

MOVADO GROUP INC  
Form 10-Q  
September 02, 2010

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

FORM 10-Q

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

For the Quarterly Period Ended July 31, 2010

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)

New York  
(State or Other Jurisdiction  
of Incorporation or Organization)  
650 From Road, Ste. 375  
Paramus, New Jersey  
(Address of Principal Executive  
Offices)

13-2595932  
(IRS Employer  
Identification No.)  
07652-3556  
(Zip Code)

(201) 267-8000

(Registrant's telephone number, including area code)

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,

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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 August 25, 2010 were 18,080,232 and 6,634,319, respectively.

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MOVADO GROUP, INC.

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July 31, 2010

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## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements

## MOVADO GROUP, INC.

CONSOLIDATED BALANCE SHEETS  
(In thousands, except share and per share amounts)  
(Unaudited)

	July 31, 2010	January 31, 2010	July 31, 2009
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 54,326	\$ 70,975	\$ 47,474
Trade receivables, net	60,420	67,206	76,689
Inventories, net	204,643	204,096	245,850
Other current assets	47,329	38,014	41,560
Total current assets	366,718	380,291	411,573
Property, plant and equipment, net	40,521	47,394	60,920
Deferred income taxes	13,372	12,347	27,020
Other non-current assets	24,408	29,345	24,502
Total assets	\$ 445,019	\$ 469,377	\$ 524,015
<b>LIABILITIES AND EQUITY</b>			
Current liabilities:			
Accounts payable	\$ 19,902	\$ 22,661	\$ 13,607
Accrued liabilities	41,095	35,161	38,445
Deferred and current income taxes payable	545	541	2,890
Total current liabilities	61,542	58,363	54,942
Long-term debt	10,000	10,000	40,000
Deferred and non-current income taxes payable	8,013	7,874	810
Other non-current liabilities	20,707	21,688	20,190
Total liabilities	100,262	97,925	115,942
Commitments and contingencies (Note 9)			
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; 25,251,478, 25,134,084 and 24,660,436 shares issued, respectively	253	251	247
Class A Common Stock, \$0.01 par value, 30,000,000 shares authorized; 6,634,319, 6,634,319 and 6,634,319 shares issued and outstanding, respectively	66	66	66
Capital in excess of par value	139,229	138,076	133,145

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Retained earnings	235,391	265,856	310,285
Accumulated other comprehensive income	69,948	67,390	60,048
Treasury Stock, 7,176,267, 7,171,348 and 6,832,725 shares, respectively, at cost	(102,131)	(102,071)	(97,418 )
Total Movado Group, Inc. shareholders' equity	342,756	369,568	406,373
Noncontrolling interests	2,001	1,884	1,700
Total equity	344,757	371,452	408,073
Total liabilities and equity	\$ 445,019	\$ 469,377	\$ 524,015

See Notes to Consolidated Financial Statements

MOVADO GROUP, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(In thousands, except per share amounts)  
(Unaudited)

	Three Months Ended July 31,		Six Months Ended July 31,	
	2010	2009	2010	2009
<b>Continuing operations:</b>				
Net sales	\$ 85,388	\$ 83,013	\$ 158,192	\$ 144,186
Cost of sales	39,823	35,606	72,440	64,981
Gross profit	45,565	47,407	85,752	79,205
Selling, general and administrative	46,607	42,942	90,249	83,540
Operating (loss) / income	(1,042 )	4,465	(4,497 )	(4,335 )
Interest expense	(676 )	(2,172 )	(1,348 )	(2,716 )
Interest income	27	20	54	71
(Loss) / income from continuing operations before income taxes	(1,691 )	2,313	(5,791 )	(6,980 )
Provision / (benefit) for income taxes (Note 10)	375	881	792	(1,533 )
(Loss) / income from continuing operations	(2,066 )	1,432	(6,583 )	(5,447 )
<b>Discontinued operations:</b>				
(Loss) from discontinued operations, net of tax (Note 2)	(17,703)	(1,709 )	(23,675 )	(4,743 )
Net (Loss)	(19,769)	(277 )	(30,258 )	(10,190 )
Less: (Loss) / income attributed to noncontrolling interests	(15 )	(44 )	207	6
Net (loss) attributed to Movado Group, Inc.	\$ (19,754)	\$ (233 )	\$ (30,465 )	\$ (10,196 )
<b>(Loss) / income attributable to Movado Group, Inc.:</b>				
(Loss) / income from continuing operations, net of tax	\$ (2,051 )	\$ 1,476	\$ (6,790 )	\$ (5,453 )
(Loss) from discontinued operations, net of tax	(17,703)	(1,709 )	(23,675 )	(4,743 )
Net (Loss)	\$ (19,754)	\$ (233 )	\$ (30,465 )	\$ (10,196 )
<b>Basic (loss) / income per share:</b>				
	24,747	24,505	24,709	24,485

Weighted basic average shares outstanding				
(Loss) / income per share from continuing operations attributed to Movado Group, Inc.	\$ (0.08 )	\$ 0.06	\$ (0.27 )	\$ (0.22 )
(Loss) per share from discontinued operations	\$ (0.72 )	\$ (0.07 )	\$ (0.96 )	\$ (0.19 )
Net (loss) per share attributed to Movado Group, Inc.	\$ (0.80 )	\$ (0.01 )	\$ (1.23 )	\$ (0.42 )

Diluted (loss) / income per share:

Weighted diluted average shares outstanding	24,747	24,505	24,709	24,485
(Loss) / income per share from continuing operations attributed to Movado Group, Inc.	\$ (0.08 )	\$ 0.06	\$ (0.27 )	\$ (0.22 )
(Loss) per share from discontinued operations	\$ (0.72 )	\$ (0.07 )	\$ (0.96 )	\$ (0.19 )
Net (loss) per share attributed to Movado Group, Inc.	\$ (0.80 )	\$ (0.01 )	\$ (1.23 )	\$ (0.42 )

See Notes to Consolidated Financial Statements

MOVADO GROUP, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(In thousands)  
(Unaudited)

	Six Months Ended July 31,	
	2010	2009
Cash flows from operating activities:		
Net loss	\$ (30,258 )	\$ (10,190 )
Adjustments to reconcile net loss to net cash used in operating activities:		
Loss from discontinued operations	23,675	4,743
Depreciation and amortization	7,221	7,931
Deferred income taxes	(827 )	(9,394 )
Provision for losses on accounts receivable	613	737
Provision for losses on inventory	1,453	318
Stock-based compensation	796	1,440
Excess tax from stock-based compensation	-	182
Changes in assets and liabilities:		
Trade receivables	6,117	1,848
Inventories	(9,538 )	(11,439 )
Other current assets	(9,298 )	8,850
Accounts payable	(2,704 )	(7,029 )
Accrued liabilities	6,540	(6,791 )
Current income taxes payable	-	3,627
Other non-current assets	3,665	1,551
Other non-current liabilities	659	(2,060 )
Net cash used in operating activities from continuing operations	(1,886 )	(15,676 )
Net cash used in operating activities from discontinued operations	(10,804 )	(2,931 )
Net cash used in operating activities	(12,690 )	(18,607 )
Cash flows from investing activities:		
Capital expenditures	(3,165 )	(2,901 )
Trademarks	(114 )	(237 )
Net cash used in investing activities from continuing operations	(3,279 )	(3,138 )
Net cash used in investing activities from discontinued operations	(100 )	-
Net cash used in investing activities	(3,379 )	(3,138 )
Cash flows from financing activities:		
Proceeds from bank borrowings	30,000	50,998
Repayments of bank borrowings	(30,000 )	(66,000 )
Stock options exercised and other changes	299	46
Excess tax from stock-based compensation	-	(182 )
Financing fee	-	(2,451 )
Dividends paid	-	(1,220 )



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Net cash provided by / (used in) financing activities from continuing operations	299	(18,809)
Net cash provided by / (used in) financing activities from discontinued operations	-	-
Net cash provided by / (used in) financing activities	299	(18,809)
Effect of exchange rate changes on cash and cash equivalents	(879 )	1,407
Net decrease in cash and cash equivalents	(16,649 )	(39,147)
Cash and cash equivalents at beginning of period	70,975	86,621
Cash and cash equivalents at end of period	\$ 54,326	\$ 47,474

See Notes to Consolidated Financial Statements

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") with information derived from the consolidated financial statements included in the Company's fiscal 2010 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.

On May 27, 2010, the Company announced that its subsidiary, Movado Retail Group, Inc., was closing its Movado boutique division during its second quarter ending July 31, 2010. All of the Movado boutiques were located in the United States. Beginning in the second quarter of fiscal 2011, the financial results of the boutiques are being reported as discontinued operations and presented in a separate section on the face of the Consolidated Statements of Operations and the Consolidated Statements of Cash Flows for all periods presented.

**NOTE 1 – RECLASSIFICATIONS AND REVISIONS**

Certain reclassifications were made to prior year's financial statement amounts and related note disclosures to conform to the fiscal 2011 presentation. During the first half of fiscal 2010, the Company had accounted for certain items within inventory and cost of sales which resulted in an overstatement of gross profit by \$1.0 million and \$2.3 million for the three months and six months ended July 31, 2009, respectively. Such amounts were not material to the previously issued financial statements. As a result, the Company has revised the July 31, 2009 financial statements for the overstatement of gross margin and its related tax effects.

**NOTE 2 – 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)	Three Months Ended July 31, 2010			Three Months Ended July 31, 2009		
	Net Sales	Pretax Loss	Net Loss	Net Sales	Pretax Loss	Net Loss
Movado Boutiques	\$8,168	\$17,703	\$17,703	\$6,688	\$2,356	\$1,709

  

(In thousands)	Six Months Ended July 31, 2010			Six Months Ended July 31, 2009		
	Net Sales	Pretax Loss	Net Loss	Net Sales	Pretax Loss	Net Loss
Movado Boutiques	\$14,252	\$23,675	\$23,675	\$13,090	\$6,004	\$4,743



For the three months ended July 31, 2010, the Company had no tax provision for its discontinued operations. For the three months ended July 31, 2009, the Company recorded a tax benefit of \$0.6 million related to discontinued operations. The effective tax rate for the three months ended July 31, 2009 was 27.5%.

For the six months ended July 31, 2010, the Company had no tax provision for its discontinued operations. For the six months ended July 31, 2009, the Company recorded a tax benefit of \$1.3 million related to discontinued operations. The effective tax rate for the six month period ended July 31, 2009 was 21.0%.

As a result of the Movado boutiques closing, the Company recorded \$20.0 million of expense reserves primarily for occupancy charges, asset impairments, inventory reserves and severance. The Company expects that, with the exception of inventory reserves, the majority of the remaining liabilities will be paid by fourth quarter of fiscal 2011.

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 July 31, 2010
Occupancy charges (1)	\$ 12,915	\$ (12,576)	\$ 1,284	\$ 1,623
Asset impairments	3,432	-	(3,432 )	-
Inventory reserves	1,892	-	-	1,892
Severance	1,756	(446 )	-	1,310
Total	\$ 19,995	\$ (13,022)	\$ (2,148 )	\$ 4,825

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

### NOTE 3 – FAIR VALUE MEASUREMENTS

As of February 1, 2008, the Company adopted accounting guidance related to fair value measurements for financial assets and liabilities that are recognized or disclosed at fair value in the Company’s consolidated financial statements and on February 1, 2009, the Company adopted fair value measurements for non-recurring financial assets and liabilities. The adoption did not have a material effect on the Company’s consolidated financial statements. The guidance defines fair value, establishes a framework for measuring fair value, and expands disclosures about 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.



The following table presents the fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of July 31, 2010 (in thousands):

	Fair Value at July 31, 2010			Total
	Level 1	Level 2	Level 3	
Assets:				
Available-for-sale securities	\$ 211	\$ -	\$ -	\$ 211
SERP assets - employer	470	-	-	470
SERP assets - employee	13,677			