

MOVADO GROUP INC  
Form 10-Q  
December 01, 2011  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

For the Quarterly Period Ended October 31, 2011

.. **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: 1-16497

**MOVADO GROUP, INC.**

(Exact Name of Registrant as Specified in its Charter)

Edgar Filing: MOVADO GROUP INC - Form 10-Q

<b>New York</b> (State or Other Jurisdiction)	<b>13-2595932</b> (IRS Employer
<b>of Incorporation or Organization)</b>	<b>Identification No.)</b>
<b>650 From Road, Ste. 375</b>	
<b>Paramus, New Jersey</b> (Address of Principal Executive Offices)	<b>07652-3556</b> (Zip Code)
<b>(201) 267-8000</b>	
<b>(Registrant's telephone number, including area code)</b>	

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 that past 90 days. Yes  No

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
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 outstanding of the registrant's common stock and class A common stock as of November 21, 2011 were 18,267,240 and 6,632,967, respectively.

**Table of Contents**

**MOVADO GROUP, INC.**

**Index to Quarterly Report on Form 10-Q**

**October 31, 2011**

	Page
<b><u>Part I Financial Information (Unaudited)</u></b>	
Item 1. <u>Consolidated Balance Sheets at October 31, 2011, January 31, 2011 and October 31, 2010</u>	3
<u>Consolidated Statements of Operations for the three months and nine months ended October 31, 2011 and 2010</u>	4
<u>Consolidated Statements of Cash Flows for the nine months ended October 31, 2011 and 2010</u>	5
<u>Notes to Consolidated Financial Statements</u>	6
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	21
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	32
Item 4. <u>Controls and Procedures</u>	34
<b><u>Part II Other Information</u></b>	
Item 1. <u>Legal Proceedings</u>	35
Item 1A. <u>Risk Factors</u>	35
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	35
Item 6. <u>Exhibits</u>	36
<u>Signature</u>	37

**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements****MOVADO GROUP, INC.****CONSOLIDATED BALANCE SHEETS**

(In thousands, except share and per share amounts)

(Unaudited)

	October 31, 2011	January 31, 2011	October 31, 2010
<b><u>ASSETS</u></b>			
Current assets:			
Cash and cash equivalents	\$ 138,028	\$ 103,016	\$ 63,243
Trade receivables	94,309	59,768	92,220
Inventories	176,092	181,265	207,987
Other current assets	25,413	30,541	26,628
<b>Total current assets</b>	<b>433,842</b>	<b>374,590</b>	<b>390,078</b>
Property, plant and equipment, net	35,585	38,525	39,956
Deferred income taxes	7,426	8,220	14,209
Other non-current assets	22,120	22,522	23,618
<b>Total assets</b>	<b>\$ 498,973</b>	<b>\$ 443,857</b>	<b>\$ 467,861</b>
<b><u>LIABILITIES AND EQUITY</u></b>			
Current liabilities:			
Accounts payable	\$ 26,462	\$ 21,487	\$ 19,950
Accrued liabilities	52,690	39,734	44,979
Deferred and current income taxes payable	1,617	1,328	631
<b>Total current liabilities</b>	<b>80,769</b>	<b>62,549</b>	<b>65,560</b>
Deferred and non-current income taxes payable	6,548	6,960	8,068
Other non-current liabilities	17,807	17,869	16,973
<b>Total liabilities</b>	<b>105,124</b>	<b>87,378</b>	<b>90,601</b>
Commitments and contingencies (Note 8)			
Equity:			
Preferred Stock, \$0.01 par value, 5,000,000 shares authorized; no shares issued			
Common Stock, \$0.01 par value, 100,000,000 shares authorized; 26,015,047, 25,910,838 and 25,279,966 shares issued, respectively	260	259	253
Class A Common Stock, \$0.01 par value, 30,000,000 shares authorized; 6,632,967, 6,634,319 and 6,634,319 shares issued and outstanding, respectively	66	66	66
Capital in excess of par value	151,578	149,492	139,779
Retained earnings	241,751	222,685	253,680
Accumulated other comprehensive income	108,964	93,028	83,246

## Edgar Filing: MOVADO GROUP INC - Form 10-Q

Treasury Stock, 7,757,323, 7,743,676 and 7,176,297 shares, respectively, at cost	(111,544)	(111,331)	(102,131)
Total Movado Group, Inc. shareholders' equity	391,075	354,199	374,893
Noncontrolling interests	2,774	2,280	2,367
Total equity	393,849	356,479	377,260
Total liabilities and equity	\$ 498,973	\$ 443,857	\$ 467,861

**See Notes to Consolidated Financial Statements**

**Table of Contents****MOVADO GROUP, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS**

(In thousands, except per share amounts)

(Unaudited)

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>October 31,</b>		<b>October 31,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
<b>Continuing operations:</b>				
Net sales	\$ 142,622	\$ 123,002	\$ 345,707	\$ 281,194
Cost of sales	61,588	54,112	155,104	129,394
Gross profit	81,034	68,890	190,603	151,800
Selling, general and administrative	61,906	50,400	164,881	140,649
Operating income	19,128	18,490	25,722	11,151
Other income (Note 12)			747	
Interest expense	(290)	(460)	(988)	(1,808)
Interest income	21	175	67	229
Income from continuing operations before income taxes	18,859	18,205	25,548	9,572
Provision for income taxes (Note 9)	2,071	781	3,661	1,573
Income from continuing operations	16,788	17,424	21,887	7,999
<b>Discontinued operations:</b>				
(Loss) from discontinued operations, net of tax (Note 11)				(23,675)
Net income / (loss)	16,788	17,424	21,887	(15,676)
Less: Income attributed to noncontrolling interests	384	279	584	486
Net income / (loss) attributed to Movado Group, Inc.	\$ 16,404	\$ 17,145	\$ 21,303	\$ (16,162)
<b>Income / (loss) attributable to Movado Group, Inc.:</b>				
Income from continuing operations, net of tax	\$ 16,404	\$ 17,145	\$ 21,303	\$ 7,513
(Loss) from discontinued operations, net of tax				(23,675)
Net income / (loss)	\$ 16,404	\$ 17,145	\$ 21,303	\$ (16,162)
<b>Basic income / (loss) per share:</b>				
Weighted basic average shares outstanding	24,926	24,772	24,905	24,730
Income per share from continuing operations attributed to Movado Group, Inc.	\$ 0.66	\$ 0.69	\$ 0.86	\$ 0.30
(Loss) per share from discontinued operations	\$	\$	\$	\$ (0.96)
Net income / (loss) per share attributed to Movado Group, Inc.	\$ 0.66	\$ 0.69	\$ 0.86	\$ (0.65)
<b>Diluted income / (loss) per share:</b>				
Weighted diluted average shares outstanding	25,108	24,907	25,105	24,988
Income per share from continuing operations attributed to Movado Group, Inc.	\$ 0.65	\$ 0.69	\$ 0.85	\$ 0.30
(Loss) per share from discontinued operations	\$	\$	\$	\$ (0.96)
Net income / (loss) per share attributed to Movado Group, Inc.	\$ 0.65	\$ 0.69	\$ 0.85	\$ (0.65)

Edgar Filing: MOVADO GROUP INC - Form 10-Q

Dividends declared per share

\$ 0.03 \$

\$ 0.09 \$

**See Notes to Consolidated Financial Statements**

**Table of Contents****MOVADO GROUP, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands)

(Unaudited)

	<b>Nine Months Ended October 31,</b>	
	<b>2011</b>	<b>2010</b>
<b>Cash flows from operating activities:</b>		
Net income / (loss)	\$ 21,887	\$ (15,676)
<b>Adjustments to reconcile net income / (loss) to net cash provided by / (used in) operating activities:</b>		
Loss from discontinued operations		23,675
Depreciation and amortization	8,791	10,408
Deferred income taxes	62	(1,344)
Stock-based compensation	1,292	1,178
Gain on sale of an asset held for sale	(747)	
<b>Changes in assets and liabilities:</b>		
Trade receivables	(33,682)	(23,699)
Inventories	12,860	(437)
Other current assets	5,775	13,818
Accounts payable	4,462	(2,863)
Accrued liabilities	12,030	11,573
Current income taxes payable	265	28
Other non-current assets	(164)	4,267
Other non-current liabilities	(62)	(3,077)
Net cash provided by operating activities from continuing operations	32,769	17,851
Net cash (used in) operating activities from discontinued operations	(33)	(12,923)
Net cash provided by operating activities	32,736	4,928
<b>Cash flows from investing activities:</b>		
Capital expenditures	(4,535)	(4,903)
Trademarks	(179)	(230)
Proceeds from sale of an asset held for sale	1,165	
Net cash (used in) investing activities from continuing operations	(3,549)	(5,133)
Net cash (used in) investing activities from discontinued operations		(100)
Net cash (used in) investing activities	(3,549)	(5,233)
<b>Cash flows from financing activities:</b>		
Proceeds from bank borrowings		30,000
Repayments of bank borrowings		(40,000)
Stock options exercised and other changes	581	468
Distribution of noncontrolling interest earnings	(127)	
Dividends paid	(2,237)	
Net cash (used in) financing activities from continuing operations	(1,783)	(9,532)
Net cash (used in) financing activities from discontinued operations		



Edgar Filing: MOVADO GROUP INC - Form 10-Q

Net cash (used in) financing activities	(1,783)	(9,532)
Effect of exchange rate changes on cash and cash equivalents	7,608	2,105
Net increase / (decrease) in cash and cash equivalents	35,012	(7,732)
Cash and cash equivalents at beginning of period	103,016	70,975
Cash and cash equivalents at end of period	\$ 138,028	\$ 63,243

**See Notes to Consolidated Financial Statements**

**Table of Contents**

**MOVADO GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

**BASIS OF PRESENTATION**

The accompanying unaudited consolidated financial statements have been prepared by Movado Group, Inc. (the "Company") in a manner consistent with that used in the preparation of the consolidated financial statements included in the Company's fiscal 2011 Annual Report filed on Form 10-K. In the opinion of management, the accompanying consolidated financial statements reflect all adjustments, consisting of only normal and recurring adjustments, necessary for a fair statement of the financial position and results of operations for the periods presented. These consolidated financial statements should be read in conjunction with the aforementioned Annual Report. Operating results for the interim periods presented are not necessarily indicative of the results that may be expected for the full year.

**NOTE 1 RECLASSIFICATIONS**

Certain reclassifications were made to prior year's financial statement amounts and related note disclosures to conform to the fiscal 2012 presentation. In fiscal 2011, certain receivables were reclassified from other current assets to accounts receivables to conform to fiscal 2012 presentation. In addition, certain prior year financial statement amounts have been adjusted to reflect the Company's change in inventory accounting discussed in Note 5.

**NOTE 2 FAIR VALUE MEASUREMENTS**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The guidance 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 the quoted prices in active markets, that are observable either directly or indirectly.

Level 3 Unobservable inputs based on the Company's assumptions.

The guidance requires the use of observable market data if such data is available without undue cost and effort. The Company's adoption of the guidance did not result in any changes to the accounting for its financial assets and liabilities. Therefore, the primary impact to the Company upon its adoption of this guidance was to expand its fair value measurement disclosures.

**Table of Contents**

The following table presents the fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of October 31, 2011 (in thousands):

	\$00,000	\$00,000	\$00,000	\$00,000
	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Available-for-sale securities	\$ 253	\$	\$	\$ 253
SERP assets employer	557			557
SERP assets employee	14,579			14,579
Foreign currency derivatives		150		150
Total	\$ 15,389	\$ 150	\$	\$ 15,539
<b>Liabilities:</b>				
SERP liabilities employee	\$ 14,579	\$	\$	\$ 14,579
Foreign currency derivatives		916		916
Commodity derivatives		116		116
	\$ 14,579	\$ 1,032	\$	\$ 15,611

The fair values of the Company's available-for-sale securities are based on quoted prices. The commodity derivatives are entered into by the Company principally to reduce its exposure to the changing value of gold. Fair values of the Company's commodity derivatives are calculated based on the quoted market price of gold. The foreign currency derivatives are entered into by the Company principally to reduce its exposure to the Swiss franc exchange rate risk. Fair values of the Company's foreign currency derivatives are calculated based on quoted foreign exchange rates, quoted interest rates and market volatility factors. The assets related to the Company's defined contribution supplemental executive retirement plan (SERP) consist of both employer (employee unvested) and employee assets which are invested in investment funds with fair values calculated based on quoted market prices. The SERP liability represents the Company's liability to the employees in the plan for their vested balances.

**NOTE 3 EQUITY AND COMPREHENSIVE (LOSS) / INCOME**

The components of equity for the nine months ended October 31, 2011 and 2010 are as follows (in thousands):

	Movado Group, Inc. Shareholders' Equity						Accumulated Other Comprehensive Income	Noncontrolling Interests	Total
	Common Stock	Class A Common Stock	Capital in Excess of Par Value	Retained Earnings	Treasury Stock				
Balance, January 31, 2011	\$ 259	\$ 66	\$ 149,492	\$ 222,685	\$ (111,331)	\$ 93,028	\$ 2,280	\$ 356,479	
Net income				21,303			584	21,887	
Dividends paid				(2,237)				(2,237)	
Distribution of noncontrolling interest earnings							(127)	(127)	
Stock options exercised, net of tax	1		744		(213)			532	
Stock-based compensation expense			1,292					1,292	
Supplemental executive retirement plan			50					50	
Net unrealized loss on investments, net of tax							(33)	(33)	
Net change in effective portion of hedging contracts, net of tax							(851)	(851)	
Foreign currency translation adjustment						16,820	37	16,857	

Edgar Filing: MOVADO GROUP INC - Form 10-Q

Balance, October 31, 2011	\$ 260	\$ 66	\$ 151,578	\$ 241,751	\$ (111,544)	\$ 108,964	\$ 2,774	\$ 393,849
---------------------------	--------	-------	------------	------------	--------------	------------	----------	------------

**Table of Contents**

	Movado Group, Inc. Shareholders Equity					Accumulated Other Comprehensive Income	Noncontrolling Interests	Total
	Common Stock	Class A Common Stock	Capital in Excess of Par Value	Retained Earnings	Treasury Stock			
Balance, January 31, 2010	\$ 251	\$ 66	\$ 138,076	\$ 269,842	\$ (102,071)	\$ 67,390	\$ 1,884	\$ 375,438
Net (loss) / income				(16,162)			486	(15,676)
Stock options exercised, net of tax	2		530		(60)			472
Stock-based compensation expense			1,178					1,178
Supplemental executive retirement plan			(5)					(5)
Net unrealized gain on investments, net of tax						97		97
Net change in effective portion of hedging contracts, net of tax						609		609
Foreign currency translation adjustment						15,150	(3)	15,147
Balance, October 31, 2010	\$ 253	\$ 66	\$ 139,779	\$ 253,680	\$ (102,131)	\$ 83,246	\$ 2,367	\$ 377,260

The components of comprehensive (loss) / income for the three and nine months ended October 31, 2011 and 2010 are as follows (in thousands):

	\$000,000		\$000,000	
	Three Months Ended October 31,		Nine Months Ended October 31,	
	2011	2010	2011	2010
Net income / (loss)	\$ 16,788	\$ 17,424	\$ 21,887	\$ (15,676)
Net unrealized (loss) / gain on investments, net of tax	(62)	16	(33)	97
Net change in effective portion of hedging contracts, net of tax	(213)	(93)	(851)	609
Foreign currency translation adjustments (1)	(26,814)	13,463	16,857	15,147
Comprehensive (loss) / income	(10,301)	30,810	37,860	177
Less: Comprehensive income attributable to noncontrolling interests	316	366	621	483
Total comprehensive (loss) / income attributable to Movado Group, Inc.	\$ (10,617)	\$ 30,444	\$ 37,239	\$ (306)

(1) The foreign currency translation adjustments are tax-affected to the extent they relate to non permanent investments in foreign subsidiaries.

**NOTE 4 SEGMENT INFORMATION**

The Company follows accounting guidance related to disclosures about segments of an enterprise and related information. This guidance requires disclosure of segment data based on how management makes decisions about allocating resources to segments and measuring their performance.

With the exception of Total Assets and Long-Lived Assets, the Retail segment and United States segment information presented below no longer include amounts related to the Movado boutiques, which were closed during the second quarter of fiscal 2011 and subsequently reported as discontinued operations.

The Company conducts its business primarily in two operating segments: Wholesale and Retail. The Company's Wholesale segment includes the designing, manufacturing and distribution of quality watches, in

**Table of Contents**

addition to revenue generated from after sales service activities and shipping. The Retail segment includes the Company's outlet stores and the Movado brand flagship store located at Rockefeller Center in New York City.

The Company divides its business into two major geographic segments: United States operations, and International, which includes the results of all other Company operations. The allocation of geographic revenue is based upon the location of the customer. The Company's international operations are principally conducted in Europe, Asia, Canada, the Middle East, South America and the Caribbean. The Company's international assets are substantially located in Switzerland.

**Operating Segment Data for the Three Months Ended October 31, 2011 and 2010 (in thousands):**

	\$00000.00	\$00000.00	\$00000.00	\$00000.00
	Net Sales		Operating Income (1)	
	2011	2010	2011	2010
Wholesale	\$ 129,601	\$ 110,154	\$ 17,447	\$ 16,828
Retail	13,021	12,848	1,681	1,662
<b>Consolidated total</b>	<b>\$ 142,622</b>	<b>\$ 123,002</b>	<b>\$ 19,128</b>	<b>\$ 18,490</b>

**Operating Segment Data for the Nine Months Ended October 31, 2011 and 2010 (in thousands):**

	\$00000.00	\$00000.00	\$00000.00	\$00000.00
	Net Sales		Operating Income (1)	
	2011	2010	2011	2010
Wholesale	\$ 308,931	\$ 245,962	\$ 21,152	\$ 6,470
Retail	36,776	35,232	4,570	4,681
<b>Consolidated total</b>	<b>\$ 345,707</b>	<b>\$ 281,194</b>	<b>\$ 25,722</b>	<b>\$ 11,151</b>

	\$000000000.00	\$000000000.00	\$000000000.00
	Total Assets		
	October 31, 2011	January 31, 2011	October 31, 2010
Wholesale	\$ 479,976	\$ 422,977	\$ 446,257
Retail	18,997	20,880	21,604
<b>Consolidated total</b>	<b>\$ 498,973</b>	<b>\$ 443,857</b>	<b>\$ 467,861</b>

(1) Fiscal 2011 Wholesale Operating Income includes the reversal of a \$4.3 million previously recorded liability for a retirement agreement with the Company's late Chairman. See Note 13 to the consolidated financial statements for further details.

**Geographic Segment Data for the Three Months Ended October 31, 2011 and 2010 (in thousands):**

	\$00000.00	\$00000.00	\$00000.00	\$00000.00
	Net Sales		Operating Income (2)	
	2011	2010	2011	2010

## Edgar Filing: MOVADO GROUP INC - Form 10-Q

United States	\$	74,082	\$	66,105	\$	803	\$	6,898
International		68,540		56,897		18,325		11,592
Consolidated total	\$	142,622	\$	123,002	\$	19,128	\$	18,490

United States and International net sales are net of intercompany sales of \$73.9 million and \$64.3 million for the three months ended October 31, 2011 and 2010, respectively.

**Table of Contents****Geographic Segment Data for the Nine Months Ended October 31, 2011 and 2010 (in thousands):**

	Net Sales		Operating Income (Loss) (2)	
	2011	2010	2011	2010
United States	\$ 174,177	\$ 148,505	\$ (7,849)	\$ (3,489)
International	171,530	132,689	33,571	14,640
Consolidated total	\$ 345,707	\$ 281,194	\$ 25,722	\$ 11,151

United States and International net sales are net of intercompany sales of \$164.5 million and \$149.9 million for the nine months ended October 31, 2011 and 2010, respectively.

- (2) Fiscal 2011 United States Operating Income (Loss) includes the reversal of a \$4.3 million previously recorded liability for a retirement agreement with the Company's late Chairman. See Note 13 to the consolidated financial statements for further details.

	January 31,	January 31,	January 31,
	October 31,	Total Assets	October 31,
	2011	January 31,	2010
		2011	
United States	\$ 201,848	\$ 185,718	\$ 204,694
International	297,125	258,139	263,167
Consolidated total	\$ 498,973	\$ 443,857	\$ 467,861

	January 3,	January 3,	January 3,
	October 31,	Long-Lived Assets	October 31,
	2011	January 31,	2010
		2011	
United States	\$ 28,491	\$ 30,460	\$ 30,869
International	7,094	8,065	9,087
Consolidated total	\$ 35,585	\$ 38,525	\$ 39,956

**NOTE 5 INVENTORIES**

Effective February 1, 2011, the Company changed its method of valuing its U.S. inventories to the average cost method. In prior years, primarily all U.S. inventories were valued using first-in, first-out ( FIFO ) method. With this change, all of the Company's inventories are valued using the average cost method. The Company believes that the average cost method of inventory valuation is preferable because (1) it permits the Company to use a single method of accounting for all of the Company's U.S. and international inventories, (2) the method aligns costing with the Company's forecasting and procurement decisions, and (3) since a number of the Company's key competitors use the average cost method, it improves comparability of the Company's financial statements. The comparative consolidated financial statements of prior periods presented have been adjusted to apply the new accounting method retroactively. The change in accounting principle was applied retroactively as described in the applicable accounting guidance for accounting changes and error corrections.



**Table of Contents**

The following line items within the Consolidated Statements of Operations were affected by the change in accounting policy (in thousands, except for per share data):

	\$00.000	\$00.000	\$00.000
	<b>For the Three Months Ended October 31, 2011</b>		
	<b>As Computed under FIFO</b>	<b>As Reported under Average Cost</b>	<b>Effect of Change- Increase / (Decrease)</b>
Cost of sales	\$ 60,828	\$ 61,588	\$ 760
Income from continuing operations before income taxes	19,619	18,859	(760)
Provision for income taxes	2,071	2,071	
Income from continuing operations, net of tax attributed to Movado Group, Inc.	17,164	16,404	(760)
(Loss) from discontinued operations, net of tax			
Net income attributed to Movado Group, Inc.	17,164	16,404	(760)
<b>Basic income per share:</b>			
Income per share from continuing operations attributed to Movado Group, Inc.	\$ 0.69	\$ 0.66	\$ (0.03)
(Loss) per share for discontinued operations	\$	\$	\$
Net income per share attributed to Movado Group, Inc.	\$ 0.69	\$ 0.66	\$ (0.03)
<b>Diluted income per share:</b>			
Income per share from continuing operations attributed to Movado Group, Inc.	\$ 0.68	\$ 0.65	\$ (0.03)
(Loss) per share for discontinued operations	\$	\$	\$
Net income per share attributed to Movado Group, Inc.	\$ 0.68	\$ 0.65	\$ (0.03)
	\$00.000	\$00.000	\$00.000
	<b>For the Three Months Ended October 31, 2010</b>		
	<b>As Computed under FIFO</b>	<b>As Reported under Average Cost</b>	<b>Effect of Change- Increase / (Decrease)</b>
Cost of sales	\$ 54,406	\$ 54,112	\$ (294)
Income from continuing operations before income taxes	17,911	18,205	294
Provision for income taxes	781	781	
Income from continuing operations, net of tax attributed to Movado Group, Inc.	16,851	17,145	294
(Loss) from discontinued operations, net of tax			
Net income attributed to Movado Group, Inc.	16,851	17,145	294
<b>Basic income per share:</b>			
Income per share from continuing operations attributed to Movado Group, Inc.	\$ 0.68	\$ 0.69	\$ 0.01
(Loss) per share for discontinued operations	\$	\$	\$
Net income per share attributed to Movado Group, Inc.	\$ 0.68	\$ 0.69	\$ 0.01

**Table of Contents**

	\$00.000	\$00.000	\$00.000
	<b>For the Three Months Ended October 31, 2010</b>		
	<b>As Computed under FIFO</b>	<b>As Reported under Average Cost</b>	<b>Effect of Change- Increase / (Decrease)</b>
<b>Diluted (loss) per share:</b>			
Income per share from continuing operations attributed to Movado Group, Inc.	\$ 0.68	\$ 0.69	\$ 0.01
(Loss) per share for discontinued operations	\$	\$	\$
Net income per share attributed to Movado Group, Inc.	\$ 0.68	\$ 0.69	\$ 0.01
	\$0000.000	\$0000.000	\$0000.000
	<b>For the Nine Months Ended October 31, 2011</b>		
	<b>As Computed under FIFO</b>	<b>As Reported under Average Cost</b>	<b>Effect of Change- Increase / (Decrease)</b>
Cost of sales	\$ 153,812	\$ 155,104	\$ 1,292
Income from continuing operations before income taxes	26,840	25,548	(1,292)
Provision for income taxes	3,661	3,661	
Income from continuing operations, net of tax attributed to Movado Group, Inc.	22,595	21,303	(1,292)
(Loss) from discontinued operations, net of tax			
Net income attributed to Movado Group, Inc.	22,595	21,303	(1,292)
<b>Basic income per share:</b>			
Income per share from continuing operations attributed to Movado Group, Inc.	\$ 0.91	\$ 0.86	\$ (0.05)
(Loss) per share for discontinued operations	\$	\$	\$
Net income per share attributed to Movado Group, Inc.	\$ 0.91	\$ 0.86	\$ (0.05)
<b>Diluted income per share:</b>			
Income per share from continuing operations attributed to Movado Group, Inc.	\$ 0.90	\$ 0.85	\$ (0.05)
(Loss) per share for discontinued operations	\$	\$	\$
Net income per share attributed to Movado Group, Inc.	\$ 0.90	\$ 0.85	\$ (0.05)
	\$0000.000	\$0000.000	\$0000.000
	<b>For the Nine Months Ended October 31, 2010</b>		
	<b>As Computed under FIFO</b>	<b>As Reported under Average Cost</b>	<b>Effect of Change- Increase / (Decrease)</b>
Cost of sales	\$ 126,846	\$ 129,394	\$ 2,548
Income from continuing operations before income taxes	12,120	9,572	(2,548)
Provision for income taxes	1,573	1,573	
Income from continuing operations, net of tax attributed to Movado Group, Inc.	10,061	7,513	(2,548)
(Loss) from discontinued operations, net of tax	(23,675)	(23,675)	
Net (loss) attributed to Movado Group, Inc.	(13,614)	(16,162)	(2,548)

**Table of Contents**

	s Computed	s Computed For the Nine Months Ended October 31, 2010	s Computed
	As Computed under FIFO	As Reported under Average Cost	Effect of Change- Increase / (Decrease)
<b>Basic (loss) per share:</b>			
Income per share from continuing operations attributed to Movado Group, Inc.	\$ 0.41	\$ 0.30	\$ (0.11)
(Loss) per share for discontinued operations	\$ (0.96)	\$ (0.96)	
Net income per share attributed to Movado Group, Inc.	\$ (0.55)	\$ (0.65)	\$ (0.10)
<b>Diluted (loss) per share:</b>			
Income per share from continuing operations attributed to Movado Group, Inc.	\$ 0.40	\$ 0.30	\$ (0.10)
(Loss) per share for discontinued operations	\$ (0.96)	\$ (0.96)	
Net income per share attributed to Movado Group, Inc.	\$ (0.55)	\$ (0.65)	\$ (0.10)

The following line items within the Consolidated Balance Sheets were affected by the change in accounting policy (in thousands):

	Computed	Computed October 31, 2011	Computed
	As Computed under FIFO	As Reported under Average Cost	Effect of Change- Increase / (Decrease)
Inventories	\$ 175,635	\$ 176,092	\$ 457
Other current assets*	2,834	2,789	(45)
Deferred income taxes	7,381	7,426	45
Retained earnings	241,294	241,751	457

	As Computed	As Computed January 31, 2011	As Computed
	As Computed under FIFO	As Reported under Average Cost	Effect of Change- Increase / (Decrease)
Inventories	\$ 179,516	\$ 181,265	\$ 1,749
Other current assets*	2,518	2,462	(56)
Deferred income taxes	8,164	8,220	56
Retained earnings	220,936	222,685	1,749

	As Computed	As Computed October 31, 2010	As Computed
	As Computed under FIFO	As Reported under Average Cost	Effect of Change- Increase / (Decrease)
Inventories	\$ 206,549	\$ 207,987	\$ 1,438
Other current assets*	3,086	3,040	(46)
Deferred income taxes	14,163	14,209	46
Retained earnings	252,242	253,680	1,438

## Edgar Filing: MOVADO GROUP INC - Form 10-Q

\* As it relates to current deferred income taxes.

As a result of the accounting change, retained earnings as of February 1, 2010, increased from \$265.9 million, as computed using the FIFO method, to \$269.8 million using the average cost method.

There was no impact on net cash provided by operating activities as a result of this change in accounting policy.

**Table of Contents**

Inventories consist of the following (in thousands):

	October 31, 2011	January 31, 2011	October 31, 2010
Finished goods	\$ 96,370	\$ 97,007	\$ 126,415
Component parts	67,062	63,065	60,333
Work-in-process	12,660	21,193	21,239
	\$ 176,092	\$ 181,265	\$ 207,987

**NOTE 6 DEBT AND LINES OF CREDIT**

On July 17, 2009, the Company, together with Movado Group Delaware Holdings Corporation, Movado Retail Group, Inc. and Movado LLC, each a wholly owned domestic subsidiary of the Company (together with the Company, the Borrowers), entered into an Amended and Restated Loan and Security Agreement (as amended to date, the Loan Agreement) with Bank of America, N.A. and Bank Leumi USA, as lenders, and Bank of America, N.A., as agent (in such capacity, the Agent). The parties amended the Loan Agreement by entering into Amendment No. 1 thereto (the First Amendment) on April 5, 2011. The Loan Agreement provides a \$55.0 million asset based senior secured revolving credit facility (the Facility), including a \$15.0 million letter of credit subfacility. The maturity date of the Facility is July 17, 2012.

Availability under the Facility is determined by reference to a borrowing base which is based on the sum of a percentage of eligible accounts receivable and eligible inventory of the Borrowers. \$10.0 million in availability is blocked until the date (the Block Release Date) on which the Borrowers have achieved for a four fiscal quarter period a consolidated fixed charge coverage ratio of at least 1.25 to 1.0 and have domestic EBITDA greater than \$10.0 million. The availability block must remain in place for at least one year. The amount of the availability block will be reduced by the amount by which the borrowing base exceeds \$55.0 million, up to a maximum reduction of \$5.0 million. Availability under the Facility may be further reduced by certain reserves established by the Agent in its good faith credit judgment. As of October 31, 2011, total availability under the Facility, giving effect to the availability block, no outstanding borrowings and the letters of credit outstanding under the subfacility, was \$49.3 million.

The initial applicable margin for LIBOR rate loans was 4.25% and for base rate loans was 3.25%. After July 17, 2010, the applicable margins decreased or increased by 0.25% per annum from the initial applicable margins depending on whether average availability for the most recently completed fiscal quarter was either greater than \$12.5 million, or was \$5.0 million or less, respectively. Beginning with the third quarter of fiscal 2011, the applicable margin decreased to 4.00% for LIBOR loans and 3.00% for base rate loans. The First Amendment reduced the applicable margin for both LIBOR rate loans and base rate loans by 1.25%. Accordingly, as of October 31, 2011 and based on current availability, the applicable margins were 2.75% and 1.75% for LIBOR and base rate loans, respectively.

Prior to the Block Release Date, if borrowing availability is less than \$10.0 million (which threshold may be reduced to the extent the borrowing base exceeds \$55.0 million, up to a maximum \$5.0 million reduction), the Borrowers will be subject to a minimum EBITDA covenant. After the Block Release Date, the Borrowers will be subject to a minimum EBITDA covenant if borrowing availability is less than \$15.0 million. As of October 31, 2011, the Borrowers were not subject to the minimum EBITDA covenant.

In addition, after the Block Release Date, if borrowing availability is less than \$15.0 million, the Borrowers will be subject to a minimum fixed charge coverage ratio.

The Borrowers' deposit accounts will be subject to cash dominion prior to the Block Release Date if borrowing availability is less than \$7.5 million, but such threshold may be reduced to the extent the borrowing base

---

**Table of Contents**

exceeds \$55.0 million, up to a maximum \$5.0 million reduction. After the Block Release Date, cash dominion will be imposed if borrowing availability is less than \$15.0 million. As of October 31, 2011, the Borrowers were not subject to cash dominion nor do the Borrowers expect to be subject to such a requirement in the foreseeable future.

The Loan Agreement contains additional affirmative and negative covenants binding on the Borrowers and their subsidiaries that are customary for asset based facilities, including, but not limited to, restrictions and limitations on the incurrence of debt for borrowed money and liens, dispositions of assets, capital expenditures, dividends and other payments in respect of equity interests, the making of loans and equity investments, prepayments of subordinated and certain other debt, mergers, consolidations, liquidations and dissolutions, and transactions with affiliates. The Loan Agreement permits the Borrowers to pay dividends through July 17, 2012 in an aggregate amount not to exceed (a) \$4.0 million during any four fiscal quarters or (b) \$5.5 million during the entire period from February 1, 2011 through July 17, 2012, provided that no event of default has occurred and that, for the four fiscal quarter period most recently ended prior to the proposed dividend payment date, the Borrowers have achieved an adjusted consolidated fixed charge coverage ratio of at least 1.25 to 1.0 and have pro forma availability greater than \$12.5 million. As of October 31, 2011, the Company believes it was in compliance with these financial covenants and had achieved the requisite adjusted consolidated fixed charge coverage ratio necessary to pay dividends. The Company presently expects that it will be able to pay dividends through the remaining term of the Facility.

The Loan Agreement contains events of default that are customary for facilities of this type, including, but not limited to, nonpayment of principal, interest, fees and other amounts when due, failure of any representation or warranty to be true in any material respect when made or deemed made, violation of covenants, cross default, material judgments, material ERISA liability, bankruptcy events, material loss of collateral in excess of insured amounts, asserted or actual revocation or invalidity of the loan documents, change of control and events or circumstances having a material adverse effect. The borrowings under the Facility are joint and several obligations of the Borrowers and also cross-guaranteed by each Borrower. In addition, the Borrowers' obligations under the Facility are secured by first priority liens, subject to permitted liens, on substantially all of the Borrowers' U.S. assets (other than certain excluded assets).

A Swiss subsidiary of the Company maintains unsecured lines of credit with an unspecified length of time with a Swiss bank. As of October 31, 2011 and 2010, these lines of credit totaled 10.0 million Swiss francs for both periods, with dollar equivalents of \$11.4 million and \$10.2 million, respectively. As of October 31, 2011 and 2010, there were no borrowings against these lines. As of October 31, 2011, two European banks have guaranteed obligations to third parties on behalf of two of the Company's foreign subsidiaries in the amount of \$1.9 million in various foreign currencies.

**NOTE 7 EARNINGS PER SHARE**

The Company presents net income per share on a basic and diluted basis. Basic earnings per share are computed using weighted-average shares outstanding during the period. Diluted earnings per share are computed using the weighted-average number of shares outstanding adjusted for dilutive common stock equivalents.

The weighted-average number of shares outstanding for basic earnings per share was 24,926,000 and 24,772,000 for the three months ended October 31, 2011 and 2010, respectively. For the three months ended October 31, 2011 and 2010, the number of shares outstanding for diluted earnings per share was increased by 182,000 and 135,000, respectively, due to potentially dilutive common stock equivalents issuable under the Company's stock compensation plans.

**Table of Contents**

For the three months ended October 31, 2011 and 2010, approximately 660,000 and 605,000 of potentially dilutive common stock equivalents, respectively, were excluded from the computation of diluted earnings per share because their effect would have been antidilutive.

The weighted-average number of shares outstanding for basic earnings per share was 24,905,000 and 24,730,000 for the nine months ended October 31, 2011 and 2010, respectively. For the nine months ended October 31, 2011 and 2010, the number of shares outstanding for diluted earnings per share was increased by 199,000 and 258,000, respectively, due to potentially dilutive common stock equivalents issuable under the Company's stock compensation plans.

For the nine months ended October 31, 2011 and 2010, approximately 606,000 and 513,000 of potentially dilutive common stock equivalents, respectively, were excluded from the computation of dilutive earnings per share because their effect would have been antidilutive.

**NOTE 8 COMMITMENTS AND CONTINGENCIES**

As of October 31, 2011, one bank in the domestic bank group had issued five irrevocable standby letters of credit for retail and operating facility leases to various landlords, for the administration of the Movado boutique private-label credit card and Canadian payroll to the Royal Bank of Canada. As of October 31, 2011, the Company had outstanding letters of credit totaling \$0.7 million with expiration dates through March 10, 2013.

As of October 31, 2011, two European banks have guaranteed obligations to third parties on behalf of two of the Company's foreign subsidiaries in the amount of \$1.9 million in various foreign currencies.

The Company is involved from time to time in legal claims involving trademarks and other intellectual property, contracts, employee relations and other matters incidental to the Company's business. Although the outcome of such matters cannot be determined with certainty, the Company's general counsel and management believe that the final outcome would not have a material effect on the Company's consolidated financial position, results of operations or cash flows.

**NOTE 9 INCOME TAXES**

The Company recorded tax expense of \$2.1 million and \$0.8 million for the three months ended October 31, 2011 and 2010, respectively. The effective tax rate for the three month period ended October 31, 2011 was 11.0%. The effective tax rate for the three month period ended October 31, 2010 was 4.3% for continuing operations.

The Company recorded tax expense of \$3.7 million and \$1.6 million for the nine months ended October 31, 2011 and 2010, respectively. The effective tax rate for the nine month period ended October 31, 2011 was 14.3%. The effective tax rate for the nine month period ended October 31, 2010 was 16.4% for continuing operations.

All periods include the effects of changes to the valuation allowances on net deferred tax assets and the application of accounting for income taxes in interim periods. Tax expense for the three and nine months ended October 31, 2011 includes a \$0.7 million accrual for an uncertain tax position in a foreign jurisdiction that is attributable to prior periods.

**NOTE 10 DERIVATIVE FINANCIAL INSTRUMENTS**

The Company accounts for its derivative financial instruments in accordance with guidance which requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial condition and

**Table of Contents**

measure those instruments at fair value. A significant portion of the Company's purchases are denominated in Swiss francs. The Company reduces its exposure to the Swiss franc exchange rate risk through a hedging program. Under the hedging program, the Company manages most of its foreign currency exposures on a consolidated basis, which allows it to net certain exposures and take advantage of natural offsets. In the event these exposures do not offset, the Company uses various derivative financial instruments to further reduce the net exposures to currency fluctuations, predominately forward and option contracts. When entered into, the Company designates and documents these derivative instruments as a cash flow hedge of a specific underlying exposure, as well as the risk management objectives and strategies for undertaking the hedge transactions. Changes in the fair value of a derivative that is designated and documented as a cash flow hedge and is highly effective, are recorded in other comprehensive income until the underlying transaction affects earnings, and then are later reclassified into earnings in the same account as the hedged transaction. The Company formally assesses, both at the inception and at each financial quarter thereafter, the effectiveness of the derivative instrument hedging the underlying forecasted cash flow transaction. Any ineffectiveness related to the derivative financial instrument's change in fair value will be recognized in the period in which the ineffectiveness was calculated.

The Company uses forward exchange contracts to offset its exposure to certain foreign currency receivables and liabilities. These forward contracts are not designated as qualified hedges and, therefore, changes in the fair value of these derivatives are recognized into earnings, thereby partially offsetting the current earnings effect of the related foreign currency receivables and liabilities.

During the fourth quarter of fiscal year ended January 31, 2011, the Company concluded it would significantly reduce its offering of gold watches, as it relates to non-core gold inventory. The Company decided to melt the non-core gold inventory because the current salvage value of the gold was adequate and could be easily and quickly realized, while significant excessive time, effort and costs would be required to sell the gold watches. As a result, the Company entered into commodity futures contracts to offset its exposure to the fluctuating value of gold. These futures contracts are not designated as qualified hedges and, therefore, changes in the fair value of these derivatives are recognized into earnings, thereby offsetting the earnings effect of fluctuations in the sale price of gold.

All of the Company's derivative instruments have liquid markets to assess fair value. The Company does not enter into any derivative instruments for trading purposes.

As of October 31, 2011, the Company's entire net forward contracts hedging portfolio consisted of 27.0 million Swiss francs equivalent with various expiry dates ranging through April 25, 2012.

As of October 31, 2011, the Company's entire commodity futures contracts hedging portfolio consisted of approximately 600 ounces of gold equivalent with an expiry date of November 30, 2011.



**Table of Contents**

The following table summarizes the fair value and presentation in the Consolidated Balance Sheets for derivatives as of October 31, 2011 and 2010 (in thousands):

	Asset Derivatives			Liability Derivatives		
	Balance Sheet Location	2011 Fair Value	2010 Fair Value	Balance Sheet Location	2011 Fair Value	2010 Fair Value
<b>Derivatives not designated as hedging instruments:</b>						
Foreign Exchange Contracts	Other Current Assets	\$ 150	\$ 2,916	Accrued Liabilities	\$ 916	\$ 243
Commodity Future Contracts	Other Current Assets			Accrued Liabilities	116	
Total Derivative Instruments		\$ 150	\$ 2,916		\$ 1,032	\$ 243

As of October 31, 2011, the balance of deferred net gains on derivative financial instruments documented as cash flow hedges included in accumulated other comprehensive income ( AOCI ) was \$1.0 million in net losses, net of tax of \$1.0 million, compared to \$0.4 million in net gains, net of tax of \$1.0 million as of October 31, 2010. The Company's sell through of inventory purchased in Swiss francs will primarily cause the amount in AOCI to affect cost of goods sold. The maximum length of time the Company hedges its exposure to the fluctuation in future cash flows for forecasted transactions is 24 months. For the three months ended October 31, 2011 and 2010, the Company reclassified from AOCI to earnings \$0.2 million of net gains, net of tax of \$0 and \$0.7 million of net gains, net of tax of \$0, respectively. For the nine months ended October 31, 2011 and 2010, the Company reclassified from AOCI to earnings \$0.9 million of net gains, net of tax of \$0 and \$1.0 million of net gains, net of tax of \$0, respectively.

During the three and nine months ended October 31, 2011 and 2010, the Company recorded no charge related to its assessment of the effectiveness of its derivative hedge portfolio because of the high degree of effectiveness between the hedging instrument and the underlying exposure being hedged. Changes in the contracts' fair value due to spot-forward differences are excluded from the designated hedge relationship. The Company records these transactions in the cost of sales of the Consolidated Statements of Operations.

**NOTE 11 DISCONTINUED OPERATIONS**

The Company closed its Movado boutique division effective the second quarter of fiscal 2011. As a result of that action, the Company is reporting the Movado boutiques' financial activity as discontinued operations for all periods presented.

The following is a summary of the operating results of the Company's discontinued operations:

(In thousands)	\$00,000	\$00,000	\$00,000	\$00,000	\$00,000	\$00,000
	Three Months Ended October 31, 2010			Nine Months Ended October 31, 2010		
	Net Sales	Pretax Loss	Net Loss	Net Sales	Pretax Loss	Net Loss
Movado Boutiques	\$	\$	\$	\$ 14,252	\$ 23,675	\$ 23,675

For the three and nine months ended October 31, 2010, the Company had no tax provision for its discontinued operations.

**Table of Contents**

As a result of the Movado boutiques closing, the Company recorded \$20.0 million of expenses primarily for occupancy charges, asset impairments, inventory write-downs and severance. The Company expects that the majority of the remaining liabilities will be paid during fiscal 2012.

A summary rollforward of costs related to the closing of the Movado boutiques is as follows (in thousands):

	Fiscal 2011 charges	Cash payments	Non-cash adjustments	Accrued balance at October 31, 2011
Occupancy charges (1)	\$ 12,915	\$ (13,527)	\$ 1,284	\$ 672
Asset impairments	3,432		(3,432)	
Inventory write-downs	1,892		(1,892)	
Severance	1,756	(1,749)		7
<b>Total</b>	<b>\$ 19,995</b>	<b>\$ (15,276)</b>	<b>\$ (4,040)</b>	<b>\$ 679</b>

(1) Occupancy charges include expenses for lease buyouts, moving and legal expenses and reductions for the reversal of deferred rent accruals.

**NOTE 12 OTHER INCOME**

Other income for the nine months ended October 31, 2011 consisted of \$0.7 million of pre-tax gain on the sale of a building which was completed in the second quarter. The Company received cash proceeds from the sale of \$1.2 million. The building had been classified as an asset held for sale in other current assets.

**NOTE 13 OTHER**

On December 19, 2008, the Company entered into a Transition and Retirement Agreement (the Agreement) with the Company's former Chairman, Mr. Gedalio Grinberg ( Mr. Grinberg ). The Agreement stipulated that upon his retirement on January 31, 2009, Mr. Grinberg, or his spouse, ( Mrs. Grinberg ) if he predeceased her, would receive a payment of \$0.6 million for the year ended January 31, 2010, and annual payments of \$0.5 million for each year thereafter for life. On January 5, 2009, the Company announced the passing of Mr. Grinberg. As of July 31, 2010, a \$4.3 million liability was recorded in the Company's Consolidated Balance Sheets related to the Agreement, of which \$0.5 million was recorded in Accrued Liabilities, and \$3.8 million was recorded in Other Non-Current Liabilities. In the third quarter of fiscal 2011, due to the passing of Mrs. Grinberg, the Company reversed the \$4.3 million liability as a reduction of SG&A expenses.

**NOTE 14 RECENTLY ISSUED ACCOUNTING STANDARDS**

In June 2011, the Financial Accounting Standards Board issued guidance on the presentation of comprehensive income. This guidance eliminates the current option to report other comprehensive income and its components in the statement of changes in equity. The guidance allows two presentation alternatives: (1) present items of net income and other comprehensive income in one continuous statement, referred to as the statement of comprehensive income; or (2) in two separate, but consecutive, statements of net income and other comprehensive income. This guidance is effective as of the beginning of a fiscal year that begins after December 15, 2011. Early adoption is permitted, but full retrospective application is required. The adoption of this guidance will have no impact on the Company's consolidated financial position or results of operations.

**Table of Contents**

**NOTE 15 SUBSEQUENT EVENT**

In the fourth quarter of fiscal 2011, the Company performed a strategic review of the Ebel brand and concluded that the future direction for the brand would not include the production of certain mechanical watch movements that are assembled by the Company from parts purchased from third party suppliers. As a result, in the fourth quarter of fiscal 2011, the Company recorded a charge to cost of sales for the future disposition of such inventory. In the fourth quarter of fiscal 2012, the Company expects to record sales and gross margin of approximately \$3.3 million resulting from the sale of certain of these mechanical movements and related parts.

---

**Table of Contents**

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

**FORWARD-LOOKING STATEMENTS**

Statements in this Quarterly Report on Form 10-Q, including, without limitation, statements under Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this report, as well as statements in future filings by the Company with the Securities and Exchange Commission, in the Company's press releases and oral statements made by or with the approval of an authorized executive officer of the Company, which are not historical in nature, are intended to be, and are hereby identified as, forward-looking statements for purposes of the safe harbor provided by the Private Securities Litigation Reform Act of 1995. These statements are based on current expectations, estimates, forecasts and projections about the Company, its future performance, the industry in which the Company operates and management's assumptions. Words such as expects, anticipates, targets, goals, projects, intends, plans, believes, may, will, should and variations of such words and similar expressions are also intended to identify such forward-looking statements. The Company cautions readers that forward-looking statements include, without limitation, those relating to the Company's future business prospects, projected operating or financial results, revenues, working capital, liquidity, capital needs, plans for future operations, expectations regarding capital expenditures and operating expenses, effective tax rates, margins, interest costs, and income as well as assumptions relating to the foregoing. Forward-looking statements are subject to certain risks and uncertainties, some of which cannot be predicted or quantified. Actual results and future events could differ materially from those indicated in the forward-looking statements, due to several important factors herein identified, among others, and other risks and factors identified from time to time in the Company's reports filed with the SEC including, without limitation, the following: general economic and business conditions which may impact disposable income of consumers in the United States and the other significant markets where the Company's products are sold, uncertainty regarding such economic and business conditions, trends in consumer debt levels and bad debt write-offs, general uncertainty related to possible terrorist attacks, natural disasters, the stability of the European Union and defaults on or downgrades of sovereign debt and the impact of any of those events on consumer spending, changes in consumer preferences and popularity of particular designs, new product development and introduction, competitive products and pricing, seasonality, availability of alternative sources of supply in the case of the loss of any significant supplier or any supplier's inability to fulfill the Company's orders, the loss of or curtailed sales to significant customers, the Company's dependence on key employees and officers, the ability to successfully integrate the operations of acquired businesses without disruption to other business activities, the continuation of licensing arrangements with third parties, the ability to secure and protect trademarks, patents and other intellectual property rights, the ability to lease new stores on suitable terms in desired markets and to complete construction on a timely basis, the ability of the Company to successfully manage its expenses on a continuing basis, the continued availability to the Company of financing and credit on favorable terms, business disruptions, disease, general risks associated with doing business outside the United States including, without limitation, import duties, tariffs, quotas, political and economic stability, and success of hedging strategies with respect to currency exchange rate fluctuations.

These risks and uncertainties, along with the risk factors discussed under Item 1A Risk Factors in the Company's Annual Report on Form 10-K, should be considered in evaluating any forward-looking statements contained in this Quarterly Report on Form 10-Q or incorporated by reference herein. All forward-looking statements speak only as of the date of this report or, in the case of any document incorporated by reference, the date of that document. All subsequent written and oral forward-looking statements attributable to the Company or any person acting on its behalf are qualified by the cautionary statements in this section. The Company undertakes no obligation to update or publicly release any revisions to forward-looking statements to reflect events, circumstances or changes in expectations after the date of this report.

## **Table of Contents**

### **Critical Accounting Policies and Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. These estimates and assumptions also affect the reported amounts of revenues and expenses. Estimates by their nature are based on judgments and available information. Therefore, actual results could materially differ from those estimates under different assumptions and conditions.

Critical accounting policies are those that are most important to the portrayal of the Company's financial condition and the results of operations and require management's most difficult, subjective and complex judgments as a result of the need to make estimates about the effect of matters that are inherently uncertain. The Company's most critical accounting policies have been discussed in the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2011.

As of October 31, 2011, except as noted below, there have been no material changes to any of the critical accounting policies as disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2011.

Effective February 1, 2011, the Company changed its method of valuing its U.S. inventories to the average cost method. In prior years, primarily all U.S. inventories were valued using the first-in, first-out ( FIFO ) method. With this change, all of the Company's inventories are now valued using the average cost method. The Company believes that the average cost method of inventory valuation is preferable because (1) it permits the Company to use a single method of accounting for all of the Company's U.S. and international inventories, (2) the method aligns costing with the Company's forecasting and procurement decisions, and (3) since a number of the Company's key competitors use the average cost method, it improves comparability of the Company's financial statements. The comparative consolidated financial statements of prior periods presented have been adjusted to apply the new accounting method retroactively. The change in accounting principle was applied retroactively as described in the applicable accounting guidance for accounting changes and error corrections.

### **Recent Developments**

On April 5, 2011, the Company amended its Amended and Restated Loan and Security Agreement, dated July 17, 2009, with Bank of America, N.A. and Bank Leumi USA to modify certain covenants related to the payment of dividends and to reflect more favorable current market rate conditions. As a result of the Company's strong financial position, the Company's Board of Directors (the Board ) decided to reinstate a quarterly cash dividend subject, in each quarter, to the Board's review of the Company's financial performance and other factors as determined by the Board. The Company anticipates a total annualized dividend of \$0.12 per share of common stock and class A common stock, or approximately \$3 million based on the current number of outstanding shares. However, the decision of whether to declare any future cash dividend, including the amount of any such dividend and the establishment of record and payment dates, will be determined, in each quarter, by the Board, in its sole discretion.

### **Overview**

The Company conducts its business primarily in two operating segments: Wholesale and Retail. The Company's Wholesale segment includes the designing, manufacturing and distribution of quality watches. The Retail segment includes the Company's outlet stores and the Movado brand flagship store. The Company also operates in two major geographic segments: United States and International. The following discussion of the Retail segment and the United States segment operating results no longer includes amounts related to the

**Table of Contents**

Movado boutiques as a result of closing the Movado boutique division during the second quarter of fiscal 2011. The financial results of the Movado boutiques are classified as discontinued operations for all periods presented.

The Company divides its watch business into distinct categories. The luxury category consists of the Ebel® and Concord® brands. The accessible luxury category consists of the Movado® and ESQ® by Movado brands. The licensed brands category represents brands distributed under license agreements and includes Coach®, HUGO BOSS®, Juicy Couture®, Lacoste® and Tommy Hilfiger®.

**Results of operations for the three months ended October 31, 2011 as compared to the three months ended October 31, 2010**

*Net Sales:* Comparative net sales by business segment were as follows (in thousands):

	<b>Three Months Ended October 31,</b>	
	<b>2011</b>	<b>2010</b>
<b>Wholesale:</b>		
United States	\$ 61,061	\$ 53,257
International	68,540	56,897
<b>Total Wholesale</b>	<b>129,601</b>	<b>110,154</b>
<b>Retail</b>	<b>13,021</b>	<b>12,848</b>
<b>Net Sales</b>	<b>\$ 142,622</b>	<b>\$ 123,002</b>

Net sales for the three months ended October 31, 2011 were \$142.6 million, above prior year by \$19.6 million or 16.0%. For the three months ended October 31, 2011, fluctuations in foreign currency exchange rates favorably impacted net sales by \$3.3 million when compared to the prior year period.

Net sales for the three months ended October 31, 2011 in the wholesale segment were \$129.6 million, above the prior year period by \$19.4 million or 17.7%. The increase in wholesale net sales was driven by growth in both the U.S. and the international segments.

Net sales for the three months ended October 31, 2011 in the U.S. wholesale segment were \$61.1 million, above the prior year period by \$7.8 million or 14.7%, driven by sales increases in both the accessible luxury and licensed brand categories. Net sales in the accessible luxury category were above prior year by \$5.6 million or 16.7%, primarily due to strong sell-through in the Company's distribution channels, resulting from product innovation, such as the Movado BOLD collection, and the increased focus and spending on marketing and advertising. Net sales in the licensed brand category were above the prior year period by \$2.4 million or 14.7%, primarily due to increased demand driven by innovative product designs at key price points that are resonating well with customers. Net sales in the luxury category were relatively flat year-over-year.

Net sales for the three months ended October 31, 2011 in the international wholesale segment were \$68.5 million, above the prior year period by \$11.6 million or 20.5%, driven by sales increases in the licensed brand and luxury watch categories, partially offset by a sales decrease in the accessible luxury category. Net sales in the licensed brands category were above the prior year period by \$10.6 million or 31.8%, primarily due to growth in existing markets resulting from higher demand, as well as new market expansion. Net sales in the luxury category were above the prior year period by \$2.4 million, or 25.3%, primarily as the result of sales of select non-core gold watch offerings in the category. Net sales in the accessible luxury category were below the

---

**Table of Contents**

prior year period by \$1.2 million, or 10.1%, the net result of lower sales recorded in the Caribbean and Latin America, partially offset by higher sales recorded in China. For the three months ended October 31, 2011, fluctuations in foreign currency exchange rates favorably impacted net sales by \$3.3 million when compared to the prior year period.

Net sales for the three months ended October 31, 2011 in the retail segment were \$13.0 million, above the prior year period by \$0.2 million or 1.3%. The increase in sales was attributable to an increase in the number of stores operated when compared to the prior year. As of October 31, 2011, the Company operated 33 outlet stores and the Movado brand flagship store, compared to 32 outlet stores and the flagship store as of October 31, 2010.

*Gross Profit.* Gross profit for the three months ended October 31, 2011 was \$81.0 million or 56.8% of net sales as compared to \$68.9 million or 56.0% of net sales for the three months ended October 31, 2010. The increase in gross profit of \$12.1 million was primarily due to higher net sales and, to a lesser extent, the higher gross margin percentage achieved. The gross margin percentage for the three months ended October 31, 2011 was favorably impacted by approximately 180 basis points due to a shift in channel and product mix and by approximately 60 basis points resulting from leverage gained on certain fixed costs due to the increase in sales volume year-over-year. When compared to the prior year period, the gross margin for the three months ended October 31, 2011 was unfavorably impacted by approximately 160 basis points due to fluctuations in foreign currency exchange rates.

*Selling, General and Administrative ( SG&A ).* SG&A expenses for the three months ended October 31, 2011 were \$61.9 million, representing an increase of \$11.5 million, or 22.8%, over the prior year period. The increase in SG&A expenses includes higher compensation and benefit expense of \$4.7 million recorded during the current year period resulting from salary increases, the reinstatement of certain employee benefits and performance-based compensation. The effect of fluctuations in foreign currency exchange rates unfavorably impacted SG&A expenses for the three months ended October 31, 2011 by \$2.4 million, of which \$1.5 million was the result of increases from the translation of foreign subsidiary results and \$0.9 million was the result of higher transactional losses recorded year-over-year related to foreign denominated assets held in weakening currencies. Additionally, the Company recorded a non-recurring benefit of \$4.3 million in the prior year period resulting from the reversal of a previously recorded liability for a retirement agreement with the Company's late Chairman.

*Wholesale Operating Income.* Operating income of \$17.4 million and \$16.8 million was recorded in the wholesale segment for the three months ended October 31, 2011 and 2010, respectively. The \$0.6 million increase in operating income was the net result of an increase in gross profit of \$12.0 million, mostly offset by an increase in SG&A expenses of \$11.4 million. The increase in gross profit of \$12.0 million was primarily attributed to higher net sales, and to a lesser extent, a higher gross margin percentage achieved year-over-year. The increase in SG&A expenses of \$11.4 million was driven by higher compensation and benefit expenses of \$4.6 million, as well as the unfavorable impact of foreign currency fluctuations of \$2.4 million when compared to the prior year period. Additionally, the Company recorded a non-recurring benefit of \$4.3 million in the prior year period resulting from the reversal of a previously recorded liability for a retirement agreement with the Company's late Chairman.

*Retail Operating Income.* Operating income of \$1.7 million was recorded in the retail segment for both the three months ended October 31, 2011 and 2010, resulting from an increase in gross profit of \$0.1 million, offset by an increase in SG&A expenses of \$0.1 million in the current year period. The increase in gross profit of \$0.1 million was primarily attributed to the increase in sales volume year-over-year. The increase in SG&A expenses of \$0.1 million was primarily due to expenses for stores that were not open the full three months in the prior year period.

**Table of Contents**

*Interest Expense.* Interest expense for the three months ended October 31, 2011 was \$0.3 million which primarily consisted of the amortization of deferred financing costs. Interest expense for the three months ended October 31, 2010 was \$0.5 million which primarily consisted of amortization of deferred financing costs, as well as interest on outstanding borrowings under the Company's credit facility. For the three months ended October 31, 2011, the Company had no outstanding borrowings under its credit facility.

*Interest Income.* Interest income for both three month periods ended October 31, 2011 and 2010 was immaterial.

*Income Taxes.* The Company recorded a tax expense of \$2.1 million and \$0.8 million for the three months ended October 31, 2011 and 2010, respectively. The effective tax rate for the three month period ended October 31, 2011 was 11.0%. The effective tax rate for the three month period ended October 31, 2010 was 4.3% for continuing operations. The effective tax rates for both periods include changes to valuation allowances on net deferred tax assets and the application of accounting for income taxes in interim periods. Tax expense for the three months ended October 31, 2011 includes a \$0.7 million accrual for an uncertain tax position in a foreign jurisdiction that is attributable to prior periods.

*Net Income Attributed to Movado Group, Inc.* For the three months ended October 31, 2011, the Company recorded net income of \$16.4 million, as compared to net income of \$17.1 million recorded for the three months ended October 31, 2010.



**Table of Contents****Results of operations for the nine months ended October 31, 2011 as compared to the nine months ended October 31, 2010**

*Net Sales:* Comparative net sales by business segment were as follows (in thousands):

	<b>Nine Months Ended October 31,</b>	
	<b>2011</b>	<b>2010</b>
<b>Wholesale:</b>		
United States	\$ 137,401	\$ 113,273
International	171,530	132,689
<b>Total Wholesale</b>	<b>308,931</b>	<b>245,962</b>
<b>Retail</b>	<b>36,776</b>	<b>35,232</b>
<b>Net Sales</b>	<b>\$ 345,707</b>	<b>\$ 281,194</b>

Net sales for the nine months ended October 31, 2011 were \$345.7 million, above prior year by \$64.5 million or 22.9%. For the nine months ended October 31, 2011, fluctuations in foreign currency exchange rates favorably impacted net sales by \$11.6 million when compared to the prior year period.

Net sales for the nine months ended October 31, 2011 in the wholesale segment were \$308.9 million, above the prior year period by \$62.9 million or 25.6%. The increase in wholesale net sales was driven by growth in both the U.S. and the international segments.

Net sales for the nine months ended October 31, 2011 in the U.S. wholesale segment were \$137.4 million, above the prior year period by \$24.1 million or 21.3%, driven by sales increases in both the accessible luxury and licensed brand categories. Net sales in the accessible luxury category were above prior year by \$19.5 million or 29.2%, primarily due to strong sell-through in the Company's distribution channels, resulting from product innovation, such as the Movado BOLD collection, and the increased focus and spending on marketing and advertising. Additionally, prior year sales in the accessible luxury category were negatively impacted by the Company's decision to limit sales to customers the Company believed to have heightened credit risk. Net sales in the licensed brand category were above the prior year period by \$5.8 million or 15.9%, primarily due to increased demand driven by innovative product designs at key price points that are resonating well with customers. These sales increases were partially offset by lower net sales in the luxury category of \$0.7 million when compared to the prior year period.

Net sales for the nine months ended October 31, 2011 in the international wholesale segment were \$171.5 million, above the prior year period by \$38.8 million or 29.3%, with increases recorded in all watch brand categories. Net sales in the licensed brands category were above the prior year period by \$28.9 million or 36.6%, primarily due to growth in existing markets resulting from higher demand, as well as new market expansion. Net sales in the luxury category were above the prior year period by \$6.0 million, or 26.4%, primarily as the result of sales of select non-core gold watch offerings in the category. Net sales in the accessible luxury category were above the prior year period by \$3.3 million, or 13.4%, primarily driven by higher sales in China. For the nine months ended October 31, 2011, fluctuations in foreign currency exchange rates favorably impacted net sales by \$11.6 million when compared to the prior year period.

---

**Table of Contents**

Net sales for the nine months ended October 31, 2011 in the retail segment were \$36.8 million, above the prior year period by \$1.5 million or 4.4%. The increase in sales was attributable to an increase in the number of stores operated when compared to the prior year.

*Gross Profit.* Gross profit for the nine months ended October 31, 2011 was \$190.6 million or 55.1% of net sales as compared to \$151.8 million or 54.0% of net sales for the nine months ended October 31, 2010. The increase in gross profit of \$38.8 million was primarily due to higher net sales and, to a lesser extent, the higher gross margin percentage achieved. The gross margin percentage for the nine months ended October 31, 2011 was favorably impacted by approximately 120 basis points due to a shift in channel and product mix and by approximately 70 basis points resulting from leverage gained on certain fixed costs due to the increase in sales volume year-over-year. When compared to the prior year period, the gross margin for the nine months ended October 31, 2011 was unfavorably impacted by approximately 80 basis points due to fluctuations in foreign currency exchange rates.

*Selling, General and Administrative.* SG&A expenses for the nine months ended October 31, 2011 were \$164.9 million, representing an increase of \$24.2 million, or 17.2%, over the prior year period. The increase in SG&A expense includes higher compensation and benefit expense of \$9.3 million resulting from salary increases, the reinstatement of certain employee benefits and performance-based compensation. Additionally, higher marketing expense of \$4.6 million was recorded during the current year period resulting from expenses associated with the Company's decision to increase spending in this area in an effort to drive sales growth. The effect of fluctuations in foreign currency exchange rates unfavorably impacted SG&A expenses for the nine months ended October 31, 2011 by \$6.0 million, of which \$5.7 million was the result of increases from the translation of foreign subsidiary results and \$0.3 million was the result of higher transactional losses recorded year-over-year related to foreign denominated assets held in weakening currencies. Additionally, the Company recorded a non-recurring benefit of \$4.3 million in the prior year period resulting from the reversal of a previously recorded liability for a retirement agreement with the Company's late Chairman.

*Wholesale Operating Income.* Operating income of \$21.1 million and \$6.5 million was recorded in the wholesale segment for the nine months ended October 31, 2011 and 2010, respectively. The \$14.6 million increase in operating income was the net result of an increase in gross profit of \$37.6 million, partially offset by an increase in SG&A expenses of \$23.0 million. The increase in gross profit of \$37.6 million was primarily attributed to higher net sales and, to a lesser extent, a higher gross margin percentage achieved year-over-year. The increase in SG&A expenses of \$23.0 million was driven by higher compensation and benefit expenses of \$9.0 million, higher marketing expense of \$4.6 million, as well as the unfavorable impact of foreign currency fluctuations of \$6.0 million when compared to the prior year period. Additionally, the Company recorded a non-recurring benefit of \$4.3 million in the prior year period resulting from the reversal of a previously recorded liability for a retirement agreement with the Company's late Chairman.

*Retail Operating Income.* Operating income of \$4.6 million and \$4.7 million was recorded in the retail segment for the nine months ended October 31, 2011 and 2010, respectively. The \$0.1 million decrease in operating income was the net result of an increase in gross profit of \$1.2 million, more than offset by an increase in SG&A expenses of \$1.3 million. The increase in gross profit of \$1.2 million was primarily attributed to the increase in sales volume year-over-year, and to a lesser extent, a higher gross margin percentage achieved. The increase in SG&A expenses of \$1.3 million was primarily due to expenses for stores that were not open the full nine months in the prior year period.

*Other Income.* The Company recorded other income of \$0.7 million for the nine months ended October 31, 2011 resulting from the pre-tax gain on the sale of a building. The sale of the building was recorded in the three month period ended July 31, 2011.

---

**Table of Contents**

*Interest Expense.* Interest expense for the nine months ended October 31, 2011 was \$1.0 million which primarily consisted of the amortization of deferred financing costs. Interest expense for the nine months ended October 31, 2010 was \$1.8 million which primarily consisted of amortization of deferred financing costs, as well as interest on outstanding borrowings under the Company's credit facility. For the nine months ended October 31, 2011, the Company had no outstanding borrowings under its credit facility.

*Interest Income.* Interest income for both nine month periods ended October 31, 2011 and 2010 was immaterial.

*Income Taxes.* The Company recorded a tax expense of \$3.7 million and \$1.6 million for the nine months ended October 31, 2011 and 2010, respectively. The effective tax rate for the nine month period ended October 31, 2011 was 14.3%. The effective tax rate for the nine month period ended October 31, 2010 was 16.4% for continuing operations. The effective tax rates for both periods include changes to valuation allowances on net deferred tax assets and the application of accounting for income taxes in interim periods. Tax expense for the nine months ended October 31, 2011 includes a \$0.7 million accrual for an uncertain tax position in a foreign jurisdiction that is attributable to prior periods.

*Loss From Discontinued Operations.* The Company records the financial results of its Movado boutique division as discontinued operations, which ceased doing business during the quarter ended July 31, 2010. For the nine months ended October 31, 2010, the Company recorded a loss from discontinued operations of \$23.7 million, all of which was recorded in the first half of the fiscal year.

*Net Income / (Loss) Attributed to Movado Group, Inc.* For the nine months ended October 31, 2011, the Company recorded net income of \$21.3 million, as compared to a net loss of \$16.2 million recorded for the nine months ended October 31, 2010.

**LIQUIDITY AND CAPITAL RESOURCES**

Cash provided by operating activities was \$32.7 million for the nine months ended October 31, 2011 compared to \$4.9 million for the nine months ended October 31, 2010. Cash provided by operating activities of \$32.7 million for the fiscal 2012 period was primarily the result of net income for the period of \$21.9 million and favorable non-cash items of \$9.4 million. Cash provided by operating activities of \$4.9 million for the fiscal 2011 period was the result of cash provided by continuing operations of \$17.8 million and cash used of \$12.9 million attributed to discontinued operations related to the Movado boutiques. Cash provided by continuing operating activities of \$17.8 million for the fiscal 2011 period was primarily the result of the income from continuing operations for the period of \$8.0 million and favorable non-cash items of \$10.2 million.

Cash used in investing activities amounted to \$3.5 million for the nine months ended October 31, 2011 compared to cash used of \$5.2 million for the nine months ended October 31, 2010. The cash used during both periods consisted of capital expenditures which included integration of computer hardware and software in conjunction with the SAP enterprise resource planning system, as well as spending for tooling and design. For the nine months ended October 31, 2011, cash used in investing activities of \$3.5 million also included proceeds from a sale of an asset held for sale of \$1.2 million.

Cash used in financing activities amounted to \$1.8 million for the nine months ended October 31, 2011 compared to cash used in financing activities of \$9.5 million for the nine months ended October 31, 2010. Cash used in financing activities for the nine months ended October 31, 2011 was primarily to pay dividends. Cash used in financing activities for the nine months ended October 31, 2010 was primarily to pay down long-term debt.

---

**Table of Contents**

On July 17, 2009, the Company, together with Movado Group Delaware Holdings Corporation, Movado Retail Group, Inc. and Movado LLC, each a wholly owned domestic subsidiary of the Company (together with the Company, the Borrowers ), entered into an Amended and Restated Loan and Security Agreement (as amended to date, the Loan Agreement ) with Bank of America, N.A. and Bank Leumi USA, as lenders, and Bank of America, N.A., as agent (in such capacity, the Agent ). The parties amended the Loan Agreement by entering into Amendment No. 1 thereto (the First Amendment ) on April 5, 2011. The Loan Agreement provides a \$55.0 million asset based senior secured revolving credit facility (the Facility ), including a \$15.0 million letter of credit subfacility. The maturity date of the Facility is July 17, 2012.

Availability under the Facility is determined by reference to a borrowing base which is based on the sum of a percentage of eligible accounts receivable and eligible inventory of the Borrowers. \$10.0 million in availability is blocked until the date (the Block Release Date ) on which the Borrowers have achieved for a four fiscal quarter period a consolidated fixed charge coverage ratio of at least 1.25 to 1.0 and have domestic EBITDA greater than \$10.0 million. The availability block must remain in place for at least one year. The amount of the availability block will be reduced by the amount by which the borrowing base exceeds \$55.0 million, up to a maximum reduction of \$5.0 million. Availability under the Facility may be further reduced by certain reserves established by the Agent in its good faith credit judgment. As of October 31, 2011, total availability under the Facility, giving effect to the availability block, no outstanding borrowings and the letters of credit outstanding under the subfacility, was \$49.3 million.

The initial applicable margin for LIBOR rate loans was 4.25% and for base rate loans was 3.25%. After July 17, 2010, the applicable margins decreased or increased by 0.25% per annum from the initial applicable margins depending on whether average availability for the most recently completed fiscal quarter was either greater than \$12.5 million, or was \$5.0 million or less, respectively. Beginning with the third quarter of fiscal 2011, the applicable margin decreased to 4.00% for LIBOR loans and 3.00% for base rate loans. The First Amendment reduced the applicable margin for both LIBOR rate loans and base rate loans by 1.25%. Accordingly, as of October 31, 2011 and based on current availability, the applicable margins were 2.75% and 1.75% for LIBOR and base rate loans, respectively.

Prior to the Block Release Date, if borrowing availability is less than \$10.0 million (which threshold may be reduced to the extent the borrowing base exceeds \$55.0 million, up to a maximum \$5.0 million reduction), the Borrowers will be subject to a minimum EBITDA covenant. After the Block Release Date, the Borrowers will be subject to a minimum EBITDA covenant if borrowing availability is less than \$15.0 million. As of October 31, 2011, the Borrowers were not subject to the minimum EBITDA covenant.

In addition, after the Block Release Date, if borrowing availability is less than \$15.0 million, the Borrowers will be subject to a minimum fixed charge coverage ratio.

The Borrowers' deposit accounts will be subject to cash dominion prior to the Block Release Date if borrowing availability is less than \$7.5 million, but such threshold may be reduced to the extent the borrowing base exceeds \$55.0 million, up to a maximum \$5.0 million reduction. After the Block Release Date, cash dominion will be imposed if borrowing availability is less than \$15.0 million. As of October 31, 2011, the Borrowers were not subject to cash dominion nor do the Borrowers expect to be subject to such a requirement in the foreseeable future.

The Loan Agreement contains additional affirmative and negative covenants binding on the Borrowers and their subsidiaries that are customary for asset based facilities, including, but not limited to, restrictions and limitations on the incurrence of debt for borrowed money and liens, dispositions of assets, capital expenditures, dividends and other payments in respect of equity interests, the making of loans and equity investments, prepayments of subordinated and certain other debt, mergers, consolidations, liquidations and dissolutions, and transactions with affiliates. The Loan Agreement permits the Borrowers to pay dividends through July 17, 2012

---

**Table of Contents**

in an aggregate amount not to exceed (a) \$4.0 million during any four fiscal quarters or (b) \$5.5 million during the entire period from February 1, 2011 through July 17, 2012, provided that no event of default has occurred and that, for the four fiscal quarter period most recently ended prior to the proposed dividend payment date, the Borrowers have achieved an adjusted consolidated fixed charge coverage ratio of at least 1.25 to 1.0 and have pro forma availability greater than \$12.5 million. As of October 31, 2011, the Company believes it was in compliance with these financial covenants and had achieved the requisite adjusted consolidated fixed charge coverage ratio necessary to pay dividends. The Company presently expects that it will be able to pay dividends through the remaining term of the Facility.

The Loan Agreement contains events of default that are customary for facilities of this type, including, but not limited to, nonpayment of principal, interest, fees and other amounts when due, failure of any representation or warranty to be true in any material respect when made or deemed made, violation of covenants, cross default, material judgments, material ERISA liability, bankruptcy events, material loss of collateral in excess of insured amounts, asserted or actual revocation or invalidity of the loan documents, change of control and events or circumstances having a material adverse effect. The borrowings under the Facility are joint and several obligations of the Borrowers and also cross-guaranteed by each Borrower. In addition, the Borrowers' obligations under the Facility are secured by first priority liens, subject to permitted liens, on substantially all of the Borrowers' U.S. assets (other than certain excluded assets).

A Swiss subsidiary of the Company maintains unsecured lines of credit with an unspecified length of time with a Swiss bank. As of October 31, 2011 and 2010, these lines of credit totaled 10.0 million Swiss francs for both periods, with dollar equivalents of \$11.4 million and \$10.2 million, respectively. As of October 31, 2011 and 2010, there were no borrowings against these lines. As of October 31, 2011, two European banks have guaranteed obligations to third parties on behalf of two of the Company's foreign subsidiaries in the amount of \$1.9 million in various foreign currencies.

As a result of the Company's strong financial position, the Board decided to reinstate a quarterly cash dividend subject, in each quarter, to the Board's review of the Company's financial performance and other factors as determined by the Board. The Company anticipates a total annualized dividend of \$0.12 per share of common stock and class A common stock, or approximately \$3 million based on the current number of outstanding shares. In April 2009, considering the economic environment at that time, the Board discontinued the payment of cash dividends in order to retain additional capital.

The Company paid dividends of \$0.09 per share or approximately \$2.2 million, for the nine months ended October 31, 2011. No cash dividend was paid for the nine months ended October 31, 2010.

On April 15, 2008, the Board authorized a program to repurchase up to one million shares of the Company's common stock. Under this authorization, the Company has the option to repurchase shares over time, with the amount and timing of repurchases depending on market conditions and corporate needs. The Company may suspend or discontinue the repurchase of stock at any time. Under this share repurchase program, the Company had repurchased a total of 937,360 shares of common stock in the open market during the first and second quarters of fiscal 2009 at a total cost of approximately \$19.5 million or \$20.79 average per share. During the nine months ended October 31, 2011, the Company did not repurchase shares of common stock under this program.

Cash at October 31, 2011 amounted to \$138.0 million compared to \$63.2 million at October 31, 2010. The increase in cash is primarily the result of cash provided by operations.

Management believes that the cash on hand in addition to the expected cash flow from operations and the Company's short-term borrowing capacity will be sufficient to meet its working capital needs for at least the next twelve months.

**Table of Contents**

In the fourth quarter of fiscal 2011, the Company performed a strategic review of the Ebel brand and concluded that the future direction for the brand would not include the production of certain mechanical watch movements that are assembled by the Company from parts purchased from third party suppliers. As a result, in the fourth quarter of fiscal 2011, the Company recorded a charge to cost of sales for the future disposition of such inventory. In the fourth quarter of fiscal 2012, the Company expects to record sales and gross margin of approximately \$3.3 million resulting from the sale of certain of these mechanical movements and related parts.

**Off-Balance Sheet Arrangements**

The Company does not have off-balance sheet financing or unconsolidated special-purpose entities.

**RECENTLY ISSUED ACCOUNTING STANDARDS**

In June 2011, the Financial Accounting Standards Board issued guidance on the presentation of comprehensive income. This guidance eliminates the current option to report other comprehensive income and its components in the statement of changes in equity. The guidance allows two presentation alternatives: (1) present items of net income and other comprehensive income in one continuous statement, referred to as the statement of comprehensive income; or (2) in two separate, but consecutive, statements of net income and other comprehensive income. This guidance is effective as of the beginning of a fiscal year that begins after December 15, 2011. Early adoption is permitted, but full retrospective application is required. The adoption of this guidance will have no impact on the Company's consolidated financial position or results of operations.

---

**Table of Contents**

*Item 3. Quantitative and Qualitative Disclosures About Market Risk*

**Foreign Currency Risk**

The Company's primary market risk exposure relates to foreign currency exchange risk. A significant portion of the Company's purchases are denominated in Swiss francs. The Company reduces its exposure to the Swiss franc exchange rate risk through a hedging program. Under the hedging program, the Company manages most of its foreign currency exposures on a consolidated basis, which allows it to net certain exposures and take advantage of natural offsets. In the event these exposures do not offset, the Company uses various derivative financial instruments to further reduce the net exposures to currency fluctuations, predominately forward and option contracts. When entered into, the Company designates and documents these derivative instruments as a cash flow hedge of a specific underlying exposure, as well as the risk management objectives and strategies for undertaking the hedge transactions. Changes in the fair value of a derivative that is designated and documented as a cash flow hedge and is highly effective, are recorded in other comprehensive income until the underlying transaction affects earnings, and then are later reclassified into earnings in the same account as the hedged transaction. The earnings impact is partially offset by the effects of currency movements on the underlying hedged transactions. If the Company does not engage in a hedging program, any change in the Swiss franc to local currency would have an equal effect on the Company's cost of sales.

The Company uses forward exchange contracts to offset its exposure to certain foreign currency liabilities. These forward contracts are not designated as qualified hedges and, therefore, changes in the fair value of these derivatives are recognized into earnings, thereby offsetting the current earnings effect of the related foreign currency liabilities.

As of October 31, 2011, the Company's entire net forward contracts hedging portfolio consisted of 27.0 million Swiss francs equivalent with various expiry dates ranging through April 25, 2012 compared to a portfolio of 50.0 million Swiss francs equivalent for various expiry dates ranging through April 26, 2011 as of October 31, 2010. If the Company were to settle its Swiss franc forward contracts at October 31, 2011, the net result would be a loss of \$0.5 million, net of a tax benefit of \$0.3 million. The Company had no Swiss franc option contracts related to cash flow hedges as of October 31, 2011 and 2010.

The Board authorized the hedging of the Company's Swiss franc denominated investment in its wholly-owned Swiss subsidiaries using purchase options under certain limitations. These hedges are treated as net investment hedges under the relevant accounting guidance regarding derivative instruments. As of October 31, 2011 and 2010, the Company did not hold a purchased option hedge portfolio related to net investment hedging.

**Commodity Risk**

The Company considers its exposure to fluctuations in commodity prices to be primarily related to gold used in the manufacturing of the Company's watches. Under its hedging program, the Company can purchase various commodity derivative instruments, primarily future contracts. These derivatives are documented as qualified cash flow hedges, and gains and losses on these derivative instruments are first reflected in other comprehensive income, and later reclassified into earnings, partially offset by the effects of gold market price changes on the underlying actual gold purchases. The Company did not hold any future contracts in its gold hedge portfolio related to cash flow hedges as of October 31, 2011 and 2010, thus any changes in the gold price will have an equal effect on the Company's cost of sales.

During the fourth quarter of fiscal year ended January 31, 2011, the Company concluded it would significantly reduce its offering of gold watches, as it relates to non-core gold inventory. The Company decided to melt the non-core gold inventory because the current salvage value of the gold was adequate and could be easily and quickly realized, while significant excessive time, effort and costs would be required to sell the gold watches.

**Table of Contents**

As a result, the Company entered into commodity futures contracts to offset its exposure to the fluctuating value of gold. These futures contracts are not designated as qualified hedges and, therefore, changes in the fair value of these derivatives are recognized into earnings, thereby offsetting the earnings effect of fluctuations in the sale price of gold.

As of October 31, 2011, the Company's commodity futures contracts consisted of approximately 600 ounces of gold equivalent with an expiry date of November 30, 2011 compared to no commodities futures contracts as of October 31, 2010. If the Company were to settle its commodity future contracts at October 31, 2011, the net result would be a loss of \$0.1 million, net of tax benefit of \$0.1 million.

**Debt and Interest Rate Risk**

The Company has the capability to have certain debt obligations with variable interest rates, which are based on LIBOR plus a fixed additional interest rate. The Company does not hedge these interest rate risks. As of October 31, 2011, the Company had no outstanding debt. For additional information concerning potential changes to future interest obligations, see Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources.



**Table of Contents**

*Item 4. Controls and Procedures*

Evaluation of Disclosure Controls and Procedures

The Company's disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives, and the Company's Chief Executive Officer and Chief Financial Officer have concluded that such disclosure controls and procedures are effective at that reasonable assurance level. However, it should be noted that a control system, no matter how well conceived or operated, can only provide reasonable, not absolute, assurance that its objectives will be met and may not prevent all errors or instances of fraud.

The Company, under the supervision and with the participation of its management, including the Chief Executive Officer and the Chief Financial Officer, have evaluated the effectiveness of the Company's disclosure controls and procedures, as such terms are defined in Rule 13a-15(e) under the Securities Exchange Act, as amended. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective at a reasonable assurance level as of the end of the period covered by this report.

Changes in Internal Control Over Financial Reporting

There has been no change in the Company's internal control over financial reporting during the nine months ended October 31, 2011, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

**Table of Contents****PART II OTHER INFORMATION***Item 1. Legal Proceedings*

The Company is involved in pending legal proceedings and claims in the ordinary course of business. Although the outcome of such matters cannot be determined with certainty, the Company's general counsel and management believe that the final outcome of currently pending legal proceedings, individually or in the aggregate, would not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

*Item 1A. Risk Factors*

As of October 31, 2011, there have been no material changes to any of the risk factors previously reported in the Annual Report on Form 10-K for the fiscal year ended January 31, 2011.

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

On April 15, 2008, the Board authorized a program to repurchase up to one million shares of the Company's Common Stock. Under this authorization, the Company has the option to repurchase shares over time, with the amount and timing of repurchases depending on market conditions and corporate needs. The Company may suspend or discontinue the repurchase of stock at any time. Under this share repurchase program, the Company had repurchased a total of 937,360 shares of Common Stock in the open market during the first and second quarters of fiscal year 2009 at a total cost of approximately \$19.5 million or \$20.79 per share. During the nine months ended October 31, 2011, the Company has not repurchased shares of Common Stock under this program.

An aggregate of 13,647 shares have been repurchased during the nine months ended October 31, 2011 as a result of the surrender of shares in connection with the vesting of certain restricted stock awards. At the election of an employee, shares having an aggregate value on the vesting date equal to the employee's withholding tax obligation may be surrendered to the Company.

The following table summarizes information about the Company's purchases for the three month period ended October 31, 2011 of equity securities that are registered by the Company pursuant to Section 12 of the Securities Exchange Act of 1934:

**Issuer Repurchase of Equity Securities**

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
August 1, 2011 - August 31, 2011		\$		62,640
September 1, 2011 - September 30, 2011	281	\$ 16.80		62,640
October 1, 2011 - October 31, 2011		\$		62,640
<b>Total</b>	<b>281</b>	<b>\$ 16.80</b>		<b>62,640</b>

**Table of Contents**

*Item 6. Exhibits*

- 31.1 Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101 101. INS XBRL Instance Document\*
- 101. SCH XBRL Schema Document\*
- 101. CAL XBRL Calculation Linkbase Document\*
- 101. LAB XBRL Labels Linkbase Document\*
- 101. PRE XBRL Presentation Linkbase Document\*
- 101. DEF XBRL Definition Linkbase Document\*

\* XBRL (Extensible Business Reporting Language) information will not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934 (15 U.S.C. 78r), or otherwise subject to the liability of that section. Such exhibit will not be deemed to be incorporated by reference into any filing under the Securities Act or Securities Exchange Act, except to the extent that the Company specifically incorporates it by reference.

**Table of Contents**

**SIGNATURE**

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.

**MOVADO GROUP, INC.**  
(Registrant)

Dated: December 1, 2011

By: /s/ Sallie A. DeMarsilis  
Sallie A. DeMarsilis  
Senior Vice President,  
Chief Financial Officer and  
Principal Accounting Officer