

MOVADO GROUP INC  
Form 10-Q  
November 25, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended October 31, 2014

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 1-16497

MOVADO GROUP, INC.

(Exact Name of Registrant as Specified in its Charter)

New York  
(State or Other Jurisdiction

of Incorporation or Organization)

13-2595932  
(IRS Employer

Identification No.)

650 From Road, Ste. 375

Paramus, New Jersey  
(Address of Principal Executive Offices)

07652-3556  
(Zip Code)

(201) 267-8000

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(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for that past 90 days. Yes  No

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

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

The number of shares outstanding of the registrant's Common Stock and Class A Common Stock as of November 19, 2014 were 18,536,397 and 6,642,184, respectively.

MOVADO GROUP, INC.

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October 31, 2014

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## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements

## MOVADO GROUP, INC.

## CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)

(Unaudited)

|   | October<br>31,<br>2014 | January<br>31,<br>2014 | October<br>31,<br>2013 |
|---|------------------------|------------------------|------------------------|
| <b>ASSETS</b>   |                        |                        |                        |
| Current assets:   |                        |                        |                        |
| Cash and cash equivalents   | \$ 157,937             | \$ 157,659             | \$ 163,146             |
| Short-term investments  | —                      | 33,099                 | —                      |
| Trade receivables   | 128,638                | 68,683                 | 120,043                |
| Inventories   | 182,663                | 181,305                | 178,714                |
| Other current assets  | 37,927                 | 44,564                 | 35,429                 |
| Total current assets  | 507,165                | 485,310                | 497,332                |
| Property, plant and equipment, net  | 45,340                 | 47,796                 | 46,512                 |
| Deferred income taxes   | 13,899                 | 14,891                 | 21,881                 |
| Other non-current assets  | 35,365                 | 30,613                 | 29,266                 |
| Total assets  | \$ 601,769             | \$ 578,610             | \$ 594,991             |
| <b>LIABILITIES AND EQUITY</b>   |                        |                        |                        |
| Current liabilities:  |                        |                        |                        |
| Accounts payable  | \$ 29,746              | \$ 33,598              | \$ 36,620              |
| Accrued liabilities   | 49,933                 | 43,573                 | 51,172                 |
| Deferred and current income taxes payable   | 12,713                 | 6,422                  | 15,272                 |
| Total current liabilities   | 92,392                 | 83,593                 | 103,064                |
| Deferred and non-current income taxes payable   | 3,578                  | 3,518                  | 3,930                  |
| Other non-current liabilities   | 28,989                 | 25,509                 | 25,329                 |
| Total liabilities   | 124,959                | 112,620                | 132,323                |
| Commitments and contingencies (Note 8)  |                        |                        |                        |
| Equity:   |                        |                        |                        |
| Preferred Stock, \$0.01 par value, 5,000,000 shares authorized; no shares issued  | —                      | —                      | —                      |
| Common Stock, \$0.01 par value, 100,000,000 shares authorized; 26,848,894,<br>26,643,108 and 26,639,590 shares issued, respectively | —                      | —                      | —                      |
| Class A Common Stock, \$0.01 par value, 30,000,000 shares authorized;<br>6,642,184,   | 268                    | 266                    | 266                    |
|   | 66                     | 66                     | 66                     |

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|  |           |           |           |
|--|-----------|-----------|-----------|
| 6,638,262 and 6,638,262 shares issued and outstanding, respectively              |           |           |           |
| Capital in excess of par value   | 173,233   | 165,342   | 163,907   |
| Retained earnings  | 350,468   | 316,334   | 311,174   |
| Accumulated other comprehensive income   | 86,882    | 103,702   | 103,974   |
| Treasury Stock, 8,295,597, 7,945,419 and 7,870,381 shares, respectively, at cost | (136,579) | (122,406) | (119,312) |
| Total Movado Group, Inc. shareholders' equity                                    | 474,338   | 463,304   | 460,075   |
| Noncontrolling interests   | 2,472     | 2,686     | 2,593     |
| Total equity   | 476,810   | 465,990   | 462,668   |
| Total liabilities and equity   | \$601,769 | \$578,610 | \$594,991 |
| See Notes to Consolidated Financial Statements                                   |           |           |           |

## MOVADO GROUP, INC.

## CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

(Unaudited)

|   | Three Months Ended<br>October 31, |           | Nine Months Ended<br>October 31, |           |
|---|-----------------------------------|-----------|----------------------------------|-----------|
|   | 2014                              | 2013      | 2014                             | 2013      |
| Net sales   | \$188,557                         | \$189,685 | \$453,069                        | \$437,996 |
| Cost of sales   | 88,715                            | 88,415    | 210,470                          | 201,989   |
| Gross profit  | 99,842                            | 101,270   | 242,599                          | 236,007   |
| Selling, general, and administrative                    | 66,509                            | 67,186    | 181,177                          | 174,878   |
| Operating income  | 33,333                            | 34,084    | 61,422                           | 61,129    |
| Other income (Note 12)                                  | -                                 | -         | -                                | 1,526     |
| Interest expense  | (78 )                             | (114 )    | (272 )                           | (294 )    |
| Interest income   | 51                                | 14        | 97                               | 53        |
| Income before income taxes                              | 33,306                            | 33,984    | 61,247                           | 62,414    |
| Provision for income taxes (Note 9)                     | 10,889                            | 10,570    | 19,231                           | 18,166    |
| Net income  | 22,417                            | 23,414    | 42,016                           | 44,248    |
| Less: Net income attributed to noncontrolling interests | 208                               | 395       | 291                              | 564       |
| Net income attributed to Movado Group, Inc.             | \$22,209                          | \$23,019  | \$41,725                         | \$43,684  |
| <b>Basic income per share:</b>                          |                                   |           |                                  |           |
| Weighted basic average shares outstanding               | 25,326                            | 25,495    | 25,345                           | 25,528    |
| Net income per share attributed to Movado Group, Inc.   | \$0.88                            | \$0.90    | \$1.65                           | \$1.71    |
| <b>Diluted income per share:</b>                        |                                   |           |                                  |           |
| Weighted diluted average shares outstanding             | 25,616                            | 25,842    | 25,661                           | 25,855    |
| Net income per share attributed to Movado Group, Inc.   | \$0.87                            | \$0.89    | \$1.63                           | \$1.69    |
| Dividends declared per share                            | \$0.10                            | \$0.08    | \$0.30                           | \$0.18    |

See Notes to Consolidated Financial Statements





MOVADO GROUP, INC.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

|   | Three Months<br>Ended October 31, |          | Nine Months Ended<br>October 31, |          |
|---|-----------------------------------|----------|----------------------------------|----------|
|   | 2014                              | 2013     | 2014                             | 2013     |
| Comprehensive income, net of taxes:                                 |                                   |          |                                  |          |
| Net income including noncontrolling interests                       | \$22,417                          | \$23,414 | \$42,016                         | \$44,248 |
| Net unrealized (loss) /gain on investments                          | (31)                              | 97       | 38                               | 210      |
| Gain on available-for-sale securities                               | -                                 | -        | (81)                             | -        |
| Foreign currency translation adjustments                            | (16,330)                          | 5,813    | (16,963)                         | 1,520    |
| Comprehensive income including noncontrolling interests             | 6,056                             | 29,324   | 25,010                           | 45,978   |
| Less: Comprehensive income attributable to noncontrolling interests | 40                                | 444      | 105                              | 591      |
| Total comprehensive income attributable to Movado Group, Inc.       | \$6,016                           | \$28,880 | \$24,905                         | \$45,387 |

See Notes to Consolidated Financial Statements

## MOVADO GROUP, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

|   | Nine Months Ended<br>October 31, |           |
|---|----------------------------------|-----------|
|   | 2014                             | 2013      |
| Cash flows from operating activities:   |                                  |           |
| Net income including noncontrolling interests                                     | \$42,016                         | \$44,248  |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                  |           |
| Depreciation and amortization   | 9,195                            | 8,693     |
| Transactional (gains) / losses  | (137 )                           | 309       |
| Write-down of inventories   | 1,923                            | 1,871     |
| Deferred income taxes   | (211 )                           | (872 )    |
| Stock-based compensation  | 4,135                            | 2,699     |
| Excess tax benefit from stock-based compensation                                  | (1,270 )                         | (583 )    |
| Gain on available-for-sale securities   | (131 )                           | -         |
| Gain on sale of an asset held for sale  | -                                | (1,526 )  |
| Changes in assets and liabilities:  |                                  |           |
| Trade receivables   | (61,355 )                        | (58,713 ) |
| Inventories   | (8,785 )                         | (12,787 ) |
| Other current assets  | 213                              | 3,316     |
| Accounts payable  | (3,136 )                         | 14,432    |
| Accrued liabilities   | 7,912                            | 1,581     |
| Income taxes payable  | 11,100                           | 15,563    |
| Other non-current assets  | (3,665 )                         | (4,360 )  |
| Other non-current liabilities   | 3,545                            | 2,745     |
| Net cash provided by operating activities   | 1,349                            | 16,616    |
| Cash flows from investing activities:   |                                  |           |
| Capital expenditures  | (7,485 )                         | (11,895 ) |
| Proceeds from short-term investment   | 33,736                           | -         |
| Proceeds from available-for-sale securities                                       | 307                              | -         |
| Trademarks  | (75 )                            | (225 )    |
| Long-term investment  | (1,200 )                         | -         |
| Proceeds from sale of an asset held for sale                                      | -                                | 2,196     |
| Net cash provided by / (used in) investing activities                             | 25,283                           | (9,924 )  |
| Cash flows from financing activities:   |                                  |           |
| Stock options exercised and other changes   | 291                              | (249 )    |
| Excess tax benefit from stock-based compensation                                  | 1,270                            | 583       |
| Dividends paid  | (7,591 )                         | (4,604 )  |
| Distribution of noncontrolling interest earnings                                  | (319 )                           | -         |
| Stock repurchase  | (13,150 )                        | (7,450 )  |
| Net cash (used in) financing activities   | (19,499 )                        | (11,720 ) |

|  |           |           |
|--|-----------|-----------|
| Effect of exchange rate changes on cash and cash equivalents | (6,855 )  | 285       |
| Net increase / (decrease) in cash and cash equivalents       | 278       | (4,743 )  |
| Cash and cash equivalents at beginning of period             | 157,659   | 167,889   |
| Cash and cash equivalents at end of period                   | \$157,937 | \$163,146 |

See Notes to Consolidated Financial Statements

## MOVADO GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## BASIS OF PRESENTATION

The accompanying interim unaudited consolidated financial statements have been prepared by Movado Group, Inc. (the “Company”) in a manner consistent with that used in the preparation of the annual audited consolidated financial statements included in the Company’s Annual Report on Form 10-K for the fiscal year ended January 31, 2014 (the “2014 Annual Report on Form 10-K”). In the opinion of management, the accompanying unaudited consolidated financial statements reflect all adjustments, consisting of only normal and recurring adjustments, necessary for a fair statement of the financial position and results of operations for the periods presented. The consolidated balance sheet data at January 31, 2014 is derived from the audited annual financial statements, which are included in the Company’s 2014 Annual Report on Form 10-K and should be read in connection with these interim unaudited financial statements. Operating results for the interim periods presented are not necessarily indicative of the results that may be expected for the full year.

## NOTE 1 – RECLASSIFICATIONS

Certain reclassifications were made to prior years’ financial statement amounts and related note disclosures to conform to the third quarter fiscal 2015 presentation. In the third quarter fiscal 2014 certain assets were reclassified from accounts receivable to inventory to conform to the third quarter fiscal 2015 presentation.

## NOTE 2 – FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Accounting guidance establishes a fair value hierarchy which prioritizes the inputs used in measuring fair value into three broad levels as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly.

Level 3 – Unobservable inputs based on the Company’s assumptions.

The following tables present the fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis (in thousands) as of October 31, 2014 and 2013 and January 31, 2014:

|                               | Balance Sheet Location   | Fair Value at October 31, 2014 |         |         |       |
|-------------------------------|--------------------------|--------------------------------|---------|---------|-------|
|                               |                          | Level 1                        | Level 2 | Level 3 | Total |
| <b>Assets:</b>                |                          |                                |         |         |       |
| Available-for-sale securities | Other current assets     | \$343                          | \$—     | \$—     | \$343 |
| Long-term investment          | Other non-current assets | —                              | —       | 1,216   | 1,216 |
| SERP assets - employer        | Other non-current assets | 1,713                          | —       | —       | 1,713 |

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|                             |                               |                 |                |                |                 |
|-----------------------------|-------------------------------|-----------------|----------------|----------------|-----------------|
| SERP assets - employee      | Other non-current assets      | 24,054          | —              | —              | 24,054          |
| Hedge derivatives           | Other current assets          | —               | 3              | —              | 3               |
| <b>Total</b>                |                               | <b>\$26,110</b> | <b>\$3</b>     | <b>\$1,216</b> | <b>\$27,329</b> |
| Liabilities:                |                               |                 |                |                |                 |
| SERP liabilities - employee | Other non-current liabilities | \$24,054        | \$—            | \$—            | \$24,054        |
| Hedge derivatives           | Accrued liabilities           | —               | 2,246          | —              | 2,246           |
| <b>Total</b>                |                               | <b>\$24,054</b> | <b>\$2,246</b> | <b>\$—</b>     | <b>\$26,300</b> |

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|                               | Balance Sheet Location        | Fair Value at January 31, 2014 |               |             |                 |
|-------------------------------|-------------------------------|--------------------------------|---------------|-------------|-----------------|
|                               |                               | Level 1                        | Level 2       | Level 3     | Total           |
| <b>Assets:</b>                |                               |                                |               |             |                 |
| Available-for-sale securities | Other current assets          | \$576                          | \$ —          | \$ —        | \$576           |
| Time deposits                 | Short-term investments        | 33,099                         |               |             | 33,099          |
| SERP assets - employer        | Other non-current assets      | 1,117                          | —             | —           | 1,117           |
| SERP assets - employee        | Other non-current assets      | 20,854                         | —             | —           | 20,854          |
| Hedge derivatives             | Other current assets          | —                              | 403           | —           | 403             |
| <b>Total</b>                  |                               | <b>\$55,646</b>                | <b>\$ 403</b> | <b>\$ —</b> | <b>\$56,049</b> |
| <b>Liabilities:</b>           |                               |                                |               |             |                 |
| SERP liabilities - employee   | Other non-current liabilities | \$20,854                       | \$ —          | \$ —        | \$20,854        |
| Hedge derivatives             | Accrued liabilities           | —                              | 173           | —           | 173             |
| <b>Total</b>                  |                               | <b>\$20,854</b>                | <b>\$ 173</b> | <b>\$ —</b> | <b>\$21,027</b> |

|                               | Balance Sheet Location        | Fair Value at October 31, 2013 |                 |             |                 |
|-------------------------------|-------------------------------|--------------------------------|-----------------|-------------|-----------------|
|                               |                               | Level 1                        | Level 2         | Level 3     | Total           |
| <b>Assets:</b>                |                               |                                |                 |             |                 |
| Available-for-sale securities | Other current assets          | \$496                          | \$—             | \$ —        | \$496           |
| SERP assets - employer        | Other non-current assets      | 1,329                          | —               | —           | 1,329           |
| SERP assets - employee        | Other non-current assets      | 19,999                         | —               | —           | 19,999          |
| Hedge derivatives             | Other current assets          | —                              | 1,391           | —           | 1,391           |
| <b>Total</b>                  |                               | <b>\$21,824</b>                | <b>\$ 1,391</b> | <b>\$ —</b> | <b>\$23,215</b> |
| <b>Liabilities:</b>           |                               |                                |                 |             |                 |
| SERP liabilities - employee   | Other non-current liabilities | \$19,999                       | \$—             | \$ —        | \$19,999        |
| Hedge derivatives             | Accrued liabilities           | —                              | 93              | —           | 93              |
| <b>Total</b>                  |                               | <b>\$19,999</b>                | <b>\$93</b>     | <b>\$ —</b> | <b>\$20,092</b> |

The fair values of the Company's available-for-sale securities are based on quoted prices. The fair value of the long-term investment is based on the purchase price plus eight percent calculated annually. Time deposits are classified as short-term investments and held to original maturity. The assets related to the Company's defined contribution supplemental executive retirement plan ("SERP") consist of both employer (employee unvested) and employee assets which are invested in investment funds with fair values calculated based on quoted market prices. The SERP liability represents the Company's liability to the employees in the plan for their vested balances. The hedge derivatives are entered into by the Company principally to reduce its exposure to the Swiss franc exchange rate risk. Fair values of the Company's hedge derivatives are calculated based on quoted foreign exchange rates, quoted interest rates and market volatility factors.

The following table presents a reconciliation of the assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the nine months ended October 31, 2014 and October 31, 2013. Level 3 consists of a long-term investment.

|                                   | October 31, 2014 | October 31, 2013 |
|-----------------------------------|------------------|------------------|
| Balance, beginning of fiscal year | \$ —             | \$ —             |
| Purchase of long-term investment  | 1,200            | —                |

|                        |          |      |
|------------------------|----------|------|
| Interest income        | 16       | —    |
| Balance, end of period | \$ 1,216 | \$ — |

## NOTE 3 – EQUITY

The components of equity for the nine months ended October 31, 2014 and 2013 are as follows (in thousands):

|   | Movado Group, Inc. Shareholders' Equity |        |            |            |             |               |                |            |
|---|---|--------|------------|------------|-------------|---------------|----------------|------------|
|   | Class                                   |        | Capital in |            |             | Accumulated   |                |            |
|   | Common                                  | Common | Excess of  | Retained   | Treasury    | Other         | Noncontrolling |            |
|   | Stock                                   | Stock  | Par        | Earnings   | Stock       | Comprehensive | Interests      | Total      |
|   | (1)                                     | (2)    | Value      |            |             | Income        |                |            |
| Balance, January 31, 2014   | \$ 266                                  | \$ 66  | \$ 165,342 | \$ 316,334 | \$(122,406) | \$ 103,702    | \$ 2,686       | \$ 465,990 |
| Net income  |   |        |            | 41,725     |             |               | 291            | 42,016     |
| Dividends   |   |        |            | (7,591 )   |             |               |                | (7,591 )   |
| Distribution of noncontrolling interest earnings                  |   |        |            |            |             |               | (319 )         | (319 )     |
| Stock repurchase  |   |        |            |            | (13,150 )   |               |                | (13,150 )  |
| Stock options exercised, net of tax benefit of \$1,270            | 2                                       |        | 2,967      |            | (1,408 )    |               |                | 1,561      |
| Supplemental executive retirement plan                            |   |        | 118        |            |             |               |                | 118        |
| Stock-based compensation expense                                  |   |        | 4,135      |            |             |               |                | 4,135      |
| Net unrealized gain on investments, net of tax of \$42            |   |        |            |            |             | 38            |                | 38         |
| Stock donation  |   |        | 671        |            | 385         |               |                | 1,056      |
| Gain on available-for-sale securities, net of tax benefit of \$50 |   |        |            |            |             | (81 )         |                | (81 )      |
| Foreign currency translation adjustment (3)                       |   |        |            |            |             | (16,777 )     | (186 )         | (16,963 )  |
| Balance, October 31, 2014   | \$ 268                                  | \$ 66  | \$ 173,233 | \$ 350,468 | \$(136,579) | \$ 86,882     | \$ 2,472       | \$ 476,810 |

|  | Movado Group, Inc. Shareholders' Equity |        |            |            |             |               |                |            |
|--|---|--------|------------|------------|-------------|---------------|----------------|------------|
|  | Class                                   |        | Capital in |            |             | Accumulated   |                |            |
|  | Common                                  | Common | Excess of  | Retained   | Treasury    | Other         | Noncontrolling |            |
|  | Stock                                   | Stock  | Par        | Earnings   | Stock       | Comprehensive | Interests      | Total      |
|  | (1)                                     | (2)    | Value      |            |             | Income        |                |            |
| Balance, January 31, 2013                            | \$ 264                                  | \$ 66  | \$ 159,696 | \$ 272,094 | \$(110,701) | \$ 102,271    | \$ 2,002       | \$ 425,692 |
| Net income   |   |        |            | 43,684     |             |               | 564            | 44,248     |
| Dividends  |   |        |            | (4,604 )   |             |               |                | (4,604 )   |
| Stock repurchase                                     |   |        |            |            | (7,450 )    |               |                | (7,450 )   |
| Stock options exercised, net of tax benefit of \$583 | 2                                       |        | 1,493      |            | (1,161 )    |               |                | 334        |
| Supplemental executive retirement plan               |   |        | 19         |            |             |               |                | 19         |
| Stock-based compensation expense                     |   |        | 2,699      |            |             |               |                | 2,699      |



|   |       |       |           |           |             |            |          |           |
|---|-------|-------|-----------|-----------|-------------|------------|----------|-----------|
| Net unrealized gain on investments, net of tax of \$0 |       |       |           |           |             | 210        |          | 210       |
| Foreign currency translation adjustment (3)           |       |       |           |           |             | 1,493      | 27       | 1,520     |
| Balance, October 31, 2013                             | \$266 | \$ 66 | \$163,907 | \$311,174 | \$(119,312) | \$ 103,974 | \$ 2,593 | \$462,668 |

(1) Each share of common stock is entitled to one vote per share.

(2) Each share of class A common stock is entitled to 10 votes per share on all matters submitted to a vote of the shareholders. Each holder of class A common stock is entitled to convert, at any time, any and all of such shares into the same number of shares of common stock. Each share of class A common stock is converted automatically into common stock in the event that the beneficial or record ownership of such shares of class A common stock is transferred to any person, except to certain family members or affiliated persons deemed “permitted transferees” pursuant to the Company’s Restated Certificate of Incorporation as amended. The class A common stock is not publicly traded and consequently, there is currently no established public trading market for these shares.

(3) The currency translation adjustment is not adjusted for income taxes to the extent that it relates to permanent investments of earnings in international subsidiaries.

## NOTE 4 – SEGMENT INFORMATION

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

The Company conducts its business in two operating segments: Wholesale and Retail. The Company's Wholesale segment includes the designing, manufacturing and distribution of quality luxury brand or licensed brand watches, in addition to revenue generated from after-sales service activities and shipping. The Retail segment includes the Company's outlet stores.

The Company divides its business into two major geographic locations: United States operations, and International, which includes the results of all other Company operations. The allocation of geographic revenue is based upon the location of the customer. The Company's International operations in Europe, the Americas (excluding the United States), the Middle East and Asia accounted for 18.4%, 10.1%, 7.6% and 7.1%, respectively, of the Company's total net sales for the three months ended October 31, 2014. For the three months ended October 31, 2013, the Company's International operations in Europe, the Americas (excluding the United States), the Middle East and Asia accounted for 19.5%, 9.6%, 7.2% and 7.2%, respectively, of the Company's total net sales.

The Company's International operations in Europe, the Americas (excluding the United States), the Middle East and Asia accounted for 18.1%, 10.8%, 8.3% and 8.2%, respectively, of the Company's total net sales for the nine months ended October 31, 2014. For the nine months ended October 31, 2013, the Company's International operations in Europe, the Americas (excluding the United States), the Middle East and Asia accounted for 19.4%, 10.6%, 8.0% and 7.8%, respectively, of the Company's total net sales. Substantially all of the Company's International assets are located in Switzerland and Asia.

Operating Segment Data for the Three Months Ended October 31, 2014 and 2013 (in thousands):

|                                   | Net Sales        |                  |
|-----------------------------------|------------------|------------------|
|                                   | 2014             | 2013             |
| <b>Wholesale:</b>                 |                  |                  |
| Luxury brand category             | \$73,983         | \$80,423         |
| Licensed brands category          | 94,223           | 91,020           |
| After-sales service and all other | 4,607            | 3,503            |
| <b>Total Wholesale</b>            | <b>172,813</b>   | <b>174,946</b>   |
| Retail                            | 15,744           | 14,739           |
| <b>Consolidated total</b>         | <b>\$188,557</b> | <b>\$189,685</b> |

|                           | Operating Income |                 |
|---------------------------|------------------|-----------------|
|                           | 2014             | 2013            |
| <b>Wholesale</b>          | <b>\$30,469</b>  | <b>\$31,056</b> |
| Retail                    | 2,864            | 3,028           |
| <b>Consolidated total</b> | <b>\$33,333</b>  | <b>\$34,084</b> |

Operating Segment Data for the Nine Months Ended October 31, 2014 and 2013 (in thousands):

|                                   | Net Sales |           |
|-----------------------------------|-----------|-----------|
|                                   | 2014      | 2013      |
| Wholesale:                        |           |           |
| Luxury brand category             | \$168,827 | \$176,333 |
| Licensed brands category          | 229,749   | 211,423   |
| After-sales service and all other | 11,764    | 10,921    |
| Total Wholesale                   | 410,340   | 398,677   |
| Retail                            | 42,729    | 39,319    |
| Consolidated total                | \$453,069 | \$437,996 |

|                    | Operating Income |          |
|--------------------|------------------|----------|
|                    | 2014             | 2013     |
| Wholesale          | \$53,653         | \$54,062 |
| Retail             | 7,769            | 7,067    |
| Consolidated total | \$61,422         | \$61,129 |

|                    | Total Assets |             |           |
|--------------------|--------------|-------------|-----------|
|                    | October      |             | October   |
|                    | 31,          | January 31, | 31,       |
|                    | 2014         | 2014        | 2013      |
| Wholesale          | \$578,359    | \$ 558,266  | \$574,047 |
| Retail             | 23,410       | 20,344      | 20,944    |
| Consolidated total | \$601,769    | \$ 578,610  | \$594,991 |

Geographic Location Data for the Three Months Ended October 31, 2014 and 2013 (in thousands):

|                    | Net Sales |           | Operating Income |          |
|--------------------|-----------|-----------|------------------|----------|
|                    | 2014      | 2013      | 2014             | 2013     |
| United States (1)  | \$107,024 | \$107,214 | \$11,297         | \$12,300 |
| International (2)  | 81,533    | 82,471    | 22,036           | 21,784   |
| Consolidated total | \$188,557 | \$189,685 | \$33,333         | \$34,084 |

United States and International net sales are net of intercompany sales of \$101.4 million and \$104.1 million for the three months ended October 31, 2014 and 2013, respectively.

Geographic Location Data for the Nine Months Ended October 31, 2014 and 2013 (in thousands):

|                    | Net Sales |           | Operating Income |          |
|--------------------|-----------|-----------|------------------|----------|
|                    | 2014      | 2013      | 2014             | 2013     |
| United States (1)  | \$247,432 | \$237,612 | \$15,708         | \$14,821 |
| International (2)  | 205,637   | 200,384   | 45,714           | 46,308   |
| Consolidated total | \$453,069 | \$437,996 | \$61,422         | \$61,129 |

United States and International net sales are net of intercompany sales of \$251.7 million and \$258.5 million for the nine months ended October 31, 2014 and 2013, respectively.

(1) The United States operating income includes unallocated corporate expenses for the three and nine months ended October 31, 2014 and 2013.

(2) The International operating income includes certain intercompany profits related to the Company's supply chain operations for the three and nine months ended October 31, 2014 and 2013.

|                    | Total Assets           |                     |                        |
|--------------------|------------------------|---------------------|------------------------|
|                    | October<br>31,<br>2014 | January 31,<br>2014 | October<br>31,<br>2013 |
| United States      | \$265,431              | \$ 239,890          | \$261,463              |
| International      | 336,338                | 338,720             | 333,528                |
| Consolidated total | \$601,769              | \$ 578,610          | \$594,991              |

|                    | Long-Lived Assets      |                     |                        |
|--------------------|------------------------|---------------------|------------------------|
|                    | October<br>31,<br>2014 | January 31,<br>2014 | October<br>31,<br>2013 |
| United States      | \$25,695               | \$ 25,943           | \$25,064               |
| International      | 19,645                 | 21,853              | 21,448                 |
| Consolidated total | \$45,340               | \$ 47,796           | \$46,512               |

## NOTE 5 – INVENTORIES

Inventories consisted of the following (in thousands):

|                 | October<br>31,<br>2014 | January 31,<br>2014 | October<br>31,<br>2013 |
|-----------------|------------------------|---------------------|------------------------|
| Finished goods  | \$126,742              | \$118,308           | \$113,419              |
| Component parts | 50,233                 | 55,138              | 56,665                 |
| Work-in-process | 5,688                  | 7,859               | 8,630                  |
|                 | \$182,663              | \$181,305           | \$178,714              |

## NOTE 6 – DEBT AND LINES OF CREDIT

On July 17, 2009, the Company, together with Movado Group Delaware Holdings Corporation, Movado Retail Group, Inc. and Movado LLC (together with the Company, the “Borrowers”), each a wholly-owned domestic subsidiary of the Company, entered into an Amended and Restated Loan and Security Agreement (the “Original Loan Agreement”) with Bank of America, N.A. and Bank Leumi USA, as lenders (“Lenders”), and Bank of America, N.A., as agent (in such capacity, the “Agent”). The parties have amended the Original Loan Agreement four times: on April 5, 2011, March 12, 2012, August 14, 2014 and September 30, 2014 (the Original Loan Agreement, as so amended, the “Loan Agreement”). The Loan Agreement provides for a \$25.0 million asset based senior secured revolving credit facility (the “Facility”), including a \$15.0 million letter of credit subfacility, and provides that Borrowers are entitled to request that Lenders increase the Facility up to \$50 million subject to any additional terms and conditions the parties may agree upon. The maturity date of the Facility is July 17, 2019.

Availability under the Facility is determined by reference to a borrowing base which is based on the sum of a percentage of eligible accounts receivable and eligible inventory of the Borrowers. \$10.0 million in availability is blocked unless the Borrowers have achieved for the most recently ended four fiscal quarter periods a consolidated fixed charge coverage ratio of at least 1.25 to 1.0 with domestic EBITDA greater than \$10.0 million. The availability block, if applicable, will be reduced by the amount by which the borrowing base exceeds \$25.0 million, up to a maximum reduction of \$5.0 million. Availability under the Facility may be further reduced by certain reserves established by the Agent in its good faith credit judgment. The Borrowers are not currently subject to the availability block. As of October 31, 2014, total availability under the Facility, giving effect to no outstanding borrowings and the \$4.1 million of letters of credit outstanding under the subfacility, was \$20.9 million.

The current applicable margin for LIBOR rate loans is 1.25% and for base rate loans is 0.25%. The applicable margins increase by 0.25% per annum from the current applicable margins if the consolidated fixed charge coverage ratio is greater than or equal to 1.50 to 1.00 and less than or equal to 2.00 to 1.00, and by 0.50% if the consolidated fixed charge coverage ratio is less than 1.50 to 1.00.

After the date (the “Block Release Date”) when availability under the Facility is no longer subject to any blocked amount, if borrowing availability is less than \$7.5 million, the Borrowers will be subject to a minimum fixed charge coverage ratio until such time as borrowing availability has been greater than \$7.5 million for at least 90 consecutive days.

After the Block Release Date, cash dominion will be imposed if borrowing availability is less than \$10.0 million and will continue until such time as borrowing availability has been greater than \$10.0 million for at least 45 consecutive days. As of October 31, 2014, the Borrowers were not subject to cash dominion nor do the Borrowers expect to be subject to such a requirement in the foreseeable future.

The Loan Agreement contains additional affirmative and negative covenants binding on the Borrowers and their subsidiaries that are customary for asset based facilities, including, but not limited to, restrictions and limitations on the incurrence of debt for borrowed money and liens, dispositions of assets, capital expenditures, dividends and other payments in respect of equity interests, the making of loans and equity investments, prepayments of subordinated and certain other debt, mergers, consolidations, liquidations and dissolutions, and transactions with affiliates. The Loan Agreement permits Borrowers to pay distributions as dividends and make share repurchases up to an aggregate of \$150.0 million (less the amount of any charitable donations made by the Company which are permitted up to an aggregate amount of \$14.0 million) and make acquisitions up to an aggregate of \$50.0 million, as long as, at the time of such transaction, either (A) Borrowers have cash assets of at least \$60.0 million with no revolver loans outstanding, or (B) (i) the consolidated fixed charge coverage ratio is at least 1.10 to 1.00, (ii) availability is greater than \$7.5 million and (iii) positive EBITDA plus repatriated cash dividends minus restricted payments are greater than \$0. As of October 31, 2014, the Company was in compliance with these financial covenants and, therefore, is permitted to pay dividends and to repurchase up to an aggregate of \$150.0 million of shares. The Company presently expects that it will be able to pay dividends declared and repurchase shares through the remaining term of the Facility.

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

A Swiss subsidiary of the Company maintains unsecured lines of credit with an unspecified length of time with a Swiss bank. As of October 31, 2014, these lines of credit totaled 5.0 million Swiss francs with a dollar equivalent of \$5.2 million. As of October 31, 2013, these lines of credit totaled 10.0 million Swiss francs with a dollar equivalent of \$11.0 million. As of October 31, 2014 and 2013, there were no borrowings against these lines. As of October 31, 2014, two European banks have guaranteed obligations to third parties on behalf of two of the Company's foreign subsidiaries in the dollar equivalent of \$1.3 million in various foreign currencies.

#### NOTE 7 – EARNINGS PER SHARE

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

The weighted-average number of shares outstanding for basic earnings per share was approximately 25,326,000 and 25,495,000 for the three months ended October 31, 2014 and 2013, respectively. For the three months ended October 31, 2014 and 2013, the number of shares outstanding for diluted earnings per share increased by approximately 290,000 and 347,000, respectively, due to potentially dilutive common stock equivalents issuable under the Company's stock compensation plans and SERP.

For the three months ended October 31, 2014 and 2013, approximately 141,000 and 348, respectively, of potentially dilutive common stock equivalents were excluded from the computation of dilutive earnings per share because their effect would have been antidilutive.

The weighted-average number of shares outstanding for basic earnings per share was approximately 25,345,000 and 25,528,000 for the nine months ended October 31, 2014 and 2013, respectively. For the nine months ended October 31, 2014 and 2013, the number of shares outstanding for diluted earnings per share increased by approximately 316,000 and 327,000, respectively, due to potentially dilutive common stock equivalents issuable under the Company's stock compensation plans and SERP.

For the nine months ended October 31, 2014 and 2013, approximately 89,000 and 79,000, respectively, of potentially dilutive common stock equivalents were excluded from the computation of dilutive earnings per share because their effect would have been antidilutive.

#### NOTE 8 – COMMITMENTS AND CONTINGENCIES

As of October 31, 2014, one bank in the domestic bank group had issued four irrevocable standby letters of credit in connection with a trademark license agreement, retail and operating facility leases to various landlords and for



Canadian payroll to the Royal Bank of Canada. As of October 31, 2014, the Company had outstanding letters of credit totaling \$4.1 million with expiration dates through April 30, 2016.

As of October 31, 2014, two European banks had guaranteed obligations to third parties on behalf of two of the Company's foreign subsidiaries in the dollar equivalent of \$1.3 million in various foreign currencies.

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

#### NOTE 9 – INCOME TAXES

The Company recorded a tax expense of \$10.9 million and \$10.6 million for the three months ended October 31, 2014 and 2013, respectively. The effective tax rate was 32.7% for the three months ended October 31, 2014 and 31.1% for the three months ended October 31, 2013.

The Company recorded a tax expense of \$19.2 million and \$18.2 million for the nine months ended October 31, 2014 and 2013, respectively. The effective tax rate was 31.4% for the nine months ended October 31, 2014 and 29.1% for the nine months ended October 31, 2013.

The increase in the effective tax rate for the three months ended October 31, 2014 compared to October 31, 2013 was primarily due to the negative impact on earnings in tax jurisdictions with higher effective tax rates. The increase in the effective tax rate for the nine months ended October 31, 2014 compared to October 31, 2013, was primarily due to the benefit related to the release of liabilities for uncertain tax positions as a result of favorable U.S. and foreign audit settlements occurring in the nine months ended October 31, 2013, and the negative impact on earnings in tax jurisdictions with higher effective tax rates. In addition, the effective tax rate for both the three and nine months ended October 31, 2014, was impacted by the application of guidelines related to accounting for income taxes in interim periods, which requires the exclusion of certain companies with pretax losses from the estimated annual effective tax rate.

The effective tax rates for the three and nine months ended October 31, 2014 and 2013 differ from the U.S. statutory tax rate primarily due to foreign profits being taxed in lower taxing jurisdictions partially offset by no tax benefit being realized on certain foreign net operating losses.

#### NOTE 10 – DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

As of October 31, 2014, the Company's entire net forward contracts hedging portfolio consisted of 48.0 million Swiss francs equivalent for various expiry dates ranging through May 12, 2015.



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The following table summarizes the fair value and presentation in the Consolidated Balance Sheets for derivatives (in thousands):

|  |                            | Asset Derivatives      |                        |                              | Liability Derivatives  |                        |                        |              |
|--|----------------------------|------------------------|------------------------|------------------------------|------------------------|------------------------|------------------------|--------------|
|  |                            | October<br>31,<br>2014 | January<br>31,<br>2014 | October<br>31,<br>2013       | October<br>31,<br>2014 | January<br>31,<br>2014 | October<br>31,<br>2013 |              |
| Balance<br>Sheet<br>Location                       | Fair<br>Value              | Fair<br>Value          | Fair<br>Value          | Balance<br>Sheet<br>Location | Fair<br>Value          | Fair<br>Value          | Fair<br>Value          |              |
| Derivatives not designated as hedging instruments: |                            |                        |                        |                              |                        |                        |                        |              |
| Foreign Exchange Contracts                         | Other<br>Current<br>Assets | \$ 3                   | \$403                  | \$ 1,391                     | Accrued<br>Liabilities | \$2,246                | \$173                  | \$ 93        |
| <b>Total Derivative Instruments</b>                |                            | <b>\$ 3</b>            | <b>\$403</b>           | <b>\$ 1,391</b>              |                        | <b>\$2,246</b>         | <b>\$173</b>           | <b>\$ 93</b> |

NOTE 11 - ACCUMULATED OTHER COMPREHENSIVE INCOME

The components of accumulated other comprehensive income consisted of the following (in thousands):

|  | Currency<br>Translation<br>Adjustments | Available-for-sale<br>securities | Net<br>Unrealized<br>Income<br>On<br>Hedging<br>Contracts | Accumulated<br>Other<br>Comprehensive<br>Income |
|--|--|----------------------------------|---|---|
| Balance, January 31, 2014  | \$ 103,438                             | \$ 263                           | \$ 1  | \$ 103,702                                      |
| Other comprehensive (loss) / income before reclassifications         | (16,777)                               | 38                               | —   | (16,739)  |
| Amounts reclassified from accumulated other comprehensive income (1) | —                                      | (81)                             | —   | (81)  |
| Net current-period other comprehensive (loss)                        | (16,777)                               | (43)                             | —   | (16,820)  |
| As of October 31, 2014   | \$ 86,661                              | \$ 220                           | \$ 1  | \$ 86,882                                       |

|  | Currency<br>Translation<br>Adjustments | Available-for-sale<br>securities | Accumulated<br>Other<br>Comprehensive<br>Income |
|--|--|----------------------------------|---|
| Balance, January 31, 2013  | \$ 102,220                             | \$ 51                            | \$ 102,271                                      |
| Other comprehensive income before reclassifications                  | 1,410                                  | 210                              | 1,620   |
| Amounts reclassified from accumulated other comprehensive income (1) | 83                                     | —                                | 83  |
| Net current-period other comprehensive income                        | 1,493                                  | 210                              | 1,703   |

|                        |            |        |            |
|------------------------|------------|--------|------------|
| As of October 31, 2013 | \$ 103,713 | \$ 261 | \$ 103,974 |
|------------------------|------------|--------|------------|

(1) Amounts reclassified to Selling, General and Administrative expenses. No amounts were reclassified during the third quarter.

#### NOTE 12 – OTHER INCOME

Other income for the nine months ended October 31, 2013 consisted of a \$1.5 million pre-tax gain on the sale of a building. The Company received cash proceeds from the sale of \$2.2 million in the first quarter of fiscal year 2014. Prior to the sale, the building had been classified as an asset held for sale in other current assets.

#### NOTE 13 – TREASURY STOCK

On March 21, 2013, the Board approved a share repurchase program under which the Company was authorized to purchase up to \$50.0 million of its outstanding common stock from time to time, depending on market conditions, share price and other factors. The Company may purchase shares of its common stock through open market purchases, repurchase plans, block trades or otherwise. On November 25, 2014, the Board increased the amount of the share repurchase authorization to \$100 million. This authorization expires on January 31, 2016. During the nine months ended October 31, 2014, the Company repurchased a total of 345,073 shares of common stock at a total cost of approximately \$13.2 million or an average cost of \$38.11 per share. During the nine months ended October 31, 2013, the Company repurchased a total of 198,733 shares of common stock at a total cost of approximately \$7.5 million or an average cost of \$37.49 per share, which included 12,000 shares repurchased from the Movado Group Foundation at a total cost of approximately \$0.4 million or \$34.43 average per share.

NOTE 14 – RECENT ACCOUNTING PRONOUNCEMENTS

In August 2014, FASB issued 2014-15, “Presentation of Financial Statements-Going Concern.” This pronouncement provides guidance on the Company’s responsibility to perform interim and annual assessments of an entity’s ability to continue as a going concern and to provide related disclosure requirements. This pronouncement applies to all entities and is effective for annual periods ending after December 15, 2016, and interim periods thereafter, with early adoption permitted. This pronouncement will not have a material impact on the Company’s consolidated financial statements.

In May 2014, FASB issued ASU 2014-09, “Revenue from Contracts with Customers.” This pronouncement affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets, unless those contracts are within the scope of other standards (for example, insurance contracts or lease contracts). The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This pronouncement provides alternative methods of retrospective adoption and is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. Early adoption is not permitted. The Company is evaluating the effect of adopting this pronouncement but does not expect adoption will have a material impact on the Company’s consolidated financial statements.

NOTE 15 – SUBSEQUENT EVENT

On November 25, 2014, the Board approved an increase in the share repurchase program, from the original authorized amount of \$50 million approved on March 21, 2013 to \$100 million. Under the program, the Company is authorized to purchase shares of its outstanding common stock from time to time, depending on market conditions, share price and other factors. The Company may purchase shares of its common stock through open market purchases, repurchase plans, block trades or otherwise. This authorization expires on January 31, 2016.

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

FORWARD-LOOKING STATEMENTS

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

These risks and uncertainties, along with the risk factors discussed under Item 1A "Risk Factors" in the Company's 2014 Annual Report on Form 10-K, should be considered in evaluating any forward-looking statements contained in this report or incorporated by reference herein. All forward-looking statements speak only as of the date of this report or, in the case of any document incorporated by reference, the date of that document. All subsequent written and oral forward-looking statements attributable to the Company or any person acting on its behalf are qualified by the cautionary statements in this section. The Company undertakes no obligation to update or publicly release any revisions to forward-looking statements to reflect events, circumstances or changes in expectations after the date of this report.

Critical Accounting Policies and Estimates

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

Critical accounting policies are those that are most important to the portrayal of the Company's financial condition and the results of operations and require management's most difficult, subjective and complex judgments as a result of the need to make estimates about the effect of matters that are inherently uncertain. The Company's most critical accounting policies have been discussed in the Company's 2014 Annual Report on Form 10-K.

As of October 31, 2014, there have been no material changes to any of the critical accounting policies as disclosed in the Company's 2014 Annual Report on Form 10-K.



## Recent Developments

On November 25, 2014, the Board approved an increase in the share repurchase program, from the original authorized amount of \$50 million approved on March 21, 2013 to \$100 million. Under the program, the Company is authorized to purchase shares of its outstanding common stock from time to time, depending on market conditions, share price and other factors. The Company may purchase shares of its common stock through open market purchases, repurchase plans, block trades or otherwise. This authorization expires on January 31, 2016.

Also, on November 25, 2014, the Board approved the payment of a cash dividend in the amount of \$0.10 for each share of the Company's outstanding common stock and class A common stock. The dividend will be paid on December 19, 2014 to all shareholders of record as of the close of business on December 5, 2014. The decision of whether to declare any future cash dividend, including the amount of any such dividend and the establishment of record and payment dates, will be determined, in each quarter, by the Board of Directors, in its sole discretion.

On November 14, 2014, the Company announced an updated outlook for its fiscal year 2015, due to certain factors involving slower growth in the overall watch category, as retailers focus on driving improved productivity and certain brands not performing as well as planned, including Movado in international markets.

On September 30, 2014, the Company amended its Amended and Restated Loan and Security Agreement, dated as of July 17, 2009, as previously amended, with Bank of America, N.A. and Bank Leumi USA to extend its maturity to 2019, to reflect more favorable current market rate conditions and to modify certain terms.

On August 26, 2014, the Board approved the payment of a cash dividend in the amount of \$0.10 for each share of the Company's outstanding common stock and class A common stock.

On May 22, 2014, the Board approved the payment of a cash dividend in the amount of \$0.10 for each share of the Company's outstanding common stock and class A common stock.

On March 28, 2014, the Company entered into an amended and restated license agreement (the "Amended License Agreement") with Lacoste S.A., Sporloisirs S.A. and Lacoste Alligator S.A. (together, "Licensor"). The Amended License Agreement amends and restates the original license agreement with the Licensor entered into on March 24, 2006 and extends its term from January 1, 2015 through December 31, 2022.

## Overview

The Company conducts its business primarily in two operating segments: Wholesale and Retail. The Company's Wholesale segment includes the designing, manufacturing and distribution of quality watches and revenue generated from after-sales service activities and shipping. The Retail segment includes the Company's outlet stores. The Company also operates in two major geographic locations: United States operations and International, the latter of which includes the results of all other Company operations.

Since April 30, 2014, the Company has divided its watch business into two principal categories: the luxury category and the licensed brands category. The luxury category consists of the Ebel®, Concord®, Movado® and ESQ® Movado brands. Previously, the Company classified the Movado and the ESQ Movado brands together as a separate category referred to as accessible luxury. Watches in the licensed brands category include the following brands manufactured and distributed under license agreements with the respective brand owners: Coach®, HUGO BOSS®, Juicy Couture®, Lacoste®, Tommy Hilfiger® and SCUDERIA FERRARI®. These changes to the Company's watch

brand categories did not change the Company's operating segments.

Gross margins vary among the brands included in the Company's portfolio and also among watch models within each brand. Watches in the luxury category generally earn higher gross margin percentages than watches in the licensed brand category. The difference in gross margin percentages for the licensed brand category is primarily the impact of royalty payments made on the licensed brands. Gross margins in the Company's outlet business are affected by the mix of product sold and may exceed those of the wholesale business since the Company earns margins on its outlet store sales from manufacture to point of sale to the consumer.

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Results of operations for the three months ended October 31, 2014 as compared to the three months ended October 31, 2013

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

|                   | Three Months Ended<br>October 31, |           |
|-------------------|-----------------------------------|-----------|
|                   | 2014                              | 2013      |
| <b>Wholesale:</b> |                                   |           |
| United States     | \$91,280                          | \$92,475  |
| International     | 81,533                            | 82,471    |
| Total Wholesale   | 172,813                           | 174,946   |
| Retail            | 15,744                            | 14,739    |
| Net Sales         | \$188,557                         | \$189,685 |

Comparative net sales by categories were as follows (in thousands):

|                                   | Three Months Ended<br>October 31, |           |
|-----------------------------------|-----------------------------------|-----------|
|                                   | 2014                              | 2013      |
| <b>Wholesale:</b>                 |                                   |           |
| Luxury brand category             | \$73,983                          | \$80,423  |
| Licensed brands category          | 94,223                            | 91,020    |
| After-sales service and all other | 4,607                             | 3,503     |
| Total Wholesale                   | 172,813                           | 174,946   |
| Retail                            | 15,744                            | 14,739    |
| Consolidated total                | \$188,557                         | \$189,685 |

Net sales for the three months ended October 31, 2014 were \$188.6 million, below the prior year period by \$1.1 million or 0.6%. For the period ended October 31, 2014, fluctuations in foreign currency exchange rates unfavorably impacted net sales by \$1.3 million when compared to the prior year period.

Net sales for the three months ended October 31, 2014 in the Wholesale segment were \$172.8 million, below the prior year period by \$2.1 million or 1.2%. The decrease in net sales was driven by a decrease in both the United States and International locations of the Wholesale segment.

Net sales for the three months ended October 31, 2014 in the United States location of the Wholesale segment were \$91.3 million, below the prior year period by \$1.2 million or 1.3%, primarily driven by sales decreases in both the licensed and luxury brands categories, partially offset by a sales increase in the after-sales service and all other category. The net sales decrease recorded in the luxury brand category was \$1.5 million, or 2.5%, and was primarily attributable to the Company not fully effectuating its ESQ/Movado conversion strategy which it commenced in the fourth quarter of fiscal 2014. Pursuant to that strategy, the Company reduced the presence of ESQ Movado in certain chain and department store retail doors while expanding the Movado brand offering in those same retail doors to drive incremental sales of its more productive Movado brand watch families. Although Movado brand sales increased while, at the same time, as expected, sales of ESQ Movado watches declined, there was less of an increase than expected in the level of Movado watch sales at wholesale due to retailers tightly managing their inventory. It is expected that this trend will continue in the fourth quarter. There were also sales decreases in the Ebel and Concord

luxury watch brands, primarily due to higher promotional sales in the prior year period. The sales increase in the Movado brand was primarily due to higher sales of the Movado BOLD and Museum watch collections, and the introduction of new products in the current year, all of which were supported by the Company's continued focus and investment in marketing and advertising. Also contributing to decreased sales in the United States location of the Wholesale segment were net sales in the licensed brands category which were below the prior year period by \$0.8 million, or 2.6%. These decreases in sales were partially offset by a sales increase of \$1.1 million attributable to the after-sales service and all other category, primarily due to sales from special events in the current year period.

Net sales for the three months ended October 31, 2014 in the International location of the Wholesale segment were \$81.5 million, below prior year by \$0.9 million or 1.1%. This decrease was primarily driven by a sales decrease in the luxury brand category, partially offset by a sales increase in the licensed brands category. The net sales decrease in the luxury category of \$4.9 million was primarily due to lower sales of Movado and other luxury brand watches except for Ebel. The decrease in Movado watch sales was primarily due to weaker than expected performance in certain markets, including Asia. Net sales in the licensed brands category were above the prior year period by \$4.0 million, or 6.8%, primarily due to higher sales of certain licensed brands, as a result of strong sell-through, geographic expansion and expansion in the Company's distribution channels. For the three months ended October 31, 2014, fluctuations in foreign currency exchange rates unfavorably impacted net sales by \$1.3 million when compared to the prior year period.

Net sales for the three months ended October 31, 2014 in the retail segment were \$15.7 million, representing a 6.8% increase from the prior year period sales of \$14.7 million. The increase in net sales was primarily attributable to new store openings. As of October 31, 2014, the Company operated 38 outlet stores, compared to 34 outlet stores at the end of the prior year period.

**Gross Profit.** Gross profit for the three months ended October 31, 2014 was \$99.8 million or 53.0% of net sales as compared to \$101.3 million or 53.4% of net sales in the prior year period. The decrease in gross profit of \$1.5 million was primarily due to lower net sales for the current year period. The gross margin percentage for the three months ended October 31, 2014 decreased by approximately 40 basis points primarily due to an unfavorable impact of fluctuations in foreign currency exchange rates of approximately 30 basis points and an unfavorable impact of approximately 30 basis points related to a shift in channel and product mix, partially offset by the positive impact of approximately 20 basis points resulting from certain lower fixed costs.

**Selling, General and Administrative (“SG&A”).** SG&A expenses for the three months ended October 31, 2014 were \$66.5 million, representing a decrease from the prior year period of \$0.7 million or 1.0%. The decrease in SG&A expenses was attributed to a decrease in performance-based compensation of \$5.5 million, resulting from the Company not meeting certain financial targets. The decreases in SG&A expenses was partially offset by higher compensation and benefit expense of \$2.0 million primarily in support of the Company’s brand building and growth initiatives; higher other selling expenses of \$1.0 million and higher marketing expenses of \$0.8 million, and an unfavorable effect of fluctuations in foreign currency exchange rates of \$0.6 million, which was the result of the translation of foreign subsidiary results and the result of the weaker average U.S. dollar when compared to the prior year period.

**Wholesale Operating Income.** Operating income of \$30.5 million and \$31.1 million, which includes unallocated corporate expenses as well as certain profits related to the Company’s supply chain operations, was recorded in the Wholesale segment for the three months ended October 31, 2014 and 2013, respectively. The \$0.6 million decrease in operating income was the net result of a decrease in gross profit of \$1.9 million and a decrease in SG&A expenses of \$1.3 million. The decrease in gross profit of \$1.9 million was primarily due to lower net sales and a lower gross margin percentage. The decrease in SG&A expenses was attributed to a decrease in performance-based compensation of \$5.5 million, resulting from the Company not meeting certain financial targets. The decreases in SG&A expenses were partially offset by higher compensation and benefit expense of \$1.7 million primarily in support of the Company’s brand building and growth initiatives. Also contributing to the fluctuation in SG&A expenses were higher other selling expenses of \$1.0 million and higher marketing expenses of \$0.8 million. Also contributing to the fluctuation in SG&A expenses was the unfavorable effect of fluctuations in foreign currency exchange rates of \$0.6 million, which was the result of the translation of foreign subsidiary results and the result of the weaker average U.S. dollar when compared to the prior year period.

**U.S. Wholesale Operating Income.** Operating income of \$8.5 million and \$9.3 million, which includes unallocated corporate expenses, was recorded in the United States location of the Wholesale segment for the three months ended October 31, 2014 and 2013, respectively. The decrease in operating income of \$0.8 million was the net result of lower gross profit of \$1.6 million and lower SG&A expenses of \$0.8 million. The decrease in gross profit of \$1.6 million was primarily due to a lower gross margin percentage and lower net sales. The decrease in SG&A expenses was attributed to lower compensation and benefit expense of \$3.2 million, resulting from a decrease in performance-based compensation, partially offset by higher headcount, salaries and stock award expenses. Also offsetting these decreases in SG&A expenses were higher marketing expenses of \$1.7 million and higher other selling expenses of \$0.5 million.

International Wholesale Operating Income. Operating income of \$22.0 million and \$21.8 million, which includes certain profits related to the Company's supply chain operations, was recorded in the International location of the Wholesale segment for the three months ended October 31, 2014 and 2013, respectively. The increase in operating income of \$0.2 million was primarily due to lower SG&A expenses of \$0.6 million, partially offset by a lower gross profit of \$0.4 million. The decrease in gross profit of \$0.4 million was primarily due to lower sales. The decrease in SG&A expenses included lower marketing expenses of \$0.9 million and lower compensation and benefit expenses of \$0.6 million, resulting from a decrease in performance-based compensation and salaries. These decreases in SG&A expenses were partially offset by the unfavorable effect of fluctuations in foreign currency exchange rates of \$0.6 million, which was the result of the translation of foreign subsidiary results and the result of the weaker average U.S. dollar when compared to the prior year period.

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**Retail Operating Income.** Operating income of \$2.8 million and \$3.0 million was recorded in the retail segment for the three months ended October 31, 2014 and 2013, respectively. The \$0.2 million decrease in operating income was the result of an increase in SG&A expenses of \$0.7 million, partially offset by an increase in gross profit of \$0.5 million. The increase in SG&A expenses of \$0.7 million was primarily due to higher compensation, benefit expenses and occupancy expenses related to the opening of new stores. The increase in gross profit of \$0.5 million was primarily attributable to higher sales, partially offset by a lower gross margin percentage.

**Income Taxes.** The Company recorded a tax expense of \$10.9 million and \$10.6 million for the three months ended October 31, 2014 and 2013, respectively. The effective tax rate was 32.7% for the three months ended October 31, 2014 and 31.1% for the three months ended October 31, 2013.

The increase in the effective tax rate for the three months ended October 31, 2014 compared to October 31, 2013 was primarily due to the negative impact on earnings in tax jurisdictions with higher effective tax rates. In addition, the effective tax rate for the three months ended October 31, 2014, was impacted by the application of guidelines related to accounting for income taxes in interim periods, which requires the exclusion of certain companies with pretax losses from the estimated annual effective tax rate.

The effective tax rates for the three months ended October 31, 2014 and 2013 differ from the U.S. statutory tax rate primarily due to foreign profits being taxed in lower taxing jurisdictions partially offset by no tax benefit being realized on certain foreign net operating losses.

**Net Income Attributed to Movado Group, Inc.** The Company recorded net income of \$22.2 million and \$23.0 million for the three months ended October 31, 2014 and 2013, respectively.

Results of operations for the nine months ended October 31, 2014 as compared to the nine months ended October 31, 2013

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

|                   | Nine Months Ended |           |
|-------------------|-------------------|-----------|
|                   | October 31,       |           |
|                   | 2014              | 2013      |
| <b>Wholesale:</b> |                   |           |
| United States     | \$204,703         | \$198,292 |
| International     | 205,637           | 200,385   |
| Total Wholesale   | 410,340           | 398,677   |
| Retail            | 42,729            | 39,319    |
| Net Sales         | \$453,069         | \$437,996 |

Comparative net sales by categories were as follows (in thousands):

|                                   | Nine Months Ended<br>October 31, |                   |
|-----------------------------------|----------------------------------|-------------------|
|                                   | 2014                             | 2013              |
| <b>Wholesale:</b>                 |                                  |                   |
| Luxury brand category             | \$ 168,827                       | \$ 176,333        |
| Licensed brands category          | 229,749                          | 211,423           |
| After-sales service and all other | 11,764                           | 10,921            |
| <b>Total Wholesale</b>            | <b>410,340</b>                   | <b>398,677</b>    |
| Retail                            | 42,729                           | 39,319            |
| <b>Consolidated total</b>         | <b>\$ 453,069</b>                | <b>\$ 437,996</b> |

Net sales for the nine months ended October 31, 2014 were \$453.1 million, above the prior year period by \$15.1 million or 3.4%. For the period ended October 31, 2014, fluctuations in foreign currency exchange rates favorably impacted net sales by \$1.9 million when compared to the prior year period.

Net sales for the nine months ended October 31, 2014 in the Wholesale segment were \$410.3 million, above the prior year period by \$11.7 million or 2.9%. The increase in net sales was driven by sales increases in both United States and International locations of the Wholesale segment.

Net sales for the nine months ended October 31, 2014 in the United States location of the Wholesale segment were \$204.7 million, above the prior year period by \$6.4 million or 3.2%, primarily driven by sales increases in the licensed brands category. Net sales in the licensed brands category were above the prior year period by \$4.9 million, or 7.5%, primarily due to higher sales of certain



licensed brands as a result of strong sell-through and expansion in the Company's distribution channels. Net sales in the luxury category were relatively flat compared to the prior year period, primarily resulting from sales increases in the Movado brand as a result of higher sales of the Movado BOLD and Museum watch collections and the introduction of new products in the current year, all of which were supported by the Company's continued focus and investment in marketing and advertising. The sales increases in the Movado brand were partially offset by a sales decrease in the ESQ Movado brand as a result of the Company's decision in the fourth quarter of fiscal 2014, to reduce the presence of ESQ Movado while expanding the Movado brand offering in certain retail doors and by a sales decrease in Ebel and Concord brand watches, primarily as a result of timing of new product launches.

Net sales for the nine months ended October 31, 2014 in the International location of the Wholesale segment were \$205.6 million, above the prior year by \$5.3 million or 2.6%, driven by a sales increase in the licensed brands category, partially offset by a sales decrease in the luxury brand category. Net sales in the licensed brands category were above the prior year period by \$13.4 million, or 9.2%, primarily due to higher sales of certain licensed brands as a result of geographic expansion as well as expansion in the Company's distribution channels. A net sales decrease was recorded in the luxury category of \$8.1 million, primarily due to lower sales of Movado and all other luxury brand watches. The decrease in Movado watch sales was primarily due to weaker than expected performance in certain markets, including Asia. The decrease in sales of all other luxury brands was primarily the result of the timing of new product launches in key markets. For the nine months ended October 31, 2014, fluctuations in foreign currency exchange rates favorably impacted net sales by \$1.9 million when compared to the prior year period.

Net sales for the nine months ended October 31, 2014 in the retail segment were \$42.7 million, representing an 8.7% increase from the prior year period sales of \$39.3 million. The increase in net sales was primarily attributable to new store openings.

**Gross Profit.** Gross profit for the nine months ended October 31, 2014 was \$242.6 million or 53.5% of net sales as compared to \$236.0 million or 53.9% of net sales in the prior year period. The increase in gross profit of \$6.6 million was primarily due to higher net sales for the current year period partially offset by a lower gross margin percentage. The gross margin percentage for the nine months ended October 31, 2014 decreased by approximately 40 basis points primarily due to an unfavorable impact of fluctuations in foreign currency exchange rates of approximately 40 basis points and an unfavorable impact of approximately 20 basis points related to a shift in channel and product mix, partially offset by the positive impact of approximately 20 basis points resulting from leverage gained on certain fixed costs primarily due to the increase in sales volume year-over-year.

**Selling, General and Administrative ("SG&A").** SG&A expenses for the nine months ended October 31, 2014 were \$181.2 million, representing an increase from the prior year period of \$6.3 million or 3.6%. The increase in SG&A expenses was attributed to higher compensation and benefit expense of \$6.1 million primarily in support of the Company's brand building and growth initiatives. Also contributing to the increase in SG&A expenses was the unfavorable effect of fluctuations in foreign currency exchange rates of \$1.8 million, which was the result of the translation of foreign subsidiary results and the result of the weaker average U.S. dollar when compared to the prior year period. Also contributing to the increase in SG&A expenses were higher other selling expenses of \$2.0 million, higher trade show expenses of \$0.8 million, primarily related to the Baselworld Watch and Jewelry Show, and higher marketing expenses of \$0.6 million. The increases in SG&A expenses were partially offset by a decrease in performance-based compensation of \$6.3 million, resulting from the Company not meeting certain financial targets.

**Wholesale Operating Income.** Operating income of \$53.6 million and \$54.0 million, which includes unallocated corporate expenses as well as certain profits related to the Company's supply chain operations, was recorded in the Wholesale segment for the nine months ended October 31, 2014 and 2013, respectively. The \$0.4 million decrease in

operating income was the net result of an increase in SG&A expenses of \$4.9 million, partially offset by an increase in gross profit of \$4.5 million. The increase in SG&A expenses was attributed to higher compensation and benefit expenses of \$5.5 million primarily in support of the Company's brand building and growth initiatives. Also contributing to the increase in SG&A expenses was the unfavorable effect of fluctuations in foreign currency exchange rates of \$1.8 million, which was the result of the translation of foreign subsidiary results and the result of the weaker average U.S. dollar when compared to the prior year period. Also contributing to the increase in SG&A expenses were higher other selling expenses of \$2.0 million, higher trade show expenses of \$0.8 million, primarily related to the Baselworld Watch and Jewelry Show, and higher marketing expenses of \$0.6 million. The increases in SG&A expenses were partially offset by a decrease in performance-based compensation of \$6.3 million, resulting from the Company not meeting certain financial targets. The increase in gross profit was primarily due to higher net sales partially offset by a lower gross margin percentage.

U.S. Wholesale Operating Income. Operating income of \$7.9 million and \$7.7 million, which includes unallocated corporate expenses, was recorded in the United States location of the Wholesale segment for the nine months ended October 31, 2014 and 2013, respectively. The increase in income of \$0.2 million was the net result of an increase in gross profit of \$0.1 million, and SG&A expenses being relatively flat compared to prior year period. The increase in gross profit of \$0.1 million was primarily due to higher net sales, partially offset by a lower gross margin percentage. SG&A expenses included lower compensation and benefit expense of \$1.9 million, resulting from a decrease in performance-based compensation, partially offset by higher headcount, salaries and stock award expenses. SG&A expenses included lower computer related expenses of \$0.5 million, offset by higher marketing expenses of \$1.5 million and higher other selling expenses of \$0.9 million.

**International Wholesale Operating Income.** Operating income of \$45.7 million and \$46.3 million, which includes certain profits related to the Company's supply chain operations, was recorded in the International location of the Wholesale segment for the nine months ended October 31, 2014 and 2013, respectively. The decrease in income of \$0.6 million was due to higher SG&A expenses of \$5.0 million, partially offset by the increase in gross profit of \$4.4 million, which was primarily attributable to higher sales and higher gross margin percentage. The increase in SG&A expenses of \$5.0 million included the unfavorable effect of fluctuations in foreign currency exchange rates of \$1.8 million, which was the result of the translation of foreign subsidiary results and the result of the weaker average U.S. dollar when compared to the prior year period. Also contributing to the increase in SG&A expenses were higher compensation and benefit expenses of \$1.1 million resulting primarily from higher headcount and salaries, higher trade show expenses of \$0.8 million, primarily related to the Baselworld Watch and Jewelry Show, higher other selling expenses of \$0.9 million and higher computer related expenses of \$0.4 million.

**Retail Operating Income.** Operating income of \$7.8 million and \$7.1 million was recorded in the retail segment for the nine months ended October 31, 2014 and 2013, respectively. The \$0.7 million increase in operating income was the result of an increase in gross profit of \$2.1 million, partially offset by an increase in SG&A expenses of \$1.4 million. The increase in gross profit of \$2.1 million was primarily attributable to higher sales. The increase in SG&A expenses of \$1.4 million was primarily due to higher compensation, benefit expenses and occupancy expenses related to the opening of new stores.

**Other Income.** Other income for the nine months ended October 31, 2013 consisted of a \$1.5 million pre-tax gain on the sale of a building. The Company received cash proceeds from the sale of \$2.2 million in the first quarter of fiscal year 2014. Prior to the sale, the building had been classified as an asset held for sale in other current assets.

**Income Taxes.** The Company recorded a tax expense of \$19.2 million and \$18.2 million for the nine months ended October 31, 2014 and 2013, respectively. The effective tax rate was 31.4% for the nine months ended October 31, 2014 and 29.1% for the nine months ended October 31, 2013.

The increase in the effective tax rate for the nine months ended October 31, 2014 compared to October 31, 2013, is primarily due to the benefit related to the release of liabilities for uncertain tax positions as a result of favorable U.S. and foreign audit settlements occurring in the nine months ended October 31, 2013, and the negative impact on earnings in tax jurisdictions with higher effective tax rates. In addition, the effective tax rate for nine months ended October 31, 2014, was impacted by the application of guidelines related to accounting for income taxes in interim periods, which requires the exclusion of certain companies with pretax losses from the estimated annual effective tax rate.

The effective tax rates for nine months ended October 31, 2014 and 2013 differ from the U.S. statutory tax rate primarily due to foreign profits being taxed in lower taxing jurisdictions partially offset by no tax benefit being realized on certain foreign net operating losses.

**Net Income Attributed to Movado Group, Inc.** The Company recorded net income of \$41.7 million and \$43.7 million for the nine months ended October 31, 2014 and 2013, respectively.

## LIQUIDITY AND CAPITAL RESOURCES

At October 31, 2014 and October 31, 2013, the Company had \$157.9 million and \$163.1 million of cash and cash equivalents, \$144.0 million and \$136.9 million of which consisted of cash and cash equivalents at the Company's foreign subsidiaries, respectively. The majority of the foreign cash balances are associated with earnings that the

Company has asserted are permanently reinvested, and which are required to support continued growth outside the United States through funding of capital expenditures, operating expenses and similar cash needs of the foreign operations. The Company has previously provided for taxes related to \$12.8 million of earnings that have not yet been repatriated.

Cash provided by operating activities was \$1.3 million and \$16.6 million for the nine months ended October 31, 2014 and 2013, respectively. The \$1.3 million of cash provided by operating activities for the nine months ended October 31, 2014, was primarily due to income for the period of \$42.0 million and favorable non-cash items of \$13.5 million, partially offset by the change in working capital of \$54.1 million. The change in working capital of \$54.1 million was primarily due to an increase in accounts receivable as a result of increased sales and an increase in inventory primarily related to an inventory build in anticipation of the holiday selling season in the second half of the current fiscal year, partially offset by an increase in income taxes payable. The \$16.6 million of cash provided by operating activities for the nine months ended October 31, 2013, was primarily due to net income for the period of \$44.2 million and favorable non-cash items of \$10.6 million, partially offset by the change in working capital of \$36.6 million. The change in working capital of \$36.6 million was primarily due to an increase in receivables primarily due to increased sales and an increase in inventory primarily related to an inventory build in anticipation of the holiday selling season in the second half of the fiscal year, partially offset by an increase in income taxes payable and an increase in accounts payable related to the build of inventory.

Cash provided by investing activities amounted to \$25.3 million and cash used in investing activities amounted to \$9.9 million for the nine months ended October 31, 2014 and 2013, respectively. The cash provided by investing for the nine months ended October 31, 2014, consisted of proceeds from the maturity of time-deposits of \$33.7 million, proceeds from available-for-sale securities of \$0.3 million, partially offset by capital expenditures of \$7.5 million, primarily related to the improvements of Baselworld Watch and Jewelry Show booths, construction of shop-in-shops at some of the Company's wholesale customers, spending on new store openings and spending on tooling and design and cash used on a long-term investment of \$1.2 million. The cash used in the nine months ended October 31, 2013, consisted of capital expenditures of \$11.9 million, primarily related to the construction of Baselworld Watch and Jewelry Show booths, office improvements, retail store renovations and construction of shop-in-shops at some of the Company's wholesale customers. These prior period expenditures were partially offset by proceeds of \$2.2 million received from the sale of a building held for sale.

Cash used in financing activities amounted to \$19.5 million and \$11.7 million for the nine months ended October 31, 2014 and 2013, respectively. Cash used in financing activities for both the nine months ended October 31, 2014 and 2013, was primarily to repurchase shares of the Company's common stock and to pay dividends, partially offset by the result of stock option exercises for the period.

On July 17, 2009, the Company, together with Movado Group Delaware Holdings Corporation, Movado Retail Group, Inc. and Movado LLC (together with the Company, the "Borrowers"), each a wholly-owned domestic subsidiary of the Company, entered into an Amended and Restated Loan and Security Agreement (the "Original Loan Agreement") with Bank of America, N.A. and Bank Leumi USA, as lenders ("Lenders"), and Bank of America, N.A., as agent (in such capacity, the "Agent"). The parties have amended the Original Loan Agreement four times: on April 5, 2011, March 12, 2012, August 14, 2014 and September 30, 2014 (the Original Loan Agreement, as so amended, the "Loan Agreement"). The Loan Agreement provides for a \$25.0 million asset based senior secured revolving credit facility (the "Facility"), including a \$15.0 million letter of credit subfacility, and provides that Borrowers are entitled to request that Lenders increase the Facility up to \$50 million subject to any additional terms and conditions the parties may agree upon. The maturity date of the Facility is July 17, 2019.

Availability under the Facility is determined by reference to a borrowing base which is based on the sum of a percentage of eligible accounts receivable and eligible inventory of the Borrowers. \$10.0 million in availability is blocked unless the Borrowers have achieved for the most recently ended four fiscal quarter periods a consolidated fixed charge coverage ratio of at least 1.25 to 1.0 with domestic EBITDA greater than \$10.0 million. The availability block, if applicable, will be reduced by the amount by which the borrowing base exceeds \$25.0 million, up to a maximum reduction of \$5.0 million. Availability under the Facility may be further reduced by certain reserves established by the Agent in its good faith credit judgment. The Borrowers are not currently subject to the availability block. As of October 31, 2014, total availability under the Facility, giving effect to no outstanding borrowings and the \$4.1 million of letters of credit outstanding under the subfacility, was \$20.9 million.

The current applicable margin for LIBOR rate loans is 1.25% and for base rate loans is 0.25%. The applicable margins increase by 0.25% per annum from the current applicable margins if the consolidated fixed charge coverage ratio is greater than or equal to 1.50 to 1.00 and less than or equal to 2.00 to 1.00, and by 0.50% if the consolidated fixed charge coverage ratio is less than 1.50 to 1.00.

After the date (the "Block Release Date") when availability under the Facility is no longer subject to any blocked amount, if borrowing availability is less than \$7.5 million, the Borrowers will be subject to a minimum fixed charge coverage ratio until such time as borrowing availability has been greater than \$7.5 million for at least 90 consecutive days.

After the Block Release Date, cash dominion will be imposed if borrowing availability is less than \$10.0 million and will continue until such time as borrowing availability has been greater than \$10.0 million for at least 45 consecutive days. As of October 31, 2014, the Borrowers were not subject to cash dominion nor do the Borrowers expect to be

subject to such a requirement in the foreseeable future.

The Loan Agreement contains additional affirmative and negative covenants binding on the Borrowers and their subsidiaries that are customary for asset based facilities, including, but not limited to, restrictions and limitations on the incurrence of debt for borrowed money and liens, dispositions of assets, capital expenditures, dividends and other payments in respect of equity interests, the making of loans and equity investments, prepayments of subordinated and certain other debt, mergers, consolidations, liquidations and dissolutions, and transactions with affiliates. The Loan Agreement permits Borrowers to pay distributions as dividends and make share repurchases up to an aggregate of \$150.0 million (less the amount of any charitable donations made by the Company which are permitted up to an aggregate amount of \$14.0 million) and make acquisitions up to an aggregate of \$50.0 million, as long as, at the time of such transaction, either (A) Borrowers have cash assets of at least \$60.0 million with no revolver loans outstanding, or (B) (i) the consolidated fixed charge coverage ratio is at least 1.10 to 1.00, (ii) availability is greater than \$7.5 million and (iii) positive EBITDA plus repatriated cash dividends minus restricted payments are greater than \$0. As of October 31, 2014, the Company was in compliance with these financial covenants and, therefore, is permitted to pay dividends and to repurchase up to an aggregate of \$150.0 million of shares. The Company presently expects that it will be able to pay dividends declared and repurchase shares through the remaining term of the Facility.

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

A Swiss subsidiary of the Company maintains unsecured lines of credit with an unspecified length of time with a Swiss bank. As of October 31, 2014, these lines of credit totaled 5.0 million Swiss francs with a dollar equivalent of \$5.2 million. As of October 31, 2013, these lines of credit totaled 10.0 million Swiss francs with a dollar equivalent of \$11.0 million. As of October 31, 2014 and 2013, there were no borrowings against these lines. As of October 31, 2014, two European banks have guaranteed obligations to third parties on behalf of two of the Company's foreign subsidiaries in the dollar equivalent of \$1.3 million in various foreign currencies.

The Company paid dividends of \$0.30 and \$0.18 per share or approximately \$7.6 million and \$4.6 million for the nine months ended October 31, 2014 and 2013, respectively.

On November 25, 2014, the Board approved the payment of a cash dividend in the amount of \$0.10 for each share of the Company's outstanding common stock and class A common stock. The dividend will be paid on December 19, 2014 to all shareholders of record as of the close of business on December 5, 2014. The decision of whether to declare any future cash dividend, including the amount of any such dividend and the establishment of record and payment dates, will be determined, in each quarter, by the Board of Directors, in its sole discretion.

On August 26, 2014, the Board approved the payment of a cash dividend in the amount of \$0.10 for each share of the Company's outstanding common stock and class A common stock.

On May 22, 2014, the Board approved the payment of a cash dividend in the amount of \$0.10 for each share of the Company's outstanding common stock and class A common stock.

On March 26, 2014, the Board approved an increase in the Company's quarterly cash dividend to \$0.10 for each share of the Company's outstanding common stock and class A common stock.

Cash at October 31, 2014 amounted to \$157.9 million compared to \$163.1 million at October 31, 2013. The decrease in cash is primarily the result of cash used in stock repurchase, the payment of dividends, capital expenditures and a long-term investment, partially offset by proceeds from the maturity of short-term investment, cash provided by operating activities and available-for-sale securities.

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

#### Off-Balance Sheet Arrangements

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

#### Recent Accounting Pronouncements

In August 2014, FASB issued 2014-15, "Presentation of Financial Statements-Going Concern." This pronouncement provides guidance on the Company's responsibility to perform interim and annual assessments of an entity's ability to continue as a going concern and to provide related disclosure requirements. This pronouncement applies to all entities and is effective for annual periods ending after December 15, 2016, and interim periods thereafter, with early adoption permitted. This pronouncement will not have a material impact on the Company's consolidated financial statements.

In May 2014, FASB issued ASU 2014-09, "Revenue from Contracts with Customers." The pronouncement affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets, unless those contracts are within the scope of other standards (for example, insurance contracts or lease contracts). The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The pronouncement provides alternative methods of retrospective adoption and is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. Early adoption is not permitted. The Company is evaluating the effect of adopting this pronouncement, but does not expect adoption will have a material impact on the Company's consolidated financial statements.



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

#### Foreign Currency Risk

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

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

As of October 31, 2014, the Company's entire net forward contracts hedging portfolio consisted of 48.0 million Swiss francs equivalent for various expiry dates ranging through May 12, 2015 compared to a portfolio of 51.0 million Swiss francs equivalent for various expiry dates ranging through April 23, 2014 as of October 31, 2013. If the Company were to settle its Swiss franc forward contracts at October 31, 2014, the net result would be a loss of \$1.4 million, net of tax benefit of \$0.8 million. The Company had no Swiss franc option contracts related to cash flow hedges as of October 31, 2014 and 2013, respectively.

The Board authorized the hedging of the Company's Swiss franc denominated investment in its wholly-owned Swiss subsidiaries using purchase options under certain limitations. These hedges are treated as net investment hedges under the relevant accounting guidance regarding derivative instruments. As of October 31, 2014 and 2013, the Company did not hold a purchased option hedge portfolio related to net investment hedging.

#### Commodity Risk

The Company considers its exposure to fluctuations in commodity prices to be primarily related to gold used in the manufacturing of the Company's watches. Under its hedging program, the Company can purchase various commodity derivative instruments, primarily future contracts. These derivatives are documented as qualified cash flow hedges, and gains and losses on these derivative instruments are first reflected in other comprehensive income, and later reclassified into earnings, partially offset by the effects of gold market price changes on the underlying actual gold purchases. The Company did not hold any future contracts in its gold hedge portfolio related to cash flow hedges as of October 31, 2014 and 2013, thus any changes in the gold price will have an equal effect on the Company's cost of sales.

#### Debt and Interest Rate Risk

The Company has the capability to have certain debt obligations with variable interest rates, which are based on LIBOR plus a fixed additional interest rate. The Company does not hedge these interest rate risks. As of October 31, 2014, the Company had no outstanding debt. For additional information concerning potential changes to future interest obligations, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources.”

#### Item 4. Controls and Procedures

##### Evaluation of Disclosure Controls and Procedures

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

The Company, under the supervision and with the participation of its management, including the Chief Executive Officer and the Chief Financial Officer, have evaluated the effectiveness of the Company’s disclosure controls and procedures, as such terms are

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

#### Changes in Internal Control Over Financial Reporting

There has been no change in the Company's internal control over financial reporting during the nine months ended October 31, 2014, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II – OTHER INFORMATION

### Item 1. Legal Proceedings

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

### Item 1A Risk Factors

As of October 31, 2014, there have been no material changes to any of the risk factors previously reported in the Company's 2014 Annual Report on Form 10-K.

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

On March 21, 2013, the Board approved a share repurchase program under which the Company was authorized to purchase up to \$50.0 million of its outstanding common stock from time to time, depending on market conditions, share price and other factors. The Company may purchase shares of its common stock through open market purchases, repurchase programs, block trades or otherwise. On November 25, 2014, the Board increased the amount of the share repurchase authorization to \$100 million. This authorization expires on January 31, 2016. During the three months ended October 31, 2014, the Company repurchased a total of 152,000 shares of its common stock in the open market at a total cost of approximately \$5.5 million or an average cost of \$35.96 per share.

There were no shares of common stock repurchased during the three months ended October 31, 2014 as a result of the surrender of shares in connection with the vesting of certain restricted stock awards. At the election of an employee, shares having an aggregate value on the vesting date equal to the employee's withholding tax obligation may be surrendered to the Company.

The following table summarizes information about the Company's purchases for the three months ended October 31, 2014 of equity securities that are registered by the Company pursuant to Section 12 of the Securities Exchange Act of 1934, as amended:

#### Issuer Repurchase of Equity Securities

| Period                                 | Total<br>Number of<br>Shares<br>Purchased | Average<br>Price Paid<br>Per Share | Total Number of   |   |
|--|---|------------------------------------|---|---|
|  |   |                                    | Shares<br>Purchased as<br>Part of Publicly<br>Announced<br>Plans or<br>Programs | Maximum<br>Amount<br>that May Yet Be<br>Purchased Under<br>the Plans or<br>Programs |
| August 1, 2014 – August 31, 2014       | 21,000                                    | \$ 42.14                           | 21,000  | \$ 30,943,826   |
| September 1, 2014 – September 30, 2014 | 61,000                                    | 36.24                              | 61,000  | 28,733,007  |
| October 1, 2014 – October 31, 2014     | 70,000                                    | 33.86                              | 70,000  | 26,362,691  |
| Total                                  | 152,000                                   | \$ 35.96                           | 152,000   | \$ 26,362,691   |

Item 6. Exhibits

31.1 Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101 The following financial information from Movado Group, Inc.'s Quarterly Report on Form 10-Q for the quarter ended October 31, 2014 filed with the SEC, formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Balance Sheets; (ii) the Consolidated Statements of Operations; (iii) the Consolidated Statements of Comprehensive Income; (iv) the Consolidated Statements of Cash Flows; and (v) the Notes to the Consolidated Financial Statements.

SIGNATURE

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

MOVADO GROUP, INC.  
(Registrant)

Dated: November 25, 2014 By: /s/ Sallie A. DeMarsilis  
Sallie A. DeMarsilis

Senior Vice President,

Chief Financial Officer and

Principal Accounting Officer