (the "Third Quarter" and "Year To Date Period," respectively) as compared to the thirteen and 39 week periods ended September 28, 2019 (the "Prior Year Quarter" and "Prior Year YTD Period," respectively). This discussion should be read in conjunction with the condensed consolidated financial statements and the related notes thereto.

General

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

Domestically, we sell our products through a diversified distribution network that includes department stores, specialty retail locations, specialty watch and jewelry stores, Company-owned retail and outlet stores, mass market stores and through our FOSSIL® website and third-party websites. Our wholesale customer base includes, among others, Amazon, Best Buy, Dillard's, Kohl's, Macy's, Nordstrom, Saks Fifth Avenue, Target and Wal-Mart. In the United States, our network of Company-owned stores included 53 retail stores located in premier retail sites and 99 outlet stores located in major outlet malls as of October 3, 2020. In addition, we offer an extensive collection of our FOSSIL branded products on our website, *www.fossil.com*, as well as proprietary and licensed watch and jewelry brands through other managed and affiliated websites.

Internationally, our products are sold to department stores, specialty retail stores and specialty watch and jewelry stores in approximately 150 countries worldwide through 23 Company-owned foreign sales subsidiaries and through a network of approximately 80 independent distributors. Internationally, our network of Company-owned stores included 158 retail stores and 121 outlet stores as of October 3, 2020. 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 branded products on our websites in certain countries.

Our business is subject to economic cycles, retail industry conditions and the impact of tariffs on our products. Purchases of discretionary fashion accessories, such as our watches, handbags, sunglasses and other products, tend to decline during recessionary periods when disposable income is low and consumers are hesitant to use available credit. In addition, acts of terrorism, acts of war and military action both in the U.S. and abroad can have a significant effect on economic conditions and may negatively affect our ability to procure our products from manufacturers for sale to our customers.

Our business is also 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 contract manufacturers' control.

Future sales and earnings growth are also contingent upon our ability to anticipate and respond to changing fashion trends and consumer preferences in a timely manner while continuing to develop innovative products in the respective markets in which we compete. As is typical with new products, including our lines of connected accessories, market acceptance of new designs and products that we may introduce is subject to uncertainty. In addition, we generally make decisions regarding product designs several months in advance of the time when consumer acceptance can be measured. We believe that we can drive long-term growth with brand building, innovation through design, fashion and new materials and introducing new technology and functionality into our accessories, while continuing to provide a solid value proposition to consumers across all of our brands.

Our international operations are subject to many risks, including foreign currency fluctuations and risks related to the global economy. Generally, a strengthening of the U.S. dollar against currencies of other countries in which we operate will reduce the translated amounts of sales and operating expenses of our subsidiaries, which results in a reduction of our consolidated operating income. We manage these currency risks by using derivative instruments. The primary risks managed by using derivative instruments are the future payments by non-U.S. dollar functional currency subsidiaries of intercompany inventory transactions denominated in U.S. dollars. We enter into foreign exchange forward contracts ("forward contracts") to manage fluctuations in global currencies that will ultimately be used to settle such U.S. dollar denominated inventory purchases.

Known or Anticipated Trends: Based on our recent operating results and current perspectives on our operating environment, we anticipate the following trends will continue to impact our operating results:

In March 2020, a novel strain of coronavirus ("COVID-19") was declared a global pandemic by the World Health Organization. Our business operations and financial performance for the Third Quarter and Year To Date Period were materially impacted by COVID-19. The COVID-19 pandemic has negatively affected the global economies, disrupted global supply chains and financial markets, and led to significant travel and transportation restrictions, including mandatory closures of non-essential businesses and orders to “shelter-in-place.” We are focused on protecting the health and safety of our employees, customers and suppliers to minimize potential disruptions and supporting the community to address challenges posed by the global COVID-19 pandemic. At the end of the first quarter of fiscal year 2020, the impact of COVID-19 resulted in the closure of the majority of our stores and many of our wholesale partners' stores. During the second quarter of fiscal year 2020, many regional and local governments lifted or modified restrictions and orders. During the Third Quarter, while the majority of our stores and wholesale partners’ stores remained open, we continued to experience significant declines in traffic that negatively impacted sales. The ability for these stores to remain open is dependent on a number of factors, including, but not limited to, re-implementation of government restrictions or other safety protocols. We expect revenue declines to continue in our retail and wholesale channels as consumers react to, or otherwise practice, “social distancing” and other safety measures. Since the COVID-19 pandemic began, declines in retail traffic have been partially offset by growth in our e-commerce channels. We expect these trends to continue, as consumers continue to focus on online shopping options.

We have implemented cost savings actions, reduced spending, and plan to take further actions to address the decrease in revenue and cash flow and other impacts on our business as a result of COVID-19 in order to maintain liquidity and to remain in compliance with financial covenants. For the Year To Date Period, selling, general and administrative expenses (“SG&A”) decreased $141.6 million compared to the Prior Year YTD Period. Examples of some of the actions we have taken include the following:

Board of Director and Executive Compensation: We implemented base salary reductions for each of our executive officers for an indefinite time period. Further, the cash fees for all non-employee directors serving on our Board of Directors were deferred for the first quarter of fiscal year 2020 until the end of the year, and the cash fees were reduced by 20% for the second quarter of fiscal year 2020.

Employee Actions: During the second quarter of fiscal year 2020, we implemented weekly work hour reductions (e.g., from 40 hours to 32 or 24 hours) and work-reduction furloughs for certain other employees. We also have implemented base salary reductions for a substantial number of our employees globally and reduced corporate staff levels. In the Third Quarter, we reinstated normal work week schedules. We closed all of our corporate offices at various times in 2020. We believe our employees have generally been successful in transitioning to a virtual working environment. Currently, most of our offices have reopened in some capacity, and we are following government regulations and have health and safety guidelines in place.

Office and Retail Location Expenses: We have entered into agreements, or are in discussions with, many of our retail and corporate office landlords to modify rent payments, receive other concessions or otherwise reduce our operating costs for these locations. Refer to "Note 14-Leases" for more information.

Marketing and Other Expenses: We have reduced marketing and other operating expenses, like time and expense and services.

Capital Expenditures: Capital expenditures for 2020 are expected to be approximately $9 million, compared to original expectations of approximately $25 million. This reduction reflects the deferral or cancellation of certain planned investments.

Other Liquidity Improvements: We have also extended the payment terms with a number of our vendors and suppliers globally and reduced our inventory purchases to improve working capital.

Our Term Credit Agreement (as defined in "Note 15-Debt Activity") contains certain affirmative and negative covenants. In June 2020, we entered into Amendment No. 3 to our Term Credit Agreement to amend, among other things, certain of these financial covenants as a result of the impact of COVID-19 on our business. Refer to “Note 15-Debt Activity" for additional details on the Term Credit Agreement. We are currently in compliance with our covenants and management believes its business plans will result in adequate cash flows to support our ongoing operations and meet our covenant requirements for one year following the date these financial statements are issued.

Business Strategies and Outlook: Notwithstanding the COVID-19 pandemic, we plan to execute the following strategies to enhance our brands, grow our revenue and improve profitability. These strategies remain highly relevant, and we believe they will be important to our long-term success. The first strategic initiative is delivering compelling storytelling and innovation to build upon brand equities for both owned and licensed brands across our product categories. Our second strategic initiative is commercial transformation, where we are investing in our e-commerce and digital marketing capabilities while reducing our reliance on traditional brick and mortar stores. The current operating environment created by the COVID-19 pandemic is further accelerating this shift. Our third strategic initiative is expanding our opportunity in mainland China and India. In these countries, we are continuing to execute against a strategy centered around localized marketing and segmented assortments. Although the impact of COVID-19 is likely to disrupt our growth trajectory in the short to intermediate term, we continue to view mainland China and India as compelling long-term opportunities. Our fourth strategic initiative is to capture greater efficiency in our processes and right-sizing our cost structure. After completing the New World Fossil ("NWF 1.0") program of $100 million in cost savings in 2019, we announced a $200 million New World Fossil ("NWF 2.0") program starting in fiscal year 2019. In 2019, the NWF 2.0 program achieved $50 million of savings. Due to the expected near term impact of COVID-19, we increased the program's goal to $250 million, with $100 million in savings targeted for 2020.

For a more complete discussion of the risks facing our business, see "Part I, Item 1A. Risk Factors" of our Annual Report on Form 10-K for the fiscal year ended December 28, 2019 and "Part II, Item 1A. Risk Factors" of our subsequent Quarterly Reports on Form 10-Q.

Results of Operations

Executive Summary. Since the onset of the COVID-19 pandemic, we have acted to protect our employees, partners and communities worldwide, adapted to rapidly changing circumstances, mitigated business disruption and strengthened our financial position. While the operating environment has remained challenged, we have focused on maximizing sales opportunities while reducing operating costs. During the Third Quarter, sales growth in the Company's e-commerce channels partially offset sales declines in traditional wholesale and brick and mortar retail stores. Operating expense reductions and gross margin rate improvement more than offset revenue declines, resulting in operating income improvements during the Third Quarter compared to the Prior Year Quarter.

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 discussions contain 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 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. We provide constant currency financial information and the most directly comparable GAAP measure where applicable.

Quarterly Periods Ended October 3, 2020 and September 28, 2019

Consolidated Net Sales. Net sales decreased $104.0 million, or 19.3% (20.1% in constant currency), for the Third Quarter as compared to the Prior Year Quarter, primarily as a result of COVID-19 pandemic-related traffic declines, in both our owned stores and our wholesale customers. Global comparable retail sales decreased 29% primarily due to traffic declines in our owned stores, partially offset by e-commerce growth. While the majority of our stores have re-opened, we still experienced significant traffic declines, which were partially offset by improved conversions. The sales declines in our store channel were partially offset by strong growth in e-commerce, both in our owned websites and in third party marketplace sites recorded in our wholesale channel. We will continue focusing on sales in the digital channel, as customers continue to shift to digital, and we are generating greater return on our investments in digital infrastructure. We have reduced our store footprint by 23 stores since the end of the Prior Year Quarter and expect to reduce it further during the remainder of fiscal year 2020.

Net sales information by product category is summarized as follows (dollars in millions):

	For the 13 Weeks Ended October 3, 2020		For the 13 Weeks Ended September 28, 2019		Growth (Decline)		
	Net Sales	Percentage of Total	Net Sales	Percentage of Total	Dollars	Percentage As Reported	Percentage Constant Currency
Watches	$ 356.6	81.9 %	$ 445.5	82.6 %	$ (88.9)	(20.0)%	(20.7)%
Leathers	37.7	8.7	54.5	10.1	(16.8)	(30.8)	(31.4)
Jewelry	28.9	6.6	28.2	5.2	0.7	2.5	(0.7)
Other	12.3	2.8	11.3	2.1	1.0	8.8	8.0
Total	$ 435.5	100.0 %	$ 539.5	100.0 %	$ (104.0)	(19.3)%	(20.1)%

In the Third Quarter, the translation of foreign-based net sales into U.S. dollars increased reported net sales by $4.4 million, including favorable impacts of $5.4 million and $0.2 million in our Europe and Asia segments, respectively, and an unfavorable impact of $1.3 million in our Americas segment, as compared to the Prior Year Quarter.

The following table sets forth consolidated net sales by segment (dollars in millions):

	For the 13 Weeks Ended October 3, 2020		For the 13 Weeks Ended September 28, 2019		Growth (Decline)		
	Net Sales	Percentage of Total	Net Sales	Percentage of Total	Dollars	Percentage As Reported	Percentage Constant Currency
Americas	$ 175.1	40.2 %	$ 220.0	40.8 %	$ (44.9)	(20.4)%	(19.7)%
Europe	135.3	31.1	173.9	32.2	(38.6)	(22.2)	(25.3)
Asia	119.7	27.5	143.3	26.6	(23.6)	(16.5)	(16.6)
Corporate	5.4	1.2	2.3	0.4	3.1	134.8	117.4
Total	$ 435.5	100.0 %	$ 539.5	100.0 %	$ (104.0)	(19.3)%	(20.1)%

Americas Net Sales. Americas net sales decreased $44.9 million, or 20.4% (19.7% in constant currency), during the Third Quarter in comparison to the Prior Year Quarter. In the region, sales declined in the U.S., Canada and Mexico. Strong sales growth in e-commerce partially offset the declines in other channels. Sales declined in most brands, most notably in FOSSIL and MICHAEL KORS®. Comparable retail sales declined in the mid-twenties on a percentage basis during the Third Quarter, driven by traffic declines due to the COVID-19 pandemic, partially offset by strong positive e-commerce comparable retail sales.

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):

	For the 13 Weeks Ended October 3, 2020		For the 13 Weeks Ended September 28, 2019		Growth (Decline)		
	Net Sales	Percentage of Total	Net Sales	Percentage of Total	Dollars	Percentage As Reported	Percentage Constant Currency
Watches	$ 142.9	81.6 %	$ 179.4	81.5 %	$ (36.5)	(20.3)%	(19.7)%
Leathers	22.3	12.7	33.3	15.1	(11.0)	(33.0)	(32.7)
Jewelry	8.0	4.6	4.9	2.2	3.1	63.3	63.3
Other	1.9	1.1	2.4	1.2 %	(0.5)	(20.8)	(16.7)
Total	$ 175.1	100.0 %	$ 220.0	100.0 %	$ (44.9)	(20.4)%	(19.7)%

Europe Net Sales. Europe net sales decreased $38.6 million, or 22.2% (25.3% in constant currency), during the Third Quarter in comparison to the Prior Year Quarter. Across the Eurozone, sales were down in all major markets with the greatest declines in Germany and the U.K. Sales decreased in all major brands, most notably in FOSSIL and MICHAEL KORS. Comparable retail sales declined in the low-thirties on a percentage basis during the Third Quarter, driven by traffic declines due to the COVID-19 pandemic, partially offset by positive e-commerce comparable retail sales.

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):

	For the 13 Weeks Ended October 3, 2020		For the 13 Weeks Ended September 28, 2019		Growth (Decline)		
	Net Sales	Percentage of Total	Net Sales	Percentage of Total	Dollars	Percentage As Reported	Percentage Constant Currency
Watches	$ 105.2	77.8 %	$ 137.2	78.9 %	$ (32.0)	(23.3)%	(26.3)%
Leathers	8.1	6.0	10.8	6.2	(2.7)	(25.0)	(27.8)
Jewelry	18.6	13.7	21.5	12.4	(2.9)	(13.5)	(17.7)
Other	3.4	2.5	4.4	2.5 %	(1.0)	(22.7)	(25.0)
Total	$ 135.3	100.0 %	$ 173.9	100.0 %	$ (38.6)	(22.2)%	(25.3)%

Asia Net Sales. Net sales in Asia decreased $23.6 million, or 16.5% (16.6% in constant currency), during the Third Quarter in comparison to the Prior Year Quarter. Sales declined in most brands during the Third Quarter, most notably in FOSSIL and MICHAEL KORS and partially offset by sales increases in EMPORIO ARMANI®. Sales decreased in all major markets across Asia, except for mainland China, where sales growth was driven by e-commerce channels. Our wholesale and retail channels were negatively impacted by partial shutdowns and travel restrictions during secondary waves of the COVID-19 pandemic as well as reduced traffic in markets that remained open. Comparable retail sales declined in the low-thirties on a percentage basis during the Third Quarter, driven by traffic declines due to the COVID-19 pandemic.

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):

	For the 13 Weeks Ended October 3, 2020		For the 13 Weeks Ended September 28, 2019		Growth (Decline)		
	Net Sales	Percentage of Total	Net Sales	Percentage of Total	Dollars	Percentage As Reported	Percentage Constant Currency
Watches	$ 108.5	90.6 %	$ 128.9	90.0 %	$ (20.4)	(15.8)%	(16.0)%
Leathers	7.3	6.1	10.4	7.3	(3.1)	(29.8)	(29.8)
Jewelry	2.3	1.9	1.8	1.3	0.5	27.8	27.8
Other	1.6	1.4	2.2	1.4	(0.6)	(27.3)	(27.3)
Total	$ 119.7	100.0 %	$ 143.3	100.0 %	$ (23.6)	(16.5)%	(16.6)%

Stores. The following table sets forth the number of stores by concept on the dates indicated below:

	October 3, 2020				September 28, 2019			
	Americas	Europe	Asia	Total	Americas	Europe	Asia	Total
Full price accessory	77	74	54	205	87	86	53	226
Outlets	112	76	32	220	115	72	35	222
Full priced multi-brand	—	3	3	6	—	4	2	6
Total stores	189	153	89	431	202	162	90	454

During the Third Quarter, we closed nine stores and opened four new stores.

Both stores and our own 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 retail sales base, but are included in total sales. These stores are returned to the comparable retail sales base in the thirteenth month following the expansion and/or relocation. Comparable retail sales are calculated on a comparable calendar period. Therefore, the percentage change in comparable sales for 2020 were calculated on a 40-to-40 week basis to normalize the 40-week Year To Date Period with the 39-week Prior Year YTD Period. Comparable retail sales also exclude the effects of foreign currency fluctuations.

Gross Profit. Gross profit of $229.8 million in the Third Quarter decreased 17.5% in comparison to $278.5 million in the Prior Year Quarter, as a result of decreased sales. Gross profit margin rate increased to 52.8% in the Third Quarter compared to 51.6% in the Prior Year Quarter, primarily reflecting a higher mix of e-commerce sales, favorable region and product mix and favorable pricing on sell-through of older generation connected products, partially offset by heightened promotional activity and an unfavorable currency impact of approximately 120 basis points.

Operating Expenses. Total operating expenses in the Third Quarter decreased by $75.4 million, or 26.2%, to $212.3 million compared to $287.7 million in the Prior Year Quarter. Operating expenses in the Third Quarter included $5.7 million of restructuring costs, primarily related to employee costs, professional services and store closures, while the Prior Year Quarter included $7.0 million in restructuring costs. SG&A expenses in the Third Quarter decreased $57.6 million from the Prior Year Quarter due to lower compensation, marketing and discretionary costs. The translation of foreign-denominated expenses during the Third Quarter increased operating expenses by $2.5 million as a result of the weaker U.S. dollar. As a percentage of net sales, SG&A expenses decreased to 47.4% in the Third Quarter as compared to 49.0% in the Prior Year Quarter.

Operating Income (Loss). Operating income was $17.5 million in the Third Quarter as compared to an operating loss of $9.2 million in the Prior Year Quarter. The improvement in operating income was primarily driven by cost reductions and an improved gross profit margin rate, and partially offset by COVID-19 impacts on sales. As a percentage of net sales, operating margin was 4.0% in the Third Quarter compared to (1.7)% in the Prior Year Quarter. Operating margin rate in the Third Quarter included an unfavorable impact of 130 basis points due to changes in foreign currencies.

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

	For the 13 Weeks Ended October 3, 2020	For the 13 Weeks Ended September 28, 2019	Change		Operating Margin %	
			Dollars	Percentage	2020	2019
Americas	$ 45.0	$ 18.9	$ 26.1	138.1 %	25.7 %	8.6 %
Europe	10.7	26.4	(15.7)	(59.5)	7.9	15.2
Asia	25.3	32.7	(7.4)	(22.6)	21.1	22.8
Corporate	(63.5)	(87.2)	23.7	(27.2)		
Total operating income (loss)	$ 17.5	$ (9.2)	$ 26.7	(290.2)%	4.0 %	(1.7)%

Interest Expense. Interest expense increased by $0.6 million during the Third Quarter compared to the Prior Year Quarter, driven by increased debt issuance cost amortization as a result of our September 26, 2019 debt agreement and subsequent amendments.

Other Income (Expense)-Net. During the Third Quarter, other income (expense)-net was zero in comparison to an expense of $1.4 million in the Prior Year Quarter. The expense in the Prior Year Quarter was primarily driven by a $3.0 million loss on extinguishment of debt partially offset by net transactional currency gains.

Provision for Income Taxes. Income tax benefit for the Third Quarter was $6.8 million, resulting in an effective income tax rate of (71.4)%. For the Prior Year Quarter, income tax expense was $6.9 million, resulting in an effective income tax rate of (38.6)%. The effective tax rate in the Third Quarter differed from the Prior Year Quarter primarily due to changes enacted in the Coronavirus Aid, Relief, and Economic Security ("CARES") Act, which was signed into law on March 27, 2020. The CARES Act allows U.S. taxpayers to carry back a net operating loss ("NOL") arising in tax years 2018, 2019 and 2020 to prior years when the tax rate was 35%. The Company recognized a U.S. tax benefit from its fiscal year 2019 tax losses, which will be carried back to offset taxable income reported in prior years. The Company will receive a refund of 2014 and 2015 taxes.

The Prior Year Quarter effective tax rate was negative because income tax expense was accrued on certain foreign entities with positive taxable income and no benefit was recognized for losses in the U.S. and certain foreign jurisdictions. Due to the Global Intangible Low-Taxed Income ("GILTI") provision of the Tax Cuts and Jobs Act, certain foreign income is included in U.S. taxable income effectively absorbing the U.S. NOLs, eliminating the availability of any future tax benefit or loss carryback prior to the NOL carryback provision in the CARES Act.

Net Income (Loss) Attributable to Fossil Group, Inc. Third Quarter net income attributable to Fossil Group, Inc. was $16.0 million, or $0.31 per diluted share, in comparison to a net loss of $25.9 million, or $0.51 per diluted share, in the Prior Year Quarter. Diluted earnings per share in the Third Quarter included restructuring charges of $0.09 per diluted share. Diluted earnings (loss) per share in the Prior Year Quarter included non-cash intangible asset impairment charges of $0.25 per diluted share and restructuring charges of $0.11 per diluted share. Currency fluctuations unfavorably impacted diluted earnings per share by $0.09 during the Third Quarter.

Fiscal Year To Date Periods Ended October 3, 2020 and September 28, 2019

Consolidated Net Sales. Net sales decreased $420.9 million or 27.9% (27.5% in constant currency) for the Year To Date Period as compared to the Prior Year YTD Period. We experienced sales declines in all three geographic segments and major product categories. In the beginning of the first quarter of fiscal year 2020, sales results were positively impacted by increased off-price and liquidation sales of connected inventory. Due to the ongoing COVID-19 pandemic, sales began to slow in February in Asia and in March in the Americas and Europe as a result of store closures in our direct to consumer and wholesale channels. At various times throughout the second quarter of fiscal year 2020, certain restrictions due to the COVID-19 pandemic were lifted or eased, allowing stores in our direct to consumer and wholesale channels to re-open. However, various restrictions have remained in place and some regions have reinstated previous restrictions due to secondary waves of the COVID-19 pandemic. As a result, traffic remained down in the Year To Date Period compared to the Prior Year YTD Period. Comparable retail sales declined in the mid-twenties on a percentage basis during the Year To Date Period, driven by temporary store closures and traffic declines due to the COVID-19 pandemic, but were partially offset by strong positive e-commerce comparable retail sales.

Net sales information by product category is summarized as follows (dollars in millions):

	For the 40 Weeks Ended October 3, 2020		For the 39 Weeks Ended September 28, 2019		Growth (Decline)		
	Net Sales	Percentage of Total	Net Sales	Percentage of Total	Dollars	Percentage As Reported	Percentage Constant Currency
Watches	$ 876.0	80.7 %	$ 1,225.0	81.3 %	$ (349.0)	(28.5)%	(28.0)%
Leathers	111.6	10.3	161.0	10.7	(49.4)	(30.7)	(30.4)
Jewelry	67.3	6.2	80.1	5.3	(12.8)	(16.0)	(16.4)
Other	30.3	2.8	40.0	2.7	(9.7)	(24.3)	(24.3)
Total	$ 1,085.2	100.0 %	$ 1,506.1	100.0 %	$ (420.9)	(27.9)%	(27.5)%

In the Year To Date Period, the translation of foreign-based net sales into U.S. dollars decreased reported net sales by $6.0 million, including unfavorable impacts of $4.8 million and $2.2 million in in our Asia and Americas segments, respectively, and a favorable impact of $0.9 million in our Europe segment, compared to the Prior Year YTD Period.

The following table sets forth consolidated net sales by segment (dollars in millions):

	For the 40 Weeks Ended October 3, 2020		For the 39 Weeks Ended September 28, 2019		Growth (Decline)		
	Net Sales	Percentage of Total	Net Sales	Percentage of Total	Dollars	Percentage As Reported	Percentage Constant Currency
Americas	$ 433.8	40.0 %	$ 633.5	42.1 %	$ (199.7)	(31.5)%	(31.1)%
Europe	343.1	31.5	474.2	31.5	(131.1)	(27.6)	(27.8)
Asia	295.2	27.2	386.4	25.7	(91.2)	(23.6)	(22.4)
Corporate	13.1	1.3	12.0	0.7	1.1	9.2	8.4
Total	$ 1,085.2	100.0 %	$ 1,506.1	100.0 %	$ (420.9)	(27.9)%	(27.5)%

Americas Net Sales. Americas net sales decreased $199.7 million, or 31.5% (31.1% in constant currency), during the Year To Date Period in comparison to the Prior Year YTD Period. During the Year To Date Period, sales declined in most brands in our watch portfolio, with the largest decreases in FOSSIL and MICHAEL KORS. Geographically, sales declined in the U.S., Canada and Mexico. Strong e-commerce sales growth partially offset retail store and wholesale sales declines. Comparable retail sales in the region decreased in the mid-twenties on a percentage basis during the Year To Date Period, driven by temporary store closures and traffic declines due to the COVID-19 pandemic, but were partially offset by strong positive e-commerce comparable retail sales.

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):

	For the 40 Weeks Ended October 3, 2020		For the 39 Weeks Ended September 28, 2019		Growth (Decline)		
	Net Sales	Percentage of Total	Net Sales	Percentage of Total	Dollars	Percentage As Reported	Percentage Constant Currency
Watches	$ 346.6	79.9 %	$ 512.8	80.9 %	$ (166.2)	(32.4)%	(32.0)%
Leathers	67.7	15.6	97.7	15.4	(30.0)	(30.7)	(30.5)
Jewelry	14.7	3.4	15.7	2.5	(1.0)	(6.4)	(7.6)
Other	4.8	1.1	7.3	1.2	(2.5)	(34.2)	(32.9)
Total	$ 433.8	100.0 %	$ 633.5	100.0 %	$ (199.7)	(31.5)%	(31.1)%

Europe Net Sales. Europe net sales decreased $131.1 million, or 27.6% (27.8% in constant currency), during the Year To Date Period in comparison to the Prior Year YTD Period. During the Year To Date Period, most of the brands in the portfolio declined, with the largest sales decreases in FOSSIL and MICHAEL KORS, driven mainly by temporary store closures in our direct to consumer and wholesale channel due to the COVID-19 pandemic and reduced traffic as stores re-opened. Sales were down in all markets, most notably in Germany and the U.K. Strong e-commerce sales growth partially offset declines in our retail store and wholesale channels. Comparable retail sales in the region decreased in the mid-twenties on a percentage basis during the Year To Date Period, driven by temporary store closures and traffic declines due to the COVID-19 pandemic, but were partially offset by strong positive e-commerce comparable retail sales.

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):

	For the 40 Weeks Ended October 3, 2020		For the 39 Weeks Ended September 28, 2019		Growth (Decline)		
	Net Sales	Percentage of Total	Net Sales	Percentage of Total	Dollars	Percentage As Reported	Percentage Constant Currency
Watches	$ 265.2	77.3 %	$ 367.9	77.6 %	$ (102.7)	(27.9)%	(28.1)%
Leathers	22.6	6.6	31.4	6.6	(8.8)	(28.0)	(28.0)
Jewelry	47.5	13.8	60.7	12.8	(13.2)	(21.7)	(22.2)
Other	7.8	2.3	14.2	3.0	(6.4)	(45.1)	(45.8)
Total	$ 343.1	100.0 %	$ 474.2	100.0 %	$ (131.1)	(27.6)%	(27.8)%

Asia Net Sales. Asia net sales decreased $91.2 million, or 23.6% (22.4% in constant currency), during the Year To Date Period in comparison to the Prior Year YTD Period. Sales of most brands declined in the Year To Date Period as compared to the Prior Year YTD Period, most notably in FOSSIL. Strong e-commerce sales growth partially offset retail store and wholesale sales declines. Within the region, we continued to have strong sales growth in mainland China, while all other major markets declined. For the Year To Date Period, comparable retail sales decreased in the mid-thirties on a percentage basis driven by temporary store closures due to the COVID-19 pandemic, but were partially offset by strong positive e-commerce comparable retail sales.

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):

	For the 40 Weeks Ended October 3, 2020		For the 39 Weeks Ended September 28, 2019		Growth (Decline)		
	Net Sales	Percentage of Total	Net Sales	Percentage of Total	Dollars	Percentage As Reported	Percentage Constant Currency
Watches	$ 264.1	89.5 %	$ 344.1	89.1 %	$ (80.0)	(23.2)%	(22.0)%
Leathers	21.4	7.2	31.9	8.3	(10.5)	(32.9)	(32.0)
Jewelry	5.1	1.7	3.8	1.0	1.3	34.2	36.8
Other	4.6	1.6	6.6	1.6	(2.0)	(30.3)	(30.3)
Total	$ 295.2	100.0 %	$ 386.4	100.0 %	$ (91.2)	(23.6)%	(22.4)%

Gross Profit. Gross profit of $510.7 million in the Year To Date Period decreased $280.9 million, or 35.5%, in comparison to $791.6 million in the Prior Year YTD Period primarily due to the decline in net sales. Gross profit margin rate decreased to 47.1% in the Year To Date Period compared to 52.6% in the Prior Year YTD Period. The gross profit margin rate contracted primarily due to increased liquidation and inventory valuation adjustments of older generation connected products, primarily in the first quarter of fiscal year 2020, and was partially offset by a higher mix of e-commerce sales and favorable region and product mix. Currency unfavorably impacted the gross profit margin rate by approximately 30 basis points.

Operating Expenses. For the Year To Date Period, total operating expenses decreased to $664.4 million compared to $819.0 million in the Prior Year YTD Period. SG&A expenses were lower compared to the Prior Year YTD Period mainly due to corporate and regional infrastructure reductions and lower store costs as a result of store closures. During the Year To Date Period, we incurred restructuring costs of $25.6 million in comparison to restructuring costs of $24.5 million in the Prior Year YTD Period. We incurred non-cash intangible asset impairment charges of $2.5 million in the Year To Date Period compared to charges of $16.6 million in the Prior Year YTD Period. The translation of foreign-denominated expenses during the Year To Date Period decreased operating expenses by $3.1 million as a result of the stronger U.S. dollar. As a percentage of net sales, SG&A expenses increased to 58.6% in the Year To Date Period as compared to 51.6% in the Prior Year YTD Period.

Operating Income (Loss). Operating income (loss) was a loss of $153.6 million in the Year To Date Period as compared to a loss of $27.4 million in the Prior Year YTD Period, primarily resulting from the $420.9 million decline in net sales in the Year To Date Period compared to the Prior Year YTD Period due to the COVID-19 pandemic. The gross margin rate primarily decreased due to increased liquidation and inventory valuation adjustments of older generation connected products and was partially offset by a higher mix of e-commerce sales and favorable region and product mix. Within operating expenses, SG&A expenses decreased $141.6 million driven by corporate and regional infrastructure reductions and lower store costs due to store closures both as part of our long term operating strategy and as a response to the global COVID-19 pandemic. As a percentage of net sales, operating margin was (14.2)% in the Year To Date Period as compared to (1.8)% in the Prior Year YTD Period and was negatively impacted by approximately 40 basis points due to changes in foreign currencies.

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

	For the 40 Weeks Ended October 3, 2020	For the 39 Weeks Ended September 28, 2019	Change		Operating Margin %	
			Dollars	Percentage	2020	2019
Americas	$ 12.7	$ 59.4	$ (46.7)	(78.6)%	2.9 %	9.4 %
Europe	(2.5)	53.1	(55.6)	(104.7)	(0.7)	11.2
Asia	43.1	80.7	(37.6)	(46.6)	14.6	20.9
Corporate	(206.9)	(220.6)	13.7	(6.2)		
Total operating income (loss)	$ (153.6)	$ (27.4)	$ (126.2)	460.6 %	(14.2)%	(1.8)%

Interest Expense. Interest expense increased by $0.5 million during the Year To Date Period primarily driven by increased debt issuance cost amortization as a result of our September 26, 2019 debt agreement and subsequent amendments.

Other Income (Expense)-Net. During the Year To Date Period, other income (expense)-net was a net expense of $6.4 million in the Year to Date Period compared to net income of $25.0 million in the Prior Year YTD Period. This change was primarily driven by a $21.6 million gain on the sale of intellectual property in the Prior Year YTD Period, and net foreign currency losses during the Year To Date Period as compared to net gains in the Prior Year YTD Period.

Provision for Income Taxes. Income tax benefit for the Year To Date Period was $91.3 million, resulting in an effective income tax rate of 49.7%. The effective tax rate in the Year To Date Period differed from the Prior Year YTD Period primarily due to changes enacted in the CARES Act allowing a U.S. NOL carryback. The Prior Year YTD Period income tax expense was $18.0 million resulting in an effective tax rate of (71.1)%. The effective tax rate was negative because income tax expense was accrued on certain foreign entities with positive taxable income and no benefit was recognized for losses in the U.S. and certain foreign jurisdictions.

Net Income (Loss) Attributable to Fossil Group, Inc. For the Year To Date Period, we had a net loss of $92.1 million, or $1.81 per diluted share, in comparison to a loss of $45.5 million, or $0.91 per diluted share, in the Prior Year YTD Period. A reduction in operating expenses during the Year To Date Period partially offset the decline in gross margin. The Company also benefited from a $21.6 million gain on the sale of intellectual property in the Prior Year YTD Period. Diluted earnings per share in the Year To Date Period, as compared to the Prior Year YTD Period, decreased $0.19 per diluted share due to the currency impact of a stronger U.S. dollar.

Liquidity and Capital Resources

Our cash and cash equivalents balance at the end of the Third Quarter was $323.6 million, including $296.3 million held in banks outside the U.S., in comparison to cash and cash equivalents of $147.5 million at the end of the Prior Year Quarter and $200.2 million at the end of fiscal year 2019. 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 cash flows from operations, including our current and planned cost savings measures, 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. Although we believe we have adequate sources of liquidity in the short-term and long-term, the success of our operations, in light of the market volatility and uncertainty as a result of the COVID-19 pandemic, among other factors, could impact our business and liquidity.

We have taken various actions to mitigate the impact of the current economic crisis on our financial position, with a focus on financial liquidity enhancements, cost reduction measures, capital preservation and inventory management. In addition to these temporary savings, we made permanent cost reductions under our NWF 2.0 program. We believe our cost reduction actions will result in adequate cash flows to support our ongoing operations.

For the Year To Date Period, we generated operating cash flow of $95.9 million. A net loss of $92.2 million was more than offset by an increase in working capital items of $63.9 million and net non-cash items of $124.2 million. We had net debt borrowings of $36.4 million and capital expenditures of $7.1 million. We increased our borrowings under the Revolving Facility (as defined below) as a precautionary measure to increase our cash position, provide liquidity for a sustained period and to preserve financial flexibility in light of current uncertainty in the global markets resulting from the COVID-19 pandemic.

Accounts receivable, net of allowances, decreased by 23.3% to $189.8 million at the end of the Third Quarter compared to $247.6 million at the end of the Prior Year Quarter driven by reduced sales. Days sales outstanding for our wholesale businesses for the Third Quarter decreased to 54 days compared to 59 days in the Prior Year Quarter.

Inventory at the end of the Third Quarter was $359.5 million, which decreased by 37.0% from the end of the Prior Year Quarter ending inventory balance of $570.3 million, largely reflecting accelerated inventory reduction actions, particularly of older generation connected product, and proactive management of inbound receipts to align with reduced consumer demand.

At the end of the Third Quarter, we had net working capital of $457.9 million compared to net working capital of $562.6 million at the end of the Prior Year Quarter. At the end of the Third Quarter, we had $21.4 million of short-term borrowings and $217.9 million in long-term debt.

For fiscal year 2020, we expect total capital expenditures to be approximately $9 million in order to maintain liquidity and remain in compliance with financial covenants. Of this amount, we expect approximately 60% will be for retail store renovations and enhancements, approximately 30% will be for technology and facilities maintenance, and approximately 10% for strategic growth, including investments in global concessions and technology. Our capital expenditure budget and allocation 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.

On September 26, 2019, we and Fossil Partners, L.P. (together with the Company, the “U.S. Borrowers”), as 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 the UK Borrower, together with the Swiss Borrower and the German Borrower, the “European Borrowers”) and Fossil Canada Inc. (the “Canadian Borrower”), as the non-U.S. borrowers, certain other of our subsidiaries from time to time party thereto designated as borrowers (including Fossil France SA, the “French Borrower”, and the French Borrower, together with the U.S. Borrowers, the European Borrowers, the Hong Kong Borrower and the Canadian Borrower, the “ABL Borrowers”), and certain of our subsidiaries from time to time party thereto as guarantors, entered into an asset-based revolving credit agreement (as amended, 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, we, as borrower, entered into a term credit agreement (as amended to date, the “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”).

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 is 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. 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. Loans under the Revolving Facility may be made in U.S. dollars, Canadian dollars, euros, Hong Kong dollars or pounds sterling.

On March 24, 2020, (i) the U.S. Borrowers provided notice to the ABL Agent for an alternate base rate borrowing of $71.0 million under the Revolving Facility effective March 25, 2020, (ii) the Hong Kong Borrower provided notice to the ABL Agent for a Eurodollar borrowing of $10.0 million under the Revolving Facility effective March 30, 2020 and (iii) the European Borrowers provided notice to the ABL Agent for a Eurodollar borrowing of €19.0 million under the Revolving Facility effective March 30, 2020. We increased our borrowings under the Revolving Facility as a precautionary measure to increase our cash position, provide liquidity for a sustained period and to preserve financial flexibility in light of then current uncertainty in the global markets resulting from the COVID-19 outbreak.

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 percentage 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) $30,000,000, 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 Credit Agreement 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 Term Credit Agreement provides for term loans to us in the aggregate principal amount of $200 million. Proceeds from the Term Credit Agreement were reduced by a $12.0 million original issue discount, which is presented as a reduction of the Term Credit Agreement on our condensed consolidated balance sheet and will be amortized to interest expense over the life of the term loan. The term loans under the Term Credit Agreement bore interest at (a) the adjusted LIBO rate plus 8.50% for Eurodollar loans or (b) the alternate base rate plus 7.50% for alternate base rate loans as of October 3, 2020. The Term Credit Agreement amortizes in quarterly installments of $10,000,000 each quarter until June 30, 2024. The Term Credit Agreement 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, and are required to prepay the term loans with the net cash proceeds of certain asset sales and other dispositions, insurance and condemnation events, debt and equity issuances, and are also subject to an annual excess cash flow sweep. If we prepay the term loans (x) with the proceeds of any other financing, (y) to remove a non-consenting lender, or (z) upon the acceleration of the term loans or the term loans otherwise becoming due prior to their maturity date, each during the period from June 5, 2020 to September 4, 2022, we are required to pay a prepayment fee of 2.00% with respect to the principal amount prepaid prior to September 4, 2021 and 1.00% with respect to the principal amount prepaid between September 4, 2021 and September 4, 2022. Notwithstanding the above, we are not required to pay the prepayment fee for prepayments made prior to September 4, 2020 in connection with the issuance of financings that are not in connection with a change in control of the Company.

In connection with the amendment entered into on June 5, 2020, we were granted relief from compliance with the maximum total leverage ratio covenant until the third fiscal quarter of fiscal year 2021, after which the maximum total leverage ratio permitted under the covenant will be 1.50 to 1.00. Solely during such relief period, we will be subject to a covenant to maintain a consolidated EBITDA of negative $75,000,000 for the fiscal quarter ending April 3, 2021, negative $65,000,000 for the two fiscal quarter period ending July 3, 2021, and negative $30,000,000 for the three fiscal quarter period ending October 2, 2021. The amendment also added an additional covenant to restrict consolidated capital expenditures of the Company to $10,000,00 for the fiscal year ending January 2, 2021, $20,000,000 for the fiscal year ending January 1, 2022, and $25,000,000 for the fiscal year ending December 31, 2022 and thereafter. The Term Credit Agreement also limits the amount of principal amount incurred 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 Credit Agreement.

The Term Credit Agreement 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 Credit Agreement.

The Term Credit Agreement 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 Credit Agreement.

The obligations under the Revolving Facility and the Term Credit Agreement are governed by a customary intercreditor agreement (the "Intercreditor Agreement"). The Intercreditor Agreement specifies that (i) the Term Credit Agreement 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.

We had net payments of $38.0 million during the Year To Date Period under the Term Credit Agreement at an average interest rate of 9.6%. We had net borrowings of $75.0 million under the Revolving Facility during the Year To Date Period at an average interest rate of 1.8%. As of October 3, 2020, we had $162.0 million outstanding under the Term Credit Agreement and $103.0 million outstanding under the Revolving Facility. We also had unamortized debt issuance costs of $19.5 million, which reduces the corresponding debt liability. In addition, we had $2.7 million of outstanding standby Letters of Credit at October 3, 2020. Amounts available under the Revolving Facility are reduced by any amounts outstanding under standby letters of credit. As of October 3, 2020, we had available borrowing capacity of $32.3 million under the Revolving Facility. At October 3, 2020, we were in compliance with all debt covenants related to all our credit facilities.

Off Balance Sheet Arrangements

As of October 3, 2020, there were no material changes to our off balance sheet arrangements as set forth in commitments and contingencies in our Annual Report on Form 10-K for the fiscal year ended December 28, 2019.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with GAAP 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 condensed consolidated financial statements and the reported amounts of revenues and expenses during the periods reported. On an on-going basis, we evaluate our estimates and judgments, including those related to product returns, inventories, long-lived asset impairment, impairment of trade names, income taxes and warranty costs. 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.

There have been no changes to the critical accounting policies disclosed in "Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our Annual Report on Form 10-K for the fiscal year ended December 28, 2019.

Forward-Looking Statements

The statements contained in this Quarterly Report on Form 10-Q that are not historical facts, including, but not limited to, statements regarding our expected financial position, results of operations, business and financing plans found in this "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Item 3. Quantitative and Qualitative Disclosures About Market Risk," constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 and involve a number of risks and uncertainties. The words "may," "believes," "expects," "plans," "intends," "estimates," "anticipates" and similar expressions identify forward-looking statements. The actual results of the future events described in such forward-looking statements could differ materially from those stated in such forward-looking statements. Among the factors that could cause actual results to differ materially are: the effect of worldwide economic conditions; the impact of COVID-19; the length and severity of COVID-19; the pace of recovery following COVID-19; significant changes in consumer spending patterns or preferences; interruptions or delays in the supply of key components; acts of war or acts of terrorism; changes in foreign currency valuations in relation to the U.S. dollar; lower levels of consumer spending resulting from COVID-19, a general economic downturn or generally reduced shopping activity caused by public safety (including COVID-19) or consumer confidence concerns; the performance of our products within the prevailing retail environment; customer acceptance of both new designs and newly-introduced product lines, including risks related to the expanded launch of connected accessories; financial difficulties encountered by customers and related bankruptcy and collection issues; the effects of vigorous competition in the markets in which we operate; risks related to the success of our restructuring programs; the termination or non-renewal of material licenses, foreign operations and manufacturing; changes in the costs of materials, labor and advertising; government regulation and tariffs; our ability to secure and protect trademarks and other intellectual property rights; and the outcome of current and possible future litigation.

In addition to the factors listed above, our actual results may differ materially due to the other risks and uncertainties discussed in our Quarterly Reports on Form 10-Q and the risks and uncertainties set forth in our Annual Report on Form 10-K for the fiscal year ended December 28, 2019. Accordingly, readers of this Quarterly Report on Form 10-Q should consider these facts in evaluating the information and are cautioned not to place undue reliance on the forward-looking statements contained herein. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Foreign Currency Exchange Rate Risk

As a multinational enterprise, we are exposed to changes in foreign currency exchange rates. Our most significant foreign currency risk relates to the euro and, to a lesser extent, the Canadian dollar, British pound, Japanese yen, Mexican peso and Australian dollar as compared to the U.S. dollar. Due to our vertical nature whereby a significant portion of goods are sourced from our owned entities, we face foreign currency risks related to the necessary current settlement of intercompany inventory transactions. We employ a variety of operating practices to manage these market risks relative to foreign currency exchange rate changes and, where deemed appropriate, utilize forward contracts. These operating practices include, among others, our ability to convert foreign currency into U.S. dollars at spot rates and to maintain U.S. dollar pricing relative to sales of our products to certain distributors located outside the U.S. Additionally, we enter 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. 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 the Third Quarter, 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 inventory transactions (in millions) at October 3, 2020 and their expiration dates.

Functional Currency		Contract Currency		
Type	**Amount**	**Type**	**Amount**	**Expiring Through**
Euro	48.3	U.S. dollar	55.2	June 2021
Canadian dollar	16.4	U.S. dollar	12.5	June 2021
British pound	5.8	U.S. dollar	7.5	June 2021
Japanese yen	509.5	U.S. dollar	4.8	June 2021
U.S. dollar	7.8	Japanese yen	825.0	June 2021

If we were to settle our euro, Canadian dollar, British pound, Japanese yen, and U.S. dollar based forward contracts hedging inventory transactions as of October 3, 2020, the result would have been a net loss of $1.1 million. As of October 3, 2020, 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 $19.8 million. The translation of the balance sheets of our foreign-based operations from their local currencies into U.S. dollars is also sensitive to changes in foreign currency exchange rates. As of October 3, 2020, 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 $47.4 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 October 3, 2020, a 100 basis point increase in interest rates would increase annual interest expense by $2.7 million.

Item 4. 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 Securities Exchange Act of 1934 as of the end of the period covered by this Quarterly Report on Form 10-Q. The Disclosure Controls evaluation was done under the supervision and with the participation of management, including our Chief Executive Officer (“CEO”) and Chief Financial Officer (“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 as of October 3, 2020.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the Third Quarter that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

In addition to the other information set forth in this Quarterly Report, you should carefully consider the factors contained in Item 1A. "Risk Factors" in Part I of our Annual Report on Form 10-K for the fiscal year ended December 28, 2019, and in our subsequent Quarterly Reports on Form 10-Q, which could materially affect our business, financial condition or future results. There have been no material changes from the risk factors disclosed in such Annual Report and such Quarterly Report. The risks described in such Annual Report and subsequent Quarterly Reports are not the only risks facing our company.

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

There were no shares of common stock repurchased under our repurchase program during the Third Quarter or Year To Date Period.

Item 5. Other Information

None.

Item 6. Exhibits

(a) Exhibits

Exhibit Number	Document Description
3.1	Third Amended and Restated Certificate of Incorporation of Fossil, Inc. (incorporated by reference to Exhibit 3.1 of 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).
31.1(1)	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
31.2(1)	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
32.1(2)	Certification of Chief Executive Officer pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2(2)	Certification of Chief Financial Officer pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document.
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	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) Furnished herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FOSSIL GROUP, INC.

November 12, 2020

/S/ JEFFREY N. BOYER

Jeffrey N. Boyer

Chief Operating Officer, Chief Financial Officer and Treasurer (Principal financial and accounting officer duly authorized to sign on behalf of the Registrant)