

FOSSIL

ANNUAL REPORT 2000

FOSSIL
SPECIAL EDITION
*the news you've
 been waiting for...*



America in the 1950's
 • NEVER A DULL MOMENT •



**MANAGEMENT
 DISCUSSION & ANALYSIS...**

- Understanding the Fossil Brand.
- What's in store for the Company?

LOOK INSIDE FOR MORE!

FOSSIL COMPANY OVERVIEW

A brief synopsis of all the products
 Fossil's long-term goal





Oh-h-h! Yeah! that FOSSIL feeling!

the new

Fossil

"IT'S FUTURISTIC"

THE BRAND WITH
ALL THE GO and
ALL THE SHOW!



Don't forget! Every watch
comes in a collectible tin.

Fossil is a design, development,
marketing and distribution company
that specializes in consumer products
predicated on fashion and value.



THE AMERICAN CLASSIC

◆ SETTING *The* STANDARD ◆

authentic style
original tins
lasting comfort

*Welcome to the
World of Fossil*



what's
a watch
without
a tin box?

*A New Generation
of Time*



A WATCH FOR EVERY OCCASION
don't miss it!





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FOSSIL



The Company differentiates its products from those of its competitors principally through innovations in fashion details.

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COMPANY PROFILE

Fossil is a design, development, marketing and distribution company that specializes in consumer products predicated on fashion and value.

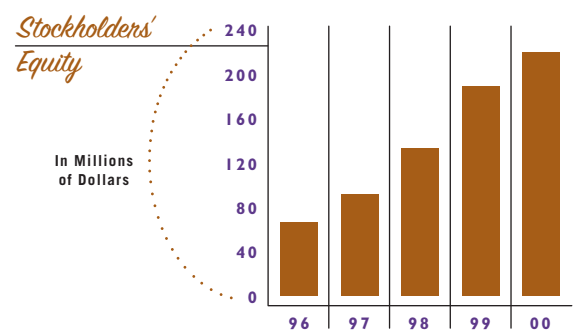
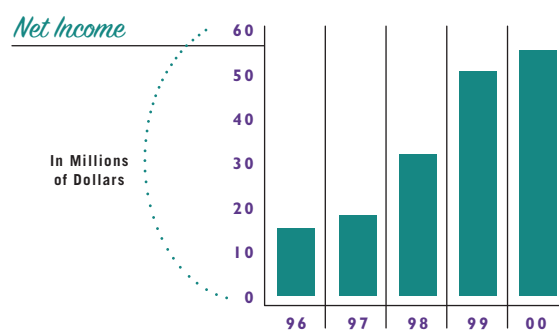
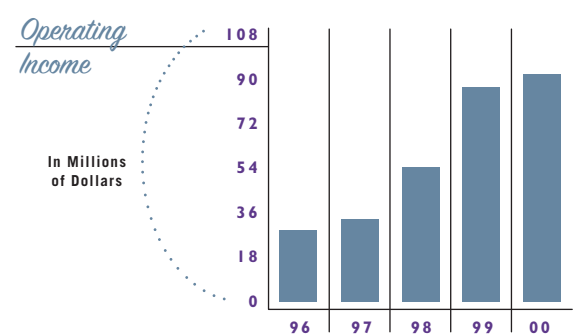
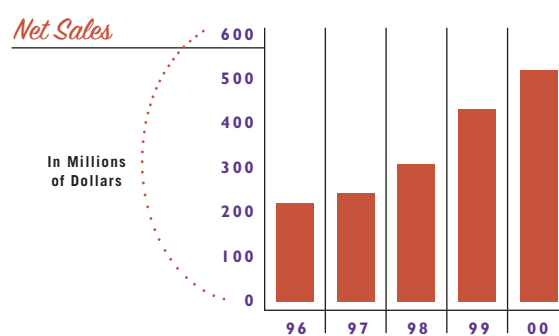
The Company's principle offerings include an extensive line of fashion watches sold under the FOSSIL and RELIC brands as well as complementary lines of small leather goods, belts, handbags and sunglasses. The Company's products are sold in department stores and specialty retail stores in over 80 countries around the world, in addition to the Company's e-commerce website at www.fossil.com. The Company also offers a line of FOSSIL brand apparel and jeans at 14 Company-owned retail stores and over the Company's website.

The Company differentiates its products from those of its competitors principally through innovations in fashion details. These innovations include variations in the treatment of watch dials, crystals, cases, straps and bracelets for the Company's watches and innovative treatments and details in its other accessories. An in-house creative services team coordinates product design, packaging, advertising and in-store presentations to more effectively and cohesively communicate to its target markets the themes and images associated with its brands. Brand name development is further enhanced through Company-owned stores as well as the Company's website.

Utilizing several wholly and majority-owned watch assembly facilities and centralized distribution points enables the Company to reduce its inventory risk, increase flexibility in meeting the delivery requirements of its customers and maintain significant cost advantages compared to its competitors. To further leverage the Company's infrastructure, including design, development and production expertise, the Company has entered into license agreements to manufacture, market and sell watches bearing internationally recognized brands of other companies as well as design and develop private label products for some of the most distinguished companies in the world.



The Company differentiates its products from those of its competitors principally through innovations in fashion details.



FINANCIAL HIGHLIGHTS

Fiscal Year	2000	1999	1998	1997	1996
<i>IN THOUSANDS, EXCEPT PER SHARE DATA</i>					
Net sales	\$ 504,285	\$ 418,762	\$ 304,743	\$ 244,798	\$ 205,899
Gross profit	255,746	212,887	150,504	117,528	98,038
Operating income	93,821	87,449	55,370	34,610	24,373
Income before income taxes	94,717	87,841	54,729	32,151	23,040
Net income	55,883	51,826	32,161	18,942	13,591
Basic earnings per share (1)	1.76	1.63	1.04	0.63	0.46
Diluted earnings per share (1)	1.71	1.55	0.99	0.61	0.45
Weighted average common shares outstanding:					
Basic shares (1)	31,689	31,900	31,054	30,203	29,675
Diluted shares (1)	32,675	33,428	32,586	31,250	30,101
Working capital	\$ 169,792	\$ 155,198	\$ 109,040	\$ 70,603	\$ 59,861
Total assets	307,591	269,364	194,078	139,570	118,978
Long-term debt	—	—	—	—	4,350
Stockholders' equity	220,699	191,197	134,919	95,263	74,568
Return on average stockholders' equity	26.9%	32.2%	29.3%	23.1%	20.3%

(1) All share and per share data has been adjusted to reflect three-for-two stock splits effected in the form of a stock dividend paid August, 17 1999 and April 8, 1998.

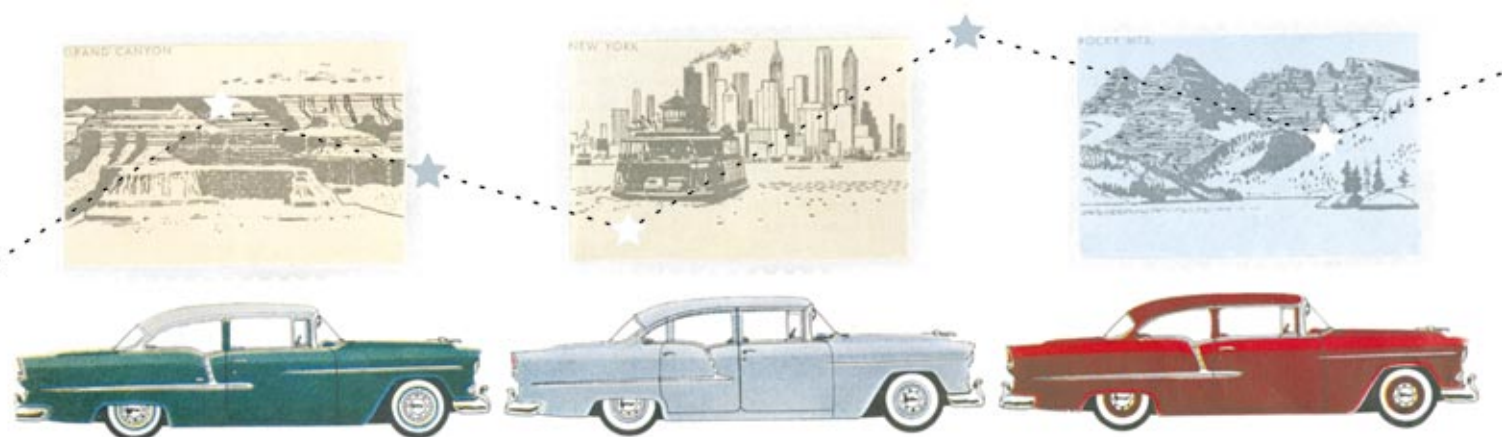
STOCK INFORMATION

The Company's common stock prices are published daily in The Wall Street Journal and other publications under the Nasdaq National Market Listing. The stock is traded under the ticker symbol "FOSL." The following are the high and low sale prices of the Company's stock per the Nasdaq National Market. All share data has been adjusted to reflect the three-for-two stock split effected in the form of a stock dividend paid on August 17, 1999. Stock prices have been adjusted in certain cases to the nearest traded amount.

	2000		1999	
	High	Low	High	Low
First quarter	\$ 26.750	\$ 15.813	\$ 23.667	\$ 17.833
Second quarter	25.125	16.625	33.583	17.250
Third quarter	20.500	11.563	36.583	26.333
Fourth quarter	16.438	10.500	30.625	18.750

Quality
FOSSIL
PRODUCTS

- A DIFFERENT COLOR FOR EVERY OCCASION, ★
- A DIFFERENT STYLE FOR EVERY DESTINATION!



Fossil Creative Engineering

WATCHES • HANDBAGS • BELTS • WALLET • SUNWEAR • JEANS • TEE SHIRTS • SHIRTS • JACKETS • AND MORE

MAKE FOSSIL YOUR FIRST CHOICE



Quality, Comfort, and Style

ARE BETTER BECAUSE OF



First in Creative Engineering

The Company's principle offerings include an extensive line of fashion watches sold under the FOSSIL and RELIC brands as well as complementary lines of small leather goods, belts, handbags and sunglasses. The Company's products are sold in department stores and

specialty retail stores in over 80 countries around the world, in addition to the Company's e-commerce website at www.fossil.com. The Company also offers a line of FOSSIL brand apparel and jeans at 14 Company-owned retail stores and over the Company's website.



LETTER TO THE STOCKHOLDERS

Dear Stockholders,

We are pleased to report that FOSSIL continued to deliver record setting financial performance in 2000. While achieving one-half billion dollars in sales at an enviable operating margin was satisfying, we view our mission as having only just begun.

In 2000, FOSSIL brand products continued to appeal to youthful-minded consumers who shop in upscale department, specialty and jewelry stores around the world. During the year, we experienced nice growth and geographic diversification in an already large FOSSIL watch business. We also were excited to see our less mature FOSSIL branded accessories businesses grow rapidly. This growth reinforces our belief that the business practices and branding strategies that were developed for watches work well with other product classifications. In fact, it was a tremendous year for the expansion of the FOSSIL brand around the world.



Some other highlights from 2000 include:

- Our retail customers enjoyed increased business in FOSSIL products as evidenced by their more rapid inventory turnover rate.
- Our retail businesses expanded by leaps and bounds led by nice increases in FOSSIL handbags and other leather goods.
- We expanded our international business with additional distribution of FOSSIL products, new joint venture relationships and increased sales of EMPORIO ARMANI and DKNY licensed watches.
- RELIC continued to further establish itself as a leading watch brand in national department stores, demonstrating the potential for further growth, both within watches and other product categories.
- Our launch of DKNY and DIESEL watches further expanded our ability to capture market share of watch businesses both domestically and internationally.
- We introduced FOSSIL branded apparel in Company-owned stores and over our website capitalizing on the strength of the FOSSIL brand.
- We dramatically improved our capacity to handle further growth by investing heavily in operating systems, management, web technology and a wide array of other tools that will be necessary in the future.
- We continued to improve our website, adding additional portals and achieving nice internet sales growth in watches, accessories and apparel.
- We successfully tested a number of new initiatives, including FOSSIL branded jewelry in Germany, enabling us to continue pursuing new avenues for growth.
- Our Special Markets group continued to expand as we increased our sales and added to our base of associated distributors.

- Our joint venture company, SII Marketing International, made great strides during its first year establishing key relationships with mass market and chain department store customers offering both licensed and owned-brand watches.

The profitability, diversification and overall strength of our Company are attributable to many things. Obviously, at the top of this list are the incredible people from all over the world who have dedicated their professional lives to this Company. Without their wellspring of energy, immense talent and strong sense of



teamwork, our quest for the next half billion dollars in sales might seem daunting. Our ability to create and grow effective partnerships with world class retailers, suppliers, licensors and other third parties continues to contribute to the strength of our Company. For all these reasons, we believe our Company is uniquely positioned to capture increased market share, earnings per share and mind-share of a generation of consumers who have embraced, and should continue to embrace, our brands and our products.

As always, we will do our best to deliver continued sales and earnings growth to our stockholders while, at the same time, strategically building the necessary infrastructure and pursuing new ideas that will provide future growth with a level of profitability that is worthy of your investment in FOSSIL.

Sincerely,

Tom Kartsotis
Chairman of the Board

Kosta Kartsotis
President & Chief
Executive Officer

COMPANY OVERVIEW

The Company's long-term goal is to capitalize on the strength of the growing consumer recognition of the FOSSIL and RELIC brands and to capture an increasing share of a growing number of markets by providing consumers with fashionable, high quality, value-driven products. The FOSSIL brand continued to be one of the leading fashion watch brands in 2000, while continuing to gain momentum in sales of non-watch products and increased brand presence globally.

FOSSIL

· products ·

WATCHES:



The FOSSIL watch brand continued to build market share in department stores and specialty stores in 2000, with FOSSIL BLUE, ARKITEKT (formerly STEEL) and F2 representing the core product offerings. The Company also launched the FOREVER line under the F2 umbrella that is targeted at a younger female demographic. During 2000, the Company began utilizing stainless steel cases and bracelets in the FOSSIL BLUE and F2 collection, further enhancing the quality of the line.

LEATHER GOODS AND SUNWEAR:



The leather division continued to exhibit strong sales growth in 2000 with sales increases of over 40% for the second consecutive year. Handbags continued to be the driver in this product category, gaining market share at retail and further enhancing the visibility and sales of the other accessory categories. Sales were also enhanced by the growth of the Company's RELIC brand leather goods. The Company also offers an extensive line of FOSSIL brand sunwear. In 1999, the Company introduced a line of FOSSIL optical frames.

APPAREL:

In 2000, the Company introduced a line of FOSSIL brand apparel products. The line consists of casual wear and jeans and is available at 14 FOSSIL retail stores and over the Company's website at www.fossil.com.



RELIC PRODUCTS:

RELIC brand watches continued to gain market share in the leading national and regional chain department stores and specialty stores in 2000 with sales growth of over 30%. The success of RELIC watches and the increased brand recognition has provided the opportunity to extend the RELIC brand to other categories of fashion accessories including handbags, small leather goods and belts.



INTERNATIONAL SALES:

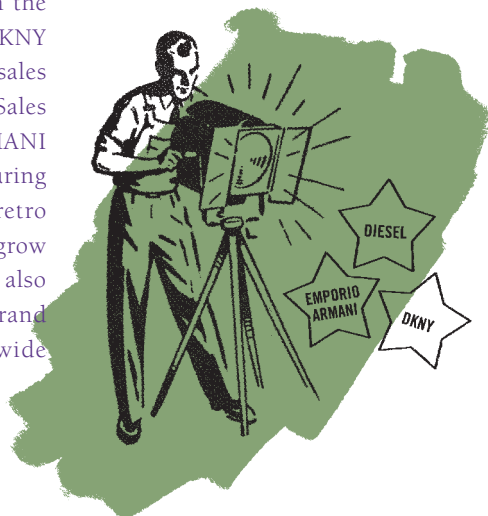
Increasing demand for FOSSIL products worldwide, coupled with the expansion of the EMPORIO ARMANI licensed line and the introduction of DKNY, helped broaden the Company's business around the world. The Company also introduced a line of FOSSIL brand jewelry in Germany in 2000 that received a very favorable response at retail. The FOSSIL brand is available in over 80 countries around the world through the Company's subsidiary operations, joint ventures and a network of 47 independent distributors. International distribution continues to offer an excellent growth opportunity for the Company in 2001.



OTHER products

LICENSED BRANDS:

The Company's licensed watch business continued to gain momentum with the highly successful launch of the DKNY line in the spring of 2000 with sales exceeding \$32 million worldwide. Sales and distribution of EMPORIO ARMANI OROLOGI, a line of watches featuring distinctive interpretations and retro and modern designs, continued to grow worldwide. In 2000, the Company also introduced a line of DIESEL brand watches pursuant to a worldwide license agreement.



FOSSIL STORES:

The Company operated 18 accessory stores in the U.S. at the end of 2000 and plans to add 2 new locations during 2001. The FOSSIL retail stores continue to provide an exciting format in which to display the Company's increasing product assortment and to convey the FOSSIL brand image. During 2000, the Company opened two retail stores in the United Kingdom at Bluewater Mall and in Covent Garden. In the third quarter, the Company opened the first of 14 jeans wear stores and plans to add 5 new locations during 2001. These stores offer a line of FOSSIL casual wear and jeans in addition to the Company's watches and fashion accessories. The Company also operated 39 outlet stores coast-to-coast at the end of 2000 and plans to add 4 new locations during 2001. The outlet stores allow the Company to control the timely liquidation of discontinued styles while maintaining the integrity of the FOSSIL brand.



PRIVATE LABEL AND PREMIUMS:

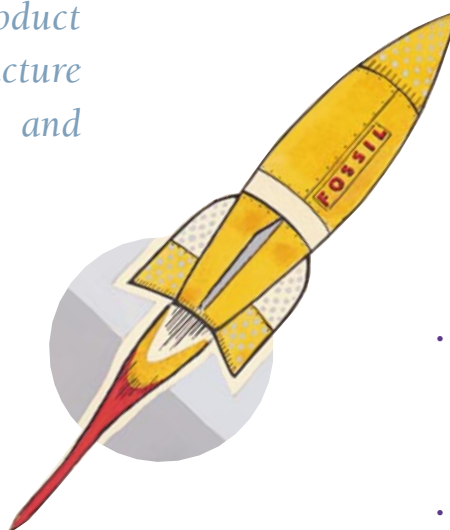
In addition to building its own brands, the Company also designs and manufactures private label products for some of the most prestigious companies in the world, including national retailers, entertainment companies and theme restaurants. The Company continues to expand its core private label watch business as well as integrate other product categories such as leather goods and sunglasses. The Company utilizes its sourcing, design and development expertise to support these comprehensive incentive programs. In addition, the Company has established a joint venture company that is responsible for the sales, marketing and distribution of watches to mass market retailers and chain department stores offering both licensed and owned-brand watches.





MANAGEMENT'S DISCUSSION AND ANALYSIS

The Company's successful expansion of its product lines worldwide and leveraging of its infrastructure have contributed to its increasing net sales and operating profits.



The FOSSIL brand name was developed by the Company to convey a distinctive fashion, quality and value message and a brand image reminiscent of "America in the 1950s" that suggests a time of fun, fashion and humor.

Since its inception in 1984, the Company has grown from its original flagship FOSSIL watch product into a Company offering a diversified range of accessories and apparel. The Company's current product offerings include an extensive line of fashion watches sold under the FOSSIL and RELIC brands, complementary lines of small leather goods, belts, handbags, sunglasses and FOSSIL brand apparel. In addition to developing its own brands, the Company leverages its development and production expertise by designing and manufacturing private label and licensed products for some of the most prestigious companies in the world, including national retailers, entertainment companies and fashion designers.

The Company's products are sold primarily to department stores and specialty retail stores in over 80 countries worldwide through Company-owned foreign sales subsidiaries and through a network of 47 independent distributors. The Company's foreign operations include a presence in Asia, Australia, Canada, the Caribbean, Europe, Central and South America and the Middle East. In addition, the Company's products are offered at Company-owned retail locations throughout the United States, in Company-owned and independently-owned, authorized FOSSIL retail stores in certain international markets and at retail locations in major airports and on cruise ships. The Company's successful expansion of its product lines worldwide and leveraging of its infrastructure have contributed to its increasing net sales and operating profits.

COMPANY HIGHLIGHTS

Overall

- For the past 18 consecutive quarters ended December 30, 2000, the Company has achieved increased earnings per share in comparison to the previous year's comparable periods.
- Fiscal year 2000 marked the third consecutive year in which the Company's net sales increased at a rate in excess of 20% over the comparable year.
- The Company's international operations continued to grow as a result of the acquisition of the Company's former U.K. distributor in September of 1999, continued strong market penetration in Germany and further expansion of its export business.
- Net sales from the Company's international operations increased just under 20% over 1999. If not for the impact of a strong U.S. dollar against the Euro, this increase would have been in excess of 30%.
- During fiscal year 2000, the Company utilized approximately \$29 million of its cash balances to acquire over 2 million shares of its common stock through open market purchases.

Products

- The Company's FOSSIL BLUE, ARKITEK (formerly STEEL) and F2 watch lines continue to represent the majority of FOSSIL brand watch sales. With significant decreases in the FOSSIL BIG TIC category during 2000, FOSSIL BLUE, ARKITEK and F2 were the catalyst for continued net sales increases of FOSSIL branded watches.

- The Company introduced its FOREVER line of watches, an extension of its F2 line, that targets a younger female demographic. Additionally, the Company will be further expanding its F2 line by introducing more contemporary styles during 2001.
- The Company continued to enhance its licensed product business with the introduction and launch of its DKNY and DIESEL watch lines during 2000. DKNY, launched in the spring, became one of the Company's most successful licensed brand launches in terms of net sales, exceeding \$32 million worldwide in its first year.
- RELIC brand watches, the Company-owned brand sold in leading national and regional chain department stores and specialty stores, continued to gain market share with net sales growing over 30% in 2000. The success of RELIC watches and increasing brand name recognition continues to provide avenues of growth for RELIC leather accessories as well.
- During the fourth quarter, the Company announced the test of a line of FOSSIL brand jewelry in Germany. This line was successfully tested in 230 doors over the 2000 holiday season and is expected to rollout to several hundred additional doors in the spring of 2001.
- The Company continued to position itself as a leader in leather products, with net sales of the Company's leather product category increasing over 40% for the second consecutive year. Increases occurred across all product categories and were further enhanced by the growth in RELIC branded products.
- The Company believes its ability to continue to introduce new watch products utilizing various technologies and metal treatments allows it to stay abreast of fashion trends developing within the market. During 2000, the Company began utilizing stainless steel cases and bracelets within its FOSSIL BLUE and F2 lines that historically have incorporated brass componentry and anticipates that by the end of 2001, most watches will incorporate stainless steel componentry.

The Company is a leader in the design, development, marketing and distribution of contemporary, high quality fashion watches, accessories and apparel.

continued on next page

Retail Location Expansion



- The Company operated 20 FOSSIL retail accessory stores at the end of 2000 including two new stores that were opened in the U.K. during the fourth quarter of 2000. The accessory stores, generally located in high volume, international destination-type malls, allow the Company to test new product introductions and enhance the FOSSIL brand name. The Company opened four and eight accessory stores in 2000 and 1999, respectively.
- During the second half of 2000, the Company launched FOSSIL brand apparel by opening 14 new retail jeans wear stores. These stores are approximately twice the size of the Company's accessory stores and combine the traditional accessory offerings with casual wear and jeans wear.
- The Company operated 39 FOSSIL outlet stores at the end of 2000. The Company opened an additional six outlet stores in 2000 and five stores in 1999.

RESULTS OF OPERATIONS

The following table sets forth for the periods indicated: (i) the percentage of the Company's net sales represented by certain line items from the Company's consolidated statements of income and (ii) the percentage changes in these line items between the years indicated.

Fiscal Year	2000	Percentage change		1999	Percentage change	
		from 1999			from 1998	1998
Net sales	100.0%	20.4%		100.0%	37.4%	100.0%
Cost of sales	<u>49.3</u>	20.7		<u>49.2</u>	33.5	<u>50.6</u>
Gross profit	50.7	20.1		50.8	41.4	49.4
Operating expenses	<u>32.1</u>	29.1		<u>29.9</u>	31.9	<u>31.2</u>
Operating income	18.6	7.3		20.9	57.9	18.2
Interest expense	—	9.4		—	(44.5)	0.1
Other income (expense) – net	<u>0.2</u>	101.2		<u>0.1</u>	218.5	<u>(0.1)</u>
Income before income taxes	18.8	7.8		21.0	60.5	18.0
Income taxes	<u>7.7</u>	7.8		<u>8.6</u>	59.6	<u>7.4</u>
Net income	<u>11.1%</u>	7.8%		<u>12.4%</u>	61.1%	<u>10.6%</u>



The following table sets forth certain components of the Company's consolidated net sales and the percentage relationship of the components to consolidated net sales for the fiscal year indicated:

Fiscal Year	Amount in millions			Percent of total		
	2000	1999	1998	2000	1999	1998
International:						
Europe	\$ 99.5	\$ 86.7	\$ 62.7	19.7%	20.7%	20.6%
Other	<u>53.3</u>	<u>41.6</u>	<u>26.9</u>	<u>10.6</u>	<u>9.9</u>	<u>8.8</u>
Total international	152.8	128.3	89.6	30.3	30.6	29.4
Domestic:						
Watch products	202.7	180.7	137.0	40.2%	43.2%	45.0%
Other products	<u>99.0</u>	<u>72.1</u>	<u>52.0</u>	<u>19.6</u>	<u>17.2</u>	<u>17.0</u>
Total	301.7	252.8	189.0	59.8	60.4	62.0
Stores	<u>49.8</u>	<u>37.7</u>	<u>26.1</u>	<u>9.9</u>	<u>9.0</u>	<u>8.6</u>
Total domestic	<u>351.5</u>	<u>290.5</u>	<u>215.1</u>	<u>69.7</u>	<u>69.4</u>	<u>70.6</u>
Total net sales	\$ <u>504.3</u>	\$ <u>418.8</u>	\$ <u>304.7</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>



continued on page fifteen

OPEN 24 HOURS

Quality products at your fingertips, day or night!

MEN'S WOMEN'S GIFTS COLLECTIBLES

WATCHES APPAREL SUNGLASSES ACCESSORIES

MEN
WATCHES
APPAREL
SUNGLASSES
ACCESSORIES

WOMEN
WATCHES
APPAREL
SUNGLASSES
ACCESSORIES

\$65

FREE Overnight SHIPPING ON ALL ORDERS FEB 1 TO FEB 13

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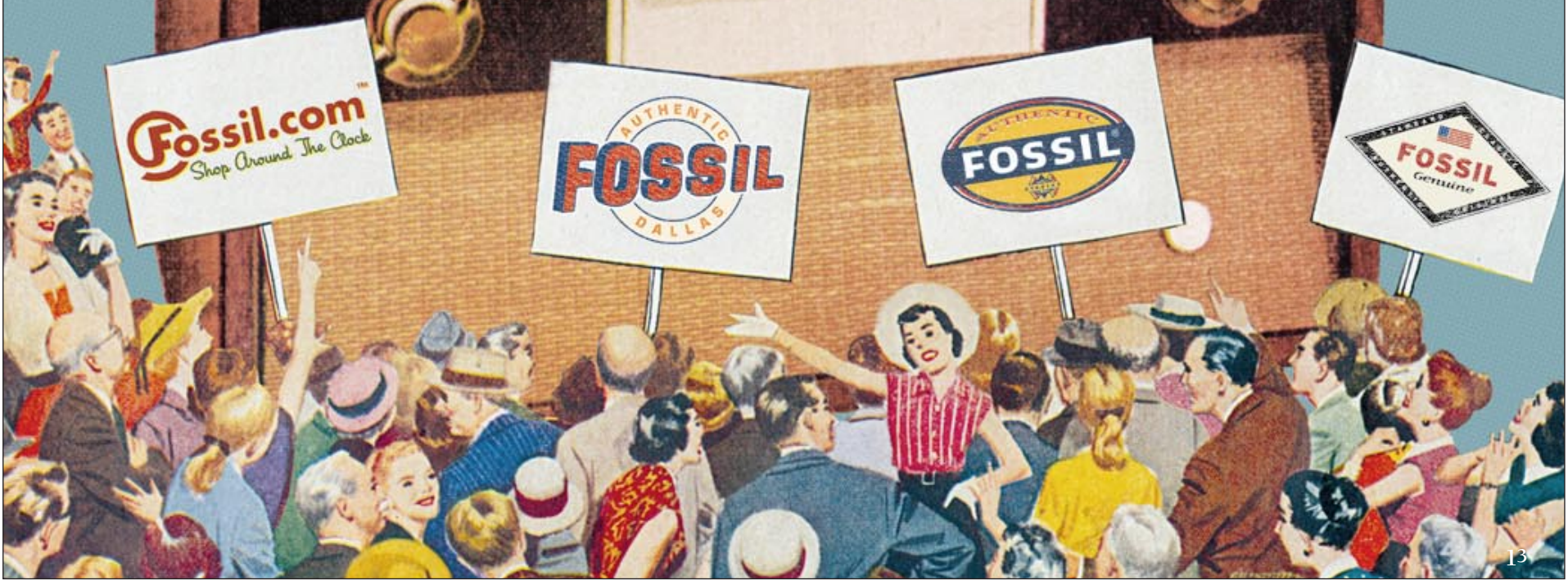
MONTHLY WEEKLY

VALENTINE'S GIFTS Make Her Day

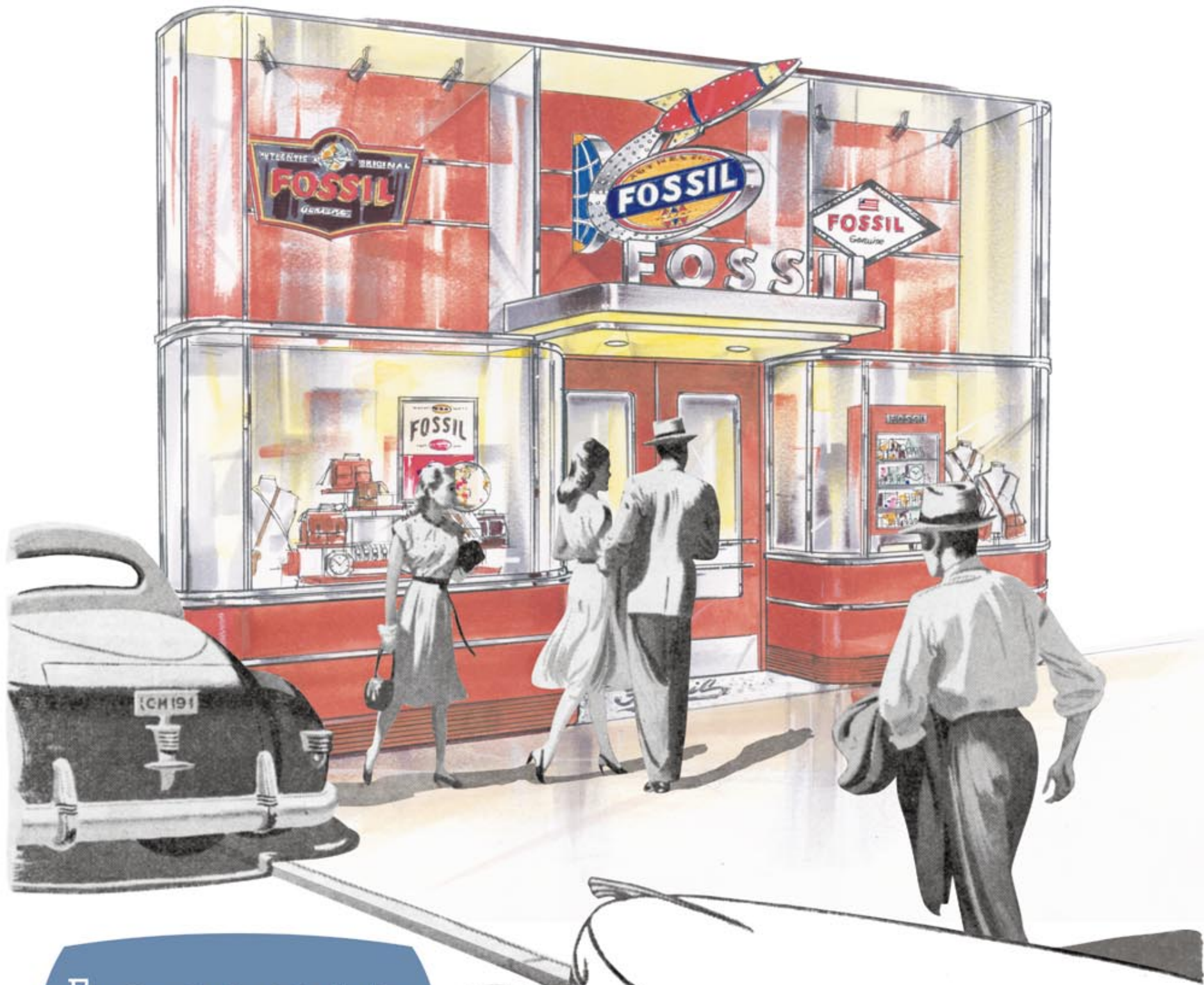
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GIFT CERTIFICATE Paper & Electronic available

info careers corporate gifts International



Step into our Stores!



From Coast to Coast, Fossil offers Authentic Style and Genuine Quality that's a *Step* above!

Here's a few of our Worldwide Locations!



Known all over the world.

Remember at Fossil Stores you'll always get the best Quality and Value!



Fiscal 2000 Compared to Fiscal 1999

Net Sales. Net sales increases were primarily impacted by volume increases from the Company's international and domestic watch sales, domestic leather product sales and from an increase in the number of Company-owned retail stores over the prior year. The March 2000 launch and continued rollout of the Company's licensed brand line of DKNY watches, double-digit growth of the Company's FOSSIL watch brand and continued market penetration of the Company's RELIC watch brand fueled watch sales during the year. Increased sales volumes in the Company's leather product offerings were led by continued growth in handbags, women's small leather goods and men's belts. Additionally, continued expansion of RELIC leather products contributed to the overall growth in the Company's leather group. Expansion in both Company-owned retail and outlet stores, including the opening of 14 jeans wear retail stores during the second half of the year, and increases in same store sales in the Company's accessory stores also positively impacted sales. Management believes that sales volume growth will continue in 2001 with nearly all product lines and geographic regions contributing as a result of continued expansion from new and existing product lines.

Gross Profit. Gross profit margins remained relatively stable at 50.7% for 2000 compared to 50.8% in 1999. Adversely effecting the Company's gross margins throughout the year were foreign currency valuation changes relating to a strong U.S. dollar against the Euro. The average Euro rate declined approximately 13% from 1999 levels resulting in overall gross profit margins being lower by slightly less than one percent. Gross profit margins were also adversely effected by an increase in sales mix related to the Company's leather products that generally carry lower gross profit margins than the Company's consolidated average. Positively impacting gross profit margins were a higher sales mix of licensed watches and retail sales from Company-owned stores as well as internet sales, all of which generally carry higher gross profit margins than the Company's consolidated average. Management anticipates 2001 gross profit margins to be equal to or slightly less than the levels achieved in 2000.

Increased sales volumes in the Company's leather product offerings were led by continued growth in handbags, women's small leather goods and men's belts.



Operating Expense. Operating expense increases were a result of variable expenses associated with increased sales volumes, costs associated with expanding the Company's operating infrastructure and increased advertising expenditures. As a percentage of net sales, operating expenses increased over 1999 levels by 2%. The infrastructure costs included higher payroll and personnel-related expenses, store opening and operating expenses and warehouse and distribution related expenses. Increased advertising expenditures were primarily related to expansion of the Company's leather handbag fixturing program at department stores, web-based advertising and additional internet stores sights. As a majority of the infrastructure costs discussed above were added in the second half of 2000, management believes operating expenses, as a percentage of net sales, will increase during the first half of 2001 while leveling off toward the back half of the year. As a result management expects operating income as a percentage of net sales to decrease from the level experienced in 2000.

Other income (expense). Other income (expense) primarily reflects interest income from cash investments, royalty income, minority interests in the earnings (loss) of the Company's majority-owned subsidiaries and equity in the earnings (loss) of its non-consolidated joint ventures. During 2000, other income (expense) increased favorably as interest and royalty income earned exceeded minority interest expense and equity in the losses of the Company's joint ventures.

The March 2000 launch and continued rollout of the Company's licensed brand line of DKNY watches, double-digit growth of the Company's FOSSIL watch brand and continued market penetration of the Company's RELIC watch brand fueled watch sales during the year.

Fiscal 1999 Compared to Fiscal 1998

Net Sales. Net sales growth resulted from sales volume increases across nearly all the Company's product lines and worldwide sales regions. Watch sales were fueled by increased market penetration in department and specialty stores of the Company's three core FOSSIL brand assortments in addition to sales from its Big Tic watch line. Watch sales were also slightly amplified during the first half of 1999 from (a) refilling of certain retailer's watch inventories after a very successful 1998 holiday season and (b) a \$7.2 million international-based sale of non-branded premium incentive watches. Increased sales volumes in the Company's leather and eyewear product offerings were generated through market share increases in existing locations as well as through new points of sale. Company-owned retail store expansion in both the Company's retail and outlet stores, as well as increases in same store sales, also positively impacted sales.

Gross Profit. Gross profit margins increased during 1999 primarily as a result of an increase in the Company's sales mix of FOSSIL brand watches, European-based sales, licensed designer brand watch sales and Company-owned store sales. These sales categories generally result in higher gross profit margins than the Company's consolidated average.

Operating Expense. Operating expense increases were primarily to support increased sales volumes. As a percentage of net sales, total selling, general and administrative expenses decreased as a result of leveraging expenses against higher net sales.



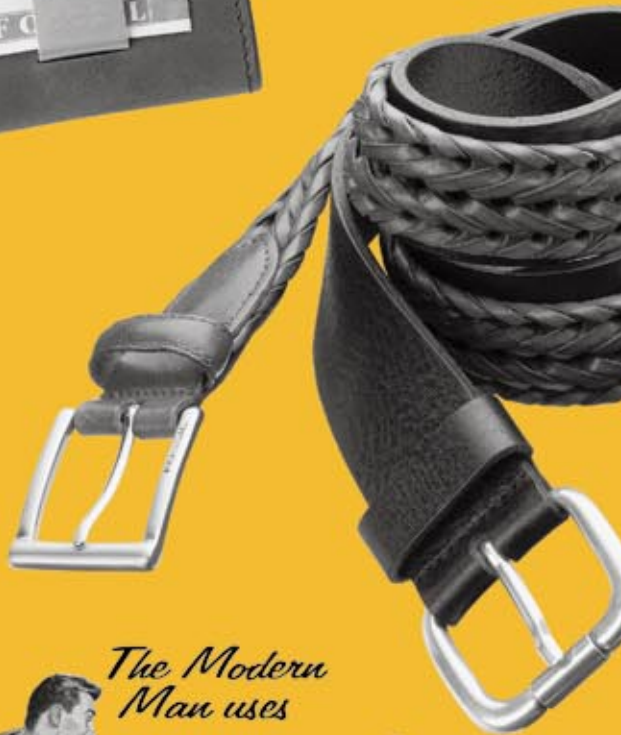
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FINE
Leather Goods for Men



Always look for the Original Style and Genuine Quality of these fine Genuine Leather Classics. *Guaranteed to stand the test of time!*



The Modern Man uses



You can find Fossil Genuine Leather Classics at your favorite retailer

Fossil, Inc. 2280 N. Greenville Ave. Richardson, TX 75082

Other Income (expense). Other income (expense) – net typically reflects interest income from cash investments and the minority interests in the profit (loss) of the Company's majority-owned operations. The change in other income (expense) was favorable in 1999 as increases in interest income and royalty revenues from licensing the FOSSIL brand offset increases in the minority interest share of profits and additional foreign currency losses, due mainly to the strength of the U.S. dollar. These favorable changes were mitigated by an increase in the minority interests in the Company's majority-owned operations.

EFFECTS OF INFLATION

Management does not believe that inflation has had a material impact on results of operations for the periods presented. Substantial increases in costs, however, could have an impact on the Company and the industry. Management believes that, to the extent inflation affects its costs in the future, the Company could generally offset inflation by increasing prices if competitive conditions permit.

FOREIGN CURRENCY RISK

As a multinational enterprise, the Company is exposed to changes in foreign currency exchange rates. The Company employs a variety of practices to manage this market risk, including its operating and financing activities, and where deemed appropriate, the use of derivative financial instruments. Forward contracts have been utilized by the Company to mitigate foreign currency risk. The Company's most significant foreign currency risk relates to the Euro, British Pound and Japanese Yen. The Company uses derivative financial

instruments only for risk management purposes and does not use them for speculation or for trading. There were no significant changes in how the Company managed foreign currency transactional exposure during 2000 and management does not anticipate any significant changes in such exposures or in the strategies it employs to manage such exposure in the near future.

LIQUIDITY AND CAPITAL RESOURCES

The Company's business operations historically have not required substantial cash needs during the first several months of its fiscal year. Generally, starting in the second quarter the Company's cash needs begin to increase and typically reach their peak in the September–November time frame. Cash flow generated by the Company's operating activities has generally funded the Company's cash requirements and capital expenditures. Cash generated from operating activities exceeded \$40 million and \$61 million during 2000 and 1999, respectively. Historically, the Company's primary capital requirements have been for working capital, investing activities associated with the expansion of its office and distribution facilities, international growth, systems development and expansion of Company-owned stores.

During 2000, the Board of Directors authorized the Company to repurchase up to 2,500,000 shares of its common stock on the open market. Under this authorization and a previous authorization, the Company purchased 2,039,400 shares at an aggregate cost of approximately \$28.7 million. As of December 30, 2000 the Company had availability to repurchase up to approximately 700,000 additional shares pursuant to previous authorizations.



The Company's financial position remains extremely strong with working capital of \$169.8 million at the end of 2000.

In addition to cash used for working capital purposes and the share buyback, significant cash expenditures were utilized for investing activities, including the cost associated with the construction of 23 Company-owned stores. Management anticipates capital expenditure obligations associated with its Company-owned stores to decrease during 2001 as fewer stores are planned to be opened during the year. During 1999, cash used for investing activities were primarily related to enhancements to the Company's computer systems to address potential Year 2000 issues, the construction costs for additional Company-owned stores and the construction of additional office space. Management believes cash used for investing activities for 2001 may exceed 2000 levels as the Company is planning to acquire a 500,000 square foot warehouse and distribution facility that will allow it to centralize three facilities currently being utilized for such purposes. The facility is scheduled for completion in late 2001 or early 2002 and the total cost for this facility and related equipment and systems is expected to be approximately \$25 million.

The Company's financial position remains extremely strong with working capital of \$169.8 million at the end of 2000 compared with \$155.2 million at the end of 1999. The Company has net cash balances (defined as cash and cash equivalents plus short-term

investments less current notes payable) of \$85.7 million at the end of 2000 compared to \$96.7 million at the end of 1999. If not for the \$28.7 million used to acquire the Company's common stock during the year, net cash balances would have grown to \$114.4 million, an 18% increase above 1999 levels. Short-term credit facilities totaling \$43 million are available to the Company for working capital needs and other general corporate purposes of which \$5.1 million was outstanding at the end of 2000. The Company believes that internally generated funds from operations, existing cash balances and its short-term credit facility will be sufficient to satisfy its cash requirements.

FORWARD-LOOKING STATEMENTS

Included within management's discussion and analysis of the Company's operating results and this annual report, "forward-looking statements" were made within the meaning of the Private Securities Litigation Reform Act of 1995 regarding expectations for fiscal 2001. The actual results may differ materially from those expressed by these forward-looking statements. Significant factors that could cause the Company's 2001 operating results to differ materially from management's current expectations include, among other items, significant changes in consumer spending patterns or preferences, competition



in the Company's product areas, international in comparison to domestic sales mix, changes in foreign currency valuations in relation to the United States dollar, principally the Euro, British Pound and Japanese Yen, an inability of management to control operating expenses in relation to net sales without damaging the long-term direction of the Company and the risks and uncertainties set forth in the Company's current report on Form 8-K dated March 30, 1999.

continued on next page



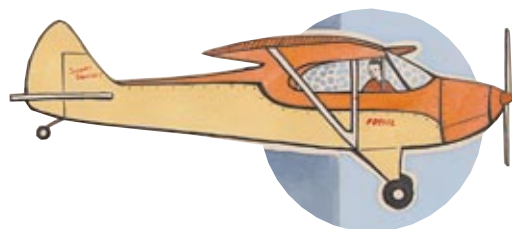
SELECTED QUARTERLY FINANCIAL DATA

The table below sets forth selected quarterly financial information. The information is derived from the unaudited consolidated financial statements of the Company and includes, in the opinion of management,

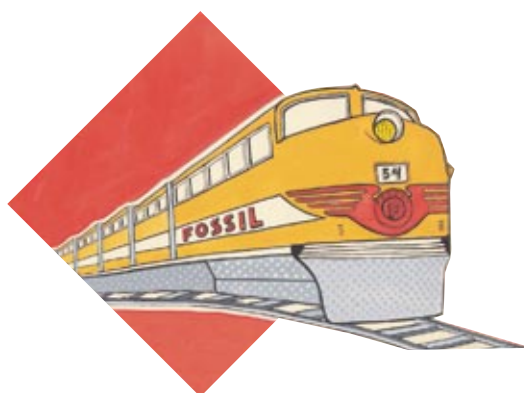
all normal and recurring adjustments that management considers necessary for a fair statement of results for such periods. The operating results for any quarter are not necessarily indicative of results for any future period.



Fiscal Year 2000	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
<i>DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA</i>				
Net sales	\$ 103,569	\$ 113,393	\$ 128,064	\$ 159,259
Gross profit	53,659	56,560	63,691	81,836
Operating expenses	32,500	36,108	41,302	52,015
Operating income	21,159	20,452	22,389	29,821
Income before income taxes	21,405	20,249	22,845	30,218
Provision for income taxes	8,777	8,301	9,367	12,389
Net income	12,628	11,948	13,478	17,829
Basic earnings per share	0.39	0.37	0.42	0.59
Diluted earnings per share	0.38	0.36	0.41	0.57
Gross profit as a percentage of net sales	51.8%	49.9%	49.7%	51.4%
Operating expenses as a percentage of net sales	31.4%	31.9%	32.2%	32.7%
Operating income as a percentage of net sales	20.4%	18.0%	17.5%	18.7%



Fiscal Year 1999	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
<i>DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA</i>				
Net sales	\$ 83,277	\$ 90,271	\$ 104,831	\$ 140,383
Gross profit	42,672	44,750	52,638	72,827
Operating expenses	24,795	27,991	30,324	42,328
Operating income	17,877	16,759	22,314	30,499
Income before income taxes	17,711	16,692	22,256	31,182
Provision for income taxes	7,280	6,826	9,125	12,784
Net income	10,431	9,866	13,131	18,398
Basic earnings per share	0.34	0.31	0.41	0.57
Diluted earnings per share	0.32	0.29	0.39	0.55
Gross profit as a percentage of net sales	51.2%	49.6%	50.2%	51.9%
Operating expenses as a percentage of net sales	29.8%	31.0%	28.9%	30.2%
Operating income as a percentage of net sales	21.5%	18.6%	21.3%	21.7%



While the majority of the Company's products are not seasonal in nature, a significant portion of the Company's net sales and operating income are generally derived in the second half of the year. The Company's fourth quarter, which includes the Christmas season, on average generates in excess of 30% of the Company's annual operating income. The amount of net sales and operating income generated during the first quarter is affected by the levels of inventory held by retailers at the end of the Christmas season, as well as general economic conditions and other factors beyond the Company's control. In general, lower levels of inventory at the end of the Christmas season may have a positive impact on the Company's net sales and operating income in the first quarter as a result of higher levels of restocking orders placed by retailers. Management currently believes that the

Company's inventory levels at its major customers at the end of the 2000 were not substantially above or below targeted levels and therefore should not significantly impact retailers restocking orders in the first quarter of 2001.

As the Company increases the number of Company-owned stores, it would generally amplify the Company's seasonality by decreasing the Company's operating income in the first half of the year while increasing operating income during the second half of the year. In addition, new product line launches would generally augment the sales levels in the quarter the product launch takes place. The results of operations for a particular quarter may also vary due to a number of factors, including retail, economic and monetary conditions, timing of orders or holidays and the mix of products sold by the Company.

TEST YOUR TV-RADIO TUBES



Even the picture tube, fuses, or appliances and best of all it is so EASY!

FOSSIL INC.

RELIABLE

CAR INSURANCE

We take the guess work out of it for you. Our service members have a lot of experience.

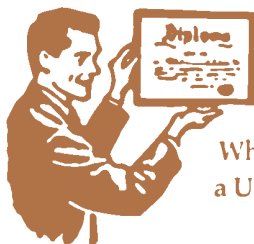


Now! GET EVEN MORE COMFORT FROM YOUR FALSE TEETH

But don't take our word for it!

ELECTRIC APPLIANCE SERVICING

Check out some in your area and see what you find out.
Fossil Inc.



EARN A DIPLOMA

When you finish High School, a University, a College, certain training programs, etc...

★ LOST AND FOUND ★

Sometimes when you lose something, you can find the nearest lost and found in the area and chances are it just might be there. Of course, this is not always proven to be true.



AMAZING!

FOSSIL

AUTO REPAIRING

NO QUESTIONS ASKED
EASY
FAST
NO HASSLE
FRIENDLY



SORRY...NO PHONE

..... IT'S EASY TO ORDER

Just listen to what some of the dealers are saying:

FOSSIL IS GREAT!!

so, there you have it.

WANT TO SELL- 1954 COLLECTION OF ITEMS. SERIOUS INQUIRIES ONLY.



DO YOU HAVE THE
GIFT OF GAB?

DO YOU KNOW HOW TO RELIEVE UNWANTED

STRESS?



THEN, PLEASE LET US KNOW...

HELPFUL HINT- TAKE TIME TO LAUGH - IT IS THE SINGING THAT HELPS WITH LIFE'S LOADS.



★ FOSSIL...THE GENUINE CLASSIC ★

Now! YOU TOO CAN SAY: I DRAW UGLY PICTURES

JOIN THE MANY THAT SAY "I CAN'T EVEN DRAW A STICK FIGURE"

HYDRAULICS



Revolutionary new design. Fits in most places with ease.

The FOSSIL Hydro braking lever has it all. Try one today!

MODEL.....TL-1154



LOW TRAVEL RATES

SO LOW THAT WE CAN'T EVEN TELL YOU WHAT THEY ARE!

CALL FOR INFO...
FOSSIL AIRLINES

ARE U MOVING?

WELL, LET ONE OF OUR MOVERS HELP YOU TO GET ALL OF YOUR JUNK THERE.



WE ALSO SELL JUNK.

BECOME AN EXPERT- Thousands are needed.

WE SELL

CLOTHING

WE SELL

LET OUR EASY 54 MONTH COURSE TEACH YOU THE FUNDAMENTALS OF HOW TO

SPONSOR
FOSSIL LANES

Bowl



ELECTRIC MOTORS

CHEAP!!

DO YOU KNOW WHAT TIME IT IS?

GENUINE 1954 QUALITY



DON'T MAIL THIS NO-RISK COUPON

THE GENUINE CLASSIC - Dept. 54

Circle all the numbers that apply. We reserve the right to withdraw this unusual offer when any of the present limited stock disappears.

Please check all the numbers that you wish...

- 31 45 49 67 101 106
 111 113 117 121 123 125
 132 133 135 136 140 141

NAME

ADDRESS

CITY STATE



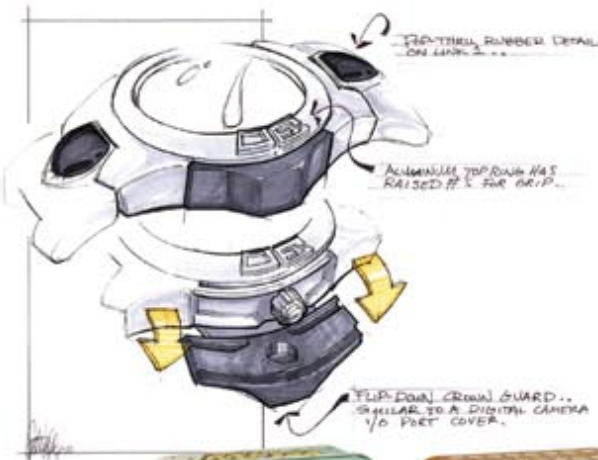
This special is subject to cancellation when current stock runs out



MURALS • TINS • LOGOS •
T-SHIRT DESIGN • AND MORE!

FOSSIL ART GALLERY

The extraordinary talent pool in Fossil's in-house design studio has created the FOSSIL Annual Report since our first Annual Report in 1994. From the first designer hired in 1988 until today, nearly one hundred professionals have designed the watches, photographed the product, dreamed up the tins, printed the posters, painted the murals and scanned the images; staying up all night with tireless passion. Our award-winning studio is recognized worldwide as one of the finest anywhere. This wealth of talent is at the heart of FOSSIL.





Don't Underestimate the **Importance**
of a **Great** pair of Jeans.



DOUBLE STITCHED FOR
DURABILITY AND COMFORT!

World's Finest

ORIGINAL QUALITY

THOSE ARE SOME
Tough JEANS!

YOU SAID IT!

Also - A COLORFUL ARRAY
OF DENIM WASHES ENSURES
YOU'LL FIND THE PAIR THAT
SUITS YOU BEST

TRADE MARK



American  *Quality*
FOSSIL BRAND
1954
* TRADEMARK CLOTHING *

Brought to you by...
THE DENIM TECHNOLOGY INSTITUTE
The American Classic

You can put your confidence in - *Three Diamond Quality*



"THAT PRIZE-WINNING INTERIOR IS PACKED WITH MORE PRODUCT THAN EVER!"



"LOVE THAT WATCH...BUT JUST LOOK AT THE SMARTEST STYLING THAT EVER GRACED ANYTHING ON THE SHELVES"



Now! *The Most Complete Line of Any Year*





"GREAT PACKAGING TOO!"



— the New 1954 —

FOSSIL


Diamond
Quality



FINANCIAL INFORMATION



INDEPENDENT AUDITORS' REPORT

To the Directors and Stockholders of Fossil, Inc.:

We have audited the accompanying consolidated balance sheets of Fossil, Inc. and subsidiaries as of December 30, 2000 and January 1, 2000 and the related consolidated statements of income and comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 30, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material

misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Fossil, Inc. and subsidiaries at December 30, 2000 and January 1, 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 30, 2000, in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP
Dallas, Texas
February 19, 2001

REPORT OF MANAGEMENT

The accompanying consolidated financial statements and other information contained in this Annual Report have been prepared by management. The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and include amounts that are based upon our best estimates and judgements.

To help assure that financial information is reliable and that assets are safeguarded, management maintains a system of internal controls and procedures which it believes is effective in accomplishing these objectives. These controls and procedures are designed to provide reasonable assurance, at appropriate costs, that transactions are executed and recorded in accordance with

management's authorization.

The consolidated financial statements and related notes thereto have been audited by Deloitte & Touche LLP, independent auditors. The accompanying auditors' report expresses an independent professional opinion on the fairness of presentation of management's financial statements.

The Audit Committee of the Board of Directors is composed of certain of the Company's outside directors, and is responsible for selecting the independent auditing firm to be retained for the coming year. The Audit Committee meets periodically with the independent auditors, as well as with management, to review internal accounting controls and financial reporting matters. The independent auditors also meet privately on occasion with the Audit Committee, to discuss the scope and results of their audits and any recommendations regarding the system of internal accounting controls.

Kosta Kartsotis
President and
Chief Executive Officer

Mike Kovar
Senior Vice President,
Chief Financial Officer
and Treasurer



NEW "Come to Life"
STEREO PICTURES

by



range of product family

1 All Relic Watches come in swell tin packaging.

2 Quality mens and ladies leather goods.

3 Relic Sunglasses are always in style!

Reel One PRODUCTS

For all the family

ask to see

VIEW-A-MATIC
stereoscopic pictures

AT SELECTED PHOTO, GIFT AND DEPARTMENT STORES



GOLF!

At any one of our *FABULOUS* public courses

Free Lessons for Ladies!



Only \$6.00 starts you in

TELEVISION and RADIO



Learn to repair them all today in the best paying job!

FOSSIL COVES



Beach Resort & Spa

TRUSTED AROUND THE WORLD



EMPORIO ARMANI

DKNY

DIESEL
FOR SUCCESSFUL LIVING



Learn to build...

SKYSCRAPERS!

ORIGINAL AUTHENTIC CLASSIC

CONSOLIDATED BALANCE SHEETS

	December 30, <u>2000</u>	January 1, <u>2000</u>
<i>DOLLARS IN THOUSANDS</i>		
Assets		
Current assets:		
Cash and cash equivalents	\$ 79,501	\$ 90,908
Short-term marketable investments	11,312	10,870
Accounts receivable—net	62,876	51,399
Inventories	81,118	63,029
Deferred income tax benefits	7,779	6,769
Prepaid expenses and other current assets	10,245	7,832
Total current assets	<u>252,831</u>	<u>230,807</u>
Investments in joint ventures	5,935	3,849
Property, plant and equipment—net	42,252	28,603
Intangible and other assets	6,573	6,105
Total assets	<u>\$ 307,591</u>	<u>\$ 269,364</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Notes payable	\$ 5,107	\$ 5,043
Accounts payable	18,325	11,870
Accrued expenses:		
Co-op advertising	14,320	15,191
Compensation	6,179	4,617
Other	19,145	21,493
Income taxes payable	19,964	17,395
Total current liabilities	<u>83,040</u>	<u>75,609</u>
Commitments (Note 10)		
Minority interest in subsidiaries	3,852	2,558
Stockholders' equity:		
Common stock, 30,136,824 and 32,107,270 shares issued, respectively	301	321
Additional paid-in capital	14,214	41,774
Retained earnings	208,429	153,569
Accumulated other comprehensive loss	(2,245)	(3,259)
Treasury stock at cost, none and 59,572 shares, respectively	—	(1,208)
Total stockholders' equity	<u>220,699</u>	<u>191,197</u>
Total liabilities and stockholders' equity	<u>\$ 307,591</u>	<u>\$ 269,364</u>

See notes to consolidated financial statements





CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

Fiscal Year	2000	1999	1998
<i>DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA</i>			
Net sales	\$ 504,285	\$ 418,762	\$ 304,743
Cost of sales	248,539	205,875	154,239
Gross profit	255,746	212,887	150,504
Operating expenses:			
Selling and distribution	123,407	95,349	71,720
General and administrative	38,518	30,089	23,414
Total operating expenses	161,925	125,438	95,134
Operating income	93,821	87,449	55,370
Interest expense	128	117	211
Other income (expense) – net	1,024	509	(430)
Income before income taxes	94,717	87,841	54,729
Provision for income taxes	38,834	36,015	22,568
Net income	\$ 55,883	\$ 51,826	\$ 32,161
Other comprehensive income (loss):			
Currency translation adjustment	827	(1,658)	1,181
Unrealized gain (loss) on marketable investments	187	(564)	—
Total comprehensive income	\$ 56,897	\$ 49,604	\$ 33,342
Earnings per share:			
Basic	\$ 1.76	\$ 1.63	\$ 1.04
Diluted	\$ 1.71	\$ 1.55	\$ 0.99
Weighted average common shares outstanding:			
Basic	31,689,036	31,900,024	31,054,041
Diluted	32,674,604	33,428,153	32,586,096

See notes to consolidated financial statements

FOSSIL BRAND

LADY STERLING
 IN **PEBBLED LEATHER**
 with famous "I.D. window."
 Choose red, camel, or brown
\$38.00 plus tax.

For Her

STERLING CHECKBOOK COVERS

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

DOLLARS IN THOUSANDS

	<u>common stock</u>		<u>additional paid-in capital</u>	<u>retained earnings</u>	<u>accumulated other comprehensive income (loss)</u>		<u>treasury stock</u>		<u>total stockholders' equity</u>
	<u>shares</u>	<u>par value</u>			<u>cumulative translation adjustment</u>	<u>unrealized loss on marketable investments</u>	<u>shares</u>	<u>share cost</u>	
Balance, January 3, 1998	20,308,503	\$ 203	\$ 26,021	\$ 71,257	\$ (2,218)	\$ —	—	\$ —	\$ 95,263
Common stock issued upon									
exercise of stock options	408,588	4	2,877	—	—	—	—	—	2,881
Tax benefit derived from									
exercise of stock options	—	—	1,495	—	—	—	—	—	1,495
Secondary offering,									
net of offering costs	215,000	2	3,611	—	—	—	—	—	3,613
Purchase of treasury shares	—	—	—	—	—	—	(188,500)	(2,647)	(2,647)
Reissuance of treasury stock									
upon exercise of stock options	—	—	—	(560)	—	—	84,821	1,191	631
Net income	—	—	—	32,161	—	—	—	—	32,161
Currency translation adjustment	—	—	—	—	1,181	—	—	—	1,181
Other	—	—	341	—	—	—	—	—	341
Balance, January 2, 1999	20,932,091	209	34,345	102,858	(1,037)	—	(103,679)	(1,456)	134,919
Common stock issued upon									
exercise of stock options	709,133	7	3,632	—	—	—	—	—	3,639
Tax benefit derived from									
exercise of stock options	—	—	3,902	—	—	—	—	—	3,902
Purchase of treasury shares	—	—	—	—	—	—	(90,500)	(1,994)	(1,994)
Reissuance of treasury stock									
upon exercise of stock options	—	—	—	(1,115)	—	—	134,607	2,242	1,127
Three-for-two-stock split	10,466,046	105	(105)	—	—	—	—	—	—
Net income	—	—	—	51,826	—	—	—	—	51,826
Unrealized loss on									
marketable investments	—	—	—	—	—	(564)	—	—	(564)
Currency translation adjustment	—	—	—	—	(1,658)	—	—	—	(1,658)
Balance, January 1, 2000	32,107,270	321	41,774	153,569	(2,695)	(564)	(59,572)	(1,208)	191,197
Common stock issued upon									
exercise of stock options	56,154	—	384	—	—	—	—	—	384
Tax benefit derived from									
exercise of stock options	—	—	470	—	—	—	—	—	470
Purchase of treasury shares	—	—	—	—	—	—	(12,800)	(268)	(268)
Reissuance of treasury stock									
upon exercise of stock options	—	—	—	(1,023)	—	—	72,372	1,476	453
Repurchase and retirement									
of common stock	(2,026,600)	(20)	(28,414)	—	—	—	—	—	(28,434)
Net income	—	—	—	55,883	—	—	—	—	55,883
Unrealized gain on									
marketable investments	—	—	—	—	—	187	—	—	187
Currency translation adjustment	—	—	—	—	827	—	—	—	827
Balance, December 30, 2000	30,136,824	\$ 301	\$ 14,214	\$ 208,429	\$ (1,868)	\$ (377)	—	\$ —	\$ 220,699

See notes to consolidated financial statements



AT HOME

Fossil



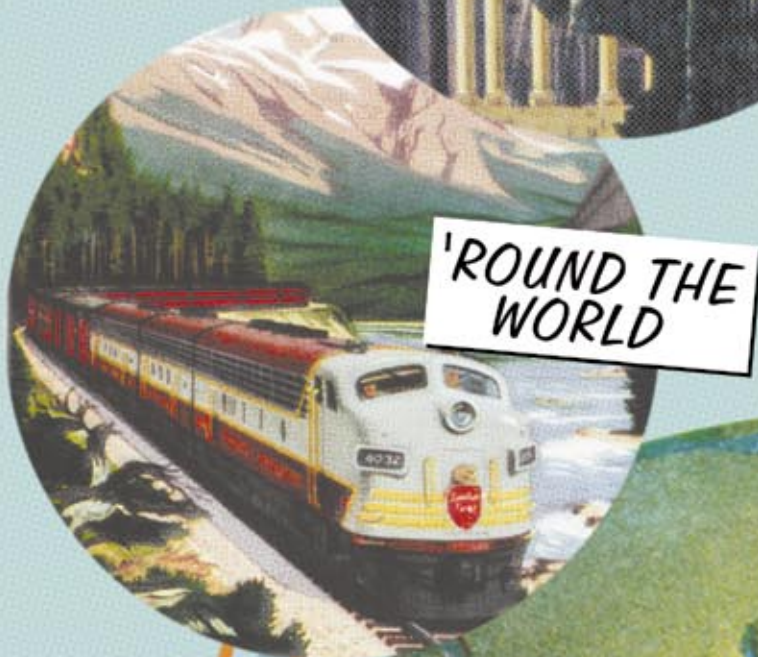
SOUTH AMERICA



ASIA



EUROPE



'ROUND THE WORLD

OR AWAY

...there's always a FOSSIL store near you!



Trans-Atlantic and
Around-the-World Locations

COAST-TO-COAST...AROUND THE WORLD!



CONSOLIDATED STATEMENTS OF CASH FLOWS

Fiscal Year	2000	1999	1998
<i>DOLLARS IN THOUSANDS</i>			
Operating Activities:			
Net income	\$ 55,883	\$ 51,826	\$ 32,161
Noncash items affecting net income:			
Minority interest in subsidiaries	1,786	1,484	1,004
Equity in losses of joint ventures	381	151	—
Depreciation and amortization	6,436	5,889	4,395
Tax benefit derived from exercise of stock options	470	3,902	1,495
Loss on sale of fixed assets	420	19	84
Increase in allowance for doubtful accounts	1,523	1,044	2,165
Increase in allowance for returns—net of related inventory in transit	742	2,098	2,053
Deferred income tax benefits	(1,010)	(1,114)	(1,151)
Changes in operating assets and liabilities:			
Accounts receivable	(15,983)	(11,355)	(13,899)
Inventories	(15,993)	(3,014)	(4,575)
Prepaid expenses and other current assets	(2,509)	(4,733)	(1,106)
Accounts payable	7,842	(5,056)	5,831
Accrued expenses	(2,274)	13,544	7,675
Income taxes payable	2,574	6,909	4,983
Net cash from operating activities	40,288	61,594	41,115
Investing Activities:			
Net assets acquired in business combination	—	(2,732)	—
Additions to property, plant and equipment	(20,341)	(10,568)	(6,307)
Purchase of marketable investments	(442)	(10,870)	—
Investments in joint ventures	(2,196)	(4,000)	—
Increase in intangible and other assets	(818)	(1,505)	(70)
Net cash used in investing activities	(23,797)	(29,675)	(6,377)
Financing Activities:			
Issuance of common or treasury stock:			
Exercise of stock options	838	4,766	3,512
Secondary offering	—	—	3,613
Net purchase of treasury stock	(268)	(1,994)	(2,647)
Acquisition and retirement of common stock	(27,806)	—	—
Distribution of minority interest earnings	(492)	(790)	(390)
Increase (repayments) of notes payable—banks	64	505	(3,325)
Other	—	—	341
Net cash (used in) from financing activities	(27,664)	2,487	1,104
Effect of exchange rate changes on cash and cash equivalents			
	(234)	(761)	317
Net (decrease) increase in cash and cash equivalents	(11,407)	33,645	36,159
Cash and cash equivalents:			
Beginning of year	90,908	57,263	21,104
End of year	\$ 79,501	\$ 90,908	\$ 57,263

See notes to consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Significant Accounting Policies

Consolidated Financial Statements include the accounts of Fossil, Inc., a Delaware corporation, and its subsidiaries (the "Company"). The Company reports on a fiscal year reflecting the retail-based calendar (containing 4-4-5 week calendar quarters). Significant intercompany balances and transactions are eliminated in consolidation. The Company is a leader in the design, development, marketing and distribution of contemporary, high quality fashion watches, accessories and apparel. The Company's products are sold primarily through department stores and other major retailers, both domestically and internationally.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

Short-term Marketable Investments consist of liquid investments with original maturities exceeding three months and mutual fund investments. By policy, the

Company invests primarily in high-grade marketable securities. Securities of \$5.1 million and \$4.7 million for fiscal year 2000 and 1999, respectively, are classified as available for sale and stated at fair value, with unrealized holding gains (losses) included in accumulated other comprehensive income (loss) as a component of stockholders' equity. Securities of \$6.2 million for both fiscal years 2000 and 1999 are classified as held-to-maturity and are stated at amortized cost.

Accounts Receivable are stated net of allowances of approximately \$21.2 million and \$17.7 million for estimated customer returns and approximately \$9.5 million and \$8.0 million for doubtful accounts at the close of fiscal year 2000 and 1999, respectively.

Inventories are stated at the lower of average cost, including any applicable duty and freight charges, or market.

Property, Plant and Equipment are stated at cost less accumulated depreciation and amortization. Depreciation is provided using the straight-line method over the estimated useful lives of the assets of three to ten years for equipment and thirty years for buildings. Leasehold improvements are amortized over the shorter of the lease term or the asset's useful life.

Intangible and Other Assets include the cost in excess of tangible assets acquired, noncompete agreements and trademarks, which are amortized using the straight-line method over the estimated useful lives of generally twenty, three and five years, respectively.

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QUALITY
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MAGNETIC MONEY CLIP
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Cumulative Translation Adjustment is included in accumulated other comprehensive income (loss) as a component of stockholders' equity and reflects the unrealized adjustments resulting from translating the financial statements of foreign subsidiaries. The functional currency of the Company's foreign subsidiaries is the local currency of the country. Accordingly, assets and liabilities of the foreign subsidiaries are translated to U.S. dollars at year-end exchange rates. Income and expense items are translated at the average rates prevailing during the year. Changes in exchange rates that affect cash flows and the related receivables or payables are recognized as transaction gains and losses in the determination of net income. The Company incurred net foreign currency transaction losses of approximately \$0.4 million, \$1.2 million and \$0.4 million for fiscal years 2000, 1999 and 1998, respectively, which have been included in other income (expense) – net.

Forward Contracts are entered into by the Company principally to hedge the payment of intercompany inventory transactions with its non-U.S. subsidiaries. Currency exchange gains or losses resulting from the translation of the related accounts, along with the offsetting gains or losses from the hedge, are deferred until the inventory is sold or the forward contract is completed. At December 30, 2000, the Company had hedge contracts to sell (i) \$18.8 million Euro for approximately \$16.9 million, expiring through May 2001, and (ii) approximately \$0.3 million British Pounds for approximately \$0.4 million, expiring through January 2001. If the Company were to settle its Euro based contracts at fiscal year-end 2000, the net result would be a loss of approximately \$600,000.

Revenues are recognized as sales when merchandise is shipped and title transfers to the customer. The Company permits the return of damaged or defective products and accepts limited amounts of product returns in certain other instances. Accordingly, the

Company provides allowances for the estimated amounts of these returns at the time of revenue recognition.

Advertising Costs for in-store and media advertising as well as co-op advertising, internet portal costs and promotional allowances are expensed as incurred. Advertising expenses for fiscal years 2000, 1999 and 1998 were approximately \$32.3 million, \$27.1 million and \$17.0 million, respectively.

New Accounting Standards. In June 1998, SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133") was issued which establishes new accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires the recognition of all derivatives as either assets or liabilities in the statement of financial position and the measurement of those instruments at fair value. This pronouncement requires such reporting effective beginning in fiscal year

2001. The Company adopted SFAS 133 effective December 31, 2000. The adoption of SFAS 133 did not have a material impact on the financial position, results of operations, or cash flows of the Company, because the Company has limited its use of derivative instruments to the forward contracts previously mentioned.

Minority Interest in Subsidiaries, included within other income (expense) – net represents the minority stockholders' share of the net income (loss) of various consolidated subsidiaries and investments in affiliated companies. The minority interest in the consolidated balance sheets reflects the proportionate interest in the equity of the various consolidated subsidiaries.

Earnings Per Share ("EPS"). Basic EPS is based on the weighted average number of common shares outstanding during each period. Diluted EPS includes the effects of dilutive stock options outstanding during each period using the treasury stock method.



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Brand

Faithful and fresh as spring is the authentic Fossil sunwear. It typifies the lighthearted look of summer – the flex-o-matic temples have the spring that put the spring in your step.



The following table reconciles the numerators and denominators used in the computations of both basic and diluted EPS:

Fiscal Year	2000	1999	1998
Numerator:			
Net income	\$ 55,883,000	\$ 51,826,000	\$ 32,161,000
Denominator:			
Basic EPS computation:			
Weighted average common shares outstanding	32,177,358	21,462,121	20,747,242
Three-for-two stock split effected August 1999	—	10,466,046	10,351,347
Repurchase of common shares, net of treasury shares reissued	(488,322)	(28,143)	(44,548)
	<u>31,689,036</u>	<u>31,900,024</u>	<u>31,054,041</u>
Basic EPS	\$ 1.76	\$ 1.63	\$ 1.04
Diluted EPS computation:			
Weighted average common shares outstanding	32,177,358	21,462,121	20,747,242
Stock option conversion	985,568	1,528,129	1,021,370
Three-for-two stock split effected August 1999	—	10,466,046	10,862,032
Repurchase of common shares, net of treasury shares reissued	(488,322)	(28,143)	(44,548)
	<u>32,674,604</u>	<u>33,428,153</u>	<u>32,586,096</u>
Diluted EPS	\$ 1.71	\$ 1.55	\$ 0.99



Common Share and Per Share Data in these notes to consolidated financial statements has been presented on a retroactive basis for all stock splits.

Deferred Income Taxes are provided for under the asset and liability method for temporary differences in the recognition of certain revenues and expenses for tax and financial reporting purposes.

Fair Value of Financial Instruments are estimated to approximate the related book values unless otherwise indicated, based on market information available to the Company.

Reclassification of certain 1998 and 1999 amounts have been made to conform to the 2000 presentation.





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2. Acquisitions

In January 2000, Fossil (East) Limited, acquired 51% of the capital stock of Design Time, Ltd from its minority stockholder in exchange for approximately \$153,000 in cash. This acquisition has been accounted for as a purchase and no goodwill was recorded. Effective September 1999, Fossil U.K., Ltd. acquired certain assets of Junghans U.K., Ltd. ("Junghans UK") for approximately \$2.7 million in cash. Junghans UK was the Company's primary distributor in the United Kingdom and Ireland. The acquisition was accounted for as a purchase and, in connection therewith, the Company recorded goodwill of approximately \$0.6 million.

The results of these acquired operations are included in the accompanying consolidated financial statements since the dates of their acquisition. The proforma effects as if these acquisitions had occurred at the beginning of the years presented are not significant.

3. Investments in Joint Ventures

During 1999, the Company acquired a 20% interest in SII Marketing International, Inc. ("SMI"), and since that time has invested \$6.0 million in this venture. SMI, a joint venture between the Company and Seiko

Instruments America, Inc, was formed to design, market and distribute watches in the mass-market distribution channel. The investment of \$5.4 million and \$3.8 million at fiscal year end 2000 and 1999, respectively, is carried on the equity basis, which approximates the Company's equity in SMI's underlying net book value. The Company's equity in SMI's net loss of \$409,000 and \$151,000 for fiscal 2000 and 1999, respectively, is included in other income (expenses)-net. In connection with the formation of the joint venture, the Company signed a multi-year Service Agreement with SMI to perform certain marketing, design and merchandising functions. The compensation the Company receives under the Service Agreement is based on a percentage of SMI's net sales, subject to certain adjustments.

Effective August 31, 2000, the Company sold 50% of the equity of its former wholly-owned subsidiary ("Fossil Spain") pursuant to a joint venture agreement with Sucesores de A. Cadarso for the marketing, distribution and sale of the Company's products in Spain. The Company has accounted for this investment of \$0.5 million at fiscal year end 2000 based upon the equity method from the effective date of the transaction. The Company's equity in Fossil Spain's net income was \$28,000 for fiscal 2000 and is included in other income (expense) - net.

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4. Inventories

Inventories consist of the following:

Fiscal Year End	<u>2000</u>	<u>1999</u>
<i>IN THOUSANDS</i>		
Components and parts	\$ 6,258	\$ 5,568
Work-in-process	1,182	2,755
Finished merchandise on hand	48,113	38,595
Merchandise at Company stores	13,296	7,481
Merchandise in-transit from customer returns	12,269	8,630
	<u>\$ 81,118</u>	<u>\$ 63,029</u>

5. Property, Plant and Equipment

Property, plant and equipment consist of the following:

Fiscal Year End	<u>2000</u>	<u>1999</u>
<i>IN THOUSANDS</i>		
Land	\$ 2,535	\$ 2,535
Buildings	11,132	11,459
Furniture and fixtures	26,794	16,843
Computer equipment and software	11,883	9,521
Leasehold improvements	13,494	6,755
	<u>65,838</u>	<u>47,113</u>
Less accumulated depreciation and amortization	23,586	18,510
	<u>\$ 42,252</u>	<u>\$ 28,603</u>

6. Intangible and Other Assets

Intangibles and other assets consist of the following:

Fiscal Year End	<u>2000</u>	<u>1999</u>
<i>IN THOUSANDS</i>		
Costs in excess of tangible net assets acquired	\$ 5,200	\$ 5,200
Noncompete agreement	475	475
Trademarks	1,030	946
Deposits	1,458	844
Cash surrender value of life insurance	783	714
Other	290	250
	<u>9,236</u>	<u>8,429</u>
Less accumulated amortization	2,663	2,324
	<u>\$ 6,573</u>	<u>\$ 6,105</u>



7. Debt

Bank: U.S.-based. In June 1997, the Company renewed its Short-term Revolving Credit Facility with its primary bank (“U.S. Short-term Revolver”) and amended it to increase the funds available under the facility to \$40 million, an increase of \$10 million over the previous facility, not subject to any borrowing base calculation. The U.S. Short-term Revolver was also amended to eliminate Japanese Yen currency borrowings and replace it with a stand-by letter of credit for 640 million Japanese Yen (approximately \$5.6 million) as collateral for Company borrowings from any Japan-based bank. The Company has renewed the U.S. Short-term Revolver each year since June 1998 and during 2000 negotiated a reduction in the interest rate the Company pays on London Interbank Offered Rate (“LIBOR”) based borrowings. All borrowings under the U.S. Short-term Revolver accrue interest at the bank’s prime rate less 0.5% or LIBOR plus 0.75% (LIBOR plus

1.00% prior to June 29, 1999 respectively). The U.S. Short-term Revolver is unsecured and requires the maintenance of net worth, quarterly income, working capital and financial ratios. There were no borrowings under the U.S. Short-term Revolver as of fiscal year end 2000 or 1999.

At fiscal year-end 2000 and 1999, the Company had outstanding letters of credit of approximately \$1.8 million and \$4.7, respectively, to vendors for the purchase of merchandise.

Banks: Foreign Based. Fossil GmbH has short-term credit facilities with two Germany-based banks with combined borrowing capacity of 5,000,000 Deutsche Marks (approximately \$2.5 million as of fiscal year-end 2000). No borrowings were outstanding under the combined credit facilities at the end of fiscal year 2000 or 1999.

Fossil Japan has a short-term credit facility with a Japan-based bank allowing borrowings of up to 600 million Japanese Yen (approximately \$5.2 million as of fiscal year 2000). All outstanding borrowings under the facility bore interest at the Euroyen rate (0.54% at December 29, 2000) plus 1%. In connection with the financing agreement, Fossil Japan agreed to pay a quarterly fee of 0.5% per annum on any undrawn portion of the loan. The facility is collateralized by a stand-by letter of credit issued by the Company’s primary U.S. bank. Japan-based borrowings, in U.S. dollars, under the facilities were approximately \$5.1 million and \$5.0 million as of fiscal year-end 2000 and 1999, respectively. Interest expense under these credit facilities was approximately \$0.1 million in each of the fiscal years ended 2000, 1999 and 1998.

8. Other Income (Expense) – Net

Other income (expense) – net consists of the following:

Fiscal Year	<u>2000</u>	<u>1999</u>	<u>1998</u>
<i>IN THOUSANDS</i>			
Interest income	\$ 3,480	\$ 2,650	\$ 1,160
Minority interest in subsidiaries	(1,786)	(1,484)	(1,004)
Equity in losses of joint ventures	(381)	(151)	—
Currency loss	(412)	(1,181)	(427)
Royalty income	770	353	45
Insurance proceeds above book value	—	52	93
Other income (expense)	(647)	270	(297)
	<u>\$ 1,024</u>	<u>\$ 509</u>	<u>\$ (430)</u>





9. Income Taxes

Deferred income tax benefits reflect the net tax effects of deductible temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The tax effects of significant items comprising the Company's net deferred tax benefits, consist of the following:

Fiscal Year End	<u>2000</u>	<u>1999</u>
<i>IN THOUSANDS</i>		
Deferred tax assets:		
Bad debt allowance	\$ 3,162	\$ 2,534
Returns allowance	6,537	5,646
263(A) capitalization of inventory	704	504
Miscellaneous tax asset items	1,060	1,178
Deferred tax liabilities:		
In-transit returns inventory	(3,685)	(3,093)
Net current deferred tax benefits	<u>\$ 7,778</u>	<u>\$ 6,769</u>

Management believes that no valuation allowance against net deferred tax benefits is necessary. The resulting provision for income taxes consists of the following:

Fiscal Year	<u>2000</u>	<u>1999</u>	<u>1998</u>
<i>IN THOUSANDS</i>			
Current provision:			
United States	\$ 21,229	\$ 18,448	\$ 10,278
Foreign	18,145	14,779	11,946
Deferred provision—United States	(1,010)	(1,114)	(1,151)
Tax equivalent related to exercise of stock options (credited to additional paid-in capital)	470	3,902	1,495
Provision for income taxes	<u>\$ 38,834</u>	<u>\$ 36,015</u>	<u>\$ 22,568</u>

A reconciliation of income tax computed at the U.S. federal statutory income tax rate of 35% to the provision for income taxes is as follows:

Fiscal Year	<u>2000</u>	<u>1999</u>	<u>1998</u>
<i>IN THOUSANDS</i>			
Tax at statutory rate	\$ 33,151	\$ 30,744	\$ 19,155
State, net of federal tax benefit	736	975	364
Other	4,947	4,296	3,049
Provision for income taxes	<u>\$ 38,834</u>	<u>\$ 36,015</u>	<u>\$ 22,568</u>

Deferred U.S. federal income taxes are not provided on certain undistributed earnings of foreign subsidiaries as management plans to continue reinvesting these earnings outside the United States. Determination of such tax amounts is not practical because potential offset by U.S. foreign tax credits would be available under various assumptions involving the tax calculation.

10. Commitments

License Agreements. The Company has various license agreements to market watches bearing certain trademarks owned by various entities. In accordance with these agreements, the Company incurred royalty expense of approximately \$5.0 million, \$3.8 million and \$3.5 million in fiscal years 2000, 1999 and 1998, respectively. These amounts are included in the Company's cost of sales and selling expenses. The Company had several agreements in effect at the end of fiscal year 2000 which expire on various dates from March 2001 through December 2004 and require the Company to pay royalties ranging from 5% to 15.5% of defined net sales. Future minimum royalty commitments under such license agreements at the close of fiscal year 2000 are as follows (amounts in thousands):

2001	\$ 8,427
2002	9,701
2003	4,236
2004	4,577
Thereafter	—
	<u>\$ 26,941</u>

Leases. The Company leases its retail and outlet store facilities as well as certain of its office facilities and equipment under non-cancelable operating leases. Most of the retail store leases provide for contingent rental based on operating results and require the payment of taxes, insurance and other costs applicable to the property. Generally, these leases include renewal options for various periods at stipulated rates. Rent expense under these agreements was approximately \$10.9 million, \$6.8 million, and \$5.1 million for fiscal years 2000, 1999 and 1998, respectively. Contingent rent expense has been minimal in each of the last three fiscal years. Future minimum rental commitments under such leases at the close of fiscal year 2000, are as follows (amounts in thousands):

2001	\$ 13,134
2002	12,492
2003	12,416
2004	12,706
2005	12,067
Thereafter	53,273
	<u>\$ 116,088</u>



11. Stockholders' Equity and Benefit Plans

Common and Preferred Stock. On July 21, 1999, the Board of Directors of the Company declared a 3-for-2 stock split ("1999 Stock Split") of the Company's Common Stock which was effected in the form of a stock dividend which was paid on August 17, 1999 to stockholders of record on August 3, 1999. Retroactive effect has been given to the stock split in all share and per share data in these notes to financial statements.

The Company has 100,000,000 shares of authorized Common Stock, with 30,136,824 and 32,047,698 shares outstanding at the close of fiscal year 2000 and 1999, respectively. The Company has 1,000,000 shares of authorized \$0.01 par value preferred stock with none issued or outstanding. Rights, preferences and other terms of preferred stock will be determined by the Board of Directors at the time of issuance.

Common Stock Repurchase Programs. On September 18, 2000, and on September 18, 1998, the Company's Board of Directors authorized management to repurchase up to 500,000 shares and 2.5 million shares, respectively, of the Company's Common Stock in the open market or privately negotiated transactions (the "Repurchase Programs"). During fiscal year 2000 and 1999, the Company repurchased 2,039,400 and 90,500 shares, respectively, of its common stock under the Repurchase Programs at a cost of approximately \$28.6 million and \$2.0 million, respectively. During fiscal years 2000 and 1999, 73,372 and 134,607 shares respectively, of common stock repurchased were reissued in connection with the Company's 1993 Long-Term Incentive Stock Option Plan

("Incentive Plan"). In October 2000 the Company retired 2,026,600 shares of its Common Stock that remained in treasury.

Deferred Compensation and Savings Plans. The Company has a savings plan in the form of a defined contribution plan (the "401(k) plan") for substantially all full-time employees of the Company. Employees are eligible to participate in the 401(k) plan after one year of service. The Company matches 50% of employee contributions up to 3% of their compensation and 25% of the employee contributions between 3% and 6% of their compensation. The Company also has the right to make certain additional matching contributions not to exceed 15% of employee compensation. The Company's Common Stock is one of several investment alternatives available under the 401(k) plan. Matching contributions made by the Company to the 401(k) plan totaled approximately \$0.2 million for each of the fiscal years 2000, 1999 and 1998.

In December 1998, the Company adopted the Fossil, Inc. and Affiliates Deferred Compensation Plan (the "Deferred Plan"). Eligible participants may elect to defer up to 50% of their salary pursuant to the terms and conditions of the Deferred Plan. Eligible participants include certain officers and other highly compensated employees designated by the Deferred Plan's administrative committee. In addition, the Company may make employer contributions to participants under the Deferred Plan from time to time. The Company made no contributions to the Deferred Plan during the fiscal year 2000, while \$0.5 million was contributed during the fiscal year 1999.

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Three Diamond Quality
 Strength in your fabric company after years.

Long-term Incentive Plan. An aggregate of 2,587,500 shares of Common Stock were reserved for issuance pursuant to the Incentive Plan, adopted April 1993. An additional 1,350,000 shares were reserved in each of 1995 and 1998 for issuance under the Incentive Plan. Designated employees of the Company, including officers and directors, are eligible to receive (i) stock options, (ii) stock appreciation rights, (iii) restricted or non-restricted stock awards, (iv) cash awards or (v) any combination of the foregoing. The Incentive Plan is administered by the Compensation

Committee of the Company's Board of Directors (the "Compensation Committee"). Each option issued under the Incentive Plan terminates at the time designated by the Compensation Committee, not to exceed ten years. The current options outstanding predominately vest over a period ranging from three to five years and were priced at not less than the fair market value of the Company's Common Stock at the date of grant. The weighted average fair value of the stock options granted during fiscal years 2000, 1999 and 1998 was \$8.97, \$12.01 and \$6.27, respectively.

Nonemployee Director Stock Option Plan. An aggregate of 225,000 shares of Common Stock were reserved for issuance pursuant to this nonqualified stock option plan, adopted April 1993. During the first year an individual is elected as a nonemployee director of the Company, they received a grant of 5,000 nonqualified stock options. In addition, on the first day of each subsequent calendar year, each non-employee director automatically received a grant of an additional 3,000 nonqualified stock options as long as the person is serving as a nonemployee director. Pursuant to

this plan, 50% of the options granted will become exercisable on the first anniversary of the date of grant and in two additional installments of 25% on the second and third anniversaries. The exercise prices of options granted under this plan were not less than the fair market value of the Common Stock at the date of grant. The weighted average fair value of the stock options granted during fiscal years 2000, 1999 and 1998 was \$10.06, \$14.25 and \$11.93, respectively.

The fair value of options granted under the Company's stock option plans during fiscal years 2000, 1999 and 1998 were estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used: no dividend yield, expected volatility of approximately 63% to 66%, risk free interest rate of 4.75% to 6.00%, and expected life of 5 to 6 years. The following tables summarize the Company's stock option activity:

Incentive Plan

	<i>exercise price per share</i>	<i>weighted average exercise price per share</i>	<i>outstanding</i>	<i>weighted average exercise price per share</i>	<i>exercisable</i>	<i>available for grant</i>
Balance, Fiscal 1997	\$ 2.945 – \$ 12.667	\$ 4.782	2,497,140	\$ 4.650	1,314,270	922,541
Granted	\$ 8.667 – \$ 19.833	\$ 10.078	633,461	—	—	(633,461)
Shares designated for grant through the plan	—	—	—	—	—	1,350,000
Exercised	\$ 2.945 – \$ 8.611	\$ 4.701	(740,114)	—	—	—
Canceled	\$ 2.945 – \$ 14.833	\$ 7.509	(76,699)	—	—	76,699
Exercisable	\$ 2.945 – \$ 12.667	\$ —	—	—	(173,819)	—
Balance, Fiscal 1998	\$ 2.945 – \$ 19.833	\$ 6.187	2,313,788	\$ 4.767	1,140,451	1,715,779
Granted	\$ 17.875 – \$ 33.187	\$ 19.483	542,671	—	—	(542,671)
Exercised	\$ 2.945 – \$ 18.167	\$ 5.319	(895,580)	—	—	—
Canceled	\$ 3.528 – \$ 29.875	\$ 13.176	(53,426)	—	—	53,426
Exercisable	\$ 2.945 – \$ 19.833	\$ —	—	—	(199,643)	—
Balance, Fiscal 1999	\$ 2.945 – \$ 33.187	\$ 10.193	1,907,453	\$ 5.831	940,808	1,226,534
Granted	\$ 11.187 – \$ 25.000	\$ 15.169	789,000	—	—	(789,000)
Exercised	\$ 2.945 – \$ 20.000	\$ 7.204	(106,870)	—	—	—
Canceled	\$ 5.167 – \$ 32.209	\$ 16.812	(94,494)	—	—	94,494
Exercisable	\$ 2.945 – \$ 33.187	\$ —	—	—	300,027	—
Balance, Fiscal 2000	\$ 2.945 – \$ 33.187	\$ 11.639	2,495,089	\$ 7.344	1,240,835	532,028

Nonemployee Director Plan

	<u>exercise price per share</u>	<u>weighted average exercise price per share</u>	<u>outstanding</u>	<u>weighted average exercise price per share</u>	<u>exercisable</u>	<u>available for grant</u>
Balance, Fiscal 1997.....	\$ 3.333 – \$ 11.111	\$ 6.100	135,000	\$ 5.212	99,562	78,187
Granted	\$ 19.167	\$ 19.167	13,500	—	—	(13,500)
Exercised	\$ —	\$ —	—	—	—	—
Canceled	\$ —	\$ —	—	—	—	—
Exercisable	\$ 3.333 – \$ 11.111	\$ —	—	—	<u>20,250</u>	—
Balance, Fiscal 1998.....	\$ 3.333 – \$ 19.167	\$ 7.288	148,500	\$ 5.681	119,812	64,687
Granted	\$ 23.125	\$ 23.125	9,000	—	—	(9,000)
Exercised	\$ —	\$ —	—	—	—	—
Canceled	\$ —	\$ —	—	—	—	—
Exercisable	\$ 3.333 – \$ 19.167	\$ —	—	—	<u>16,874</u>	—
Balance, Fiscal 1999.....	\$ 3.333 – \$ 23.125	\$ 8.193	157,500	\$ 6.560	136,686	55,687
Granted	\$ 14.375 – \$ 19.625	\$ 17.000	10,000	—	—	(10,000)
Exercised	\$ 3.333	\$ 3.333	(22,500)	—	—	—
Canceled	\$ —	\$ —	—	—	—	—
Exercisable	\$ 3.333 – \$ 23.125	\$ —	—	—	(22,500)	—
Balance, Fiscal 2000.....	\$ 3.333 – \$ 23.125	\$ 9.554	<u>145,000</u>	\$ 7.195	<u>114,186</u>	<u>45,687</u>

Additional weighted average information for options outstanding and exercisable as of fiscal year end 2000:

	<u>range of exercise price</u>	<u>number of shares</u>	<u>options outstanding</u>		<u>options exercisable</u>	
			<u>weighted average exercise price per share</u>	<u>weighted average remaining contractual life</u>	<u>number of shares</u>	<u>weighted average exercise price per share</u>
Long-Term						
Incentive Plan:	\$ 2.945 – \$ 5.950	804,689	\$ 4.880	5.2 years	804,689	\$ 4.880
	\$ 5.960 – \$ 15.900	668,680	\$ 10.124	7.6 years	327,848	\$ 9.406
	\$ 15.910 – \$ 33.187	1,021,720	\$ 17.952	8.6 years	108,298	\$ 19.412
		<u>2,495,089</u>			<u>1,240,835</u>	\$ 7.344
Nonemployee						
Director Plan:	\$ 3.333 – \$ 5.950	51,750	\$ 4.464	4.0 years	51,750	\$ 4.464
	\$ 5.960 – \$ 15.900	65,750	\$ 8.964	5.7 years	55,686	\$ 8.283
	\$ 15.910 – \$ 23.125	27,500	\$ 20.546	8.6 years	6,750	\$ 19.167
		<u>145,000</u>			<u>114,186</u>	\$ 7.195





The Company applies Accounting Principles Board Opinion No.25 and related Interpretations in accounting for its stock option plans. No compensation cost has been recognized for the Company's stock option plans because the quoted market price of the Common Stock at the date of the grant was not in excess of the amount an employee must pay to acquire the Common Stock. SFAS No. 123, "Accounting for Stock-Based Compensation," issued by the Financial Accounting Standards Board in 1995, prescribes a method to record compensation cost for stock-based employee compensation plans at fair value. Pro forma disclosures as if the Company had adopted the cost recognition requirements under SFAS No.123 in fiscal years 2000, 1999 and 1998 are presented below.

Fiscal Year	<u>2000</u>	<u>1999</u>	<u>1998</u>
<i>IN THOUSANDS, EXCEPT PER SHARE DATA</i>			
Net income:			
As reported	\$ 55,883	\$ 51,826	\$ 32,161
Proforma	\$ 53,018	\$ 49,707	\$ 30,048
Basic earnings per share:			
As reported	\$ 1.76	\$ 1.63	\$ 1.04
Proforma	\$ 1.67	\$ 1.56	\$ 0.97
Diluted earnings per share:			
As reported	\$ 1.71	\$ 1.55	\$ 0.99
Proforma	\$ 1.62	\$ 1.49	\$ 0.92

12. Supplemental Cash Flow Information

The following is provided as supplemental information to the consolidated statements of cash flows:

Fiscal Year	<u>2000</u>	<u>1999</u>	<u>1998</u>
<i>IN THOUSANDS</i>			
Cash paid during the year for:			
Interest	\$ 62	\$ 402	\$ 82
Income taxes	\$ 35,106	\$ 27,532	\$ 18,388

13. Major Customer, Segment and Geographic Information

Customers of the Company consist principally of major department stores and specialty retailers located throughout the United States. The most significant customers, individually or considered as a group under common ownership, which accounted for over 10% of net sales for the periods presented, were as follows:

Fiscal Year	<u>2000</u>	<u>1999</u>	<u>1998</u>
Customer A	8%	9%	10%

The Company's majority owned facilities operate primarily in four geographic regions. The Company operates in two distinct distribution channels, wholesale and retail. In its wholesale operations it designs, develops, markets and distributes fashion watches and other accessories, to department stores, specialty shops, and independent retailers throughout the world. The Company's store operations consist of the Company's outlet and mall-based retail stores selling the Company's product directly to the consumer. Specific information related to the Company's reportable segments and geographic areas are contained in the following table. Intercompany sales of products between geographic areas are referred to as inter-geographic items.

Fiscal Year End 2000

IN THOUSANDS

	<u>Net Sales</u>	<u>Operating Income (Loss)</u>	<u>Long-lived Assets</u>	<u>Total Assets</u>
United States—exclusive of Stores:			\$ 28,269	\$ 138,796
External customers	\$301,767	\$ 55,811	—	—
Intergeographic	73,270	—	—	—
Stores	49,803	(7,215)	18,135	39,978
Europe:	99,439	6,442	5,132	21,138
Far East:			3,052	106,375
External customers	47,152	39,910	—	—
Intergeographic	189,651	—	—	—
Japan	6,124	(1,127)	172	1,304
Intergeographic items	(262,921)	—	—	—
Consolidated	<u>\$504,285</u>	<u>\$ 93,821</u>	<u>\$ 54,760</u>	<u>\$ 307,591</u>

Fiscal Year End 1999

United States—exclusive of Stores:			\$ 24,554	\$ 144,465
External customers	\$252,816	\$ 36,020	—	—
Intergeographic	34,700	—	—	—
Stores	37,797	4,361	8,294	24,818
Europe:			2,745	23,099
External customers	86,714	17,793	—	—
Intergeographic	500	—	—	—
Far East:			2,687	74,469
External customers	34,091	29,662	—	—
Intergeographic	140,800	—	—	—
Japan	7,516	(387)	277	2,513
Intergeographic items	(176,172)	—	—	—
Consolidated	<u>\$418,762</u>	<u>\$ 87,449</u>	<u>\$ 38,557</u>	<u>\$ 269,364</u>

Fiscal Year End 1998

United States—exclusive of Stores:			\$ 17,851	\$ 124,133
External customers	\$188,959	\$ 22,278	—	—
Intergeographic	25,000	—	—	—
Stores	26,117	2,658	5,359	14,941
Europe:	62,668	10,149	2,028	31,756
Far East:			2,361	18,245
External customers	19,192	21,032	—	—
Intergeographic	107,100	—	—	—
Japan	7,667	(747)	146	5,003
Intergeographic items	(131,960)	—	—	—
Consolidated	<u>\$304,743</u>	<u>\$ 55,370</u>	<u>\$ 27,745</u>	<u>\$ 194,078</u>



CORPORATE INFORMATION

EXECUTIVE OFFICERS AND DIRECTORS

Tom Kartsotis
Chairman of the Board

Randy S. Kercho
Executive Vice President

Kenneth W. Anderson
Director

Kosta N. Kartsotis
President,
Chief Executive Officer
and Director

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

Alan J. Gold
Director

Michael W. Barnes
President, International and
Special Markets Division
and Director

Mark D. Quick
President,
Fashion Accessories Division

Junichi Hattori
Director

Richard H. Gundy
President, FOSSIL Watches
and Stores Division
and Director

T. R. Tunnell
Executive Vice President,
Chief Legal Officer and Secretary

Michael Steinberg
Director

Jal S. Shroff
Managing Director –
Fossil East and Director

Donald J. Stone
Director

CORPORATE INFORMATION

Transfer Agent and Registrar
Chase Mellon Shareholder Services LLC
Overpeck Centre
85 Challenger Road
Ridgefield Park, NJ 07760

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

Corporate Counsel
Jenkins & Gilchrist
1445 Ross Avenue
Dallas, TX 75202

INTERNET WEBSITE

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

ANNUAL MEETING

The Annual Meeting of Stockholders will be held on Thursday, May 24, 2001, at 4:00 pm at the Company's headquarters, 2280 N. Greenville Ave., Richardson, Texas.

COMPANY INFORMATION

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





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PERFECT FIT!

*Ensure high quality leather sessions.
Let your FOSSIL leather goods will last and last!*

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*If you're looking for a durable, comfortable
pair of jeans, there look no further
than FOSSIL quality clothing!*



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