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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

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

For the Fiscal Year Ended January 1, 2005

OR

o **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 0-19848

FOSSIL, INC.

(Exact name of registrant as specified in its charter)

Delaware	**75-2018505**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2280 N. Greenville Avenue Richardson, Texas	**75082**
(Address of principal executive offices)	(Zip Code)

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

None

Securities registered pursuant to Section 12(b) of the Act: **None**

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, $.01 par value
(Title of Class)

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

The aggregate market value of Common Stock, $.01 par value per share (the "Common Stock"), held by nonaffiliates of the registrant, based on the sale trade price of the Common Stock as reported by the Nasdaq National Market on July 2, 2004 , was $1,302,115,654. For purposes of this computation, all officers, directors and 10% beneficial owners of the registrant are deemed to be affiliates. Such determination should not be deemed an admission that such officers, directors or 10% beneficial owners are, in fact, affiliates of the registrant. As of March 11, 2005, 71,144,739 shares of Common Stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's definitive proxy statement in connection with the Annual Meeting of Stockholders to be held May 25, 2005, to be filed with the Commission pursuant to Regulation 14A is incorporated by reference into Part III of this report.

FOSSIL, INC.

FORM 10-K

FOR THE FISCAL YEAR ENDED JANUARY 1, 2005

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None

Forward-Looking Information

The statements contained in this Annual Report on Form 10-K and incorporated by reference ("Annual Report") that are not historical facts, including, but not limited to, statements regarding our expected financial position, business and financing plans found in "Item 1. Business" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. The words "may," "believes," "expects," "plans," "intends," "anticipates" and similar expressions identify forward-looking statements. The actual results of the future events described in such forward-looking statements could differ materially from those stated in such forward-looking statements.

Among the factors that could cause actual results to differ materially are:

- the effect of worldwide economic conditions;
- lowered levels of consumer spending resulting from a general economic downturn or generally reduced shopping activity caused by public safety concerns;
- the performance of our products within the prevailing retail environment;
- customer acceptance of both new designs and newly-introduced product lines;
- financial difficulties encountered by customers;
- the effects of vigorous competition in the markets in which we operate;

- the integration of the organizations and operations of any acquired businesses into existing organization and operations;
- the termination or non-renewal of material licenses, foreign operations and manufacturing;
- changes in the costs of materials, labor and advertising; and
- our ability to secure and protect trademarks and other intellectual property rights.

In addition to the factors listed above, our actual results may differ materially due to the other risks and uncertainties discussed in this Annual Report and the risks and uncertainties set forth in our Current Report on Form 8-K dated September 14, 2004. Accordingly, readers of the Annual Report should consider these facts in evaluating the information and are cautioned not to place undue reliance on the forward-looking statements contained herein. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

PART I

Item 1. Business

General

We are a leader in the design, development, marketing and distribution of contemporary, high quality fashion watches and accessories. We developed the FOSSIL® brand name to convey a distinctive fashion, quality and value message and a brand image reminiscent of an earlier era that suggests a time of fun, fashion and humor. Since our inception in 1984, we have grown into a diversified company offering an extensive line of fashion watches sold under our proprietary and licensed brands. We also offer complementary lines of small leather goods, belts, handbags, sunglasses, jewelry and apparel. We leverage our centralized design/development and production/sourcing expertise by distributing these products through our global distribution network.

Domestically, we sell our products in retail locations in the United States through a diversified distribution network that includes department store doors and specialty retail locations. Our department store doors include stores such as Neiman Marcus, Saks Fifth Avenue, Bloomingdales, Nordstrom, Federated/Macy's, May Department Stores and Dillard's, as well as stores such as JCPenney, Kohls and Sears. In addition, we sell certain private label products through mass market stores such as Wal-Mart, Target and Kmart. The specialty retail locations sell a mix of our proprietary brands and licensed brands. We also sell our products in the United States through a network of 113 company-owned stores, with 54 retail stores located in premier retail sites and 59 outlet stores located in major outlet malls. We also offer selected FOSSIL and licensed brand products at our website, *www.fossil.com*.

Internationally, our products are sold to department stores and specialty retail stores in over 90 countries worldwide through 13 company-owned foreign sales subsidiaries and through a network of approximately 52 independent distributors. Our products are distributed in the Asia Pacific region, Europe, Central and South America, Canada, the Caribbean, Mexico, and the Middle East. Our products are offered on cruise ships and in 23 international company-owned retail stores, which includes 19 accessory retail stores in select international markets and four multi-brand watch stores in Switzerland. Additionally, our products are sold through independently-owned FOSSIL retail stores and kiosks in certain international markets.

In April 2004, we completed the acquisition of Tempus International Corp. Tempus, which does business as Michele

Watches, is based in Miami, Florida and manufactures, markets and distributes luxury watches under the MW® and MW MICHELE® brands. Michele Watches distributes its products primarily in the United States. Michele's MW brand, launched as a fine watch brand in the United States in the fall of 2000 with its CSX Diamond Collections, quickly became a leader in the luxury watch category at retailers including Neiman Marcus, Saks Fifth Avenue, Bloomingdales, Nordstrom and better independent retailers.

In April 2004, we entered into a worldwide license agreement with Michael Kors (USA), Inc. to design, develop and distribute a line of women's and men's timepieces under the MICHAEL Michael Kors® label. The timepieces debuted in Fall 2004. Additionally, in August 2004, we entered into a worldwide license agreement with Marc Jacobs International to develop and distribute women's and men's timepieces under the MARC JACOBS® and MARC® by Marc Jacobs labels. MARC JACOBS watches will debut in Fall 2005 in limited distribution and will be followed by a MARC by Marc Jacobs collection in 2006. In November 2004, we entered into a worldwide license agreement with adidas-Soloman AG to design, develop and distribute a line of women's, men's and children's sport timepieces under the adidas® label. Distribution of watches under the adidas label is scheduled to begin in the first quarter 2006.

We are a Delaware corporation formed in 1991 and are the successor to a Texas corporation formed in 1984. In 1993, we completed an initial public offering of 13,972,500 shares of our common stock, as

adjusted for our four three-for-two stock splits to date. Domestically, we conduct a majority of our operations through Fossil Partners, L.P., a Texas limited partnership formed in 1994 of which we are sole general partner. We also conduct operations domestically and in certain international markets through various directly and indirectly owned subsidiaries. Our operations in Hong Kong relating to the procurement of watches and jewelry from various manufacturing sources are conducted by Fossil (East) Ltd., a wholly owned subsidiary of ours acquired in 1992. Our principal executive offices are located at 2280 N. Greenville Avenue, Richardson, Texas 75082, and our telephone number at such address is (972) 234-2525. We make available free of charge through our website at *www.fossil.com* our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to these reports.

Our operating structure includes the following operating segments: Europe, Other International, Domestic Wholesale and Retail Worldwide. This structure is the basis for our internal financial reporting. Except to the extent that differences between operating segments are material to an understanding of our business taken as a whole, the description of our business in this report is presented on a consolidated basis. For financial information about our operating segments and geographic areas, refer to Management's Discussion and Analysis of Financial Condition and Results of Operations set forth in Part II, Item 7 of this report and Note 13 to our Consolidated Financial Statements set forth in Part II, Item 8 of this report, incorporated herein by reference.

Industry overview

Watch products

We believe that the current market for watches generally can be divided into four segments. One segment of the market consists of fine watches characterized by internationally known brand names such as Concord, Piaget, Rolex, Omega, Cartier and David Yurman. Watches offered in this segment are usually made of precious metals or stainless steel and may be set with precious gems. These watches are often manufactured in Switzerland and are sold by trade jewelers and in the fine jewelry departments of better department stores and other purveyors of luxury goods at retail prices ranging from $1,500 to in excess of $20,000. A portion of our MW line competes in this market. A second

segment of the market consists of fine premium branded and designer watches manufactured in Switzerland and the Far East such as Gucci, Rado, Raymond Weil, Seiko and Swiss Army. These watches are sold at retail prices generally ranging from $150 to $1,500. Our EMPORIO ARMANI®, BURBERRY®, MW, MW MICHELE and ZODIAC® lines generally compete in this market segment. A third segment of the market consists of watches sold by mass marketers, which include certain watches sold under the Timex brand name as well as certain watches sold by Armitron under various brand names and labels. Retail prices in this segment range from $5 to $40. We recently entered this segment for the manufacture of watch and/or accessory products for Wal-Mart, Target and Kmart.

The fourth segment of the market consists of moderately priced watches characterized by contemporary fashion and well known brand names. Moderately priced watches are typically manufactured in Japan, China or Hong Kong and are sold by department stores and specialty stores at retail prices ranging from $40 to $150. This market segment is targeted by us with our FOSSIL and RELIC® lines and by our principal competitors, including the companies that market watches under the Guess?, Anne Klein II, Kenneth Cole and Swatch brand names, whose products attempt to reflect emerging fashion trends in accessories and apparel. Our DKNY®, DIESEL and MICHAEL Michael Kors lines generally compete in this segment as well. We believe that consumers have increasingly come to regard branded fashion watches not only as time pieces but also as fashion accessories. This trend has resulted in consumers owning multiple watches that may differ significantly in terms of style, features and cost.

Fashion accessories

We believe that the fashion accessories market includes products such as small leather goods, handbags, belts, eyewear, neckwear, underwear, lounge wear, jewelry, gloves, hats, hosiery and socks. We believe that consumers are becoming more aware of accessories as fashion statements, and as a result, are purchasing brand name, quality items that complement other fashion items. These fashion accessory products are generally marketed through mass merchandisers, department stores and specialty shops, depending upon price and quality. Higher price point items include products offered by Coach and Dooney & Burke.

Moderately priced fashion accessories are typically marketed in department stores and are characterized by contemporary fashion and well known brand names at reasonable price points, such as FOSSIL and RELIC. We currently offer small leather goods, handbags, belts, and eyewear for both men and women through department stores and specialty retailers in the moderate to upper-moderate price range. Our competitors in this market include companies such as Tommy Hilfiger, Guess?, Nine West, Kenneth Cole and Liz Claiborne. In addition, we offer fashion jewelry sold under the FOSSIL and EMPORIO ARMANI brands.

Apparel

In 2000, we introduced a line of FOSSIL apparel that is distributed exclusively through company-owned retail stores and our website. Selling through company-owned stores allows us to effectively manage visual presentation, information feedback, inventory levels and operating returns. The apparel line is focused on the casual lifestyle of 18 to 24 year old consumers and consists primarily of jeans, tee shirts, and fashion apparel featuring FOSSIL brand packaging and labeling. The suggested retail selling price of the apparel line is comparable to that of major competitors like American Eagle Outfitters and Gap. We have leveraged our existing graphic and store design infrastructure to create a unique product packaging and store concept that differentiates it from other competitors in order to create higher perceived value for our products.

None

Business strategy

Our long-term goal is to capitalize on the strength of the growing consumer recognition of our proprietary brands and license well recognized brands in areas that complement our proprietary selection. Utilizing our collection of brands, our goal is to capture an increasing market share of worldwide watch and accessory sales by providing consumers with fashionable, high quality, value-driven products. In pursuit of this goal, we have adopted operating and growth strategies that provide the framework for our future growth, while maintaining the consistency and integrity of our brands.

Operating strategy

- *Fashion orientation and design innovation.* We are able to market our products to consumers with differing tastes and lifestyles by offering a wide range of brands and product categories at a variety of price points. We attempt to stay abreast of emerging fashion and lifestyle trends affecting accessories and apparel and we respond to these trends by making adjustments in our product lines several times each year. We differentiate our products from those of our competitors principally through innovations in fashion details, including variations in the treatment of dials, crystals, cases, straps and bracelets for our watches, and innovative treatments and details in our other accessories.

- *Coordinated product promotion.* We coordinate in-house product design, packaging, advertising and in-store presentations to more effectively and cohesively communicate to our target markets the themes and images associated with our brands. For example, many of our watch products and certain of our accessory products are packaged in metal tins decorated with designs consistent with our marketing strategy and product image. In addition, we generally market our fashion accessory

lines through the same distribution channels as our watch lines, using similar in-store presentations, graphics and packaging.

- *Product value.* Our products provide value to the consumer by offering fashionable, high quality components and features at suggested retail prices generally below those of competitive products of comparable quality based on our market research. We are able to offer certain of our watches and accessories at reasonable price points by utilizing our purchasing power and manufacturing quantities and efficiencies to achieve lower unit costs.

- *Captive suppliers.* The four watch factories that assemble the vast majority of our production volume within China and Hong Kong are either wholly-owned or majority-owned by us. In addition, although we do not have long-term contracts with our accessory manufacturers in the Far East, we maintain long-term relationships with several manufacturers. These relationships have developed due to the number of years that we have been conducting business with and visiting the same manufacturers and because of the small amount of turnover in the employees of our manufacturers. We believe that we are able to exert significant operational control with regard to our principal watch assemblers because of our level of ownership and we believe that the existence of our relationships with our accessory manufacturers creates a significant competitive advantage, specifically because manufacturers have limited production capacity and our level of ownership of certain watch factories and relationships with manufacturers ensure that we are granted access. Further, the manufacturers understand our quality standards, thereby allowing us to produce quality products, reduce the delivery time to market and improve overall operating margins.

- *Actively manage retail sales.* We manage the retail sales process by monitoring customer sales and inventory levels by product category and style, primarily through electronic data interchange, and by assisting retailers in the conception, development and implementation of their marketing programs. Through our merchandising unit, we work with retailers to ensure that our products are properly stocked and displayed in accordance with our visual standards. As a result, we believe we enjoy close relationships with our principal retailers, often allowing us to influence the mix, quantity and timing of customer purchasing decisions.

- *Centralized distribution.* We distribute substantially all of our products sold domestically and certain of our products sold in international markets from our warehouse and distribution center in Dallas, Texas. We also distribute our products to international markets from warehouse and distribution centers located in Australia, France, Germany, Hong Kong, Italy, Japan, Singapore, Switzerland and the United Kingdom. In September 2003, we opened a new 100,000 square foot distribution facility in Germany. This facility and access to adjacent land for additional growth will support our current distribution operations in Germany and allow us to consolidate our other European distribution facilities into this site. We believe our centralized distribution capabilities enable us to reduce inventory risk, increase flexibility in meeting the delivery requirements of our customers and maintain significant cost advantages as compared to our competitors.

Growth strategy

- *Introduce new products and brands.* We continually introduce new products within our existing brands and through license agreements, brand extensions, entry into new markets and acquisitions to attract a wide range of consumers with differing tastes and lifestyles. For example, we currently offer a full line of fashion watch and/or accessory products under our proprietary brands, including FOSSIL, MW, MW MICHELE and RELIC, as well as watches under our licensed brands, including EMPORIO ARMANI, BURBERRY, DIESEL, DKNY and MICHAEL MICHAEL KORS, pursuant to license agreements. We have also entered the market for Swiss watches with our BURBERRY, MW, MW MICHELE and ZODIAC lines and have entered the market for technology-enhanced watches pursuant to license agreements with PalmSource and Microsoft. In

addition, we recently entered the mass market segment for the manufacture of watch and/or accessory products for Wal-Mart, Target and Kmart.

- *Expand international business.* We have increased FOSSIL brand advertising internationally to accelerate brand recognition. We have also purchased former distributors to gain increased control over our offered brands and develop global marketing efforts. For example, in January 2005, we acquired our distributors in Taiwan and Sweden. We continue to introduce proprietary and licensed brand products into international markets, open FOSSIL stores and develop new product lines.

- *Leverage infrastructure.* We are building our design, marketing, manufacturing and distribution infrastructure to allow us to manage and grow our businesses. As we continue to develop additional products and brands and seek additional businesses and products to complement our existing product lines, we believe we will be able to leverage our infrastructure and continue to increase the efficiency of our operations.

- *Expand retail locations.* We have historically expanded our company-owned FOSSIL retail and outlet locations to further strengthen our brand image. We currently operate 136 retail and outlet stores worldwide and plan to open an additional 27 to 33 stores in 2005 dependent upon available retail locations and lease

terms that meet our requirements. We also offer our watch and accessory products through authorized FOSSIL retail stores in airports, on cruise ships and in certain international markets.

Products

We design, develop, market and distribute fashion watches and accessories, including sunglasses, small leather goods, belts, and handbags principally under the FOSSIL and RELIC brand names, FOSSIL brand apparel and jewelry, and watches and jewelry bearing the brand names of certain internationally known fashion companies pursuant to license agreements.

Watch products

We offer an extensive line of fashion watches under our proprietary brands and, pursuant to license agreements, under some of the most prestigious brands in the world. Sales of watches for fiscal years 2004, 2003 and 2002 accounted for approximately 69.5%, 70.2% and 69.3%, respectively, of our net sales.

Proprietary brands. The following table sets forth certain information with respect to our owned-brand watches:

Brand (s)	Suggested Price Point Range	Distribution Channels
FOSSIL	$55 - 165	Major domestic department stores (Dillard's, Federated/ Macy's, May Dept. Stores, Nordstrom and Saks Fifth Avenue), major European department stores (Karstadt and Harrod's), specialty retailers (PacSun and the Buckle), the Internet, and company-owned stores
RELIC	$45 - 85	Major domestic retailers (JCPenney, Kohls, Mervyn's and Sears)
MW & MW MICHELE	$500 - $5,000	Selective department stores (Neiman Marcus, Saks Fifth Avenue, Bloomingdales, Nordstrom), watch specialty stores and jewelry stores
ZODIAC	$150 - 450	Better department stores, watch specialty stores, and jewelry stores worldwide

Licensed brands. We have entered into multi-year, worldwide license agreements for the manufacture, distribution and sale of watches bearing the brand names of certain internationally known fashion companies. The following table sets forth specific information with respect to certain of our licensed watch products:

Brand (s)	Suggested Price Point Range	Distribution Channel(s)
EMPORIO ARMANI	$125 - 595	Major department stores, specialty retailers, jewelry stores and Emporio Armani boutiques worldwide

None

DKNY	$75 - 185	Better department stores, specialty retailers, and DKNY retail stores worldwide
DIESEL	$85 - 215	Better department stores, specialty retailers, and Diesel retail stores worldwide
BURBERRY	$275 - 1,000	Better department stores, specialty retailers, and Burberry retail stores worldwide
MICHAEL Michael Kors	$80 - 170	Major department stores and specialty retailers in the United States and Canada

In addition to the licensed products listed above, we have an agreement with adidas-Soloman AG to design, develop and distribute a line of women's, men's and children's sport timepieces under the adidas label and an agreement with Marc Jacobs International to design, develop and distribute a line of women's and men's timepieces under the MARC JACOBS and MARC by Marc Jacobs labels. Distribution of watches under the adidas label is scheduled to begin in the first quarter 2006, and distribution of watches under the MARC JACOBS and MARC by Marc Jacobs labels is scheduled to begin in Fall 2005 and in 2006, respectively. The continuation of our material license agreements is important to the growth of our watch business, especially in Europe and Asia. Our material license agreements have various expiration dates between 2007 and 2012. We have also entered into a number of license agreements for the sale of collectible watches. Under these agreements, we design, manufacture and market the goods bearing the trademarks, trade names and logos of various entities through our website and major department stores within our channels of distribution.

Mass market. In 2004, we entered the mass market segment. We design, market and arrange for the manufacture of watches and/or accessories for mass market retailers, such as Wal-Mart, Target and Kmart. The products are sold primarily under the mass market retailer's private label brands or as unbranded product. We contract for the manufacturing of the product, manage the manufacturing process, inspect the finished product and purchase the products. Under direct import arrangements, the product is consolidated into prepackaged lots, and we arrange for the pick up of the product by the mass market retailer directly from the factories in China. Under replenishment programs, we arrange for a third party distributor to ship the product domestically.

Private label and premium products. We design, market and arrange for the manufacture of watches and accessories on behalf of certain companies and organizations as private label products or as premium and incentive items for use in various corporate events. Under this arrangement, we perform design and product development functions as well as act as a sourcing agent for our customers by contracting for and managing the manufacturing process, purchasing and inspecting the finished product and arranging for their shipment. Participation in the private label and premium businesses provides us with certain advantages, including increased manufacturing volume, which may reduce the costs of manufacturing our other products, and the strengthening of business relationships with our manufacturing sources. These lines provide income to us with reduced inventory risks and certain other carrying costs.

Technology-enhanced products. Pursuant to a licensing agreement with Microsoft, under which no royalty

commitments are due, we incorporate Microsoft's SPOT technology into certain watches under our FOSSIL and ABACUS® brands. These watches receive customized information from Microsoft, such as news, weather and instant messages, via FM subcarrier transmissions. The delivery of certain information to the watch requires that the users pay a service fee to Microsoft. Receipt of the information is also subject to local FM reception. We also have a license with PalmSource, which obligates us to pay royalty commitments, to produce watches that incorporate the Palm OS® platform. In January 2005, we launched the Wrist PDA®, which allows consumers to have a full functioning Palm, with eight megabytes of memory, on their wrist.

Fashion accessories

In order to leverage our design and marketing expertise and our close relationships with our principal retail customers, primarily in the United States and Germany, we have developed a line of fashion accessories, including handbags, men's and women's belts, small leather goods, jewelry and sunglasses. Our handbags are made of a variety of fine leathers and other materials that emphasize classic styles and incorporate a variety of creative designs. The sunglass line features optical quality lenses in both plastic and metal frames, with classic and fashion styling similar to other FOSSIL products. Our small leather goods are typically made of fine leathers and include items such as mini-bags, coin purses, key chains and wallets. Our jewelry lines include earrings, necklaces, rings and bracelets marketed under the FOSSIL and EMPORIO ARMANI brands. FOSSIL brand jewelry generally is offered in sterling silver or stainless steel. EMPORIO ARMANI brand jewelry is generally made of sterling silver, semi-precious stones or 18K gold. We currently sell our fashion accessories through a number of our existing major department store and specialty retail store customers. We generally market our fashion accessory lines through the same distribution channels as our watch business, using similar in-store presentations, graphics and packaging. These fashion accessories are typically sold in locations adjacent to watch departments, which may lead to purchases by persons who are familiar with our watches. Sales of our accessory lines for fiscal years 2004, 2003 and 2002 accounted for approximately 26.7%, 26.5% and 27.0%, respectively, of our net sales.

The following table sets forth certain information with respect to our fashion accessories:

Brand	Accessory Category	Suggested Price Point Range	Distribution Channel
FOSSIL	Sunglasses Handbags Small Leather Goods Belts	$28 - 60 $88 - 168 $14 - 68 $22 - 38	Major domestic department stores (Dillard's, Federated/Macy's, May Dept. Stores, Nordstrom, and Saks Fifth Avenue), major German department stores (Karstadt), specialty retailers (PacSun and the Buckle), company-owned stores and the Internet
FOSSIL	Jewelry	$26 - 139	Company-owned stores, department and jewelry stores (in each case, primarily in Europe), and the Internet
EMPORIO ARMANI	Jewelry	$85 - 1,200	Major department stores, specialty retailers, jewelry stores and Emporio Armani boutiques (primarily in Europe)
RELIC	Sunglasses Handbags Small Leather Goods Belts	$20 - 25 $20 - 38 $10 - 26 $12 - 25	Major domestic retailers (JCPenney, Kohls and Sears)

Apparel

In July 2000, we introduced a collection of FOSSIL brand apparel. The apparel collection is designed for both men and women and includes outerwear, tops, bottoms and tee shirts. The products' unique retro-Americana packaging captures the energy and spirit of the FOSSIL brand. The FOSSIL apparel collection is offered through 22 company-owned stores located in leading malls and retail locations in the United States. The line is also available at our website.

Other products

Licensed eyewear. We are party to a license agreement with the Safilo Group for the manufacture, marketing and sale of optical frames under the FOSSIL brand in the United States and Canada, which provides us royalty income based on a percentage of net sales and is subject to certain guaranteed minimum royalties.

Future products. We continually evaluate opportunities to expand our product offerings in the future to include other lines that would complement our existing product.

Design and development

Our watch, accessory and apparel products are created and developed by our in-house design staff in cooperation with various outside sources, including manufacturing sources, licensors' design teams and component suppliers. Product design ideas are drawn from various sources and are reviewed and modified by the design staff to ensure consistency with our existing product offerings and the themes and images associated with our products. Senior management is actively involved in the design process.

In order to respond effectively to changing consumer preferences, we attempt to stay abreast of emerging lifestyle and fashion trends affecting accessories and apparel. In addition, we attempt to take advantage of the constant flow of information from our customers regarding the retail performance of their products. We review weekly sales reports provided by a substantial number of our customers containing information with respect to sales and inventories by product category and style. Once a trend in the retail performance of a product category or style has been identified, the design and marketing staffs review their product design decisions to ensure that key features of successful products are incorporated into future designs. Other factors having an influence on the design process include the availability of components, the capabilities of the factories that will manufacture the products and the anticipated retail prices and profit margins for the products.

We differentiate our products from those of our competitors principally by incorporating into our product designs innovations in fashion details, including variations in the treatment of dials, crystals, cases, straps and bracelets for our watches, and details and treatments in our other accessories. We also own or license proprietary technology for certain of our watch products, including our BIG TIC® and KALEIDO® styles. In certain instances, we believe that such innovations have allowed us to achieve significant improvements in consumer acceptance of our product offerings with only nominal increases in manufacturing costs. We believe that the substantial experience of our design staff will assist us in maintaining our current leadership position in watch design and in expanding the scope of our product offerings.

Marketing and promotion

We identify our advertising themes and coordinate our packaging, advertising and point of sale material around these themes. These themes are carefully coordinated in order to convey the flair for fun, fashion and humor that we

associate with our products. Our nostalgic tin packaging concept for many of our watch products and certain of our accessories is an example of these marketing themes. The tins have become a signature piece to our brand image and have become popular with collectors.

We participate in cooperative advertising programs with our major retail customers, whereby we share the cost of certain of their advertising and promotional expenses. An important aspect of the marketing process involves the use of in-store visual support and other merchandising materials, including packages, signs, posters and fixtures. Through the use of these materials, we attempt to differentiate the space used to sell our products from other areas of our customers' stores. We also promote the use of our Shop-in-Shop concept for watches, handbags and small leather goods. The Shop-in-Shop concept involves the use of dedicated space within a customer's store to create a brand "shop" featuring our products and visual displays. We also provide our customers with a large number of preprinted, customized advertising inserts and from time to time stage promotional events designed to focus public attention on our products.

Our in-house advertising department designs, develops and implements all aspects of the packaging, advertising, marketing and sales promotion of our products. The advertising staff uses computer-aided design techniques to generate the images presented on product packaging and other advertising materials. We believe that the use of computers encourages greater creativity and reduces the time and cost required to incorporate new themes and ideas into effective product packaging and other advertising materials. Senior management worldwide is involved in monitoring our advertising and promotional activities to ensure that themes and ideas are communicated in a cohesive manner to our target audience.

We advertise, market and promote our products to consumers through a variety of media, including catalog inserts, billboards, print media, television, cinema and the Internet. We also periodically advertise in trade publications such as *Women's Wear Daily* and *Daily News Record.*

Sales and customers

Domestically, we sell our products in retail locations through a diversified distribution network that includes department store doors and specialty retail locations. Our department store doors include stores such as Neiman Marcus, Saks Fifth Avenue, Bloomingdales, Nordstrom, Federated/Macy's, May Department Stores and Dillard's, as well as stores such as JCPenney, Kohls and Sears. In addition, we sell certain private label products through mass market stores such as Wal-Mart, Target and Kmart. The specialty retail locations sell a mix of our proprietary brands and licensed brands. We also sell certain of our watch and accessory products at company-owned FOSSIL retail stores and outlet stores located throughout the United States. In addition, we sell certain of our proprietary and licensed watch products, as well as upscale watch brands of other companies, such as Citizen and Swiss Army, at our new company-owned Modern Watch Co. stores. Our apparel products are sold through FOSSIL jeans wear stores and through our website. We also sell our products at retail locations in major airports in the United States, on cruise ships and in independently-owned, authorized FOSSIL retail stores and kiosks in certain international markets.

Our foreign operations include a presence in the Asia Pacific region, Canada, the Caribbean, Central and South America, Europe and the Middle East. Internationally, our products are sold to department stores and specialty retail stores in over 90 countries worldwide through 13 company-owned foreign sales subsidiaries and through a network of approximately 52 independent distributors. Foreign distributors generally purchase products at uniform prices established by us for all international sales and resell them to department stores and specialty retail stores. We generally receive payment from our foreign distributors in U.S. currency. We generally do not have long-term

contracts with any of our retail customers. All transactions between us and our retail customers are conducted on the basis of purchase orders, which generally require payment of amounts due to us on a net 30 day basis for most of our U.S. based customers and up to 120 days for certain international customers.

No customer accounted for more than 10% of our net sales in fiscal years 2004, 2003 and 2002. Certain of our customers are under common ownership. No customer, when considered as a group under common ownership, accounted for more than 10% of our net sales in fiscal years 2004, 2003 and 2002. In connection with the recent announcement of Federated Department Stores Inc's acquisition of

May Department Stores Co., on a pro forma basis, sales to this combined entity would approximate 11% of the Company's fiscal 2004 sales.

Domestic sales. For fiscal years 2004, 2003 and 2002, domestic stores accounted for approximately 41.2%, 43.1% and 49.3% of our net sales, respectively. In addition, in the same fiscal year periods, our 10 largest customers in the domestic channel represented approximately 22%, 20% and 25% of total net sales, respectively.

International sales. During the fiscal years 2004, 2003 and 2002, international and export sales accounted for approximately 45.2%, 43.6% and 38.1% of net sales, respectively.

Company-owned FOSSIL stores. In 1995, we commenced operations of FOSSIL outlet stores at selected major outlet malls throughout the United States. We currently operate 59 outlet stores. These stores, which operate under the FOSSIL name, enable us to liquidate excess inventory and increase brand awareness. Our products in such stores are generally sold at discounts from 25% to 75% off the suggested retail price. We intend to open 10 to 12 additional outlet stores in 2005.

In 1996, we commenced operations of full priced FOSSIL accessory retail stores in the United States in order to broaden the recognition of the FOSSIL brand name. In December 2004, we commenced operations of our first Modern Watch Co. retail store through which we sell certain of our proprietary and licensed brand watches, as well as watches manufactured by other companies. We currently operate 32 accessory retail stores in leading malls and retail locations throughout the United States, including two Modern Watch Co. stores, and 19 accessory retail stores in select international markets. The FOSSIL accessory retail stores carry a full assortment of FOSSIL merchandise that is generally sold at the suggested retail price. We intend to open six to eight additional FOSSIL accessory retail stores and one to three Modern Watch Co. stores in the United States in 2005. We also operate four multi-brand watch stores in Switzerland.

In 2000, we began offering FOSSIL brand apparel through specially designed company-owned apparel stores. We currently operate 22 FOSSIL jeans wear stores in leading malls and retail locations throughout the United States. Our apparel stores carry the full apparel line along with an assortment of certain FOSSIL watch and accessory products. We intend to open approximately 10 additional apparel stores in 2005.

During the fiscal years 2004, 2003 and 2002, company-owned FOSSIL store sales accounted for approximately 13.6%, 13.3% and 12.5% of net sales, respectively.

Internet sales. In November 1996, we established a website at *www.fossil.com*. We offer selected FOSSIL brand watches, certain licensed watch brands, sunglasses, leather goods, apparel, jewelry and other related products on the website. Since the establishment of our website, we believe our online sales have continued to grow through our additional marketing efforts. In addition to offering our product through our website, we also participate in broad online marketing of our products through "storefronts" that are connected to our website, such as America Online,

Microsoft Network, Amazon and Yahoo. We have also undertaken other new initiatives to inform customers of our products, such as through search term marketing, direct affiliate relationships and the use of affiliate aggregators, such as Commission Junction and Performics. In addition to offering selected FOSSIL and licensed brand products, we also provide company news and information on our website. During 2000, we launched a business-to-business site that allows our domestic specialty retail accounts access to real-time inventory, account information and automated order processing.

Sales personnel. We utilize an in-house sales staff and, to a lesser extent, independent sales representatives to promote the sale of our products to retail accounts. Our in-house sales personnel receive a salary and, in some cases, a commission based on a percentage of gross sales attributable to specified accounts. Independent sales representatives generally do not sell competing product lines and are under

contracts with us that are generally terminable by either party upon 30 days' prior notice. These independent contractors are compensated on a commission basis.

Customer service. We have developed an approach to managing the retail sales process that involves monitoring our customers' sales and inventories by product category and style, primarily through electronic data interchange, and assisting in the conception, development and implementation of their marketing programs. For example, we review weekly selling reports prepared by certain of our principal customers and have established an active electronic data interchange program with certain of our customers. We also place significant emphasis on the establishment of cooperative advertising programs with our major retail customers. We believe that our management of the retail sales process has resulted in close relationships with our principal customers, often allowing us to influence the mix, quantity and timing of their purchasing decisions.

We believe that our sales approach achieves high retail turnover in our products, which can result in attractive profit margins for our retail customers. We believe that the resulting profit margins for our retail customers encourage them to devote greater selling space to our products within their stores and enable us to work closely with buyers in determining the mix of products any store should carry. In addition, we believe that the buyers' familiarity with our sales approach has facilitated, and should continue to facilitate, the introduction of new products through our existing distribution network.

We permit the return of damaged or defective products. In addition, although we have no obligation to do so, we accept limited amounts of product returns from our customers in certain other instances. Accordingly, we provide allowances for the estimated amount of product returns. The allowances for product returns as of the end of fiscal years 2004, 2003 and 2002 were $29.8 million, $26.6 million and $24.8 million, respectively. Since 1990, we have not experienced any returns in excess of the aggregate allowances.

Backlog

It is the practice of a substantial number of our customers not to confirm orders by delivering a formal purchase order until a relatively short time prior to the shipment of goods. As a result, the amount of unfilled customer orders includes confirmed orders and orders that we believe will be confirmed by delivery of a formal purchase order. A majority of such amounts represent orders that have been confirmed. The remainder of such amounts represents orders that we believe, based on industry practice and prior experience, will be confirmed in the ordinary course of business. Our backlog at a particular time is affected by a number of factors, including seasonality and the scheduling of the manufacture and shipment of products. Accordingly, a comparison of backlog from period to period is not

necessarily meaningful and may not be indicative of eventual actual shipments. At the end of 2004, we had unfilled customer orders of approximately $116 million compared to $72 million and $44 million for fiscal years 2003 and 2002, respectively.

Manufacturing

Approximately 65% of the fashion watches we produce in the Far East are assembled in three factories located in China and one factory located in Hong Kong, which are either wholly-owned or majority-owned by us. The remaining 35% are manufactured by approximately 51 factories located primarily in Hong Kong and China. We believe substantial ownership of the assembly factories that produce a majority of our fashion watches is critical to our operating model as we believe this allows us to keep our designs proprietary, to control the size of our production runs and to vertically manage our supply chain. All of our accessory and apparel products are outsourced. We believe that our policy of outsourcing products allows us to achieve increased production flexibility while avoiding significant capital expenditures, build-ups of work-in-process inventory and the costs of managing a substantial production work force. Our Swiss-made watches are assembled primarily in three factories within Switzerland.

The principal components used in the manufacture of our watches are cases, crystals, dials, movements, bracelets and straps. These components are obtained by our manufacturing sources from a large number of suppliers located principally in China, Hong Kong, Italy, Japan, Korea, Switzerland, Taiwan and Thailand. We estimate that the majority of the movements used in the manufacture of our watches are supplied by four principal vendors. No other single component supplier accounted for more than 10% of component supplies in 2004. We do not believe that our business is materially dependent on any single component supplier.

We believe that we have established and maintain close relationships with a number of watch manufacturers located in Hong Kong, China and Switzerland. In 2004, four separate watch manufacturers that are either wholly-owned or majority-owned by us each accounted for 10% or more of our watch supplies. The loss of any one of these manufacturers could temporarily disrupt shipments of certain of our watches. However, as a result of the number of manufacturers from which we purchase our watches, we believe that we could arrange for the shipment of goods from alternative sources within approximately 60 days on terms that are not materially different from those currently available to us. Accordingly, we do not believe that the loss of any single manufacturer would have a material adverse effect on our business. In general, however, our future success will depend upon our ability to maintain close relationships with, or ownership of, our current suppliers and to develop long-term relationships with other suppliers that satisfy our requirements for price and production flexibility.

Our products are manufactured according to plans that reflect management’s estimates of product performance based on recent sales results, current economic conditions and prior experience with manufacturing sources. The average lead time from the commitment to purchase products through the production and shipment thereof ranges from two to four months in the case of watches, leather goods, jewelry and apparel, and from two to six months in the case of eyewear. We believe that the close relationships and, in certain cases, ownership interest, that we have established and maintain with our principal manufacturing sources constitute a significant competitive advantage and allow us to quickly and efficiently introduce innovative product designs and alter production in response to the retail performance of our products.

Quality control

Our quality control program attempts to ensure that our products meet the standards established by our design staff.

Samples of products are inspected by us prior to the placement of orders with manufacturing sources to ensure compliance with our specifications. The operations of our manufacturing sources located in Hong Kong and China are monitored on a periodic basis by Fossil (East) Ltd., and the operations of our manufacturing sources located in Switzerland are monitored on a periodic basis by Montres Antima SA, one of our foreign operating subsidiaries. Substantially all of our watches and certain of our other accessories are inspected by personnel of Fossil (East) Ltd. or by the manufacturer prior to shipment to us. In addition, we perform quality control checks on our products upon receipt at our facility.

Distribution

Upon completion of manufacturing, our products are shipped to our warehousing and distribution centers in Dallas, Texas and Miami, Florida, and to our international warehousing and distribution centers in Australia, France, Germany, Hong Kong, Italy, Japan, Singapore, Switzerland and the United Kingdom, from which they are shipped to customers in selected markets. Our approximately 500,000 square foot warehouse and distribution facility in Dallas, Texas, near our headquarters, allows us to maximize our inventory management and distribution capabilities. In 2003, we began distribution from a new 100,000 square foot facility in Germany. This facility supports our current distribution operations in Germany, and with access to additional land we believe that this site will allow us to consolidate our European distribution facilities and support future sales growth throughout Europe.

Our warehouse and distribution facility in Dallas, Texas, is operated in a special purpose subzone established by the U.S. Department of Commerce Foreign Trade Zone Board. As a result of the establishment of the subzone, the following economic and operational advantages are available to us: (i) we may not have to pay duty on imported merchandise until it leaves the subzone and enters the U.S. market, (ii) we may not have to pay any U.S. duty on merchandise if the imported merchandise is subsequently re-exported, and (iii) we do not have to pay local property tax on inventory located within the subzone.

Management information systems

Inventory control. We maintain inventory control systems at our facilities that enable us to track each item of merchandise from receipt from our manufacturing sources, through shipment to our customers. To facilitate this tracking, a significant number of products sold by us are pre-ticketed and bar coded prior to shipment to our retail customers. Our inventory control systems report shipping, sales and individual stock keeping unit level inventory information. We manage the retail sales process by monitoring customer sales and inventory levels by product category and style, primarily through electronic data interchange. We believe that our distribution capabilities enable us to reduce inventory risk and increase flexibility in responding to the delivery requirements of our customers. Our management believes that our electronic data interchange efforts will continue to grow in the future as customers focus further on increasing operating efficiencies. In addition, we maintain systems that are designed to track inventory movement through the FOSSIL retail and outlet stores. Detailed sales transaction records are accumulated on each store’s point-of-sale system and polled nightly by us.

Enterprise resource planning. Over the next few years we intend to implement an enterprise resource planning system from SAP AG in North America and Europe principally replacing our principal financial, sales and distribution, inventory planning, merchandising, human resources and reporting systems. The financial, sales and distribution, inventory planning and reporting system implementations were principally completed in North America and Germany during 2003 and 2004, respectively.

None

Warranty and repair

Our FOSSIL watch products sold in the United States are covered by a limited warranty against defects in materials or workmanship for a period of 11 years from the date of purchase; RELIC watch products are covered by a comparable 12 year warranty; EMPORIO ARMANI, BURBERRY, MW, MW MICHELE and ZODIAC watches are covered by a two year limited warranty, and our other licensed watch products generally are covered by a one year limited warranty. Generally, our watch products sold in Canada, Europe and Asia are covered by a two year limited warranty. Defective products returned by consumers are processed at our warehousing and distribution centers or by distributors. In most cases, defective products under warranty are repaired by our personnel. Products under warranty that cannot be repaired in a cost-effective manner are replaced by us at no cost to the customer. We also perform watch repair services on behalf of certain of our private label customers.

Governmental regulations

Imports and import restrictions. Most of our products are manufactured overseas. As a result, the United States and the countries in which our products are manufactured or sold may from time to time modify existing or impose new quotas, duties, tariffs or other restrictions in a manner that adversely affects us. For example, our products imported to the United States are subject to U.S. customs duties and, in the ordinary course of its business, we may from time to time be subject to claims by the U.S. Customs Service for duties and other charges. Factors that may influence the modification or imposition of these restrictions include the determination by the U.S. Trade Representative that a country has denied adequate intellectual property rights or fair and equitable market access to U.S. firms that rely on

intellectual property, trade disputes between the United States and a country that leads to withdrawal of “most favored nation” status for that country and economic and political changes within a country that are viewed unfavorably by the U.S. government. We cannot predict the effect, if any, these events would have on our operations, especially in light of the concentration of our manufacturing operations in Hong Kong and China.

General. Our sunglass products are subject to regulation by the U.S. Food and Drug Administration as medical devices, and certain of our dials and watch straps are subject to regulation by the U.S. Fish and Wildlife Service. We do not believe that compliance with such regulations is material to our operations. In addition, we are subject to various state and federal regulations generally applicable to similar businesses.

Intellectual property

Trademarks. We have registered the FOSSIL and RELIC trademarks for use on our watches, leather goods, apparel and other fashion accessories in the United States and in certain foreign countries, including a number of countries located in Central America, Europe, the Far East, the Middle East and South America. We have also registered or applied for registration in the United States and internationally certain other marks used by us in conjunction with the sale and marketing of our products and services, including MW, MW MICHELE and ZODIAC. Depending upon the jurisdiction, trademarks are valid as long as they are in use and/or their registrations are properly maintained and they have not been found to have become generic. Registrations of trademarks can generally be renewed indefinitely as long as the trademarks are in use. The expiration dates of the U.S. trademark registrations for our material registered trademarks are as follows, with our other registered foreign and domestic trademarks expiring at various dates through 2014. In general, we believe we will be able to renew all of our material trademarks, subject to our continuous use of the trademarks.

None

Trademark	Expiration Dates
FOSSIL (eyewear)	2006
FOSSIL (watches)	2007
FOSSIL (jewelry)	2012
FOSSIL (leather goods)	2010
FOSSIL (clothing)	2009-2013
FOSSIL (belts)	2011
FOSSIL (retail stores)	2008
FOSSIL logo	2008

Patents. We continue to explore innovations in the design and manufacture of our watch products and are involved in the development of technology enhanced watches. As a result, we have been granted, and have pending, various U. S. and international design and utility patents related to certain of our watch designs and features. We also have been granted, and have pending, various U.S. patents related to certain of our other products and technologies. The expiration date of our two material U.S. patents is April 12, 2019.

License Agreements. A portion of our growth in sales and net income is, and is expected to continue to be, derived from the sales of products produced under licensing agreements with third parties. Under these license agreements, we generally have the right to produce, market and distribute certain products utilizing the brand names of other companies. Our material license agreements have various expiration dates between 2007 and 2012.

We regard our trademarks, trade dress and patents as valuable assets and believe that they have significant value in the marketing of our products. We intend to protect our intellectual property rights vigorously against infringement.

Competition

There is intense competition in each of the businesses in which we compete. We believe that the current market for watches can be divided into four segments. Our watch business competes with a number of established manufacturers, importers and distributors in these segments, including, Gucci, Tissot, Omega, Cartier, Christian Dior, David Yurman, Lochman, Rado, Raymond Weil, Seiko, Swiss Army, Guess?, Anne Klein II, Kenneth Cole, Swatch, Timex and Armitron. In addition, our leather goods, sunglass, jewelry and apparel businesses compete with a large number of established companies that have significantly greater experience than us in designing, developing, marketing and distributing such products. In all of our businesses, we compete with numerous manufacturers, importers and distributors who have significantly greater financial, distribution, advertising and marketing resources than us. Our competitors include distributors that import watches, accessories and apparel from abroad, domestic companies that have established foreign manufacturing relationships and companies that produce accessories and apparel domestically.

We compete on the basis of style, price, value, quality, brand name, advertising, marketing and distribution. In addition, we believe that our ability to identify and respond to changing fashion trends and consumer preferences, to maintain existing relationships and develop new relationships with manufacturing sources, to deliver quality merchandise in a timely manner and to manage the retail sales process are important factors in our ability to compete.

We consider that the risk of significant new competitors is mitigated to some extent by barriers to entry such as high startup costs and the development of long-term relationships with customers and manufacturing sources. During the past few years, it has been our experience that better department stores and other major retailers have been

increasingly unwilling to source products from suppliers who are not well capitalized or do not have a demonstrated ability to deliver quality merchandise in a timely manner. There can be no assurance, however, that significant new competitors will not emerge in the future.

Employees

As of the end of fiscal year 2004, we employed approximately 5,400 persons, including approximately 2,200 persons employed by our foreign operating subsidiaries.

We have not entered into any collective bargaining agreements with our domestic employees. We believe that our relations with our employees are generally good.

Item 2. Properties

Company Facilities. As of the end of fiscal year 2004, we owned or leased the following material facilities in connection with our domestic and international operations:

Location	Use	Square Footage	Owned / Leased
Richardson, Texas	Corporate headquarters	190,000	Owned
Richardson, Texas	Warehouse	138,000	Owned
Dallas, Texas	Office, warehouse and distribution	517,500	Owned
Miami, Florida	Office, warehouse and distribution	8,500	Owned
Eggstätt, Germany	Office, warehouse and distribution	100,000	Owned
New York, New York	General office and showroom	13,596	Lease expiring in 2016
China	Manufacturing	86,359	Lease expiring in 2005
China	Manufacturing	48,000	Lease expiring in 2006
China	Manufacturing	22,000	Lease expiring in 2008

We also lease certain manufacturing and/or office, warehouse and/or distribution facilities in Atlanta, Georgia; Chicago, Illinois; Los Angeles, California; Switzerland; Sweden; Taiwan; Hong Kong; Malaysia;

the United Kingdom; Australia; Japan and Italy and own an office, warehouse and distribution facility in France.

Jeans Wear Retail Store Facilities. As of the end of fiscal year 2004, we had entered into 22 lease agreements for retail space at prime locations in the United States for the sale of our apparel line and certain of our accessory products. The leases, including renewal options, expire at various times from 2010 to 2015. The leases provide for minimum annual rentals and, in certain cases, for the payment of additional rent when sales exceed specified net sales amounts. We are also required to pay our pro rata share of the common area maintenance costs, including real estate taxes, insurance, maintenance expenses and utilities.

Accessory Retail Store Facilities. As of the end of fiscal year 2004, we had entered into 32 lease agreements for retail space at prime locations in the United States for the sale of our full assortment of accessory products. The leases, including renewal options, expire at various times from 2006 to 2015. The leases provide for minimum annual rentals and, in certain cases, for the payment of additional rent when sales exceed specified net sales amounts. We are

also required to pay our pro rata share of the common area maintenance costs, including real estate taxes, insurance, maintenance expenses and utilities.

Outlet Store Facilities. We also lease retail space at selected outlet centers throughout the United States for the sale of our products. As of the end of fiscal year 2004, we had entered into 60 such leases. The leases, including renewal options, expire at various times from 2005 to 2012, and provide for minimum annual rentals and for the payment of additional rent based on a percentage of sales above specified net sales amounts. We are also required to pay our pro rata share of the common area maintenance costs at each outlet center, including, real estate taxes, insurance, maintenance expenses and utilities.

International Store Facilities. As of the end of fiscal year 2004, we operated 23 retail stores in various international markets, including the Netherlands, the United Kingdom, Canada, Germany, Switzerland, Singapore and Australia.

We believe that our existing facilities are well maintained and in good operating condition.

Item 3. Legal Proceedings

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

Item 4. Submission of Matters to a Vote of Security Holders

No matter was submitted to a vote of our stockholders during the fourth quarter of fiscal year 2004.

PART II

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchase of Equity Securities

Our Common Stock is listed on the Nasdaq National Market under the symbol "FOSL." Quotation of our Common Stock began on the Nasdaq National Market on April 8, 1993.

The following table sets forth the range of quarterly high and low sales prices per share of our Common Stock on the Nasdaq National Market for the fiscal years ended January 1, 2005 and January 3, 2004. Such prices have been adjusted to reflect a three-for-two stock split of our Common Stock effected as a fifty percent (50%) stock dividend paid on April 8, 2004.

	High	Low
Fiscal year beginning January 4, 2004:		
First Quarter	$ 23.300	$ 17.680
Second Quarter	27.970	21.940
Third Quarter	32.370	21.750
Fourth Quarter	32.250	23.350
Fiscal year beginning January 5, 2003:		

None

First Quarter	$ 14.360	$ 10.633
Second Quarter	16.293	10.800
Third Quarter	19.333	15.833
Fourth Quarter	20.133	16.233

As of March 11, 2005, there were 157 holders of record, although the number of beneficial owners is much larger.

Cash Dividend Policy. We expect that we will retain all available earnings generated by our operations for the development and growth of our business and do not anticipate paying any cash dividends in the foreseeable future. Any future determination as to a cash dividend policy will be made at the discretion of our Board of Directors and will depend on a number of factors, including our future earnings, capital requirements, financial condition and future prospects and such other factors as our Board of Directors may deem relevant.

The table below sets forth the information with respect to purchases made by or on behalf of us or any "affiliated purchaser" (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934), of our Common Stock during the fourth quarter of our fiscal year ended January 1, 2005.

Period	Total Number of Shares Purchased(1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(2)	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs(2)
Month #1 (October 3, 2004 to October 30, 2004)	60,000	$ 28.8255	60,000	540,000
Month #2 (November 1, 2004 to November 27, 2004)	60,000	$ 28.6938	60,000	480,000
Month #3 (November 28, 2004 to January 1, 2005)	60,000	$ 25.3626	60,000	420,000
Total	180,000	$ 27.6273	180,000	

(1) No shares were purchased other than through the publicly announced repurchase program during the fourth quarter of the fiscal year ended January 1, 2005.

(2) On September 30, 2004, we announced that our Board of Directors had approved a share repurchase program, pursuant to which up to 600,000 shares of our Common Stock may be repurchased.

The information under the heading "Equity Compensation Plan Information" in our proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A, not later than 120 days after the end of the fiscal year covered by this report, is incorporated into Item 12 of this report by reference.

Recent Sales of Unregistered Securities

We had no sales of unregistered securities during the fourth quarter of fiscal year 2004.

Item 6. Selected Financial Data

The following information should be read in conjunction with our consolidated financial statements and notes thereon.

None

Fiscal Year	2004	2003	2002	2001	2000
	IN THOUSANDS, EXCEPT PER SHARE DATA				
Net Sales	$ 959,960	$ 781,175	$ 663,338	$ 545,541	$ 504,285
Gross Profit	510,095	399,965	333,003	271,290	255,725
Operating Income	141,469	109,750	95,930	76,854	93,821
Income before taxes	141,102	109,471	95,979	72,804	94,717
Net income	90,569(1)	68,335	58,907	43,683(3)	55,883
Earnings per share:(2)					
Basic	1.28(1)	0.98	0.85	0.64(3)	0.78
Diluted	1.22(1)	0.93	0.81	0.62(3)	0.76
Weighted average common and common equivalent shares outstanding:(2)					
Basic	70,672	69,817	68,990	67,877	71,301
Diluted	74,462	73,182	72,357	70,290	73,520
Working capital	$ 363,164	$ 313,561	$ 241,177	$ 163,280	$ 169,792
Total assets	783,824	587,541	482,526	380,863	307,591
Long-term debt	—	—	—	—	—
Stockholders' equity	524,000	423,426	340,541	264,023	220,699
	19.4%	18.4%	19.9%	18.3%	26.9%

(1) Includes one-time after tax charges related to cummulative rent expense adjustments and settlement of a supplier claim of $2.0 million and $550,000 respectively. Excluding these one-time charges, net income, basic earnings per share and diluted earnings per share were $93.1 million, $1.32 and $1.25, respectively.

(2) All share and per share price data have been adjusted to reflect three-for-two stock splits effected in the form of stock dividends paid on June 7, 2002, and April 8, 2004.

(3) Includes a $2.9 million one-time after tax charge which reflects the write-off of the carrying value of our investment in SII Marketing International, Inc. as a result of our decision to terminate its equity participation in this joint venture relationship. Excluding this one-time charge, net income, basic earnings per share and diluted earnings per share were $46.5 million, $0.69 and $0.66, respectively.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of

None

Operations

Summary

We are a design, development, marketing and distribution company that specializes in consumer products predicated on fashion and value. The FOSSIL brand name was developed to convey a distinctive fashion, quality and value message and a brand image reminiscent of an earlier time that suggests a time of fun, fashion and humor. Since our inception in 1984, we have grown into a global watch company with a well-recognized branded portfolio delivered over an extensive distribution network. Our principle offerings include an extensive line of watches sold under our proprietary brands as well as licensed brands for some of the most prestigious companies in the world. We also offer complementary lines of small leather goods, belts, handbags and sunglasses under our proprietary FOSSIL and RELIC brands, jewelry under the FOSSIL and EMPORIO ARMANI brands and FOSSIL apparel. Our centralized infrastructure in design/development and production/sourcing allows us to leverage the strength of our branded watch portfolio over an extensive global distribution network.

Our products are sold primarily to department stores and specialty retail stores in over 90 countries worldwide through company-owned foreign sales subsidiaries and through a network of approximately 52 independent distributors. Our foreign operations include wholly or majority-owned subsidiaries in Australia, Canada, France, Germany, Hong Kong, Italy, Japan, Malaysia, the Netherlands, Singapore, Switzerland and the United Kingdom. In January 2005 we also acquired our former distributors in Sweden and Taiwan. In addition, our products are offered at company-owned retail locations, located in the United States and certain international markets, and authorized FOSSIL retail stores and kiosks located in several major airports, on cruise ships and in certain international markets. Our successful expansion of our product lines worldwide and leveraging of our infrastructure have contributed to our increasing net sales and operating profits.

Critical accounting policies and estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires our management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, management evaluates its estimates and judgments, including those related to product returns, bad debts, inventories, long-lived asset impairment and impairment of goodwill. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Management believes the following critical accounting policies require the most significant estimates and judgments.

Product Returns. We accept limited returns and will request that a customer return a product if we feel the customer has an excess of any style that we have identified as being a poor performer for that customer or geographic location. We continually monitor returns and maintain a provision for estimated returns based upon historical experience and any specific issues identified. While returns have historically been within management’s expectations and the provisions established, future return rates may differ from those experienced in the past. Any significant increase in product damages or defects and the resulting credit returns could have an adverse impact on the operating results for the period or periods in which such returns materialize.

Bad debt. We perform ongoing credit evaluations of our customers and adjust credit limits based upon payment history and the customer’s current credit worthiness, as determined by the review of their

current credit information. We continuously monitor collections and payments from our customers and maintain a provision for estimated credit losses based upon historical experience and any specific customer collection issues identified. While such credit losses have historically been within our expectations and the provisions established, future credit losses may differ from those experienced in the past.

Inventories. Inventories are stated at the lower of average cost, including any applicable duty and freight charges, or market. We write down our inventory for estimated obsolescence or unmarketable inventory equal to the difference between the average cost of inventory and the estimated market value based upon assumptions about future demand and market conditions. If actual future demand or market conditions are less favorable than those projected by management, additional inventory write-downs may be required.

Long-lived Asset Impairment. We test for asset impairment whenever events or changes in circumstances indicate that the carrying value of an asset might not be recoverable from estimated future cash flows. We apply SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets,* in order to determine whether or not an asset is impaired. Our management evaluates the ongoing value of assets, primarily leasehold improvements and in-store fixturing, associated with our owned retail stores that have been open longer than one year. When undiscounted cash flows estimated to be generated through the operations of our owned retail stores are less than the carrying value of those assets, impairment losses are recorded in selling and distribution expenses. Should actual results or market conditions differ from those anticipated, additional losses may be recorded.

Impairment of Goodwill. We evaluate goodwill for impairment annually by comparing the fair value of the reporting unit to the book value. The fair value of our reporting units is estimated using discounted cash flow methodologies and market comparable information. Based on the analysis, if the estimated fair value of each reporting unit exceeds the book value of the reporting unit, no impairment loss is recognized. In the fourth quarter of fiscal 2004 and 2003, we performed the required annual impairment test and determined that no goodwill impairment existed.

New Accounting Standards. In November 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 151, *Inventory Costs—An Amendment of ARB No. 43, Chapter 4* ("SFAS 151"). SFAS 151 amends the guidance in ARB No. 43, Chapter 4, *Inventory Pricing*, to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). Among other provisions, the new rule requires that items such as idle facility expense, excessive spoilage, double freight, and rehandling costs be recognized as current-period charges regardless of whether they meet the criterion of "so abnormal" as stated in ARB No. 43. Additionally, SFAS 151 requires that the allocation of fixed production overhead to the costs of conversion be based on the normal capacity of the production facilities. SFAS 151 is effective for fiscal years beginning after June 15, 2005 and is required to be adopted beginning on January 1, 2006. We are currently evaluating the effect that the adoption of SFAS 151 will have on our consolidated results of operations and financial condition but do not expect SFAS 151 to have a material impact.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), *Share-Based Payment* ("SFAS 123R"), which revises SFAS No. 123, *Accounting for Stock-Based Compensation*. SFAS 123R also supersedes APB 25, *Accounting for Stock Issued to Employees,* and amends SFAS No. 95, *Statement of Cash Flows*. In general, the accounting required by SFAS 123R is similar to that of SFAS No. 123. However, SFAS No. 123 gave companies a choice to either recognize the fair value of stock options in their income statements or disclose the pro forma income statement effect of the fair value of stock options in the notes to the financial statements. SFAS 123R eliminates that choice and requires the fair value of all share-based payments to employees, including the fair value of grants of employee stock options, be recognized in the income statement, generally over the option vesting period. SFAS 123R must be

adopted no later than July 1, 2005. Early adoption is permitted.

SFAS 123R permits adoption of its requirements using one of two transition methods:

1. A modified prospective transition ("MPT") method in which compensation cost is recognized beginning with the effective date (a) for all share-based payments granted after the effective date and (b) for all awards granted to employees prior to the effective date that remain unvested on the effective date.

2. A modified retrospective transition ("MRT") method which includes the requirements of the MPT method described above, but also permits restatement of financial statements based on the amounts previously disclosed under SFAS 123's pro forma disclosure requirements either for (a) all prior periods presented or (b) prior interim periods of the year of adoption.

We are currently evaluating the timing and manner in which it will adopt SFAS 123R.

As permitted by SFAS No. 123, we currently account for share-based payments to employees using APB 25's intrinsic value method and, as such, has recognized no compensation cost for employee stock options.

Accordingly, adoption of SFAS 123R's fair value method will have an effect on results of operations, although it will have no impact on overall financial position. The impact of adoption of SFAS 123R cannot be predicted at this time because it will depend on levels of share-based payments granted in the future.

SFAS 123R also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as currently required, thereby reducing net operating cash flows and increasing net financing cash flows in periods after adoption. While those amounts cannot be estimated for future periods (because they depend on, among other things, when employees will exercise the stock options and the market price of our stock at the time of exercise), the amount of operating cash flows generated in prior periods for such excess tax deductions was $6.5 million, $3.1 million and $3.1 million in 2004, 2003 and 2002, respectively.

In December 2004, the FASB issued SFAS No. 153, *Exchanges of Nonmonetary Assets—An Amendment of APB Opinion No. 29, Accounting for Nonmonetary Transactions* ("SFAS 153"). SFAS 153 eliminates the exception from fair value measurement for nonmonetary exchanges of similar productive assets in paragraph 21(b) of APB Opinion No. 29, *Accounting for Nonmonetary Transactions* , and replaces it with an exception for exchanges that do not have commercial substance. SFAS 153 specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS 153 is effective for fiscal periods beginning after June 15, 2005 and is required to be adopted beginning on January 1, 2006. We are currently evaluating the effect that the adoption of SFAS 153 will have on our consolidated results of operations and financial condition but do not expect it to have a material impact.

2004 highlights

New growth initiatives.

- In February 2004, we began shipments of private label products to the mass market distribution channel and added accessories later in the year.
- In April 2004, we acquired Michele Watches, a premier brand in the fashion luxury distribution channel.
- In April 2004, we announced the signing of a license agreement for MICHAEL Michael Kors watches and

commenced distribution to domestic department stores in August.

- In August 2004, we announced the signing of a license agreement for MARC JACOBS and MARC by Marc Jacobs watches and expect to begin shipping this product in late 2005 and in 2006, respectively.
- In November 2004, we announced the signing of a license agreement for adidas watches that is scheduled to begin distribution worldwide in early 2006.

Other highlights.

- We completed a three-for-two stock split paid in the form of a 50% stock dividend in April 2004.
- We completed a secondary offering of approximately 7.3 million shares of our common stock on behalf of selling shareholders in May 2004.
- We completed the implementation of SAP in our German subsidiary in August 2004 that represents the first stage of our plans to consolidate our European distribution operations and certain back-office accounting functions beginning in late 2005.
- Our retail stores reported an increase in comparable store sales of 11%, the second year of double-digit comparable store sales increases for this segment.

Results of Operations

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

Fiscal Year	2004	Percentage change from 2003	2003	Percentage change from 2002	2002
Net sales	100.0%	22.9%	100.0%	17.8%	100.0%
Cost of sales	46.9	18.0	48.8	15.4	49.8
Gross profit	53.1	27.5	51.2	20.1	50.2
Operating expenses	38.4	27.0	37.2	22.4	35.7
Operating income	14.7	28.9	14.1	14.4	14.5
Interest expense	—	(51.6)	—	(42.1)	—
Other (expense) income—net	—	55.3	—	(239.1)	—
Income before income taxes	14.7	28.9	14.1	14.1	14.5
Income taxes	5.3	22.8	5.3	11.0	5.6
Net income	9.4%	32.5%	8.8%	16.0%	8.9%

None

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

	Amounts in millions			Percentage of total		
Fiscal Year	**2004**	**2003**	**2002**	**2004**	**2003**	**2002**
International:						
Europe	$ 306.9	$ 258.1	$ 189.4	31.9%	33.1%	28.6%
Other	127.2	82.0	63.6	13.3%	10.5%	9.6%
Total international	434.1	340.1	253.0	45.2%	43.6%	38.2%
Domestic:						
Watch products	241.9	205.7	200.9	25.2%	26.3%	30.3%
Other products	153.8	131.3	126.3	16.0%	16.8%	19.0%
Total domestic	395.7	337.0	327.2	41.2%	43.1%	49.3%
Retail worldwide	130.2	104.1	83.1	13.6%	13.3%	12.5%
Total net sales	$ 960.0	$ 781.2	$ 663.3	100.0%	100.0%	100.0%

Fiscal 2004 compared to fiscal 2003

Net sales. The following table is intended to illustrate by factor the total year-over-year percentage change in sales by segment and on a consolidated basis:

Analysis of Percentage Change in Sales Versus Prior Year Attributable to Changes in the Following Factors

	Exchange Rates	Acquisitions	Organic Growth	Total Change
Europe	11%	—%	8%	19%
Other international	3	6	46	55

None

Domestic wholesale	—	8	9	17
Retail worldwide	1	—	24	25
Total	4%	4%	15%	23%

International Net Sales. The following discussion excludes the impact on sales growth attributable to foreign currency rate changes and acquisitions as noted in the above table. European sales growth was driven by sales volume increases in FOSSIL, DIESEL and DKNY watches and FOSSIL jewelry. Growth from other international sales, which include our Canada and Asia Pacific distribution businesses and export sales from the United States, was led by sales volume increases in FOSSIL, EMPORIO ARMANI, BURBERRY, DIESEL and DKNY watch businesses. Our other international segment was also positively impacted by an approximate $4.7 million special market sale that we are not expecting to reoccur in 2005. We believe we maintain a competitive advantage as a result of our long-term relationships and strength of our business with our retailers throughout the international marketplace. We further believe our impressive portfolio of global watch brands and our ability to acquire additional brands position us for further penetration internationally as we continue to take shelf space from lesser known local and regional brands. We believe these local and regional brands do not have the marketing strength, distribution network or the global brand recognition in comparison to the brands included in our watch portfolio. Additionally, we anticipate that the recent addition of Michele Watches and the recently signed adidas license, scheduled for launch in early 2006, may further advance our product offering and allow for long-term leverage of our existing distribution infrastructure outside the United States, further strengthening our competitive advantage. Our management believes our international businesses may continue to contribute double-digit sales increases in 2005, assuming foreign currency rates remain near their existing levels relative to the U.S. dollar. We expect this growth to be more pronounced in the Asia Pacific markets due to the lower level of penetration we currently have in this market relative to overall size of the watch market in this region.

Domestic Net Sales. Excluding the impact on sales growth attributable to acquisitions, domestic watch sales increased 9.9% principally as a result of a $10.1 million increase from our mass market initiative launched in 2004 and sales volume growth in the RELIC brand. These increases were offset by an approximate 10% decrease in sales volume related to the FOSSIL watch brand. We believe that the increase in sales of RELIC watches is primarily due to changes made to our assortment as well as additional growth resulting from new customers added in late Fiscal 2003. We believe the decrease in the FOSSIL brand, which was more pronounced in the second half of Fiscal 2004, is due to a cyclical shift in consumer discretionary spending patterns toward other accessory areas in department stores and away from fashion watches. Additionally, we experienced more difficult comparisons against sales levels achieved in the second half of Fiscal 2003. During the second half of Fiscal 2003, the re-emergence of leather strap watches as a popular fashion item contributed to double-digit sales growth for the FOSSIL brand. Our management believes it can gain additional market share for FOSSIL and our other watch brands in the U.S. market by expanding into both a greater number of locations with our existing retailers as well as adding additional retailers for certain brands that we believe are under-penetrated by utilizing the talent of our broad-based design group and exploiting the speed of our supply chain that allows for quicker response to changes in fashion trends than our competitors. Domestic sales of our accessory and sunglass businesses rose 17.4% resulting from sales volume growth in FOSSIL women’s and men’s leather products and sunglasses as well as RELIC accessories. We believe these increases resulted from a cyclical shift in consumer discretionary spending patterns toward other accessory areas in department stores in addition to our expanded presence in certain categories in a number of customers we service. FOSSIL and

RELIC watches and accessories continue to be a leading supplier to U.S. department and specialty retail stores. Management believes sales growth for our domestic wholesale businesses may be in the low double-digit range for 2005 with continued strength expected in the accessory business and continued sales volume growth from our mass market business and Michele Watches, which was acquired in April of 2004.

Company-Owned Retail Stores Net Sales. Excluding the impact on sales growth attributable to foreign currency rate changes, sales from our retail stores worldwide increased 24% during the year as a result of a 14% increase in the average number of stores opened during the year and comparable store sales gains of 11%. Our management believes our double-digit comparable store growth during the year was attributable to better in-store merchandising and visual presentation. We operated 136 stores at the end of the year, consisting of 60 outlet, 31 accessory and 22 jeanswear stores in the United States and 23 accessory stores located outside the United States. This compares to 119 stores at the end of the prior year, 53 outlet, 26 accessory and 18 jeanswear in the United States and 22 accessory stores located outside the United States. We opened 17 new stores during the year. We are currently targeting 27 to 33 new store openings in 2005 that will be dependent upon available retail spaces and lease terms that meet our requirements. We anticipate most of these new stores to be opened during the second half of Fiscal 2005. Based upon planned new door openings and continued positive comparable store sales growth, management believes retail stores net sales growth may exceed 15% in 2005. A store is included in comparable store sales in the thirteenth month of operation. Stores that experience a gross square footage increase of 10% or more due to an expansion and/or relocation are removed from the comparable store sales base, but are included in total sales. These stores are returned to the comparable store sales base in the thirteenth month following the expansion and/or relocation.

Gross Profit. Gross profit margin increased to 53.1% compared to 51.4% in the prior year, or 170 basis points. This margin expansion can be attributed primarily to higher international gross profit margin due to stronger foreign currencies, primarily the Euro and British Pound, and increased sales, as a percentage of total sales, from our international businesses and company-owned retail stores. Stronger foreign currencies contributed approximately 150 basis points to the overall gross profit margin increase. Sales from our international businesses and our retail stores generally provide gross profit margins in excess of our historical consolidated gross profit margin. Gross profit margins generated from our international businesses are historically higher than those experienced in the U.S., mainly due to higher

average wholesale prices charged for watch products internationally and the general absence of lower margin accessory businesses offered outside the United States. Partially offsetting these gross profit margin increases were increased sales, as a percentage of total sales, from our lower margin producing RELIC watch and our new mass market businesses. Our management believes 2005 gross profit margin may be favorably impacted because sales from our international businesses and company-owned retail stores are forecasted to increase at a faster rate than our total sales and offset the overall negative margin impact related to an increasing mass market watch business in 2005. As a result, assuming foreign currency rates remain near their existing levels relative to the U.S. dollar, we believe gross profit margin for 2005 may increase 50 basis points.

Operating Expenses. Operating expenses increased approximately $78 million during 2004 and, as a percentage of net sales, increased to 38.4% of net sales compared to 37.2% for the prior year. Included in 2004 operating expenses is approximately $11 million in additional costs related to the translation impact of stronger foreign currencies into U. S. dollars and approximately $11 million related to operating expenses of businesses acquired in 2004 and new product initiative costs. Excluding the effects of currency, operating expenses of acquired businesses and new initiatives, operating expense increases during 2004 primarily reflect increases in payroll related costs, advertising

costs, professional fees, and depreciation and amortization expense. Increased payroll costs were mainly related to additional brand management personnel to support our global sales network, increased headcount in our information technology group primarily to support our new SAP software solution, increased staffing to support our European consolidation effort and increased staffing in our Asia Pacific businesses to support our significant growth in that region during 2004. Advertising expense, excluding the effects of foreign currencies, acquisitions and new initiatives increased $15 million or 50 basis points as a percentage of net sales, primarily as a result of increased advertising initiatives taken on during the fourth quarter of 2004. Increased professional fees are related to increased consulting costs associated with our SAP software implementation, accounting and legal fees incurred in connection with our European consolidation project and audit and consulting costs related to our Sarbanes-Oxley compliance project. Depreciation and amortization expense increases are due to completion of the first two phases of our SAP global software implementation in July 2003 for U.S. operations and August 2004 for our Germany operations as well as other capital additions made during 2004.

As a result of recent clarifications issued by the Securities and Exchange Commission, which provided guidance on long-standing, generally accepted accounting principles related to operating leases, we have reviewed our lease accounting practices and based on this review, and in consultation with our audit committee and independent Registered Public Accountants, Deloitte & Touche LLP, we have recorded a $3.1 million pre-tax charge to rent expense during the fourth quarter of fiscal 2004. This adjustment arises from corrections to our previous accounting practices relating to the extension of the rental expense period to the lease possession date and rent escalations in computing rent expense for operating leases, primarily related to our retail stores segment. Prior years' financial results have not been restated due to the immateriality of this issue to the results of operations, cash flows and statement of financial position for our current year or any individual prior quarter or year.

Subsequent to year-end, we have reached a settlement on a claim made by a supplier related to production of certain watch products. As a result of this settlement, we have recorded a pre-tax charge of $875,000 during the fourth quarter of fiscal year 2004.

Our management anticipates 2005 operating expenses, as a percentage of net sales to remain at or near levels experienced in 2004, assuming foreign currency rates remain near their existing levels relative to the U.S. dollar. In 2005 we expect increases in operating expenses due to increased depreciation and amortization expense related to our continuing SAP implementation, additional costs to be incurred to further develop our jewelry infrastructure and additional costs associated with new business initiatives that are not expected to produce significant revenues during 2005, primarily our new MARC JACOBS and

adidas licensed businesses. We expect these increases to be partially offset by operating leverage in other areas of our operating expenses.

Operating Income. Improved gross profit margin was partially offset by increased operating expenses as a percentage of sales, which resulted in the Company's operating profit margin increasing 60 basis points to 14.7% in 2004 compared to 14.1% in the prior year. Operating income included approximately $25 million in additional income as a result of the effects of stronger foreign currencies. Our management believes operating margin for 2005 may remain relatively unchanged from 2004 on a full year basis, based on assumptions discussed above. As we continue to grow in the watch, jewelry and retail store segments, we believe we may continue to experience a greater percentage of our annual profits in the back half of the year. As a percent of sales, we believe operating expenses may be more significant in the first half of the year when, due to seasonality, our sales volumes are lower while our

carrying costs of stores, personnel and infrastructure costs incurred in the back half of the prior year carries into Fiscal 2005.

Other Income (Expense). Other income (expense) primarily reflects interest income from cash investments, royalty income, foreign currency transaction gains or losses, minority interest expense of our majority-owned consolidated subsidiaries, gains and losses on disposal of assets and equity in the earnings of our non-consolidated joint venture. During 2004, other income (expense) decreased unfavorably by approximately $100,000. The decrease was primarily a result of increased minority interest expense and decreased royalty income partially offset by increased equity in the earnings of our non-consolidated joint venture and gains from disposal of certain assets.

Income Taxes. Our effective income tax rate decreased to 35.8% during 2004 compared to 37.6% in the prior year. This decrease was primarily related to a higher mix of income generated from countries whose statutory income tax rates are lower than our historical average income tax rate. During 2005, pursuant to the American Jobs Creation Act of 2004, our management expects to repatriate subsidiary earnings which were not considered permanently invested. As a result we are expecting to receive an 85% dividends received deduction for eligible dividends, resulting in a lower effective tax rate for 2005. Based upon preliminary estimates of amounts available for potential repatriation, our management believes that our 2005 effective tax rate may be reduced to approximately 32%, which equates to an approximate one-time benefit of $0.09 diluted earnings per share for the year. We will use these funds on qualified expenditures in the United States in accordance with our approved Domestic Reinvestment Plan.

Diluted Earnings Per Share Guidance. Our management expects Fiscal 2005 diluted earnings per share of $1.44 to $1.48, excluding the $0.09 benefit from repatriation of certain subsidiary earnings in connection with the American Jobs Creation Act of 2004. This guidance for 2005 does not include the effect of expensing stock options as required under new accounting rules, which the Company will implement during the third quarter of Fiscal 2005.

Fiscal 2003 compared to fiscal 2002

Net sales. The following table is intended to illustrate by factor the total year-over-year percentage change in sales by segment and on a consolidated basis:

Analysis of Percentage Change in Sales Versus Prior Year Attributable to Changes in the Following Factors

	Exchange Rates	Acquisitions	Organic Growth	Total Change
Europe	19%	2%	15%	36%
Other international	5	9	15	29
Domestic wholesale	—	—	3	3
Retail worldwide	1	5	19	25
Total	6%	2%	10%	18%

International Net Sales. Excluding the impact on sales growth attributable to foreign currency rate changes as noted in the above table, European sales growth was driven by sales volume increases in FOSSIL, DIESEL and DKNY watches and FOSSIL and EMPORIO ARMANI jewelry. Growth from other international sales, which include our Canada and Far East distribution businesses and export sales from the U.S., was led by sales volume increases in

FOSSIL, EMPORIO ARMANI and DIESEL watch businesses.

Domestic Net Sales. Domestic watch sales increased 2.4% on sales volume increases primarily as a result of a 5.5% increase in sales of FOSSIL watches and a 17.3% increase in sales of licensed brand watches. The re-emergence of leather strap watches as a popular fashion item and the increased market penetration of Fossil watches that have motion taking place on the dial were the primary factors behind increases in FOSSIL watch sales. These sales gains were partially offset by an 18% decrease in sales of RELIC watches and a 98% decrease in sales of the EDDIE BAUER private label watch line. During 2003, we chose not to renew our watch license for the EDDIE BAUER brand name, due primarily to the financial difficulties experienced by EDDIE BAUER'S parent company. We believe that the decline in sales of RELIC watches is primarily due to increased competition from less expensive fashion watches. Domestic sales of our accessory and sunglass businesses rose 4.0% resulting from a 34%, 7% and 79% increase in RELIC accessories, FOSSIL men's leather and FOSSIL sunglasses, respectively. Excluding RELIC eyewear, which experienced a 57% decrease in sales volume in 2003 due to the loss of a sizeable portion of a significant customer's business, domestic sales of our accessory and sunglass businesses increased 9.0%.

Company-Owned Retail Stores Net Sales. Sales from company-owned retail stores worldwide increased 25.3% during the year as a result of a 14.4% increase in the average number of stores opened during the year and comparable store sales gains of 10.6%. Our management believes our double-digit comparable store growth during the year was attributable to better in-store merchandising and visual presentation and lower quantities of discounted merchandise available in comparison to the prior year, that resulted in higher average selling prices during 2003. We operated 119 stores at the end of the year, consisting of 53 outlet, 26 accessory and 18 jeanswear stores in the United States and 22 accessory stores located outside the United States. This compares to 104 stores at the end of the prior year, 47 outlet, 23 accessory and 18 jeanswear in the United States and 16 accessory stores located outside the United States. We opened 17 new stores during the year, including six stores acquired in Europe, and closed two stores.

Gross Profit. Gross profit margin increased to 51.4% compared to 50.4% in the prior year, or 100 basis points. This margin expansion can be attributed primarily to (i) increased sales, as a percentage of total sales, from our international businesses, company-owned retail stores and licensed watch products; and (ii) higher international gross profit margin due to stronger foreign currencies, primarily the Euro. Sales from our international businesses, company-owned retail stores and licensed products generally provide gross profit margins in excess of our historical consolidated gross profit margin. Gross profit margins generated from our international businesses are historically higher than those experienced in the U.S., mainly due to higher average wholesale prices charged for watch products internationally and the general absence of lower margin accessory businesses offered outside the U.S. Partially offsetting these gross profit margin increases were increased sales, as a percentage of total sales, from RELIC accessory products that generally provide gross profit margin below our historical consolidated gross profit margin.

Operating Expenses. Operating expenses increased approximately $53 million during 2003 and, as a percentage of net sales, increased to 37.3% during 2003 compared to 35.9% for the prior year. Included in 2003 operating expenses is approximately $13 million in additional costs related to the translation impact of stronger foreign currencies into U. S. dollars and approximately $7 million related to operating expenses of businesses acquired in 2002. The remaining $33 million increase in operating expenses during 2003 primarily reflects (i) $9.4 million in additional personnel and other costs associated with new business initiatives primarily related to our Swiss watch, EMPORIO ARMANI jewelry and technology-enhanced

watch businesses for which there have been minimal revenue contributions to date, (ii) advertising costs,

(iii) depreciation and amortization expense and (iv) additional costs to support sales volume growth. For the year, total advertising expense increased $11.0 million to 7.1% of net sales compared to 6.7% of net sales in 2002. Depreciation and amortization expense increased $4.8 million due to completion of the first phase of our SAP global software implementation in July 2003 as well as other capital additions made during 2003.

Operating Income. Increased operating expenses, as a percentage of net sales, were partially offset by improved gross profit margins resulting in operating profit margin of 14.1% of net sales compared to 14.5% of net sales in 2002. Operating income for the year included approximately $15 million of additional income as a result of the effects of stronger foreign currencies.

Other Income (Expense). Other income (expense) primarily reflects interest income from cash investments, royalty income, foreign currency transaction gains (losses), minority interest expense of our majority-owned consolidated subsidiaries and equity in the earnings of our non-consolidated joint venture. During 2003, other income (expense) decreased unfavorably by approximately $300,000. The decrease was primarily a result of increased minority interest expense and legal expenses related to enforcing our intellectual property rights offset by foreign currency transaction gains and increased interest income due to higher levels of invested cash balances maintained during 2003.

Income Taxes. Our effective income tax rate decreased to 37.6% during 2003 compared to 38.6% in the prior year. This decrease was primarily related to a higher mix of income generated from countries whose statutory income tax rates are lower than our historical average income tax rate.

Effects of inflation

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

Liquidity and capital resources

Our general business operations historically have not required substantial cash needs during the first several months of our fiscal year. Generally, starting in the second quarter, our cash needs begin to increase, typically reaching a peak in the September-November time frame. Our cash holdings and short-term marketable securities as of the end of the year increased to $192 million in comparison to $164 million at the end of the prior year. This $28 million increase is primarily the result of $82 million of net cash generated from operating activities and $24 million of cash generated from financing activities offset by $76 million of cash used in investing activities. Cash flows generated from operating activities were primarily related to net income of $91 million and non-cash items of approximately $25 million. Cash flows generated from financing activities were comprised of $24 million of net borrowings and $10 million of proceeds from the exercise of stock options partially offset by repurchases of common stock and distributions of minority interest earnings. The $76 million of net cash used in investing activities primarily consisted of $48 million related to business acquisitions and $28 million of fixed asset additions.

Accounts receivable increased to $155 million at the end of 2004 compared to $120 million at the end of 2003. Average day’s sales outstanding increased to 52 days for the year compared to 48 days in the prior year. This increase is attributable to an increase in our average collection cycle and a decrease in the relative percentage of return and bad debt allowances in our net accounts receivable balance. The collection cycle has increased as a result of a larger percentage of international sales that historically have longer collection periods than those experienced in our U.S. business. Fiscal 2004 ending inventory of $179 million represents an increase of 41% compared to $127 million in the prior year. Management believes

the inventory percentage increase is misleading given the unusually low inventory levels at the end of Fiscal 2003. Inventory at fiscal 2003 year-end rose by 4%, as compared to fiscal 2002, even as net sales grew by 18%. For comparison purposes we believe that a two-year assessment of our inventory growth in relationship to sales growth provides a better indication of our inventory position at the end of 2004. Specifically, from Fiscal 2002 to Fiscal 2004 sales grew by 45% with inventory increasing by 47% during the same period.

At the end of 2004, we had working capital of $363 million compared to working capital of $314 million at the end of the prior year. We had approximately $27 million of outstanding borrowings at the end of 2004. Approximately $24 million of these outstanding borrowings are under our $50 million U.S. Short-Term Revolving Credit Facility bearing interest at prime minus 1% (4.25% at year-end) or Eurodollar base rate plus 0.50% (2.87% at year-end), due September 2005. The remaining $3 million in borrowings are under a short-term facility in Japan bearing interest at the Euroyen rate (approximately 0.9% at year-end), due May 2005. The $24 million outstanding under our U.S. credit facility was repaid in full in January 2005.

During 2005, we anticipate capital expenditures of approximately $30 million to principally cover additional computer software implementation cost and hardware purchases, leasehold and owned facility improvements as well as other capital additions. In addition, it is our intent to continue our stock repurchase program to partially offset the dilutive effect of stock options granted. At the end of fiscal year 2004, we had approximately 420,000 shares available for repurchase relating to previous authorizations. These repurchases could add an additional $10 to $15 million to our capital requirements in 2005. Management believes that cash flow from operations combined with existing cash on hand will be sufficient to fund our capital needs during 2005. We also have access to amounts available under our credit facilities should additional funds be required.

Contractual obligations and off-balance sheet arrangements

The following table presents, as of January 1, 2005, a summary of our significant cash contractual obligations by payment date. Further discussion of the nature of each obligation is included in note 10 to our consolidated financial statements. We have no consolidated off-balance sheet arrangements.

	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
			(in thousands)		
Contractual Obligations					
Short-term debt(1)	$ 26,924	$ 26,924	$ —	$ —	$ —
Minimum Royalty Payments(2)	165,879	29,735	66,564	49,752	19,828
Future Minimum Rental Payments	128,105	22,467	39,938	31,734	33,966
Purchase Obligations(3)	21,844	21,844	—	—	—
Total Contractual Cash Obligations	$ 342,752	$ 100,970	$ 106,502	$ 81,486	$ 53,794

(1) Consists of short-term credit borrowings in the U.S and Japan.

(2) Consists of primarily exclusive licenses to manufacture watches under trademarks not owned by us. Also includes amounts owed pursuant to various license and design service agreements under which we are obligated to pay the licensors a percentage of our net sales of these licensed products, subject to minimum scheduled royalty, design and advertising payments.

None

(3) Consists primarily of outstanding letters of credit, which represent inventory purchase commitments that typically mature in one to eight months and open non-cancelable purchase orders.

Selected Quarterly Financial Data

The table below sets forth selected quarterly financial information. The information is derived from our unaudited consolidated financial statements and includes, in the opinion of management, all normal and recurring adjustments that management considers necessary for a fair statement of results for such periods. The operating results for any quarter are not necessarily indicative of results for any future period.

Fiscal Year 2004	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
	AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA			
Net sales	$ 199,395	$ 206,122	$ 236,043	$ 318,400
Gross profit	103,620	109,021	121,546	175,908
Operating expenses	77,141	84,986	83,470	123,029
Operating income	26,479	24,035	38,076	52,879
Income before income taxes	25,944	25,048	37,174	52,936
Provision for income taxes	9,599	9,268	13,802	17,864
Net income	16,345	15,780	23,372	35,072
Earnings per share:				
Basic	0.23	0.22	0.33	0.49
Diluted	0.22	0.21	0.31	0.47
Gross profit as a percentage of net sales	52.0%	52.9%	51.5%	55.2%
Operating expenses as a percentage of net sales	38.7%	41.2%	35.4%	38.6%
Operating income as a percentage of net sales	13.3%	11.7%	16.1%	16.6%

Fiscal Year 2003	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
	AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA			
Net sales	$ 169,767	$ 159,593	$ 192,616	$ 259,199
Gross profit	85,616	81,868	96,976	135,505
Operating expenses	65,794	65,670	69,592	89,159
Operating income	19,822	16,198	27,384	46,346
Income before income taxes	19,585	16,706	27,183	45,997
Provision for income taxes	7,442	6,317	10,383	16,994
Net income	12,143	10,389	16,800	29,003
Earnings per share:				
Basic	0.17	0.15	0.24	0.42
Diluted	0.17	0.14	0.23	0.39
Gross profit as a percentage of net sales	50.4%	51.3%	50.3%	52.3%
Operating expenses as a percentage of net sales	38.8%	41.1%	36.1%	34.4%

None

Operating income as a percentage of net sales	11.7%	10.1%	14.2%	17.9%

While the majority of our products are not seasonal in nature, a significant portion of our net sales and operating income is generally derived in the second half of the year. Our fourth quarter, which includes the Christmas season, generated approximately 37% of our annual operating income for 2004. The amount of net sales and operating income generated during the first quarter is affected by the levels of inventory held by retailers at the end of the Christmas season, as well as general economic conditions and other factors beyond our control. In general, lower levels of inventory held by retailers at the end of the Christmas season may have a positive impact on our net sales and operating income in the first quarter as a result of higher levels of restocking orders placed by retailers. Our management currently believes that our inventory levels at our major customers at the end of 2004 were near retailers' target inventory levels.

As we continue to grow in the watch, jewelry and retail store segments, we believe we will continue to experience a greater percentage of our annual profits in the back half of the year. As a percent of sales, we believe operating expenses will be more significant in the first half of the year when due to seasonality, our

sales volumes are lower while our carrying costs of stores, personnel and infrastructure costs incurred in the back half of the prior year carry into the following year. In addition, new product launches would generally augment the sales and operating expense levels in the quarter the product launch takes place. The results of operations for a particular quarter may also vary due to a number of factors, including retail, economic and monetary conditions, timing of orders or holidays and the mix of products sold by us.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

As a multinational enterprise, we are exposed to changes in foreign currency exchange rates. Our most significant foreign currency risk relates to the Euro and the British Pound as compared to the U.S. dollar. Due to our vertical nature whereby a significant portion of goods are sourced from our owned facilities, the foreign currency risks relate primarily to the necessary current settlement of intercompany inventory transactions. We employ a variety of practices to manage this market risk, including our operating and financing activities and, where deemed appropriate, the use of foreign currency forward contracts. The use of these instruments allows management to offset exposure to rate fluctuations because the gains or losses incurred on the derivative instruments will offset, in whole or in part, losses or gains on the underlying foreign currency exposure. We use derivative instruments only for risk management purposes and do not use them for speculation or for trading. There were no significant changes in how we manage foreign currency transactional exposure in 2004 and management does not anticipate any significant changes in such exposures or in the strategies we employ to manage such exposure in the near future.

At year-end we had outstanding foreign exchange contracts to sell 26.0 million Euro for approximately $33.2 million, expiring through December 2005 and approximately 4.0 million British Pounds for approximately $7.6 million, expiring through March 2005. If we were to settle our Euro and British Pound based contracts at fiscal year-end 2004, the net result would be a loss of approximately $1.4 million, net of taxes. Exclusive of these outstanding foreign exchange contracts or other operating or financing activities that may be employed by us, a measurement of the unfavorable impact of a 10 percent change in the Euro and British Pound as compared to the U. S. dollar would have on our operating profits and stockholder's equity is presented in the following paragraph.

None

At fiscal year-end 2004, a 10 percent unfavorable change in the U.S. dollar against the Euro and British Pound involving balance sheet transactional exposures would not have a material effect on net pretax income. The translation of the balance sheets of our European and United Kingdom-based operations from their local currencies into U.S. dollars is also sensitive to changes in foreign currency exchange rates. At fiscal year-end 2004, a 10 percent unfavorable change in the exchange rate of the U.S. dollar against the Euro and British Pound would have reduced consolidated stockholders' equity by approximately $12.5 million. In the view of management, the risks associated with exchange rate changes in other currencies we have exposure to are not material and these hypothetical losses resulting from these assumed changes in foreign currency exchange rates are not material to our consolidated financial position, results of operation or cash flows.

Item 8. Financial Statements and Supplemental Data

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Fossil, Inc.
Dallas, Texas

We have audited the accompanying consolidated balance sheets of Fossil, Inc. and subsidiaries (the "Company") as of January 1, 2005 and January 3, 2004, and the related consolidated statements of income and comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended January 1, 2005. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Fossil, Inc. and subsidiaries at January 1, 2005 and January 3, 2004, and the results of their operations and their cash flows for each of the three years in the period ended January 1, 2005, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of January 1, 2005, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 17, 2005, expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

None

/s/ Deloitte & Touche LLP
Dallas, Texas
March 17, 2005

CONSOLIDATED BALANCE SHEET

AMOUNTS IN THOUSANDS

Fiscal Year	2004	2003
Assets		
Current assets:		
Cash and cash equivalents	$ 185,430	$ 158,062
Short-term marketable investments	6,277	5,991
Accounts receivable—net	155,301	119,852
Inventories—net	179,167	126,789
Deferred income tax assets	15,821	8,653
Prepaid expenses and other current assets	31,271	19,973
Total current assets	573,267	439,320
Investment in joint venture	7,018	4,635
Property, plant & equipment—net	122,860	116,066
Goodwill	39,812	17,136
Intangible and other assets—net	40,867	10,384
Total assets	$ 783,824	$ 587,541
Liabilities and Stockholders' Equity		
Current liabilities:		
Notes payable	$ 26,924	$ 2,805
Current portion of obligation under capital leases	161	—
Accounts payable	48,861	32,362
Accrued expenses:		
Accrued accounts payable	21,850	16,772
Accrued royalties	10,761	10,543

None

Compensation	20,767	15,648
Co-op advertising	16,146	14,292
Other	16,030	11,040
Income taxes payable	48,603	22,297
Total current liabilities	210,103	125,759
Deferred income tax liabilities	42,052	32,861
Obligation under capital leases	1,487	—
Total long-term liabilities	43,539	32,861
Minority interest in subsidiaries	6,182	5,495
Stockholders' equity:		
Common stock, 71,108,539 and 69,941,510, shares issued and outstanding, respectively	711	699
Additional paid-in capital	39,045	25,648
Retained earnings	469,923	379,354
Accumulated other comprehensive income	19,447	20,969
Deferred compensation	(5,126)	(3,244)
Total stockholders' equity	524,000	423,426
Total liabilities and stockholders' equity	$ 783,824	$ 587,541

See notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA

Fiscal Year	2004	2003	2002
Net sales	$ 959,960	$ 781,175	$ 663,338
Cost of sales	449,865	381,210	330,335

None

Gross profit	510,095	399,965	333,003
Operating expenses:			
Selling and distribution	274,786	225,686	185,552
General and administrative	93,840	64,529	51,521
Total operating expenses	368,626	290,215	237,073
Operating income	141,469	109,750	95,930
Interest expense	30	62	107
Other (expense) income—net	(337)	(217)	156
Income before income taxes	141,102	109,471	95,979
Provision for income taxes	50,533	41,136	37,072
Net income	$ 90,569	$ 68,335	$ 58,907
Other comprehensive income (loss), net of taxes:			
Currency translation adjustment	(2,306)	15,245	11,510
Unrealized (loss) gain on marketable investments	(12)	107	(83)
Forward contracts hedging intercompany foreign currency payments:			
Change in fair values	796	1,354	(3,531)
Total comprehensive income	$ 89,047	$ 85,041	$ 66,803
Earnings per share:			
Basic	$ 1.28	$ 0.98	$ 0.85
Diluted	$ 1.22	$ 0.93	$ 0.81
Weighted average common shares outstanding:			

None

Basic	70,672	69,817	68,990
Diluted	74,462	73,182	72,357

See notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

AMOUNTS IN THOUSANDS

	Common stock		additional		Accumulated other comprehensive income (loss)				total
	shares	par value	paid-in capital	retained earnings	cumulative translation adjustment	Unrealized gain (loss) on marketable investments	Unrealized gain (loss) on forward contracts	deferred compensation	stockholders' equity
Balance, January 5, 2002	30,284	303	15,241	252,112	(3,242)	(412)	21	—	264,023
Common stock issued upon exercise of stock options	970	10	6,433						6,443
Tax benefit derived from exercise of stock options			3,053						3,053
Repurchase and retirement of common stock	(4)		(59)						(59)
Three-for-two stock split	15,142	151	(156)						(5)
Restricted stock issued in connection with deferred compensation plan			2,584					(2,584)	—
Amortization of deferred compensation								283	283
Net income				58,907					58,907
Unrealized loss on marketable investments						(83)			(83)
Currency translation adjustment					11,510				11,510
Forward contracts hedging intercompany foreign currency payments: Change in fair values							(3,531)		(3,531)

None

Balance, January 4, 2003	46,392	464	27,096	311,019	8,268	(495)	(3,510)	(2,301)	340,541
Common stock issued upon exercise of stock options	804	8	8,195						8,203
Tax benefit derived from exercise of stock options			3,082						3,082
Repurchase and retirement of common stock	(568)	(6)	(14,341)						(14,347)
Restricted stock issued in connection with deferred compensation plan			1,849					(1,849)	—
Amortization of deferred compensation								906	906
Net income				68,335					68,335
Unrealized gain on marketable investments						107			107
Currency translation adjustment					15,245				15,245
Forward contracts hedging intercompany foreign currency payments: Change in fair values							1,354		1,354
Balance, January 3, 2004	46,628	466	25,881	379,354	23,513	(388)	(2,156)	(3,244)	423,426
Common stock issued upon exercise of stock options	1,418	14	10,468						10,482
Tax benefit derived from exercise of stock options			6,497						6,497
Repurchase and retirement of common stock	(247)	(2)	(6,921)						(6,923)
Three-for-two stock split	23,300	233	(233)						—
Restricted stock issued in connection with deferred compensation plan			3,202					(3,202)	—

None									
Amortization of deferred compensation								1,320	1,320
Australia stock purchase	3		47						47
European Stores stock purchase	7		104						104
Net income				90,569					90,569
Unrealized gain on marketable investments						(12)			(12)
Currency translation adjustment					(2,306)				(2,306)
Forward contracts hedging intercompany foreign currency payments: Change in fair values							796		796
Balance, January 1, 2005	71,109	$ 711	$ 39,045	$ 469,923	$ 21,207	$ (400)	$ (1,360)	$ (5,126)	$ 524,000

See notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

AMOUNTS IN THOUSANDS

Fiscal Year	2004	2003	2002
Operating Activities:			
Net income	$ 90,569	$ 68,335	$ 58,907
Noncash items affecting net income:			
Minority interest in subsidiaries	4,054	3,221	1,958
Equity in income of joint venture	(1,515)	(1,841)	(827)
Depreciation and amortization	23,339	18,948	14,230
Deferred compensation amortization	1,320	906	283
Tax benefit derived from exercise of stock options	6,497	3,082	3,053

None

(Gain) loss on disposal of assets	(129)	426	369
(Decrease) increase in allowance for doubtful accounts	(1,216)	292	907
Increase in allowance for returns—net of related inventory in transit	547	1,042	484
Deferred income taxes	(14,688)	13,283	13,674
Changes in operating assets and liabilities, net of effects of acquisitions:			
Accounts receivable	(31,384)	(37,669)	(15,537)
Inventories	(44,204)	(4,188)	(14,783)
Prepaid expenses and other current assets	(3,924)	(1,973)	(5,463)
Accounts payable	13,260	(9,281)	16,398
Accrued expenses	12,871	11,874	6,802
Income taxes payable	26,306	7,170	594
Net cash from operating activities	81,703	73,627	81,049
Investing Activities:			
Business acquisitions, net of cash acquired	(47,863)	(104)	(4,373)
Additions to property, plant and equipment	(28,407)	(28,998)	(27,077)
Proceeds from sale of property, plant & equipment	1,217	72	217
Purchase of short-term marketable investments	(298)	(308)	(216)
(Increase) decrease in intangible and other assets	(929)	(1,359)	917
Net cash used in investing activities	(76,280)	(30,697)	(30,532)
Financing Activities:			
Proceeds from exercise of stock options	10,482	8,203	6,438
Acquisition and retirement of common stock	(6,923)	(14,347)	(59)
Distribution of minority interest earnings	(3,403)	(1,650)	(1,319)
Borrowings (payments) on notes payable—net	23,629	300	(13,998)
Net cash from (used in) financing activities	23,785	(7,494)	(8,938)
Effect of exchange rate changes on cash and cash equivalents	(1,840)	10,278	3,278
Net increase in cash and cash equivalents	27,368	45,714	

None

			44,857
Cash and cash equivalents:			
Beginning of year	158,062	112,348	67,491
End of year			
	$ 185,430	$ 158,062	$ 112,348

See notes to the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Significant Accounting Policies

Consolidated Financial Statements include the accounts of Fossil, Inc., a Delaware corporation and its subsidiaries (the "Company"). The Company reports on a fiscal year reflecting the retail-based calendar (containing 4-4-5 week calendar quarters). References to 2004, 2003, and 2002 are for the fiscal years ended January 1, 2005, January 3, 2004 and January 4, 2003, respectively. All intercompany balances and transactions are eliminated in consolidation. The Company is a leader in the design, development, marketing and distribution of contemporary, high quality fashion watches, accessories and apparel. The Company's products are sold primarily through department stores and specialty retailers worldwide.

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

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

Short-term Marketable Investments consist of liquid investments with original maturities exceeding three months and mutual fund investments. By policy, the Company invests primarily in high-grade marketable securities. Securities of $6.3 million and $6.0 million for fiscal years 2004 and 2003, respectively, are classified as available for sale and stated at fair value, with unrealized holding gains (losses) included in accumulated other comprehensive income (loss) as a component of stockholders' equity.

Accounts Receivable are stated net of allowances of approximately $29.8 million and $26.6 million for estimated customer returns and approximately $11.7 million and $12.9 million for doubtful accounts at the close of fiscal years 2004 and 2003, respectively.

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

Property, Plant and Equipment is stated at cost less accumulated depreciation and amortization. Depreciation is

provided using the straight-line method over the estimated useful lives of the assets of three to ten years for equipment and thirty years for buildings. Leasehold improvements are amortized over the shorter of the lease term or the asset's useful life.

Property, equipment and other long-lived assets are evaluated for impairment whenever events or conditions indicate that the carrying value of an asset may not be recoverable based on expected undiscounted cash flows related to the asset. There were no impairment losses recorded in 2004. Impairment losses of $300,000 and $2.6 million were recorded in 2003 and 2002, respectively, and are included in selling and distribution expense.

Goodwill and Other Intangible Assets include the cost in excess of net tangible assets acquired (goodwill), trademarks, tradenames, customer lists and patents. Trademarks, customer lists and patents are amortized using the straight-line method over the estimated useful lives of generally seven to twenty years. In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets", issued in July 2001, goodwill and other indefinite-lived intangible assets such as tradenames related to business combinations occurring on or after July 1, 2001, are tested annually for impairment rather than amortized. Impairment testing compares the carrying amount of the asset with its fair value. Fair value is estimated based on the market

approach and discounted cash flows. When the carrying amount of the asset exceeds its fair value, an impairment charge would be recorded. The Company completed the required annual testing for impairment as of fiscal year end 2004 and 2003 and has determined none of its goodwill or indefinite-lived intangible assets are impaired.

Cumulative Translation Adjustment is included as a component of other comprehensive income (loss) and reflects the unrealized adjustments resulting from translating the financial statements of foreign subsidiaries. The functional currency of the Company's foreign subsidiaries is the local currency of the country. Accordingly, assets and liabilities of the foreign subsidiaries are translated to U.S. dollars at year-end exchange rates. Income and expense items are translated at the average rates prevailing during the year. Changes in exchange rates that affect cash flows and the related receivables or payables are recognized as transaction gains and losses in the determination of net income. The Company incurred net foreign currency transaction gains of approximately $1.3 million, gains of $600,000 and losses of $500,000 for fiscal years 2004, 2003 and 2002, respectively, which have been included in other income (expense)-net.

Forward Contracts are entered into by the Company principally to hedge the future payment of intercompany inventory transactions with its non-U.S. subsidiaries. These cash flow hedges are stated at estimated fair value and changes in fair value are reported as a component of other comprehensive income (loss). At January 1, 2005, the Company had hedge contracts to sell (i) 26.0 million Euro for approximately $33.2 million, expiring through December 2005 and (ii) 4.0 million British Pounds for approximately $7.6 million, expiring through March 2005. If the Company were to settle its Euro and British Pound based contracts at fiscal year-end 2004, the net result would be a loss of approximately $1.4 million, net of taxes. This unrealized loss is recognized in other comprehensive income (loss). The net increase in fair value of $800,000 during fiscal 2004 is reported as other comprehensive income. The net increase in fiscal 2004 of $800,000 consisted of net gains from these hedges of $1.4 million offset by $2.2 million of net losses reclassified into earnings.

Revenues are recognized at the point the goods leave the Company's distribution center for the customer. Because the majority of the Company's customers pay freight and do not have stated rights of inspection, title transfers at the point in time the goods leave the Company's dock. The Company accepts limited returns and may request that a customer return a product if the customer has an excess of any style that the Company has identified as being a poor

performer for that customer or geographic location. The Company continually monitors returns and maintains a provision for estimated returns based upon historical experience and any specific issues identified. While returns have historically been within management's expectations and the provisions established, future return rates may differ from those experienced in the past. Any significant increase in product damages or defects and the resulting credit returns could have an adverse impact on the operating results for the period or periods in which such returns materialize.

Advertising Costs for in-store and media advertising as well as co-op advertising, internet portal costs and promotional allowances are expensed as incurred. Advertising expenses for fiscal years 2004, 2003 and 2002 were approximately $73.5 million, $55.3 million and $44.3 million, respectively.

Minority Interest in Subsidiaries, included within other income (expense)-net represents the minority stockholders' share of the net income (loss) of various consolidated subsidiaries. The minority interest in the consolidated balance sheets reflects the proportionate interest in the equity of the various less than wholly-owned consolidated subsidiaries.

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

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

Fiscal Year	2004	2003	2002
	IN THOUSANDS, EXCEPT PER SHARE DATA		
Numerator:			
Net income	$ 90,569	$ 68,335	$ 58,907
Denominator:			
Basic EPS computations:			
Weighted average common shares outstanding	47,387	46,618	30,852
Three-for-two stock splits	23,285	23,199	38,138
	70,672	69,817	68,990
Basic EPS	$ 1.28	$ 0.98	$ 0.85
Diluted EPS computation:			

None

Basic weighted average common shares outstanding	70,672	69,817	68,990
Stock option conversion	3,790	3,365	3,367
	74,462	73,182	72,357
Diluted EPS	$ 1.22	$ 0.93	$ 0.81

Antidilutive stock options to purchase 30,654, 32,507, and 79,297 common shares were not included in the EPS computations in 2004, 2003 and 2002, respectively, because the exercise prices of these options were greater than the average market price of the Common Shares.

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

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

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

Reclassification of certain 2002 and 2003 amounts have been made to conform to the 2004 presentation.

Stock-Based Compensation Plans. The Company applies the intrinsic value method under Accounting Principles Board Opinion No. 25 and related Interpretations in accounting for its stock option plans. No compensation cost has been recognized for the Company's stock option plans because the quoted market price of the Common Stock at the date of the grant was not in excess of the amount an employee must pay to acquire the Common Stock. SFAS No. 123, "Accounting for Stock-Based Compensation," prescribes a fair value based method to record compensation cost for stock-based employee compensation plans. Pro forma disclosures as if the Company had adopted the fair value recognition requirements under SFAS No. 123 for stock option awards in fiscal years 2004, 2003 and 2002, respectively, are presented in the following table.

	2004	2003	2002
	(In thousands, except per share data)		
Net income, as reported	$ 90,569	$ 68,335	$ 58,907
Add: Stock-based employee compensation included in reported net income, net of tax	1,136	627	184
Deduct: Fair value based compensation expense, net of tax	(6,592)	(5,176)	(3,974)
Pro forma net income	$ 85,113	$ 63,786	$ 55,117
Basic earnings per share:			
As reported	$ 1.28	$ 0.98	$ 0.85

None

Pro forma under SFAS No. 123	$ 1.20	$ 0.91	$ 0.80
Diluted earnings per share:			
As reported	$ 1.22	$ 0.93	$ 0.81
Pro forma under SFAS No. 123	$ 1.14	$ 0.87	$ 0.76

New Accounting Standards. In November 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 151, *Inventory Costs—An Amendment of ARB No. 43, Chapter 4* ("SFAS 151"). SFAS 151 amends the guidance in ARB No. 43, Chapter 4, *Inventory Pricing* , to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). Among other provisions, the new rule requires that items such as idle facility expense, excessive spoilage, double freight, and rehandling costs be recognized as current-period charges regardless of whether they meet the criterion of "so abnormal" as stated in ARB No. 43. Additionally, SFAS 151 requires that the allocation of fixed production overhead to the costs of conversion be based on the normal capacity of the production facilities. SFAS 151 is effective for fiscal years beginning after June 15, 2005 and is required to be adopted by the Company beginning on January 1, 2006. The Company is currently evaluating the effect that the adoption of SFAS 151 will have on its consolidated results of operations and financial condition but does not expect SFAS 151 to have a material impact.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), *Share-Based Payment* ("SFAS 123R"), which revises SFAS No. 123, *Accounting for Stock-Based Compensation*. SFAS 123R also supersedes APB 25, *Accounting for Stock Issued to Employees,* and amends SFAS No. 95, *Statement of Cash Flows*. In general, the accounting required by SFAS 123R is similar to that of SFAS No. 123. However, SFAS No. 123 gave companies a choice to either recognize the fair value of stock options in their income statements or disclose the pro forma income statement effect of the fair value of stock options in the notes to the financial statements. SFAS 123R eliminates that choice and requires the fair value of all share-based payments to employees, including the fair value of grants of employee stock options, be recognized in the income statement, generally over the option vesting period. SFAS 123R must be adopted no later than July 1, 2005. Early adoption is permitted.

SFAS 123R permits adoption of its requirements using one of two transition methods:

1. A modified prospective transition ("MPT") method in which compensation cost is recognized beginning with the effective date (a) for all share-based payments granted after the effective date and (b) for all awards granted to employees prior to the effective date that remain unvested on the effective date.

2. A modified retrospective transition ("MRT") method which includes the requirements of the MPT method described above, but also permits restatement of financial statements based on the amounts previously disclosed under SFAS 123's pro forma disclosure requirements either for (a) all prior periods presented or (b) prior interim periods of the year of adoption.

The Company is currently evaluating the timing and manner in which it will adopt SFAS 123R.

As permitted by SFAS 123, the Company currently accounts for share-based payments to employees using APB 25's intrinsic value method and, as such, has recognized no compensation cost for employee stock options.

Accordingly, adoption of SFAS 123R's fair value method will have an effect on results of operations, although it will have no impact on overall financial position. The impact of adoption of SFAS 123R cannot be predicted at this time because it will depend on levels of share-based payments granted in the future.

However, had SFAS 123R been adopted in prior periods, the effect would have approximated the SFAS 123 pro forma net income and earnings per share disclosures as shown above.

SFAS 123R also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as currently required, thereby reducing net operating cash flows and increasing net financing cash flows in periods after adoption. While those amounts cannot be estimated for future periods (because they depend on, among other things, when employees will exercise the stock options and the market price of the Company's stock at the time of exercise), the amount of operating cash flows generated in prior periods for such excess tax deductions was $6.5 million, $3.1 million and $3.1 million in 2004, 2003 and 2002, respectively.

In December 2004, the FASB issued SFAS No. 153, *Exchanges of Nonmonetary Assets—An Amendment of APB Opinion No. 29, Accounting for Nonmonetary Transactions* ("SFAS 153"). SFAS 153 eliminates the exception from fair value measurement for nonmonetary exchanges of similar productive assets in paragraph 21(b) of APB Opinion No. 29, *Accounting for Nonmonetary Transactions,* and replaces it with an exception for exchanges that do not have commercial substance. SFAS 153 specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS 153 is effective for fiscal periods beginning after June 15, 2005 and is required to be adopted by the Company beginning on January 1, 2006. The Company is currently evaluating the effect that the adoption of SFAS 153 will have on its consolidated results of operations and financial condition but does not expect it to have a material impact.

2. Acquisitions

Subsequent to Fiscal 2004, in January 2005 Fossil Europe B.V., Ltd. ("Fossil B.V") a wholly owned subsidiary of the Company, acquired 100% of the capital stock of IWG Independent Watch Group Scandinavia AB, the Company's distributor in Sweden, for a cash purchase price of approximately $3.0 million. The acquisition was recorded as a purchase and resulted in goodwill of approximately $1.0 million. The Company has renamed the business Fossil Scandinavia AB.

Subsequent to Fiscal 2004, in January 2005 Fossil (Asia) Holdings Limited, a majority controlled subsidiary of the Company, acquired certain assets from Protime Watch Co., Ltd., the Company's distributor in Taiwan , for a cash purchase price of $2.9 million. The acquisition was recorded as a purchase and resulted in goodwill of $1.3 million. The Company has renamed the business Fossil Taiwan.

Effective October 2004, Fossil (East) Limited ("Fossil East") increased its equity interest in Fossil Time Malaysia Sdn. Bhd. to 100% by acquiring 18% of the capital stock from its minority interest holders and increased its equity interest in Fossil Singapore Ptd. Ltd. to 100% by acquiring an additional 19% of the capital stock from its minority interest holders in exchange for cash in the aggregate amount of $770,000. Both of these acquisitions were recorded as purchases and approximately $334,000 of goodwill was recorded in connection with these transactions.

In April 2004, FMW Acquisition, Inc., a wholly-owned subsidiary of the Company, acquired 100% of the

outstanding shares of Tempus International Corp. (d/b/a Michele Watches) based in Miami, Florida for approximately $50 million in cash. Tempus manufactures, markets and distributes watches under the MW® and MW Michele® brand labels. This acquisition was recorded as a purchase and the results of Tempus' operations were included in the Company's 2004 consolidated statements of operations from the date of aquisition. Total consideration exceeded the fair value of net assets acquired by $50.6 million which is made up of the following: $21.3 million for goodwill, $24 million for tradenames, and $5.3 million for customer list. The Company has not completed the final allocation of purchase price to the fair values of assets and liabilities acquired. The Company expects that the ultimate purchase price allocation may include additional adjustments to the fair values of depreciable tangible assets, identifiable intangible assets and the carrying values of certain liabilities. Accordingly, to the extent that such assessments indicate that the fair value of the assets and liabilities differ from their preliminary purchase price allocation, such difference would adjust the amounts allocated to the assets and liabilities and would change the amounts allocated to goodwill.

In January 2004, Fossil (East) Limited, a wholly-owned subsidiary of the Company, acquired 20% of the issued and outstanding shares (the "Shares") of Fossil (Australia) Pty. Limited. Consideration for the Shares consisted of 2,475 shares of common stock of Fossil, Inc., par value $0.01 per share, and approximately $26,400 in cash. The total value of the transaction was approximately $73,900. Upon closing, Fossil (East) Limited owned 100% of the issued and outstanding shares of Fossil (Australia) Pty. Limited. No additional goodwill was recorded as a result of this transaction.

In January 2003, Fossil Europe B.V., Ltd. ("Fossil B.V."), a wholly-owned subsidiary of the Company, acquired three FOSSIL stores in the Netherlands from Ticaway GmbH ("Ticaway"). In a related transaction, Fossil Europe GmbH, a wholly-owned subsidiary of the Company, acquired three FOSSIL stores in Germany from Ticaway. Prior to these transactions, the stores were operated by Ticaway pursuant to a Joint Retail Store Development and Trademark License Agreement. The combined purchase price for these acquisitions consisted of $100,000 in cash and 7,458 shares of the Company's Common Stock, valued at approximately $104,000. These acquisitions were recorded as a purchase and no goodwill was recorded in connection with these transactions.

In October 2002, the Company acquired the remaining fifty percent (50%) of the outstanding shares of SFJ, Inc., ("SFJ") a former joint venture with Seiko Instruments Inc., at no cost to the Company. The Company has renamed the business Fossil Japan, Inc. Prior to this transaction, the Company owned 50% of the equity in SFJ and accounted for this investment based upon the equity method.

In July 2002, Fossil Canada Inc., a wholly owned subsidiary of the Company, acquired four full- price FOSSIL retail stores in Canada that were previously operated under a license agreement with Comark Inc. for approximately $400,000. This acquisition was recorded as a purchase and no goodwill was recorded in connection with this transaction.

In July 2002, Fossil B.V., acquired 100% of the capital stock in the Company's Swiss distributor, No-Time AG, for a purchase price of approximately $3.8 million in cash. Fossil B.V. also acquired three stores in Switzerland from X-Time AG for approximately $10,000 in cash. These acquisitions were recorded as purchases and resulted in goodwill of approximately $2.0 million.

The results of these business combinations are included in the accompanying consolidated financial statements since the dates of their acquisition. The pro forma effects, as if transactions had occurred at the beginning of the years presented, are not significant.

None

Goodwill.

The changes in the carrying amount of Goodwill which is not subject to amortization are as follows:

	IN THOUSANDS
Balance at January 5, 2003	$ 14,521
Acquisitions	—
Currency and other	2,615
Balance at January 3, 2004	17,136
Acquisitions	21,631
Currency and other	1,045
Balance at January 1, 2005	$ 39,812

3. Investment in Joint Venture

The Company maintains an equity interest in Fossil Spain, S.A. ("Fossil Spain") pursuant to a joint venture agreement with Sucesores de A. Cardarso for the marketing, distribution and sale of the Company's products in Spain. The Company has accounted for the investment based upon the equity method from the effective date of the transaction and as of fiscal year end 2004 the investment was approximately $7.0 million. The Company's equity in Fossil Spain's net income was $1.5 million, $1.2 million, and $770,000 for fiscal 2004, 2003 and 2002, respectively, and is included in other income (expense)—net.

4. Inventories

Inventories consist of the following:

Fiscal Year End	2004	2003
Components and parts	$ 11,555	$ 8,760
Work-in-process	3,703	4,385
Finished merchandise on hand	124,678	83,059
Merchandise at Company stores	21,503	14,782
Merchandise in-transit from customer returns	17,728	15,803
	$ 179,167	$ 126,789

5. Property, Plant and Equipment

Property, plant and equipment consist of the following:

Fiscal Year	2004	2003
	IN THOUSANDS	
Land	$ 10,056	$ 8,828
Building	46,776	44,125
Furniture and fixtures	57,039	50,084
Computer equipment and software	58,144	44,449
Leasehold improvements	26,611	21,912
Construction in progress	2,225	4,074
	200,851	173,472
Less accumulated depreciation and amortization	77,991	57,406
	$ 122,860	$ 116,066

6. Intangibles and Other Assets

Intangibles and other assets consist of the following:

Fiscal Year	Useful Lives	2004 Carrying Amount	2004 Accumulated Amortization	2003 Carrying Amount	2003 Accumulated Amortization
		IN THOUSANDS			
Intangibles—subject to amortization					
Trademarks	10 yrs.	$ 1,767	$ 927	$ 2,541	$ 804
Customer List	9 yrs.	5,300	568	—	—
Patents	14-20 yrs.	571	95	504	63
Other	7-20 yrs.	135	129	117	111
Total Intangibles—subject to amortization		7,773	1,719	3,162	978
Intangibles—not subject to amortization					
Tradenames		29,702	—	4,000	—
Other Assets					
Deposits		2,387	—	1,928	—
Cash surrender value of life insurance		2,182	—	1,667	—
Other		542	—	605	—

None

Total Other Assets	5,111	—	4,200	—
Total intangibles and other assets	$ 42,586	$ 1,719	$ 11,362	$ 978
Net of amortization		$ 40,867		$ 10,384

Amortization expense for intangible assets was approximately $740,000 in 2004, $118,000 in 2003 and $128,000 in 2002. Amortization expense is estimated to be approximately $705,000 for 2005, $695,000 for 2006, $683,000 for 2007, $677,000 for 2008 and $676,000 for 2009.

7. Debt

On September 30, 2004, the Company executed the renewal of its Loan Agreement and Revolving Line of credit (the "Revolver") with its primary bank, dated September 23, 2004, whereby the bank will provide a revolving line of credit of up to $50 million. The Revolver is secured by 65% of the issued and outstanding shares of certain subsidiaries of the Company pursuant to a Stock Pledge Agreement. The revolver requires the maintenance of net worth, quarterly income, working capital and financial ratios. Borrowings under the Revolver bear interest at prime minus 1% (4.25% at year-end) or Eurodollar base rate plus 0.50% (2.87% at year-end), due September 2005. There were $24 million in borrowings under the U.S. Short-term Revolver as of fiscal year-end 2004 and no borrowings as of fiscal year-end 2003. None of the funds available under the facility are subject to a borrowing base calculation. There was $7,000 in interest expense under the credit facility for fiscal year 2004 and none for 2003, and 2002.

At fiscal year-end 2004 and 2003, the Company had outstanding letters of credit of approximately $11.6 million and $8.9 million, respectively, to vendors for the purchase of merchandise, which amounts reduced availability of borrowings under the Revolver.

Banks: Foreign-based. During October 2002, Fossil Japan restructured its short-term credit facility with its primary bank allowing borrowings of up to 400 million yen. All outstanding borrowings under the facility bear interest at the Euroyen rate which was .09125% as of fiscal year end 2004. In connection with the financing agreement, Fossil Japan agreed to pay an unused fee of 0.3% per annum. The facility is collateralized by a U.S. bank. Japan-based borrowings, in U.S. dollars, under the facility were approximately $2.9 million and $2.8 million at fiscal year-end 2004 and 2003, respectively.

8. Other (Expense) Income—Net

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

Fiscal Year	2004	2003	2002
	IN THOUSANDS		
Interest income	$ 1,282	$ 1,415	$ 1,013
Minority interest in subsidiaries and affiliates	(4,054)	(3,221)	(1,958)
Equity in gains of joint ventures	826	1,200	842
Currency gains (losses)	1,319	598	(528)
Royalty income	302	561	611
Other (expense) income	(12)	(770)	176

None

	$ (337)	$ (217)	$ 156

9. Income Taxes

Significant components of the consolidated deferred tax assets and liabilities were:

Fiscal Year	2004	2003
	IN THOUSANDS	
Current deferred tax assets (liabilities):		
Bad debt allowance	$ 4,287	$ 5,002
Returns allowance	10,354	7,057
Fixed Assets	(3,969)	(2,662)
Inventory	1,287	1,167
Compensation	2,985	984
Accrued Liabilities	2,987	215
In-transit returns inventory	(5,984)	(4,552)
Deferred rent	1,345	187
Other	2,529	1,255
Net current deferred tax assets	15,821	8,653
Long-term deferred tax liability:		
Undistributed earnings of certain foreign subsidiaries	(30,005)	(32,861)
Tradenames and customer list	(10,171)	—
Other	(1,876)	—
Total deferred tax liabilities	(42,052)	(32,861)
Net deferred tax liabilities	$ (26,231)	$ (24,208)

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

Fiscal Year	2004	2003	2002
		IN THOUSANDS	

None

Current provision:			
United States	$ 28,845	$ 4,662	$ 5,304
Non-US	29,879	20,109	15,041
Deferred provision			
United States	(8,711)	13,198	13,674
Non-US	(5,977)	85	
Tax benefit related to exercise of stock options (credited to additional paid-in capital)	6,497	3,082	3,053
Provision for income taxes	$ 50,533	$ 41,136	$ 37,072
Tax expense (benefit) related to other comprehensive income (loss)	$ 523	$ 923	$ (2,272)

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

Fiscal Year	2004	2003	2002
Tax at statutory rate	35.0%	35.0%	35.0%
State, net of federal tax benefit	0.8%	0.3%	0.4%
Foreign rate differential	(10.3)%	(6.6)%	(8.8)%
US tax on foreign income	9.8%	8.0%	9.3%
Other	0.5%	0.9%	2.7%
Provision for income taxes	35.8%	37.6%	38.6%

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

On October 22, 2004, the President of the United States signed the American Jobs Creation Act of 2004 (the “Act”). The Act creates a temporary incentive for U.S. corporations to repatriate accumulated income earned abroad by providing an 85 percent dividends received deduction for certain dividends from controlled foreign corporations. The deduction is subject to a number of limitations and, as of today, uncertainty remains as to how to interpret numerous provisions in the Act. As of 1/1/2005, the Company has deferred tax liabilities of $30 million related to undistributed earnings of certain foreign subsidiaries where repatriation is likely to occur. Based on management’s analysis of the Act, it is likely that, during 2005, the Company may repatriate between $125 million to $175 million in extraordinary dividends, as defined in the Act.

10. Commitments

License Agreements. The Company has various license agreements to market watches bearing certain trademarks owned by various entities. In accordance with these agreements, the Company incurred royalty expense of approximately $32.9 million, $26.4 million and $17.8 million in fiscal years 2004, 2003 and 2002, respectively. These amounts are included in the Company’s cost of sales and selling expenses. The Company has several agreements in effect at the end of fiscal year 2004 which expire on various dates between 2007 and 2012 and require the Company to pay royalties ranging from 3.5% to 20.0% of defined

net sales. Future minimum royalty commitments under such license agreements at the close of fiscal year 2004 are as follows (amounts in thousands):

2005	$ 29,735
2006	32,290
2007	34,274
2008	32,361
2009	17,391
Thereafter	19,828
	$ 165,879

Leases. The Company leases its retail and outlet store facilities as well as certain of its office facilities and equipment under non-cancelable operating leases. Most of the retail store leases provide for contingent rental based on operating results and require the payment of taxes, insurance and other costs applicable to the property. Generally, these leases include renewal options for various periods at stipulated rates. Rent expense under these agreements was approximately $29.8 million, $23.2 million, and $20.6 million for fiscal years 2004, 2003 and 2002, respectively. Contingent rent expense has been immaterial in each of the last three fiscal years. Future minimum rental commitments under such non-cancelable leases at the close of fiscal year 2003 are as follows (amounts in thousands):

2005	$ 22,467
2006	20,903
2007	19,035
2008	16,837
2009	14,897
Thereafter	33,966
	$ 128,105

Other Commitments. The Company has certain contingent liabilities with respect to long-term unconditional purchase obligations for component parts related to the production of certain of its technology watch products. At the end of fiscal year 2004 the aggregate amount of these obligations outstanding was approximately $1.4 million. Total payments under these arrangements through 2004 totaled approximately $6.2 million.

11. Stockholders' Equity and Benefit Plans

Common and Preferred Stock. *2004 and 2002 Stock Splits.* On March 12, 2004 and May 13, 2002, the Board of Directors declared a three-for-two stock split ("2004 and 2002 Stock Splits") of the Company's Common Stock which was effected in the form of a stock dividend which was paid on April 8, 2004 to stockholders of record on March 26, 2004 and June 7, 2002 to stockholders of record on May 24, 2002, respectively. Retroactive effect on prior years was given to the 2004 and 2002 Stock Splits in all share and per share data in these consolidated financial statements and notes.

The Company has 100,000,000 shares of authorized $0.01 par value Common Stock, with 71,108,539 and 69,941,510 shares issued and outstanding at the close of fiscal years 2004 and 2003, respectively. The Company has

1,000,000 shares of authorized $0.01 par value preferred stock with none issued or outstanding. Rights, preferences and other terms of preferred stock will be determined by the Board of Directors at the time of issuance.

Common Stock Repurchase Programs. During fiscal year 2004 the Company's Board of Directors authorized management to repurchase up to 667,000 shares of the Company's Common Stock in the open

market or privately negotiated transactions (the "Repurchase Programs"). During 2004, the Company repurchased and retired 247,000 shares of its Common Stock under the Repurchase Programs at a cost of $6.9 million. During fiscal years 2003 and 2002, the Company repurchased and retired 568,324 and 3,558 shares, respectively, of its Common Stock under prior repurchase programs at a cost of approximately $14.3 million and $59,000, respectively. At the end of 2004, the Company had approximately 420,000 shares available for repurchase.

Deferred Compensation and Savings Plans. The Company has a savings plan in the form of a defined contribution plan (the "401(k) Plan") for substantially all U.S. based full-time employees of the Company. After one year of service (minimum of 1,000 hours worked), the Company matches 50% of employee contributions up to 3% of their compensation and 25% of the employee contributions between 4% and 6% of their compensation. The Company also has the right to make certain additional matching contributions not to exceed 15% of employee compensation. The Company's Common Stock is one of several investment alternatives available under the 401 (k) Plan. Matching contributions made by the Company to the 401(k) Plan totaled approximately $600,000, for each of the fiscal years 2004 and 2003 and $500,000 for fiscal year 2002.

In December 1998, the Company adopted the Fossil, Inc. and Affiliates Deferred Compensation Plan (the "Deferred Plan"). Eligible participants may elect to defer up to 50% of their salary pursuant to the terms and conditions of the Deferred Plan. Eligible participants include certain officers and other highly compensated employees designated by the Deferred Plan's administrative committee. In addition, the Company may make employer contributions to participants under the Deferred Plan from time to time. The Company made no contributions to the Deferred Plan during fiscal years 2004, 2003 and 2002.

Restricted Stock Plan. The 2002 Restricted Stock Plan of the Company is intended to advance the best interests of the Company, its subsidiaries and its stockholders in order to attract, retain and motivate key employees by providing them with additional incentives through the award of shares of restricted stock. The Restricted Stock Plan is being fully funded with treasury shares contributed to the Company from a significant stockholder. During 2004 and 2003, respectively, 239,450 and 90,500 shares of restricted stock were contributed to the Restricted Stock Plan by the stockholder and reissued by the Company to the employees. The current restricted shares outstanding predominantly vest over a period ranging from one to nine years. These shares were accounted for at fair value and resulted in deferred compensation and additional paid-in capital of approximately $3.2 million in fiscal 2004 and $1.8 million in fiscal 2003. At fiscal year-end 2004, the Company has reserved 655,550 common shares for future issuances under the Restricted Stock Plan.

Long-term Incentive Plan. An aggregate of 5,821,875 shares of Common Stock were initially reserved for issuance pursuant to the Incentive Plan, adopted April 1993. An additional 3,037,500 shares were reserved in each of 1995, 1998, 2001 and 2003 for issuance under the Incentive Plan. Designated employees of the Company, including officers and directors, are eligible to receive (i) stock options, (ii) stock appreciation rights, (iii) restricted or non-restricted stock awards, (iv) cash awards, or (v) any combination of the foregoing. The Incentive Plan is administered by the Compensation Committee of the Company's Board of Directors (the "Compensation Committee"). Each option issued under the Incentive Plan terminates at the time designated by the Compensation Committee, not to

exceed ten years. The current options outstanding predominately vest over a period ranging from three to five years and were priced at not less than the market value of the Company's Common Stock at the date of grant. The weighted average fair value of the stock options granted during fiscal years 2004, 2003 and 2002 was $10.46, $9.78 and $7.95, respectively.

Nonemployee Director Stock Option Plan. An aggregate of 506,250 shares of Common Stock were reserved for issuance pursuant to the Nonqualified Stock Option Plan, adopted April 1993. An additional 112,500 shares were reserved in fiscal year 2002 for issuance under this plan. During the first year individuals are elected as nonemployee directors of the Company, they receive a grant of 5,000 nonqualified stock options. In addition, on the first day of each subsequent calendar year, each non-employee director automatically receives a grant of an additional 4,000 nonqualified stock options as long as the person is serving as a non-employee director. Pursuant to this plan, 50% of the options granted will become exercisable on the first anniversary of the date of grant and in two additional installments of 25% on the second and third anniversaries. The exercise prices of options granted under this plan were not less than the fair market value of the Common Stock at the date of grant. The weighted average fair value of the stock options granted during fiscal years 2004, 2003 and 2002 was $13.11, $15.07 and $11.07, respectively.

The fair value of options granted under the Company's stock option plans during fiscal years 2004, 2003 and 2002 was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used: no dividend yield, expected volatility of approximately 59% to 66%, risk free interest rate of 3.0% to 6.0%, and expected life of five to six years. The following tables summarize the Company's stock option activity:

Long-Term Incentive Plan

	Exercise Price Per Share	Weighted Average Exercise Price Per Share	Outstanding	Weighted Average Exercise Price Per Share	Exercisable	Available for Grant
Balance Fiscal, 2001	$1.309-$14.500	$ 5.814	6,203,690	$ 3.997	2,917,457	2,994,972
Granted	$8.960-$15.867	$ 9.737	1,551,494	—	—	(1,551,494)
Exercised	$1.309-$14.009	$ 4.457	(1,406,333)	—	—	—
Canceled	$2.469-$14.993	$ 8.544	(261,827)	—	—	261,827
Exercisable	$1.309-$14.500	—			(628,040)	—
Balance Fiscal, 2002	$1.309-$15.867	$ 7.020	6,087,024	$ 5.062	2,289,417	1,705,305
Granted	$ 11.3070-$19.587	$ 12.354	1,146,450	—	—	(1,146,450)
Shares designated for grant through plan						3,037,500

None

Exercised	$1.309-$14.113	$ 6.806	(1,168,688)	—	—	—
Canceled	$4.889-$15.647	$ 9.873	(190,911)	—	—	190,911
Exercisable	$1.309-$15.867	—			(41,973)	—
Balance Fiscal, 2003	$1.309-$19.587	$ 8.027	5,873,875	$ 5.653	2,247,444	3,787,266
Granted	$18.233-$31.390	$ 20.488	1,171,010	—	—	(1,171,010)
Exercised	$1.309-$17.167	$ 7.272	(1,350,933)	—	—	—
Canceled	$1.975-$22.650	$ 11.669	(292,552)	—	—	292,552
Exercisable	$1.309-$19.587	—			(60,900)	—
Balance Fiscal, 2004	$1.309-$31.390	$ 10.725	5,401,400	$ 6.567	2,186,544	2,908,808

Nonemployee Director Plan

	Exercise Price Per Share	Weighted Average Exercise Price Per Share	Outstanding	Weighted Average Exercise Price Per Share	Exercisable	Available for Grant
Balance Fiscal, 2001	$1.654-$10.278	$ 5.161	353,250	$ 4.409	286,313	35,296
Granted	$13.560	$ 13.560	22,500		—	(22,500)
Shares designated for grant through the plan						112,500
Exercised	$2.593-$3.753	$ 3.351	(43,875)		—	—
Exercisable	$1.654-$10.278	—	—		(7,875)	—
Balance Fiscal, 2002	$1.654-$13.560	$ 5.970	331,875	$ 5.107	278,438	125,296
Granted	$19.033	$ 19.033	7,500		—	(7,500)

None

Exercised	$2.593-$9.333	$ 4.851	(33,750)		—	—
Canceled	$6.389-$13.560	$ 9.806	(12,375)			12,375
Exercisable	$1.654-$13.560	—	—		(8,438)	—
Balance Fiscal, 2003	$1.654-$19.033	$ 6.271	293,250	$ 5.597	270,000	130,171
Granted	$18.753-$25.640	$ 21.508	50,000		—	(50,000)
Exercised	$ 1.6543-$2.59266	$ 1.967	(45,566)		—	—
Canceled	—	—	—			—
Exercisable	$1.654-$19.033	—	—		(15,566)	—
Balance Fiscal, 2004	$1.654-$25.640	$ 9.489	297,684	$ 7.460	254,434	80,171

Additional weighted average information for options outstanding and exercisable as of fiscal year-end 2004:

		Options Outstanding			Options Exercisable	
	Range of Exercise Price	Number Of Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life	Number Of Shares	Weighted Average Exercise Price Per Share
Long-Term Incentive Plan:	$1.309-$7.000	1,118,830	$ 3.595	2.9 years	861,771	$ 3.054
	$7.001-$10.000	2,055,342	$ 8.326	5.9 years	1,087,764	$ 8.043
	$10.001-$31.390	2,227,228	$ 16.520	8.5 years	237,009	$ 12.567
		5,401,400			2,186,544	$ 6.567
Nonemployee Director Plan:	$1.654-$7.000	133,309	$ 4.091			

None

			3.0 years	133,309	$ 4.091
$7.001-$10.000	68,625	$ 8.873	5.4 years	68,625	$ 8.873
$10.001-$25.640	95,750	$ 17.445	8.1 years	52,500	$ 14.169
	297,684			254,434	$ 7.460

12. Supplemental Cash Flow Information

Fiscal Year	2004	2003	2002
	IN THOUSANDS		
Cash paid during the year for:			
Interest	$ 30	$ 36	$ 11
Income taxes	$ 33,110	$ 24,567	$ 17,608
Supplemental disclosures of non-cash investing and financing activities:			
Purchase of European and Australian stores	$ 151	$ —	$ —
Purchase of property for capital lease obligation	$ 1,560	$ —	$ —

13. Major Customer, Segment and Geographic Information

Customers of the Company consist principally of major department stores and specialty retailers located throughout the United States, Europe and the Far East. There were no significant customers, individually or considered as a group under common ownership, which accounted for over 10% of net sales for fiscal years 2004, 2003 and 2002. In connection with the recent announcement of Federated Department Stores Inc.’s acquisition of May Department Stores Co., on a pro forma basis, sales to this combined entity would approximate 11% of the Company’s fiscal 2004 net sales.

The Company’s majority-owned businesses operate primarily in four geographic regions. The Company operates in two distinct distribution channels, wholesale and retail. In its wholesale operations the Company designs, develops, markets and distributes fashion and premium watches and other accessories to department stores, specialty shops, and independent retailers throughout the world. The Company’s retail operations consist of its outlet and mall-based and full-priced retail stores and its website selling the Company’s product directly to the consumer. Specific information related to the Company’s reportable segments and geographic areas are contained in the following table.

None

Intercompany sales of products between geographic areas are referred to as intergeographic items. All intercompany balances have been eliminated.

Fiscal Year 2004	Net Sales	Operating Income	Long-lived Assets	Total Assets
			IN THOUSANDS	
United States—exclusive of Stores:				
External customers	$ 395,687	$ 22,392	$ 127,876	$ 194,315
Intergeographic	163,383	—	—	—
Retail worldwide	130,109	4,600	21,486	57,064
Europe:			53,542	351,216
External customers	306,937	35,488		
Intergeographic	78,935	—	—	—
Far East and Export:			7,653	181,229
External customers	127,227	78,989		
Intergeographic	310,124	—	—	—
Intergeographic items	(552,442)	—	—	—
Consolidated	$ 959,960	$ 141,469	$ 210,557	$ 783,824

Fiscal Year 2003	Net Sales	Operating Income	Long-lived Assets	Total Assets
			IN THOUSANDS	
United States—exclusive of Stores:				
External customers	$ 337,059	$ 28,769	$ 79,631	$ 314,594
Intergeographic	139,063	—	—	—
Retail worldwide	104,118	2,639	20,204	45,278
Europe:			42,809	165,226
External customers	258,078	16,633		
Intergeographic	13,489	—	—	—
Far East and Export:			5,577	62,443
External customers	81,920	61,709		
Intergeographic	246,648	—	—	—
Intergeographic items	(399,200)	—	—	—
Consolidated	$ 781,175	$ 109,750	$ 148,221	$ 587,541

None

Fiscal Year 2002	Net Sales	Operating Income	Long-lived Assets	Total Assets
			IN THOUSANDS	
United States—exclusive of Stores:			$ 75,663	$ 268,915
External customers	$ 327,151	$ 33,637	—	—
Intergeographic	103,046	—	—	—
Retail worldwide	83,135	(8,432)	22,931	43,051
Europe	189,485	13,233	23,510	121,704
Far East and Export:			4,783	48,856
External customers	63,567	57,492	—	—
Intergeographic	219,945	—	—	—
Intergeographic items	(322,991)		—	—
Consolidated				
	$ 663,338	$ 95,930	$ 126,887	$ 482,526

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

We have had no changes in or disagreements with our accountants to report under this item.

Item 9A. Controls and Procedures

Controls Evaluation and Related CEO and CFO Certifications

We conducted an evaluation of the effectiveness of the design and operation of the "disclosure controls and procedures" ("Disclosure Controls"), as defined by Exchange Act Rules 13a - 15(e) and 15d - 15(e), as of the end of the period covered by this Annual Report. The controls evaluation was done under the supervision and with the participation of management, including our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO").

Attached as exhibits to this Annual Report are certifications of the CEO and the CFO, which are required in accordance with Rule 13a-14 of the Exchange Act. This "Controls and Procedures" section includes the information concerning the controls evaluation referred to in the certifications, and it should be read in conjunction with the certifications for a more complete understanding of the topics presented.

Definition of Disclosure Controls

Disclosure Controls are controls and procedures designed to reasonably assure that information required to be disclosed in the reports filed under the Exchange Act, such as this Annual Report, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure Controls are also designed to reasonably assure that such information is accumulated and communicated to management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure. Our Disclosure Controls include components of internal control over financial reporting, which consists of control processes designed to provide reasonable assurance regarding the reliability of our financial

reporting and the preparation of financial statements in accordance with generally accepted accounting principles in the United States. To the extent that components of our internal control over financial reporting are included within our Disclosure Controls, they are included in the scope of the quarterly controls evaluation.

Limitations on the Effectiveness of Controls

Our management, including the CEO and CFO, does not expect that the Disclosure Controls or internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Scope of the Controls Evaluation

The evaluation of our Disclosure Controls included a review of the controls' objectives and design, our implementation of the controls and the effect of the controls on the information generated for use in this Annual Report. In the course of the controls evaluation, we sought to identify data errors, control problems or acts of fraud and confirm that appropriate corrective action, including process improvements, were being undertaken. This type of evaluation is performed on a quarterly basis so that the conclusions of management, including the CEO and CFO, concerning the effectiveness of the controls can be reported in our Quarterly Reports on Form 10-Q and to supplement the disclosures made in the Company's Annual Report on Form 10-K. Many of the components of the Disclosure Controls are also evaluated on an ongoing basis by the Internal Audit Department and by other personnel in the finance department. The overall goals of these various evaluation activities are to monitor our Disclosure Controls, and to modify them as necessary. Our intent is to maintain the Disclosure Controls as dynamic systems that change as conditions warrant.

Among other matters, we also considered whether the evaluation identified any "significant deficiencies" or "material weaknesses" in internal control over financial reporting, and whether we had identified any acts of fraud involving personnel with a significant role in our internal control over financial reporting. This information was important both for the controls evaluation generally, and because Item 5 in the certifications of the CEO and CFO requires that the CEO and CFO disclose that information to our Board's Audit Committee and to our independent registered public accountants. In the PCAOB Auditing Standard No. 2, "An Audit of Internal Control Over Financial Reporting Performed in Conjunction with an Audit of Financial Statements", a "significant deficiency" is referred to as a control deficiency, or combination of control deficiencies, that adversely affect our ability to initiate, authorize, record, process or report external financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of our annual or interim financial statements that

is more than inconsequential will not be prevented or detected. A “material weakness” is referred to as a significant deficiency or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. We also sought to address other controls matters in the controls evaluation, and in each case if a problem was identified, we considered what revision, improvement and/or correction to make in accordance with its ongoing procedures.

Conclusions

Based upon the controls evaluation, our CEO and CFO have concluded that as of the end of the period covered by this Annual Report, the Disclosure Controls were effective. Further, there have been no changes in our internal controls over financial reporting that occurred during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management’s Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal controls over financial reporting. Under the supervision and with the participation of our management, including our CEO and CFO, we assessed the effectiveness of our internal control over financial reporting as of the end of the period covered by this report based on the framework in “Internal Control—Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that assessment, our CEO and CFO concluded that our internal controls over financial reporting were effective.

Our independent registered public accounting firm, Deloitte & Touche LLP, has issued an attestation report on our management’s assessment of our internal control over financial reporting. The attestation report is included herein.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Fossil, Inc.
Dallas, Texas

We have audited management’s assessment, included in the accompanying Management’s Report on Internal Control over Financial Reporting that Fossil, Inc. and subsidiaries (the “Company”) maintained effective internal control over financial reporting as of January 1, 2005, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management’s assessment and an opinion on the effectiveness of the Company’s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management’s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

None

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of January 1, 2005, is fairly stated, in all material respects, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 1, 2005, based on the criteria

established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended January 1, 2005 of the Company and our report dated March 17, 2005 expressed an unqualified opinion on those financial statements and financial statement schedule.

/s/ Deloitte & Touche LLP

Dallas, Texas
March 17, 2005

Item 9B. Other Information

None.

PART III

Item 10. Directors and Executive Officers of the Registrant

The information under the headings "Directors and Nominees," "Executive Officers," "Section 16(a) Beneficial Ownership Reporting Compliance" and "Board Committees and Meetings" in our proxy statement to be filed with

the Securities and Exchange Commission pursuant to Regulation 14A, not later than 120 days after the end of the fiscal year covered by this report, is incorporated herein by reference.

We have adopted a code of ethics that applies to all our directors and employees, including the principal executive officer, principal financial officer, principal accounting office and controller. The full text of our Code of Conduct and Ethics is published on our Investor Relations web site at *www.fossil.com*. We intend to disclose future amendments to certain provisions of the Code of Conduct and Ethics, or waivers of such provisions granted to executive officers and directors, on this web site within five business days following the date of such amendment or waiver.

Item 11. Executive Compensation

The information required in response to this Item is incorporated herein by reference to our proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A, not later than 120 days after the end of the fiscal year covered by this report.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information required in response to this Item is incorporated herein by reference to our proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A, not later than 120 days after the end of the fiscal year covered by this report.

Item 13. Certain Relationships and Related Transactions

The information required in response to this Item is incorporated herein by reference to our proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A, not later than 120 days after the end of the fiscal year covered by this report.

Item 14. Principal Accountant Fees and Services

The information required in response to this Item is incorporated herein by reference to our proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A, not later than 120 days after the end of the fiscal year covered by this report.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) Documents filed as part of Report.

None

3. Exhibits required to be filed by Item 601 of Regulation S-K.

EXHIBIT INDEX

Exhibit Number	Description
3.1(1)	Second Amended and Restated Certificate of Incorporation of Fossil, Inc.
3.2(1)	Certificate of Amendment of the Second Amended and Restated Certificate of Incorporation of Fossil, Inc.
3.3(1)	Amended and Restated Bylaws of Fossil, Inc.
10.1(2)	Fossil, Inc. 1993 Nonemployee Director Stock Option Plan (incorporated herein by reference to Exhibit 10.1 of the Company's Registration Statement of Form S-1, registration no. 33-45357, filed with the Securities and Exchange Commission).
10.2(2)	Fossil, Inc. 1993 Long-Term Incentive Plan (incorporated herein by reference to Exhibit 10.2 of the Company's Registration Statement of Form S-1, registration no. 33-45357, filed with the Securities and Exchange Commission).
10.3(2)	Form of Award Agreement under the Fossil, Inc. 1993 Long-Term Incentive Plan (incorporated herein by reference to Exhibit 10.1 of the Company's Registration Statement of Form S-3, registration no. 333-107476, filed with the Securities and Exchange Commission).
10.4(2)	Fossil, Inc. 1993 Savings and Retirement Plan (incorporated herein by reference to Exhibit 10.3 of the Company's Registration Statement of Form S-1, registration no. 33-45357, filed with the Securities and Exchange Commission).
10.5(1)	Subordination Agreement of Fossil Trust for the benefit of First Interstate Bank of Texas, N.A. dated as of August 31, 1994.
10.6(1)	Master Licensing Agreement dated as of August 30, 1994, by and between Fossil, Inc. and Fossil Partners, L.P.
10.7(1)	Agreement of Limited Partnership of Fossil Partners, L.P.
10.8(1)(2)	First Amendment to the Fossil, Inc. 1993 Long-Term Incentive Plan.
10.9(1)(2)	Second Amendment to the Fossil, Inc. 1993 Long-Term Incentive Plan.
10.10(1)(2)	Amendment to the Fossil, Inc. 1993 Non-Employee Director Stock Option Plan.
10.11(1)(2)	Fossil, Inc. and Affiliates Deferred Compensation Plan.
10.12(2)	Third Amendment to the Fossil, Inc. 1993 Long-Term Incentive Plan (incorporated by reference to Exhibit 4.1 of the Company's Report on Form 10-Q for the quarterly period ended July 7, 2001).
10.13(1)(2)	2002 Restricted Stock Plan of Fossil, Inc. and Form of Award Agreement.

10.14	Stock Purchase Agreement between FMW Acquisition, Inc., Tempus International Corp. and Jack Barouh dated March 23, 2004 (without exhibits) (incorporated by reference to Exhibit 10.1 of the Company's Report on Form 10-Q for the quarterly period ended April 3, 2004).
10.15	Stock Pledge Agreement entered into on September 23, 2004, by and between Fossil, Inc. and Wells Fargo Bank, National Association (incorporated by reference to Exhibit 10.3 of the Company's Report on Form 8-K filed on October 5, 2004).

None

10.16	Loan Agreement, by and among, Wells Fargo Bank, National Association, Fossil Partners, L.P., Fossil, Inc., Fossil Intermediate, Inc., Fossil Trust, Fossil Stores I, Inc., Intermediate Leasing, Inc., Arrow Merchandising, Inc., Fossil Holdings, LLC and FMW Acquisition, Inc., dated September 23, 2004 (incorporated by reference to Exhibit 10.1 of the Company's Report on Form 8-K filed on October 5, 2004).
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10.18(2)	Employment Agreement by and between Fossil, Inc. and Harold S. Brooks dated October 31, 2004 (without exhibits) (incorporated by reference to Exhibit 10.1 of the Company's Report on Form 10-Q for the quarterly period ended October 2, 2004).
21.1(1)	Subsidiaries of Fossil, Inc.
23.1(1)	Consent of Independent Registered Public Accounting Firm.
31.1(1)	Certification of Principal Executive Officer
31.2(1)	Certification of Principal Financial Officer
32.1(1)	Certification of Chief Executive Officer Pursuant to Section 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2(1)	Certification of Chief Financial Officer Pursuant to Section 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(1) Filed herewith.

(2) Management contract or compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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 in the City of Richardson, State of Texas, on March 17, 2005.

FOSSIL, INC.

/s/ KOSTA N. KARTSOTIS

Kosta N. Kartsotis,
President, Chief Executive Officer and Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Capacity	Date

None

/s/ TOM KARTSOTIS	Chairman of the Board and Director	March 17, 2005
Tom Kartsotis	(Principal Executive Officer)	
/s/ KOSTA N. KARTSOTIS	President, Chief Executive Officer and Director	March 17, 2005
Kosta N. Kartsotis		
/s/ MIKE L. KOVAR	Senior Vice President and Chief Financial Officer	March 17, 2005
Mike L. Kovar	(Principal Financial and Accounting Officer)	
/s/ MICHAEL W. BARNES	President, International and Special Markets	March 17, 2005
Michael W. Barnes	Division and Director	
/s/ JAL S. SHROFF	Director	March 17, 2005
Jal S. Shroff		
/s/ KENNETH W. ANDERSON	Director	March 17, 2005
Kenneth W. Anderson		
/s/ ALAN J. GOLD	Director	March 17, 2005

None

Alan J. Gold		
/s/ MICHAEL STEINBERG	Director	March 17, 2005
Michael Steinberg		
/s/ DONALD J. STONE	Director	March 17, 2005
Donald J. Stone		
/s/ ANDREA CAMERANA	Director	March 17, 2005
Andrea Camerana		

SCHEDULE II

FOSSIL, INC. AND SUBSIDIARIES

VALUATION AND QUALIFYING ACCOUNTS

Fiscal Years 2002, 2003 and 2004

(in thousands)

Classification	Balance at the Begining of Period	Additions Charged (Credited) to Operations	Deductions Actual Returns or Writeoffs	Balance at End of Period
Fiscal Year 2002:				
Account receivable allowances:				
Sales returns	22,457	35,832	(33,476)	24,813

Bad debts	11,710	2,839	(1,932)	12,617
Cash discounts	325	419	(465)	279
Inventory in transit for estimated customer returns	(13,236)	(21,725)	19,936	(15,025)
Fiscal Year 2003:				
Account receivable allowances:				
Sales returns	24,813	36,044	(34,224)	26,633
Bad debts	12,617	3,414	(3,122)	12,909
Cash discounts	279	696	(549)	426
Inventory in transit for estimated customer returns	(15,025)	(20,761)	19,983	(15,803)
Fiscal Year 2004:				
Account receivable allowances:				
Sales returns	26,633	43,413	(40,226)	29,820
Bad debts	12,909	(387)	(774)	11,748
Cash discounts	426	2,989	(459)	2,956
Inventory in transit for estimated customer returns	(15,803)	(18,315)	16,390	(17,728)

None

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31.2(1)	Certification of Principal Financial Officer
32.1(1)	Certification of Chief Executive Officer Pursuant to Section 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2(1)	Certification of Chief Financial Officer Pursuant to Section 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(1) Filed herewith.

(2) Management contract or compensatory plan or arrangement.

SECOND AMENDED AND RESTATED

None

CERTIFICATE OF INCORPORATION

OF

FOSSIL, INC.

Fossil, Inc., a corporation organized and existing under the General Corporation Law of the State of Delaware (the "Corporation"), does hereby certify as follows:

1. The name under which the Corporation was originally incorporated was Fossil Acquisition Corporation.

2. The date of filing of the original Certificate of Incorporation of the Corporation (the "Original Certificate") with the Secretary of State of the State of Delaware is December 26, 1991.

3. The date of filing of the first Certificate of Amendment of the Original Certificate (the "First Amended Certificate") with the Secretary of State of the State of Delaware is June 21, 1995.

4. This Second Amended and Restated Certificate of Incorporation of the Corporation (the "Second Amended and Restated Certificate") was duly adopted in accordance with the provisions of Sections 242 and 245 of the General Corporation Law of the State of Delaware ("DGCL").

5. This Second Amended and Restated Certificate restates and integrates and amends the Original Certificate and the First Amended Certificate to read in its entirety as follow:

ARTICLE I

The name of the Corporation is Fossil, Inc.

ARTICLE II

The address of the Corporation's registered office in the State of Delaware is 1013 Centre Road, New Castle County, Wilmington, Delaware 19805. The name of the Corporation's registered agent at such address is The Prentice-Hall Corporation System, Inc.

ARIICLE III

The purpose of the corporation is to engage in any lawful act or activity for which corporations may be organized under the DGCL.

None

ARTICLE IV

The aggregate number of shares of all classes of stock which the Corporation shall have authority to issue is 51,000,000 shares, consisting of 1,000,000 shares of preferred stock, par value $.0l per share (“Preferred Stock”), and 50,000,000 shares of common stock, par value $.01 per share (“Common Stock”).

The Preferred Stock may be issued, from time to time, in one or more series as authorized by the Board of Directors. The Board of Directors, by resolution, shall designate that series to distinguish it from other series and classes of stock of the Corporation, shall specify the number of shares to be included in the series, and shall fix the terms, rights, restrictions, and qualifications of, the shares of the series, including any preferences, voting power, dividend rights and redemption, sinking fund and conversion rights. The relative powers, preferences and rights of each series of Preferred Stock in relation to the powers, preferences and rights of each other series of Preferred Stock shall be as fixed from time to time by the Board of Directors in the resolution or resolutions authorizing the issuance of each series adopted by the Board of Directors.

Except as otherwise required by law, this Certificate of Incorporation or the provisions of any resolutions adopted by the Board of Directors authorizing the issuance of Preferred Stock, each holder of shares of Common Stock shall be entitled to one vote in respect of each share of Common Stock held in his name on the books of the Corporation on each matter voted upon by the stockholders. Cumulative voting of shares of Common Stock is expressly prohibited.

ARTICLE V

The business affairs of the Corporation shall be managed by or under the direction of a Board of Directors, except as otherwise provided by law or by this Certificate of Incorporation.

The Board of Directors shall have the power to make, alter, amend, change, add to or repeal the bylaws of the Corporation.

The Board of Directors shall consist of such number of directors that, from time to time, shall be fixed by, or in the manner provided in, the bylaws of the Corporation. Election of directors need not be by written ballot unless the bylaws so provide.

The directors to be elected at the 1998 Annual Meeting of Stockholders shall be divided into three classes as nearly equal in number as possible, and designated as Class I, Class II and Class III. Class I directors shall be elected initially for a term expiring at the 1999 Annual Meeting of Stockholders, Class II directors shall be elected initially for a term expiring at the 2000 Annual Meeting of Stockholders, and Class III directors shall be elected initially for a term expiring at the 2001 Annual Meeting of Stockholders. Members of each class shall hold office

until their successors are elected and qualified. At the 1999 Annual Meeting of Stockholders and at each subsequent annual meeting of the stockholders of the Corporation, the successors of the class of directors whose term expires at that meeting shall be elected by a plurality vote of all votes cast at such meeting, to hold office for a term expiring at the Annual Meeting of Stockholders held in the third year following the year of their election, and until their successors are elected and qualified.

In addition to the powers and authority conferred upon the Board of Directors by statute or by this Certificate of Incorporation, the Board of Directors is hereby empowered to exercise all such powers and do all such acts and things as may be exercised or done by the Corporation, subject to the provisions of the DGCL, this Certificate of Incorporation and any bylaws adopted by the stockholders; provided, however, that no bylaws adopted by the stockholders shall invalidate any prior act of the Board of Directors that would have been valid if such bylaws had not been adopted.

ARTICLE VI

A director of the Corporation shall not be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the DGCL, or (iv) for any transaction from which the director derived an improper personal benefit. If the DGCL is amended after the date of filing of this Certificate of Incorporation to authorize any corporate action which further eliminates or limits the personal liability of directors, then the liability of a director of the Corporation, in addition to the limitation on personal liability provided herein, shall be limited to the fullest extent permitted by the DGCL as amended. Any repeal or modification of this Article VI by the stockholders of the Corporation shall be prospective only, and shall not adversely affect any limitation on the personal liability of a director of the Corporation existing at the time of such repeal or modification.

IN WITNESS WHEREOF, the undersigned has executed this Second Amended and Restated Certificate of Incorporation on behalf of the Corporation on June 1, 1998.

Attest:

FOSSIL, INC.

/s/ T.R. Tunnell

T.R. Tunnell
Senior Vice President, Chief Legal Officer& Secretary

None

/s/ Tom Kartsotis

Tom Kartsotis
Chairman of the Board and Chief
Executive Officer

None

CERTIFICATE OF AMENDMENT
OF THE
SECOND AMENDED AND RESTATED CERTIFICATE OF INCORPORATION
OF
FOSSIL, INC.

Fossil, Inc., a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware (the "Company"), does hereby certify:

FIRST: That the Board of Directors of the Company duly adopted a resolution proposing and declaring advisable the following amendment to the Second Amended and Restated Certificate of Incorporation of the Company:

Paragraph 1 of Article IV is hereby amended to read in its entirety as follows:

The aggregate number of shares of all classes of stock which the Corporation shall have authority to issue is 101,000,000 shares, consisting of 1,000,000 shares of preferred stock, par value $0.01 per share ("Preferred Stock"), and 100,000,000 shares of common stock, par value $0.01 per share ("Common Stock").

SECOND: The amendment of the Second Amended and Restated Certificate of Incorporation herein certified has been duly adopted in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware.

The effective time of the amendment herein certified shall be upon filing with the Delaware Secretary of State.

Signed and attested to on May 25, 2000.

FOSSIL, INC.

By: /s/ T.R. Tunnell
Print Name: T.R. Tunnell
Title: Senior Vice President, Development and Chief Legal Officer

ATTEST:

By: /s/ Lisa Lapiska
Name: Lisa Lapiska
Title: Vice President, Human Resources

None

None

AMENDED AND RESTATED BYLAWS

OF

FOSSIL, INC.

Adopted and Effective

October 23, 2000

None

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None

BYLAWS

OF

FOSSIL, INC.

ARTICLE I

OFFICES

Section 1.1 *Registered Office*. The registered office of Fossil, Inc. ("the Corporation") in the State of Delaware is 32 Loockerman Square, Suite L-100, Dover 19901, County of Kent. The registered agent at such address is The Prentice-Ban Corporation System Inc.

Section 1.2 *Other Offices*. The Corporation may also have offices at such other places both within and without the State of Delaware as the Board of Directors may from time to time determine.

ARTICLE II

MEETINGS OF STOCKHOLDERS

Section 2.1 *Place Of Meetings*. Meetings of the stockholders for the election of directors or for any other purpose shall be bold at such time and place, either within or without the State of Delaware, as shall be designated from time to time by the Board of Directors and stated in the notice of the meeting or in a duly executed waiver of notice thereof.

Section 2.2 *Annual Meetings*. The annual meeting of stockholders shall be held on such date and at such time as shall be designated from time to time by the Board of Directors and stated in the notice of meeting, at which meeting the stockholders shall elect a Board of Directors, and transact such other business as may properly be brought before the meeting. Written notice of the annual meeting stating the place, date and hour of the meeting shall be given to each stockholder entitled to vote at such meeting not less than ten nor more than sixty days before the date of the meeting.

Section 2.3 *Special Meetings*. Unless otherwise prescribed by law or by the Certificate of Incorporation of the Corporation, as amended from time to time (the "Certificate of Incorporation"), special meetings of stockholders, for any purpose or purposes, may be called by the Chairman of the Board, if any, the President or the President It the instruction of a majority of the Board of Directors or on the written request of holders of at least 50% of the total number of shares of capital stock of the Corporation issued and outstanding and entitled to vote. Such request shall state the specific purpose of purposes of the

proposed meeting. Written notice of the special meeting stating the place, date and hour of the meeting and the purpose or purposes

for which the meeting is called shall be given to each stockholder entitled to vote at such meeting not Ion than ton nor more than sixty days before the date of such meeting.

Section 2.4 *Quorum*. Except as otherwise provided by law or by the Certificate of Incorporation, the holders of a majority of the capital stock issued and outstanding and entitled to vote, present in person or represented by proxy, shall constitute a quorum at all meetings of stockholders for the transaction of business. If, however, such quorum shall not be present or represented at any meeting of stockholders, the stockholders entitled to vote, present in person or represented by proxy, shall have power to adjourn the meeting from time to time, without notice other than announcement at the meeting. until a quorum shall be present or represented. At such adjourned meeting at which a quorum shall be present or represented, any business may be transacted which might have been transacted at the meeting as originally noticed. If the adjournment is for more than thirty days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder entitled to vote at the meeting.

Section 2.5 *Voting*. Unless otherwise required by law, the Certificate of Incorporation or these Bylaws, any question brought before, any meeting of stockholders shall be decided by the vote of the holders of a majority of the stock represented and entitled to vote. Each stockholder represented at a meeting of stockholders shall be entitled to cast one vote for each share standing in his name on the books of the Corporation. Votes may be cast in person or by proxy but no proxy shall be voted or acted on or after three years from its date, unless such proxy provides for a longer period. The Board of Directors, in its discretion, or the officer of the Corporation presiding at a meeting of stockholders, in his discretion, may require that any votes cast at such meeting shall be cast by written ballot.

Section 2.6 *List of Stockholders Entitled to Vote*. The officer of the Corporation who has charge of the stock ledger of the Corporation shall prepare and make, at least 10 days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of At least ten days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or if not so specified, at the place where the meeting is to be bold. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof and may be inspected by any stockholder of the Corporation who is present.

Section 2.7 *Stock Ledger*. The stock ledger of the Corporation shall be the only evidence as to who are the stockholders entitled (i) to examine the stock ledger, the, list required by Section 2.6 of this Article II or the books of the Corporation and (ii) to vote in person or by proxy at any meeting of stockholders.

Section 2.8 *Record Date*. In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or to express consent to corporate action in writing without a meeting, or entitled to receive payment; of my dividend or other

None

distribution or allotment of any rights, or entitled to

exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other any other lawful action, the Board of Directors may fix a record date, which in the cast of a meeting, shall not be less than the minimum nor more than the maximum number of days prior to the scheduled date of such meeting permitted under the laws of the State of Delaware and which, in the case of any other action, shall be not less than the minimum nor more than the maximum number of days prior to any such action permitted by the laws of the State of Delaware. If no such record date is fixed by the Board of Directors, the record date shall be that prescribed by the laws of the State of Delaware. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a now record date for the adjourned meeting.

Section 2.9 *Conduct of Meetings by Presiding Person*. All determinations of the presiding person at each meeting of stockholders shall be conclusive unless a matter is determined otherwise upon motion duly adopted by the affirm vote of the holders of at least 80% of the voting power of the shares of capital stock of the Corporation entitled to vote in the election of directors held by stockholders present in person or represented by proxy at such meeting. Accordingly, in any meeting of stockholders or part thereof, the presiding person shall have the sole power to determine appropriate rules or to dispense with theretofore prevailing rules. Without limiting the foregoing, the following rules shall apply:

(a) The presiding person may ask or require that anyone not a bona fide stockholder or proxy leave the meeting.

(b) A resolution or motion shall be considered for vote only if proposed by a stockholder or duly authorized proxy, and seconded by an individual who is a stockholder or a duly authorized proxy, other than the individual who proposed the resolution or motion, subject to compliance with any other requirements concerning such a proposed resolution or motion contained in these bylaws. The presiding person may propose any motion for vote. The order of business at all meetings of stockholders shall be determined by the presiding person.

(c) The presiding person may impose any reasonable limits with respect to participation in the meeting by stockholders, including, but not limited to, limits on the amount of time at the meeting taken up by the remarks or questions of any stockholder, limits on the numbers of questions per stockholder, and limits as to the subject matter and timing of questions and remarks by stockholders.

(d) Before any meeting of stockholders, the Board of Directors may appoint any persons other than nominees for office to act as inspectors of election at the meeting or its adjournment. If no inspectors of election are so appointed, the presiding person may, and on the request of any stockholder or a stockholder's proxy shall appoint inspector(s) of election at the meeting of stockholders. If any person appointed as Inspector fails to appear or fails or refuses to act, the presiding person may, and upon the request of any stockholder or a stockholder's proxy shall appoint a person to fill such vacancy.

The duties of these inspectors shall be as follows:

(i) Determine the number of shares outstanding and the voting power of each, the shares represented at the meeting, the existence of a quorum, and the authenticity, validity and affect of proxies;

(ii) Receive votes or ballots;

(iii) Hear and determine all challenges and questions in any way arising in connection with the right to vote;

(iv) Count and tabulate all votes;

(v) Report to the Board of Directors the results based on the information assembled by the inspectors; and

(vi) Do any other acts that may be proper to conduct the election or vote with fairness to all stockholders.

Notwithstanding the foregoing, the final certification of the results of any election or other matter acted upon at a meeting of stockholders shall be made by the Board of Directors.

Section 2.10 *Nomination of Directors*. Nominations for the election of directors may be. made by the Board of Directors or by any stockholder (a "Nominator") entitled to vote in the election of directors. Such nominations, other than those made by the Board of Directors, shall be made in writing pursuant to timely notice delivered to or mailed and received by the Secretary of the Corporation as set forth in this Section 2.10. To be timely in connection with an annual meeting of stockholders, a Nominator's notice, setting forth the name and address of the person to be nominated, shall be delivered to or mailed and received at the principal executive offices of the Corporation not less than ninety days nor more than 180 days prior to the date on which the immediately preceding year's annual meeting of stockholders was held. To be timely in connection with any election of a director at a special meeting of the stockholders, a Nominator's notice, setting forth the name of the person to be nominated shall be delivered to or mailed and received at the principal executive offices of the Corporation not less than forty days nor more than sixty days prior to the date of such meeting provided, however, that in the event that less than fifty days' notice or prior public disclosure of the date of the special meeting of the stockholders is given or made to the stockholders, the Nominator's notice to be timely must be so received not later than the close of business on the seventh day following the day on which such notice of date of the meeting was mailed or such public disclosure was made. At such time, the Nominator shall also submit written evidence, reasonably satisfactory to the Secretary of the Corporation, that the Nominator is a stockholder of the Corporation and shall identify in writing (i) the name and address of the Nominator, (ii) the number of shares of each class of capital stock of the Corporation owned beneficially by the Nominator, (iii) the name and address of each of the persons with whom the Nominator is acting in concert and (iv) the number of shares of capital stock beneficially owned by each such person with whom the Nominator is acting in concert pursuant to which the nomination or nominations are to be made. At such time, the Nominator shall also submit in writing (i) the information with respect to each such proposed nominee that would be required to be provided in a proxy statement prepared in accordance with Regulation 14A under the Securities Exchange Act of 1934, as amended, and (ii) a notarized

affidavit executed by each such proposed nominee to the effect that, if elected as a member of the Board of Directors, be will serve and that he is eligible for election as a member of the Board of Directors. Within thirty days (or such shorter time period that may exist prior to the date of the meeting) after the Nominator has submitted the aforesaid items to the Secretary of the Corporation, the Secretary of the Corporation shall determine whether the evidence of the Nominator's status as a stockholder submitted by the Nominator is reasonably satisfactory and shall notify the Nominator in writing of his determination. The failure of the Secretary of the Corporation to find such evidence reasonably satisfactory, or the failure of the Nominator to submit the requisite information in the form or within the time indicated, shall make such nomination ineffective for the election at the meeting at which such person is proposed to be nominated. The presiding person at each meeting of stockholders shall, if the facts warrant, determine and declare to the meeting that a no nomination was not made in accordance with the procedures prescribed by these bylaws, and if be should so determine, he shall so declare to the meeting and the defective nomination shall be disregarded.

Section 2.11 *Stockholder Proposals Regarding Amendments to Certificate of Incorporation.* No proposal by a stockholder to amend or supplement the Certificate of Incorporation of the Corporation shall be voted upon at a meeting of stockholders unless, at least not less than 90 nor more than 180 days before such meeting of stockholders, such stockholder shall have delivered in writing to the Secretary of the Corporation (i) notice of such proposal and the text of such amendment or supplement, (ii) evidence, reasonably satisfactory to the Secretary of the Corporation, of such stockholder's status as such and of the number of shares of each class of the capital stock of the Corporation beneficially owned by such stockholder, (iii) a list of the names of other beneficial owners of shares of the capital stock of the Corporation, if any, with whom such stockholder is acting in concert, and of the number of shares of each class of the capital stock of the Corporation beneficially named by each such beneficial owner, and (iv) an opinion of counsel, which counsel and the form and substance of which opinion shall be reasonably satisfactory to the Board of Directors of the Corporation, to the effect that the Certificate of Incorporation of the Corporation, as proposed to be so amended or supplemented, would not be in conflict with the laws of the State of Delaware. Within 30 days after such stockholder shall have delivered the aforesaid items to the Secretary of the Corporation, the Secretary of the Corporation shall determine whether the items to be ruled upon by them are reasonably satisfactory and shall notify such stockholder in writing of its determination. If such stockholder fails to submit a required item in the form or within the time indicated, or if the Secretary of the Corporation determines that the items to be ruled upon by it are not reasonably satisfactory, then such proposal by such stockholder may not be voted upon by the stockholders of the Corporation at such meeting of stockholders.

Section 2.12 *Stockholder Action by Written Consent*. Any action which may be taken by stockholders at an annual or special meeting of stockholders may be taken by written consent, without a meeting, unless otherwise provided in the Certificate of Incorporation of the Corporation.

None

ARTICLE III

DIRECTORS

Section 3.1 *Number and Election of Directors*. The number of directors that shall constitute the whole Board Of Directors may be increased or decreased from time to time by resolution adopted by the Board of Directors, *provided, however*, no decrease in the number shall have the effect of shortening the term of any incumbent director. Except as provided in Section 3.2 of this Article III, directors shall be elected by a plurality of the votes cast at the annual meetings of stockholders and each director so elected shall bold office until the next annual meeting and until his successor is duly elected and qualified or until his earlier resignation or removal. Any director may resign at any time upon notice to the Corporation. Directors need not be a stockholder, a citizen of the Untied States or a resident of Delaware.

By a resolution adopted by 80% of the members of the Board of Directors, the Board of Directors may be divided into one, two or three classes, with the term of office of those of the first class to expire at the next annual meeting of stockholders, of the second class one year thereafter and of a third class two years thereafter; and at each annual election of directors held after such division and classification, directors shall be chosen for a full term, as the case may be, to succeed those whose terms expire.

Section 3.2 *Vacancies*. Vacancies and newly created directorships resulting from any increase in the authorized number of directors may be filled by a majority of the directors then in office, though less than a quorum, or by a sole remaining director and the directors so chosen shall hold office until the next annual election and until their successors are duly elected and qualified or until their earlier resignation or removal. If there are no directors in office, then an election of directors may be held in the manner provided by statute.

Section 3.3 *Duties and Powers*. The business of the Corporation shall be managed by or under the direction of the Board of Directors, which may exercise all such powers of the Corporation and do all such lawful acts and things as are not by statute or by the Certificate of Incorporation or by these Bylaws directed or required to be exercised or done by the stockholders.

Section 3.4 *Meetings*. The Board of Directors may bold meetings, both regular and special, either within or without the State of Delaware. Regular meetings of the Board of Directors may be held without notice at such time and at such place as may from time to time be determined by the Board of Directors. Special meetings of the Board of Directors may be called by or at the direction of the Chairman of the Board, if any, the President or a majority of the directors then in office. Notice thereof stating the place, date and hour of the meeting shall be given to each director either by facsimile, telephone or telegram at least twenty-four hours before the meeting. Notice need not be given to any director or to any member of a committee of directors who submits a written. waiver of notice signed by him or her. Attendance of any such person at a meeting shall constitute a waiver of notice of such meeting, except when he or she attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the

transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at nor the purpose of, any regular or special meeting of the directors need be specified in any written waiver of notice.

Section 3.5 *Quorum*. Except as may be otherwise specifically provided by law, the Certificate of Incorporation or those Bylaws, at all meetings of the Board of Directors a majority of the entire Board of Directors shall constitute a quorum for the transaction of business and the act of a majority of the directors present at any meeting at which there is a quorum shall be the act of the Board of Directors. If a quorum is not present at a meeting of the Board of Directors, the directors present may adjourn the meeting from time to time, without notice other than by an announcement at the meeting, until a quorum is present.

Section 3.6 *Actions of Board*. Unless otherwise provided by the Certificate of Incorporation or these Bylaws, any action required or permitted to be taken at any Meeting of the Board of Directors may be taken without a meeting, if all the members of the Board of Directors consent thereto in writing, in one document or in counterparts, and the writing or writings are filed with the minutes of proceedings of the Board of Directors.

Section 3.7 *Meetings by Means of Conference Telephone*. Unless otherwise provided by the Certificate of Incorporation, members of the Board of Directors or any committee designated by the Board of Directors may participate in a meeting of the Board of Directors or such committee by means of a conference telephone or similar communications equipment by means of which all persons participating in the meeting can bear each other, and participation in a meeting pursuant to this Section 3.7 shall constitute presence in person at such meeting.

Section 3.8 *Compensation*. The Board of Directors may from time to time by resolution authorize the payment of fees, the grant of options to acquire stock in the Corporation or other compensation to the Directors for services as such to the Corporation including, but not limited to, a fixed sum and expenses for attendance at each regular or special meeting of the Board of Directors or any committee thereof,- provided that nothing contained herein shall be construed to preclude any director from serving the Corporation in any other capacity and receiving compensation therefor.

Section 3.9 *Interested Directors*. No contract or transaction between the Corporation and one or more of its directors or officers, or between the Corporation and any other corporation, partnership, association or other organization in which one or more of its directors or officers are directors or officers, or have a financial interest, shall be void or voidable solely for this reason, or solely because the director or officer is present at or participates in the meeting of the Board of Directors or committee thereof that authorizes the contract or transaction or solely because his, her or their votes are counted for such purpose if (a) the material facts as to his, her or their relationship or interest as to the contract or transaction are disclosed or are known to the Board of Directors or committee, and the Board of Directors or committee in good faith authorizes the contract or transaction by the affirmative vote of a majority of the disinterested directors, even though the disinterested directors be less than a quorum, (b) the material facts as to his, her or their relationship or interest as to the contract or transaction are disclosed or are known to the stockholders entitled to vote thereon and the contract or transaction

None

is specifically approved in good faith by vote of the stockholders or (c) the contract or transaction is fair as to the Corporation as of the time it is authorized, approved or ratified by the Board of Directors, a committee thereof or the stockholders. Common or interested directors may be counted in determining the presence of a quorum at a meeting of the Board of Directors or a committee that authorizes the contract or transaction.

Section 3.10 *Removal*. No director of the Corporation shall be removed from his office as a director by vote or other action of the stockholders or otherwise except (a) with cause, as defined below, by the affirmative vote of the holders of at least a majority of the voting power of all outstanding shares of capital stock of the Corporation entitled to vote in the election of directors, voting together as a single class, or (b) without cause by (i) the affirmative vote. of at least 80% of all directors then in office at any regular or special meeting of the Board of Directors called for that purpose or (ii) the affirmative vote of the holders of at least 80% of the voting power of all outstanding shares of capital stock of the Corporation entitled to vote in the election of directors, voting together as a single class.

Except as may otherwise be provided by law, cause for removal of a director shall be construed to exist only if: (a) the director whose removal is proposed has been convicted, or where a director is granted immunity to testify where another has been convicted, of a felony by a court of competent jurisdiction and such conviction is no longer subject to direct appeal; (b) such director has been found by the affirmative vote of at least 80% of all directors then in office at any regular or special meeting of the Board of Directors, called for that purpose or by a court of competent jurisdiction to have been negligent or guilty of misconduct in the performance of his duties to the Corporation in a matter of substantial importance to the Corporation; or (c) such director has been adjudicated by a court of competent jurisdiction to be mentally incompetent, which mental incompetency directly affects his ability as a director of the Corporation.

No proposal by a stockholder to remove a director of the Corporation shall be voted upon at a meeting of the stockholders unless such stockholder shall have delivered or mailed in a timely manner (as set forth in this Section 11) and in writing to the Secretary of the Corporation (i) notice of such proposal, (ii) a statement of the grounds, if any, on which such director is proposed to be removed, (iii) evidence, reasonably satisfactory to the Secretary of the Corporation, of such stockholder's status as such and of the number of shares of each class of the capital stock of the Corporation beneficially owned by such stockholder, (iv) a list of the names and addresses of other beneficial owners of shares of the capital stock of the Corporation, if any, with whom such stockholder is acting in concert, and of the number of shares of each clan of the capital stock of the Corporation beneficially owned by each such beneficial owner, and (v) an opinion of counsel which counsel and the form and substance of which opinion shall be reasonably satisfactory to the Board of Directors of the Corporation (excluding the director proposed to be removed), to the effect that, if adopted at a duly called special or annual meeting of the stockholders of the Corporation by the required vote as set forth in the first paragraph of this Section 11, such removal would not be in conflict with the laws of the State of Delaware, the Articles of Incorporation or these bylaws. To be timely in connection with an annual meeting of stockholders, a stockholder's notice and other aforesaid items shall be delivered to or mailed and received at the principal executive offices of the Corporation not less than ninety nor more than 180 days prior to the date on which the immediately preceding year's annual meeting of

stockholders was held. To be timely in connection with the removal of any director at a special meeting of the stockholders, a stockholder's notice and other aforesaid items shall be delivered to or mailed and received at the principal executive offices of the Corporation not less than ninety days nor more than 180 days prior to the date of such meeting; provided, however, that in the event that less than fifty days' notice of prior public disclosure of the date of the special meeting of stockholders is given or made to the stockholders, the stockholder's notice and other aforesaid items to be timely must be so received not later than the dose of business on the seventh day following the day on which such notice of date of the meeting was mailed or such public disclosure was made. Within thirty days (or such shorter period that may exist prior to the date of the meeting) after such stockholder shall have delivered the aforesaid items to the Secretary of the Corporation, the Secretary and the Board of Directors of the Corporation shall respectively determine whether the items to be ruled upon by them are reasonably satisfactory and shall notify such stockholder in writing of their respective determinations. If such stockholder fails to submit a required item in the form or within the time indicated, or if the Secretary or the Board of Directors of the Corporation determines that the items to be ruled upon by them are not reasonably satisfactory, then such proposal by such stockholder may not be voted upon by the stockholders of the Corporation at such meeting of stockholders. The presiding person at each meeting of stockholders shall, if the facts warrant, determine and declare to the meeting that a proposal to remove a director of the Corporation was not made in accordance with the procedures prescribed by these bylaws, and if he should so determine, he shall so declare to the meeting and the defective proposal shall be disregarded.

ARTICLE IV

COMMITTEES

Section 4.1 *Committees*. The Board of Directors may, by resolution passed by a majority of the whole Board, designate one or more committees, each committee to consist of one or more of the directors of the Corporation. The Board may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. In the absence or disqualification of a member of a committee, and in the absence of a designation. by the Board of Directors of an alternate member to replace the absent or disqualified member, the member or members present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any such absent or disqualified member. Any committee, to the extent provided in the resolution of the Board of Directors establishing such committee, shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation; *provided, however*, no committee shall have the power or authority to amend the certificate of incorporation of the Corporation, adopt an agreement of merger or consolidation, recommend to the stockholders the sale, lease or exchange of all or substantially all of the Corporation's property and assets, recommend to the stockholders a dissolution of the Corporation or a revocation of a dissolution, or amend these Bylaws; and, unless the resolution expressly so provides, no such committee shall have the power or authority to declare a dividend or to authorize the issuance of stock. Each committee shall keep regular minutes and report to the Board of Directors when required to do so.

None

Section 4.2 *Committee Rules*. Unless the Board of Directors otherwise provides, each Committee designated by the Board may make, alter and repeal rules for the conduct of its business. In the absence of such rule, each committee shall conduct its business in the same manner as the Board of Directors conducts its business pursuant to Article III of these Bylaws.

ARTICLE V

OFFICERS

Section 5.1 *General*. The Board of Directors, in its discretion, may elect a Chairman of the Board (who must be a director), President, Secretary, Treasurer, Controller, and one or more Divisional Presidents, Vice Presidents, Assistant Secretaries, Assistant Treasurers and other officers. Any number of offices may be held by the same person, unless otherwise prohibited by law, the Certificate of Incorporation or these Bylaws. The officers of the Corporation need not be stockholders of the Corporation or, except in the case of the Chairman of the Board of Directors, directors of the Corporation.

Section 5.2 *Election*. The Board of Directors at its first meeting held after each annual meeting of stockholders shall elect the officers of the Corporation, who shall hold their offices for such terms and shall exercise such powers and perform such duties as shall be determined from time to time by the Board of Directors; and all officers of the Corporation shall hold office until their successors are chosen and qualified or until their earlier resignation or removal. Any officer elected by the Board of Directors may be removed at any time by the affirmative vote of a majority of the Board of Directors. Any vacancy occurring in any office of the Corporation shall be filled by the Board of Directors. The salaries of all officers of the Corporation shall be fixed by the Board of Directors and may be altered from time to time except as otherwise provided by contract.

Section 5.3 *Chairman of the Board of Directors*. There shall be a Chairman of the Board of Directors who, under the direction and subject to the control of the Board of Directors, in general shall supervise and control all of the business and affairs of the Corporation. The Chairman of the Board of Directors shall preside at all meetings of the stockholders and of the Board of Directors and shall perform such other duties as the Board of Directors may assign him from time to time. The Chairman of the Board of Directors shall possess the power to sign all contracts, certificates and other Instruments of the Corporation as the Board of Directors from time to time may prescribe.

Section 5.4 *Chief Executive Officer*. The Chief Executive Officer of the Corporation will serve under the direction and subject to the control of the Board of Directors and the Chairman of the Board of Directors. The Chief Executive Officer in general shall supervise and control all of the business, affairs and property of the Corporation and shall be its chief policy making officer, and control over its officers, agents and employees; and shall see that all orders and resolutions of the Board of Directors and Chairman of the Board are carried into effect. In the absence of the Chairman of the Board of Directors the Chief Executive Officer shall preside at all meetings of the stockholders and of the Board of Directors and shall perform such other duties as the Board of Directors may assign him from time to time. The Chief

None

Executive Officer shall possess the same power as the Chairman of the Board to sign all contracts, certificates and other Instruments of the Corporation.

Section 5.5 *President*. The President shall be the chief operating officer of the Corporation and shall report to the Chairman of the Board of Directors. The President shall, subject to the Powers of the Board of Directors and the Chairman of the Board of Directors, have general charge of the business, affairs and property of the Corporation, and control over its officers, agents, and employees; and shall see that all orders and resolutions of the Board of Directors are carried into effect. The President may execute and deliver certificates for shares of the Corporation, any deeds, mortgages, bonds, contracts or other instruments that the Board of Directors has authorized to be executed and delivered, except in cases where the execution and delivery thereof shall be expressly delegated to another officer and deliver thereof shall be otherwise required by law to be executed and delivered by another person. The President shall also perform such other duties and may exercise such other powers as from time to time my be assigned to him or her by these Bylaws or by the Board of Directors.

Section 5.6 *Vice President*. Each Vice President shall perform such duties and have such other powers as the Board of Directors from time to time may prescribe. Certain Vice Presidents may from time to time be designated by the Board of Directors or the Chairman of the Board of Directors as Executive Vice Presidents or Senior Vice Presidents which positions shall have such varying degrees of authority as the Board of Directors shall prescribe.

Section 5.7 *Divisional Presidents*. The Divisional Presidents shall perform such duties and have such other powers as the Board of Directors from time to time may prescribe. The Divisional Presidents shall, subject to the powers of the Board of Directors, the Chairman of the Board, the Chief Executive Officer and the President, have general charge of the business, affairs and property of that division over which he is Divisional President, and control over its officers, agents, and employees; and shall see that all orders and resolutions of the Board of Directors are carried into effect. The Divisional Presidents may execute and deliver such documents, certificates and such other instruments that the Board of Directors has authorized to be executed and deliver, except in cases where the execution and delivery thereof shall be expressly delegated to another officer or as otherwise required by law to be executed and delivered by another person.

Section 5.8 *Absence of Officers*. In the absence or disability of the Chairman of the Board of Directors, or if there be none, the President shall preside at all meetings of the stockholders and (if the President is a director) the Board of Directors. In the absence or disability of both the Chairman of the Board of Directors and the President, or at the request of the Chairman of the Board of Directors, the Vice President or the Vice Presidents, if there be more than one, shall perform the duties of the Chairman of the Board of Directors, and when so acting, shall have all the powers of and be subject to all the restrictions upon the Chairman of the Board of Directors. If there be no Chairman of the Board of Directors, President or Vice President, the Board of Directors shall designate the officer of the Corporation who shall perform the duties of the Chairman of the Board of Directors, and when so acting, shall have all the powers of and be subject to all the restrictions upon the Chairman of the Board of Directors.

None

None

Section 5.9 *Secretary*. The Secretary shall attend all meetings of the Board of Directors and all meetings of stockholders and record all the proceedings thereat in a book or books to be kept for that purpose; the Secretary shall also perform like duties for the standing committees when required. The Secretary shall give, or cause to be given, notice of all meetings of the stockholders and special meetings of the Board of Directors, and shall perform such other duties as may be prescribed by the Board of Directors or Chairman of the Board of Directors, under whose supervision he or she shall be. If the Secretary shall be unable or shall refuse to cause to be given notice of all meetings of the Stockholders and special meetings of the Board of Directors, and if there be one, Assistant Secretary, then either the Board of Directors or the Chairman of the Board of Directors may choose another officer to cause such notice to be given. The Secretary shall have custody of the seal of the Corporation and the Secretary or an Assistant Secretary, if there be one, shall have authority to affix the same to any instrument requiring it and when so affixed, it may be attested by the signature of the Secretary or by the signature of any such Assistant Secretary. The Board of Directors may give general authority to any other officer to affix the seal of the Corporation and to attest the affixing by his or her signature. The Secretary shall see that all books, reports, statements, certificates and other documents and records required by law to be kept or filed are properly kept or filed, as the case may be.

Section 5.10 *Chief Financial Officer*. The Chief Financial Officer of the Corporation shall have general supervision over the financial operations of the Corporation, subject to the direction of the Board of Directors, the Chairman of the Board, the Chief Executive Officer and the President. The Chief Financial Officer may sign and execute in the name of the Corporation deeds, mortgages, bonds, contracts or other instruments authorized by the Board of Directors and may execute and deliver such documents, certificates and such other instruments that the Board of Directors has authorized to be executed and delivered, except in cases where the execution and delivery thereof shall be expressly delegated to another officer or as otherwise required by law to be executed and delivered by another person.

Section 5.11 *Treasurer*. The Treasurer shall have the custody of the corporate funds and securities and shall keep full and accurate accounts of receipts and disbursements in books belonging to the Corporation and shall deposit all moneys and other valuable effects in the name and to the credit of the Corporation in such depositories as may be designated by the Board of Directors. The Treasurer shall disburse the funds of the Corporation as may be ordered by the Board of Directors, taking proper vouchers for such disbursements, and shall render to the Chairman of the Board of Directors and the Board of Directors, at its regular meeting or when the Board of Directors so requires, an account of all his or her transactions as Treasurer and of the financial condition of the Corporation. If required by the Board of Directors, the Treasurer shall give the Corporation a bond in such sum and with such surety or sureties as shall be satisfactory to the Board of Directors for the faithful performance of the duties of his or her office and for the restoration to the Corporation, in case of his or her death, resignation, retirement or removal from office, of all books, papers, vouchers, money and other property of whatever kind in his or her possession or under his or her control belonging to the Corporation.

Section 5.12 *Controller*. The Controller, if there be one, shall have charge of the Corporation's books of account, records and auditing, and shall be subject in all matters to the control of the Chairman of the Board of Directors and the Board of Directors.

None

None

Section 5.13 *Assistant Secretaries*. Except as may be otherwise provided in these Bylaws, Assistant Secretaries, if there be any, shall perform such duties and have such powers as from time to time may be assigned to them by the Board of Directors, the Chairman of the Board of Directors, the President, any Vice President, if there be one, or the Secretary, and in the absence of the Secretary or in the event of his or her disability or refusal to act, shall perform the duties of the Secretary, and when so acting, shall have all the powers of and be subject to all the restrictions upon the Secretary.

Section 5.14 *Assistant Treasurers*. Assistant Treasurers, if there be any, shall perform such duties and have such powers as from time to time may be assigned to them by the Board of Directors, the Chairman of the Board of Directors, the President, any Vice President, if there be one, or the Treasurer, and in the absence of the Treasurer or in the event of his or her disability or refusal to act, shall perform the duties of the Treasurer, and when so acting, shall have all the powers of and be subject to all the restrictions upon the Treasurer. If required by the Board of Directors, an Assistant Treasurer shall give the Corporation a bond in such sum and with such surety or sureties as shall be satisfactory to the Board of Directors for the faithful performance of the duties of his or her office and for the restoration to the Corporation, in case of his or her death, resignation, retirement or removal from office of all books, papers, vouchers, money and other property of whatever kind in his or her possession or under his or her control belonging to the Corporation.

Section 5.15 *Other Officers*. Such other officers as the Board of Directors may appoint shall perform such duties and have such powers as from time to time may be assigned to them by the Board of Directors. The Board of Directors may delegate to any other officer of the Corporation the power to choose such other officers and to prescribe their respective duties and powers.

ARTICLE VI

STOCK

Section 6.1 *Certificates Evidencing Shares*. Every holder of stock in the Corporation shall be entitled to have a certificate signed in the name of the Corporation (a) by the President or a Vice President and (b) by the Treasurer or an Assistant Treasurer, or the Secretary or an Assistant Secretary of the Corporation, certifying the number of shares owned by such bolder.

Section 6.2 *Transfer Agent*. The Corporation may appoint a transfer agent to act on behalf of the Corporation in keeping certain records on each registered stockholder and to make legal transfers of the Corporation’s shares.

Section 6.3 *Signatures*. Where a certificate is countersigned by (a) a transfer agent other than the Corporation or its designated employees or (b) a registrar other than the Corporation or its designated employees, any other signature on the Certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such Officer, transfer agent

or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if he or she were such officer, transfer agent or registrar at the date of issue.

Section 6.4 *Lost Certificates*. The Board of Directors may direct a now certificate to be issued in place of any certificate theretofore issued by the Corporation alleged to have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost, stolen or destroyed. When authorizing such issue of a new certificate, the Board of Directors may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen or destroyed certificate, or his or her legal representative, to advertise the same in such manner as the Board of Directors shall require and/or to give the Corporation a bond or other indemnity deemed satisfactory by the Board of Directors in such sum as it may direct as indemnity against any claim that may be made against the Corporation with respect to the certificate alleged to have been lost, stolen or destroyed.

Section 6.5 *Transfers*. Stock of the Corporation shall be transferable in the manner prescribed by law and in these Bylaws. Transfers of stock shall be made on the books of the Corporation only by the person named in the certificate or by his or her attorney lawfully constituted in writing and upon the surrender of the certificate therefor, which shall be cancelled before a new certificate shall be issued.

ARTICLE VII

NOTICES

Section 7.1 *Notices*. Whenever written notice is required by law, the Certificate of Incorporation or these Bylaws to be given to any director, member of a committee or stockholder, such notice may be given by mail, addressed to such director, member of a committee or stockholder, at his address as it appears on the records of the Corporation, with postage thereon prepaid, and such notice shall be deemed to be given at the time when the same shall be deposited in the United States mail. Written notice may also, be given personally or by telegram, telecopy, telex or cable and such notice shall be deemed given at the time when the same is sent.

Section 7.2 *Waivers of Notice*. Whenever any notice is required by law, the Certificate of Incorporation or these Bylaws to be given to any director, member of a committee or stockholder, a written waiver, signed by the person or persons entitled to such notice, whether before or after the time stated therein, shall be deemed equivalent to notice.

ARTICLE VIII

INDEMNIFICATION

None

Section 8.1 *General*. The Corporation shall indemnify, and advance Expenses (as this and all other capitalized words used in this Article VIII and not previously defined in these Bylaws are defined in Section 8.14 of this Article VIII) to, Indemnitee to the fullest extent permitted by applicable law in effect on the date of the effectiveness of these Bylaws, and to such greater extent as applicable law may thereafter permit. The rights of Indemnitee provided

under the preceding sentence shall include, but not be limited to, the right to be indemnified to the fullest extent permitted by §145(b) of the DGCL in Proceedings by or in the right of the Corporation and to the fullest extent permitted by §145(a) of the DGCL in all other Proceedings. The provisions set forth below in this Article VIII are provided in furtherance, and not by way of limitation, of the obligations expressed in this Section 8.1.

Section 8.2 *Expenses Related to Proceedings*. If Indemnitee is, by reason of his or her Corporate Status, a witness in or a party to and is successful, on the merits or otherwise, in any Proceeding, he or she, shall be indemnified against all Expenses actually and reasonably incurred by him or her or on his or her behalf in connection therewith. If Indemnitee is not wholly successful in such Proceeding but is successful, on the merits or otherwise, as to any Matter in such Proceeding, the Corporation shall indemnify Indemnitee against all Expenses actually and reasonably incurred by him or her or on his or her behalf relating to such Matter. The termination of any Matter in such a Proceeding by dismissal, with or without prejudice, shall be deemed to be a successful result as to such Matter.

Section 8.3 *Advancement of Expenses*. Indemnitee shall be advanced Expenses within ten days after requesting them to the fullest extent permitted by §145(e) of the DGCL.

Section 8.4 *Request for Indemnification*. To obtain indemnification Indemnitee shall submit to the Corporation a written request with such Information as is reasonably available to Indemnitee. The Secretary of the Corporation shall promptly advise the Board of Directors of such request.

Section 8.5 *Determining Entitlement to Indemnification If No Change of Control*. If a Change of Control has not occurred prior to or at the time the request for Indemnification is sent, Indemnitee's entitlement to indemnification shall be determined in accordance with §145(d) of the DGCL. If entitlement to indemnification is to be determined by Independent Counsel, the Corporation shall furnish notice to Indemnitee within ten days after receipt of the request for indemnification, specifying the identity and address of Independent Counsel. Indemnitee may, within fourteen days after receipt of such written notice of selection, deliver to the Corporation a written objection to such selection. Such objection may be asserted only on the ground that the Independent Counsel so selected does not meet the requirements of Independent Counsel and the objection shall set forth with particularity the factual basis of such assertion. If there is an objection to the selection of Independent Counsel either the Corporation or Indemnitee may petition the Court of Chancery of the State of Delaware or any other court of competent jurisdiction for a determination that the objection is without a reasonable basis and/or for the appointment of Independent Counsel selected by the court.

Section 8.6 *Determining Entitlement to Indemnification If Change of Control.* If Change of Control has occurred prior to or at the time the request for indemnification is sent, Indemnitee's entitlement to indemnification shall be determined in a written opinion by Independent Counsel selected by Indemnitee. Indemnitee shall give the Corporation written notice advising of the Identity and address of the Independent Counsel so selected. The Corporation may, within seven days after receipt of such written notice of selection, deliver to Indemnitee a written objection to such selection. Indemnitee may, within five days after the

None

receipt of such objection from the Corporation, submit the name of another Independent Counsel and the Corporation may, within seven days after receipt of such written notice of selection, deliver to Indemnitee a written objection to such selection. Any objection is subject to the limitations in Section 8.5 of this Article VIII. Indemnitee may petition the Court of Chancery of the State of Delaware or any other court of competent jurisdiction for a determination that the Corporation's objection to the first and/or second selection of Independent Counsel is without a reasonable, basis and/or for the appointment as Independent Counsel of a person selected by the court.

Section 8.7 *Procedures of Independent Counsel*. If a Change of Control has occurred prior to or at the time the request for indemnification is sent by Indemnitee, Indemnitee shall be presumed (except w otherwise expressly provided in this Article VIII) to be entitled to indemnification upon submission of a request for indemnification in accordance with Section 8.4 of this Article VIII, and thereafter the Corporation shall have the burden of proof to overcome the presumption in reaching a determination contrary to the presumption. The presumption shall be used by independent Counsel as a bash for a determination of entitlement to indemnification unless the Corporation provides information sufficient to overcome such presumption by clear and convincing evidence or the investigation, review and analysis of Independent Counsel convinces him or her by clear and convincing evidence that the presumption should not apply.

Except in the event that the determination of entitlement to indemnification is to be made by Independent Counsel if the person or persons empowered under Section 8.5 or 8.6 of this Article VIII to determine entitlement to indemnification shall not have made and furnished to Indemnitee in writing a determination within sixty days after receipt by the Corporation of the request therefor, the requisite determination of entitlement to indemnification shall be deemed to have been made and Indemnitee shall be entitled to such indemnification unless Indemnitee knowingly misrepresented a material fact in connection with the request for Indemnitee. The termination of any Proceeding or of any Matter therein, by judgment, order, settlement or conviction, or upon a plea of *nolo contendere* or its equivalent, shall not (except as otherwise expressly provided in this Article VIII) of itself adversely affect the right of Indemnitee to indemnification or create a presumption that (a) Indemnitee did not act in good faith and in a manner that he or she reasonably believed, in the case of conduct in his or her official capacity as a director of the Corporation, to be in the best interests of the Corporation or in all other cases that at least his or her conduct was not opposed to the Corporation's best interests, or (b) with respect to any criminal Proceeding, that Indemnitee had reasonable cause to believe that his or her conduct was unlawful.

Section 8.8 *Expenses of Independent Counsel*. The Corporation shall pay any and all reasonable fees and expenses of Independent Counsel incurred acting pursuant to this Article VIII and in any proceeding to which it is a party or witness in respect of its investigation and written report and shall pay all reasonable fees and expenses incident to the procedures in which such Independent Counsel was selected or appointed. No Independent Counsel may serve if a timely objection has been made to his or her selection until a court has determined that such objection is without a reasonable basis.

Section 8.9 *Trial De Novo*. In the event that (a) a determination is made pursuant to Section 8.5 or 8.6 of this Article VIII that Indemnitee is not entitled to

indemnification under this Article VIII, (b) advancement of Expenses is not timely made Pursuant to Section 8.3 of this Article VIII, (c) Independent Counsel has not made and delivered a written opinion determining the request for indemnification (i) within ninety days after being appointed by a court, (ii) within ninety days after objections to his of her selection have been overruled by a court or (iii) within ninety days after the time for the Corporation or Indemnitee to object to his or her selection or (d) payment of indemnification is not made within five days after a determination of entitlement to indemnification has been made or deemed to have been made pursuant to Section 8.5, 8.6 or 8.7 of this Article VIII, Indemnitee shall be entitled to an adjudication in any court of competent jurisdiction of his or her entitlement to such indemnification or advancement of Expenses. In the event that a determination shall have been made that Indemnitee is not entitled to indemnification, any judicial proceeding or arbitration commenced pursuant to this Section 8.9 shall be conducted in all respects as a *de novo* trial on the merits, and Indemnitee shall not be prejudiced by reason of that adverse determination. If a Change of Control shall have occurred, in any judicial proceeding commenced pursuant to this Section 8.9, the Corporation shall have the burden of proving that Indemnitee is not entitled to indemnification or advancement of Expenses, as the case may be. If a determination shall have been made or deemed to have been made that Indemnitee is entitled to indemnification, the Corporation shall be bound by such determination in any judicial proceeding commenced pursuant to this Section 8.9, or otherwise, unless Indemnitee knowingly misrepresented a material fact in connection with the request for indemnification.

The Corporation shall be precluded from asserting in any judicial proceeding commenced pursuant to this Section 8.9 that the procedures and presumptions of this Article VIII are not valid, binding and enforceable and shall stipulate in any such court that the Corporation is bound by all provisions of this Article VIII. In the event that Indemnitee, Pursuant to this Section 8.9, seeks a judicial adjudication to enforce his or her rights under, or to recover damages for breach of this Article VIII, Indemnitee shall be entitled to recover from the Corporation, and shall be indemnified by the Corporation against any and all Expenses actually and reasonably incurred by him or her in such judicial adjudication, but only if he or she prevails therein. If it shall be determined in such judicial adjudication that Indemnitee, is entitled to receive part but not all of the indemnification or advancement of Expenses sought, the Expenses incurred by Indemnitee in connection with such judicial adjudication or arbitration shall be appropriately prorated.

Section 8.10 *Non-Exclusivity*. The rights of indemnification and to receive advancement of Expenses as provided by this Article VIII shall not be deemed exclusive of any other rights to which Indemnitee may at any time be entitled under applicable law, the Certificate of Incorporation, these Bylaws, any agreement, a vote of stockholder, a resolution of the Board of Directors or otherwise. No amendment, alteration or repeal of this Article VIII or any provision hereof shall be effective, as to any Indemnitee for acts, events and circumstances that occurred in whole or in part, before such amendment, alteration or repeal. The provisions of this Article VIII shall continue as to an Indemnitee whose Corporate Status has ceased and shall inure to the benefit of his or her heirs, executors and administrators.

Section 8.11 *Insurance and Subrogation*. To the extent the Corporation maintains an insurance policy or policies providing liability insurance for directors or officers of the Corporation or of any other corporation, partnership, joint venture, trust, employee benefit

plan or other enterprise which such person serves at the request of the Corporation. Indemnitee shall be covered by such policy or policies in accordance with its or their terms to the maximum extent of coverage available for any such director or officer under such policy or policies.

In the event of any payment hereunder, the Corporation shall be subrogated to the extent of such payment to all the rights of recovery of Indemnitee, who shall execute all papers required and take all action necessary to secure such rights, including execution of such documents as are necessary to enable the Corporation to bring suit to enforce such rights.

The Corporation shall not be, liable under this Article VIII to make any payment of amounts otherwise indemnifiable hereunder if, and to the extent that, Indemnitee has otherwise actually received such payment under any insurance policy, contract, agreement or otherwise.

Section 8.12 *Severability*. If any provision or provisions of this Article VIII shall be held to be invalid, illegal or unenforceable for any reason whatsoever, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby; and, to the fullest went possible, the provisions of this Article VIII shall be construed so as to give effect to the intent manifested by the provision held invalid, illegal or unenforceable.

Section 8.13 *Certain Persons Not Entitled to Indemnification*. Notwithstanding any other provision of Article VIII, no person shall be entitled to indemnification or advancement of Expenses under this Article VIII with respect to any Proceeding, or any Matter therein, brought or made by such person against the Corporation.

Section 8.14 *Definitions*. For purposes of this Article VIII:

“Change of Control” means a change in control of the Corporation after the date of adoption of these Bylaws in any one of the following circumstances: (a) there shall have occurred an event request to be reported in response to Item 6 (e) of Schedule 14A of Regulation 14A (or in response to any similar item on any similar schedule or form) promulgated under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), whether or not the Corporation is then subject to such reporting requirement; (b) any “person” (as such term is used in Sections 13 (d) and 14(d) of the Exchange Act) shall have become the “beneficial owner” (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Corporation representing 20% or more of the combined voting power of the Corporation’s then outstanding voting securities without prior approval of at least two-thirds of the members of the Board of Directors in office immediately prior to such person’s attaining such percentage interest; (c) the Corporation is a party to a merger, consolidation, sale of assets or other reorganization or a proxy contest as a consequence of which members of the Board of Directors in office immediately prior to such transaction or event constitute less than a majority of the Board of Directors thereafter or (d) during any period of two consecutive years, individual who at the beginning of such period constituted the Board of Directors (including for this purpose any new director whose. election or nomination for election by the Corporation’s stockholders was approved by a vote of at least two-thirds of the directors then still in office who were directors at

None

the beginning of such period) cease for any reason to constitute at least a majority of the Board of Directors.

"Corporate Status" describes the status of a person who is or was a director, Officer, or employee or agent of the Corporation or of any other corporation, partnership, joint venture, trust employee benefit plan or other enterprise which such person is or was serving at the request of the Corporation.

"DGCL" means the Delaware General Corporation Law, as currently in effect or as amended from time to time.

"Expenses" shall include all reasonable attorneys' fees, retainers, court costs, transcript costs, fees of experts, witness fees, travel expenses, duplicating costs, printing and binding costs, telephone charges, postage, delivery service fees, and all other disbursements or expenses of the types customarily incurred in connection with prosecuting, defending, preparing to prosecute or defend, investigating or being or preparing to be a witness in a Proceeding.

"Indemnitee" includes any person who is, or is threatened to be made, a witness in or a party to any Proceeding as described in Section 8.1 or 8.2 of this Section by reason of his or her Corporate Status.

"Independent Counsel" means a law firm, or member of a law firm that is experienced in matters of corporation law and neither presently is, nor in the five years previous to his or her selection or appointment has been, retained to represent: (a) the Corporation or Indemnitee in any matter material to either such party, (b) any other party to the Proceeding giving rise to a claim for indemnification hereunder or (c) the beneficial owner, directly or indirectly, of securities of the Corporation representing 5% or more of the combined voting power of the Corporation's then outstanding voting securities.

"Matter" is a claim, a material issue, or a substantial request for relief.

"Proceeding" includes any action, suit, arbitration, alternate dispute resolution mechanism, investigation, administrative hearing or any other proceeding, whether civil, criminal, administrative or investigative, except one initiated by an Indemnitee pursuant to Section 8.9 of this Article VIII to enforce his or her rights under this Article VIII.

Section 8.15 *Notices*. Any communication required or permitted to the Corporation shall be, addressed to the Secretary of the Corporation and any such communication to Indemnitee shall be given in writing by depositing the same in the United States mail with postage thereon prepaid, addressed to the person to whom such notice is directed at the address of such person on the records of the Corporation, and such notice shall be deemed given at the time when the same shall be so deposited in the United States mail.

Section 8.16 *Contractual Rights*. The right to be indemnified or to the advancement or reimbursement of Expenses (i) is a contract right based upon good and valuable consideration, pursuant to which Indemnitee may sue as if these provisions were set forth in a separate written contract between him or her and the Corporation, (ii) is and is intended to be retroactive and shall be available as to events occurring prior to the adoption of these provisions

None

and (iii) shall continue after any rescission or restrictive modification of such provisions as to events occurring prior thereto.

ARTICLE IX

AMENDMENTS

Section 9.1 *Vote Requirements*. The Board of Directors shall have the power to alter, amend or repeal these bylaws or adopt new bylaws by the affirmative vote of at least 807c of all directors then in office at any regular or special meeting of the Board of Directors called for that purpose, subject to repeal or change by the affirm vote of the holders of at least 80% of the voting power of all the shares of the Corporation entitled to vote in the election of directors, voting together as a single class.

Section 9.2 *Stockholder Proposals*. No proposal by a stockholder made pursuant to Section 1 of this Article VIII may be voted upon at a meeting of stockholders unless such stockholder shall have delivered or mailed in a timely manner (as set forth in this Section 2) and in writing to the Secretary of the Corporation (i) notice of such proposal and the text of the proposed alteration, amendment or repeal (ii) evidence reasonably satisfactory to the Secretary of the Corporation, of such stockholder's status as such and of the number of shares of each class of capital stock of the Corporation of which such stockholder is the beneficial owner, (iii) a list of the names and addresses of other beneficial owners of shares of the capital stock of the Corporation, if any, with whom such stockholder is acting in concert, and the number of shares of each class of the stock of the Corporation beneficially owned by each such beneficial owner and an opinion of counsel, which counsel and the form and substance of which opinion shall be reasonably satisfactory to the Board of Directors of the Corporation, to the effect the bylaws (if any) resulting from the adoption of such proposal would not be in conflict with the Articles of Incorporation or the laws of the State of Delaware. To be timely in connection with an annual meeting of stockholders, a stockholder's notice and other aforesaid items shall be delivered to or mailed and received at the principal executive offices of the Corporation not less than ninety nor more than 180 days prior to the date on which the immediately preceding year's annual meeting of stockholders was held. To be timely in connection with the voting on any such proposal at a special meeting of the stockholder, a stockholder's notice and other aforesaid items shall be delivered to or mailed and received at the principal executive offices of the Corporation not less than forty days no, more than sixty days prior to the date of such meeting; provided, however, that in the t that less than fifty days' notice or prior public disclosure of the date of the meeting of the stockholders is given or made to the stockholders, such stockholder's notice and other aforesaid items to be timely must be so received not later than the close business on the seventh day following the day on which such notice of date of the meeting was mailed or such public disclosure was made. Within thirty days (or such shorter period that may exist prior to the date of the meeting) after such stockholder shall have submitted the aforesaid item, the Secretary and the Board of Directors of the Corporation all respectively determine whether the items to be ruled upon by them are reasonably satisfactory and shall notify such stockholder in writing of their respective determinations. If such stockholder fails to submit a required item in the form or within the time indicated, if the Secretary or the Board of Directors of the Corporation determines that the items be ruled upon by them are not reasonably satisfactory, then such proposal by such stockholder may not be voted upon by the stockholders of the Corporation at

None

such meeting of such stockholders. The presiding person at each meeting of stockholders shall, if the facts warrant, determine and declare to the meeting that a proposal made pursuant to Section 1 of this Article VIII was not made in accordance with the procedure prescribed by these bylaws, and if he should so determine, he shall so declare to the meeting and the defective proposal shall be disregarded.

ARTICLE X

GENERAL PROVISIONS

Section 10.1 *Dividends*. Dividends upon the capital stock of the Corporation, subject to the provisions of the Certificate of Incorporation, if any, may be declared by the Board of Directors at any regular or special meeting and may be paid in cash, in property or in shares of the capital stock. Before payment of any dividend, there may be set aside out of any funds of the Corporation available for dividends such sum or sums as the Board of Directors from time to time, in its absolute discretion, deems proper as a reserve or reserves to meet contingencies, or for any proper purpose, and the Board of Directors may modify or abolish any such reserve.

Section 10.2 *Disbursements*. All checks or demands for money and notes of the Corporation shall be signed by such officer or officers or such other person or persons as the Board of Directors may from time to time designate.

Section 10.3 *Fiscal Year*. The fiscal year of the Corporation shall be fixed by resolution of the Board of Directors.

Section 10.4 *Corporate Seal*. The corporate sea] shall have inscribed thereon the name of the Corporation, the year a(its organization and the words “Corporate Seal Delaware.” The seal may be used by musing it or a facsimile thereof to be impressed or affixed or reproduced.

Section 10.5 *Definition of Beneficial Owner*. “Beneficial owner” as used in these bylaws means of the following:

1. a person who individually or with any of his affiliates or associates beneficially owns (within the meaning of Rule 13d-3 under the Securities Exchange Act of 1934, as amended) any capital stock of the Company, directly or indirectly;

2. a person who individually or with any of his affiliates or associates has either of the following rights:

a. to acquire capital stock of the Corporation, whether such right is exercisable immediately or only after the passage of time, pursuant to any agreement arrangement or understanding or upon the exercise of conversion rights, exchange rights, warrants or options, or otherwise;

None

b. to vote capital stock of the Corporation pursuant to any agreement; arrangement or understanding; or

3. a person who has any agreement, arrangement or understanding for the in purpose of acquiring, holding, voting or disposing capital stock of the Company with any other person who beneficially owns or whose affiliates beneficially own (within the meaning of Rule 13d-3 under the Securities Exchange Act of 1934, as amended), directly or indirectly, such shares of capital stock.

None

SUBORDINATION AGREEMENT OF FOSSIL TRUST FOR
THE BENEFIT OF FIRST INTERSTATE BANK OF TEXAS,
N.A.

WHEREAS, Fossil Partners, L.P. (“Borrower”) is or may become indebted to Fossil Trust, a Delaware business trust (“Junior Creditor”)

WHEREAS, Borrower desires to enter into an Amended and Restated Loan Agreement (the “Loan Agreement”) with First Interstate Bank of Texas, N.A. (“Bank”); and

WHEREAS, upon Bank’s acceptance of this Subordination Agreement, Borrower will be indebted to Junior Creditor only in the amounts and on the evidences of indebtedness described on Exhibit A attached hereto;

NOW, THEREFORE, to induce Bank, in its discretion, to extend credit to Borrower at any time, in such manner, upon such terms and for such amounts as may be mutually agreeable to Bank and Borrower, Junior Creditor hereby agrees to subordinate and does hereby subordinate payment by Borrower of all or any part of the indebtedness described on Exhibit A attached hereto together with any and all other indebtedness of Borrower to Junior Creditor now or hereafter incurred, created or evidenced, howsoever such indebtedness may be hereafter extended, renewed or evidenced (all such indebtedness hereinafter referred to as the “Subordinated Indebtedness”), together with all collateral, mortgage(s) and security if any, for the payment of the Subordinated Indebtedness, to the payment in full, in cash to Bank, its successors and assigns, of any and all indebtedness, direct or contingent for which Borrower may now or hereafter be obligated to Bank, including, without limitation, interest at the rate(s) provided for in the Loan Agreement which, but for the commencement of any bankruptcy, insolvency or receivership proceeding relating to Borrower, would have accrued and been payable with respect to such indebtedness, (“Senior Obligations”) and any collateral, mortgage(s) and security granted to Bank therefor, and in furtherance thereof does hereby agree not to ask for, demand, sue for, take or receive all or any part of the Subordinated Indebtedness or enforce Junior Creditor’s rights to any security therefor, nor ask for, demand, take or receive any security therefor, unless and until Senior Obligations have been paid in full in cash and Bank’s financing arrangements with Borrower terminated. Junior Creditor also hereby agrees that Bank shall be subrogated for Junior Creditor with respect to Junior Creditor’s claims against Borrower and Junior Creditor’s rights, liens and security interests, if any, in any of Borrower’s assets and the proceeds thereof until the Senior Obligations have been paid in full, in cash and Bank’s financing arrangements with Borrower terminated.

Junior Creditor further agrees that, upon any distribution of the assets or readjustment of the indebtedness of Borrower, whether by reason of liquidation, composition, bankruptcy, arrangement, receivership, assignment for the benefit of creditors or any other action or proceeding involving the readjustment of all or any of the Subordinated Indebtedness, or the application of the assets of Borrower to the payment or liquidation thereof, Bank shall be entitled to receive payment in full in cash of the Senior Obligations prior the payment of all or any part of the Subordinated Indebtedness, and in order to enable Bank to enforce its rights hereunder in any such action or proceeding, Bank is hereby irrevocalby authorized and empowered in its sole discretion make and present for and on behalf of Junior Creditor such proofs of claim against Borrower on account of the Subordinated Indebtedness in the name of Junior Creditor or Bank may deem expedient or proper and to vote such proofs of claim in any such proceeding and to receive and collect any and all dividends or other payments or disbursements made thereon in whatever form the same may be paid and issued and to apply the same on account of any of the Senior Obligations.

None

Junior Creditor represents and warrants to Bank that Exhibit A attached hereto identifies all of Borrower's existing indebtedness and obligations to Junior Creditor.

Junior Creditor further agrees to execute and deliver to Bank such assignments, endorsements, or other instruments as my be required by Bank in order to enable Bank to enforce any and all such claims and to collect any and all dividends or other payments or disbursements which may be made at any time on account of all or any of the Subordinated Indebtedness.

If any money or other property is received by Junior Creditor for application on the Subordinated Indebtedness before the Senior Obligations are paid in full, in cash, Junior Creditor will hold such money and other property in trust for Bank and promptly after receipt, deliver such money and other property to Bank.

Junior Creditor hereby also agrees not to assign or transfer at any time while this Subordination Agreement remains in effect any rights, claim or interest of any kind in or to any of the Subordinated Indebtedness, either principal or interest, without (1) first notifying Bank and (2) making such assignment expressly subject to this Subordination Agreement in form and substance satisfactory to Bank. Junior Creditor will, upon request from Bank, deliver any note or other evidence of the Subordinated Indebtedness to Bank, and Bank may (or Junior Creditor, upon request from Bank, will) add a legend to such note or other evidence of the Subordinated Indebtedness stating that payment thereof is the subject of the provisions of this Subordination Agreement.

This is a continuing agreement of subordination and Bank may continue, without notice to Junior Creditor, to extend credit or other accommodation or benefit and lend moneys to or for the account of Borrower on the faith hereof. It is further understood and agreed that Bank may at any time, in its sole discretion, renew or extend the time of payment of all or any existing or future indebtedness or obligations of Borrower to Bank or waive or release any collateral which may be held therefor at any time and in reference thereto to make and enter into any such agreement or agreements as Bank may deem proper or desirable without notice to or further assent from Junior Creditor and without in any manner impairing or affecting this Subordination Agreement or any of Bank's rights hereunder.

Junior Creditor hereby expressly waives notice of acceptance by Bank of the subordination and other provisions of this Subordination Agreement and all other notices whatsoever, including, without limitation, notice of the creation of any indebtedness or liability of Borrower to Bank, notice of the giving or extension of credit by Bank to Borrower, notice of protest and default, and all other notices to which Junior Creditor might otherwise be entitled. Junior Creditor consents and agrees that Bank shall be under no obligation to marshal any assets in favor of Junior Creditor or against or in payment of any or all of the Senior Obligations. Junior Creditor hereby assents to any extension or postponement of the time of payment of the Senior Obligations or to any other indulgence with respect thereto, to any substitution, exchange or release of collateral which may at any time secure the Senior Obligations and/or to the addition or release of any other party or person primarily or secondarily liable therefor.

Junior Creditor expressly waives reliance by Bank upon the subordination and other agreements as herein provided and presentment, demand and protest. Junior Creditor agrees that Bank has made no warranties or representations with respect to the due execution, legality, validity, completeness or enforceability of the Loan Agreement or any other document or instrument evidencing or relating to the Senior Obligations, or the collectibility of the Senior Obligations, that Bank shall be entitled to manage and supervise its loans to Borrower in accordance with its usual practices, modified from time to time as it deems appropriate under the circumstances, without regard to the existence of any rights that Junior Creditor may now or hereafter have in or to any of the assets of Borrower, and that Bank shall have no liability to Junior Creditor for, and waives any claim which Junior Creditor may now or hereafter

None

have

against Bank arising out of, (1) any and all actions which Bank, in good faith, takes or omits to take (including, without limitation, actions with respect to the creation, perfection or continuation of liens or security interests in the "Collateral" (as defined in the Loan Agreement), actions with respect to the occurrence of an "Event of Default" (as defined in the Loan Agreement), actions with respect to the foreclosure upon, sale, release of, depreciation of or failure to realize upon any of the Collateral, and actions with respect to the collection of any claim for all or any part of the Senior Obligations from any account debtor, guarantor or any other party) with respect to the Loan Agreement or any other agreement related thereto or to the collection of the Senior Obligations or the valuation, use, protection or release of the Collateral, (2) Bank's election, in any proceeding instituted under Chapter 11 of Title 11 of the United States Code (11 U.S.C. §101 et seq.) (the "Bankruptcy Code"), of the application of Section 1111(b)(2) of the Bankruptcy Code, and/or (3) any borrowing or grant of a security interest under Section 364 of the Bankruptcy Code.

Junior Creditor hereby assumes responsibility for keeping itself informed of the financial condition of Borrower, any and all endorsers and any and all guarantors of Borrower's indebtedness to Bank and of all other circumstances bearing upon the risk of nonpayment of the Subordinated Indebtedness that diligent inquiry would reveal, and Junior Creditor hereby agrees that Bank shall have no duty to advise Junior Creditor information known to Bank regarding such condition or any such circumstances.

This Subordination Agreement is binding on Junior Creditor, its successors and assigns, and shall inure to the benefit of Bank, its successors and assigns. Whenever reference is made in this Subordination Agreement to Borrower, such term shall include any successor or assign of Borrower, including, without limitation, a receiver, trustee or deptor-in-possession.

The foregoing notwithstanding, until such time as Bank gives Junior Creditor notice that Borrower is in default of any of its obligations to Bank, Junior Creditor may accept and retain payments identified on Exhibit A attached hereto as "Permitted Payments".

Any notice or notification required, permitted or contemplated hereunder shall be in writing, shall be addressed to the party to be notified at the address set forth below or at such other address as each party may designate for itself from time to time by notice hereunder, and shall be deemed to have been validly served, given or delivered (i) three (3) days following deposit in the United States mails, with proper first class postage prepaid, certified mail, return receipt requested (ii) the next Business Day after such notice was delivered to a regularly scheduled overnight delivery carrier with delivery fees either prepaid or an arrangement, satisfactory with such carrier, made for the payment of such fees, or (iii) upon receipt of notice given by telecopy, mail-gram, telegram, telex, or personal delivery:

To Bank: First Interstate Bank of Texas, N.A

1445 Ross Avenue Suite 300

Dallas, Texas 75202 Attn: Jeffrey S. A. Cook

To Junior Creditor: Fossil Trust

1100 N. Market Street

None

Rodney Square North

Wilmington, Delaware 19890

With a copy to: Fossil Trust c/o Fossil, Inc.

2280 N. Greenville Avenue

Richardson, Texas 75082-4412

Attention: Randy S. Kercho

THIS SUBORDINATION AGREEMENT SHALL BE INTERPRETED AND THE RIGHTS AND LIABILITIES OF THE PARTIES HERETO DETERMINED IN ACCORDANCE WITH THE LOCAL LAW OF THE STATE OF TEXAS, EXCLUDING ANY CONFLICTS OF LAW RULE OR PRINCIPLE THAT MIGHT OTHERWISE REFER CONSTRUCTION OR INTERPRETATION OF THIS SUBORDINATION AGREEMENT TO THE SUBSTANTIVE LAW OF ANOTHER JURISDICTION, AND ALL OTHER LAWS OF MANDATORY APPLICATION.

BANK AND JUNIOR CREDITOR EACH HEREBY WAIVES TRIAL BY JURY WITH RESPECT TO ANY ACTION, CLAIM, SUIT OR PROCEEDING IN RESPECT TO ARISING OUT OF THIS AGREEMENT AND/OR THE CONDUCT OF THE RELATIONSHIP BETWEEN BANK AND JUNIOR CREDITOR.

This Subordination Agreement sets forth the complete undertaking and agreements of Bank and Junior Creditor with the subject matter hereof, and there are no other agreements or understandings binding upon them, including, without limitation, any conflicting provisions of any agreement of note referred to on Exhibit A attached hereto.

The parties agree to be bound by the terms and provisions of the Arbitration Program (dated 9/1/92) which is incorporated by reference herein and is acknowledged as received by the parties pursuant to which any and all disputes shall be resolved by mandatory binding arbitration upon the request of any party.

IN WITNESS WHEREOF, this Subordination Agreement has been duly executed by Junior Creditor as of August 31, 1994,

FOSSIL TRUST,

a Delaware business trust

By:/s/ Alan D. Moore

Alan D. Moore, Trustee

ACKNOWLEDGEMENT BY BORROWER

Borrower hereby acknowledges receipt of a copy of the Subordination Agreement, confirms the accuracy of the information set forth in Exhibit A attached hereto and that Exhibit A identifies all of Borrower's existing indebtedness and obligations to Junior Creditor, and agrees that it will not pay any indebtedness subordinated by the

foregoing Subordination Agreement (except as otherwise permitted thereby) until all indebtedness of Borrower to Bank now existing and hereafter arising shall have been paid in full and Bank's financing arrangements with Borrower are terminated. In the event of any breach of the provisions of

foregoing Subordination Agreement, Borrower agrees that, in addition to any other rights and remedies Bank may have, all of Borrower's obligations and liabilities to Bank shall, without notice or demand, become immediately due and payable, unless Bank shall otherwise elect.

FOSSIL PARTNERS, L.P

By: Fossil, Inc.,
its general partner

By:/s/ Randy S. Kercho

Name: Randy S. Kercho

Title:VP and Chief Financial Officer

None

EXHIBIT A

TO SUBORDINATION AGREEMENT

I. Indebtedness Owen to Junior Creditor

II. Permitted Payments

So long as, after giving effect to such payment, Borrower remains in compliance with all the covenants of the Loan Agreement and no Event of Default (as defined in the Loan Agreement) then exists, Junior Creditor may accept and retain principal and interest payments of the note evidencing the Subordinated Indebtedness. The Junior Creditor hereby acknowledges that it has been provided a copy of and has Loan Agreement.

None

LEGEND TO NOTE

THIS NOTE, AND PAYMENT AND ENFORCEMENT HEREOF, IS SUBJECT TO THE TERMS AND PROVISIONS OF THAT CERTAIN SUBORDINATION AGREEMENT DATED AUGUST 31, 1994, BETWEEN FOSSIL TRUST AND FIRST INTERSTATE BANK OF TEXAS, N. A. AND ACKNOWLEDGED BY FOSSIL PARTNERS, L.P., AS SUCH SUBORDINATION AGREEMENT MAY BE AMENDED FROM TIME TO TIME.

MASTER LICENSE AGREEMENT

This MASTER LICENSE AGREEMENT (" Agreement") is made and entered into as of August 30, 1994, by and between FOSSIL, INC., a Delaware corporation (hereinafter referred to as "Licensor") with a principal office at 2280 N. Greenville, Richardson, Texas 75082, as Licensor, and FOSSIL PARTNERS, L.P., a Texas limited partner., as well as any operating subsidiary and affiliates of Licensor that becomes a party hereto after the date hereof (hereinafter referred to collectively as "Licensees" and each a "Licensee").

WITNESSETH:

WHEREAS, Licensor owns rights in certain trademarks (and the current applications for federal registration of certain other trademarks), as well as the goodwill associated with such trademarks and applications for trademarks;

WHEREAS, each Licensee desires to obtain a nonexclusive license to use such intellectual property rights in connection with the sale, marketing and distribution of certain goods; and

WHEREAS, Licensor is willing to grant such a license to each such Licensee under the terms of this Agreement.

NOW THEREFORE, in consideration of the mutual promises contained herein, and subject to the terms and conditions of this Agreement. Licensor and each Licensee (severally, but not jointly) agree as follows:

ARTICLE I

License Grant

(a) Licensor grants to each Licensee the nonexclusive right and license to use the Marks (as defined below) in connection with the Licensed Goods (as defined below) during the tenn of this Agreement.

(b) "Marks" is defined in this Agreement as (i) the trademarks listed in Schedule A (as such may be supplemented or amended from time to time) attached hereto, having the federal registrations shown on Schedule A, and (ii) the trademarks listed in Schedule B for which applications for registration are pending in the U.S. Patent and Trademark Office as listed in Schedule B (as such may be supplemented or amended from time to time) attached hereto.

(c) "Licensed Goods" is defined in this Agreement as all goods bearing the Marks as authorized by Licensor from time to time.

(d) Each Licensee agrees that Licensor retains full ownership of the Marks and the goodwill associated with the Marks, that no Licensee shall acquire any rights in the Marks other than those rights expressly granted by Licensor pursuant to and during the term of this Agreement, and that use of the Marks by any Licensee inures to the benefit of Licensor. Each Licensee agrees to cooperate fully with Licensor in securing and maintaining the goodwill of Licensor in the Marks, and to execute and deliver any and all agreements, instruments and other documents necessary or appropriate to secure, maintain and evidence such goodwill of Licensor in the Marks.

ARTICLE II

None

Term

The term of this Agreement shall commence on August 31, 1994, and shall initially be for the 12-month period immediately following such date. This Agreement shall automatically be renewed for successive 12-month periods unless, prior to the end of the initial term or any renewal tenn, Licensor or Licensee gives the other party

notice of its intention not to renew this Agreement, in which case this Agreement shall not be renewed with respect to each Licensee who has given such notice to Licensor or who has been given such notice by Licensor.

ARTICLE III

Default, Termination

(a) In the event that either Licensor or any Licensee is in breach of or default under the terms of this Agreement (a "Default"), the other party may serve on the defaulting party a notice of default ("Notice of Default") specifying the nature of the Default. If the Default is not cured within fifteen (IS) days from service of the Notice of Default, the other party may then serve a notice (the "Termination Notice") that it is terminating this Agreement and the Agreement shall be automatically terminated, in which case this Agreement shall be terminated with respect to each Licensee who has served such Termination Notice on Licensor or upon whom such Termination Notice has been served by the Licensor. Notwithstanding the foregoing, this Agreement shall be terminated immediately without notice as to any Licensee in the event of the bankruptcy or judicial or administrative declaration of insolvency of such Licensee, or in the event that such Licensee makes any assignment for the benefit of creditors (such events being collectively referred to hereinafter as "Events of Automatic Termination" and each an "Event of Automatic Termination''), provided, however, that such termination without notice shall apply only with respect to the Licensee or Licensees to whom such an Event of Automatic Termination has occurred, and the license of each of the other Licensees to whom such an Event of Automatic Termination has not occurred shall continue without regard to the status of the license of such Licensee or Licensees subject to such Event of Automatic Termination.

(b) Upon expiration or termination of this Agreement for any reason, all rights granted to a Licensee hereunder shall cease, and any such Licensee will immediately refrain from further use of the Marks, take down all signs displaying the Marks, and destroy or return to Licensor all other materials containing, displaying or using the Marks.

ARTICLE IV

Royalty Payments

Licensor acknowledges and agrees that Licensee will incur expenses related to the marketing and promotion of the Licensed Good as well as increasing the recognition and goodwill associated with the Marks covered by this agreement. In consideration of Licensee's agreement and undertaking to incur such expenses and to use its best efforts to increase the notoriety and consumer awareness of the Marks, all for the benefit of Licensor. Licensor and Licensee agree that no royalty payment or licensing fee shall be payable by Licensee to Licensor hereunder.

ARTICLE V

Books of Account and Records

Each Licensee agrees to keep accurate books of account and records covering all transactions relating to the Licensed Goods. Licensor and its authorized representatives shall have the right to examine and copy said books of account and other records; provided, however, that such examination and copying shall be done at the usual place of business (and only during reasonable hours) of the Licensee whose books of account and records Licensor desires to examine and copy. unless such restrictions are not required by said Licensee.

None

ARTICLE VI

Quality Control; Advertising Materials

(a) Each Licensee agrees to maintain such quality of Licensed Goods sold or otherwise provided under or in connection with the Marks in accordance with specifications set forth by Licensor from time to time. Licensor reserves the right to inspect the quality of such services to ensure that the quality required is maintained.

(b) Licensor may from time to time require any Licensee to furnish Licensor samples of advertising or other promotional materials to be used in connection with the Licensed Goods. Each Licensee agrees that it will use the Marks in any reasonable manner required by Licensor in order to identify Licensor's rights in such Marks.

ARTICLE VII

Indemnity/Hold Harmless

Each Licensee agrees that it is wholly responsible for all goods offered or sold by it, and that Licensor shall have no liability for or in connection with any services offered, sold or otherwise provided by Licensee in connection with the Marks. Each Licensee severally agrees to indemnify and hold harmless Licensor and the officers, directors, shareholders, employees and agents of Licensor, from and against any and all claims, demands, causes of action, damages, costs and expenses, including court costs and reasonable attorneys' fees, caused by or arising out of or in connection with the use by such Licensee of the Marks or the offer, sale or provision of any such services by a Licensee, including without limitation, claims or actions for negligence, breach of contract, strict liability and patent or copyright infringement.

ARTICLE XIII

Miscellaneous

8.1 Headings. All article or section headings in this Agreement are for reference only and shall not be deemed to control or affect in any way the meaning or construction of any of the provisions hereof.

8.2 Binding Effect. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns.

8.3 Counterparts. This Agreement may be executed in any number of counterparts, all of which together shall constitute one agreement binding on the parties hereto,

8.4 Applicable Law. This Agreement shall be treated as though it were executed in Dallas county, Texas and shall for all purposes be. governed by and interpreted and enforced in accordance with the laws of the State of Texas, without regard to the choice of law principles thereof. Each Licensee hereby agrees that any action arising out of this Agreement shall be litigated under the laws of the State of Texas in a Court of competent jurisdiction in Dallas county, Texas.

8.5 Notices. Any notice, request, consent or communication (collectively a "Notice") under this Agreement

shall be effective only if it is in writing and (a) personally delivered, (b) sent by certified or registered mail, return receipt requested, postage prepaid, (c) sent by a nationally recognized overnight delivery service, with delivery confirmed, or (d) telexed or telecopied. with receipt confirmed, addressed, if to Licensor, as follows:

Fossil. Inc
2280 N. Greenville
Richardson, Texas 75082
Attention: General Counsel

and if to a Licensee, to the address of such Licensee on the books and records of Licensor, or to such other address or addresses as shall be furnished in writing by any party to the other party. Unless the sending party has actual knowledge that a Notice was not received by the intended recipient, a Notice shall be deemed to have been given, served and received (i) as of the date when personally delivered, (ii) three days after being deposited with the United States mail properly addressed, (iii) the next day after being delivered to said overnight delivery service, properly addressed and prior to such delivery service's cut off time for next day delivery, or (iv) when receipt of the telex or telecopy is confirmed, as the case may be.

8.6 Entire Agreement; Modification. This Agreement contains the complete expression of the agreement between the parties with respect to the matters addressed herein and there are no promises, representations, or inducements except as herein provided. The terms and provisions of this Agreement may not be modified, supplemented or amended except in writing signed by both parties hereto. All terms and provisions of this Agreement shall be binding upon and inure to the benefit of and be enforceable by the respective successors and permitted assigns of the parties hereto.

8.7 Assignment. Either party hereto shall have the right to assign this Agreement only to (i) any successor assignee of such party that may result from any merger, consolidation or reorganization or (ii) another corporation that acquires all or substantially all of such party's assets, business and liabilities.

8.8 No Waiver. Failure by either party hereto to enforce at any time or for any period of time any provision or right hereunder shall not constitute a waiver of such provision or of the right of such party thereafter to enforce each and every such provision.

8.9 Severability. The provisions of this Agreement are severable, and if any provision shall be held illegal, invalid, or unenforceable, the parties affected thereby shall substitute for the affected provision an enforceable provision that approximates the intent and economic benefit of the affected provision as closely as possible, but all other provisions shall continue in full force and effect.

8.10 Intent.

(a) Notwithstanding anything herein to the contrary, it is the intent of the parties that Schedule A and Schedule B attached hereto may be supplemented or amended, from time to time, by Licensor, so as to add additional Marks (but no additional royalty under Article IV hereof shall be payable). Such supplement or amendment shall be effective upon notice by Licensor to a Licensee of such supplement or amendment, which such notice shall contain a copy of the supplemented or amended schedule for Licensee's files.

(b) No language herein shall be construed so as to give a right to Licensor to remove a Mark from the list of Marks in Schedule A or Schedule B, unless consented to in writing by each Licensee who would be affected by such removal; provided, however, that this provision shall not limit the ability of Licensor to utilize its remedies and/or rights specified in Article III hereof with respect to default and termination.

None

(c) It is the intent of this Agreement that each Licensee is to be severally (but not jointly) bound to the provisions hereof. Nothing in this Agreement shall be construed so as to make any Licensee responsible for any action, liability, breach or default of any other Licensee to this Agreement; nor shall this

None

Agreement be construed so as to give any Licensee any rights or benefits to which any other Licensee under this Agreement may be entitled.

None

IN WITNESS WHEREOF, this Master License Agreement has been duly executed by the parties hereto as of the date first written above.

LICENSOR:

FOSSIL, INC.

By: /s/ T. R. Tunnell
Name: T. R. Tunnell
Title:VP, Secretary & General Counsel

LICENSEE:

FOSSIL PARTNERS, L.P.

By Fossil, Inc./General Partner

By: /s/ Randy S. Kercho
Name: Randy S. Kercho
Title: VP & CEO

AGREEMENT OF
LIMITED PARTNERSHIP
OF
FOSSIL PARTNERS, L.P.

THIS AGREEMENT OF LIMITED PARTNERSHIP is made and entered into to be as of the 31st day of August, 1994 (the "Effective Date"), by and between FOSSIL, INC., a Delaware corporation, as general partner (the "General Partner") and FOSSIL TRUST a Delaware business trust, as limited partner (the "Limited Partner").

WITNESSETH:

WHEREAS, the parties desire to associate themselves herein; and

WHEREAS. the parties desire to set forth their understandings with respect to the foregoing.

NOW, THEREFORE, in consideration of the foregoing premises and the mutual promises herein contained, the parties agree as follows:

ARTICLE I

DEFINITIONS

As used herein, the following terms defined in this Article I shall have the following meanings for purposes of this Agreement, unless the context otherwise specifies or requires a different meaning.

1.1 "Act" means the Texas Uniform Limited Partnership Act, V.A.T.S. art 6132a-1, as amended from time to time.

1.2 "Adjusted Capital Account Deficit" means, with respect to any Partners, the deficit balance, if any, in such Partner's Capital Account as of the end of the relevant fiscal year, after giving effect to the following adjustments:

(a) Credit to such Capital Account any amounts that such Person is obligated to restore pursuant to any provision of this Agreement or is deemed to be obligated to restore pursuant to the penultimate sentences of Sections 1.704-1T(b)(4)(iv)(f) and 1.704-1T(h)(4)(iv)(h)(5) of the Regulations; and

None

(b) Debit to such Capital Account the items described in Sections 1.704-1(b)(2)(ii)(d)(4), 1.704-1(b)(2)(ii)(d)(5) and 1.704-1(b)(2)(ii)(d)(6) of the foregoing definition of Adjusted Capital Account Deficit is intended to comply with the provisions of Section 1.704-1(b)(2)(ii)(d) of the Regulations and shall be interpreted consistently therewith.

1.3 "Adjusted Capital Contributions" means, as of any day, a Partner's Capital Contributions, adjusted as follows:

(a) Increased by the amount of any Partnership liabilities that, in connection with distributions pursuant to Sections 5.4 and 13.2 hereof, are assumed by such Partner or are secured by any Partnership Property distributed to such Partner;

(b) Increased by any amounts actually paid by such Partner to any Partnership lender, and

(c) Reduced by the amount of cash and the Gross Asset Value of any Partnership Property distributed to such Partner pursuant to Sections 5.4, 5.6 and 13.2(c) hereof and the amount of any liabilities of such Partner assumed by the Partner or that are secured by any property contributed by such Partner to the Partnership.

In the event any Partner transfers all or any portion of its Interest in accordance with the terms Agreement, its transferee shall succeed to the Adjusted Capital Contribution of the to the extent it relates to the transferred Interest in the Partnership.

1.4 "Affiliate" means, with respect to any Person, any person that directly or indirectly through one or more intermediaries controls, is controlled by, or is under common control with, the specified Person. As used herein, the term "control" means the possession, directly of indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through ownership of voting securities, by contract or otherwise.

1.5 "Agreement" or "Partnership Agreement" means this Agreement of Limited Partnership, as amended from time to time. Words such as "herein," "hereinafter, "hereto" and "hereunder" refer to this Agreement as a whole, unless the context otherwise requires.

1.6 "Bankruptcy" of a Partner shall mean: (i) the filing by such Partner of a voluntary petition seeking liquidation, reorganization, arrangement or readjustment, in any form, of its debts under Title 11 of the United States Code or any other federal or state insolvency law, or such Partner filing an answer consenting to or acquiescing in any such petition; (ii) the making by such

None

Partner of any assignment for the benefit of its creditors; or (iii) the expiration of 60 days after the filing of an involuntary petition under Title 11 of the United States Code, an application for the appointment of a receiver for the assets of such Partner or an involuntary seeking liquidation, reorganization, arrangement or readjustment of its debt under any other federal or state insolvency law, provided that the same shall not have been vacated, set staved within such 60-day period.

1.7 "Capital Account" means the capital account maintained for a Partner :0 Section 4.6.

1.8 "Capital Contribution" or "Contribution" means, with respect to any the amount of money and the initial Gross Asset Value of any Property (other than money) contributed to the Partnership with respect to the Interest in the Partnership held by such Person. The principal amount of a promissory note that is not readily traded on an established securities market and that is contributed to the Partnership by the maker of the note shall not be m the Capital Account of any Person until the Partnership makes a taxable disposition of the note or until (and to the extent) principal payments are made on the note, all in accordance with Section 1.704-1(b)(2)(iv)(d)(2) of the Regulations.

1.9 "Code" means the Internal Revenue Code of 1986, as amended from time to time, any successor thereto and applicable Regulations thereunder.

1.10 "Depreciation" means, for each fiscal year or other period, an amount equal to the depreciation, amortization, or other cost recovery deduction allowable with respect to an asset for such year or other period, except that if the Gross Asset Value of an asset differs from its adjusted basis for federal income tax purposes at the beginning of such year or other Depreciation shall be an amount that bears the same ratio to such beginning Gross Asset Value as the federal income tax depreciation. amortization, or other cost recovery deduction for such year or other period bears to such beginning adjusted tax basis; provided, however, that in the federal income tax depreciation, amortization. or other cost recovery deduction for such year is zero. Depreciation shall be determined with reference to such beginning Gross Asset Value using any reasonable method selected by the General Partner.

1 .11 "Entity" means any corporation, association, partnership, joint venture, estate or other organization.

1.12 "General Partner" means Fossil, Inc., or any other Person that becomes partner of the Partnership pursuant to the terms of this Agreement. "General Partners" shall mean all such Persons.

None

1.13 “Gross Asset Value” means. with respect to any asset, the asset’s adjusted basis for federal income tax purposes. except as follows:

(a) The initial Gross Asset Value of any assets contributed by a Partner to the Partnership shall be the gross fair market value of such asset, as determined by the contributing Partner and the Partnership;

(b) The Gross Asset Values of all Partnership assets shall be adjusted to equal their respective gross fair market values, as determined by the General Partner, as of the following times: (i) the acquisition of an additional interest in the Partnership in any new or existing Partner in exchange for more than a de minimis Capital Contribution; (ii) the distribution by the Partnership to a Partner of more than a de minimis amount of Property as consideration for an Interest in the Partnership; (iii) the transfer of an Interest in the Partnership, whether by sale, gift, or otherwise, to a Person, whether it is a new or existing Partner; (iv) a distribution by the Partnership pursuant to section 5.4 hereof; and (v) the liquidation of the Partnership within the meaning of Section 1.704-1(b)(2)(ii)(g) of the Regulations; provided, however, that adjustments pursuant to clauses (i) through (iv) above shall be made only if the General Partner reasonably determines that such adjustments are necessary or appropriate to reflect the relative economic interests of the Partners in the Partnership:

(c) The Gross Asset Value of any Partnership Property distributed to any Partner shall be the gross fair market value of such Property on the date of distribution; and

(d) The Gross Asset Values of Partnership assets shall be increased (or decreased) to reflect any adjustments to the adjusted basis of such assets pursuant to Section 734(b) or Section 743(b) of the Code, but only to the extent that such adjustments ire taken into account in determining Capital Accounts pursuant to Section a 7()4-1(b)(2)(iv)(m) of the Regulations and Section 5.3(i) hereof; provided, however, that Gross Asset Values shall not be adjusted pursuant to this Section 1.13 to the extent the General Partner determines that an adjustment pursuant to Section 1.13(b) hereof is necessary or appropriate in connection with a transaction that would otherwise result in .n adjustment pursuant to this Section 1.13.

If the Gross Asset Values of an asset has been determined or adjusted pursuant to Section 1.13(a), (b) or (d) hereof, such Gross Asset Value shall thereafter be adjusted by the : 7~pm.mation taken into account with respect to such asset for purposes of computing Profits and Losses.

1.14 “Limited Partner” means Fossil Trust any person or entity that is or becomes a limited partner of the Partnership pursuant to the terms of this Agreement. “Limited Partners” shall mean all such Persons.

None

1.15 “Net Cash From Operations” means the gross cash proceeds from Partnership operations, less the portion thereof used to pay or establish reserves for all Partnership expenses, debt payments, capital improvements, replacements, and contingencies, all as determined by the General Partner. “Net Cash From Operations” shall not be reduced by depreciation, amortization, cost recovery deductions, or similar allowances, but shall be increased by any reductions of reserves previously established.

1.16 “Net Cash From Sales or Refinancings” means the net cash proceeds from all sales and other dispositions (other than in the ordinary course of business) and all refinancings of Property, less any portion thereof used to establish reserves, all as determined by General Partner. “Net Cash From Sales or Refinancings” shall include all principal and interest payments with respect to any note or other obligation received by the Partnership in connection with sales and other dispositions (other than in the ordinary course of business) of Partnership Property.

1.17 “Nonrecourse Deductions” has the meaning set forth in Section 1.704-T(b)(4)(iv)(b) of the Regulations.The amount of Nonrecourse Deductions for a Partnership fiscal year equals the excess, if any, of the net increase, if any, in the amount of Partnership Minimum Gain during that fiscal year over the aggregate amount of any distributions during that fiscal year of proceeds of a Nonrecourse Liability that are allocable to an increase in Partnership Minimum Gain, determined according to the provisions of Section 1.704-1T(b)(4)(iv)(b) of the Regulations.

1.18 “Nonrecourse Liability” has the meaning set forth in Section “ -1 .704-1T(b)(4)(iv)(k)(3) of the Regulations.

1.19 “Partner Minimum Gain” means an amount, with respect to each Partner Nonrecourse Debt, equal to the Partnership Minimum Gain that would result if such Partner Nonrecourse Debt were treated as a Nonrecourse Liability, determined in accordance with 1,7 04-1T(b)(4)(iv)(h) of the Regulations.

1.20 “Partner Nonrecourse Debt” has the meaning set forth in Section T(b)(4)(iv)(k)(4) of the Regulations.

1.21 “Partner Nonrecourse Deductions” has the meaning set forth in Section1.704-1T(b)(4)(iv)(h)(3) of the Regulations. The amount of Partner Nonrecourse Deductions with respect to a Partner Nonrecourse Debt for a Partnership fiscal year equals the excess, if any of the net increase, if any, in the amount of Partner Minimum Gain attributable to such Partner Nonrecourse Debt during that fiscal year over the aggregate amount of any distributions during that fiscal year to the Partner that bears the economic risk of loss for

such Partner Nonrecourse Debt to the extent such distributions are from the proceeds of such Partner Nonrecourse Debt and are allocable to an increase in Partner Minimum Gain attributable to such Partner Nonrecourse Debt determined in accordance with Section 1.704-1T(b)(4)(iv)(h)(3) of the Regulations.

1.22 "Partners" means all General Partners and all Limited Partners, where no distinction is required by the context in which the term is used herein. "Partner" means any one of the Partners. All references in this Agreement to a majority in interest of the partners shall mean Partners (or Partners within such classification, as the case may be) who are entitled to an allocation of more than 50% of any Profits at such point in time pursuant to Section 5.1 thereof.

1.23 "Partnership" means the partnership formed by this Agreement of Limited Partnership, and the partnership continuing the business of this Partnership in the event of dissolition as herein provided.

1.24 "Partnership Interest" or "Interest" means the ownership interest of a .r in the Partnership including any and all benefits to which the holder of such an interest may be entitled as provided in this Agreement, together with all obligations of such Person to comply with the terms and provisions of this Agreement.

1.25 "Partnership Minimum Gain" has the meaning set forth in Section 1.704-1T(b)(4)(iv)(a)(2) and 1.704-1T(b)(4)(iv)(c) of the Regulations.

1.26 "Profits" and "Losses" means, for each fiscal year or other period, an amount equal to the Partnership's taxable income or loss for such year or period, determined in accordance with Section 703(a) of the Code (for this purpose, all items of income, gain, loss or deduction required to be stated separately pursuant to Section 703(a)(1) of the Code shall be included in taxable income or loss), with the following adjustments:

(a) Any income of the Partnership that is exempt from federal income tax and not otherwise taken into account in computing Profits or Losses pursuant to this Section 1.26 shall be added to such taxable income or loss;

(b) Any expenditures of the Partnership described in Section 705(a)(2)(B) of the Code or treated as Section 705(a)(2)(B) of the Code expenditures pursuant to Section 1.704-1(b)(2)(iv)(1) of the Regulations and not otherwise taken into amount in computing Profits or Losses pursuant to this Section 1.26, shall be subtracted from such taxable income or loss:

None

(c) In the event the Gross Asset Value of any Partnership Property is adjusted pursuant to Section 1.13(b) or Section 1.13(c) hereof, the amount of such 4idiustment shall be taken into account as gain or loss from the disposition of such Property for purposes of computing Profits or Losses;

(d) Gain or loss resulting from any disposition of Property with respect to which gain or loss is recognized for federal income tax purposes shall be computed by reference to the Gross Asset Value of the property disposed of, notwithstanding that the adjusted tax basis of such Property differs from its Gross Asset Value;

(e) In lieu of depreciation, amortization and other cost recovery deductions taken into account in computing such taxable income or loss, there shall be taken into account Depreciation for such fiscal year or other period, computed in accordance with Section 1.10 hereof; and

(f) Notwithstanding any other provision of this Section 1.26, any items that are specially allocated pursuant to Section 5.3 hereof shall not be taken into account ,n computing Profits or Losses.

1.27 “Property means all real and personal property, fixtures, equipment, intangible property and other assets, and interests in all of the foregoing, now or hereafter acquired by the Partnership and any improvements or additions thereto.

1.28 “Regulations” means the Income Tax Regulations promulgated under the Code, as such Regulations may be amended from time to time (including corresponding provisions of succeeding regulations).

1.29 “Transfer” means, as a noun, any voluntary or involuntary transfer, sale, hypothecation, gift, or other disposition and, as a verb, voluntarily or involuntarily to transfer sell. pledge, hypothecate, gift or otherwise dispose of.

ARTICLE II

ORGANIZATION

2.1 Formation. The Partners hereby form the Partnership pursuant to the provision of the Act and the terms and conditions of this Agreement. The General Partner has all he rights and duties of a “general partner” under the Act and this Agreement, and the Limited Partner has all of the rights and duties of a “limited partner” under the Act and this Agreement.

None

2.2 Name and Principal Office. The name of the Partnership shall be “Fossil Partners, L.P.”, or such other name as the Partners shall hereafter agree upon. All assets of Partnership shall be held in such name (and not in the name of any Partner), and all business and affairs of the Partnership shall be conducted under such name, or under any name licensed for use by the Partnership by the General Partner. The principal office of the Partnership shall be at the business mailing address and street address of the General Partner, to wit: 2280 N. Greenville, Richardson, Texas 75082-4412, or such other place as the General Partner may from time to time designate. In addition, the General Partner may establish and maintain such other offices and places of business within and without the State of as it may from time to time determine.

2.3 Registered Agent. The name of the Partnership’s registered agent for services of process is T.R. Tunnell. Vice President, Secretary and General Counsel, of Fossil, Inc., or any successor as appointed by the General Partner. The address of the registered agent and the address of the registered office is 2280 N. Greenville, Richardson, Texas 75082.

2.4 Filings; Certificate of Limited Partnership.

(a) The General Partner shall execute and cause the Certificate of Limited Partnership described in the Act (the “Certificate”) to be filed with the Secretary of State of Texas as required by Section 2.5 of this Agreement and the provisions of the Act and shall execute and cause to be filed, recorded and/or published such other certificates or documents with the appropriate authorities of the State of Texas as may be determined by the General Partner to be reasonable and necessary or appropriate for the formation, continuation, registration and/or operation of a limited partnership in any state in which the Limited Partnership has elected or may elect to do business. Pursuant to Article III hereof, the Partnership has elected to do business in the State of Texas. The General Partner shall execute such fictitious name registrations as are required by law with regard to the use of the name of the Partnership. The General Partner shall take any and all other actions reasonably necessary to perfect and maintain the status of the Partnership as a “limited partnership,” its Limited Partner as a “limited partner” and its General Partner as a “general partner” under the Act and the laws of the State of Texas or any other state in which the Partnership has elected elect to do business.

(b) To the extent that the General Partner determines such action to be reasonable and necessary or appropriate, the General Partner shall execute and file amendments to the Certificate and do all the things to maintain the Partnership as a limited partnership under the Act and other applicable laws of the State of Texas or any other state in which the Partnership has elected or may elect to do business. Subject to applicable law, the General Partner may omit from the Certificate tiled with the Secretary of State of Texas and from any

other certificates or documents filed in any other state in order to register and/or qualify the to do business therein. and from all amendments thereto, any information, including, without limitation, the name and address of the Limited Partner and information relating to the Contributions and shares of Profits and Losses and compensation of the General Partner. Subject to the terms of Section 7.3, the General Partner shall not be required to deliver or mail a copy of the Certificate of Limited Partnership, any qualification document or any amendment thereto the Limited Partner.

(c) To the extent that the General Partner determines such action to be and necessary or appropriate, the General Partner shall cause a certified copy of the Certificate and any amendments thereto to be recorded in the office of the county recorder in every county in which the Partnership owns real property.

(d) Upon the dissolution of the Partnership, the General Partner (or, in the event there is no remaining General Partner, any Person selected pursuant to Section 13.2 thereof) shall promptly execute and cause to be filed certificates of dissolution and/or certificates of cancellation in accordance with the Act and the law of any other states or jurisdictions in which the Partnership has filed a Certificate or has registered and/or qualified to do business therein.

2.5 Term. The existence of the Partnership as a limited partnership shall commence on the date the Certificate is filed in the office of the Secretary of State of Texas in accordance with the Act, or such other office as is appropriate under applicable state law, and shall continue until the winding up and liquidation of the Partnership and its business and affairs following Liquidating Event, as provided in Article XIII hereof.

2.6 Independent Activities. The General Partner and the Limited Partner may, notwithstanding this Agreement, engage in whatever activities they choose, whether. the same or as competitive with the Partnership or otherwise, without having or incurring any obligation to offer any interest in such activities to the Partnership or any Partner. Neither this Agreement nor any activity undertaken pursuant hereto shall prevent any Partner from engaging in such activities or require any Partner to permit the Partnership or any Partner to participate in any such activities and as a material part of the consideration for the execution of this Agreement by each Partner, each Partner hereby waives, relinquishes, and renounces any such right or claim of participation.

None

ARTICLE III

PURPOSE

3.1 Business Purpose. The purpose of the Partnership shall be to engage in the business of manufacturing, marketing, developing and distributing fashion watches and other fashion accessories in the United States and other international markets, and to do all other things necessary, appropriate or advisable in connection with such purposes. The Partnership may also conduct such other business or businesses or activity or activities: (a) in Texas as are under the Act and other laws of the State of Texas and (b) in any other state where the Partnership has properly registered and/or qualified to do business as are lawful under the Act other laws of Texas and such other state.

3.2 Powers. The Partnership shall have such powers as are necessary or appropriate to carry out the purposes of the Partnership, including, without limitation:

(a) to have and maintain one or more offices within or without the State of Texas and, in connection therewith, to do such acts and things and incur such expenses as may be necessary or advisable in connection with the maintenance of such office or offices and the conduct of the business and affairs of the Partnership;

(b) to open, maintain and close accounts with one or more banks or other financial institutions, and to draw checks and other orders for the payment of money;

(c) to guarantee on a non-recourse basis borrowings of the Partners used to acquire Property for the Partnership, and, in connection therewith, to pledge and grant security interests in Partnership Property;

(d) to borrow money in furtherance of the purposes set forth in Section 3.1 hereof, and to secure the payment of such borrowing or other obligations of the Partnership by the pledge of, or the grant of security interests in, all or part of the Property of the Partnership;

(e) to enter into, make and perform all such contracts, agreements and other undertakings as may be necessary, advisable or incident to the carrying out of the purpose set forth in Section 3.1 hereof; and

(f) to engage in any other lawful act or activity that may be necessary or appropriate in the pursuance of the foregoing, including, without limitation, the retention of employees, agents, independent contractors, attorneys, accountants and investment counselors and the preparation and filing of all Partnership tax returns.

3.3 Limited Purpose. The Partnership shall be a limited partnership between the Partners solely and exclusively for the business

purposes specified in Section 3.1, and this Agreement is not intended and shall not be deemed to create a partnership between the Partners with respect to any activities whatsoever other than the activities that are actually undertaken by the Partnership and that are within, or in pursuance of, the business purposes and powers of the Partnership as specified in Section 3.1 and Section 3.2.

3.4 Separate Business. The Partnership shall keep its business and affairs and all of its Property and operations separate and distinct from the business, affairs, assets and operation of the Partners and of any other Person or Entity in which any of them may be or interested.

ARTICLE IV

CAPITAL CONTRIBUTIONS

4.1 Partners. On the Effective Date hereof, Fossil, Inc. (“Fossil”) shall to the Partnership on behalf of and in the name of Fossil, as General Partner, and Fossil Trust, as Limited Partner, respectively, those assets and property currently owned by Fossil, all as more fully described in that certain Conveyance Agreement, dated as of even date herewith, between the Partnership and Fossil (the “Conveyance Agreement”) in exchange for the issuance (i) to Fossil of a 1 % general partnership interest in the Partnership (“Fossil Partnership Interest”), and (ii) to Fossil Trust of a 99 % limited partnership interest in the Partnership (“Trust Interest”). From time to time thereafter as necessary, the General Partner shall make Capital Contributions to the Partnership in cash, check or other property, in an amount necessary to maintain the General Partner’s Capital Account balance at a level that equals Fossil Partnership Interest. Such cash shall be deposited in the Partnership’s accounts as soon as practicable after the amount thereof has been computed.

4.2 Additional Capital Contributions. No Partner shall be required to make additional Capital Contributions to the Partnership; however, the General Partner may permit any Partner to make one or more additional Capital Contributions to the Partnership at such times and in such amounts as the General Partner, in its absolute discretion, may determine.

4.3 Record of Contributions. The books and records of the Partnership shall include true and full information regarding the Capital Contributions by each Partner to the Partnership.

None

4.4 No Withdrawal of Interest. No Partner shall be entitled to demand or a return of any part of such Partner's Capital Contribution or Capital Account, or to withdraw from the Partnership, without the consent of all Partners, except as otherwise provided in this Agreement. Under circumstances requiring a return of any Capital Contributions, no Partner shall have the right to receive Property other than cash, except as may be specifically provided herein. No Partner shall be entitled to interest on any part of such Partner's Capital Contribution or Capital Account at any time.

4.5 Capital Accounts. The Partnership shall maintain for each Partner a separate Capital Account in accordance with the rules of Section 1.704-1(b)(2)(iv) of the Regulations. The initial Capital Account of each Partner is its respective Contribution set forth in Section 4.1 hereof. Such Capital Account shall be maintained in accordance with the following provisions:

(a) To each Person's Capital Account there shall be credited such Person's Capital Contributions, such Person's distributive share of Profits and any items in the nature of income or gain that are specially allocated pursuant to Section 5.3 hereof, and the amount of any Partnership liabilities assumed by such Person or that are secured by any Property distributed to such Person.

(b) To each Person's Capital Account there shall be debited the amount of cash and the Gross Asset Value of any Property distributed to such Person pursuant to any provision of this Agreement, such Person's distributive share of Losses and any items in the nature of expenses or losses that are specially allocated pursuant to Section 5.3 hereof, and the amount of any liabilities of such Person assumed by the Partnership or that are secured by any property contributed by such Person to the Partnership.

(c) In the event all or a portion of an Interest in the Partnership is transferred in accordance with the terms of this Agreement. the transferee shall succeed to the Capital Account of the transferor to the extent it relates to the transferred Interest.

(d) In determining the amount of any liability for purposes of Sections 1.3(a), 1.3(c), 4.5(a) and 4.5(b) hereof, there shall be taken into account Section 752(c) of the Code and any other applicable provisions of the Code and Regulations.

The foregoing provisions and the other provisions of this Agreement relating to the maintenance of Capital Accounts are intended to comply with Section 1.704-1(b) of the Regulations, and shall be interpreted and applied in a manner consistent with such Regulations. In the event the General Partner shall determine that it is prudent to modify the manner in which the Capital Accounts, or any debits or credits thereto (including, without limitation, debits or credits relating to liabilities that are secured by contributed or distributed property or that are assumed by the Partnership or its Partners), are computed in order to comply with such Regulations, the General Partner may make such modification, provided that it is not likely to have a material effect on amounts distributable

to any Person pursuant to Article XIII hereof upon the dissolution of the Partnership. The General Partner also shall: (i) make any adjustments that are necessary or appropriate to maintain equality between the Capital Accounts of the Partners and the amount of Partnership capital reflected on the Partnership's balance sheet, as computed for book purposes in accordance with Section 1.704-1(b)(2)(iv)(q) of the Regulations; and (ii) make any appropriate modifications in the event unanticipated events (for example, the acquisition by the Partnership of oil or gas properties) might otherwise cause this Agreement not to comply with Section 1.704-1(b) of the Regulations.

4.6 Loans- Partnership Indebtedness.

(a) Any Partner may make a loan to the Partnership in such amount, at such time and on such terms and conditions as may be approved by the General Partner; provided however, that the Partner may not charge the Partnership interest at a rate greater than the rate (including points or other financing charges or fees) that would be charged the Partnership (without reference to the Partner's financial abilities or guaranties) by unrelated lenders or comparable leans. No loan by any Partner to the Partnership shall be considered as a Contribution for any purpose. The Partnership shall not loan or advance funds to any Partner nor permit its Property to be pledged or hypothecated to secure the obligation of any Partner, except as provided in Section 3.2(b).

(b) The Partnership shall from time to time arrange such loan or loans with such persons, firms or corporations as are willing to make the same at such rates, for such and upon such other terms and conditions as the General Partner shall approve, and the Partnership shall have the power and authority to incur such obligations and to execute such notes, pledges, security interests, conditional assignments of Partnership Property or other documents as shall be necessary or advisable in connection with said loan or loans. In the event guaranties of the General Partner are required in connection with any loan approved by the Partnership, the General Partner agrees to execute the same.

(c) Except as otherwise provided by this Agreement, no Limited Partner shall be liable for the debts, liabilities, contracts or other obligations of the Partnership. Except as provided by this Agreement, any other agreements among the Partners, or applicable a Limited Partner shall be liable only to make its Capital Contribution and shall not be required to lend any funds to the Partnership or, after its Capital Contribution has been paid, any additional Contributions to the Partnership or to guarantee Partnership debts, loans or other obligations.

None

ARTICLE V

ALLOCATIONS AND DISTRIBUTIONS

5.1 Allocations of Profits and Losses. After giving effect to the special allocations set forth in Sections 5.2 and 5.3 hereof, Profits and Losses for any fiscal year of the Partnership shall be allocated among the Partners in proportion to their respective Adjusted Contributions as of the first day of such fiscal year; provided, however, that if a Partner's Adjusted Capital Contributions changes during any fiscal year, Profits and Losses for each month within such year shall be allocated among the Partners in proportion to the Adjusted Capital of each Partner as of the first day of such month, and each Partner's share of Profits and Losses the fiscal year shall equal the sum of that Partner's share of Profits and Losses for each month during such fiscal year.

5.2 Other Allocation Rules.

(a) Except as otherwise provided in Section 5.1, for purposes of the Profits, Losses, or any other items allocable to any period, Profits, Losses, and any such other items shall be determined on a daily, monthly, or other basis, as determined by the General Partner using any permissible method under Section 706 of the Code and the Regulations thereunder.

(b) All allocations to the Partners pursuant to this Article V shall, as otherwise provided, be divided among them in proportion to the Partnership Interests hr each. In the event there is more than one General Partner, all such allocations to the General Partners shall be divided among them as they may agree.

(c) Except as otherwise provided in this Agreement, all items of Partnership income, gain, loss, deduction, or credit, and any other allocations not otherwise provided for shall be divided among the General Partners and Limited Partners in the same proportions as they Share Profits or Losses, as the case may be, for the year.

(d) The Partners are aware of the income tax consequences of the allocations made by this Article V and hereby agree to be bound by the provisions of this Article V in reporting their shares of Partnership income and loss for income tax purposes.

5.3 Tax Allocations.

The following special allocations shall be made in the following order, except as in Section 5.3(h) hereof:

(a) Notwithstanding any other provision of this Article V, if there is a net decrease in Partnership Minimum Gain during any Partnership fiscal year, each Partner shall be specially allocated items of Partnership income and gain for such year (and, if necessary, subsequent years) in an amount equal

to the greater of: (i) the portion of such Person's share of the net decrease in Partnership Minimum Gain, determined in accordance with Section 1.704-1T(b)(4)(iv)(f) of the Regulations, that is allocable to the disposition of Partnership Property subject to Nonrecourse Liabilities, determined in accordance with Section 1.704-1T(b)(4)(iv)(e) of the Regulations; or (ii) if such Person would otherwise have an Adjusted Capital Account Deficit at the end of such year, an amount sufficient to eliminate such Adjusted Capital Account Deficit. Allocations pursuant to the previous sentence shall be made in proportion to the respective amounts required to be allocated to each Partner pursuant thereto. The items to be so allocated shall be determined in accordance with Section 1.704-1T(b)(4)(iv)(e) of the Regulations. This Section 5.3(a) is intended to comply with the "minimum gain chargeback" requirement in such Section of the Regulations and shall be interpreted consistently therewith. To the extent permitted by such Section of the Regulations and for purposes of this Section 5.3(a) only, each Partner's Adjusted Capital Account Deficit shall be determined prior to any other allocations pursuant to this Article V with respect to such fiscal year and without regard to any net decrease in Partner Minimum Gain during such fiscal year.

(b) Notwithstanding any other provision of this Article V except Section 5.3(a), if there is a net decrease in Partner Minimum Gain attributable to a Partner Nonrecourse Debt during any Partnership fiscal year, each Partner who has a share of the Partner Minimum Gain attributable to such Partner Nonrecourse Debt, determined in accordance with Section 1.704-1T(b)(4)(iv)(h)(5) of the Regulations, shall be specially allocated items of Partnership income and gain for such year (and, if necessary, subsequent years) in an amount equal to the greater of: (i) the portion of such Person's share of the net decrease in Partner Minimum Gain attributable to such Partner Nonrecourse Debt, determined in accordance with Section 1.704-1T(b)(4)(iv)(h)(5) of ,he Regulations, that is allocable to the disposition of Partnership Property subject to such Partner Nonrecourse Debt, determined in accordance with Section 1.704-1T(b)(4)(iv)(h)(4) of the Regulations; or (ii) if such Person would otherwise have an Adjusted Capital Account Deficit at the end of such year, an amount sufficient to -1,:iminate such Adjusted Capital Account Deficit. Allocations pursuant to the previous sentence shall be made in proportion to the respective amounts required to be allocated ,to each Partner pursuant thereto. The items to be so allocated shall be determined in accordance with Section 1.704-1T(b)(4)(iv)(h)(4) of the Regulations. This Section 5.3(b) is intended to comply with the "partner minimum gain chargeback" requirement in such Section of the Regulations and shall be interpreted consistently therewith. Solely for purposes of this Section 5.3(b), each Partner's Adjusted Capital Account Deficit shall be determined prior to any other allocations pursuant to this Article V with respect to such fiscal year, other than allocations pursuant to Section 5.3(a) hereof.

(c) In the event any Partner unexpectedly receives any adjustments, allocations or distributions described in Sections 1.704-1T(b)(2)(ii)(d)(4), (5) or (6) of the Regulations, items of Partnership income and gain shall be specially allocated to such Partner in an amount and manner

sufficient to eliminate, to the extent required by the Regulations, the Adjusted Capital Account Deficit of such Partner as quickly as possible, provided that an allocation pursuant to this Section 5.3 (c) shall be made only if and to the extent that such Partner would have an Adjusted Capital Account Deficit after all Other allocations provided for in this Article V have been tentatively made as if this Section 5.3(c) were not in the Agreement. This Section 5.3(c) is intended to constitute a "qualified income offset" within the meaning of Section 1.704-1(b)(2)(ii)(d) of the Regulations and shall be interpreted consistently therewith.

(d) In the event any Partner has a deficit Capital Account at the end of any Partnership fiscal year that is in excess of the sum of: (i) the amount such Partner is Obligated to restore pursuant to any provision of this Agreement; and (ii) the amount such Partner is deemed to be obligated to restore pursuant to the penultimate sentences Of Sections 1.704-1T(b)(4)(iv)(f) and 1.704-1T(b)(4)(iv)(h)(5) of the Regulations, each such Partner shall be specially allocated items of Partnership income and gain in the amount of such excess as quickly as possible, provided that a "gross income allocation" pursuant to this Section 5.3(d) shall be made only if and to the extent that such Partner would have a deficit Capital Account in excess of such sum after all other allocations provided for in this Article V have been made as if Section 5.3 (c) hereof and this Section 3.3(d) were not in the Agreement.

(e) Nonrecourse Deductions for any fiscal year or other period shall he specially allocated to the Partners in the ratios by which they would share in the Profits of the Partnership for such year.

(f) Any Partner Nonrecourse Deductions for any fiscal year or other period shall be specially allocated to the Partner who bears the economic risk of loss with respect to the Partner Nonrecourse Debt to which such Partner Nonrecourse Deductions are attributable in accordance with Section 1.704-1T(h)(4)(iv)(h) of the Regulations.

(g) To the extent an adjustment to the adjusted tax basis of any Partnership asset pursuant to Section 734(b) of the Code or Section 743(b) of the Code is required, pursuant to Section 1.704-1(b)(2)(iv)(m) of the Regulations, to be taken into account in determining Capital Accounts, the amount of such adjustment to the Capital Accounts shall be treated as an item of gain (if the adjustment increases the basis of the asset) or loss (if the adjustment decreases such basis) and such gain or loss shall be specially allocated to the Partners in a manner consistent with the manner m which their Capital Accounts are required to be adjusted pursuant to such Section of the Regulations.

(h) The allocation set forth in Sections 5.3(a) through 5.3(g) hereof ,the "Regulatory Allocations") are intended to comply with certain requirements of Section 1.704-1(b) of the Regulations. The Partners understand and acknowledge that , he Regulatory Allocations may not be consistent with the manner in which the Partners intend to divide Partnership Profits, Losses and distributions. These Regulatory Allocations shall be taken into account in allocating times of income, gain, loss and deduction among the Partners so that, to the extent possible, the net amount of such allocations of the other items and

these Regulatory Allocations to each Partner shall be equal to the net amount that would have been allocated to each Partner if the Regulatory Allocations had not occurred. Accordingly, the General Partner shall have reasonable discretion. with respect to each fiscal year, to divide the Regulatory Allocations among he Partners in whatever order is made in any manner that is likely to minimize the above economic distortions.

(i) In accordance with Section 704(c) of the Code thereunder, income, gain, loss, and deduction with respect to any Property contributed to the capital of the Partnership shall, solely for tax purposes, be allocated among the Partners as to take account of any variation between the adjusted basis of such Property to the Partnership for federal income tax purposes and its initial Gross Asset Value (computed in accordance with Section 1.13 of this Agreement).

In the event the Gross Asset Value of any Partnership Property is adjusted pursuant to Section 1.13(b) of this Agreement, subsequent allocations of income, gain, loss, and deduction with respect to such Property shall take account of any variation between the adjusted basis of such Property for federal income tax purposes and its Gross Asset Value in the same manner as under Section 704(c) of the Code and the Regulations thereunder.

Any elections or other decisions relating to such allocations shall be made by the General Partner in any manner that reasonably reflects the purpose and intention of this Agreement. Allocations pursuant to this Section 5.3(i) are solely for purposes of federal, state, and local taxes and shall not affect, or in any way be taken into account in computing, any Partner's Capital Account or share of Profits, Losses, other items, or distributions pursuant to any provision of this Agreement.

(j) It is the intention of the Partners that each Partner's distributive share of Profits, Losses and other tax items be determined and allocated in accordance with this Article V to the extent permitted or required by Section 704(b) of the Code and the Regulations promulgated thereunder. Therefore, if the General Partner is advised by Counsel or accountants to the Partnership that the allocation provisions of this Agreement are unlikely to be respected for federal income tax purposes, the General Partner is granted the authority in Article XI to amend the allocation provisions of this Agreement, on advice of counsel or accountants, to the minimum extent necessary to effect the plan of allocations and distributions provided in this Agreement. The General Partner shall have the discretion to adopt such rules, conventions and procedures as it believes appropriate and/or advantageous with respect to the admission of Limited Partners to reflect the Partners' Interests in the Partnership.

5.4 Distributions. Except as otherwise provided in Section 5.5, Section 5.6 and Article XIII hereof. Net Cash From Operations, if any, and Net Cash From Sales and Refinancings, if any, shall be distributed as follows:

None

(a) When and as the General Partner, in its sole discretion shall decide, some or all of the Net Cash From Operations and/or some or all of the Net Cash from Sales and Refinancing shall be made to all Partners in amounts proportionate to their respective positive Capital Account balances and shall be in cash or in kind, or combination thereof, as the General Partner shall specify; or

(b) When approved by a majority in interest of the Partners, some or all of the Net Cash From Operations and/or some or all of the Net Cash From Sales and Refinancing shall be made to less than all Partners (to the designated Partner or Partners), or to all Partners but in varying amounts, and in any case shall be in cash or in kind, or a combination thereof, as the General Partner shall specify.

5.5 Amounts Withheld. All amounts withheld pursuant to the Code or any provision of any state or local tax law with respect to any payment or distribution to the Partnership or the Partners shall be treated as amounts distributed to the Partners pursuant to this Article V for all purposes under this Agreement. The General Partner may allocate any such amounts among the Partners in any manner that is in accordance with applicable law.

5.6 Minimum Distribution For Tax Payments. The General Partner shall distribute each Partner, upon request from such Partner, for each fiscal year an amount of cash from its Capital Account equal to the amount of corporate tax due on the Profits of the Partnership, if any, allocated to the Partner for such year, at a time so as to enable such Partner to pay its respective federal income taxes with respect to such Profits. Such distribution shall on the applicable tax rates under the Code; and such amount shall be automatically as applicable tax rates are increased.

ARTICLE VI

MANAGEMENT AND OPERATION OF BUSINESS

6.1 Management.

(a) Except to the extent otherwise provided herein, the General Partner shall have the sole and exclusive right and authority to manage the business and affairs of the Partnership. In addition to the powers that may be possessed by a general partner of a limited Partnership under the Act or other applicable state laws, or that are granted to the General Partner under any other provisions of this Agreement, the General Partner shall have, subject to the other provisions of this Agreement, full power and authority to do all things and on such terms as it, in its sole and complete discretion, may deem necessary,

appropriate, convenient or incidental to managing the affairs of the Partnership or to conducting the business of the Partnership including, without limitation, and for and by the Partnership: (i) acquire by purchase, lease, or otherwise any real or personal property that may be necessary, convenient or incidental to the accomplishment of the purposes of the Partnership; (ii) operate, finance, maintain, hold, own, grant options with respect to, sell, convey, assign, mortgage, and lease any real of personal property necessary. convenient, or incidental to the accomplishment of the of the purpose of the Partnership; (iii) execute any and all agreements, contracts, documents, certifications and instruments necessary or convenient in connection with managing the affairs of the Partnership, including executing amendments to the Agreement and Certificate in accordance with the terms of the Agreement, pursuant to any power of attorney granted by the Limited Partner to the General Partner: (iv) the making of any expenditures, the borrowing of money and guaranteeing of indebtedness and other liabilities, the issuance of evidences of indebtedness and the incurring of obligations in connection with the business of the Partnership; (v) the use of the Property of the Partnership for any Partnership purpose and on any terms, including, without limitation, the financing of the conduct of the operations of the Partnership, of funds to other Persons (other than Partners) and the repayment of obligations of the Partnership; (vi) the negotiation, execution and performance of any contracts, conveyances or other instruments; (vii) care for and distribute funds to the Partners by way of cash, income, in kind distributions, return of capital, or otherwise, all in accordance with the provisions of this Agreement; (viii) the selection and dismissal of employees and outside attorneys, accountants. consultants and contractors and the determination of their compensation and other terms of employment or hiring; (ix) the maintenance of insurance for the benefit of the Partnership and the Partner; (x) the formation of or participation in any further limited or general partnerships, joint ventures or other relationships; (xi) institute, prosecute, defend, settle, compromise, and lawsuits or other judicial or administrative proceedings brought on or in behalf of, or the Partnership or the Partners in connection with activities arising out of, corrected incidental to this Agreement, and to engage counsel or others in connection therewith; (xii) the purchase, sale or other acquisition or disposition of Partnership interests; (xiii) the indemnification of any person against liabilities and contingencies to the extent permitted by law; (xiv)engage in any hind of activity and perform and carry out contracts of any kind necessary or incidental to, or in connection with, the accomplishment of the purposes of the Partnership, he lawfully carried on or performed by a Partnership under the laws of each state in the Partnership is then formed or qualified; (xv) take, or refrain from taking, all actions not expressly proscribed or limited by this Agreement, as may be necessary or appropriate to accomplish the purposes of the Partnership.

In the event more than one person is a General Partner, the rights and powers of the General Partner hereunder shall be exercised by them in such manner as they shall agree. In the absence of an agreement among the General

Partners, no General Partner shall exercise any of such rights and powers without the unanimous consent of all General Partners.

(b) Without the prior approval of all of the Limited Partners, the General Partner shall not have the authority to: (i) do any act in contravention of this Agreement: (ii) do any act that would make it impossible to carry on the ordinary business of the Partnership, except as otherwise provided by this Agreement; (iii) confess a judgment against the Partnership: (iv) possess Property, or assign rights in specific Property, for other than a Partnership purpose; (v) knowingly perform any act that would subject any Limited Partner to liability as a general partner in any jurisdiction; (vi) sell or exchange all or substantially all of the Property of the Partnership in a single transaction or a series of related transactions, except for a liquidating sale of Property after the dissolution of the Partnership, provided that this provision shall not preclude or limit the mortgage, pledge, hypothecation or grant of a security interest in ail or substantially all of the Partnership's Property; (vii) merge the Partnership with or into other entity; (viii) make any assignment for the benefit of the Partnership's creditors; (ix) provide for compensation or remuneration, whether direct or indirect, to any Partner for services Performed for the Partnership in excess of amounts specifically permitted hereunder; or (x) undertake any act or action by the Partnership that requires the consent of all Partners pursuant to the terms of this Agreement or the Act.

6.2 Compensation and Reimbursement of the General Partners.

(a) Except as provided in this Section 6.2 or elsewhere in this Agreement, the General Partner shall not be compensated for its services as General Partner to the Partnership.

(b) The General Partner shall be reimbursed for all expenses, disbursements and advances incurred or made in connection with the organization of the Partnership and the qualification of the Partnership to do business in any state.

(c) The General Partner shall be reimbursed on a monthly basis, or on other basis as the General Partner may determine in its sole and complete discretion, for ct expenses it incurs or makes on behalf of the Partnership (including amounts paid to any person to perform services to the Partnership, other than those services described in Section 6.2(b) hereof).

6.3 Limitations on Liability of the Partners to the Limited Partners and Partnership. The General Partner shall not be required to devote all of its time or business efforts to the affairs of the Partnership, but shall devote so much of its time and attention to the Partnership as is necessary and advisable to successfully manage the affairs of the Partnership. The General Partner, its officers, directors, shareholders, agents and employees, shall not be

liable to the Partnership or the Limited Partner, and shall be indemnified for any loss or damage resulting from, any act or omission performed or omitted in good faith, which shall not constitute fraud, gross negligence or willful misconduct, in pursuance of the authority granted to promote the interests of the Partnership. Moreover, the General Partner shall not be liable Partnership or the Limited Partner because any taxing authorities disallow or adjust any deduction or credits in the Partnership income tax returns. Subject to Article XIII hereof, the General Partner shall not be liable for the return of the Capital Contributions of the Limited or for any portion thereof, it being expressly understood that any return of capital shall be made solely from the Property of the Partnership; nor shall a General Partner be required to pay the Partnership or the Limited Partner any Capital Account deficits of any other Partner (other then its own or another General Partner's deficit), upon dissolution or otherwise.

6.4 Partnership Funds. The funds of the Partnership shall be deposited in such account or accounts as are designated by the General Partner. All withdrawals from or charges against such accounts shall be made by the General Partner or by its officers, employees or agents. Funds of the Partnership may be invested as determined by the General Partner, except in connection with acts otherwise prohibited by this Agreement.

6.5 Loans from the General Partner- Other Agreements.

(a) The General Partner may lend to the Partnership funds needed by Partnership for such periods of time as the General Partner may determine; provided, however, that the General Partner may not charge the Partnership interest at a rate greater than (including points or other financing charges or fees) that would be charged the Partnership (without reference to the General Partner's financial abilities or guaranties) by unrelated lenders on comparable loans. The Partnership shall reimburse the General Partner for any cost incurred by it in connection with the borrowing of funds obtained by the General Partner and loaned to the Partnership.

(b) The General Partner and its Affiliates may, pursuant to a written agreement or otherwise, render services to (other than those described in Section 6.2 (b)) or receive services from the Partnership and furnish properties to or receive properties from the Partnership, provided that any such activities shall be on terms that are fair and reasonable to the Partnership, and provided further that the terms shall be deemed fair and reasonable if they are no less favorable to the Partnership than those generally being provided to or available from unrelated third parties.

(c) The Partnership may transfer Property to other Entities in which it is or hereby becomes a participant, upon such terms and subject to such conditions consistent with applicable law as the General Partner deems necessary or appropriate.

None

6.6 Title to Partnership Property. Title to Partnership Property, whether real, personal or mixed, tangible or intangible, shall be deemed to be owned by the Partnership as an entity and no Partner, individually or collectively, shall have any ownership interest in such Partnership Property or any portion thereof. Title to any or all of the Partnership Property may be held in the name of the Partnership, the General Partner or one or more nominees, as the Partner may determine. The General Partner hereby declares and warrants that any Partnership Property for which legal title is held in the name of the General Partner shall be held in trust by the General Partner for the use and benefit of the Partnership in accordance with the or provisions of this Agreement. All Partnership assets shall be recorded as the property of the Partnership on its books and records, irrespective of the name in which legal title to such Partnership assets is held.

6.7 General Partner Net Worth. The General Partner covenants and agrees that so long as it is the general partner of the Partnership, it will use all reasonable efforts to maintain a net worth (exclusive of its interests in, or claims against, the Partnership) of an amount required by the Code and Regulations, provided that neither the General Partner nor any other Partner shall have any obligation to contribute assets to the Partnership after the date hereof. The General Partner covenants and agrees that it will use all reasonable efforts to establish and maintain the classification of the Partnership as a “partnership” for federal income tax purposes and not as an “association” taxable as a corporation.

ARTICLE VII

LIABILITY AND RIGHTS OF LIMITED PARTNERS

7.1 Limitation of Liability. The Limited Partners shall have no liability under Agreement, except as provided in this Agreement or in the Act.

7.2 Management of Business. Except for the right to vote on the matters set forth in this Agreement. the Limited Partner shall not have the right or power to take part in the operation, management or control of the Partnership’s business or affairs, transact any business in the Partnership’s name, or have the power to sign documents for or otherwise bind the Partnership.

7.3 Rights of Limited Partners Relating to the Partnership. In addition to other rights provided by this Agreement or by applicable law, each Limited Partner, and each Limited Partner’s duly authorized representatives,

shall have the right upon reasonable notice and at reasonable times, but only for a purpose reasonably related to such person's interest as a Limited Partner (a) to have true and full information regarding the status of the business, affairs and condition of the Partnership; (b) to inspect and copy, promptly after they become available, the Partnership's federal, state, and local income tax returns for each year; (c) to have true and full information regarding any Capital Contribution made by any General Partner and any Limited Partner; (d) to have a copy of this Agreement and the Certificate and all Amendments thereto, together with executed copies of any powers of attorney pursuant to which Agreement or any such Certificate has been executed; and (e) to have any other information regarding the affairs of the Partnership as is just and reasonable.

ARTICLE VIII

TRANSFER OF LIMITED PARTNER INTERESTS

8.1 Restriction on Transfers. Except as otherwise permitted by this Agreement no Limited Partner shall Transfer all or any portion of its Interest.

8.2 Permitted Transfer. Subject to the conditions and restrictions set forth in Section 8.3 hereof, a Limited Partner may at any time Transfer all or any portion of its interest to: (a) any other Partner; (b) any Affiliate of the transferor; (c) the transferor's trustee or personal representative to whom such Interests are transferred involuntarily by operation of law; or (d) any Purchaser in accordance with Section 8.4 here (any such Transfer being referred to this Agreement as a "Permitted Transfer").

8.3 Conditions to Permitted Transfers. A Transfer shall not be treated as a Permitted Transfer under Section 8.2 hereof unless and until the following conditions are satisfied:

(a) Except in the case of a Transfer involuntarily by operation of law, the transferor and transferee shall execute and deliver to the Partnership such documents and instruments of conveyance as may be necessary or appropriate in the opinion of counsel to the Partnership to effect such Transfer and to confirm the agreement of the transferee to be bound by the provisions of this Article VIII. In any case not described in the preceding sentence, the Transfer shall be confirmed by presentation to the Partnership of legal evidence of such Transfer, in form and substance satisfactory to counsel to the Partnership. In all cases, the Partnership shall be reimbursed by the transferor and/or transferee for all costs and expenses that it reasonably incurs in connection with such Transfer.

None

(b) Except in the case of a Transfer involuntarily by operation of law, the transferor shall furnish to the Partnership an opinion of counsel, which counsel and opinion shall be satisfactory to the Partnership, that the Transfer will not cause the Partnership to terminate for federal income tax purposes or to be classified other than a partnership for federal income tax purposes.

(c) The transferor and transferee shall furnish the Partnership with the transferee's taxpayer identification number, sufficient information to determine the transferee's initial tax basis in the Interests transferred, and any other information reasonably necessary to permit the Partnership to file all required federal and state tax returns and other legally required information statements or returns. Without limiting the generality of the foregoing, the Partnership shall not be required to make any distribution otherwise provided for in this Agreement with respect to any transferred Interests until it has received such information.

(d) Except in the case of a Transfer involuntarily by operation of law, either: (i) such Interests shall be registered under the Securities Act of 1933, as amended, and any applicable state securities laws; or (ii) the transferor shall provide an opinion of counsel, which opinion of counsel shall be satisfactory to the Partnership, to the effect that such Transfer is exempt from all applicable registration requirements and that such Transfer will not violate any applicable laws regulating the Transfer of securities.

(e) Except in the case of a Transfer involuntarily by operation of law, the transferor may not Transfer all or any part of its Partnership interest, or any rights therein, without the consent of the General Partner and Limited Partners owning more than 50% of the Partnership Interests of the Limited Partners.

8.4 Right of First Refusal. In addition to the other limitations and restrictions set forth in this Article VIII, except as permitted by Section 8.2 hereof, no Limited Partner shall transfer all or any portion of its Interest (the "Offered Interest") unless such selling Limited Partner (the "Seller") first offers to sell the Offered Interest pursuant to the terms of this Section 8.4.

(a) Limitation on Transfers. No Transfer may be made under this Section 8.4 unless the Seller has received a bona fide written offer (the "Purchase Offer") from a Person (the "Purchaser") to purchase the Offered Interest for a purchase price (the "Offer Price) denominated and payable in United States dollars at closing or according to specified terms, with or without interest, which offer shall be in writing signed by the Purchaser and shall be irrevocable for a period ending no sooner than the day following the end of the Offer Period, hereinafter defined.

None

(b) Offer Notice. Prior to making any Transfer that is subject to the of this Section 8.4, the Seller shall deliver to the Partnership and each other Partner written notice (the "Offer Notice"), which shall include a copy of the Purchase Offer and an offer (the "First Offer") to sell the Offered Interests to the other Partners (the "Offerees") for the Offer Price, payable according to the same terms as (or more favorable terms than) those contained in the Purchase Offer, provided that the First Offer shall be made without regard to the requirement of any earnest money or similar deposit required of the Purchaser prior to closing, and without regard to any security (other than the Offered Interest) to be provided by the Purchaser for any deferred portion of the Offer Price.

(c) Offer Period. The First Offer shall be irrevocable for a period (the "Offer Period") ending at 11:59 p.m., local time at the Partnership's principal office, on the ninetieth day following the day of the Offer Notice.

(d) Acceptance of First Offer. At the time during the first sixty days of the Offer Period, any Offeree who is a Partner may accept the First Offer as to that portion of the Offered Interest that corresponds to the ratio of Adjusted Capital Contributions to the total Adjusted Capital Contributions of all Offerees who are Partners, by giving written notice of such acceptance to the Seller and the General Partner. At any time after the sixtieth day of the Offer the General Partner may accept the First Offer as to any portion of the Offered Interest that has not been previously accepted by giving written notice of such acceptance to the Seller. In the event that Offerees ("Accepting Offerees"), in the aggregate, accept the First Offer with respect to all of the Offered Interest, the First Offer shall be deemed to be accepted. If Offerees do not accept the First Offer as to all of the Offered Interest during the Offer Period, the First Offer shall be deemed to be rejected in its entirety.

(e) Closing of Purchase Pursuant to First Offer. In the event that the First Offer is accepted, the closing of the sale of the Offered Interest shall take place within thirty days after the First Offer is accepted or, if later, the date of closing set forth in the Purchase Offer. The Seller and all Accepting Offerees shall execute such documents and instruments as may be necessary or appropriate to effect the sale of the Offered Interest pursuant to the terms of the First Offer and this Article VIII.

(f) Sale Pursuant to Purchase Offer If First Offer Rejected. If the First Offer is not accepted in the manner hereinabove provided, the Seller may sell the Offered Interest to the Purchaser at any time within sixty days after the last day of the Offer Period, provided that such sale shall be made on terms no more favorable to the Purchaser than the terms contained in the Purchase Offer and provided further that such sale complies with other terms, conditions, and restrictions of this Agreement that are applicable to sales of Interests and

are not expressly made inapplicable to sales occurring under this Section 8.4. In the event that the Offered Interest is not sold in accordance with the terms of the preceding sentence, the Offered Interest shall again become a subject to all of the conditions and restrictions of this Section 8.4.

8.5 Prohibited Transfers. Any purported Transfer of Limited Partner Interests that is not a Permitted Transfer shall be null and void and of no effect whatever; provided that, if the Partnership is required to recognize a Transfer that is not a Permitted Transfer (or if the General Partner, in its sole discretion, elects to recognize a Transfer that is not a Permitted Transfer), the Interest transferred shall be strictly limited to the transferor's rights to allocations and distributions as provided by this Agreement with respect to the transferred Interest, which allocations and distributions may be applied (without limiting any other legal or equitable rights of the Partnership) to satisfy any debts, obligations, or liabilities for damages that the transferor to transferee of such interest may have to the Partnership.

In the case of a Transfer or attempted Transfer of interest that is not a Permitted the parties engaging or attempting to engage in such Transfer shall be liable to indemnity and hold harmless the Partnership and the other Partners from all cost, liability, and damage that any of such indemnified Persons may incur (including, without limitation, incremental tax liability and attorneys' fees and expenses) as a result of such Transfer or Transfer and efforts to enforce the indemnity granted hereby.

8.6 Rights of Unadmitted Assignees. A Person who acquires one or more Limited Partner Interests, but who is not admitted as a Substituted Limited Partner pursuant to Section 8.7 hereof, shall be entitled only to allocations and distributions with respect to such Interests in accordance with this Agreement, but shall have no right to any information or accounting of the affairs of the Partnership, shall not be entitled to inspect the books or records of the Partnership, and shall not have any of the rights of a General Partner or a Limited Partner under the Act or the Agreement.

8.7 Admission of Substitute Limited Partners. Subject to the other provisions of this Article VIII, a transferee of Limited Partner Interests may be admitted to the Partnership as a "Substituted Limited Partner" only upon satisfaction of the conditions set forth below in this Section 8.7:

(a) Each General Partner and a majority in interest of the Limited Partners consent to such admission;

(b) The Limited Partner Interests with respect to which the transferee is being admitted were acquired by means of a Permitted Transfer;

(c) The transferee becomes a party to this Agreement as a Limited Partner and executes such documents and instruments as the General Partner may reasonably request (including, without limitation, a power-of-

attorney in favor of the General Partner as provided in Article XII hereof) as may be necessary or appropriate to confirm such transferee as a Limited Partner in the Partnership and such transferee's agreement to be bound by the terms and conditions hereof; and

(d) The transferee pays or reimburses the Partnership for all reasonable legal, filing, and publication costs that the Partnership incurs in connection with the admission of the transferee as a Limited Partner with respect to the Transferred Interests.

8.8 Representations: Legend.

(a) Each Limited Partner hereby covenants and agrees with the Partnership for the benefit of the Partnership and all of its Partners, that: (i) it is not currently making a market in Interests and will not in the future make a market in Interests; (ii) it will not Transfer its Interests on an established securities market, a secondary market (or the substantial equivalent thereof) within the meaning of Section 7704(b) of the Code (and any Regulations, revenue rulings, or other official pronouncements of the Internal Revenue Service or Treasury Department that may be promulgated or published thereunder); and (iii) in the event such Regulations, revenue rulings, or other pronouncements treat any of or all arrangements that the selling of partnership interests and that are commonly referred to as "matching as being a secondary market or substantial equivalent thereof, it will not Transfer any Interest through a matching service that is not approved in advance by the General Partner. Each Limited Partner further agrees that it will not Transfer any Interest to any Person unless such Person agrees to be bound by this Section 8.8(a) and to Transfer such Interests only to who agree to be similarly bound. The Partnership shall, from time to time, at the request of a Partner consider whether to approve a matching service and shall notify all Partners matching service that is so approved.

(b) Each Limited Partner hereby represents and warrants to the Partnership and the General Partner that such Partner's acquisition of Interests hereunder is made as principal for such Partner's own account and not for resale or distribution of such Interests. Each Limited Partner further hereby agrees that the following legend may be placed upon any counterpart of this Agreement, the Certificate, or any other document or instrument evidencing ownership of Interests:

THE LIMITED PARTNERSHIP INTERESTS REPRESENTED BY THIS DOCUMENT HAVE NOT BEEN REGISTERED UNDER ANY SECURITIES LAWS AND THE TRANSFERABILITY OF SUCH INTERESTS IS RESTRICTED. SUCH INTERESTS MAY NOT BE SOLD, ASSIGNED OR

None

TRANSFERRED, NOR WILL ANY ASSIGNEE, VENDEE, TRANSFEREE OR ENDORSEE THEREOF BE RECOGNIZED AS HAVING ACQURED ANY SUCH INTERESTS BY THE ISSUER FOR ANY PURPOSES, UNLESS: (1) A REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933, AS AMENDED, WITH RESPECT TO SUCH INTERESTS SHALL THEN BE IN EFFECT AND SUCH TRANSFER HAS BEEN QUALIFIED UNDER ALL APPLICABLE STATE SECURITIES LAWS; OR (2) THE AVAILABILITY OF AN EXEMPTION FROM SUCH REGISTRATION AND QUALIFICATION SHALL BE ESTABLISHED TO THE SATISFACTION OF COUNSEL TO THE PARTNERSHIP.

THE INTERESTS REPRESENTED BY THIS DOCUMENT ARE SUBJECT TO FURTHER RESTRICTION AS TO THEIR SALE, TRANSFER, HYPOTHECATION, OR ASSIGNMENT AS SET FORTH IN THE AGREEMENT OF LIMITED PARTNERSHIP AND AGREED TO BY EACH LIMITED PARTNER. SAID RESTRICTION PROVIDES, AMONG OTHER THINGS, THAT NO INTEREST MAY BE TRANSFERRED WITHOUT FIRST OFFERING SUCH INTEREST TO THE OTHER LIMITED PARTNERS AND THE GENERAL PARTNER, AND THAT NO VENDEE, TRANSFEREE, ASSIGNEE, OR ENDORSEE SHALL HAVE THE RIGHT TO BECOME A SUBSTITUTED LIMITED PARTNER WITHOUT THE CONSENT OF THE GENERAL PARTNER AND A MAJORITY IN INTEREST OF THE LIMITED PARTNERS.

8.9 Distributions and Allocations in Respect to Transferred Interests.

(a) If any Partnership Interest is sold, assigned, or transferred during any accounting period in compliance with the provisions of this Article VIII, Profits, Losses, each item thereof, and all other items attributable to the transferred Interest for such period shall be divided and allocated between the transferor and the transferee by taking into account their varying interests during the period in accordance with Section 706(d) of the Code, using any conventions permitted by law and selected by the General Partner. All distributions on or before the date of such transfer shall be made to the transferor, and all distributions thereafter shall be made to the transferee.

(b) Solely for purposes of making such allocations and distributions section 8.9(a) hereof, the Partnership shall recognize such transfer not later than the end of the calendar month during which it is given Notice of such transfer, provided that if the Partnership does not receive a Notice stating the date such Interest was transferred and such other information as the General Partner may reasonably require within thirty days after the end of the accounting period during which the transfer occurs, then all of such items shall be allocated and all distributions shall be made, to the Person who, according to the books and records of the Partnership, on the last day of the accounting period during which the transfer occurs, was the owner of the Interest. Neither the Partnership nor any General Partner shall incur any liability far making allocations and distributions in accordance with the provisions of Section 8.9

hereof, whether or not any General Partner or the Partnership has knowledge of any transfer of ownership of any Interest.

ARTICLE IX

GENERAL PARTNERS

9.1 Additional General Partners. Except as provided in this Article IX and Section 13.1 hereof, no Person shall be admitted to the Partnership as a General Partner without the unanimous consent of the Partners.

9.2 Withdrawal of General Partner: Successor General Partner. No General Partner may resign or withdraw from the Partnership, dispose of its General Partner Interest in a manner other than a Transfer, or dissolve or otherwise cease to serve as a General Partner (collectively, a "Withdrawal"}, without providing ninety days prior written Notice of such Withdrawal to the remaining General Partners (if any) and the Limited Partners. Within such ninety day period after the Notice has been given, the remaining General Partners (if any), or, if none, the Limited Partners, may meet to appoint and admit a successor General Partner. Any appointment and admission, and the terms of such appointment and admission, of a successor General Partner shall be approved by all of the remaining General Partners (if any) and a majority in interest of the Limited Partners, and such approval shall also designate and identify the date upon which such appointment and admission shall be first effective. For this purpose, an express approval by a majority in interest of the Limited Partners to such appointment and admission shall be deemed to be an act of all of the Limited Partners.

9.3 Permitted Transfers.

(a) A General Partner may Transfer all or any portion of its General Partner Interest in the Partnership as a General Partner: (i) at any time to any other General Partner: (ii) at any time to any Person who is such General Partner's Affiliate; (iii) at any time involuntary by operation of law; or (iv) to any Person who is approved by all of the other Partners (if any) and a majority in interest of the Limited Partners, provided that no such Transfer shall be permitted unless and until: (A) all of the conditions set forth in Section 8.3 hereof are satisfied as if the Partnership Interest being Transferred were a Limited Partner Interest and (B) the transferor and transferee provide the Partnership with an opinion of counsel, which opinion and counsel shall be acceptable to the other General Partners (or, if none, to a majority in interest of the Limited Partners) to the effect that such Transfer will not cause the Partnership to terminate for federal income tax purposes, or to fail to meet any condition precedent, then in effect pursuant to an official pronouncement of the

Internal Revenue Service, to the issuance of a private letter ruling by the Internal Revenue Service confirming that the Partnership will be treated as a "partnership" for federal tax purposes, whether or not such a ruling is being or has been requested.

(b) A transferee of a General Partnership Interest from a General Partner pursuant to Section 9.3(a) shall be admitted as a General Partner with respect to such Interest if, but only if: (i) at the time of such Transfer, such transferee is otherwise a General Partner; or (ii) the admission of such transferee as a General Partner is approved by all of the General Partners (if any) and a majority in interest of the Limited Partners.

(c) A transferee who acquires a General Partnership Interest from a General Partner hereunder by means of a Transfer that is permitted under Section 9.3 (a), but who is not admitted as a General Partner pursuant to Section 9.3 (b) hereof, shall have no authority to act for or bind the Partnership, to inspect the Partnership's books, or otherwise to be treated as a General Partner, but such transferee shall be treated as a Person who acquired an Interest in the Partnership in a Permitted Transfer under Article VIII hereof.

9.4 Prohibited Transfers. Any purported Transfer of any Partnership Interest held by a General Partner that is not permitted by Section 9.3 above shall be null and void and of no effect whatever; provided that, if the Partnership is required to recognize a Transfer that is not so permitted (or if all of the remaining General Partners, if any, and a majority in interest of the Limited Partners, in their sole discretion, elect to recognize a Transfer that is not so permitted), the Interest transferred shall be strictly limited to the transferor's rights to allocations and distributions as provided by this Agreement with respect to the transferred Interest, which allocations and distributions may be applied (without limiting any other legal or equitable rights Partnership) to satisfy any debts, obligations, or liabilities for damages that the transferor or transferee of such Interest may have to the Partnership.

In the case of a Transfer or attempted Transfer of a Partnership interest that is not permitted by Section 9.3 above, the parties engaging or attempting to engage in such Transfer nall he liable to indemnify and hold harmless the Partnership and the other Partners from all cost, liability, and damage that any of such indemnified Persons may incur (including, without limitation, incremental tax liability and attorneys' fees and expenses) as a result of such Transfer or attempted Transfer and efforts to enforce the indemnity granted hereby.

9.5 Termination of Status as General Partner.

(a) A General Partner shall cease to be a General Partner upon the first of: (i) the Bankruptcy or dissolution of a General Partner; (ii) the involuntary Transfer operation of law of such General Partner's Interest in the Partnership; (iii) the vote of all of the remaining General Partners, if any, and a

majority in interest of the Limited Partners to remove such General Partner after such General Partner has attempted to make a Transfer of its Partnership Interest that is not permitted by Section 9.3 hereof, engaged in intentional misconduct or gross negligence in the discharge of its duties as General Partner, intentionally failed to meet its material obligations or covenants under the Act or this Agreement, conducted its own business or affairs or those of the Partnership in such a manner as would intentionally cause the termination of the Partnership for federal income tax purposes or would cause it to be treated as an "association" taxable as a corporation for federal income tax purposes, committed a material breach of this Agreement or applicable law, or committed any other act or suffered any other condition that would justify a decree of dissolution of the Partnership under the laws of the State of Texas or would cause the General Partner to cease being a general partner under the Act: or (iv) a Withdrawal, or a Permitted or non-Permitted Transfer pursuant to Section 9.2 through 9.4 hereof. In the event a Person ceases to be a General Partner without having Transferred its entire Interest as a General Partner, such Person shall be treated as an unadmitted transferee of a Partnership Interest as a result of an unpermitted Transfer (but recognized) of an Interest pursuant to Section 9.4 hereof.

(b) If a General Partner ceases to be a Partner for any reason hereunder such Person shall continue to be liable as a Partner for all debts and obligations of the Partnership that have accrued or that exist at the time such Person ceases to be a General Partner, regardless of whether, at such time, such debts or liabilities were known or unknown, actual or contingent. A Person shall not be liable as a General Partner for Partnership debts and obligations arising after such Person ceases to be a General Partner. Any debts, obligations, or liabilities in damages to the Partnership of any Person who ceases to be a General Partner shall be collectible by any legal means, and the Partnership is authorized, in addition to any other remedies at law or in equity, to apply any amounts otherwise distributable or payable by the Partnership to such Person to satisfy such debts, obligations, or liabilities.

(c) It is the intention of the Partners that the Partnership not dissolve is a result of the cessation of any General Partner's status as a General Partner; provided, however, that if a dissolution nevertheless occurs under the Act, the Partnership's property, business and affairs shall continue to be held and conducted in a new limited partnership under this Agreement, with any remaining General Partners as general partners, the Limited Partners as limited partners, and any unadmitted assignees of Interests as "Interest Holders". Notwithstanding any provision of the Act to the contrary, each Partner and Interest Holder (including any successor to the Partnership Interest of a General Partner) hereby: (i) waives any right that such Person may have as a result of any such unintended dissolution to demand or receive an accounting of the Partnership or any distribution in satisfaction of such Person's Interest in the Partnership or any security for the return or distribution thereof; and (ii) agrees to indemnify and hold the Partnership and each other Partner and Interest Holder wholly and completely harmless from all costs or damage (including, without

limitation, legal fees and expenses of enforcing this indemnity) that any such indemnified Person may incur as a result of any action inconsistent with part (i) of this sentence.

(d) Notwithstanding any provision to the contrary herein, if a Person ceases to be a General Partner, the remaining General Partner shall refile the Certificate as if the Partnership had dissolved as a result of such cessation and a new limited partnership were formed to this Agreement to hold the Property and continue the business and affairs of the Partnership.

(e) If, at the time a Person ceases to be a General Partner, such Person is also a Limited Partner or an Interest Holder with respect to interests other than its Interest as General Partner, such cessation shall not affect such Person's rights and obligations with respect to such Limited Partner Interests.

9.6 Election of New General Partner. Provided the Partnership has one or more General Partners, any Partner may nominate one or more Persons for election as additional General Partners. The election of an additional General Partner shall require unanimous vote or the Partners.

ARTICLE X

BOOKS, RECORDS, ACCOUNTING AND REPORTS

10.1 Records and Accounting. The General Partner shall keep or cause to be kept complete and accurate books and records with respect to the Partnership's business and affairs, which books and records shall at all times be kept at the principal office of the Partnership. Any records maintained by the Partnership in the regular course of its business and affairs, including the name and address of the Limited Partners, books of account and records of Partnership proceedings, may be kept on or be in the form of punch cards, magnetic tape, photographs, micrographics or any other information storage device, provided that the records so kept are convertible into clearly legible written form within a reasonable period of time. The books of the Partnership shall be maintained, for financial reporting purposes, on the accrual basis in accordance with generally accepted accounting principles. The Partnership may keep its books for federal, state and local tax purposes on the accounting method (e.g., cash, accrual) selected by the General Partner.

10. 2 Fiscal Year. The fiscal year of the Partnership shall end as of the close of business on the close of business on December 31 of each calendar year.

None

10.3 Reports. As soon as reasonably practicable after the end of each fiscal year of the Partnership, and in any event within seventy-five days of each such fiscal year end, and at such other times as the General Partner may deem appropriate, the General Partner shall cause to be prepared and delivered to each Partner financial statements disclosing fully, as of the end of and for such fiscal year or other period, the results of operations for such period and the financial condition of the Partnership as of the end of such period.

10.4 Preparation of Tax Returns. The General Partner shall arrange for the preparation and timely filing of all returns relating to Partnership income, gains, losses, deductions and credits, as necessary for federal, state and local income tax purposes. The Partner shall use its best efforts to furnish to the Limited Partners following the close of the taxable year the tax information reasonably required for federal, state and local income tax reporting purposes. The classification, realization and recognition of income, gains, losses. credits and other items shall be on the method of accounting chosen by the General Partner for federal income tax purposes.

10.5 Tax Elections. The General Partner shall have the authority to make any election or other determination on behalf of the Partnership provided for under the Code or any provision of state or local tax law, including, without limitation: (a) to adjust the basis of property of the Partnership pursuant to Sections 754, 734(b), and 743(b) of the Code, or comparable provisions of state or local law, in connection with transfers of Partnership Interests and Partnership distributions; (b) to extend the statute of limitations for the assessment of tax deficiencies against the Partners with respect to adjustments to the Partnership's federal, state, or local tax returns: (c) to represent the Partnership and its Partners before taxing authorities or courts of competent jurisdiction in tax matters affecting the Partnership and its Partners in their capacities as Partners; (d) to execute any agreements or other documents that bind the Partners with respect to such tax matters or otherwise affect the rights of the Partnership and its Partners; and (e) any actions on behalf of the Partnership and its Partners as may be necessary or appropriate to satisfy applicable conditions so as to enable the Partnership to file "group" or "composite" state income tax returns on behalf of nonresident Partners in states where the Partnership conducts business to the extent applicable state law permits or requires the filing of such returns, and the General Partner determines that the interests of the Partners as a whole would thereby be served; provided, however, that the amount of any Partner's share of tax paid with such return shall be treated as a distribution of such amount to such Partner hereunder.

10.6 Tax Matters Partner. The initial General Partner is designated the "Tax Matters Partner" (within the meaning of Section 6231(a)(7) of the Code) of the Partnership and shall have all the powers and duties assigned to a

None

Tax Matters Partner under the Code and in any similar capacity under state or local law.

ARTICLE XI

AMENDMENT OF PARTNERSHIP AGREEMENT

11.1 Amendments to Be Adopted Solely by the General Partner. The General Partner (pursuant to its power of attorney granted pursuant to Article XII without the approval at the time of the Limited Partner may amend any provision of this Agreement, and execute, swear to, acknowledge, deliver, file and record whatever documents may be required in connection therewith, to reflect:

(a) a change in the name of the Partnership or its registered agent, the location of the principal place of business or the registered office of the Partnership;

(b) the admission, substitution or withdrawal of Partners in accordance with this Agreement;

(c) a change that is necessary or advisable in the sole judgment of the General Partner to qualify the Partnership as a “limited partnership” under the laws of any state or to ensure that the Partnership will not he treated as a “corporation” or as an “association” taxable as a corporation for federal income tax purposes;

(d) a change that in the sole judgment of the General Partner: (i) does not adversely affect the Limited Partner in any material respect; or (ii) is required toeffect the intent of the provisions of this Agreement, or is otherwise contemplated by this Agreement: or

(e) any other amendments similar to the foregoing.

11.2 Amendment Procedures. Except as provided in Section 11.1, all amendments to this Agreement shall be effective upon approval by the affirmative vote of a majority in interest of the Partners.

ARTICLE XII

POWER OF ATTORNEY

12.1 Appointment of General Partners. Each Limited Partner does irrevocably constitute and appoint the General Partner and each successor General Partner, with full power of substitution and resubstitution as its true and lawful attorney-in-fact, and in its name, place and stead, and for its use and benefit, to execute, acknowledge, swear to, deliver, record and file: (a) this

Agreement and any amendment to this Agreement; (b) the Certificate and all amendments and restatements required or permitted by law or the provisions of this Agreement; (c) all certificates and other instruments deemed necessary or advisable by the General Partner to carry out the provisions of this Agreement or to register, qualify or continue the Partnership as a limited partnership or partnership wherein the Limited Partners have limited liability in the state where the Partnership may be, or may be intending to be, doing business; (d) all instruments that the General Partner deems appropriate to reflect a change or modification of this Agreement or the Partnership in accordance with this Agreement; (e) all conveyances and other instruments deemed necessary or advisable by the General Partner to effect the dissolution and termination of the Partnership pursuant to the terms of this Agreement; (f) all fictitious or assumed name certificates required or permitted to be filed on behalf of the Partnership; and (g) all other instruments or documents that may be required or permitted by law to be filed on behalf of the Partnership.

12.2 Duration of Power. The power of attorney granted pursuant to Section 12.1: (a) is coupled with an interest and shall be irrevocable; (b) shall be exercised by any attorney-in-fact by listing the Limited Partner executing any agreement, certificate, instrument, document with the single signature of any such attorney-in-fact acting as attorney-in-fact for such Limited Partner: and (c) shall survive the Bankruptcy, insolvency, dissolution, or cessation of existence of a Limited Partner and shall survive the delivery of an assignment by a Limited Partner of the whole or a portion of its Interest in the Partnership, except that where the assignment is of such Limited Partner's entire Interest in the Partnership and the assignee, with the consent of the Partners pursuant to Section 8.7 hereof, is admitted as a Substituted Limited Partner, the power of attorney shall survive the delivery of such assignment for the sole purpose of enabling any such attorney-in-fact to effect such substitution, by signing as attorney-in-fact for the Limited Partner. In the event of any conflict between this Agreement and any document, instrument, conveyance or certificate executed or filed by the General Partner pursuant to such power of attorney, this Agreement shall control.

12.3 Further Assurances. Each Limited Partner shall execute and deliver to the General Partner, within fifteen days after receipt of the General Partner's request therefor, such further designation, powers of attorney and other instruments as the General Partner deems necessary or appropriate to carry out the provisions of this Agreement.

ARTICLE XIII

DISSOLUTION AND WINDING UP

13.1 Liquidating Events. The Partnership shall dissolve and commence winding up and liquidation upon the first to occur of any of the following ("Liquidating Events"):

(a) August 31, 2044;

(b) The sale of all or substantially all of the Property;

(c) The vote by a majority in interest of the Partners to dissolve, wind up, and liquidate the Partnership;

(d) The happening of any other event that makes it unlawful, impossible, or impractical to carry on the business of the Partnership; or

(e) Any event that causes there to be no General Partner.

The Partners hereby agree that, notwithstanding any provision of the Act or the Uniform Partnership Act, the Partnership shall not dissolve prior to the occurrence of a Liquidating Event. Furthermore. if an event specified in Section 13.1(e) hereof occurs, the Limited Partners may, within ninety days of the date such event occurs, by an affirmative vote of a majority in interest of the Limited Partners, elect a successor General Partner and continue the Partnership business, in which case the Partnership shall not dissolve. If it is determined, by a court of competent jurisdiction, that the Partnership has dissolved: (i) prior to the occurrence of a Liquidating Event: or (ii) upon the occurrence of an event specified in Section 13.1(e) hereof, following which the Limited Partners elect a successor General Partner pursuant to the previous sentence, the Partners hereby agree to continue the business of the Partnership without a winding up or liquidation.

13.2 Winding Up.

(a) Upon the occurrence of a Liquidating Event, the Partnership shall continue solely for the purposes of winding up its affairs in an orderly manner, liquidating its assets, and satisfying the claims of its creditors and Partners. No Partner shall take any action that is inconsistent with, or not necessary to or appropriate for, the winding up of the Partnership's business and affairs.

(b) The General Partner (or, in the event there is no remaining General Partner, any Person elected by a majority in interest of the Limited Partner(s)) shall be the "Liquidating Trustee" and shall be responsible for overseeing the winding up and dissolution of the Partnership and shall take full account of their Partnership's liabilities and Property. The Liquidating Trustee shall cause to be prepared a statement setting forth the Property and of the Partnership as of the date of the Liquidating Event, and such statement shall be furnished to all of the Partners. The Liquidating Trustee shall liquidate the Property of the Partnership as promptly as possible, but in an orderly and

businesslike manner so as not to involve undue sacrifice and to obtain fair market value.

(c) Notwithstanding the foregoing, the Liquidating Trustee may determine not to sell all or any portion of the Property of the Partnership, in which event such Property shall be distributed in kind pursuant to Section 13.3.

(d) All proceeds from liquidation and all other Property of the Partnership shall be distributed in the following order of priority:

(i) to the payment of the debts and liabilities of the Partnership to creditors (other than Partners or their respective Affiliates), and expenses of liquidation;

(ii) to the payment of the debts and liabilities of the Partnership to Partners and their respective Affiliates; and

(iii) the balance to the Partners in proportion to their Capital Accounts, after giving effect to all contributions, distributions and allocations for all periods.

13.3 Distribution in Kind. If the Liquidating Trustee shall determine that a portion of the Partnership's Property should be distributed in kind to the Partners, such Person shall obtain an independent appraisal of the fair market value of each such Property as of a date reasonable close to the date of distribution. Distribution of any such Property in kind to a Partner shall be considered a sale of such Property followed by a distribution of an amount equal to the Property's appraised fair market value for purposes of Section 13.2.

13.4 Cancellation of Certificate. On the completion of the distribution of Partnership Property as provided in Sections 13.2 and 13.3, the Partnership shall be terminated, and the Liquidating Trustee shall cause the cancellation of the Partnership's Certificate of Limited Partnership and shall take such other actions as may be appropriate to terminate the Partnership.

13.5 Compensation of the Liquidating Trustee.

(a) The Liquidating Trustee, if other than a General Partner, shall be entitled to receive such compensation for its services as Liquidating Trustee as may be approved by a majority in interest of the Limited Partners. The Liquidating Trustee shall agree not to resign at any time without 60 days prior written notice and, if other than a General Partner, may be removed at any time, with or without cause, by written notice of removal approved by a majority in interest of the Limited Partners.

(b) Upon dissolution, removal or resignation of the Liquidating Trustee, a successor and substitute Liquidating Trustee (who shall

have and succeed to all rights, powers and duties of the original Liquidating Trustee) shall be approved within 90 days thereafter by a majority in interest of the Limited Partners. The right to appoint a successor or substitute Liquidating Trustee in the manner provided herein shall be recurring and continuing for so long as the functions and services of the Liquidating Trustee are authorized to continue under the provisions hereof, and every reference herein to the Liquidating Trustee will be deemed to refer also any such successor or substitute Liquidating Trustee appointed in the manner herein provided.

(c) Except as expressly provided in this Article XIII, the Liquidating Trustee appointed in the manner provided herein shall have and may exercise, without further authorization or approval of any of the Partners, all of the powers conferred upon the General Partner under the terms of this Agreement (but subject to all of the applicable limitations, contractual or otherwise, upon the exercise of such powers) to the extent necessary or desirable in the good faith judgment of the Liquidating Trustee to carry out the duties and functions of the Liquidating Trustee hereunder (including the establishment of reserves for liabilities that are contingent or uncertain in amount) for and during such period of time as shall be reasonably in the good faith judgment of the Liquidating Trustee to complete the winding up and liquidation of the Partnership as provided for herein.

(d) In the event that no Person is selected to be the Liquidating Trustee within the time period set forth above, any Partner may make application to an appropriate Court of the State of Texas to wind up the affairs of the Partnership and, if deemed appropriate, to a Liquidating Trustee.

13.6 Compliance With Timing Requirements of Regulations.

(a) In the event the Partnership is "liquidated" within the meaning of Section 1.704-1(b)(2)(ii)(g) of the Regulations: (i) distributions shall be made pursuant to this Article XIII to the General Partner and Limited Partners who have positive Capital Accounts in compliance with Section 1.704-1(b)(2)(ii)(b)(2) of the Regulations; and (ii) if any General Partner's Capital Account has a deficit balance (after giving effect to all contributions, distributions, and allocations for all taxable years, including the year during which such liquidation occurs), such General Partner shall contribute to the capital of the Partnership the amount necessary to restore such deficit balance to zero in compliance with Section 1.704-1(b)(2)(ii)(b)(3) of the Regulations. If any Limited Partner has a deficit balance in its Capital Account (after giving effect to all contributions, distributions and allocations for all taxable years, including the year during which such liquidation occurs), such Limited Partner shall have no obligation to make any contribution to the capital of the Partnership with respect to such deficit, and such deficit shall not be considered a debt owed to the Partnership or to any other Person for any purpose whatsoever.

(b) In the discretion of the General Partner, a pro rata portion of the distributions that would otherwise be made to the Partners pursuant to this Article XIII may be:

(i) distributed to a trust established for the benefit of the Partners for the purposes of liquidating Partnership Property, collecting amounts owed to the Partnership, and paying any contingent or unforeseen liabilities or obligations of the Partnership or of the General Partner arising out of or in connection with the Partnership. The Property and other assets of any such trust shall be distributed to the Partners from time to time, in the reasonable discretion of the General Partner, in the same proportions as the amount distributed to such trust by the Partnership would otherwise have been distributed to the Partners pursuant to this Agreement; or

(ii) withheld to provide a reasonable reserve for Partnership liabilities (contingent or otherwise) or to reflect the unrealized portion of any installment obligations owed to the Partnership, provided that such withheld amounts shall be distributed to the Partners as soon as practicable.

13.7 Deemed Distribution and Recontribution. Notwithstanding any other provision of this Article XIII, in the event the Partnership is "liquidated" within the meaning of Section 1.704-1(b)(2)(ii)(g) of the Regulations, but no Liquidating Event has occurred, the Property shall not be liquidated, the Partnership's liabilities shall not be paid or discharged, and the Partnership's affairs shall not be wound up. Instead, the Partnership shall be deemed to have distributed the Property in kind to the Partners, who shall be deemed to have assumed and taken subject to all Partnership liabilities, all in accordance with their respective Capital Accounts. Immediately thereafter, the Partners shall be deemed to have recontributed the Property in kind Partnership, which shall be deemed to have assumed and taken subject to all such liabilities.

13.8 Rights of and Among Limited Partners. Except as otherwise provided in this Agreement, each Limited Partner shall look solely to the Property of the Partnership for the return of its Capital Contribution and shall have no right or power to demand or receive Property other than cash from the Partnership. No Limited Partner shall have priority over any other Limited Partner as to the return of its Capital Contributions, distributions or allocations.

13.9 Notice of Dissolution. In the event a Liquidating Event occurs or an event occurs that would, but for provisions of Section 13.1, result in a dissolution of the Partnership, the General Partner shall, within 30 days thereafter, provide written notice thereof to each of the Partners and to all other parties with whom the Partnership regularly conducts business (as determined in the discretion of the General Partner) and shall publish notice thereof in a newspaper of general circulation in each place in which the Partnership

regularly conducts business (as determined in the discretion of the General Partner).

ARTICLE XIV

MISCELLANEOUS

14.1 Notices. Any notice, demand, request, consent communication or report (collectively a "Notice") required or permitted to be given or made to a Person under this Agreement shall be effective only if in writing and (a) delivered in person, (b) sent by registered or certified mail, return receipt requested, postage prepaid, (c) sent by a nationally recognized overnight delivery service, with delivery confirmed, or (d) telexed or telecopied, with receipt confirmed, addressed as follows: (i) in the case of the Limited Partners, at the address as shown on the books and records of the Partnership; and (ii) in the case of the General Partner, 2280 N. Greenville Avenue, Richardson, Texas 75082-4412. or as otherwise shown on the books and records of the Partnership.

A Notice shall be deemed to have been given as of the date when (i) personally delivered; (ii) three days after its deposit with the United States mail properly addressed; (iii) the next day when delivered to said overnight delivery service, properly addressed and prior to such delivery service's cut-off time for next day delivery; or (iv) when receipt of the telex or telecopy is confirmed, as the case may be, unless the sending party has actual knowledge that a Notice was not received by the intended recipient.

14.2 Remedies. Except as provided elsewhere herein, each Partner hereby recognize that a default by it with respect to its obligations under this Agreement will cause irreparable harm, injury and damage to the Partnership and the other Partner. Therefore, each Partner hereby agrees that in the event of a default by any Partner of one or more of its obligation hereunder, the Partnership or any other Partner may, if it so elects, seek specific performance of such obligation or obligations by the defaulting Partner, and the defaulting Partnerr agrees not to oppose any attempt to obtain specific performance on the ground that there exists adequate legal remedy (in damages or otherwise) for such default. The remedies referred to in this Section 14.2 shall be non-exclusive, cumulative of and additional to all other remedies of the parties hereto.

14.3 No Breach or Default. The execution, delivery and performance by such Partner of this Agreement and the transactions contemplated hereby will not constitute a breach of any term or provision of or constitute a default under: (a) any outstanding indenture, mortgage, loan agreement or other similar contract or agreement to which such Partner or any of its Affiliates is a party or by which it or any of its Affiliates or it or their

property is bound; (b) any law, rule or regulation; or (c) any order, writ, judgment or decree applicable to it.

14.1 No Governmental Consents. No consent, license, approval or authorization of any governmental body, authority, bureau or agency is required on the part of such Partner or any of its Affiliates in connection with the execution, delivery and performance of this Agreement or the consummation of the transactions contemplated herein.

14.5 Accuracy of Information. Each Partner shall furnish to the Partnership all information regarding such Partner or its Affiliates required for inclusion in any documents to be prepared or filed in connection with the business and affairs of the Partnership, and all such information shall be true and correct in all material respects and shall not omit to state any material fact necessary to be stated therein in order that such information not be misleading.

14.6 Section Headings. Headings contained in this Agreement are inserted only as a matter of convenience and in no way define, limit or extend the scope or intent of this Agreement or any provisions hereof.

14.7 Waiver of Default. No consent or waiver, express or implied, by the Partnership or a Partner with respect to any breach or default by another Partner hereunder shall be deemed or construed to be a consent or waiver with respect to any other breach or default by such Partner of the same provision or any other provision of this Agreement. Failure on the part of the Partnership or a Partner to complain of any act or failure to act of another Partner or to declare such other Partner in default, irrespective of how long such failure continues, shall not be deemed or constitute a waiver by the Partnership or the Partners of any rights hereunder.

14.8 Creditors. None of the provisions of this Agreement shall be for the benefit of or enforceable by any creditors of the Partnership.

14.9 Meetings. Meetings of the Partners may be called by the General Partner, or by one of more Limited Partners whose Interests total at least one-third of the Interests of the Partnership, upon three days Notice to the other Partners. The Limited Partners shall not vote on matters that would cause the Limited Partners to be deemed to be participating in the control of the business and affairs of the Partnership so as to negate the limited liability of the Limited Partners.

None

14.10 Entire Agreement. This Agreement constitutes the entire agreement among the parties with respect to the formation, operation and continuation of the Partnership and the rights and duties of its Partners, and supersedes any prior agreement or understanding among the parties with respect to the subject matter hereof.

14.11 Amendment; Waiver. Except as provided otherwise herein, this Agreement may not be changed, altered or amended, nor may any rights hereunder be waived, by an instrument in writing signed by the party sought to be charged with such amendment or waiver.

14.12 Governing Law. This Agreement and the rights and obligations of the hereunder shall be subject to, governed by, and construed in accordance with and governed by the Act and the laws of the State of Texas, without giving effect to the provisions, polices or principles thereof relating to choice or conflict of laws.

14.13 Binding Effect. Except as provided otherwise herein, every covenant, term and provision of this Agreement shall be binding upon and shall inure to the benefit of the Partners and their respective donees, personal representatives, successors, transferees and assigns.

14.14 Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original and all of which shall constitute one and the same agreement.

14.15 Separability. The provisions of this Agreement are severable, and if any provision shall be held illegal, invalid or unenforceable, the parties affected thereby shall substitute for the affected provision an enforceable provision that approximates the intent and economic benefit of the affected provision as closely as possible, but all other provisions shall continue in full force and effect.

14.16 Gender and Number. Whenever required by the context hereof, the singular shall include the plural and the plural shall include the singular. The masculine gender shall include the feminine and neuter genders, and the neuter gender shall include the masculine and feminine genders.

14.17 Waiver of Partition. Each Partner hereby irrevocably waives, during the term of the Partnership, any right that it may have to maintain any action for partition with to any Partnership Property.

None

14.18 Further Action. Each Partner, upon request of any General Partner, agrees to perform all further acts and execute, acknowledge and deliver any documents which may be reasonably necessary, appropriate, or desirable to carry out the provisions of this Agreement.

None

IN WITNESS WHFREOF, the undersigned have executed this Agreement of Limited Partnership of the date first written above.

GENERAL PARTNER:
FOSSIL., INC.
By: /s/ Tom Kartsotis
Tom Kartsotis. Chief Executive Officer

LIMITED PARTNER:
FOSSIL TRUST
By: /s/ Alan D. Moore
Alan D. Moore. Trustee

None

STATE OF TEXAS
COUNTY OF DALLAS

I, Suzi A. Rowley, notary public, do hereby certify that on this 3rd day of August, 1994 personally appeared before me Tom Kartsotis who, being by me first duly sworn, declared that he is the Chief Executive Officer of Fossil, Inc., a Delaware corporation, that he signed the foregoing document as the Chief Executive Officer of the corporation, and that the statements contained therein are true.

/s/ Suzy A.
Rowley
Notary Public

(NOTARIAL SEAL)
My Commission Expires:
6-19-97

STATE OF TEXAS
COUNTY OF DALLAS

I, Suzi A. Rowley, notary public, do hereby certify that on this 3rd day of August, 1994 personally appeared before me Alan D. Moore who, being by me first duly sworn, declared that he is the Trustee of Fossil Trust, a Delaware Business Trust, that he signed the foregoing document as the Trustee of the Trust, and that the statements contained therein are true.

/s/ Suzy A.
Rowley
Notary Public

(NOTARIAL SEAL)
My Commission Expires:
6-19-97

AMENDMENT NUMBER ONE
TO THE
1993 LONG-TERM INCENTIVE PLAN
OF
FOSSIL, INC.

The following Amendment to the 1993 Long-Term Incentive Plan of Fossil, Inc. (The "Incentive Plan"), as authorized by the Board of Directors of Fossil, Inc. (the "Company"), is adopted as of the effective date specified herein:

The first sentence of paragraph 4 of the Incentive Plan is amended to read as follows:

"Common Stock Available for Award. There shall be available for Awards granted wholly or partly in Common Stock (including rights or options which may be exercised for or settled in Common Stock) during the term of this Plan an aggregate of 1,750,000 shares of Common Stock."

This amendment shall become effective immediately upon the approval of the Amendment by the Stockholders of the Company at the 1995 Annual Meeting of Stockholders.

Adopted this 30th day of March 1995.

Fossil, Inc.

By: /s/ Tom Kartsotis
Tom Kartsotis
Chairman and Chief Executive Officer

AMENDMENT NUMBER TWO
TO THE
1993 LONG-TERM INCENTIVE PLAN
OF
FOSSIL, INC.

The following Amendment to the 1993 Long-Term Incentive Plan of Fossil, Inc. (The "Incentive Plan"), as authorized by the Board of Directors of Fossil, Inc. (the "Company"), is adopted as of the effective date specified herein:

The first sentence of paragraph 4 of the Incentive Plan is amended to read as follows:

"Common Stock Available for Award. There shall be available for Awards granted wholly or partly in Common Stock (including rights or options which may be exercised for or settled in Common Stock) during the term of this Plan an aggregate of 3,525,000 shares of Common Stock."

This amendment shall become effective immediately upon the approval of the Amendment by the Stockholders of the Company at the 1998 Annual Meeting of Stockholders.

Adopted this 3rd day of March 1998.

Fossil, Inc.

By: /s/ T.R. Tunnell
T.R. Tunnell
Senior Vice President, Development,
Chief Legal Officer & Secretary

None

AMENDMENT NUMBER ONE
TO THE
1993 NONEMPLOYEE DIRECTOR STOCK OPTION PLAN
OF
FOSSIL, INC.

The following Amendment to the 1993 Nonemployee Director Stock Option Plan of Fossil, Inc. (the "Plan"), as authorized by the Board of Directors of Fossil, Inc. (the "Company"), is adopted as of the effective date specified herein:

Notwithstanding the provisions of paragraph 13 of the Plan, grants of Options under the Plan commencing on January 1, 1999, shall not be adjusted for the 3-for-2 split of the Common Stock of the Company effected as a stock dividend on April 8, 1998 to all stockholders of record on March 25, 1998.

All other terms and conditions of the Plan shall remain in full force and effect.

This amendment shall become effective as of December 31, 1998

Fossil, Inc.

By: /s/ Tom Kartsotis
Tom Kartsotis
Chairman and Chief Executive Officer

None

FOSSIL, INC. AND AFFILIATES
DEFERRED COMPENSATION PLAN

None

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1.40 **“Salary Deferral Account”**
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None

SECTION NINE AMENDMENT AND TERMINATION

SECTION TEN GENERAL PROVISIONS

FOSSIL, INC. AND AFFILIATES
DEFERRED COMPENSATION PLAN

Fossil, Inc. hereby establishes the Fossil, Inc. And Affiliates Deferred Compensation Plan to give a select group of highly compensated employees the opportunity to defer a portion of their compensation and possibly receive deferred employer contributions. For purposes of the Code, the Employers intend this Plan to be an unfunded, unsecured promise to pay on the part of each Employer. For purposes of ERISA, the Employers intend this Plan to be an unfunded plan solely for the benefit of a select group of management or highly compensated employees of the Employers for the purpose of qualifying the Plan for the "top hat" plan exception under sections 201(2), 301(a)(3) and 401(a)(1) of ERISA.

SECTION ONE DEFINITIONS

1.1 **"Addendum(s)"** shall mean, collectively, the pages which are attached to this Plan document, and incorporated by reference, on which shall be reflected the information described in **Section 4.3.**

1.2 **"Account(s)"** shall mean, collectively, the Salary Deferral Account, and the Employer Account, maintained for each Participant, except that when it shall be appropriate to refer to a particular Account, reference shall be to that Account.

1.3 **"Installment Payment"** shall mean an annual distribution, in cash, of the Participant's Account balance over a period of years as provided for in **Subsections 7.2 and 7.3.**

1.4 **"Applicable Interest Rate"** shall mean, for each day during a period of reference (but computed without compounding), a percentage equal to the product of (i), (ii) and (iii), where (i) is the sum of the one (1) year London Interbank Offered Rate ("LIBOR") as reported in the Wall Street Journal as of (x) the first Business Day, plus (y) the last Business Day, occurring during such period of reference, (ii) is fifty percent (50%), and (iii) is a quotient of 1 divided by 360.

1.5 **"Beneficiary"** shall mean the person(s), entity or entities designated by the Participant as the beneficiary of balance of his Benefit.

1.6 **"Benefit"** shall mean the Vested amount credited to the Participant's Account at the time of reference.

1.7 **"Board"** shall mean the Board of Directors of the Company.

1.8 **"Bonus"** shall mean amounts of compensation paid by an Employer which is not regular salary, wages or commissions, and which is determined to be a Bonus by the Committee.

None

1.9 **"Business Day"** shall mean, with respect to each Measurement Preference, a day on which the exchange on which it is traded is operating.

1.10 **"Change of Control"** shall mean the first to occur of the following:

(a) a dissolution or liquidation of the Company; or

(b) a merger or consolidation (other than a merger effecting a re-incorporation of the Company in another state or any other merger or a consolidation in which the shareholders of the surviving corporation and their proportionate interests therein immediately after the merger or consolidation are substantially identical to the shareholders of the Company and their proportionate interests therein immediately prior to the merger or consolidation) in which the Company is not the surviving corporation (or survives only as a subsidiary of another corporation as a result of a transaction in which the shareholders of the parent of the Company and their proportionate interests therein immediately after the transaction are not substantially identical to the shareholders of the Company and their proportionate interests therein immediately prior to the transaction; provided, however, that the Board may at any time prior to such a merger or consolidation provide by resolution that there has been no Change in Control and that the foregoing provisions of this parenthetical shall not apply if a majority of the Board of Directors of such parent immediately after the transaction consists of individuals who constituted a majority of the Board immediately prior to the transaction);

(c) a transaction in which any person becomes the owner of fifty percent (50%) or more of the total combined voting power of all classes of stock of the Company (provided, however, that the Board may at any time prior to such transaction provide by resolution that there has been no Change in Control and that this subparagraph (c) shall not apply if such acquiring person is a corporation and a majority of the Board of Directors of the acquiring corporation immediately after the transaction consists of individuals who constituted a majority of the Board immediately prior to the acquisition of such fifty percent (50%) or more total combined voting power); or

(d) any other transaction or series of transactions which the Board determines has the effect of a Change in Control.

1.11 **"Code"** shall mean the Internal Revenue Code of 1986, as amended.

1.12 **"Committee"** shall mean those persons designated to administer the Plan pursuant to **Section Two**.

1.13 **"Company"** shall mean Fossil, Inc., a Delaware corporation, and its successors and assigns.

None

1.14 **"Contributions"** shall mean, collectively, the Salary Deferral Contributions, and the Employer Contributions, with respect to each Participant, except that when it shall be appropriate to refer to a particular Contribution, reference shall be to that Contribution.

1.15 **"Deferred Payments"** shall mean the payment of a Participant's Benefits as described in **Section 7.2**.

1.16 **"Deferred Payment Date"** shall mean the date as of which a Participant's Deferred Payments are made or commenced.

1.17 **"Designated Affiliate"** shall mean Fossil Partners, L.P., and each other entity of which fifty percent (50%) or more of its value or, in the case of a corporation, of the total combined voting power of all classes of stock, are held by the Company or another subsidiary, whether or not such entity now exists or is hereafter organized or acquired by the Company or another subsidiary, and which has been designated for participation herein by the Committee.

1.18 **"Earnings"** shall mean the amounts notationally credited or debited to a Participant's Account based on changes in the value (including, without limitation, unrealized appreciation or depreciation) of the Participant's Measurement Preferences, plus the amount, if any, attributable to the crediting of the Applicable Interest Rate, all determined in accordance with Rules of General Application.

1.19 **"Effective Date"** shall mean December 30, 1998.

1.20 **"Election Form"** shall mean a written form on which the Participant may specify his (i) Salary Deferral Contribution for the Plan Year, (ii) Measurement Preferences, (iii) form and timing of distribution of his Benefit, and (iv) such other matters as shall be determined by the Committee at the time of reference.

1.21 **"Eligible Individual"** shall mean an employee of an Employer who is (i) a member of a select group of management or highly compensated employees, and (ii) designated by the Committee as eligible to participate in the Plan.

1.22 **"Employee"** shall mean a common law employee of the Employer.

1.23 **"Employer"** shall mean, collectively, the Company and each of its Designated Affiliates.

1.24 **"Employer Contribution"** shall mean the amount, if any, credited under the Plan by an Employer to an Eligible Participant, and evidenced by an Addendum.

1.25 **"Employer Account"** shall mean the account maintained for each Participant who has received an Employer Contribution, and which will reflect the amount of such Employer Contribution and appropriate adjustments as provided herein.

None

1.26 **"Entry Date"** shall mean February 1, 1999 for the 1999 Plan Year, and January 1st for each subsequent Plan Year; except that, where the Employee is not an Eligible Individual on such February 1, 1999 or a later January 1st, it also shall mean July 1st; provided, without limitation, that each Eligible Individual shall have a single Entry Date with respect to each Plan Year.

1.27 **"ERISA"** shall mean the Employee Retirement Income Security Act of 1974, as amended.

1.28 **"Final Deferral Filing Date"** shall mean the date that precedes the date on which a Participant's Deferred Payment is scheduled to begin by 24 months.

1.29 **"Investment Date"** shall mean the first Business Day in each Quarter, except that it also shall mean an Entry Date (except that if the Entry Date is not a Business Day, then the first Business Day following an Entry Date) with respect to each Eligible Employee who first becomes a Participant on such Entry Date.

1.30 **"Lump Sum"** shall mean a single distribution, in cash, of a Participant's Benefit.

1.31 **"Measurement Preferences"** shall mean the preferences described in **Subsection 5.3.**

1.32 **"Participant"** shall mean an Eligible Individual who participates in the Plan pursuant to **Section Three**.

1.33 **"Plan"** shall mean the Fossil, Inc. and Affiliates Deferred Compensation Plan, as set forth in this document and subsequent amendments.

1.34 **"Plan Year"** shall mean calendar year.

1.35 **"Quarter"** shall mean calendar quarter.

1.36 **"Rules of General Application"** shall mean those rules promulgated by the Committee, in its sole discretion, from time to time with respect to the matter of reference, but which will be applied in a similar manner to Participants similarly situated.

1.37 **"Third-Party Recordkeeper"** shall mean the person or entity selected by the Committee to maintain the records necessary to the administration of the Plan.

1.38 **"Salary"** shall mean Participant's regular salary, wages, and commissions paid by an Employer, plus any amounts deferred under sections 125 or 401(k) of the Code, plus any amounts under this Plan, but excludes Bonuses, expense reimbursements and fringe benefits.

1.39 **"Salary Deferral Contributions"** shall mean the amounts described in **Subsection 4.1.**

None

1.40 **"Salary Deferral Account"** shall mean the amount credited under the Plan as a result of the Participant's Salary Deferral Contributions, and appropriate adjustments as provided herein.

1.41 **"Separates" or "Separation"** or similar shall mean a Participant's termination of employment with an Employer for any reason (including death or disability).

1.42 **"Trust"** shall mean a trust which substantially conforms to the model rabbi trust provided in section 5 of the Internal Revenue Service's Revenue Procedure 92-64, 1992-2 C.B. 422, that may be established between the Company and the trustee(s) named in the Trust.

1.43 **"Valuation Date"** shall mean the last Business Day of each Quarter.

1.44 **"Vest" or "Vesting"** or similar, shall mean the portion of a Participant's Employer Account which is nonforfeitable at the time of reference.

SECTION TWO ADMINISTRATION

2.1 **Appointment of Committee.** The Board shall appoint the Committee. The Board may change Committee membership at any time without cause, and a member may resign by providing written notice to the Company. Any vacancy in the membership of the Committee may be filled by the Board.

2.2 **Employer Duties**. An Employer shall, upon request or as may be specifically required under the Plan, furnish or cause to be furnished all of the information or documentation in its possession or control that is necessary or required by the Committee to perform its duties and functions under the Plan.

2.3 **Authority of Committee.** The Committee shall have the exclusive authority and responsibility for administering the Plan in accordance with its terms. All exercises of authority by the Committee under this Plan shall be final, conclusive and binding, unless found by a court of competent jurisdiction to be arbitrary and capricious.

2.4 **Action by Committee.** The Committee may elect a chairman who shall be a member of the Committee and a secretary who may, but need not, be a member of the Committee. Any and all acts and decisions of the Committee shall be by at least a majority of the then members, but the Committee may delegate to any one or more of its members the authority to sign notices or other documents on its behalf or to perform ministerial acts for it, in which event any person may accept such notice, document or act without questioning its having been authorized by the Committee.

2.5 **Meetings of Committee.** The Committee shall hold meetings upon such notice, at such place or places, and at such time or times as it may from time to time determine; provided, however, any decisions made or action taken pursuant to written approval of a majority

of the then members shall be sufficient; and provided, further, and without limitation, that the Committee may take actions which have retroactive effect.

2.6 **Powers of Committee and Company.** The Committee shall have all powers and discretion as may be necessary to discharge its duties and responsibilities under this Plan, including, without limitation, the power, exercisable in its sole discretion, (i) to interpret or construe the Plan, (ii) to make rules and regulations for the administration of the Plan, (iii) to determine all questions of eligibility, status and other rights of Participants, beneficiaries and other persons, (iv) to confirm or reject each Participants selection of Measurement Preferences, and (v) to resolve any dispute which may arise under this Plan involving Participants or beneficiaries. The Committee may engage agents to assist it and may engage legal counsel, who may be counsel for the Company.

No member of the Committee shall vote or act upon any matter which relates exclusively to his own rights or benefits under this Plan, and if all members of the Committee shall be disqualified, with regard to one or more matters, the President of the Company shall appoint one or more qualifying persons to be the Committee with regard to such matters.

2.7 **Indemnification.** Without limitation, including **Section 10.10**, the members of the Committee shall be indemnified by the Company against any and all liabilities arising by reason of any act, or failure to act, pursuant to the provisions of the Plan, including expenses reasonably incurred in the defense of any claim relating to the Plan, even if the same is judicially determined to be due to such member's negligence, but not when the same is judicially determined to be due to the gross negligence or willful misconduct of such member.

2.8 **Bond and Expenses.** The Committee shall serve without bond unless state or federal statutes require otherwise, in which event the Company shall pay the premium. The expenses of the Committee shall be paid by the Company. Such expenses shall include all expenses incident to the functioning of the Committee, including, without limitation, litigation costs, fees of accountants, counsel and other specialists and other costs of administering the Plan.

2.9 **Reliance on Tables.** In administering the Plan, the Committee shall be entitled to the extent permitted by law to rely conclusively on all tables, valuations, certificates, opinions and reports which are furnished by accountants, legal counsel or other experts employed or engaged by the Committee.

SECTION THREE PARTICIPATION

An Eligible Individual will become a Participant either by filing an Election Form prior to his Entry Date, or by being credited with an Employer Contribution, and will remain a Participant until he receives the payment of his entire Benefit. Being designated as an Eligible Individual for one Plan Year does not entitle such Employee to continued status as an Eligible Individual for subsequent Plan Years, but such person will remain an Eligible Individual until notified in writing by the Committee of his removal from that status and, following such removal, such

None

Employee shall not be able to elect Salary Deferral Contributions on any Entry Date on which he is not an Eligible Individual.

SECTION FOUR CONTRIBUTIONS

4.1 **Salary Deferral Contributions**. An Employee who is an Eligible Individual on his Entry Date with respect to a Plan Year may elect to defer from Salary any amount which is not less than Five Thousand Dollars ($5,000) (prorated based on the remaining portion of the Plan Year if the Participant's Entry Date is not February 1, 1999 or a subsequent January 1st) and not more than fifty percent (50%) of his Salary; and may elect to defer from his Bonus up to one hundred percent (100%) of his Bonus, in each case payable during the portion of the Plan Year following such Entry Date, by filing an Election Form with the Committee prior to such Entry Date. Unless otherwise determined by the Committee, the election to defer Salary must be designated as a fixed dollar amount, and the election to defer with respect to the Bonus may be designated in either a fixed dollar, or a percentage, amount. Each Election Form shall continue to apply to each later Entry Date until a new Election Form is filed; provided, further, that only the last Election Form filed prior to an Entry Date shall be effective. If an Eligible Individual has not filed an Election Form deferring a portion of his Salary and/or Bonus on or before the Entry Date of reference, such Eligible Individual shall be deemed to have elected not to defer any portion of his Salary and/or Bonus with respect to the Plan Year in which such Entry Date occurs. Notwithstanding any provision hereof to the contrary, the Committee may designate a special Entry Date with respect to one or more Participants solely for purposes of permitting each such Participant to elect to defer an additional amount from each such Participant's Bonus; provided, further, that such special Entry Date shall have no other effect hereunder.

4.2 **Crediting of Salary Deferral Contributions**. The amount of a Participant's Salary Deferral Contributions will be deducted (i) from a Participant's Salary on each payroll date during the Plan Year of reference in an amount equal to the total Salary Deferral Contribution divided by the number of payroll dates during the Plan Year of reference following the Entry Date of reference, and (ii) from a Bonus on the date of its payment in the full amount of Salary Deferral Contribution elected to be deducted from such Bonus payments. The portion of the Salary Deferral Contribution amount which will be deducted from Salary shall be credited to the Participant's Salary Deferral Account as of the first Business Day following the Entry Date or, if communicated to the Participant in writing on or before such Entry Date, as of the payroll date on which deducted; and the full amount of the Salary Deferral Contribution to be deducted from the Bonus shall be credited to the Participant's Salary Deferral Account on the date the Bonus is (or would have been) paid. In the event a Participant's Salary Deferral Account is credited with a Salary Deferral Contribution before such amount is actually deducted from the Participant's Salary, and the Participant terminates employment during the Plan Year of reference, such Participant shall forfeit an amount from his Salary Deferral Account equal to the excess of (iii) the amount of Salary Deferral Contribution credited to his Account with respect to such Plan Year, over (iv) the aggregate amount of Salary Deferral Contribution actually deducted from his Salary during such Plan Year, and such forfeited amount shall inure to the benefit of the Employer in the manner determined by the Committee.

None

4.3 **Employer Contributions**. At any time on or after the Effective Date, in addition to the amount described in **Sections 4.1** and **4.2**, an Employer may credit a Participant's Employer Account with such amount as it shall determine in its sole discretion. The name of the Participant, the amount to be credited, the date as of which it is to be credited, the rate of Vesting, and such other matters as are required to be set forth (as determined by the Employer in its sole discretion), shall be set forth on an Addendum; provided that 100% of such amounts contributed for a Participant, and related Earnings, shall be forfeited on such Participant's Separation unless otherwise expressly provided in an Addendum expressly relating to such Employer Contribution.

4.4 **Disposition of Contributions**. All Contributions shall be delivered to the Trust; provided, however, that such delivery may cease, and the funds retained by the Employer, effective with respect to Contributions made with respect to a Plan Year beginning after delivery of written notice of such change to each Participant.

SECTION FIVE PARTICIPANT'S ACCOUNTS AND INVESTMENTS

5.1 **Establishment of Account**. The Committee shall establish separate Accounts for each Participant, to which shall be credited or debited the Participant's share of Contributions and Earnings, and to which shall be debited the Account's share of expenses and distributions.

5.2 **Earnings Credited to Accounts**. Earnings on amounts credited to an Account shall be credited or debited to such Account on each Business Day based on the value of the Account's Measurement Preferences on such Business Day, all in the manner determined by the Committee in accordance with Rules of General Application.

5.3 **Investment Direction**. Effective as of each Investment Date, in accordance with Rules of General Application, each Participant may select investments ("Measurement Preferences") from among the different investment alternatives which are made available by the Committee, for existing balances in his Account and for future Contributions, such selection of Measurement Preferences to be made in increments of 5%, and such percentages to apply equally to the amount credited to the Participant's Account on the immediately preceding Valuation Date, and to Contributions credited to such Account subsequent to such Valuation Date. No actual investments shall be made by Participants. The Measurement Preferences, and the Applicable Interest Rate, are only for the purpose of determining the Employer's payment obligation under the Plan and such Measurement Preferences do not control any actual investments made by the Employer or the Trustee.

A participant may change Measurement Preferences on the next Investment Date by contacting the Third-Party Recordkeeper, either through filing a written Election Form or, if available under the Rules of General Application, through the Third-Party Recordkeeper's voice response system not later than the 15th day of the month preceding the month in which such Investment Date occurs. Regardless of the method used to change the Measurement Preferences, the Third-Party Recordkeeper shall send a confirmation to the Committee verifying the new

Measurement Preferences. The final Election Form (or its equivalent) timely filed by the Participant prior to the Investment Date of reference shall be controlling with respect to such Investment Date. If a Participant has not timely filed an Election Form with respect to some or all of the funds in his Account with respect to an Investment Date, he will be credited with interest at the Applicable Interest Rate on such amount until the first Investment Date with respect to which he has filed a timely Election Form with respect to such amount.

Notwithstanding the forgoing, the Committee shall have the power to reject some or all of the selections of Measurement Preferences by any one or more Participants by advising the affected Participant(s) and the Third-Party Recordkeeper in writing of such rejection within 3 days of being receiving the notice described in the preceding paragraph. If the Committee rejects a selection, notwithstanding any provision hereof to the contrary, the portion of such Account(s) subject to such rejection shall earn interest at the Applicable Interest Rate from the date specified in such written rejection until the date as of which an approved investment in a Measurement Preference is made.

5.4 **Statements**. As soon as administratively practicable following the close of each Quarter, the Committee shall furnish each Participant with a statement setting forth (i) the amount in his Account, (ii) the amount of Contributions, separately showing the Salary Deferral Contributions and Employer Contributions, credited to his Account during such Quarter, (iii) the Earnings credited or debited to his Account for such Quarter, and (iv) any debited charges to, or distributions from, his Account during such Quarter.

SECTION SIX VESTING

6.1 **Salary Deferral Account**. Participant shall always be 100% Vested in the amounts credited to his Salary Deferral Account.

6.2 **Employer Account.** Participant shall Vest in the amount credited to his Employer Account in accordance with the Vesting Schedule set forth on the Addendum which evidences such Employer Contribution, and otherwise shall be zero (0) Vested. Notwithstanding any other provision in this Plan, a Participant's Employer Account will become one hundred percent (100%) Vested upon the date of a Change of Control.

SECTION SEVEN DISTRIBUTION OF BENEFIT

7.1 **Form and Timing of Distribution**. Unless a Participant is entitled to a Deferred Payment, upon a Participant's Separation he shall receive a Lump Sum distribution within a reasonable period of time, not to exceed sixty (60) days, after the Valuation Date next following his Separation. The amount of such Lump Sum distribution shall be equal to his Benefit determined as of the Valuation Date preceding the date of distribution.

None

7.2 **Election of Deferred Payments**. A Participant shall be entitled to a Deferred Payment if his Separation is not by reason of his death, and if on his date of Separation (i) he has attained the age of 55 and completed at least 5 Years of Service, and (ii) has filed an Election Form on which he has (x) selected a Deferred Payment Date, and (y) selected a form of payment. A Participant's Deferred Payments may be made or commenced at any time, after age 55 and prior to the later of age 65 or his Separation, and may be paid either in a Lump Sum or in 5, 10, or 15 Installment Payments, as the Participant shall select on the Election Form in effect on his Final Deferral Filing Date, and only the last Election Form filed on or before such Final Deferral Filing Date shall be effective. Installment Payments shall be paid at such time, during the first 30 days of each Plan Year, as shall be determined by the Committee. If a Participant receiving an Installment Payment shall be reemployed, all such Installment Payments shall cease during the period of his reemployment, and shall resume (iii) during the first 30 days of the Plan Year following his Separation, and (iv) shall be paid out in the same number of installments as were remaining to be paid on the date of his reemployment.

7.3 **Installment Payments**. If Participant elects a Deferred Payment in the form of Installment Payments, each installment shall be equal to the product of (i) his Benefit on the Valuation Date next preceding the date of payment, multiplied by (ii) a fraction, the numerator of which is one (1), and the denominator of which is the total number of installments originally elected less the number of installments previously paid.

7.4 **Change in Control**. Notwithstanding any other provision to the contrary, upon a Change of Control, all Benefits hereunder (including, without limitation, Benefits subject to Deferred Payment elections or which are being paid in Installment Payments), shall be distributed to Participants in a Lump Sum as soon as reasonably possible, but not more than 30 days, after such Change of Control. Notwithstanding the foregoing, at any time prior to the date of a Change of Control, or with respect to each Participant who is not notified in writing of an impending Change of Control at least 14 days prior to the date of Change in Control, for a period of 14 days after the date of notice of such Change of Control, a Participant may elect to waive the provisions of this **Section 7.4** with respect to such Change of Control and his Benefits will continue to be deferred under the Plan as if such Change of Control had not occurred.

7.5 **Hardship Distribution**. Upon the Committee's determination (following petition by the Participant) that the Participant has suffered a "severe financial hardship", the Committee shall distribute to Participant that portion of such Participant's Benefit as requested by the Participant and approved by the Committee, but in no event shall the Committee approve a distribution which is greater than is necessary to relieve the financial hardship. A "severe financial hardship" means an unforeseeable event resulting from a sudden and unexplained illness or accident experienced by either the Participant or his dependents, the loss of property due to casualty, or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the Participant's control, which the Participant is unable to satisfy through available or attainable assets. Without limitation, the definition of severe financial hardship does not include the need to send a child to college or the desire to purchase a home.

None

The Committee shall evaluate the facts and circumstances of each hardship request and may rely on the written representations of the Participant unless it has reason to know such representations are false. The Participant shall receive a Lump Sum cash payment of the amount approved by the Committee as soon as possible following the next succeeding Valuation Date (or, upon the Participant's request, on such earlier date and under such rules as shall be determined by the Committee), and such amount shall be deducted from his Measurement Preferences in accordance with Rules of General Application. If a Participant receives a hardship distribution he shall be ineligible to elect Salary Deferral Contributions for the following Plan Year.

7.6 **In-Service Withdrawal**. Prior to a Participant's Separation, in accordance with Rules of General Application, a Participant may elect to receive a distribution of all (subject to the forfeiture), or a portion of his Benefit. If a Participant elects to receive such a distribution, he shall permanently and irrevocably forfeit from his Benefit an amount equal to 20 percent (20%) of the amount so distributed and such Participant shall be ineligible to elect Salary Deferral Contributions for the following Plan Year. The amount forfeited shall inure to the benefit of the Employer in the manner determined by the Committee, and such amount shall be deducted from his Measurement Preferences in accordance with Rules of General Application.

7.7 **Source of Distribution**. All payments of Benefits shall be in cash from the funds in the Trust or, in the discretion or the Employer, from the Employer's funds held outside of the Trust. Nothing contained in the Plan, nor any action taken pursuant to the provisions of the Plan, shall create or be construed to create a fiduciary relationship between the Company, an Employer, Participant, Beneficiary, or Employee or other person. To the extent that any person acquires a right to be paid Benefits, such right shall be no greater than the right of an unsecured general creditor of his Employer.

SECTION EIGHT DESIGNATION OF BENEFICIARIES

8.1 **Designation by Participant**. Participant's written designation of one or more persons or entities as his Beneficiary shall operate to designate the Participant's Beneficiary under this Plan. The Participant shall file with the Committee a copy of his Beneficiary designation under the Plan. The last such designation received by the Committee shall be controlling, and no designation, or change or revocation of a designation shall be effective unless received by the Committee prior to the Participant's death, and in no event shall it be effective as of a date prior to such receipt.

8.2 **Lack of Designation.** If no Beneficiary designation is in effect at the time of Participant's death, if no designated Beneficiary survives the Participant or if the otherwise applicable Beneficiary designation conflicts with applicable law, the Participant's estate shall be the Beneficiary. The Committee may direct the Employer or Trustee to retain any unpaid Benefits, without crediting for either Measurement Preferences or Applicable Interest Rate, until all rights to the unpaid Benefits are determined. Alternatively, the Committee may direct the Employer or Trustee to pay the Benefits into any court of appropriate jurisdiction. Any such

payment shall completely discharge each Employer, the Trustee, and the Committee from any liability under the Plan.

SECTION NINE AMENDMENT AND TERMINATION

The Plan, without cause and without prior notice, may be terminated, in whole or in part, by the Board, in which case the Employer Account of any affected Participant shall become 100% Vested on such date of termination and, notwithstanding any provisions of the Plan to the contrary, the Benefits of such affected Participant will be distributed in a Lump Sum as soon as reasonably possible following such termination. The Plan may be amended at any time by the Board or the Committee and, without limiting the generality of any other provision hereof, if the Committee determines that an amendment to the Plan would result in a substantial prospective reduction in either the rights or benefits of one or more Participants with respect to their Benefit determined as of the effective date of such amendment, the Committee must give each affected Participant notice of the amendment not less than 5 days prior to the earlier of its adoption or its effective date, and allow each such Participant to waive the right to elect an immediate distribution and, in the absence of such timely waiver, each such Participant shall have the right, for a period of 90 days commencing on the earlier of the adoption, or the effective date, of such amendment, to elect, in a writing filed with the Committee, to have all (but not less than all) of his Benefit distributed to him as soon as reasonably possible.

SECTION TEN GENERAL PROVISIONS

10.1 **No Assignment**. The right of any Participant to Benefits shall not be assigned, transferred, pledged or encumbered, either voluntarily or by operation of law, except as provided in **Section Eight** with respect to designations of Beneficiaries.

10.2 **Incapacity**. If the Committee shall find that any person to whom any Benefit is payable under the Plan is unable to care for his affairs because of illness or accident or is a minor, any payment due shall be paid to the duly appointed guardian, committee or other legal representative for such person. Any such payment shall be a complete discharge of the liabilities of each Employer, the Trustee and the Committee as to the amount paid.

10.3 **Claims Procedure**. The Committee will make all determinations as to the rights of any Employee, Participant, Beneficiary or other person under the terms of this Plan. Any Employee, Participant, Beneficiary, or person claiming under them, may make a claim for benefits under this Plan by filing written notice with the Committee setting forth the substance of the claim. If a claim is wholly or partially denied, the claimant will have the opportunity to appeal the denial upon filing with the Committee a written request for review within 60 days after receipt of notice of denial. In making an appeal the claimant may examine pertinent Plan documents and may submit issues and comments in writing. Denial of a claim or a decision on review will be made in writing by the Committee delivered to the claimant within 60 days after receipt of the claim or request for review, unless special circumstances require an extension of

time for processing the claim or review, in which event the Committee's decision must be made as soon as possible thereafter but not beyond an additional 60 days. If no action on an initial claim is taken within 120 days, the claims will be deemed denied for purposes of permitting the claimant to proceed to the review stage. The denial of a claim or the decision on review will specify the reasons for the denial or decision and will make reference to the pertinent Plan provisions upon which the denial or decision is based. The denial of a claim will also include a description of any additional material or information necessary for the claimant to perfect the claim and an explanation of the claim review procedure herein described. The Committee will serve as an agent for service of legal process with respect to the Plan unless the Employer, through written resolution, appoints another agent.

10.4 **Final Resolution of Disputes Relating to Plan** If, after the exhaustion of the claims procedure set forth in **Section 10.3**, one or more disputes remain with regard to the rights under the Plan of any Employee, Participant, Beneficiary or person claiming under them, such person(s) and the Committee (collectively, "Interested Parties") agree to attempt to resolve same by telephone conference with an agreed mediator. If the Interested Parties cannot resolve their differences by such telephone conference, then the Interested Parties agree to schedule a one day mediation with a mediator who is mutually agreeable to the Interested Parties, within thirty (30) days to resolve the disputes and to share equally the costs of such mediation. If one of the Interested Parties refuses to mediate, then such Interested Party thereby waives any recovery for attorneys' fees or costs incurred in any arbitration brought to construe or enforce the provisions of this Plan. If the Interested Parties are unable to resolve their dispute by mediation, the Interested Parties may institute an arbitration proceeding under the auspices of the American Arbitration Association to construe or enforce the provisions of the Plan. **THE INTERESTED PARTIES HEREBY WAIVE THEIR RIGHT TO INSTITUTE LITIGATION IN A COURT OF LAW TO RESOLVE A DISPUTE CONCERNING THE CONSTRUCTION OR ENFORCEMENT OF THIS PLAN**. The Interested Party prevailing in any such arbitration shall recover from the adverse party its actual damages and reasonable costs and expenses, including, without limitation, reasonable attorneys' fees incurred in connection with such dispute and arbitration.

10.5 **Information Required**. Each Participant shall file with the Committee such pertinent information concerning himself and his Beneficiary as the Committee may specify, and no Participant or Beneficiary or other person shall have any rights or be entitled to any benefits under the Plan, unless such information is properly filed.

10.6 **Communications by, and Information from, Participant**. All elections, selections, designations, requests, notices, instructions and other communications to the Committee, Third-Party Recordkeeper, Company, or Employer required or permitted under the Plan shall be (i) in such form as is prescribed from time to time by the Committee, (ii) shall be (x) mailed by first-class mail, or (y) delivered, to such location as shall be specified by the Committee and shall be deemed to have been given and delivered only on actual receipt by the person to be charged at such location. If the Committee notifies the Participant or Beneficiary by registered mail (return receipt requested) at his last known address that he is entitled to a distribution and also notifies him of the provisions of this paragraph, and the Participant or Beneficiary fails to claim his benefits under the Plan or provide his current address to the

None

Committee within one year after such notification, his Benefit will be forfeited and inure to the benefit of the Employer in the manner determined by the Committee. If the Participant or Beneficiary is subsequently located, such Benefit will be restored, but without Earnings being credited subsequent to the date of the forfeiture.

10.7 **No Rights Implied.** Without limitation, nothing contained in this Plan, nor any modification or amendment to the Plan, nor the creation of any Account on the books of the Company, shall give any Employee or Participant any legal or equitable right against the Company or any officer, director, or Employee of the Company, except as expressly provided by the Plan.

10.8 **Communications by Committee or Employer.** All notices, statements, reports and other communications from the Committee or any Employer to any person required or permitted under the Plan shall be deemed to have been duly given when delivered to, or when mailed first-class mail, postage prepaid and addressed to, such person at his address last appearing on the records of the most recent Employer.

10.9 **Interpretations and Adjustments.** To the extent permitted by law, each interpretation of the Plan and each decision on any matter relating to the Plan made by the Board, the Company, or the Committee, within their scope of their authority hereunder, shall be made in their sole discretion and shall be binding on all persons. A misstatement or other mistake of fact shall be corrected when it becomes known and the person responsible shall make such adjustment on account thereof as he considers equitable and practicable.

10.10 **No Liability for Good Faith Determinations.** Neither the Company, the Board, nor the Committee shall be liable for any act, omission, or determination taken or made with respect to the Plan which is not judicially determined to be due to willful misconduct, and members of the Board, and the Committee, shall be entitled to indemnification and reimbursement by the Company in respect of any claim, loss, damage, or expense (including attorneys' fees, the costs of settling any suit, provided such settlement is approved by independent legal counsel selected by the Company, and amounts paid in satisfaction of a judgment, except a judgment based on a finding of willful misconduct) arising therefrom to the full extent permitted by law and under any directors' and officers' liability or similar insurance coverage that may from time to time be in effect.

10.11 **No Employment Rights**. Neither the Plan nor any action taken under the Plan shall be construed as giving to any Employee the right to be retained in the employ of an Employer or as affecting the right of an Employer to dismiss any Employee at any time, with or without cause.

10.12 **Withholding of Taxes**. An Employer shall deduct from Participant's Salary or the amount of any payment made pursuant to this Plan any amounts required to be paid or withheld by the federal government or any state or local government. By his participation in the Plan, the Participant agrees to all such deductions.

10.13 **Waivers.** Any waiver of any right granted pursuant to this Plan shall not be valid unless the same is in writing and signed by the party waiving such right. Any such waiver shall not be deemed to be a waiver of any other rights.

10.14 **Records.** Records of the Company, and of the Committee, as to any matters relating to this Plan will be conclusive on all persons.

10.15 **Securities Laws.** The Plan intends to comply with and be exempt under The Securities Act of 1933, as amended. The Participants under the Plan are final purchasers and not underwriters or conduits to other beneficial owners or subsequent purchasers.

10.16 **Severability.** In case any one or more of the provisions contained in this Plan shall be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions in this Plan shall not in any way be affected or impaired.

10.17 **Captions and Gender.** The captions preceding the Sections and Subsections of this Plan have been inserted solely as a matter of convenience and in no way define or limit the scope or intent of any provisions of this Plan. Where the context admits or requires, words used in the masculine gender shall be construed to include the feminine and the neuter also, the plural shall include the singular, and the singular shall include the plural.

10.18 **CHOICE OF LAW.** THE PLAN AND ALL RIGHTS UNDER THIS PLAN SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS, EXCEPT TO THE EXTENT PREEMPTED BY ERISA.

10.19 **Effective Date and Termination Date.** The Plan is effective on the Effective Date and shall terminate on the date no further Benefits are credited hereunder, or on such earlier date as the Plan is terminated pursuant to **Section Nine.**

IN WITNESS WHEREOF, the Company has executed this Plan on this the 22nd day of December, 1998.

FOSSIL, INC.

By: /s/ Randy Kercho
Its: CFO

2002 RESTRICTED STOCK PLAN
OF
FOSSIL, INC.

ARTICLE I. GENERAL

WHEREAS, the 2002 Restricted Stock Plan of Fossil, Inc. is being fully funded with treasury shares contributed to the Company from a shareholder; and

WHEREAS, the Company has received a determination letter from NASDAQ that, consequently, no stockholder approval of the Plan is required;

NOW, THEREFORE, the Plan is as follows:

SECTION 1.1. Purpose of the Plan. The Plan is intended to advance the best interests of the Company, its Subsidiaries and its stockholders in order to attract, retain and motivate key employees by providing them with additional incentives through the award of shares of Restricted Stock.

SECTION 1.2. Definitions. For purposes of this Plan, the following definitions shall apply:

"1934 Act" means the Securities Exchange Act of 1934, as amended.

"Award" means a grant under this Plan in the form of Restricted Stock.

"Award Agreement" means an agreement governing the Award entered into between the Company and the Participant pursuant to Section 1.8.

"Board" means the Board of Directors of the Company.

"Change in Control" means the occurrence of any of the following events:

(i) Any "person" (as such term is used in Sections 13(d) and 14(d)(2) of the Securities Exchange Act of 1934, as amended) becomes the beneficial owner, directly or indirectly, of voting securities representing thirty percent (30%) or more of the combined voting power of the Company's then outstanding voting securities or, if a person is the beneficial owner, directly or indirectly, of voting securities representing thirty percent (30%) or more of the combined voting power of the Company's outstanding voting securities as of the date the particular Award is granted, such person becomes the beneficial owner, directly or indirectly, of additional voting securities representing ten percent (10%) or more of the combined voting power of the Company's then outstanding voting securities;

(ii) During any period of twelve (12) months, individuals who at the beginning of such period constitute the Board cease for any reason to constitute a majority of the Directors unless the election, or the nomination for election by the Company's stockholders, of each new Director was approved by a vote of at least a

majority of the Directors then still in office who were Directors at the beginning of the period;

(iii) The stockholders of the Company approve (A) any consolidation or merger of the Company or any Subsidiary that results in the holders of the Company's voting securities immediately prior to the consolidation or merger having (directly or indirectly) less than a majority ownership interest

in the outstanding voting securities of the surviving entity immediately after the consolidation or merger, (B) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all or substantially all of the assets of the Company or (C) any plan or proposal for the liquidation or dissolution of the Company;

(iv) The stockholders of the Company accept a share exchange, with the result that stockholders of the Company immediately before such share exchange do not own, immediately following such share exchange, at least a majority of the voting securities of the entity resulting from such share exchange in substantially the same proportion as their ownership of the voting securities outstanding immediately before such share exchange; or

(v) Any tender or exchange offer is made to acquire thirty percent (30%) or more of the voting securities of the Company, other than an offer made by the Company, and shares are acquired pursuant to that offer.

For purposes of this definition, the term "voting securities" means equity securities, or securities that are convertible or exchangeable into equity securities, that have the right to vote generally in the election of Directors.

"Code" means the Internal Revenue Code of 1986, as amended.

"Committee" means a committee of at least two (2) members of the Board. If it is intended that the Committee satisfy the requirements of Rule 16b-3 under the 1934 Act and Section 162(m) of the Code, then all of the members of the Committee, at the time of service on the Committee hereunder, should be "Non-Employee Directors," as defined in Rule 16b-3(b)(3) under the 1934 Act and "Outside Directors," as defined in Treasury Regulation Section 162-27(e)(3), under the Code. If no Committee has been designated to administer the Plan, references to the Committee shall be deemed to be references to the Board, whose members shall not be required to meet the qualifications of this definition.

"Common Stock" means the common stock, par value $0.01 per share, of the Company.

"Company" means Fossil, Inc. and its successors and assigns.

"Date of Termination" of a Participant means the first day occurring on or after the date on which a Participant is granted an Award on which the Participant is not employed by the Company or any Subsidiary, regardless of the reason for the termination of employment; provided, however, that a termination of employment shall not be deemed to occur by reason of a transfer of the Participant between the Company and a Subsidiary or between two Subsidiaries; and, further, provided, that the Participant's employment shall not be considered terminated while the Participant is on a leave of absence from the Company or a Subsidiary approved by the Participant's employer. If, as a result of a sale or other transaction, the Participant's employer ceases to be a Subsidiary (and the Participant's employer is or becomes an entity that is separate from the Company), the occurrence of such transaction shall be treated as the Participant's Date of Termination caused by the Participant being discharged by the employer.

"Disability" with respect to any Participant has the meaning given that term or any substantially comparable term or usage in any employment or severance arrangement applicable to the Participant and approved by the Board or the Committee, or in the absence of any such arrangement or term, means, except as otherwise determined by the Committee, a condition that renders the Participant unable, by reason of a medically determinable

None

physical or mental impairment, to engage in any substantial gainful

activity, which condition, in the opinion of a physician selected by the Committee, is expected to have a duration of not less than one hundred twenty (120) days.

"Eligible Participant" has the meaning given in Section 1.4.

"Expiration Date" with respect to an Award means the date established as the Expiration Date by the Committee at the time of the grant; provided, however, that the Expiration Date shall not be later than the earliest to occur of: (a) if the Participant's Date of Termination occurs by reason of death or Disability, the one-year anniversary of such Date of Termination; or (b) if the Participant's Date of Termination occurs for reasons other than death or Disability, ninety (90) days after such Date of Termination.

"Fair Market Value" of a share of Common Stock on any date of reference means the closing price on the business day immediately preceding such date, unless the Committee in its sole discretion shall determine otherwise in a fair and uniform manner. For purposes of this Plan, the "Closing Price" of the Common Stock on any business day shall be: (a) if the Common Stock is listed or admitted for trading on any United States national securities exchange or included in the National Market System of the National Association of Securities Dealers Automated Quotation System ("NASDAQ"), the last reported sale price of Common Stock on such exchange or system, as reported in any newspaper of general circulation; (b) if the Common Stock is quoted on NASDAQ, or any similar system of automated dissemination of quotations of securities prices in common use, the mean between the closing high bid and low asked quotations for such day of the Common Stock on such system; (c) if neither clause (a) nor (b) is applicable, the mean between the high bid and low asked quotations for Common Stock as reported by the National Quotation Bureau, Incorporated if at least two (2) securities dealers have inserted both bid and asked quotations for Common Stock on at least five (5) of the ten (10) preceding days; or, (d) in lieu of the above, if actual transactions in the Common Stock are reported on a consolidated transaction reporting system, the last sale price of the Common Stock for such day and on such system.

"Participant" means any Eligible Participant that is granted an Award under the Plan.

"Plan" means this 2002 Restricted Stock Plan of Fossil, Inc.

"Restricted Stock Award" means an Award of stock of the Company that is granted pursuant to Article II that is subject to the restrictions imposed by Article II.

"Subsidiary" of the Company means any corporation, partnership or other entity that is designated by the Board as a participating employer under the Plan, provided that the Company directly or indirectly owns at least twenty percent (20%) of the combined voting power of all classes of stock of such entity or at least twenty percent (20%) of the ownership interests in such entity.

"Withholding Tax" means any federal, state or local withholding tax liability.

SECTION 1.3. Administration of the Plan.

(a) The Plan shall be administered by the Committee. The Committee shall have authority to interpret conclusively the provisions of the Plan, to adopt such rules and regulations for carrying out the Plan as it

may deem advisable, to decide conclusively all questions of fact arising in the application of the Plan, to establish performance criteria in respect of Awards under the Plan, to certify that Plan requirements have been met for any Participant in the Plan, to submit such matters as it may deem advisable to the Company's stockholders for their approval, and to make all other determinations and take all other actions necessary or desirable for the administration of the Plan. The Committee is

expressly authorized to adopt rules and regulations limiting or eliminating its discretion with respect to certain matters as it may deem advisable to comply with, or obtain preferential treatment under, any applicable tax or other law, rule, or regulation. All decisions and acts of the Committee shall be final and binding upon all affected Eligible Participants.

(b) The Committee shall designate the Eligible Participants, if any, to be granted Awards and the amount of such Awards and the time when Awards will be granted. All Awards granted under the Plan shall be on the terms and subject to the conditions determined by the Committee consistent with the Plan.

SECTION 1.4. Eligible Participants. Key employees of the Company and its Subsidiaries shall be eligible for Awards under the Plan.

SECTION 1.5. Awards Under the Plan. Awards to Eligible Participants shall be in the form of shares of Restricted Stock.

SECTION 1.6. Shares Subject to the Plan.

(a) General Limitation. The aggregate number of shares of Common Stock that may be issued under the Plan shall be Five Hundred Thousand (500,000) shares. If any Award under the Plan shall expire, terminate or be canceled for any reason without having been vested in full, or if any Award shall be forfeited to the Company, the unexercised or forfeited Award shall not count against the above limits and shall again become available for grants under the Plan (unless the holder of such Award received dividends or other economic benefits with respect to such Award, which dividends or other economic benefits are not forfeited, in which case the Award shall count against the above limits). Shares of Common Stock that are withheld in order to satisfy federal, state or local tax liability, shall not count against the above limits.

(b) Additional Limitations. No more than Five Hundred Thousand (500,000) shares of Common Stock may be subject to Restricted Stock Awards that are intended to be "performance based compensation" (as that term is used in Section 162(m) of the Code) may be granted.

SECTION 1.7. Other Compensation Programs. Nothing contained in the Plan shall be construed to preempt or limit the authority of the Board to exercise its corporate rights and powers, including, but not by way of limitation, the right of the Board (a) to grant incentive awards for proper corporate purposes otherwise than under the Plan to any employee, officer, director or other person or entity; or (b) to grant incentive awards to, or assume incentive awards of, any person or entity in connection a change of control of the Company.

SECTION 1.8. Award Agreements. Each Award shall be evidenced by an agreement that may contain any term deemed necessary or desirable by the Committee, provided such terms are not inconsistent with this Plan or applicable law. Each Award Agreement shall contain the agreement of the Participant not to compete with the business of the Company during the term of the Participant's employment with the Company and for a period of two years thereafter.

ARTICLE II. RESTRICTED STOCK

SECTION 2.1. Terms and Conditions of Restricted Stock Awards. Subject to the following provisions, all Awards

of Restricted Stock under the Plan to an Eligible Participant shall be in such form and shall have such terms and conditions as the Committee, in its discretion, may from time to time determine consistent with the Plan.

(a) Restricted Stock Award. The Restricted Stock Award shall specify the number of shares of Restricted Stock subject to the Award, the price, if any, to be paid by the Participant receiving the Restricted Stock Award, and the date or dates on which the Restricted Stock will vest. The vesting and number of shares of Restricted Stock may be conditioned upon the completion of a specified period of service with the Company or its Subsidiaries. Unless otherwise provided in the grant relating to the Restricted Stock Award, the shares of Restricted Stock shall fully vest on the fifth anniversary of the date of the Award.

(b) Restrictions on Transfer. Unless otherwise provided in the grant relating to the Restricted Stock Award, stock certificates representing the Restricted Stock granted to a Participant shall be registered in the Participant's name. Prior to the shares of Restricted Stock becoming vested, such certificates shall either be held by the Company on behalf of the Participant, or delivered to the Participant bearing a legend to restrict transfer of the certificate until the Restricted Stock has vested, as determined by the Committee. The Participant shall have the right to vote and/or receive dividends on the Restricted Stock before it has vested. Except as may otherwise be expressly permitted by the Committee, no share of Restricted Stock may be sold, transferred, assigned, or pledged by the Participant until such share has vested in accordance with the terms of the Restricted Stock Award. Unless the grant of a Restricted Stock Award specifies otherwise, in the event of a Participant's termination of employment before all the Participant's Restricted Stock has vested, or in the event other conditions to the vesting of Restricted Stock have not been satisfied prior to any deadline for the satisfaction of such conditions set forth in the Award, the shares of Restricted Stock that have not vested shall be forfeited and any purchase price paid by the employee shall be returned to the Participant. At the time Restricted Stock vests (and upon the return of such certificates to the Company), a certificate for such vested shares shall be delivered to the Participant (or the beneficiary designated by the Participant in the event of death), free of all restrictions.

(c) Accelerated Vesting. Notwithstanding the vesting conditions set forth in the Restricted Stock Award, unless the Restricted Stock Award grant or other agreement with the Participant thereof specifies otherwise:

(i) the Committee may in its discretion at any time accelerate the vesting of Restricted Stock or otherwise waive or amend any conditions of a grant of a Restricted Stock Award;

(ii) all the shares of Restricted Stock shall vest upon a Change of Control of the Company; and

(iii) all the shares of Restricted Stock shall vest upon the death of the Participant.

SECTION 2.2. Section 83(b) Election. If a Participant receives Restricted Stock that is subject to a "substantial risk of forfeiture," such Participant may elect under Section 83(b) of the Code to include in his or her gross income, for the taxable year in which the Restricted Stock is received, the excess of the Fair Market Value of such Restricted Stock on the Date of Grant (determined without regard to any restriction other than one which by its terms will never lapse), over the amount paid for the Restricted Stock. If the Participant makes the Section 83(b) election, the Participant shall (a) make such election in a manner that is satisfactory to the Committee, (b) provide the Company with a copy of such election, (c) agree to promptly notify the Company if any Internal Revenue Service or state tax agent, on audit or otherwise, questions the validity or correctness of such election or of the amount of income reportable on

None

account of such election and (d) agree to such federal and state income tax withholding as the Committee may reasonably require in its sole discretion.

ARTICLE III. ADDITIONAL PROVISIONS

SECTION 3.1. General Restrictions. Each Award under the Plan shall be subject to the requirement that, if at any time the Committee shall determine that (a) the listing, registration or qualification of the shares of Common Stock subject or related thereto upon any securities exchange or under any state or federal law; (b) the consent or approval of any government regulatory body; or (c) an agreement by the recipient of an Award with respect to the disposition of shares of Common Stock, is necessary or desirable (in connection with any requirement or interpretation of any federal or state securities law, rule or regulation) as a condition of, or in connection with, the granting of such Award or the issuance, purchase or delivery of shares of Common Stock thereunder, such Award may not be consummated in whole or in part unless such listing, registration, qualification, consent, approval or agreement shall have been effected or obtained free of any conditions not acceptable to the Committee.

SECTION 3.2. Adjustments for Changes in Capitalization. In the event of any stock dividends, stock splits, recapitalizations, combinations, exchanges of shares, mergers, consolidations, liquidations, split-ups, split-offs, spin-offs or other similar changes in capitalization, or any distributions to stockholders, including a rights offering, other than regular cash dividends, changes in the outstanding stock of the Company by reason of any increase or decrease in the number of issued shares of Common Stock resulting from a split-up or consolidation of shares or any similar capital adjustment or the payment of any stock dividend, any share repurchase at a price in excess of the market price of the Common Stock at the time such repurchase is announced or other increase or decrease in the number of such shares, the Committee shall make appropriate adjustment in the number and kind of shares authorized by the Plan, in the number, price or kind of shares covered by the Awards and in any outstanding Awards under the Plan. In the event of any adjustment in the number of shares covered by any Award, any fractional shares resulting from such adjustment shall be disregarded and each such Award shall cover only the number of full shares resulting from such adjustment.

SECTION 3.3. Amendments. The Committee shall have the authority to amend any Award to include any provision that, at the time of such amendment, is authorized under the terms of the Plan; provided, however, no outstanding Award may be revoked or altered in a manner unfavorable to the holder without the written consent of the holder.

SECTION 3.4. Cancellation of Awards. Any Award granted under the Plan may be canceled at any time with the consent of the holder and a new Award may be granted to such holder in lieu thereof, which award may, in the discretion of the Committee, be on more favorable terms and conditions than the canceled Award.

SECTION 3.5. Beneficiary. A Participant may file with the Company a written designation of beneficiary, on such form as may be prescribed by the Committee, to receive any shares of Restricted Stock that become deliverable to the Participant pursuant to the Plan after the Participant's death. A Participant may, from time to time, amend or revoke a designation of beneficiary. If no designated beneficiary survives the Participant, the executor or administrator of the Participant's estate shall be deemed to be the Participant's beneficiary.

SECTION 3.6. Withholding. Whenever the Company proposes or is required to issue or transfer shares of Common Stock under the Plan, the Company shall have the right to require the holder to pay an amount in cash or to retain or sell without notice, or demand surrender of, shares of Common Stock in value sufficient to satisfy any Withholding

None

Tax prior to the delivery of any certificate for such shares (or

remainder of shares if Common Stock is retained to satisfy such Withholding Tax). Whenever Common Stock is so retained, sold or surrendered to satisfy Withholding Tax, the value of shares of Common Stock so retained, sold or surrendered shall be determined by the Committee, and the value of shares of Common Stock so sold shall be the net proceeds (after deduction of commissions) received by the Company from such sale, as determined by the Committee.

SECTION 3.7. Transferability. Except as expressly provided in the Plan or as may be permitted by the Committee, no Award under the Plan shall be assignable or transferable by the holder thereof except by will or by the laws of descent and distribution. Except as expressly provided in the Plan or as may be permitted by the Committee, during the life of the holder, Awards under the Plan shall be exercisable only by such holder or by the guardian or legal representative of such holder.

SECTION 3.8. Non-uniform Determinations. Determinations by the Committee under the Plan (including, without limitation, determinations of the persons to receive Awards; the form, amount and timing of such Awards; the terms and provisions of such Awards and the agreements evidencing same; and provisions with respect to termination of employment) need not be uniform and may be made by it selectively among persons who receive, or are eligible to receive, Awards under the Plan, whether or not such persons are similarly situated.

SECTION 3.9. No Guarantee of Employment. The grant of an Award under the Plan shall not constitute an assurance of continued employment for any period.

SECTION 3.10. Deferred Compensation and Trust Agreements. The Committee may authorize and establish deferred compensation agreements and arrangements in connection with Awards under the Plan and may establish trusts and other arrangements, including “rabbi trusts,” with respect to such agreements and appoint one or more trustees for such trusts. Shares of Common Stock under the Plan may also be acquired by one or more trustees from the Company, in the open market or otherwise.

SECTION 3.11. Duration and Termination.

(a) The Plan shall terminate on December 31, 2011. Notwithstanding the foregoing, Awards granted prior to such date may extend beyond such date, and the terms of this Plan shall continue to apply to all Awards granted hereunder.

(b) The Board may suspend, discontinue or terminate the Plan at any time. Such action shall not impair any of the rights of any holder of any Award outstanding on the date of the Plan’s suspension, discontinuance or termination without the holder’s written consent.

SECTION 3.12. Effective Date. The Plan shall be effective as of January 1, 2002.

Executed to evidence the Plan and the adoption thereof by the Board of Directors.

FOSSIL, INC.

None

By: _____

Print Name: _____

Title: _____

FORM OF RESTRICTED STOCK AWARD AGREEMENT

This **RESTRICTED STOCK AWARD AGREEMENT** (the "Agreement"), entered into as of «Grant_Date», between Fossil, Inc., a Delaware corporation (the "Company"), and «FirstName» «LastName» (the "Employee").

WHEREAS, the Company has adopted the 2002 Restricted Stock Plan of Fossil, Inc. (the "Restricted Stock Plan") effective as of the Effective Date with the objective of advancing the best interests of the Company, its Subsidiaries and its stockholders in order to attract, retain and motivate key employees with additional incentives through the award of shares of Restricted Stock;

WHEREAS, the Restricted Stock Plan provides that Eligible Participants of the Company or its Subsidiaries, as determined in the judgment of the Committee, may be granted an Award which may consist of grants of restricted shares of common stock, par value $.01 per share ("Common Stock"), of the Company; and

WHEREAS, the Employee holds a position of responsibility within the Company and the Committee has determined that the Employee is an Eligible Participant under the Restricted Stock Plan;

NOW, THEREFORE, in consideration of the premises, the terms and conditions set forth herein, the mutual benefits to be gained by the performance thereof and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. **Grant of Restricted Stock**. Subject to the terms and conditions set forth herein and in the Restricted Stock Plan, the Company hereby grants to the Employee an Award of «Shares» shares of Common Stock (the "Restricted Stock"), such number of shares being subject to adjustment from time to time as provided in Section 3.2 of the Restricted Stock Plan and paragraph 12 hereof.

2. **Restrictions on Transfer.** Stock certificates representing the Restricted Stock granted hereunder shall be registered in the Employee's name. Prior to the shares of Restricted Stock becoming vested, such certificates shall be held by the Company on behalf of the Employee and shall bear a legend to restrict transfer of the certificate until the Restricted Stock has vested, as set forth in Paragraph 3 hereof. The Employee shall have the right to vote and/or receive dividends on the Restricted Stock before it has vested. Except as may otherwise may be expressly permitted by the Committee, no share of Restricted Stock may be sold, transferred, assigned, or pledged by the Employee until such share has vested in accordance with the terms hereof. In the event of Employee's termination of employment before all the Employee's Restricted Stock has vested, or in the event other conditions to the vesting of Restricted Stock have not been satisfied prior to any deadline for the satisfaction of such conditions set forth herein, the shares of Restricted Stock that have not vested shall be forfeited and any purchase price paid by the Employee shall be returned to the Employee. At the time Restricted Stock vests (and upon the return of such certificates to the Company), a certificate for such vested shares shall be delivered to the Participant (or the beneficiary designated by the Participant in the event of death), free of all such restrictions.

3. **Option Period and Vesting**. The Restricted Shares granted pursuant to this Agreement shall vest and become transferable with respect to «Vesting» of the date hereof (it being understood that the right to transfer the Restricted Shares shall be cumulative, so that the Employee may transfer on or after any such anniversary that number of Restricted Shares which the Employee was entitled to transfer but did not transfer during any preceding

None

period or periods).

4. **Termination in Event of Nonemployment.** In the event that the Employee ceases to be

employed by the Company or any of its Subsidiaries for any reason other than death, the Restricted Shares granted pursuant to this Agreement shall be forfeited, except to the extent that they have vested and become transferable in accordance with the provisions of paragraph 3 on the date the Employee ceases to be so employed.

5. **Accelerated Vesting**. Notwithstanding the vesting conditions set forth herein: (i) the Committee may in its discretion at any time accelerate the vesting of Restricted Stock or otherwise waive or amend any conditions of a grant of a Restricted Stock Award; (ii) all the shares of Restricted Stock shall vest upon a Change of Control of the Company; and (iii) all the shares of Restricted Stock shall vest upon the death of the Employee.

6. **Assignability**. The rights granted pursuant hereto shall not be assignable or transferable by the Employee other than in accordance with Section 3.7 of the Restricted Stock Plan. No assignment of the rights herein granted shall be effective to bind the Company unless the Company shall have been furnished with written notice thereof and a copy of such documents and evidence as the Company may deem necessary to establish the validity of the assignment and the acceptance by the assignee or assignees of the terms and conditions hereof.

7. **Section 83(b) Election**. If Employee is subject to a "substantial risk of forfeiture" of the Restricted Shares granted hereunder, such Employee may elect under Section 83(b) of the Internal Revenue Code of 1986, as amended, to include in his gross income, for the taxable year in which the Restricted Stock is received, the excess of the Fair Market Value of such Restricted Stock on the date of grant (determined without regard to any restriction other than one which by its terms will never lapse), over the amount paid for the Restricted Stock. If the Employee makes the Section 83(b) election, the Employee shall (a) make such election in a manner that is satisfactory to the Committee, (b) provide the Company with a copy of such election, (c) agree to promptly notify the Company if any Internal Revenue Service or state tax agent, on audit or otherwise, questions the validity or correctness of such election or of the amount of income reportable on account of such election, and (d) agree to such federal and state income tax withholding as the Committee may reasonably require in its sole discretion.

8. **Restrictions and Related Representations**. Upon the acquisition of any Restricted Shares hereunder, the Employee may be required to enter into such written representations, warranties and agreements as the Company may reasonably request in order to comply with applicable securities laws, the Restricted Stock Plan or with this Agreement. In addition, the certificate or certificates representing any Restricted Shares issued hereunder will be stamped or otherwise imprinted with a legend in such form as the Company may require with respect to any applicable restrictions on sale or transfer, and the stock transfer records of the Company will reflect stop-transfer instructions, as appropriate, with respect to such Restricted Shares.

9. **Notices**. Unless otherwise provided herein, any notice or other communication hereunder shall be in writing and shall be given by registered or certified mail. All notices by the Employee hereunder shall be directed to Fossil, Inc., Attention: Secretary, at the Company's then current address. Any notice given by the Company to the Employee hereunder shall be directed to him at his address on file with the Company. The Company shall be under no obligation whatsoever to advise or notify the Employee of the existence, maturity or termination of any rights hereunder and the Employee shall be deemed to have familiarized himself with all matters contained herein and in the Restricted Stock Plan which may affect any of the Employee's rights or privileges hereunder.

10. **Scope of Certain Terms**. Whenever the term "Employee" is used herein under circumstances applicable to any other person or persons to whom this Award may be assigned in accordance with the provisions of Paragraph 6 of this Agreement, the term "Employee" shall be deemed

None

to include such person or persons. The term "Restricted Stock Plan" as used herein shall be deemed to include the 2002 Restricted Stock Plan of Fossil, Inc. and any subsequent amendments thereto, together with any administrative interpretations which have been adopted thereunder by the Committee pursuant to Section 1.3 of the Restricted Stock Plan. Unless otherwise indicated, defined terms herein shall have the meaning ascribed to them in the Restricted Stock Plan.

11. **General Restrictions**. This Award is subject to the requirement that, if at any time the Committee shall determine that (a) the listing, registration or qualification of the shares of Common Stock subject or related thereto upon any securities exchange or under any state or federal law; (b) the consent or approval of any government regulatory body; or (c) an agreement by the recipient of an Award with respect to the disposition of shares of Common Stock, is necessary or desirable (in connection with any requirement or interpretation of any federal or state securities law, rule or regulation) as a condition of, or in connection with, the granting of such Award or the issuance, purchase or delivery of shares of Common Stock thereunder, such Award may not be consummated in whole or in part unless such listing, registration, qualification, consent, approval or agreement shall have been effected or obtained free of any conditions not acceptable to the Committee.

12. **Adjustments for Changes in Capitalization**. In the event of any stock dividends, stock splits, recapitalizations, combinations, exchanges of shares, mergers, consolidations, liquidations, split-ups, split-offs, spin-offs or other similar changes in capitalization, or any distributions to stockholders, including a rights offering, other than regular cash dividends, changes in the outstanding stock of the Company by reason of any increase or decrease in the number of issued shares of Common Stock resulting from a split-up or consolidation of shares or any similar capital adjustment or the payment of any stock dividend, any share repurchase at a price in excess of the market price of the Common Stock at the time such repurchase is announced or other increase or decrease in the number of such shares, the Committee shall make appropriate adjustment in the number and kind of shares authorized by the Restricted Stock Plan, in the number, price or kind of shares covered by the Awards and in any outstanding Awards under the Restricted Stock Plan. In the event of any adjustment in the number of shares covered by any Award, any fractional shares resulting from such adjustment shall be disregarded and each such Award shall cover only the number of full shares resulting from such adjustment.

13. **Amendments**. The Committee shall have the authority to amend any Award to include any provision that, at the time of such amendment, is authorized under the terms of the Restricted Stock Plan; provided, however, no outstanding Award may be revoked or altered in a manner unfavorable to the holder without the written consent of the holder.

14. **Incorporation of Restricted Stock Plan**. This Agreement is subject to the Restricted Stock Plan, a copy of which has been furnished to the Employee herewith and for which the Employee acknowledges receipt. The terms and provisions of the Restricted Stock Plan are incorporated by reference herein. In the event of a conflict between any term or provision contained herein and a term or provision of the Restricted Stock Plan, the applicable terms and provisions of the Restricted Stock Plan shall govern and prevail.

None

IN WITNESS WHEREOF, this Agreement has been executed as of «Grant_Date».

COMPANY:

FOSSIL, INC.

By: _____

«FirstName» «LastName»

_____

Enclosure: 2002 Restricted Stock Plan of Fossil, Inc.

None

Subsidiaries of Fossil, Inc.
as of December 31, 2004

Name of Subsidiary	Place of Incorporation	Parent Company	Percent Ownership
Fossil Intermediate, Inc.	Delaware	Fossil, Inc.	100
Fossil Stores I, Inc.	Delaware	Fossil, Inc.	100
Intermediate Leasing, Inc.	Delaware	Fossil, Inc.	100
Arrow Merchandising, Inc.	Texas	Fossil, Inc.	100
Fossil Canada, Inc.	Canada	Fossil, Inc.	100
Fossil Europe B.V.	The Netherlands	Fossil, Inc.	100
Fossil Japan, K.K.	Japan	Fossil, Inc.	100
Fossil Holdings, LLC	Delaware	Fossil, Inc.	100
Fossil Holdings (Gibraltar) Ltd.	Gibraltar	Fossil, Inc.	100
Fossil (Gibraltar) Ltd.	Gibraltar	Fossil Holdings (Gibraltar) Ltd.	100
FMW Acquistions, Inc.	Delaware	Fossil, Inc.	100
Tempus International Corp.	Florida	FMW Acquisition, Inc.	100
MW Watch S.A.	Switzerland	Tempus International Corp.	100
Fossil (East) Limited	Hong Kong	Fossil Holdings (Gibraltar) Ltd.	100
Fossil Partners, L.P.	Texas	Fossil Trust/Fossil, Inc.	99/1
Swiss Technology Holding GmbH	Switzerland	Fossil Holdings (Gibraltar) Ltd.	100
Fossil Trust	Delaware	Fossil Intermediate, Inc.	100
Fossil (Newtime) Ltd.	Hong Kong	Fossil (East) Limited	100

None

Fossil Holding LLC Luxembourg, SCS	Luxembourg	Fossil, Inc.	100
Fossil Luxembourg, Sarl	Luxembourg	Fossil Holding LLC Luxembourg, SCS	100
Pulse Time Center Company, Ltd.	Hong Kong	Fossil (East) Limited	90
Trylink International, Ltd.	Hong Kong	Fossil (East) Limited	85
Fossil (Asia) Ltd	Hong Kong	Fossil (East) Limited	100
Fossil Singapore Ptd Ltd.	Singapore	Fossil (East) Limited	100

None

FDT, Ltd. (Design Time, Ltd.)	Hong Kong	Fossil (East) Limited	51
Fossil (Australia) Pty Ltd.	Australia	Fossil (East) Limited	100
Fossil Time Malaysia Sdn. Bhd.	Malaysia	Fossil (East) Limited	100
MW (Asia), Ltd.	Hong Kong	Fossil (East) Limited	100
Fossil (Asia) Holding Ltd.	Hong Kong	Fossil (East) Limited	100
Fossil Europe GmbH	Germany	Fossil Europe B.V.	100
Fossil Italia, S.r.l.	Italy	Fossil Europe B.V.	100
Gum, S.A.	France	Fossil Europe B.V.	100
Fossil Spain, S.A.	Spain	Fossil Europe B.V.	50
Fossil U.K. Holdings Ltd.	United Kingdom	Fossil Europe B.V.	100
Fossil European Services Co, GmbH	Germany	Fossil Europe B.V.	100
Fossil Swiss No Time	Switzerland	Fossil Europe B.V.	100
Fossil Swiss X Time	Switzerland	Fossil Europe B.V.	100
In Time - Portugal	Portugal	Fossil Spain, S.A.	100
Fossil U.K. Ltd.	United Kingdom	Fossil U.K. Holdings Ltd	100
Fossil Stores U.K. Ltd.	United Kingdom	Fossil U.K. Ltd.	100
The Avia Watch Company Limited	United Kingdom	Fossil U.K. Holdings Ltd	100
Montres Antima SA	Switzerland	Swiss Technology Holding GmbH	100
Fossil Group Europe, GmbH	Switzerland	Swiss Technology Holding GmbH	100
Fossil France SA	France	Gum, SA	99.6
Logisav SARL	France	Fossil France SA	100

None

SEM SARL	France	Fossil France SA	100
Trotime Espana SL	Spain	Fossil France SA	51
Fossil Retail Stores (Australia) Pty. Ltd	Australia	Fossil (Australia) Pty Ltd.	100
Fossil Management Services Pty. Ltd.	Australia	Fossil (Australia) Pty Ltd.	100

None

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 33-65980, Post-Effective Amendment No. 1 to Registration Statement No. 33-77526 and in Registration Statement No. 333-70477 on Form S-8 and Registration Statement No. 333-107476 on Form S-3 of our reports dated March 17, 2005, relating to the financial statements and financial statement schedule of Fossil, Inc. and to management's report on the effectiveness of internal control over financial reporting, appearing in this Annual Report on Form 10-K of Fossil, Inc. for the year ended January 1, 2005.

/s/ Deloitte & Touche LLP

Dallas, Texas
March 17, 2005

None

CERTIFICATION

I, Kosta N. Kartsotis, certify that:

1. I have reviewed this annual report on Form 10-K of Fossil, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual report based on such evaluation; and

   d. disclosed in this annual report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

March 17, 2005

/s/ KOSTA N. KARTSOTIS

Kosta N. Kartsotis

President and Chief Executive Officer

None

CERTIFICATION

I, Mike L. Kovar, certify that:

1. I have reviewed this annual report on Form 10-K of Fossil, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual report based on such evaluation; and

   d. disclosed in this annual report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

March 17, 2005

/s/ MIKE L. KOVAR

Mike L. Kovar

None

Senior Vice President, Chief Financial Officer and Treasurer

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

I, Kosta N. Kartsotis, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report of Fossil, Inc. on Form 10-K for the fiscal year ended January 1, 2005, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Annual Report on 10-K fairly presents in all material respects the financial condition and results of operations of Fossil, Inc.

Date: March 17, 2005

By: /s/ KOSTA N. KARTSOTIS
Name: Kosta N. Kartsotis
Title: *Director, President and Chief Executive Officer*

A signed original of this written statement required by Section 906 has been provided to Fossil, Inc. and will be maintained by Fossil, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

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

I, Mike L. Kovar, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report of Fossil, Inc. on Form 10-K for the fiscal year ended January 1, 2005, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Annual Report on 10-K fairly presents in all material respects the financial condition and results of operations of Fossil, Inc.

Date: March 17, 2005

By: /s/ MIKE L. KOVAR
Name: Mike L. Kovar
Title: *Senior Vice President, Chief Financial Officer and Treasurer*

A signed original of this written statement required by Section 906 has been provided to Fossil, Inc. and will be maintained by Fossil, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

None