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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-K

(Mark One)

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

For the Fiscal Year Ended December 30, 2017

OR

**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
GROUP**

FOSSIL GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

**901 S. Central Expressway
Richardson, Texas**
(Address of principal executive offices)

75-2018505
(I.R.S. Employer
Identification No.)

75080
(Zip Code)

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

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

Title of each class

Common Stock, \$0.01 par value

Name of each exchange on which registered

NASDAQ Global Select Market

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated
filer

Accelerated filer

Non-accelerated
filer
(Do not check if a
smaller reporting
company)

Smaller reporting
company

Emerging growth
company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The aggregate market value of Common Stock, \$0.01 par value per share (the "Common Stock"), held by non-affiliates of the registrant, based on the last sale price of the Common Stock as reported by the NASDAQ Global Select Market on July 1, 2017 was \$323.3 million.

As of February 20, 2018, 48,645,361 shares of Common Stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's proxy statement to be furnished to shareholders in connection with its 2018 Annual Meeting of Stockholders are incorporated by reference in Part III, Items 10-14 of this Annual Report on Form 10-K.

FOSSIL GROUP, INC.
FORM 10-K
FOR THE FISCAL YEAR ENDED DECEMBER 30, 2017
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In this Form 10-K, references to "we," "our," and the "Company" refer to Fossil Group, Inc. and its subsidiaries on a consolidated basis.

PART I

Item 1. Business

General

We are a global design, marketing and distribution company that specializes in consumer fashion accessories. Our principal offerings include an extensive line of men's and women's fashion watches and jewelry, handbags, small leather goods, belts and sunglasses. In the watch and jewelry product categories, we have a diverse portfolio of globally recognized owned and licensed brand names under which our products are marketed. Our products are distributed globally through various distribution channels, including wholesale in countries where we have a physical presence, direct to the consumer through our retail stores and commercial websites and through third-party distributors in countries where we do not maintain a physical presence. Our products are offered at varying price points to meet the needs of our customers, whether they are value-conscious or luxury oriented. Based on our extensive range of accessory products, brands, distribution channels and price points, we are able to target style-conscious consumers across a wide age spectrum on a global basis.

Domestically, we sell our products through a diversified distribution network that includes department stores, specialty retail locations, specialty watch and jewelry stores, Company-owned retail and outlet stores, mass market stores and through our FOSSIL[®] website. Our wholesale customer base includes, among others, Amazon, Best Buy, Dillard's, JCPenney, Kohl's, Macy's, Neiman Marcus, Nordstrom, Saks Fifth Avenue, Target and Wal-Mart. In the United States ("U.S."), our network of Company-owned stores included 80 retail stores located in premier retail sites and 123 outlet stores located in major outlet malls as of December 30, 2017. In addition, we offer an extensive collection of products through both owned and third party websites.

Internationally, our products are sold to department stores, specialty retail stores, and specialty watch and jewelry stores in approximately 150 countries worldwide through 23 Company-owned foreign sales subsidiaries and through a network of approximately 80 independent distributors. Our products are offered on airlines and cruise ships and in international Company-owned retail stores. Internationally, our network of Company-owned stores included 208 retail stores and 133 outlet stores as of December 30, 2017. Our products are also sold through licensed and franchised FOSSIL retail stores, retail concessions operated by us and kiosks in certain international markets, as well as owned websites and third party websites in certain countries.

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. Domestically, we conduct a majority of our operations through Fossil Partners, L.P., a Texas limited partnership formed in 1994 of which we are the sole general partner. We also conduct operations domestically and in certain international markets through various owned subsidiaries. Our principal executive offices are located at 901 S. Central Expressway, Richardson, Texas 75080, and our telephone number at that address is (972) 234-2525. Our European headquarters is located in Basel, Switzerland, and our Asian headquarters is located in Hong Kong. Our common stock is traded on the NASDAQ Global Select Market under the trading symbol FOSL. We make available free of charge through our website at www.fossilgroup.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 filed or furnished pursuant to Section 13(a) or 15(a) of the Securities Exchange Act of 1934 as soon as reasonably practicable after such materials are electronically filed with, or furnished to, the U.S. Securities and Exchange Commission ("SEC"). You may also obtain any materials we file with, or furnish to, the SEC on its website at www.sec.gov.

Business segments

Our operations and financial reporting are primarily divided into three distinct geographic segments: (i) Americas; (ii) Europe; and (iii) Asia. Each segment includes wholesale, retail and e-commerce activities based on the geographic location of those activities. 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. Corporate expenses include certain administrative, legal, accounting, technology support costs, equity compensation costs, payroll costs attributable to executive management, brand management, product development, art, creative/product design, marketing, strategy, compliance and back office supply chain expenses. 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 and Note 18—Major Customer, Segment and Geographic Information to our consolidated financial statements set forth in Part II, Item 8 of this Annual Report on Form 10-K.

Business strengths

We believe that we have several business strengths which allow us to differentiate ourselves and achieve our key operating and financial goals. These business strengths include:

Brand strength. We believe a brand's image, individuality, consistency and connection with its customers is paramount in building and sustaining the brand. We believe that our FOSSIL brand name is recognized on a global basis as an American vintage-inspired aspirational lifestyle brand with a focus on fashion accessories. The FOSSIL brand has developed from its origin as a watch brand to encompass other accessory categories, including handbags, belts, small leather goods, jewelry and sunglasses. We believe the FOSSIL brand is one of our most valuable assets, serves as a foundational piece of our business and remains very marketable across product lines, geographic areas and distribution channels. We have continued to develop, acquire or license other nationally or internationally recognized brand names, such as ARMANI EXCHANGE[®], CHAPS BY RALPH LAUREN[®], DIESEL[®], DKNY[®], EMPORIO ARMANI[®], KARL LAGERFELD[®], KATE SPADE NEW YORK[®], MARC JACOBS[®], MICHAEL KORS[®], MICHELE[®], MISFIT[®], RELIC[®], SKAGEN[®], TORY BURCH[®] and ZODIAC[®], in order to appeal to a wide range of consumers. Our industry is highly competitive and subject to changing preferences in style, taste and price points. The success of our business model depends upon offering a wide range of branded products that appeal to the various tastes and fashion preferences of our customers. We must also maintain the relevance of these products by continually anticipating customer needs and desires as they relate to both the brands and categories of products we offer. We have teams of designers and brand specialists assigned to each of our brands. The objectives of these designers and brand specialists are to immerse themselves in their assigned brand and product area, identify their customers' preferences, interpret global fashion trends and develop style-right offerings to generate volume purchasing. By owning the vast majority of our global distribution, we are also able to create and execute consistent pricing strategies and brand image presentations that protect and enhance our proprietary brands and those of our licensors.

Licensing strength. Since 1997, we have attracted highly recognized and respected brand names to license within our watch and jewelry portfolios. We believe we attract such quality brands due to our ability to provide them with access to our global design, production, distribution and marketing infrastructure. As a result of our vertical integration, we, unlike many of our competitors, can offer an integrated solution to launch or increase an accessory category presence on a worldwide basis in a consistent, timely and focused manner. All of our major licensing relationships are exclusive to us and the licensors, which substantially minimizes risks to the licensor associated with dealing with multiple licensees in different geographic regions. Additionally, in order to develop a broader relationship and maintain brand consistency across the accessory categories, we have broadened our infrastructure, which allows us to expand our licensing activities to products beyond the watch category, such as our DIESEL, EMPORIO ARMANI and MICHAEL KORS jewelry product lines.

Breadth of brands and retail price points. Through the multiple brands we distribute, we have developed a broad spectrum of retail price points. Within our watch collections, core retail price points vary from approximately \$7 in the mass market channel up to retail price points of \$5,995 in the luxury distribution channel, although the majority of our collections focus on price points ranging from \$85 to \$600. The breadth of our brands allows us to anchor a brand to a given price point range and distribution channel, thereby maintaining a consistent brand image while focusing on the quality/value relationship important to the customer and not diluting the brand through overlapping distribution channels. Our breadth of price points allows us to cater to various age and income groups while continuing to participate in sales consistently, regardless of a shift in income or the price/value preferences of our customers.

Wearable technology. We are leveraging our owned technology platform along with our partnership with Google to add incremental functionality to our fashion accessories across our portfolio of brands. Our in-house engineering team keeps us on the leading edge of technology, while providing a scalable, cost efficient infrastructure to support our growing connected accessory line of products. Due to the scale we have recently achieved in wearables, and by leveraging our scale in traditional watches, we are able to drive supply chain efficiencies, reduce costs and improve margins, and we believe we are in a unique position to compete in the evolving wristwear business.

International penetration. Since our initial public offering in 1993, we have continued to extend our reach beyond the U.S. by forming and acquiring internationally-based subsidiaries, licensing and developing internationally recognized brands and investing in the growth of our business within many major countries of the world. Net sales generated outside the U.S. were 58.5%, 55.4% and 53.8% for fiscal years 2017, 2016 and 2015, respectively.

Breadth of distribution channels. Our products are sold through multiple distribution channels including department stores, specialty retail stores, specialty watch and jewelry stores, mass market stores, consumer electronics stores, cruise ships, airlines, Company-owned retail stores, licensed and franchised FOSSIL stores, retail concessions operated by us and e-commerce sites. As we expand our presence in existing distribution channels and add new distribution channels, as well as develop new product lines and expand our geographic reach, our revenues have become less dependent on any one distribution

channel or geographic region. Our Company-owned retail stores and websites allow us to enhance the related brand image by offering a targeted message to the customer, showcasing the array of product availability, influencing the merchandising and presentation of the products and testing new product introductions.

In-house creative team. Since our inception, we have developed a talented pool of creative individuals who design our retail stores, websites, products, packaging, graphics, presentation displays and marketing materials, allowing us to deliver a unique and cohesive style and image for each of our brands. We believe our emphasis on constant innovation and distinctive design has made us a leader in the branded accessory category.

International sourcing. The vast majority of our products are sourced internationally, with a substantial percentage of our watches and jewelry products assembled or manufactured by entities that are majority owned by us. Most watch product sourcing from Asia is coordinated through our Hong Kong subsidiary, Fossil (East) Limited ("Fossil East"). During fiscal year 2017, approximately 55% of our non-Swiss made watch production was assembled or procured through wholly or majority owned factories. This vertical integration of our business allows for better flow of communication, consistent quality, product design protection and improved supply chain speed, while still allowing us to utilize non-owned production facilities for their unique capabilities and to cover production needs over internal capacities. Establishing our watch assembly facilities near the component manufacturers also allows us to operate a more efficient supply chain. In addition, although we do not have long-term contracts with our unrelated watch and accessory manufacturers, we maintain long-term relationships with several manufacturers. These relationships developed due to the significant length of time we have conducted business with the same 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 long standing relationships. In addition, we believe that the relative size of our business with non-owned watch manufacturers gives us priority within their production schedules. Furthermore, the manufacturers understand our quality standards, which allow us to produce quality products and reduce the delivery time to market, improving overall operating margins. We have also added new facilities and relationships for manufacturing our wearable technology products as well as enhanced our own factories to enable assembly and production of hybrid smart watches. Increased volume in the wearables category would allow us to further reduce costs through improved volume pricing and enable our suppliers to continue to invest in automation.

Centralized distribution. We distribute substantially all of our products sold in North America from our warehouse and distribution centers located in Texas. In Europe, we distribute our products primarily through our warehouse and distribution center located in Germany. In Asia, we primarily distribute our products through our distribution warehouse located in Hong Kong and through smaller distribution warehouses in those countries where we maintain a physical presence. We believe our centralized distribution capabilities in the U.S. and Europe enable us to reduce inventory risk, increase flexibility in achieving delivery requirements of our customers and maintain cost advantages as compared to our competitors.

Operating cash flow. Our business model has historically generated strong operating cash flows, including \$0.2 billion in fiscal year 2017, and \$0.8 billion and \$1.6 billion over the past three fiscal years and five fiscal years, respectively. This strong cash flow has allowed us to fund debt repayments and invest in our New World Fossil initiative. For more information on our New World Fossil initiative, see Note 19—Restructuring to our consolidated financial statements set forth in Part II, Item 8 of this Annual Report on Form 10-K.

Information systems. Operating and managing a global company requires sophisticated and reliable management information systems to assist in the planning, order processing, production and distribution functions and accounting of each relevant business. We mainly operate an SAP Enterprise Resource Planning system ("ERP") in the U.S. and most of Europe. For our subsidiaries in Asia, we operate Microsoft's Dynamics Navision Enterprise Resource Planning System ("Navision"). Our e-commerce platform is based on IBM's WebSphere Commerce platform and Adobe's Experience Manager platform. We continue to invest in other feature/functions and e-commerce infrastructure, which will allow us to provide a branded and omni-channel web experience in key markets. We operate SAP's IS Retail platform combined with the Aptos point-of-sale in Americas and Europe and the WINCOR point-of-sale in Asia. Our products are principally distributed from three primary warehouses, one located in Texas near our headquarters, one located in southern Germany and the other located in Hong Kong. Our facilities in Texas and Germany utilize sophisticated automated material handling equipment and software designed to improve accuracy, speed and quality in our warehousing operations.

For financial reporting, we use software solutions from Oracle Corporation: Hyperion Financial Management, Essbase and Hyperion Planning. This software was implemented in 2014 to increase the overall efficiency of our consolidation and financial reporting process, provide an analytical application to view and interpret data, and to improve predictability in the budgeting and forecasting process.

Operating strategy

Our goal is to drive shareholder value by increasing profits and cash flows. While we currently operate in challenging retail, watch, leather and jewelry environments, we intend to leverage our business strengths while continuing to undergo a significant transformation to strengthen our business model. We plan to achieve our business strategy by focusing on the following strategic initiatives:

Improve profitability. While we expect sales to contract in the near future due to store closures and the expiration of our ADIDAS and BURBERRY licenses, we intend to improve overall profitability. We believe that closing certain stores and exiting certain unprofitable businesses as part of our restructuring plan can positively impact our net income. In addition, we are seeking to improve our gross margins through increasing economies of scale with our wearables products, through renegotiation of pricing with our suppliers and by further reducing other supply chain costs. While we will incur additional restructuring expenses in fiscal year 2018, we plan to lower our base expenses by leveraging lower sales with lower variable expenses and by achieving organizational efficiencies. We are also focused on improving our return on working capital and further reducing our outstanding debt position.

Innovation. We remain committed to succeeding in the traditional watch, leathers and jewelry categories, and are supported by our in-house creative teams which continue to innovate with new designs, colors and materials. We believe our vertical structure, size and scale and both owned and licensed portfolios give us advantages over our competition in these categories. While wearables continue to grow the overall watch market, traditional products still retain a large percentage of the overall watch market and represent a significant opportunity. We plan to continue to introduce new brands through the development of proprietary brands or through licensing arrangements with recognizable global fashion lifestyle brands to attract a wide range of consumers with differing tastes and lifestyles.

Our strength in innovation has expanded into smartwatches, in both display and hybrid models. While our smartwatches retain each brand's style and fashion, they continue to add additional functionality and applications, improving the overall user experience. Since our connected business began, it has allowed us to expand our addressable market through new distribution channels. Our objective remains to bring fashion, branding and style to the connected watch business by tailoring the technology that our customers want with each of our brand's unique point of view. We will continue to launch new formats of both display and hybrid smartwatches, and we believe these new offerings will continue to support growth in our connected products category.

E-commerce and digitalization. With consumers' shopping preferences continuing to evolve beyond traditional retail stores, we are seeking further reduction of our store fleet and continuing to invest in our digital infrastructure and e-commerce capabilities. We plan to expand our digital capabilities for consumer insight, analytics and the use of data throughout the organization. We will continue to collaborate with our wholesale partners to optimize online performance, and we will seek out opportunities to expand our direct to consumer e-commerce into new markets. Based on the success of our social media campaigns in fiscal year 2017, we intend to expand our social media programs, including our celebrity influencer campaigns, to increase our social media platform engagement. Additionally, we plan to continue to expand our omni-channel initiatives across more of our global markets.

Industry overview

Traditional watches

We believe that the current traditional watch market can generally be divided into four segments. One segment of the market consists of fine watches characterized by internationally known brand names such as Audemars Piguet, Cartier, Omega, Patek Philippe, Piaget and Rolex. Watches offered in this segment are usually made of precious metals or stainless steel and may be set with precious gems. These watches are almost exclusively manufactured in Switzerland and are sold by trade jewelers and in the fine jewelry departments of select department stores and other purveyors of luxury goods at retail prices ranging from \$4,000 to in excess of \$20,000. Selected limited editions of our MICHELE line compete in this market. A second segment of the traditional watch market consists of fine premium branded and designer watches produced in Switzerland and Asia such as Gucci, Movado, Raymond Weil, Seiko, TAG Heuer and Tissot. These watches are sold at retail prices generally ranging from \$495 to \$4,000. Our EMPORIO ARMANI, EMPORIO ARMANI Swiss, MICHELE, and ZODIAC lines generally compete in this market segment. A third segment of the traditional watch market consists of watches sold by mass marketers, which typically consist of digital and analog watches manufactured in Asia. Well-known brands in this segment include Armitron, Casio and Timex. Retail prices in this segment range from \$7 to \$60. We compete in this segment through the design and production of private label watch products for Kmart, Target and Wal-Mart.

The fourth segment of the traditional watch market consists of moderately priced watches characterized by contemporary fashion and well-known fashion brand names. Moderately priced watches are typically produced in China or Hong Kong and

are sold by department stores and specialty stores at retail prices ranging from \$60 to \$1,000. We target this market segment with our FOSSIL, RELIC and SKAGEN lines, along with our principal competitors, including the companies that market watches under the Anne Klein II, Guess?, Kenneth Cole and Swatch brand names, whose products attempt to reflect emerging fashion trends in accessories and clothing. Our ARMANI EXCHANGE, DIESEL, DKNY, KARL LAGERFELD, MARC JACOBS, KATE SPADE NEW YORK, MICHAEL KORS and TORY BURCH lines generally compete in this segment as well. We believe that a number of consumers regard branded fashion watches not only as timepieces, but also as fashion accessories, and that has historically resulted in consumers owning multiple watches that may differ significantly in terms of style, features and cost.

Traditional watches typically utilize either a mechanical or quartz-analog movement to maintain their time keeping function. Mechanical watches utilize intricate arrangements of wheels, jewels and winding and regulating mechanisms to keep time, while quartz-analog watches are precisely calibrated to the regular frequency of the vibration of a quartz crystal powered by a battery. Although quartz-analog movements typically maintain their time keeping functions more precisely than mechanical movements, mechanical movements are prized for their craftsmanship and are generally associated with high-end luxury.

Wearable technology / connected accessories

Wearable technology has quickly emerged as a meaningful segment within accessories as consumers continue to be drawn to technology enabled products that complement their connected lifestyles. Our industry research strongly correlates this segment with younger and largely female aspirational fashion customers. We believe there is a major opportunity to combine fashion and technology, important attributes to consumers wearing these devices, to differentiate ourselves from competitors. With our Misfit technology platform, we believe we are in position to lead this convergence of fashion and technology by bringing leading-edge technology across our world-class portfolio of brands through our global distribution.

We believe our wearables market is broken up into two distinct segments. The first segment is touchscreen smart watches which includes highly visible products such as the Apple Watch and Samsung Gear S3. In 2017, we partnered closely with Google to expand our Android Wear watch offerings from FOSSIL and MICHAEL KORS and to introduce new Android Wear devices under the EMPORIO ARMANI, DIESEL and MISFIT brands. Our latest generation of products includes slimmer cases, brighter displays and new functionality, serving both iPhone and Android phone users across more than 50 countries globally.

The second segment is hybrid smart watches. Hybrid smart watches combine the attractive aesthetics of a traditional analog watch with embedded technology to enhance a consumer's life without detracting from his or her sense of style. This is an emerging market that has a limited number of brands competing, including technology companies like Withings and Samsung, as well as traditional watch brands like Movado. In the hybrid category, we have scaled this technology platform across 14 brands, including six new brand introductions in 2017 under the TORY BURCH, MICHELE, MARC JACOBS, DKNY, ARMANI EXCHANGE and RELIC brands.

Fashion accessories

In addition to watches, the fashion accessories market also includes an array of products such as small leather goods, handbags, belts, sunglasses and jewelry. We believe that a number of consumers view accessories as fashion statements, and as a result, purchase brand name, quality items that complement other fashion items. These fashion accessory products are generally marketed through department stores, e-commerce sites, specialty retailers and mass merchandisers, depending upon price and quality. Higher price point items include products offered by fashion names such as Louis Vuitton and Prada.

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 our FOSSIL and RELIC brands. We currently offer small leather goods, handbags, belts and sunglasses for both men and women through department stores, e-commerce sites and specialty retailers in the moderate to upper-moderate price ranges. Our competitors in this market include companies such as Coach, Guess?, Kenneth Cole, Liz Claiborne and Nine West. In addition, we currently offer fashion jewelry sold under the DIESEL, EMPORIO ARMANI, FOSSIL, MICHAEL KORS and SKAGEN brands.

Our products

We design, develop, market and distribute watches, wearable technology, handbags, jewelry, belts and small leather goods under proprietary and licensed brand names. Additionally, we manufacture or distribute private label brands as well as branded products we purchase for resale in certain of our non-FOSSIL branded retail stores. The following table sets forth certain information with respect to the breakdown of our net sales and percentage of growth between proprietary, licensed and other brands for the fiscal years indicated (in millions, except for percentage data).

	Fiscal Year				
	2017		2016		2015
	Dollars	% Change	Dollars	% Change	Dollars
Net sales					
Proprietary	\$ 1,371.9	(7.2)%	\$ 1,479.0	1.4 %	\$ 1,458.6
Licensed	1,311.4	(9.5)	1,449.6	(12.1)	1,648.7
Other	104.9	(7.8)	113.8	(6.3)	121.5
Total	<u>\$ 2,788.2</u>	<u>(8.4)%</u>	<u>\$ 3,042.4</u>	<u>(5.8)%</u>	<u>\$ 3,228.8</u>

Traditional and connected watch products

We offer an extensive line of branded lifestyle 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 2017, 2016 and 2015 accounted for approximately 78.9%, 76.6% and 76.7%, respectively, of our consolidated net sales.

Proprietary brands. The following table sets forth information about our primary proprietary brand watches:

<u>Brand</u>	<u>Suggested Retail Price Point Range</u>
FOSSIL	\$85 - 295
MICHELE	\$345 - 5,995
MISFIT	\$60 - 220
RELIC	\$45 - 150
SKAGEN	\$95 - 295
ZODIAC	\$595 - 1,800

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

<u>Brand</u>	<u>Suggested Retail Price Point Range</u>	<u>Expiration Date*</u>
ARMANI EXCHANGE	\$100 - 295	12/31/2023
CHAPS	\$75 - 195	12/31/2020
DIESEL	\$100 - 495	12/31/2025
DKNY	\$95 - 275	12/31/2019
EMPORIO ARMANI	\$175 - 2,995	12/31/2023
KARL LAGERFELD	\$125 - 300	12/31/2020
KATE SPADE NEW YORK	\$150 - 350	12/31/2025
MARC JACOBS	\$150 - 300	12/31/2020
MICHAEL KORS	\$195 - 550	12/31/2024
TORY BURCH	\$195 - 395	12/31/2018

* subject to early termination

Sales of our licensed watch products accounted for 43.1% of our consolidated net sales for fiscal year 2017. Our MICHAEL KORS product sales, including jewelry, accounted for 22.6% of our consolidated net sales for fiscal year 2017.

Private label and other. We design, market and source manufacturing of certain retailers' private label and owned brand watches or as premium and incentive items for use in various corporate events. Under these arrangements, 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 shipment. Participation in the private label and premium businesses provides us with certain advantages, including increased assembly volume, which may reduce the costs of assembling our other products, and the strengthening of business relationships with our manufacturing sources.

Fashion accessories

In order to leverage our design and marketing expertise and our close relationships with our principal retail customers, primarily in the U.S. and Europe, we have developed a line of fashion accessories for both men and women, including belts, handbags, jewelry and small leather goods. Our handbags are made of a variety of fine leathers and other materials that emphasize classic styles and incorporate a variety of creative designs. Our small leather goods are typically made of fine leathers or other man-made materials and include items such as coin purses, cosmetic bags, mini-bags and wallets. Our jewelry lines include bracelets, cufflinks, earrings, necklaces and rings marketed under the DIESEL, EMPORIO ARMANI, FOSSIL, MICHAEL KORS and SKAGEN brands and typically include materials such as base metals, stainless steel, semi-precious stones and sterling silver. We offer 100% UV protected fashion sunglasses under our FOSSIL brand. We currently sell our fashion accessories through a number of our existing major department store and specialty retail store customers, as well as through our Company-owned retail stores, *www.fossil.com* and other internationally-owned e-commerce sites. In the U.S. and certain international markets, we generally market our fashion accessory lines through the same distribution channels as our watches 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 watch brands. Sales of our accessory lines accounted for 19.7% of our consolidated net sales in fiscal year 2017 and 21.6% of our consolidated net sales in both fiscal years 2016 and 2015.

The following table sets forth information about our fashion accessories:

Brand	Accessory Category	Suggested Retail Price Point Range
DIESEL	Jewelry	\$50 - 150
EMPORIO ARMANI	Jewelry	\$65 - 295
FOSSIL	Bags	\$88 - 448
	Small Leather Goods	\$12 - 148
	Belts	\$24 - 58
	Eyewear	\$55 - 135
	Jewelry	\$14 - 98
MICHAEL KORS	Jewelry	\$45 - 595
RELIC	Handbags	\$40 - 78
	Small Leather Goods	\$22 - 40
	Belts	\$22 - 32
SKAGEN	Handbags	\$165 - 295
	Small Leather Goods	\$35 - 175
	Jewelry	\$35 - 90

Licensed eyewear

In January 2014, we entered into a license agreement with the Safilo Group for both FOSSIL branded sunglasses and optical frames worldwide. The license agreement provides for royalties to be paid to us based on a percentage of net sales and includes certain guaranteed minimum royalties. Sales of licensed eyewear for fiscal years 2017, 2016 and 2015 accounted for approximately 0.4%, 0.4% and 0.5%, respectively, of our consolidated net sales.

Design and development

We believe one of our key strengths is our internal creative team. Our watch and accessory products are created and developed by our in-house design staff primarily located in the U.S., Germany, Hong Kong and Switzerland. When developing products under our various licensed brands, we often coordinate our efforts with our licensors' design teams to provide for a more fluid design approval process and to fully incorporate the image of the respective brand into the product. Product design ideas are drawn from various sources and are reviewed and modified by our design staff to ensure consistency with our existing product offerings and the themes and images associated with our brands. 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 impacting our product categories. In addition, we attempt to take advantage of the constant flow of information from our customers, retail stores and e-commerce sites regarding the retail performance of our products. We review weekly sales reports provided by a substantial number of our customers, as well as daily sales reports generated from our Company-owned retail stores and e-commerce sites, 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, our design and marketing staff 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 for us and the anticipated retail prices and profit margins for the products. Our creative teams have access to our product design archives and are regularly updated on all the various new components, hardware and materials that become available. Over the last few years, our focus has been on transforming our approach in design and development from an assortment-rich offering to an iconic platform presentation. This has enhanced our ability to develop and share compelling stories within the platforms through a narrower range of product offerings, thereby reducing inventory risk and improving lead times. We initially developed this approach in our watch business, and we are now applying a similar approach to our leather and jewelry businesses.

We differentiate our products from those of our competitors principally by incorporating into our product designs innovations in fashion details, including variations in the materials and treatments used for dials, crystals, cases, straps and bracelets for our watches and innovative details and treatments in our other accessories. We also incorporate certain proprietary technology or integrate our suppliers' technologies in certain of our wearables products. In some instances, we believe that such innovations have allowed us to achieve significant improvements in consumer acceptance of our product offerings. We believe that the substantial experience of our design staff will assist us in maintaining our current leadership position in the watch category, continuing to enhance our handbag offering and expanding the scope of our product offerings.

Marketing and promotion

Our marketing strategy for each of our proprietary brands is to deliver a consistent and engaging brand experience to the consumer regardless of where the consumer comes into contact with the brand. This includes point-of-sale merchandise displays, retail stores, our websites, digital advertising, catalogs, print marketing and product packaging. We are especially focused on strengthening our digital marketing ecosystem, which includes investing in e-commerce, improving our Customer Relationship Management ("CRM") capabilities, continuing to build a seamless omni-channel experience (like Buy Online, Pickup In Store) and investing in influencer marketing. Our holistic global marketing approach encourages ongoing communication with our customers, fosters brand loyalty and facilitates engagement and repeat purchases. In addition, we are attracting, educating and engaging our newest customer segment - the smart watch customer - through robust customer profiling and targeted communication strategies.

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 facet 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 differentiate the space used to sell our products from other areas of our customers' stores. We also develop strong digital programs to continue to drive engagement and conversation across all channels.

Our in-house art department designs and develops packaging, advertising, marketing and other promotional aspects of our products. Senior management is involved in monitoring our advertising and promotional activities to ensure that all of our communications strengthen our brands, engage consumer audiences and ultimately drive sales.

Sales and customers

General. Domestically, we sell our products in retail locations in the U.S. through a diversified distribution network that includes department stores, specialty retail locations, specialty watch and jewelry stores and mass market stores. For our FOSSIL, MICHELE and licensed branded products, our primary department store customers include Bloomingdales, Dillard's, Macy's, Neiman Marcus, Nordstrom and Saks Fifth Avenue. For our RELIC brand, our primary customers include JCPenney and Kohl's. For our SKAGEN brand, our primary customers include Dillard's, Macy's and Nordstrom. Many of our licensed branded products are also sold through each respective licensor's boutique stores and websites. We maintain sales offices in several major cities across the U.S. staffed with sales associates to assist in managing our department and specialty store accounts. We also sell certain of our FOSSIL branded products at Company-owned FOSSIL retail stores and outlet stores located throughout the U.S., and through our website at www.fossil.com. 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 Company-owned Watch Station International retail stores in the U.S. and through our website at www.watchstation.com.

We maintain subsidiary offices in Australia, Austria, Canada, China, Denmark, France, Germany, Hong Kong, India, Italy, Japan, Malaysia, Mexico, the Netherlands, Poland, Singapore, South Africa, South Korea, Spain, Sweden, Switzerland, Taiwan, the United Kingdom and Vietnam. Our European headquarters is located in Basel, Switzerland, and our Asian headquarters is located in Hong Kong.

Internationally, our products are sold to department stores and specialty retail stores in approximately 150 countries worldwide through 23 Company-owned foreign subsidiaries, a network of approximately 80 independent distributors, Company-owned retail stores and websites and licensed or franchised FOSSIL retail stores, retail concessions operated by us and kiosks. Foreign distributors generally purchase products from us at prices established by us for international sales and resell them to department stores and specialty retail stores. We generally receive payment from our foreign distributors in U.S. dollars. 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 10% or more of our consolidated net sales in fiscal years 2017, 2016 or 2015. Net sales for geographic segments are based on the location of the selling entity. For more information on our geographic segments, see Note 18—Major Customer, Segment and Geographic Information to our consolidated financial statements set forth in Part II, Item 8 of this Annual Report on Form 10-K.

United States sales. For fiscal years 2017, 2016 and 2015, U.S. sales accounted for 41.5%, 44.6% and 46.2% of our consolidated net sales, respectively, and the aggregate sales to our 10 largest U.S. customers represented approximately 20.0%, 21.0% and 21.3% of consolidated net sales, respectively.

International sales. For fiscal years 2017, 2016 and 2015, Europe sales accounted for 34.9%, 32.9% and 33.1% of consolidated net sales, respectively, Asia sales accounted for 17.9%, 16.9% and 15.4% of consolidated net sales, respectively, and other international sales accounted for 5.7%, 5.6% and 5.3% of consolidated net sales, respectively. Net sales from Germany accounted for more than 10% of our consolidated net sales and were approximately \$406.2 million, \$467.7 million and \$505.4 million in fiscal years 2017, 2016 and 2015, respectively.

Company-owned stores

Our various retail store formats focus on creating emotional connections with our customers through an intense branding experience and personalized customer service. We strive to provide an inviting and welcoming environment for our customers that enhances our brand image and seek brand loyalty by continually delivering innovative vintage-inspired products that meet our customers' tastes. Our goal is to provide the customer with a consistent brand experience and message across the various channels we serve, including our retail stores, wholesale partners and e-commerce channels. Our on-going investments in our omni-channel initiatives help facilitate this goal and are critical components of our growth strategy going forward.

The following table sets forth the number of stores by concept as of December 30, 2017 and December 31, 2016:

	December 30, 2017				December 31, 2016			
	Americas	Europe	Asia	Total	Americas	Europe	Asia	Total
Accessory stores	108	106	59	273	122	119	63	304
Outlets	136	74	46	256	143	73	45	261
Full priced multi-brand	—	8	7	15	—	8	12	20
Total stores	244	188	112	544	265	200	120	585

Accessory stores

We operate full-price FOSSIL and SKAGEN accessory retail stores ("Accessory Stores") in order to broaden the recognition of our brand names. Accessory Stores carry a full assortment of FOSSIL or SKAGEN watches and other accessories. At the end of fiscal year 2017, the average size of our Accessory Stores was 1,500 square feet, but each store can vary in size based on its geographic location. For example, our international-based stores are generally smaller in square footage than our U.S.-based stores due to smaller retail store configurations generally available in international markets. The table below sets forth information about our Accessory Stores for the last five fiscal years:

Fiscal Year	Open At Beginning of Period	Opened During Period	Closed During Period	Open at End of Period	Total Gross Square Footage (in thousands)	Percentage Increase (Decrease) in Square Footage	Average Gross Square Footage Per Retail Store
2013	260	30	14	276	402.3	10.7 %	1,458
2014	276	29	16	289	432.2	7.4 %	1,496
2015	289	45 (1)	13	321	496.4	14.9 %	1,546
2016	321	10	27	304	467.8	(5.8)%	1,539
2017	304	2	33	273	409.6	(12.4)%	1,500

(1) Includes stores added through our acquisition of the South Africa-based distributor S.Keren Watch Group ("SKWG").

Outlet stores

The majority of our outlet stores are FOSSIL branded and are located at select outlet malls throughout the U.S. and in certain international locations. We also operate outlets under the SKAGEN and Watch Station International names. Our outlets operating under the FOSSIL and SKAGEN names not only increase our brand awareness, but also enable us to liquidate excess inventory generally at significantly better prices than we would obtain through third-party liquidators. We generally discount excess inventory products in our outlet stores from 30% to 60% off our suggested retail price. The table below sets forth information about our outlet stores during the last five fiscal years:

Fiscal Year	Open At Beginning of Period	Opened During Period	Closed During Period	Open at End of Period	Total Gross Square Footage (in thousands)	Percentage Increase (Decrease) in Square Footage	Average Gross Square Footage Per Retail Store
2013	162	46	2	206	427.9	20.1 %	2,077
2014	206	41	4	243	497.4	16.2 %	2,047
2015	243	29 (1)	2	270	543.0	9.2 %	2,011
2016	270	6	15	261	525.8	(3.2)%	2,015
2017	261	7	12	256	505.1	(3.9)%	1,973

(1) Includes stores added through our SKWG acquisition.

Other retail and e-commerce

We sell certain of our proprietary and licensed brand watches, as well as watches manufactured by other companies, in our Watch Station International stores.

We have an agreement with the House of Fraser ("HOF"), a U.K.-based department store, which allows us to operate a watch and jewelry department in certain HOF stores. Under this agreement, we own the inventory within the HOF store, provide the labor to operate the department and pay HOF a commission on the retail sales generated in the stores. As of December 30, 2017, we operated the watch and jewelry department in 52 HOF stores and HOF Online, although we do not include the number of locations associated with this arrangement in our retail store count.

Internet sales. Our U.S. e-commerce website for FOSSIL branded products is www.fossil.com. We also operate e-commerce websites in Australia, France, Germany, Italy, Japan and the United Kingdom. We also ship to Canada and Mexico through the use of a third-party e-commerce website to process transactions. Each of our websites features a full selection of geographically specific FOSSIL branded products. Certain of our websites also provide customer service, company news and shareholder information. Our websites are continually updated to provide a fresh look and an easy-to-navigate interface that enhances our brand image, while allowing consumers a pleasing shopping experience or a preview of what they may find at their local store carrying the brand. Since its launch, the www.fossil.com website has been promoted consistently in support of online brand and direct sales goals. Our online marketing efforts include the following: search/keyword marketing programs through major search partners including Google, Bing and Yahoo!; regular e-mail communications sent using our e-mail service provider to over one million registered consumers; product and promotional banners presented on affiliate networks and display banner networks; and online brand initiatives through social networks such as Facebook, Twitter, Instagram, Pinterest, YouTube, WeChat and Weibo in support of viral and traditional brand initiatives. We have leveraged our e-commerce infrastructure through websites to support our licensed and owned brands, including www.michele.com, www.misfit.com, www.skagen.com and www.watchstation.com.

Facilitating our wholesale distribution

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 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 notice ranging from 15 days to six months. These independent contractors are primarily compensated on a commission basis.

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. We review weekly selling and inventory information to ensure our products are properly stocked and replenished on a timely basis. We also assist many of our customers in the conception, development and implementation of their marketing programs. We also participate in cooperative advertising programs with our major retail customers. We believe that management of the retail sales process has resulted in close relationships with our principal wholesale customers, often allowing us to influence the mix, quantity and timing of their purchasing decisions.

We believe that our sales approach has historically accounted for high retail turnover in our products, which can result in attractive profit margins for our wholesale customers. We believe that the resulting profit margins for our wholesale customers encourage them to devote greater selling space to our products within their stores. We are also able to work closely with buyers for our wholesale customers in determining the mix of products a 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 wholesale customers in 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 2017, 2016 and 2015 were \$75.2 million, \$66.9 million and \$68.7 million, respectively. We have not historically experienced returns in excess of our 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 our 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 fiscal year 2017, we had unfilled customer orders of approximately \$74.1 million, compared to \$104.5 million and \$84.9 million at the end of fiscal years 2016 and 2015, respectively.

Manufacturing

Watches and jewelry. During fiscal year 2017, approximately 55% of the watches we procured from Asia were assembled or procured through our two majority-owned entities. The remaining watches we procured from Asia were assembled by approximately 39 unrelated factories located primarily in China and Hong Kong, which includes almost all the production and assembly of our display, digital and mass market watches. During fiscal year 2017, our Swiss-made watches were assembled primarily by two of our majority-owned entities and three third-party factories in Switzerland. During fiscal year 2017, approximately 63% of our jewelry products were manufactured by one of our majority-owned entities. The remaining 37% of our jewelry products were manufactured by approximately 18 factories located primarily in China. Although we have no ownership interest in these unrelated watch and jewelry factories, Fossil East maintains oversight and control of the supply chain from design through final delivery of the finished product as it does with our related factories. We believe substantial ownership of the assembly factories that produce a significant amount of our fashion watches and jewelry is critical to our operating model, as we believe this allows us to keep our designs proprietary, control the size of our production runs and vertically manage our supply chain.

The principal components used in the assembly of our watches are cases, crystals, dials, hands, movements and connected modules, bracelets and straps. These components are obtained from a large number of suppliers located principally in China, Hong Kong, India, Italy, Japan, South Korea and Thailand. The majority of the movements, cases, dials, bracelets and hands used in the assembly of our watches are supplied by eleven principal vendors. During fiscal years 2017, 2016 and 2015, two vendors were responsible for supplying approximately 49%, 37% and 43% of our case and bracelet components, respectively. Additionally, three vendors were responsible for supplying approximately 78%, 76% and 73% of our movements in fiscal years 2017, 2016 and 2015, respectively. The principal materials used in the manufacture of our jewelry products are base metals, stainless steel, semi-precious stones or silver jewelry with 18K gold plating on top. These components are primarily obtained from the same factories that we use for our watches. Except for the two case and bracelet vendors and the three movement vendors noted above, 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 component manufacturers and assembly factories primarily located in China, Hong Kong and Switzerland. The loss of any one of these manufacturers could temporarily disrupt shipments of certain of our watch and jewelry products. In addition, we believe that losing one or more of the component vendors, watch assembly factories or jewelry manufacturers could have a material impact on our ability to source these products and meet our sales plans. Our future success will generally depend upon our ability to maintain close relationships with, or ownership of, our current watch assembly and jewelry manufacturing factories and to develop long-term relationships with other vendors and manufacturers that satisfy our requirements for price, quality and production flexibility.

Other Accessories. During fiscal year 2017, all of the manufacturing of our handbags, small leather goods and belts was outsourced. We believe that our policy of outsourcing the production of these product categories allows us flexibility in selecting our suppliers while avoiding significant capital expenditures, build-ups of work-in-process inventory and the costs of managing a substantial production work force.

General. We have a Code of Conduct for Manufacturers ("Manufacturer Code") that sets forth the corporate responsibility requirements for our suppliers, including compliance with international labor and human rights standards and environmental laws and regulations. Before supplying products to us, our manufacturers sign an agreement that includes a commitment to abide by our Manufacturer Code. For more information on our Manufacturer Code, see "Code of Conduct for Manufacturers."

Our products are assembled or 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 for our watches, leather goods, and jewelry. We believe that the close relationships, including ownership interests in some cases, we have established and maintain with our principal assembly or 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.

Code of Conduct for Manufacturers

We are committed to ethical and responsible conduct in all of our operations and respect for the rights of all individuals. We strive to ensure that human rights are upheld for all workers involved in our supply chain, and that individuals experience safe, fair and non-discriminatory working conditions. In addition, we are committed to compliance with applicable environmental requirements and are committed to seeing that all of our products are manufactured and distributed in compliance with applicable environmental laws and regulations. We expect that our business partners will share these commitments, which we enforce through our Manufacturer Code.

Our Manufacturer Code specifically requires our manufacturers to not use child, forced or involuntary labor and to comply with applicable environmental laws and regulations. We provide training to our factories related to our Manufacturer Code and the applicable laws in the country in which the factory is located. The training provides the factories with a more in-depth explanation of our Manufacturer Code.

In addition to the contractual obligation, we evaluate our suppliers' compliance with our Manufacturer Code through audits conducted both by our employees and third-party compliance auditing firms. In most cases, the audits are announced. If we believe that a supplier is failing to live up to the standards of our Manufacturer Code, we may terminate the supplier or provide the supplier with an opportunity to remedy the non-compliance through the implementation of a corrective action plan. For those suppliers on a corrective action plan, we will work with the supplier as necessary to help them understand the non-compliance and provide advice on how to remedy the non-compliance. We conduct a follow-up audit to confirm compliance after the implementation of the corrective action plan. Should the supplier continue to fail to meet our standards, we may seek to eliminate such supplier from our supply chain.

Quality control

Our quality control program attempts to ensure that our products meet the standards established by our product development staff. Samples of products are inspected by us prior to placing orders with factories to ensure compliance with our technical design specifications. We also typically inspect "top of production" prototypes of each product before commencing production. The operations of our Hong Kong and Chinese factories are monitored on a periodic basis by Fossil East, and the operations of our Swiss factories are monitored on a periodic basis by Montres Antima SA, one of our foreign operating subsidiaries. Substantially all of our watches, jewelry and certain of our other accessories are inspected by personnel of Fossil East or by the assembly/manufacturing facility prior to shipment to our distribution centers. Final inspections, on a sampling basis, occur when the products are received in our distribution centers. We believe that our policy of inspecting our products at the assembly/manufacturing facility, upon receipt at our distribution facilities and prior to shipment to our customers is important to maintain the quality, consistency and reputation of our products.

Distribution

Upon completion of assembly/manufacturing, the majority of our products are shipped to one of our warehousing and distribution centers in Texas, Germany or Hong Kong, from which they are shipped to subsidiary warehouses or directly to customers in selected markets. Our centralized warehouse and distribution facilities allow us to maximize our inventory management and distribution capabilities and more readily meet the varying distribution requirements placed on us by our customers at a lower cost. Our facilities in Texas and Germany are equipped with automated material handling equipment operated by software from SAP and Manhattan Associates. The automated equipment and operating systems, in conjunction with the continual sampling of our outgoing orders prior to shipment, are important in maintaining the quality, accuracy, speed and reputation of our products and distribution service.

Our warehouse and distribution facilities in Texas operate in a special purpose sub-zone established by the U.S. Department of Commerce Foreign Trade Zone Board. This sub-zone provides the following economic and operational advantages to us: (i) we do not have to pay duty on imported merchandise until it leaves the sub-zone and enters the U.S. market; (ii) we do not have to pay any U.S. duty on merchandise if the imported merchandise is subsequently shipped to locations outside the U.S. and; (iii) we do not have to pay local property tax on inventory located within the sub-zone.

Information technology systems

General. We believe that automation, reliable and scalable systems, accurate reporting and rapid flow of communication is essential to maintain our competitive position and support our key operating and financial goals. Therefore, we continue to invest in computer hardware, system applications and telecommunication networks. Our information technology systems consist of a wide spectrum of financial, distribution, human resources, merchandising, planning, point-of-sale, supply chain and other solutions. Where possible and cost effective, we leverage our various systems on a global basis, which enhances the accuracy, timeliness and accessibility of the relevant data.

Inventory control. We maintain inventory control systems at our facilities that enable us to track each product from the time it is shipped from our factory through shipment to our customers, or consumer in the case of our retail stores, concessions and websites. To facilitate this tracking, a significant number of products sold by us are pre-ticketed and bar coded. 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 of our products 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 our Company-owned stores. We monitor store inventory movement through review of detailed sales transaction records, which are accumulated on each store's point-of-sale system.

Enterprise resource planning. We have implemented SAP ERP in our Americas and Europe operations. This software is installed on a single site platform located in our U.S. headquarters facility. The software currently supports the human resources, sales and distribution, inventory planning, retail merchandising and operational and financial reporting systems of our U.S. businesses and most subsidiary operations in Europe. It also supports manufacturing operations in India and Europe. Additionally, we have implemented other non-SAP systems for the purpose of merchandise planning and product lifecycle management.

We continue to monitor the growth of our subsidiary sales operations in Asia and will migrate these operations at the appropriate time to effectively benefit from our global SAP platform. However, we do operate SAP human resource, financial planning and warehouse management modules in Hong Kong to provide efficiencies to further support our regional warehouse in Hong Kong and the related supply chain associated with our local country operations, including our Company-owned retail stores throughout Asia. We have implemented Navision as our standard system throughout most of our Asia distribution and manufacturing subsidiary operations. The Navision system supports many of the same functions as our SAP system on a local country level.

Enterprise performance management systems. We have implemented customized Hyperion financial reporting software from Oracle Corporation. The software increases the efficiency of our consolidation and reporting process and provides a more dynamic way to view and analyze data. The Hyperion planning tool also provides more dynamic and robust budgeting and forecasting capabilities.

Product lifecycle management. We have implemented Dassault Systems Enovia in our product development function. This system enables our global product development process across our multiple brands and product categories. In addition to aligning this process, the platform enables a global solution for collaboration, sample management, design tool integration, and calendar management.

Cyber/Data security. Our business involves the receipt and storage of personal information about customers and employees, the protection of which is critical to us. If we experience a significant breach of customer, employee, and/or company data it could attract a substantial amount of media attention, damage our customer relationships and reputation and result in lost sales, fines, or lawsuits. Our Board of Directors and/or our Audit Committee review our data security risks and strategy on a regular basis, and we have obtained insurance liability coverage for certain data security or privacy breaches.

IT support services. Our global IT support operations are managed by us within a managed service model with a global IT service provider in order to gain long-term IT operational maturity, resource flexibility and improved financial leverage of our IT support costs related to: service desk, application support, administration and infrastructure administration.

Warranty and repair

Our watch products are covered by limited warranties against defects in materials or workmanship. Historically, our FOSSIL and RELIC watch products sold in the U.S. have been covered for warranty periods of 11 years and 12 years, respectively, and our SKAGEN branded watches have been covered by a lifetime warranty. Beginning in 2017, these brands are covered by a two year warranty. Generally, all other products, including leathers and jewelry, sold in the U.S. and internationally are covered by a comparable one to two year warranty. The majority of our defective watch products returned by consumers in the Americas are processed at our repair facilities in Texas while defective watch products returned by consumers in Europe are processed at our repair facilities in France. We also maintain repair facilities at a majority of our subsidiaries, as well as through our network of third-party distributors to handle repairs which are minor in nature or are not convenient to one of our centralized repair facilities. In most cases, defective products under warranty are repaired by our personnel or third-party distributors. We attempt to retain adequate levels of component parts to facilitate after-sales service of our watches, even after specific styles are discontinued. We have a component parts system that tracks the inventory of our various component replacement parts that can be utilized by our repair facilities for identifying stock levels and availability for procurement. Watch and non-watch products under warranty that cannot be repaired in a cost-effective manner are replaced by us at no cost to the customer. Our warranty liability at the end of fiscal years 2017, 2016 and 2015 was \$19.4 million, \$15.4 million and \$13.7 million, respectively. Our warranty liability is estimated using historical warranty repair expense. As changes occur in sales volumes and warranty costs, the warranty accrual is adjusted as necessary. Due to the nature of connected products, their warranty costs are usually more than traditional products. A shift in product mix from traditional to connected products generally results in an increase in our warranty liabilities. Repair services accounted for approximately 1.2% of our consolidated net sales in fiscal year 2017, 1.2% in fiscal year 2016 and 1.1% in fiscal year 2015.

Governmental regulations

Imports and import restrictions. Most of our products are assembled or manufactured overseas. As a result, the U.S. and countries in which our products are sourced or sold may from time to time modify existing or impose new quotas, duties (including antidumping or countervailing duties), tariffs or other restrictions in a manner that adversely affects us. For example, our products imported to the U.S. are subject to U.S. customs duties and, in the ordinary course of our 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 U.S. 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 these events would have on our operations, if any, especially in light of the concentration of our assembly and manufacturing operations in Hong Kong and China.

General. We are subject to laws regarding customs, tax, employment, privacy, truth-in-advertising, consumer product safety, zoning and occupancy and other laws and regulations that regulate and/or govern the importation, promotion and sale of consumer products and our corporate, retail and distribution operations.

Intellectual property

Trademarks. We use our FOSSIL, MICHELE, MISFIT, RELIC, SKAGEN and ZODIAC trademarks, as well as other trademarks, on certain of our watches, smart watches, activity trackers, jewelry, leather goods and other fashion accessories in the U.S. and in a significant number of foreign countries. We also use FOSSIL, SKAGEN, WATCH STATION INTERNATIONAL[®], and WSI[®] as trademarks on retail stores and FOSSIL, SKAGEN, WATCH STATION INTERNATIONAL, WSI, MISFIT, ZODIAC and MICHELE as trademarks on online e-commerce sites. We have taken steps to establish or provide additional protection for our trademarks by registering or applying to register our trademarks for relevant classes of products in each country where our products are sold in addition to certain foreign countries where it is our intent to market our products in the future. Each registered trademark may be renewable indefinitely, so long as we continue to use the mark in the applicable jurisdiction and make the appropriate filings when required. We aggressively protect our trademarks and trade dress and pursue infringement both domestically and internationally. We also pursue counterfeiters both domestically and internationally through third party on-line monitoring and through leads generated internally, as well as through our business partners worldwide.

Patents. We continue to explore innovations in the design and assembly of our watch, smart watch, activity tracker and related products. As a result, we have been granted, and have pending, various U.S. and international design and utility patents related to certain of our product designs, features, and technologies. As of December 30, 2017, none of our patents were material to our business.

License agreements. A significant portion of our 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 significant license agreements have various expiration dates between 2018 and 2025.

Other. We rely upon unpatented trade secrets, know-how, and continuing technological innovation to develop and maintain our competitive position, particularly in the wearable technology space. We strive to protect our trade secrets and other proprietary information through agreements with current and prospective product development partners, confidentiality agreements with employees, consultants and others that may have access to our proprietary information and through the use of other security measures.

Seasonality

Although the majority of our products are not seasonal, our business is seasonal by nature. A significant portion of our net sales and operating income is generated during the third and fourth quarters of our fiscal year, which includes the "back to school" and Christmas seasons. Additionally, as our retail and e-commerce sales continue to maintain a significant percentage of our sales mix, they will benefit our sales and profitability in our fiscal fourth quarter, generally at the expense of our fiscal first and second quarters when it is more difficult to leverage our retail and e-commerce expenses against the related sales. The amount of net sales and operating income generated during our fiscal fourth quarter also depends upon the anticipated level of retail sales during the Christmas season, as well as general economic conditions and other factors beyond our control. In addition, the amount of net sales and operating income generated during our fiscal first quarter depends in part upon the actual level of retail sales during the Christmas season. For example, lower levels of inventory held by our wholesale customers at the end of the Christmas season may result in higher levels of restocking orders placed by them during our fiscal first quarter.

Competition

The businesses in which we compete are highly competitive and fragmented. We believe that the current market for traditional watches can be divided into four segments, ranging from lower price point watches that are typically distributed through mass market channels to luxury watches at higher price points that are typically distributed through fine watch departments of upscale department stores or upscale specialty watch and fine jewelry stores. Our watch business generally competes in these segments with a number of established manufacturers, importers and distributors, including Armitron, Citizen, Gucci, Guess?, Kenneth Cole, LVMH Group, Movado, Raymond Weil, Seiko, Swatch, Swiss Army, TAG Heuer and Timex. In addition, our leather goods, sunglasses, and jewelry businesses compete with a large number of established companies that have significant experience developing, marketing and distributing such products. In all of our businesses, we compete with numerous manufacturers, importers and distributors who may have significantly greater financial, distribution, advertising and marketing resources than us. Our competitors include distributors that import watches and accessories from abroad, U.S. companies that have established foreign manufacturing relationships and companies that produce accessories domestically.

We believe the risk of significant new competitors for traditional watches 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. However, in the expanding wearable technology industry we face competition from technology brands such as Apple and Samsung, from fitness brands such as Fitbit, as well as from many established traditional watch manufacturers that have launched wearable technology products. As this segment evolves and grows, there will likely be increased competition as well. However, we believe our design, branding, significant scale and distribution are strong competitive advantages.

Although the level and nature of competition varies among our product categories and geographic regions, we believe that we compete on the basis of style and technical features, price, value, quality, brand name, advertising, marketing, distribution and customer service. We believe that our ability to identify and respond to changing fashion trends and consumer preferences (including wearable technology), to maintain existing relationships and develop new relationships with manufacturing sources, to deliver quality merchandise in a timely manner, to manage the retail sales process, and to continue to integrate technology into our business model are important factors in our ability to compete. We also believe that our distinctive business model of owning the distribution in many key markets and offering a globally recognized portfolio of proprietary and licensed products allows for many competitive advantages over smaller, regional or local competitors. This "ownership of the market" allows us to bypass the local distributor's cost structure in certain countries, resulting in more competitively priced products while also generating higher product and operating margins.

Employees

As of December 30, 2017, we employed approximately 12,300 persons, including approximately 7,300 persons employed by our foreign operating subsidiaries.

None of our domestic or foreign-based employees are represented by a trade union. However, certain European-based employees are represented by work councils, which include certain of our current employees who negotiate with management on behalf of all the employees. We have never experienced a work stoppage and consider our working relationship with our employees and work councils to be good.

Item 1A. Risk Factors

The statements contained in this Annual Report on Form 10-K that are not historical facts, including, but not limited to, statements regarding our expected financial position, results of operations, 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 Securities Litigation Reform Act of 1995 and involve a number of risks and uncertainties. The words "may", "believes", "expects", "plans", "intends", "anticipates" and similar expressions identify forward-looking statements. These forward-looking statements are based on our current expectations and beliefs concerning future developments and their potential effect on us. While management believes that these forward-looking statements are reasonable as and when made, there can be no assurance that future developments affecting us will be those that we anticipate. The actual results of the future events described in such forward-looking statements could differ materially from those stated in such forward-looking statements.

Our actual results may differ materially due to the risks and uncertainties discussed in this Annual Report on Form 10-K, including those discussed below. Accordingly, readers of this Annual Report on Form 10-K should consider these factors in evaluating, 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, except as required by law.

Risk Factors Relating to Our Business

Our success depends upon our ability to anticipate and respond to changing fashion and product trends.

Our success depends upon our ability to anticipate and respond to changing fashion and product trends and consumer preferences in a timely manner. The purchasing decisions of consumers are highly subjective and can be influenced by many factors, such as brand image, marketing programs and product design. Our success depends, in part, on our ability to anticipate, gauge and respond to these changing consumer preferences in a timely manner while preserving the authenticity and the quality of our brands. Although we attempt to stay abreast of emerging lifestyle and fashion trends and technology advances affecting accessories, any failure by us to identify and respond to such trends could adversely affect consumer acceptance of our existing brand names and product lines, which in turn could adversely affect sales of our products. If we misjudge the market for our products, we may be faced with a significant amount of unsold finished goods inventory, which could adversely affect our results of operations. In recent years, we have experienced decreasing net sales across all product categories; in particular, net sales of watches have declined, reflecting the decline in the traditional watch market. If we are unable to adjust our product offerings and reverse the decrease in net sales, our results of operations and financial condition could be adversely affected.

Our success depends upon our ability to continue to develop innovative products, including wearable technology.

Our success depends upon our ability to continue to develop innovative products in the respective markets in which we compete. Wearable technology is a growing category of fashion that offers customers new functionality with accessories, including jewelry and smart watches. Our ability to respond to consumer preferences for wearable technology will depend in part on establishing successful partnerships with or acquiring companies that are involved in developing wearable technology. If we are unable to establish such partnerships or make meaningful acquisitions, this could negatively impact our ability to meet customer demands for wearable technology. Additionally, we may be unable to enhance and develop our products to satisfy consumer demands for wearable technology or we may fail to do so in a timely manner or at competitive prices. We may also fail to understand or estimate correctly the dynamics of this new market, such as reserves for sales returns, warranty reserves, inventory reserves or the allowance for bad debts attributable to this new product category. The process of developing new products is complex and uncertain, and involves time, substantial costs and risks, which are further magnified when the development process involves a transition to a new technology platform. Our inability or the inability of our partners, for technological or other reasons, some of which may be beyond our or our partners' control, to enhance, develop, and monetize wearable technology products in a timely manner, or at all, in response to changing consumer preferences for wearable technology, could have a material adverse effect on our business, results of operations and financial condition or could result in our products not achieving market acceptance or becoming obsolete. If we are unable to successfully introduce new products, or if our competitors introduce new or superior products, customers may purchase increasing amounts of products from our competitors, which could adversely affect our sales and results of operations. Further, it may take time to establish a stable position in the wearable technology category and any initial results should not be taken as a guarantee of future trends.

Any deterioration in the global economic environment, and any resulting declines in consumer confidence and spending, could have an adverse effect on our operating results and financial condition.

Uncertainty in global markets, slowing economic growth, high levels of unemployment and eroding consumer confidence can negatively impact the level of consumer spending for discretionary items. This can affect our business as it is dependent on consumer demand for our products. Global economic conditions remain uncertain, and the possibility remains that domestic or global economies, or certain industry sectors of those economies that are key to our sales, may slow or deteriorate, which could result in a corresponding decrease in demand for our products and negatively impact our results of operations and financial condition.

We have recently expanded, and intend to further expand, the scope of our product offerings, and new products introduced by us may not achieve consumer acceptance comparable to that of our existing product lines.

We have recently expanded, and intend to further expand, the scope of our product offerings, particularly in the wearable technology space. As is typical with new products, market acceptance of new designs and products is subject to uncertainty. In addition, we generally make decisions regarding product designs and technology development several months in advance of the time when consumer acceptance can be measured. If trends shift away from our products, if our wearable technology becomes outdated or if we misjudge the market for our product lines, we may be faced with significant amounts of unsold inventory or other conditions which could have a material adverse effect on our financial condition and results of operations.

The failure of new product designs or new product lines to gain market acceptance could also adversely affect our business and the image of our brands. Achieving market acceptance for new products or technology may also require substantial marketing efforts and expenditures to generate consumer demand. These requirements could strain our management, financial and operational resources. If we do not continue to develop innovative products that provide better design, technology and performance attributes than the products of our competitors and that are accepted by consumers, or if our future product lines misjudge consumer demands, we may lose consumer loyalty, which could result in a decline in our sales and market share.

Recently enacted U.S. tax legislation may adversely affect our business, results of operations, financial condition and cash flow.

On December 22, 2017, the President signed into law Public Law No. 115-97, commonly referred to as the Tax Cuts and Jobs Act, following its passage by the United States Congress. The Tax Cuts and Jobs Act makes significant changes to U.S. federal income tax laws, including changing the corporate tax rate to a flat 21% rate, introducing a capital investment deduction in certain circumstances, placing certain limitations on the interest deduction, modifying the rules regarding the usability of certain net operating losses, and making extensive changes to the U.S. international tax system. The new Global Intangible Low-Taxed Income (“GILTI”) provisions of the Tax Cuts and Job Act requiring the inclusion of certain foreign earnings in U.S. taxable income will increase our effective tax rate in future years. We are not yet able to reasonably estimate the effect of the GILTI provision of the Tax Cuts and Job Act and have not made any adjustments related to potential GILTI tax in our financial statements. If applicable, GILTI tax would first apply to our fiscal year 2018 and will be accounted for as incurred under the period cost method. We are currently in the process of analyzing the effects of this new legislation on our business, results of operations, financial condition and cash flow. The impact of these new rules is uncertain and could be adverse.

The effects of economic cycles, terrorism, acts of war and retail industry conditions may adversely affect our business.

Our business is subject to economic cycles and retail industry conditions. Purchases of discretionary fashion accessories, such as our watches, handbags, sunglasses and other products, tend to decline during recessionary periods when disposable income is low and consumers are hesitant to use available credit. In addition, acts of terrorism, acts of war and military action both in the U.S. and abroad can have a significant effect on economic conditions and may negatively affect our ability to procure our products from manufacturers for sale to our customers. Any significant declines in general economic conditions, public safety concerns or uncertainties regarding future economic prospects that affect consumer spending habits could have a material adverse effect on consumer purchases of our products.

The loss of any of our license agreements, pursuant to which a number of our products are produced, may result in the loss of significant revenues and may adversely affect our business.

A significant portion of our sales and net income is, and is expected to continue to be, derived from the sales of products produced under license 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. We sell products under certain licensed brands, including, but not limited to, ARMANI EXCHANGE, CHAPS, DIESEL, DKNY, EMPORIO ARMANI, KARL LAGERFELD, KATE SPADE NEW YORK, MARC JACOBS, MICHAEL KORS and TORY BURCH. Sales of our licensed products amounted to approximately 47.0% of our consolidated net sales for fiscal year 2017, including MICHAEL KORS

product sales, which accounted for approximately 22.6% of our consolidated net sales, and product sales under the ARMANI brands, which accounted for approximately 12.1% of our consolidated net sales.

Our significant license agreements have various expiration dates between 2018 and 2025. In addition, many of our license agreements require us to make minimum royalty payments, subject us to restrictive covenants or require us to comply with certain other obligations and may be terminated by the licensor if these or other conditions are not met or upon certain events. For example, our license agreement with MICHAEL KORS provides the licensor with a right to terminate some or all of the licensing rights if we fail to meet certain net sales thresholds for two consecutive years. In addition, each of our license agreements with MICHAEL KORS and ARMANI may be terminated by the licensor effective at the end of 2019 if we fail to meet certain net sales thresholds in 2018. If we are unable to achieve the minimum net sales thresholds, restrictive covenants and/or other obligations of a license in the future, we would need to seek a waiver of the non-compliance from the applicable licensor or amend the agreement to modify the thresholds, covenants or obligations or face the possibility that the licensor could terminate the license agreement before its expiration date.

In addition, we may be unable to renew our existing license agreements beyond the current term or obtain new license agreements to replace any lost license agreements on similar economic terms or at all. For example, in fiscal year 2017, our licensing agreements with ADIDAS and BURBERRY were not renewed upon their expiration. The failure by us to maintain or renew one or more of our existing license agreements could result in a significant decrease in our sales and have a material adverse effect on our results of operations.

Our restructuring program may not be successful or we may not fully realize the expected cost savings and/or operating efficiencies from our restructuring plans.

As we announced in the fourth quarter of fiscal 2016, we have implemented, and plan to continue to implement, a restructuring plan to reinvent the Company, strengthen the foundation of the Company for the future and support long-term sales growth and profitability objectives. The program is intended to touch all aspects of the business, enhance operating capabilities, create greater efficiencies and take advantage of the Company's considerable scale. We estimate our total restructuring charges will be approximately \$150.0 million. During fiscal years 2017 and 2016, we recorded \$48.2 million and \$27.8 million of restructuring charges, respectively, and we anticipate the remaining restructuring charges will be recorded predominately during fiscal year 2018. Restructuring plans present significant potential risks that may impair our ability to achieve anticipated operating enhancements and/or cost reductions, or otherwise harm our business, including higher than anticipated costs in implementing our restructuring plan, management distraction and employee attrition in excess of headcount reductions. If this program is not successful, then our results of operations and financial condition could be materially adversely affected.

Our Second A&R Credit Agreement subjects us to certain covenants.

On January 29, 2018, the Company, as the U.S. borrower, Fossil Group Europe GMBH, a wholly-owned subsidiary of the Company, as a non-U.S. borrower, and certain of the Company's foreign subsidiaries from time to time party thereto, entered into a Second Amended and Restated Credit Agreement (the "Second A&R Credit Agreement") with certain lenders party thereto, Wells Fargo Bank, National Association, as administrative agent and an issuing lender, Bank of America, N.A. and JPMorgan Chase Bank, N.A., as syndication agents, HSBC Bank USA, National Association, Compass Bank and Fifth Third Bank, as documentation agents, and Wells Fargo Securities, LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated and JPMorgan Chase Bank, N.A., as joint lead arrangers and joint bookrunners. The Second A&R Credit Agreement subjects us to certain covenants, including that we maintain a specific consolidated leverage ratio. These covenants may limit how we are able to conduct our business. The terms of any future indebtedness that we incur could include more restrictive covenants or ratios. We cannot assure you that we will be able to maintain compliance with these covenants in the future and, if we fail to do so, that we will be able to obtain waivers from the lenders and/or amend the covenants. Our failure to comply with any such covenants could result in an event of default, which, if not cured or waived, could result in our being required to repay those borrowings before their maturity. If we are forced to refinance those borrowings on less favorable terms, our results of operations and financial condition could be adversely affected.

We have recorded impairment charges in the past and may record impairment charges in the future.

We are required, at least annually, or as facts and circumstances warrant, to test trade names to determine if impairment has occurred. We are also required to test property plant and equipment and other long lived assets for impairment as facts and circumstances warrant. Impairment may result from any number of factors, including adverse changes in assumptions used for valuation purposes, such as actual or projected net sales, growth rates, profitability or discount rates, or other variables. If the

testing indicates that impairment has occurred, we are required to record a non-cash impairment charge. Should the value of trade names, property plant and equipment and other long lived assets become impaired, it would have an adverse effect on our results of operations. In fiscal 2017, the Company took a non-cash intangible asset impairment charge of \$7.07 per diluted share triggered by the sustained compression of the Company's market capitalization that occurred throughout most of the latter part of the second fiscal quarter.

Our inability to effectively manage our retail store operations could adversely affect our results of operations.

During fiscal year 2017, our global comparable store sales decreased 5.5%. During fiscal year 2018, we intend to open approximately five new stores globally and close 60 to 80 stores, depending on lease negotiations. The success of our retail business depends, in part, on our ability to open new profitable stores, close low performing stores and renew our existing store leases on terms that meet our financial targets. Our ability to open new stores on schedule or at all, to close low performing stores and to renew existing store leases on favorable terms or to operate them on a profitable basis will depend on various factors, including our ability to:

- identify suitable markets for new stores and available store locations;
- negotiate acceptable lease terms for new locations or renewal terms for existing locations;
- manage and expand our infrastructure to accommodate growth;
- hire and train qualified sales associates;
- develop new merchandise and manage inventory effectively to meet the needs of new and existing stores on a timely basis;
- maintain favorable relationships with major developers and other landlords; and
- avoid construction delays and cost overruns in connection with the build-out of new stores.

Our plans to manage our store base may not be successful and the opening of new stores may not result in an increase in our net sales even though they increase our costs. Our inability to effectively manage our retail store base could have a material adverse effect on the amount of net sales we generate and on our financial condition and results of operations.

New technologies could render our wearable technology obsolete.

New developments in technology may negatively affect the development or sale of our wearable technology or make such products obsolete. Our inability to enhance our existing wearable technology in a timely manner or to develop and introduce new products that incorporate new technologies and achieve market acceptance in a timely manner could negatively impact our competitive position, which could have a material adverse effect on our business or results of operations.

Increased competition from online only retailers and a highly promotional retail environment may increase pressure on our margins.

The continued increase in e-commerce competitors for retail sales and slowing mall traffic has resulted in significant pricing pressure and a highly promotional retail environment. In addition, the traditional watch market has declined in recent years. These factors may cause us to reduce our sales prices to retailers and consumers, which could cause our gross margin to decline if we are unable to appropriately manage inventory levels and/or otherwise offset price reductions with comparable reductions in our costs. If our sales prices decline and we fail to sufficiently reduce our product costs or operating expenses, our profitability will decline. This could have a material adverse effect on our business, results of operations, and financial condition.

Certain key components in our products come from limited sources of supply, which exposes us to potential supply shortages that could disrupt the manufacture and sale of our products.

We and our contract manufacturers currently purchase a number of key components used to manufacture our products from limited sources of supply for which alternative sources may not be readily available. Any interruption or delay in the supply of any of these components could significantly harm our ability to meet scheduled product deliveries to our customers and cause us to lose sales. Interruptions or delays in supply may be caused by a number of factors that are outside of our and our contract or manufacturers' control. In addition, the purchase of these components on a limited source basis subjects us to risks of price increases and potential quality assurance problems. An increase in the cost of components could make our products less competitive and result in lower gross margins. In the event that we can no longer obtain materials from these limited sources of supply, we might not be able to qualify or identify alternative suppliers in a timely fashion. Any extended

interruption in the supply of any of the key components currently obtained from a limited source or delay in transitioning to a replacement supplier could disrupt our operations and significantly harm our business in any given period. If our supply of certain components is disrupted, our lead times are extended or the cost of our components increases, our business, operating results and financial condition could be materially affected.

The loss of key senior management personnel could negatively affect our business.

We depend on our senior management and other key personnel, particularly Kosta N. Kartsois, our CEO and Chairman. We do not have "key person" life insurance policies for any of our personnel. The loss of any of our executive officers or other key employees could harm our business.

A data security or privacy breach could damage our reputation, harm our customer relationships, expose us to litigation or government actions, and result in a material adverse effect to our business, financial condition and results of operations.

We depend on information technology systems, the Internet and computer networks for a substantial portion of our retail and e-commerce businesses, including credit card transaction authorization and processing. We also receive and store personal information about our customers and employees, the protection of which is critical to us. In the normal course of our business, we collect, retain, and transmit certain sensitive and confidential customer information, including credit card information, over public networks. Our customers have a high expectation that we will adequately protect their personal information. In addition, personal information is highly regulated at the international, federal and state level.

Despite the security measures we currently have in place, our facilities and systems and those of our third-party service providers may be vulnerable to theft of physical information, security breaches, hacking attempts, computer viruses and malware, lost data and programming and/or human errors. Any electronic or physical security breach involving the misappropriation, loss, or other unauthorized disclosure of confidential or personally identifiable information, including penetration of our network security or those of our third-party service providers, could disrupt our business, severely damage our reputation and our customer relationships, expose us to litigation and liability, subject us to governmental investigations, fines and enforcement actions, result in negative media coverage and distraction to management and result in a material adverse effect to our business, financial condition, and results of operations. In addition, as a result of security breaches at a number of prominent retailers and other companies, the media and public scrutiny of information security and privacy has become more intense and the regulatory environment related thereto has become more uncertain. As a result, we may incur significant costs in complying with new and existing state, federal, and foreign laws regarding protection of, and unauthorized disclosure of, personal information.

We are subject to laws and regulations in the U.S. and the many countries in which we operate. Violations of laws and regulations, or changes to existing laws or regulations, could have a material adverse effect on our financial condition or results of operations.

Our operations are subject to domestic and international laws and regulations in a number of areas, including, but not limited to, labor, advertising, consumer protection, real estate, product safety, e-commerce, promotions, intellectual property, tax, import and export, anti-corruption, anti-bribery, foreign exchange controls and cash repatriation, data privacy, anti-competition, environmental, health and safety. Compliance with these numerous laws and regulations is complicated, time consuming and expensive, and the laws and regulations may be inconsistent from jurisdiction to jurisdiction, further increasing the difficulty and cost to comply with them. New laws and regulations, or changes to existing laws and regulations, could individually or in the aggregate make our products more costly to produce, delay the introduction of new products in one or more regions, cause us to change or limit our business practices, or affect our financial condition and results of operations. We have implemented policies and procedures designed to ensure compliance with the numerous laws and regulations affecting our business, but there can be no assurance that our employees, contractors, or agents will not violate such laws, regulations or our policies related thereto. Any such violations could have a material adverse effect on our financial condition or operating results.

Reduced lending by banks could have a negative impact on our customers, suppliers and business partners, which in turn could materially and adversely affect our financial condition, results of operations and liquidity.

Any reduction in lending by banks may have a significant negative impact on businesses around the world. Although we believe that our cash provided by operations and available borrowing capacity under our credit facilities currently provide us with sufficient liquidity, the impact of reduced lending on our customers, business partners and suppliers cannot be predicted and may be quite severe. A disruption in the ability of our significant customers or distributors to access liquidity could cause serious disruptions or an overall deterioration of their businesses, which could lead to a significant reduction in their future orders of our products and the inability or failure on their part to meet their payment obligations to us, any of which could have a material adverse effect on our financial condition, results of operations and liquidity.

Seasonality of our business may adversely affect our net sales and operating income.

Our quarterly results of operations have fluctuated in the past and may continue to fluctuate as a result of a number of factors, including seasonal cycles, timing of new product introductions, timing of orders by our customers and mix of product sales demand. Our business is seasonal by nature. A significant portion of our net sales and operating income are generated during the third and fourth quarters of our fiscal year, which includes the "back to school" and Christmas seasons. The amount of net sales and operating income generated during our fiscal fourth quarter depends upon the anticipated level of retail sales during the Christmas season, as well as general economic conditions and other factors beyond our control. In addition, the amount of net sales and operating income generated during our fiscal first quarter depends in part upon the actual level of retail sales during the Christmas season. The seasonality of our business may adversely affect our net sales and operating income during the first and fourth quarters of our fiscal year.

The amount of traffic to our retail stores depends primarily on the success of the shopping malls and retail centers in which our stores are located.

There continues to be a significant decrease in traffic in many of the shopping malls and retail centers in which our stores are located, which has resulted in decreased traffic to our stores. The resulting decrease in customers for our retail stores has had an adverse effect on our results of operations. Additionally, several national department store anchors have closed or will be closing a number of their locations in shopping malls, which is likely to further decrease traffic and put increasing financial strain on the operators of those shopping mall locations. The loss of an anchor or other significant tenant in a shopping mall in which we have a store, or the closure of a significant number of shopping malls in which we have stores, may have a material adverse effect on our results of operations.

We have key facilities in the U.S. and overseas, the loss or shut down of any of which could harm our business.

Our administrative, information technology and distribution operations in the U.S. are conducted primarily from two separate facilities located in the Dallas, Texas area. Our operations internationally are conducted from various administrative, distribution and assembly facilities outside of the U.S., particularly in China, Germany, Hong Kong, Vietnam and Switzerland. The complete or temporary loss of use of all or part of these facilities could have a material adverse effect on our business.

Our warehouse and distribution facilities in the Dallas, Texas area are operated in a special purpose sub-zone established by the U.S. Department of Commerce Foreign Trade Zone Board. Although the sub-zone allows us certain tax advantages, the sub-zone is highly regulated by the U.S. Customs Service. This level of regulation may cause disruptions or delays in the distribution of our products out of these facilities. Under some circumstances, the U.S. Customs Service has the right to shut down the entire sub-zone and, therefore, our entire warehouse and distribution facilities. During the time that the sub-zone is shut down, we may be unable to adequately meet the supply requests of our customers and our Company-owned retail stores, which could have an adverse effect on our sales, relationships with our customers, and results of operations, especially if the shutdown were to occur during our third or fourth quarter.

Our ability to grow our sales is dependent upon the implementation of our business strategy, which we may not be able to achieve.

Our ability to grow our sales is dependent on the successful implementation of our business strategy. This includes diversification of our product offerings, continuing to develop wearable technology, improving our omni channel capabilities and strategic acquisitions. If we are not successful in the expansion or development of our product offerings or our new products are not profitable or do not generate sales comparable to those of our existing businesses, our results of operations could be negatively impacted.

We also operate FOSSIL brand stores and other non-FOSSIL branded stores globally to further strengthen our brand image. As of December 30, 2017, we operated 544 stores worldwide. The costs associated with leasehold improvements to current stores and the costs associated with opening new stores and closing low performing stores could materially increase our costs of operation.

Our business could be harmed if we fail to maintain proper inventory levels.

We maintain an inventory of selected products that we anticipate will be in high demand. We may be unable to sell the products we have ordered in advance from manufacturers or that we have in our inventory. Inventory levels in excess of customer demand may result in inventory write-downs or the sale of excess inventory at prices below our standard levels. These events could significantly harm our operating results and impair the image of our brands. Conversely, if we underestimate consumer demand for our products or if our manufacturers fail to supply quality products in a timely manner, we may

experience inventory shortages, which might result in unfilled orders, negatively impact customer relationships, diminish brand loyalty and result in lost revenues, any of which could harm our business.

Our license agreements may require minimum royalty commitments regardless of the level of product sales under these agreements.

Under our license agreements, we have in the past experienced, and could again in the future experience, instances where our minimum royalty commitments exceeded the royalties payable based upon our sales of the licensed products. Payments of minimum royalties in excess of the royalties based on our sales of the licensed products reduce our margins and could adversely affect our results of operations.

Fluctuations in the price, availability and quality of raw materials could cause delays and increase costs.

Fluctuations in the price, availability and quality of the raw materials used in our products could have a material adverse effect on our cost of sales or ability to meet our customers' demands. The price and availability of such raw materials may fluctuate significantly, depending on many factors, including natural resources, increased freight costs, increased labor costs, especially in China, and weather conditions. In the future, we may not be able to pass on all, or a portion of, such higher raw materials prices to our customers.

We rely on third-party assembly factories and manufacturers and problems with, or loss of, our assembly factories or manufacturing sources could harm our business and results of operations.

A substantial percentage of our watch and jewelry products are currently assembled or manufactured to our specifications by our majority-owned entities in China, with the remainder assembled or manufactured by independent entities. All of our handbags, small leather goods, belts and soft accessories are produced by independent manufacturers. We have no long-term contracts with these independent assembly factories or manufacturers and compete with other companies for production facilities. All transactions between us and our independent assembly factories or manufacturers are conducted on the basis of purchase orders. We face the risk that these independent assembly factories or manufacturers may not produce and deliver our products on a timely basis, or at all. As a result, we cannot be certain that these assembly factories or manufacturers will continue to assemble or manufacture products for us or that we will not experience operational difficulties with our manufacturers, such as reductions in the availability of production capacity, errors in complying with product specifications, insufficient quality control, shortages of raw materials, failures to meet production deadlines or increases in manufacturing costs. Our future success will depend upon our ability to maintain close relationships with, or ownership of, our current assembly factories and manufacturers and to develop long-term relationships with other manufacturers that satisfy our requirements for price, quality and production flexibility. Our ability to establish new manufacturing relationships involves numerous uncertainties, including those relating to payment terms, costs of manufacturing, adequacy of manufacturing capacity, quality control and timeliness of delivery. Any failure by us to maintain long-term relationships with, or ownership of, our current assembly factories and manufacturers or to develop relationships with other manufacturers could have a material adverse effect on our ability to manufacture and distribute our products.

If an independent manufacturer or license partner of ours fails to use acceptable labor practices or otherwise comply with laws, our business could suffer.

While we have a code of conduct for our manufacturing partners, we have no control over the ultimate actions or labor practices of our independent manufacturers. The violation of labor or other laws by one of our independent manufacturers, or by one of our license partners, or the divergence of an independent manufacturer's or license partner's labor practices from those generally accepted as ethical in the U.S. or other countries in which the violation or divergence occurred, could interrupt or otherwise disrupt the shipment of finished products to us or damage our reputation. Any of these, in turn, could have a material adverse effect on our financial condition and results of operations. As a result, should one of our independent manufacturers or licensors be found in violation of state or international laws, we could suffer financial or other unforeseen consequences.

We extend unsecured credit to our customers and are therefore vulnerable to any financial difficulties they may face.

We sell our merchandise primarily to department stores, specialty retail stores and distributors worldwide. We extend credit based on an evaluation of each customer's financial condition, usually without requiring collateral. Should any of our larger customers experience financial difficulties, we could curtail business with such customers or assume more credit risk relating to such customers' receivables. Our inability to collect on our trade accounts receivable relating to such customers could have a material adverse effect on our operating cash flows, financial condition and results of operations.

We do not maintain long-term contracts with our customers and are unable to control their purchasing decisions.

We do not maintain long-term purchasing contracts with our customers and therefore have no contractual leverage over their purchasing decisions. A decision by a major department store or other significant customer to decrease the amount of merchandise purchased from us or to cease carrying our products could have a material adverse effect on our net sales and operating strategy.

We face intense competition in the specialty retail and e-commerce industries and the size and resources of some of our competitors are substantially greater than ours, which may allow them to compete more effectively.

We face intense competition in the specialty retail and e-commerce industry where we compete primarily with specialty retailers, department stores and Internet businesses that engage in the retail sale of watches and accessories. We believe that the principal basis upon which we compete is the quality and design of merchandise and the quality of customer service. We also believe that price is an important factor in our customers' decision-making processes. Many of our competitors are, and many of our potential competitors may be, larger and have greater financial, marketing and other resources than we have and therefore may be able to adapt to changes in customer requirements more quickly, devote greater resources to the marketing and sale of their products and generate greater national brand recognition than we can, especially in the developing area of omni-channel retailing. Omni-channel retailing may include retail stores, e-commerce sites, mobile channels and other direct-to-consumer points of contact that enhance the consumer's ability to interact with a retailer in the research, purchase, returning and serving of products. The intense competition and greater size and resources of some of our competitors could have a material adverse effect on the amount of net sales we generate and on our results of operations.

We could be negatively impacted if we fail to successfully integrate businesses we may acquire.

As part of our growth strategy, we have made, and may consider in the future, certain acquisitions, domestically and internationally, including acquisitions of certain watch brands and acquisitions of independent distributors of our products. The integration of future acquisitions may not be successful or generate sales increases. When we have acquired businesses, such as Misfit in December 2015, we have acquired businesses that we believe could enhance our business opportunities and our growth prospects. Acquisitions involve risks that could materially affect our business, financial condition and operating results. These risks include:

- distraction of management from our business operations;
- loss of key personnel and other employees;
- costs, delays, and inefficiencies associated with integrating acquired operations and personnel;
- the impairment of acquired assets and goodwill; and
- acquiring the contingent and other liabilities of the businesses we acquire.

In addition, acquired businesses may not provide us with increased business opportunities or result in the growth that we anticipate. Furthermore, integrating acquired operations is a complex, time-consuming and expensive process. Combining acquired operations with our current operations may result in lower overall operating margins, greater stock price volatility and quarterly earnings fluctuations. Cultural incompatibilities, career uncertainties and other factors associated with such acquisitions may also result in the loss of employees. Failure to acquire and successfully integrate complementary practices, or failure to achieve the business synergies or other anticipated benefits, could materially adversely affect our business, financial condition and results of operations.

We face competition from traditional competitors as well as new competitors in the wearable technology category.

There is intense competition in each of the businesses in which we compete. In all of our businesses, we compete with numerous manufacturers, importers and distributors who may have significantly greater financial, distribution, advertising and marketing resources than us. Our competitors include distributors that import watches and accessories from abroad, U.S. companies that have established foreign manufacturing relationships and companies that produce accessories domestically. In addition, we face growing competition from technology companies that have or are launching smart watch products and other wearable technology. These new competitors have not historically competed with us, and many have significantly greater financial, distribution, advertising and marketing resources than us. The impact of the introduction of wearable technology on sales of our traditional product lines, is uncertain, but could be materially adverse. Our results of operations and market position may be adversely affected by our competitors and their competitive pressures in the watch, wearable technology and fashion accessory industries.

Any material disruption of our information systems could disrupt our business and reduce our sales.

We are increasingly dependent on information systems to operate our websites, process transactions, manage inventory, monitor sales and purchase, sell and ship goods on a timely basis. We utilize SAP ERP in our U.S. operations and throughout most of our European operations to support our human resources, sales and distribution, inventory planning, retail merchandising and operational and financial reporting systems of our business, and Navision in our Asian operations to support many of the same functions on a local country level. We may experience operational problems with our information systems as a result of system failures, viruses, computer "hackers" or other causes. Any material disruption or slowdown of our systems could cause information, including data related to customer orders, to be lost or delayed which could result in delays in the delivery of merchandise to our stores and customers or lost sales, which could reduce demand for our merchandise and cause our sales to decline. Moreover, the failure to maintain, or a disruption in, financial and management control systems could have a material adverse effect on our ability to respond to trends in our target markets, market our products and meet our customers' requirements.

In addition, we have e-commerce and other websites in the U.S. and internationally. In addition to changing consumer preferences and buying trends relating to Internet usage, we are vulnerable to certain additional risks and uncertainties associated with the Internet, including changes in required technology interfaces, website downtime and other technical failures, security breaches, and consumer privacy concerns. Our failure to successfully respond to these risks and uncertainties could reduce Internet sales, increase costs and damage the reputation of our brands.

Changes in the mix of product sales demand could negatively impact our gross profit margins.

Our gross profit margins are impacted by our sales mix as follows:

Sales channel mix: sales from our direct retail and e-commerce channels typically provide gross margins in excess of our historical consolidated gross profit margins, while sales from our distributor, mass market and off-price channels typically provide gross margins below our historical consolidated gross profit margins.

Product mix: traditional watch and jewelry sales typically provide gross margins in excess of historical consolidated gross profit margins, while leather goods and private label products typically provide gross margins below our historical consolidated gross profit margins. In addition, sales of our wearable technology products have produced gross profit margins below our historical consolidated gross profit margins, which we anticipate continuing in fiscal 2018.

Geographic mix: international sales typically produce gross margins in excess of our historical consolidated gross profit margins, while domestic sales typically provide gross margins below our historical consolidated gross profit margins.

If future sales from our higher gross margin businesses do not increase at a faster rate than our lower gross margin businesses, our gross profit margins may grow at a slower pace, cease to grow, or decrease relative to our historical consolidated gross profit margin.

Our industry is subject to pricing pressures that may adversely impact our financial performance.

We assemble or source many of our products offshore because they generally cost less to make overseas, due primarily to lower labor costs. Many of our competitors also source their product requirements offshore to achieve lower costs, possibly in locations with lower costs than our offshore operations, and those competitors may use these cost savings to reduce prices. To remain competitive, we must adjust our prices from time to time in response to these industry-wide pricing pressures. Our financial performance may be negatively affected by these pricing pressures if we are forced to reduce our prices and we cannot reduce our production costs or our production costs increase and we cannot increase our prices.

The loss of our intellectual property rights may harm our business.

Our trademarks, patents and other intellectual property rights are important to our success and competitive position. We are devoted to the establishment and protection of our trademarks, patents and other intellectual property rights in those countries where we believe it is important to our ability to sell our products. However, we cannot be certain that the actions we have taken will result in enforceable rights, will be adequate to protect our products in every country where we may want to sell our products, will be adequate to prevent imitation of our products by others or will be adequate to prevent others from seeking to prevent sales of our products as a violation of the trademarks, patents or other intellectual property rights of others. Additionally, we rely on the patent, trademark and other intellectual property laws of the U.S. and other countries to protect our proprietary rights. Even if we are successful in obtaining appropriate trademark, patent and other intellectual property rights, we may be unable to prevent third parties from using our intellectual property without our authorization, particularly in those

countries where the laws do not protect our proprietary rights as fully as in the U.S. Because we sell our products internationally and are dependent on foreign manufacturing in China, we are significantly dependent on foreign countries to protect our intellectual property rights. The use of our intellectual property or similar intellectual property by others could reduce or eliminate any competitive advantage we have developed, causing us to lose sales or otherwise harm our business. Further, if it became necessary for us to resort to litigation to protect our intellectual property rights, any proceedings could be burdensome and costly and we may not prevail. The failure to obtain or maintain trademark, patent or other intellectual property rights could materially harm our business.

Our products may infringe the intellectual property rights of others, which may cause us to incur unexpected costs or prevent us from selling certain of our products.

We cannot be certain that our products do not and will not infringe upon the intellectual property rights of others. The wearable technology space is rapidly developing with new innovation, which will likely result in a significant number of domestic and international patent filings for new technology. As a result, wearable technology companies may be subject to an increasing number of claims that their products infringe the intellectual property rights of competitors or non-practicing entities. As we increase our wearable technology and other product offerings, we have been, are and may in the future be subject to legal proceedings, including claims of alleged infringement of the intellectual property rights of third parties by us and our customers in connection with their marketing and sale of our products. Any such claims, whether or not meritorious, could result in costly litigation and divert the efforts of our personnel. Moreover, should we be found liable for infringement, we may be required to enter into agreements (if available on acceptable terms or at all) or to pay damages and cease making or selling certain products. Moreover, we may need to redesign or rename some of our products to avoid future infringement liability. Any of the foregoing could cause us to incur significant costs and prevent us from manufacturing or selling certain of our products.

An increase in product returns could negatively impact our operating results.

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. However, as we continue to increase our wearable technology product offerings, we do not have the same level of historical experience estimating returns as we have with our other more mature products, which could result in us underestimating the level of returns. In addition, consumer acceptance of wearable technology products and the inherent outdating of technology over time may result in an increase in the amount of returns we accept from our customers. While returns have historically been within our expectations and the provisions established, future return rates may differ from those experienced in the past. In the event that our products are performing poorly in the retail market and/or we experience product damages or defects at a rate significantly higher than our historical rate, the resulting credit returns could have an adverse impact on our operating results for the period or periods in which such returns occur.

There are inherent limitations in all control systems, and misstatements due to error or fraud may occur and not be detected.

We are subject to the ongoing internal control provisions of Section 404 of the Sarbanes-Oxley Act of 2002. These provisions provide for the identification of material weaknesses in internal control over financial reporting, which is a process to provide reasonable assurance regarding the reliability of financial reporting for external purposes in accordance with accounting principles generally accepted in the United States of America. Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our internal controls and disclosure controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. In addition, the design of a control system must reflect the fact that there are resource constraints and the benefit of controls must be 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, in our 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 errors or mistakes. Further, controls can be circumvented by individual acts of some persons, by collusion of two or more persons, or by management override of the controls. The design of any system of controls is also based in part upon 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, a control may be inadequate because of changes in conditions, such as growth of the Company or increased transaction volume, or the degree of compliance with the policies or procedures may deteriorate. Because of inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

In addition, discovery and disclosure of a material weakness, by definition, could have a material adverse impact on our financial statements. Such an occurrence could discourage certain customers or suppliers from doing business with us, result in

higher borrowing costs and affect how our stock trades. This could in turn negatively affect our ability to access public debt or equity markets for capital.

Risk Factors Relating to Our International Operations

Factors affecting international commerce and our international operations may seriously harm our financial condition.

During fiscal year 2017, we generated 58.5% of our net sales from outside of the U.S., and we anticipate that revenue from our international operations could account for an increasingly larger portion of our net sales in the future. Our international operations are directly related to, and dependent on, the volume of international trade and foreign market conditions. International commerce and our international operations are subject to many risks, some of which are discussed in more detail below, including:

- recessions in foreign economies;
- the adoption and expansion of trade restrictions or the occurrence of trade wars;
- limitations on repatriation of earnings;
- difficulties in protecting our intellectual property or enforcing our intellectual property rights under the laws of other countries;
- longer receivables collection periods and greater difficulty in collecting accounts receivable;
- difficulties in managing foreign operations;
- social, political and economic instability;
- political tensions between the U.S. and foreign countries;
- compliance with, changes in or adoption of current, new or expanded regulatory requirements, particularly in the wearable technology space;
- our ability to finance foreign operations;
- tariffs and other trade barriers; and
- U.S. government licensing requirements for exports.

The occurrence or consequences of any of these risks may restrict our ability to operate in the affected regions and decrease the profitability of our international operations, which may seriously harm our financial condition.

Foreign currency fluctuations could adversely impact our financial condition.

We generally purchase our products in U.S. dollars. However, we source a significant amount of our products overseas and, as such, the cost of these products may be affected by changes in the value of the currencies of these countries, including the Australian dollar, British pound, Canadian dollar, Chilean peso, Chinese yuan, Danish krone, euro, Hong Kong dollar, Indian rupee, Japanese yen, South Korean won, Malaysian ringgit, Mexican peso, Norwegian kroner, Singapore dollar, Swedish krona, Swiss franc and Taiwanese dollar. Due to our dependence on manufacturing operations in China, changes in the value of the Chinese yuan may have a material impact on our supply channels and manufacturing costs, including component and assembly costs.

In addition, changes in currency exchange rates may also affect the prices at which we sell products in foreign markets. For fiscal years 2017, 2016 and 2015, 58.5%, 55.4% and 53.8% of our consolidated net sales were generated outside of the U.S. In general, our overall financial results are affected positively by a weaker U.S. dollar and are affected negatively by a stronger U.S. dollar as compared to the foreign currencies in which we conduct our business. For example, due to a generally weaker U.S. dollar in fiscal year 2017, the translation of foreign based net sales into U.S. dollars improved our reported net sales by approximately \$23.3 million. If the value of the U.S. dollar remains at its current levels or strengthens further against foreign currencies, particularly against the euro, Canadian dollar, British pound, Japanese yen, Mexican peso, and Australian dollar, our financial condition and results of operations could be materially and adversely impacted. Although we utilize forward contracts to help mitigate foreign currency risks (mostly relating to the euro, Canadian dollar, British pound, Japanese yen, Mexican peso, Australian dollar and U.S. dollar), foreign currency fluctuations may have a material adverse impact on our financial condition and results of operations.

The European economic uncertainty and any further debt crisis could adversely impact our financial condition.

The European economic situation, particularly with the planned withdrawal by the United Kingdom from the European Union, has contributed to instability in certain international credit markets. During fiscal year 2017, we generated 34.9% of our consolidated net sales from our Europe segment. If global economic and market conditions, or economic conditions in Europe remain uncertain or deteriorate, the value of the euro could decline. Any additional financial instability in stressed European countries could have a contagion effect on the region and contribute to the general instability and uncertainty in the European Union. If this were to occur or if the value of the euro were to weaken against the U.S. dollar, our financial condition and results of operations could be materially and adversely impacted.

We depend on independent distributors to sell our products in certain international markets.

Our products are sold in certain international markets through independent distributors. If a distributor fails to meet annual sales goals or breaches the terms of our distribution agreement, it may be difficult and costly to locate an acceptable substitute distributor. If a change in our distributors becomes necessary, we may experience increased costs, as well as a substantial disruption in, and a resulting loss of, sales and profits.

Because we depend on foreign manufacturing, we are vulnerable to changes in economic and social conditions in Asia, particularly China, and disruptions in international travel and shipping.

Because a substantial portion of our watches and jewelry and certain of our handbags, sunglasses and other products are assembled or manufactured in China, our success will depend to a significant extent upon future economic and social conditions existing in China. If the factories in China were disrupted for any reason, we would need to arrange for the manufacture and shipment of products by alternative sources. Because the establishment of new manufacturing relationships involves numerous uncertainties, including those relating to payment terms, costs of manufacturing, adequacy of manufacturing capacity, quality control and timeliness of delivery, we are unable to predict whether such new relationships would be on terms that we regard as satisfactory. Any significant disruption in our relationships with our manufacturing sources located in China would have a material adverse effect on our ability to manufacture and distribute our products. In addition, restrictions on travel to and from this and other regions, and any delays or cancellations of customer orders or the manufacture or shipment of our products could have a material adverse effect on our ability to meet customer deadlines and timely distribute our products in order to match consumer tastes.

We face risks associated with increased political uncertainty.

In the U.S., the change in the U.S. government administration has resulted in uncertainty regarding potential changes in regulations, fiscal policy, social programs, domestic and foreign relations and international trade policies. Potential changes in relationships among the U.S., China, Russia and other countries could have significant impacts on global trade and regional economic conditions, among other things. In addition, changes in the relationships between the U.S. and its neighbors, such as Mexico, can have significant, potentially negative, impacts on commerce. Further, anti-American sentiment could harm the reputation and success of U.S. companies doing business abroad.

In Europe, the populist movement resulted in the Brexit vote, and other election results are signaling increasing populist demands and rises in nationalism, which could have a negative impact on economic policy and consequently pose a potential threat to the unity of the European Union.

Our business is dependent upon its international operations, particularly in Asia and Europe. During fiscal years 2017, 2016 and 2015, we generated 58.5%, 55.4% and 53.8%, respectively, of our net sales outside the U.S. In addition, we source the vast majority of our products from outside the U.S.

Our ability to respond to these developments or comply with any resulting new legal or regulatory requirements, including those involving economic and trade sanctions, could reduce our sales, increase our costs of doing business, reduce our financial flexibility and otherwise have a material adverse effect on our business, financial condition and results of our operations.

Risks associated with foreign government regulations and U.S. trade policy may affect our foreign operations and sourcing.

Our businesses are subject to risks generally associated with doing business abroad, such as foreign governmental regulation in the countries in which our manufacturing sources are located, primarily China. While we have not experienced any material issues with foreign governmental regulations that would impact our arrangements with our foreign manufacturing sources, we believe that this issue is of particular concern with regard to China due to the less mature nature of the Chinese market economy and the historical involvement of the Chinese government in industry. If regulations were to render the conduct of business in a particular country undesirable or impracticable, or if our current foreign manufacturing sources were for any other reason to cease doing business with us, such a development could have a material adverse effect on our product sales and on our supply, manufacturing and distribution channels.

Our business is also subject to risks associated with U.S. and foreign legislation and regulations relating to imports, including quotas, duties, tariffs or taxes, and other charges or restrictions on imports, which could adversely affect our operations and our ability to import products at current or increased levels. We cannot predict whether additional U.S. and foreign customs quotas, duties (including antidumping or countervailing duties), tariffs, taxes or other charges or restrictions, requirements as to where raw materials must be purchased, additional workplace regulations or other restrictions on our imports will be imposed upon the importation of our products in the future or adversely modified, or what effect such actions would have on our costs of operations. For example, our products imported to the U.S. are subject to U.S. customs duties and, in the ordinary course of our 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 U.S. 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. Future quotas, duties or tariffs may have a material adverse effect on our business, financial condition and results of operations. Future trade agreements could also provide our competitors with an advantage over us, or increase our costs, either of which could have a material adverse effect on our business, financial condition and results of operations and financial condition. Substantially all of our import operations are subject to customs duties imposed by the governments where our production facilities are located on imported products, including raw materials.

Risk Factors Relating to Our Common Stock

Many factors may cause our net sales, operating results and cash flows to fluctuate and possibly decline, which may result in declines in our stock price.

Our net sales, operating results and cash flows may fluctuate significantly because of a number of factors, many of which are outside of our control. These factors may include, but may not be limited to, the following:

- fluctuations in market demand for our products;
- increased competition and pricing pressures;
- our ability to anticipate changing customer demands and preferences;
- our ability to compete in the wearable technology space;
- growth in our international operations;
- our failure to efficiently manage our inventory levels;
- our inability to manage and maintain our debt obligations;
- seasonality in our business;
- changes in our, and our competitors', business strategy or pricing;
- implementation of our restructuring plan;
- the successful management of our Company-owned retail store operations;

- the timing of certain selling, general and administrative expenses;
- completing acquisitions and the costs of integrating acquired operations;
- international currency fluctuations, operating challenges and trade regulations;
- acts of terrorism or acts of war; and
- government regulation.

One or more of the foregoing factors may cause our operating expenses to be unexpectedly high or result in a decrease in our net sales during any given period. If these or any other variables or unknowns were to cause a shortfall in revenues or earnings, an increase in our operating costs or otherwise cause a failure to meet public market expectations, our stock price may decline and our business could be adversely affected.

Our CEO owns approximately 7.8% of our outstanding common stock.

Mr. Kosta Kartsotis owns approximately 7.8% of our common stock as of December 30, 2017. As a result, he is in a position to influence the outcome of elections of our directors, the adoption, amendment or repeal of our bylaws and any other actions requiring the vote or consent of our stockholders, and to otherwise influence our affairs.

Because the interests of Mr. Kartsotis may not coincide with the interests of other stockholders, Mr. Kartsotis may influence the Company to enter into transactions or agreements that other stockholders would not approve or make decisions with which other stockholders may disagree.

Our organizational documents contain anti-takeover provisions that could discourage a proposal for a takeover.

Our certificate of incorporation and bylaws, as well as the General Corporation Law of the State of Delaware, contain provisions that may have the effect of discouraging a proposal for a takeover. These include a provision in our certificate of incorporation authorizing the issuance of "blank check" preferred stock and provisions in our bylaws establishing advance notice procedures with respect to certain stockholder proposals. Our bylaws may be amended by a vote of 80% of the Board of Directors, subject to repeal by a vote of 80% of the stockholders. In addition, Delaware law limits the ability of a Delaware corporation to engage in certain business combinations with interested stockholders. Finally, Mr. Kartsotis has the ability, by virtue of his stock ownership, to influence a vote regarding a change in control.

Reports published by securities or industry analysts, including projections in those reports that exceed our actual results, could adversely affect our stock price and trading volume.

Research analysts publish their own quarterly projections regarding our operating results. These projections may vary widely from one another and may not accurately predict the results we actually achieve. Our stock price may decline if we fail to meet securities research analysts' projections. Similarly, if one or more of the analysts who covers us downgrades our stock or publishes inaccurate or unfavorable research about our business, our stock price could decline. If one or more of these analysts ceases coverage of us or fails to publish reports on us regularly, our stock price or trading volume could decline.

Future sales of our common stock in the public market could adversely affect our stock price.

The shares of our common stock beneficially owned by Mr. Kartsotis may be sold in the open market in the future, subject to any volume restrictions and other limitations under the Securities Act of 1933 and Rule 144 thereunder. We may also decide to file a registration statement enabling Mr. Kartsotis to sell additional shares. Any sales by Mr. Kartsotis of substantial amounts of our common stock in the open market, or the availability of his shares for sale, could adversely affect the price of our common stock. The market price of our common stock could decline as a result of sales of substantial amounts of our common stock in the public market, or the perception that those sales could occur. These sales or the possibility that they may occur also could make it more difficult for us to raise funds in any equity offering in the future at a time and price that we deem appropriate.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Company facilities. As of the end of fiscal year 2017, we owned or leased the following material facilities in connection with our U.S. and international operations:

Location	Use	Approximate Square Footage	Owned / Leased
Eggstätt, Germany	Office, warehouse and distribution	383,000	Owned
Grabenstätt, Germany	Office	92,000	Owned ⁽¹⁾
Richardson, Texas	Corporate headquarters	536,000	Lease expiring in 2021
Dallas, Texas	Office, warehouse and distribution	518,000	Lease expiring in 2026
Hong Kong	Warehouse and distribution	205,000	Lease expiring in 2023
Garland, Texas	Warehouse	154,000	Lease expiring in 2022
Basel, Switzerland	Europe headquarters	140,000	Lease expiring in 2036
Shenzhen, China	Manufacturing	110,000	Lease expiring in 2018
Hong Kong	Asia headquarters	42,000	Lease expiring in 2019
New York, New York	General office and showroom	27,000	Lease expiring in 2027

⁽¹⁾ Facility is classified as held for sale as of the end of fiscal year 2017

We also lease certain other manufacturing and/or office, warehouse and/or distribution facilities in Burlingame, California; Chicago, Illinois; Los Angeles, California; Miami, Florida; Australia; Austria; Canada; China; Denmark; France; Germany; Hong Kong; India; Italy; Japan; Malaysia; Mexico; the Netherlands; New Zealand; Poland; Portugal; Singapore; South Africa; South Korea; Spain; Sweden; Switzerland; Taiwan, the United Kingdom and Vietnam.

Retail store facilities. As of the end of fiscal year 2017, we had 546 lease agreements for retail space for the sale of our products. The leases, including renewal options, expire at various times from 2018 to 2029. 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 generally required to pay our pro rata share of common area maintenance costs, real estate taxes, insurance, maintenance expenses and utilities.

We believe that our material existing facilities are well maintained, in good operating condition, and are adequate for our needs.

Item 3. Legal Proceedings

The Company is occasionally subject to litigation or other legal proceedings in the normal course of its business. The Company does not believe that the outcome of any currently pending legal matters, individually or collectively, will have a material effect on the business or financial condition of the Company.

Item 4. Mine Safety Disclosures

Not applicable.

PART II**Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

General. Our common stock is listed on the NASDAQ Global Select Market under the symbol "FOSL." The following table sets forth the range of quarterly high and low sales prices per share of our common stock on the NASDAQ Global Select Market for the fiscal years ended December 30, 2017 and December 31, 2016.

	High	Low
Fiscal year ended December 30, 2017:		
First quarter	\$ 27.33	\$ 15.79
Second quarter	\$ 18.44	\$ 8.98
Third quarter	\$ 12.59	\$ 6.80
Fourth quarter	\$ 9.60	\$ 5.50
Fiscal year ended December 31, 2016:		
First quarter	\$ 51.93	\$ 28.26
Second quarter	\$ 43.79	\$ 26.03
Third quarter	\$ 33.05	\$ 26.30
Fourth quarter	\$ 36.87	\$ 23.10

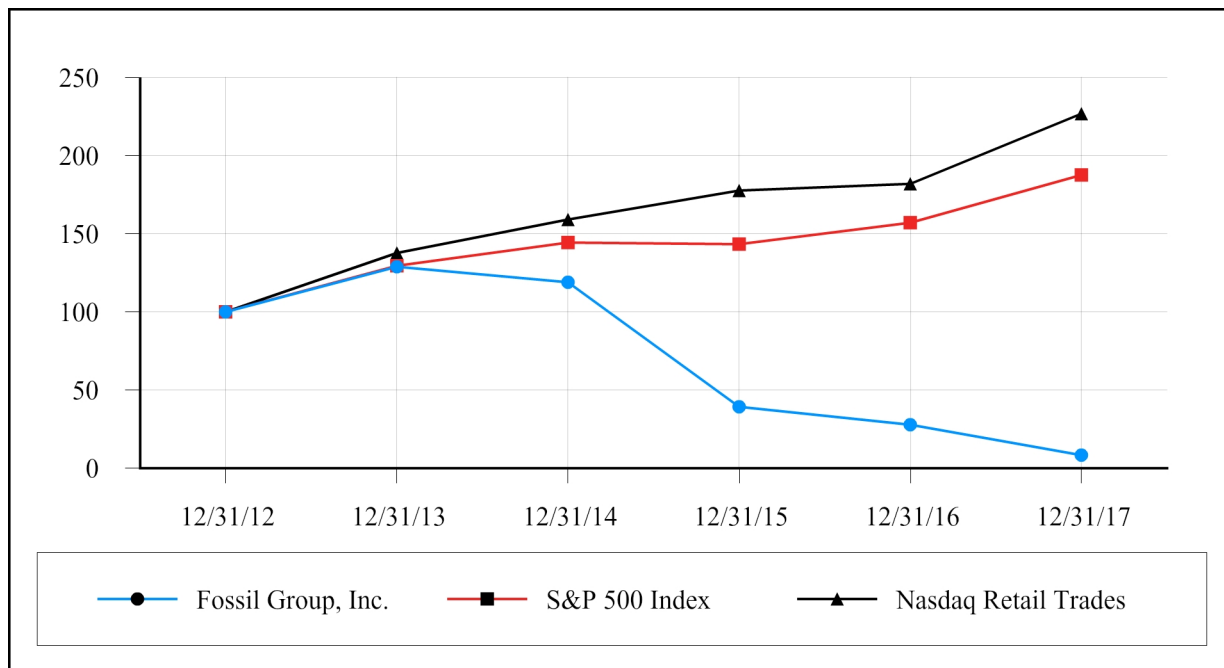
As of February 20, 2018, there were 70 holders of record of our shares of common stock (including nominee holders such as banks and brokerage firms who hold shares for beneficial owners), although we believe that the number of beneficial owners is much higher.

Cash Dividend Policy. We did not pay any cash dividends in fiscal years 2017, 2016 or 2015. We expect that for the foreseeable future, we will retain all available earnings generated by our operations for the development and growth of our business. 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, future prospects, restrictive covenants and such other factors as our Board of Directors may deem relevant.

Common Stock Performance Graph

The following performance graph compares the cumulative return of our shares of common stock over the preceding five year periods with that of the broad market Standard & Poor's 500 Stock Index ("S&P 500 Index") and the NASDAQ Retail Trades Group. Each index assumes \$100 invested at December 31, 2012 and is calculated assuming quarterly reinvestment of dividends and quarterly weighting by market capitalization.

**2017 COMPARATIVE TOTAL RETURNS
Fossil Group, Inc.,
NASDAQ Retail Trades and S&P 500 Index
(Performance Results through 12/31/2017)**



	12/31/2012	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017
Fossil Group, Inc.	\$ 100.00	\$ 128.83	\$ 118.95	\$ 39.27	\$ 27.78	\$ 8.35
S&P 500 Index	\$ 100.00	\$ 129.60	\$ 144.36	\$ 143.31	\$ 156.98	\$ 187.47
Nasdaq Retail Trades	\$ 100.00	\$ 137.79	\$ 158.97	\$ 177.68	\$ 181.93	\$ 226.83

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

In August 2010, our Board of Directors approved a common stock repurchase program pursuant to which up to \$30 million could be used to repurchase outstanding shares of our common stock. The \$30 million repurchase program has no termination date, and as of December 30, 2017, no shares had been repurchased under it. On November 10, 2014, the Company's Board of Directors authorized a \$1.0 billion share repurchase program with an expiration date of December 31, 2018. As of December 30, 2017, the Company had \$824.2 million of repurchase authorizations remaining under its combined repurchase programs. However, under the Company's credit agreement, the Company is restricted from making open market repurchases of its common stock.

Common stock repurchases acquired from grantees in connection with income tax withholding obligations arising from vesting of restricted stock grants were 3,316 shares, 6,763 shares and 11,175 shares for fiscal years 2017, 2016 and 2015, respectively.

There were no shares of common stock repurchased during the fourth quarter of fiscal year 2017.

Item 6. Selected Financial Data

The following information should be read in conjunction with our consolidated financial statements and notes thereto contained in Item 8. Consolidated Financial Statements and Supplementary Data of this Annual Report on Form 10-K (in thousands, except for per share data).

Fiscal Year	2017	2016	2015	2014	2013
Net sales	\$ 2,788,163	\$ 3,042,371	\$ 3,228,836	\$ 3,509,691	\$ 3,259,971
Gross profit	1,358,839	1,578,186	1,753,467	2,001,172	1,861,686
Operating income (loss)	(424,276)	127,146	291,234	566,536	561,596
Net income (loss)	(473,559)	85,603	229,902	386,611	388,048
Net income (loss) attributable to Fossil Group, Inc.	(478,172)	78,868	220,637	376,707	378,152
Earnings (loss) per share:					
Basic	(9.87)	1.64	4.52	7.12	6.59
Diluted	(9.87)	1.63	4.51	7.10	6.56
Weighted average common shares and common equivalent shares outstanding:					
Basic	48,468	48,136	48,800	52,882	57,401
Diluted	48,468	48,323	48,924	53,080	57,676
Working capital	\$ 781,900	\$ 932,705	\$ 953,141	\$ 1,008,264	\$ 939,573
Total assets	1,658,372	2,186,897	2,355,661	2,177,460	2,186,251
Total long-term liabilities	568,337	756,874	933,589	747,351	618,978
Stockholders' equity attributable to Fossil Group, Inc.	576,133	1,006,236	921,388	977,860	1,068,677
Return on average stockholders' equity attributable to Fossil Group, Inc. ⁽¹⁾	(62.3)%	8.2%	24.7%	37.5%	33.1%

⁽¹⁾ Calculated by dividing net income (loss) attributable to Fossil Group, Inc. by five quarter average stockholders' equity attributable to Fossil Group, Inc.

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

Summary

We are a global design, marketing and distribution company that specializes in consumer fashion accessories. Our principal offerings include an extensive line of men's and women's fashion watches and jewelry, handbags, small leather goods, belts, and sunglasses. In the watch and jewelry product categories, we have a diverse portfolio of globally recognized owned and licensed brand names under which our products are marketed. Our products are distributed globally through various distribution channels including wholesale in countries where we have a physical presence, direct to the consumer through our retail stores and commercial websites and through third-party distributors in countries where we do not maintain a physical presence. Our products are offered at varying price points to meet the needs of our customers, whether they are value-conscious or luxury oriented. Based on our extensive range of accessory products, brands, distribution channels and price points, we are able to target style-conscious consumers across a wide age spectrum on a global basis.

Domestically, we sell our products through a diversified distribution network that includes department stores, specialty retail locations, specialty watch and jewelry stores, Company-owned retail and outlet stores, mass market stores and through our FOSSIL website. Our wholesale customer base includes, among others, Amazon, Best Buy, Dillard's, JCPenney, Kohl's, Macy's, Neiman Marcus, Nordstrom, Saks Fifth Avenue, Target and Wal-Mart. In the U.S., our network of Company-owned stores included 80 retail stores located in premier retail sites and 123 outlet stores located in major outlet malls as of December 30, 2017. In addition, we offer an extensive collection of our FOSSIL brand products on our website, www.fossil.com, as well as proprietary and licensed watch and jewelry brands through other managed and affiliated websites.

Internationally, our products are sold to department stores, specialty retail stores and specialty watch and jewelry stores in approximately 150 countries worldwide through 23 Company-owned foreign sales subsidiaries and through a network of approximately 80 independent distributors. Internationally, our network of Company-owned stores included 208 retail stores and 133 outlet stores as of December 30, 2017. Our products are also sold through licensed and franchised FOSSIL retail stores, retail concessions operated by us and kiosks in certain international markets. In addition, we offer an extensive collection of our FOSSIL brand products on our websites in certain countries.

Our consolidated gross profit margin is impacted by our diversified business model that includes, but is not limited to: (i) a significant number of product categories we distribute, (ii) the multiple brands we offer within several product categories, (iii) the geographical presence of our businesses and (iv) the different distribution channels we sell to or through. The components of this diversified business model produce varying ranges of gross profit margin. Generally, on a historical basis, our fashion branded watch and jewelry offerings produce higher gross profit margins than our leather goods offerings. In addition, in most product categories that we offer, brands with higher retail price points generally produce higher gross profit margins compared to those of lower retail priced brands and connected products carry relatively lower margins than traditional products. Gross profit margins related to sales in our Europe and Asia businesses are historically higher than our Americas business, primarily due to the following factors: (i) premiums charged in comparison to retail prices on products sold in the U.S.; (ii) the product sales mix in our international businesses, in comparison to our Americas business, is comprised more predominantly of watches and jewelry that generally produce higher gross profit margins than leather goods; and (iii) the watch sales mix in our Europe and Asia businesses, in comparison to our Americas business, are comprised more predominantly of higher priced licensed brands.

Our business is subject to the risks inherent in global sourcing supply. Certain key components in our products come from limited sources of supply, which exposes us to potential supply shortages that could disrupt the manufacture and sale of our products. Any interruption or delay in the supply of key components could significantly harm our ability to meet scheduled product deliveries to our customers and cause us to lose sales. Interruptions or delays in supply may be caused by a number of factors that are outside of our and our contractor manufacturers' control.

This discussion should be read in conjunction with our consolidated financial statements and the related notes included therewith.

Critical Accounting Policies and Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the U.S. requires us 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, we evaluate our estimates and judgments, including those related to product returns, bad debt, inventories, long-lived asset impairment, impairment of goodwill and trade names, income taxes, warranty costs, hedge accounting, litigation liabilities and stock-based compensation. We base our estimates and judgments on historical experience and on various other factors that we believe to be reasonable under the circumstances. Our estimates 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. We believe the following critical accounting policies require the most significant estimates and judgments.

Product Returns. We accept limited returns and may 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 monitor returns and maintain a provision for estimated returns based upon historical experience and any specific issues identified. While returns have historically been within our expectations and the provisions established, future return rates may differ from those experienced in the past. In the event that our products are performing poorly in the retail market and/or we experience product damages or defects at a rate significantly higher than our historical rate, the resulting returns could have an adverse impact on the operating results for the period or periods in which such returns occur. If our allowance for product returns were to change by 10%, the result, excluding taxes, would have been an approximate \$3.5 million change to net income (loss).

Inventories. Inventories are stated at the lower of cost and net realizable value, including any applicable duty and freight charges. We account for estimated obsolescence or unmarketable inventory equal to the difference between the average cost of inventory and the estimated net realizable value based upon assumptions about future demand, market conditions and available liquidation channels. If actual future demand or market conditions are less favorable than those projected by management, or if liquidation channels are not readily available, additional inventory valuation reductions may be required. We assess our off-price sales on an ongoing basis and update our estimates accordingly. Revenue from sales of our products that are subject to inventory consignment agreements is recognized when title and risk of loss transfers, delivery has occurred, the price to the buyer is determinable and collectability is reasonably assured.

Impairment of Goodwill and Trade Names. We evaluate goodwill for impairment annually as of the end of the fiscal year by comparing the fair value of the reporting unit to its recorded value. Additionally, if events or conditions were to indicate the carrying value of a reporting unit may not be recoverable, we would evaluate goodwill for impairment at that time. We have three reporting units for which we evaluated goodwill for impairment: Americas, Europe and Asia. The fair value of each reporting unit was estimated using market comparable information and discounted cash flows. In fiscal year 2017, we determined goodwill was fully impaired and recognized a pre-tax impairment charge in operations of \$202.3 million, \$114.3 million and \$42.9 million in the Americas, Europe and Asia segments, respectively.

We evaluate indefinite-lived trade names by comparing the fair value of the asset to its recorded value annually as of the end of the fiscal year and whenever events or conditions indicate that the carrying value of the trade name may not be recoverable. The fair value of the asset is estimated using discounted cash flow methodologies. The MICHELE trade name represented approximately 29% of our total trade name balances at the end of fiscal year 2017, 21% at the end of fiscal year 2016 and 19% at the end of fiscal year 2015. The SKAGEN trade name represented approximately 71% of our total trade name balance at the end of fiscal year 2017, 63% at the end of fiscal year 2016 and 65% at the end of fiscal year 2015. In fiscal year 2017, as a result of interim impairment testing, we recorded impairment charges of \$28.3 million and \$7.6 million related to the SKAGEN and MICHELE trade names, respectively. In fiscal year 2016, no impairment charges were recorded related to the SKAGEN or the MICHELE trade names. In fiscal year 2015, \$9.1 million in impairment charges were recorded related to the SKAGEN trade name, and no impairment charges were recorded to the MICHELE trade name. As of December 30, 2017, the fair value of the MICHELE trade name exceeded its carrying value by approximately 12%, and the fair value of the SKAGEN trade name exceeded its carrying value by approximately 13%.

The MISFIT trade name represented approximately 15% of our total trade name balance at the end of fiscal year 2016 and 17% at the end of fiscal year 2015. The MISFIT trade name was being amortized over its estimated useful life, however during fiscal year 2017, the trade name was deemed not recoverable, resulting in an impairment charge of \$11.8 million.

Due to the inherent uncertainties involved in making the estimates and assumptions used in the fair value analysis, actual results may differ, which could alter the fair value of the trade names and possibly cause impairment charges to occur in future periods.

Judgments and assumptions are inherent in our estimate of future cash flows used to determine the estimate of the reporting unit's fair value. The most significant assumptions associated with the fair value calculations include net sales growth rates and discount rates. If the actual future sales results do not meet the assumed growth rates, future impairments of goodwill and trade names may be incurred.

Other Asset Impairment. We test for asset impairment of property, plant and equipment and other long-lived assets whenever events or conditions indicate that the carrying value of an asset might not be recoverable based on expected undiscounted cash flows related to the asset. In evaluating long-lived assets for recoverability, we calculate fair value using our best estimate of future cash flows expected to result from the use of the asset and its eventual disposition. When undiscounted cash flows estimated to be generated through the operations of our Company-owned retail stores are less than the carrying value of the underlying assets, the assets are impaired. If it is determined that assets are impaired, an impairment loss is recognized for the amount that the asset's book value exceeds its fair value. Should actual results or market conditions differ from those anticipated, additional losses may be recorded. We recorded impairment losses in restructuring charges of approximately \$8.3 million, \$13.5 million and \$3.4 million in fiscal years 2017, 2016 and 2015, respectively. We recorded impairment losses in selling, general, and administrative expenses of approximately \$1.6 million, \$2.8 million and \$7.7 million in fiscal years 2017, 2016 and 2015, respectively. In fiscal year 2017, an increase of 100 basis points to the discount rate used in our impairment testing would not have resulted in additional impairment expense. A 10% decrease in future expected cash flows would have increased impairment expense by \$0.3 million. We recorded non-impairment restructuring charges related to the write off of property, plant and equipment of approximately \$0.4 million and \$1.5 million in fiscal years 2017 and 2016, respectively.

We record impairment charges on long-lived assets held for sale when the carrying amount of those assets exceeds their fair value. We recorded impairment charges on long-lived assets held for sale of approximately \$0.7 million in fiscal year 2017 based on a preliminary sales contract.

Income Taxes. We record valuation allowances against our deferred tax assets, when necessary, in accordance with ASC 740, *Income Taxes* ("ASC 740"). Realization of deferred tax assets is dependent on future taxable earnings and is therefore uncertain. At least quarterly, we assess the likelihood that our deferred tax asset balance will be recovered from future taxable income. To the extent we believe that recovery is not likely, we establish a valuation allowance against our deferred tax asset, increasing our income tax expense in the period such determination is made. The valuation allowance for fiscal years 2017, 2016 and 2015 was \$78.3 million, \$19.4 million and \$10.8 million, respectively. In addition, in fiscal year 2017, we recorded a state deferred tax liability of \$1.0 million on foreign earnings not considered to be indefinitely reinvested outside of the U.S. Due to the imposition of the one-time repatriation tax, we reversed the prior year federal deferred tax liability of \$53.7 million.

Our continuing practice is to recognize interest and penalties related to income tax matters in income tax expense. We accrue an amount for our estimate of additional income tax liability which we believe we are more likely than not to incur as a result of the ultimate resolution of tax audits ("uncertain tax positions"). We review and update the estimates used in the accrual for uncertain tax positions as more definitive information becomes available from taxing authorities, upon completion of tax audits, upon expiration of statutes of limitation, or upon occurrence of other events. The results of operations and financial position for future periods could be impacted by changes in assumptions or resolutions of tax audits.

The new Global Intangible Low-Taxed Income ("GILTI") provisions of the Tax Act requiring the inclusion of certain foreign earnings in U.S. taxable income will increase our effective tax rate in future years. Due to the complexity of these new tax rules, we are continuing to evaluate these provisions of the Tax Act. We are not yet able to reasonably estimate the effect of the GILTI provision of the Tax Act and have not made any adjustments related to potential GILTI tax in our financial statements. If applicable, GILTI tax would first apply to our fiscal year 2018, and will be accounted for as incurred under the period cost method.

Accounting for the income tax effects of the Tax Act requires significant judgments and estimates in the interpretation and calculations of the provisions of the Tax Act. Due to the timing of the enactment and the complexity involved in applying the provisions of the Tax Act, we have made reasonable estimates of the effects and recorded provisional amounts in our financial statements for fiscal year 2017 as permitted under Staff Accounting Bulletin No. 118, ("SAB 118") *Income Tax Accounting Implications of the Tax Cuts and Jobs Act*, which provides guidance on accounting for the Tax Act's impact. As we collect and prepare necessary data, and interpret any additional guidance issued by the U.S. Treasury Department or the Internal Revenue Service, we may make adjustments to the provisional amounts. In addition, our valuation allowance analysis is affected by various aspects of the Tax Act, including the new limitation on the deductibility of interest expense and the impact of the GILTI. Those adjustments may materially impact the provision for income taxes and the effective tax rate in the period in which the adjustments are made. The accounting for the tax effects of the enactment of the Tax Act will be completed in fiscal year 2018.

Warranty Costs. Our watch products are covered by limited warranties against defects in materials or workmanship. Historically, our FOSSIL and RELIC watch products sold in the U.S. have been covered for warranty periods of 11 years and 12 years, respectively, and our SKAGEN branded watches have been covered by a lifetime warranty. Beginning in 2017, these brands are covered by a two year warranty. Generally, all other products, including leathers and jewelry, sold in the U.S. and internationally are covered by a comparable one to two year warranty. We determine our warranty liability using historical warranty repair experience. As changes occur in sales volumes and warranty costs, the warranty accrual is adjusted as necessary. Due to the nature of connected products, their warranty costs are usually more than traditional products. A shift in product mix from traditional to connected products generally results in an increase in warranty liabilities. The year-end warranty liability for fiscal years 2017, 2016 and 2015 was \$19.4 million, \$15.4 million and \$13.7 million, respectively.

Hedge Accounting. The Company is exposed to certain market risks relating to foreign exchange rates and interest rates. The Company actively monitors and attempts to manage these exposures using derivative instruments including foreign exchange forward contracts ("forward contracts") and interest rate swaps. The Company's main objective is to hedge the variability in forecasted cash flows due to the foreign currency risks primarily associated with certain anticipated inventory purchases. Changes in the fair value of forward contracts designated as cash flow hedges are recorded in the cumulative translation adjustment component of accumulated other comprehensive income (loss) within stockholders' equity, and are recognized in other income (expense) - net in the period which the intercompany cash payment for inventory is made. Additionally, to the extent that any of these contracts are not considered to be effective in offsetting the change in the value of the cash flows being hedged, any changes in fair value relating to the ineffective portion of these contracts would be recognized in other income (expense) - net on the Company's consolidated statements of income (loss) and comprehensive income (loss). Also, the Company has entered into interest rate swap agreements to effectively convert portions of its variable rate debt obligations to fixed rates. Changes in the fair value of the interest rate swaps that are designated as cash flow hedges are recorded as a component of accumulated other comprehensive income (loss) within stockholders' equity, and are recognized in interest expense in the period in which the payment is settled. Changes in the fair value of the interest rate swaps that are not designated as cash flow hedges are recorded in other income (expense) - net as they occur. To reduce exposure to changes in currency exchange rates adversely affecting the Company's investment in foreign currency-denominated subsidiaries, the Company periodically enters into forward contracts designated as net investment hedges. Both realized and unrealized gains and losses from net investment hedges are recognized in the cumulative translation adjustment component of other comprehensive income (loss), and will be reclassified into earnings in the event the Company's underlying investments are liquidated or disposed. The Company does not enter into derivative financial instruments for trading or speculative purposes. The Company has elected to apply the hedge accounting rules as required by ASC 815, *Derivatives and Hedging*, for designated cash flow hedging instruments.

Stock-Based Compensation. We utilize the Black-Scholes model to determine the fair value of stock options and stock appreciation rights on the date of grant. The model requires us to make assumptions concerning (i) the length of time employees will retain their vested stock options and stock appreciation rights before exercising them ("expected term"), (ii) the volatility of our common stock price over the expected term and (iii) the number of stock options and stock appreciation rights that will be forfeited. Changes in these assumptions can materially affect the estimate of fair value of stock-based compensation and, consequently, the related expense amounts recognized on our consolidated statements of income (loss) and comprehensive income (loss). If the fair value of our stock-based compensation were to change by 10%, excluding taxes, the result would have been a \$3.2 million change to net income (loss) in fiscal 2017.

Results of Operations

Executive Summary

During fiscal year 2017, net sales decreased 8% (9% in constant currency) as compared to the prior fiscal year, as the retail environment remains challenging. During fiscal 2017, net sales declined in all three reporting segments. However, sales trends improved in the second half of the fiscal year across all regions mainly driven by the wearables category. In constant currency, sales in watches declined in all segments, with increases in connected watches more than offset by declines in traditional watches. We remain confident wearables can be one of the key catalysts that could eventually offset the sales declines we have seen in our traditional watch business in recent years. Wearables products accounted for approximately 11% of our net sales in fiscal year 2017 with wearable sales nearly doubling as compared to fiscal year 2016. Leather and jewelry categories declined in all segments. While both our wholesale and retail businesses declined during fiscal 2017, our retail business was stronger than wholesale in all regions, and the U.S. department store business continued to be the most challenging. Our retail sales were negatively impacted by store closures globally, as well as continued traffic declines. During the 2017 fiscal year, we made significant progress in our strategic objectives, advancing our wearables business, leveraging scale in our supply chain, becoming more digitally enabled and continuing our transformation under our New World Fossil ("NWF") initiative.

During fiscal year 2017, FOSSIL branded products decreased 5% (7% in constant currency), driven by weakness in our leathers and jewelry categories, which were partially offset by modest growth in watches. In addition, our SKAGEN branded products decreased 8% (9% in constant currency), with decreases in watches and leathers. Our FOSSIL and SKAGEN watch performance was favorably impacted by wearables. While display watches continue to represent the largest percentage of wearables for the FOSSIL brand, we have had some success in hybrids as well, led by our marketing efforts, store experience and celebrity influencer campaigns. FOSSIL watch sales increased in Europe and Asia partially offset by a decrease in the Americas in fiscal 2017 as compared to the prior fiscal year. SKAGEN watch sales decreased in the Americas and Europe and were flat in Asia over the same period.

The following table presents as reported and constant currency net sales percentage change information by brand for fiscal year 2017 as compared to fiscal year 2016:

Brand	Growth Percentage	
	As Reported	Constant Currency
FOSSIL	(5.4)%	(6.5)%
SKAGEN	(8.2)	(9.0)

Our multi-brand global watch portfolio decreased 6% (same in constant currency) during fiscal year 2017. Growth in EMPORIO ARMANI, ARMANI EXCHANGE and FOSSIL branded watches, driven by wearables, was more than offset by declines in most other brands. We launched ARMANI EXCHANGE hybrid watches at the beginning of fiscal year 2017, and launched EMPORIO ARMANI display and hybrid connected watches late in the third quarter of fiscal year 2017. Our FOSSIL connected watches are now on their third generation. In fiscal 2017, our most significant declines were in MICHAEL KORS and MARC JACOBS watches. Although we have seen some stabilization in the trajectory of MICHAEL KORS, the growth in connected watches was not able to compensate for the declines in traditional watches. Sales of watches declined in the wholesale channel in all three regions and in the Americas retail channel, which were partially offset by strong growth in e-commerce in all regions and to a lesser extent retail store growth in Asia and Europe.

During fiscal 2017, global comparable retail sales (including e-commerce) declined 6% year-over-year, with increases in watches in Asia and Europe more than offset by declines in watches in the Americas and declines in leathers and jewelry in all regions. While comparable retail sales were negative for fiscal year 2017, we did see stronger performance in the fourth quarter with positive comparable retail sales (including e-commerce) of 2%.

During fiscal year 2016, we began working on a multi-year restructuring plan, focused on our growth opportunities, including connected accessories, and improving overall profitability. Our goal continues to be to build a leaner and more nimble operating platform that can support improved profitability in the future, all while better serving our customers and competing in the new retail environment. This transformation will take time, but we are making significant progress to evolve our key categories and streamline our business to position us for profitable growth over the long term. During fiscal year 2017, through a combination of category management programs, direct and indirect sourcing efforts and organizational efficiency initiatives, approximately \$80 million in benefits were reflected in operating income. We expect NWF benefits to expand to \$200 million when completed in 2019.

During fiscal year 2017, gross profit decreased as compared to fiscal year 2016 primarily resulting from decreased sales and a lower gross margin rate. The decrease in gross margin rate was driven by the impact of connected products due to both the increase in sales mix of connected products which carry relatively lower margins than traditional products, as well as additional product valuation charges. Our strategy in fiscal 2017 was to invest in margin to drive significant volume in wearables and leverage that volume to drive future cost efficiencies. Although we nearly doubled our connected sales volumes in fiscal 2017 compared to fiscal 2016, and have exceeded expectations for unit cost savings, we came up short of our aggressive connected sales plan. Consequently, having higher levels of connected inventory than plan and deferring some receipts to fiscal year 2018, resulted in additional valuation charges of approximately \$40 million to support our efforts to clear this inventory. The shift in sales mix towards connected product and the related valuation charges reduced our gross margin rate by 280 basis points. The gross margin rate was also negatively impacted by increased promotional activity in our outlets and e-commerce channels. Product cost benefits generated from our NWF supply chain initiatives partially offset these headwinds.

During the second quarter of fiscal year 2017, due to the sustained declines in our market capitalization and sales trends, we recorded \$359 million of goodwill impairment and \$48 million of impairment related to writing down our SKAGEN, MISFIT and MICHELE trade names. As a result, operating expenses for fiscal year 2017 increased to \$1,783 million including the \$407 million of non-cash intangible asset impairment charges and \$48 million of restructuring costs associated with our NWF initiative. During fiscal year 2017, SG&A expenses decreased, primarily due to corporate overhead reductions and cost reductions in our regional organizations across the globe, as well as a lower store base and reduced marketing expenses. During fiscal year 2017, interest expense increased \$16.3 million to \$43.2 million and other income decreased \$0.3 million to \$13.7 million. Income tax expenses were \$19.8 million for fiscal year 2017 and included impacts from the Tax Cuts and Jobs Act (the "Tax Act") that was signed into law in December 2017 and valuation allowances. During fiscal year 2017, our financial performance resulted in a loss of \$9.87 per diluted share, including non-cash intangible asset impairment charges of \$7.07 per diluted share, tax charges resulting from the Tax Act and valuation allowances of \$2.20 per diluted share and restructuring charges of \$0.65 per diluted share.

Constant Currency Financial Information

As a multinational enterprise, we are exposed to changes in foreign currency exchange rates. The translation of the operations of our foreign-based entities from their local currencies into U.S. dollars is sensitive to changes in foreign currency exchange rates and can have a significant impact on our reported financial results. In general, our overall financial results are affected positively by a weaker U.S. dollar and are affected negatively by a stronger U.S. dollar as compared to the foreign currencies in which we conduct our business.

As a result, in addition to presenting financial measures in accordance with accounting principles generally accepted in the United States of America ("GAAP"), our discussion contains references to constant currency financial information, which is a non-GAAP financial measure. To calculate net sales on a constant currency basis, net sales for the current fiscal year for entities reporting in currencies other than the U.S. dollar are translated into U.S. dollars at the average rates during the comparable period of the prior fiscal year. We present constant currency information to provide investors with a basis to evaluate how our underlying business performed excluding the effects of foreign currency exchange rate fluctuations. The constant currency financial information presented herein should not be considered a substitute for, or superior to, the measures of financial performance prepared in accordance with GAAP. Reconciliations between constant currency financial information and the most directly comparable GAAP measure are included where applicable.

Fiscal Year 2017 Compared to Fiscal Year 2016

Consolidated Net Sales. Net sales decreased \$254.2 million or 8.4% (9.1% in constant currency) for fiscal year 2017, as compared to fiscal year 2016. Global watch sales decreased \$131.3 million or 5.6% (6.4% in constant currency), with increases in EMPORIO ARMANI, ARMANI EXCHANGE and FOSSIL more than offset by declines in most other brands in our portfolio. Our leathers business decreased \$68.3 million or 17.3% (18.0% in constant currency). Our jewelry category decreased \$39.7 million or 15.8% (16.7% in constant currency), mostly as a result of a decrease in sales of MICHAEL KORS, FOSSIL and MISFIT branded products during fiscal year 2017 as compared to fiscal year 2016.

Net sales information by product category is summarized on a reported and constant currency basis as follows (dollars in millions):

	Fiscal Year				Growth (Decline)		
	2017		2016		Dollars	Percentage as Reported	Percentage Constant Currency
	Amounts	Percentage of Total	Amounts	Percentage of Total			
Watches	\$ 2,199.0	78.9%	\$ 2,330.3	76.6%	\$ (131.3)	(5.6)%	(6.4)%
Leathers	325.5	11.7	393.8	12.9	(68.3)	(17.3)	(18.0)
Jewelry	211.7	7.6	251.4	8.3	(39.7)	(15.8)	(16.7)
Other	52.0	1.8	66.9	2.2	(14.9)	(22.3)	(22.6)
Total net sales	\$ 2,788.2	100.0%	\$ 3,042.4	100.0%	\$ (254.2)	(8.4)%	(9.1)%

The following table sets forth consolidated net sales by segment on a reported and constant currency basis (dollars in millions):

	Fiscal Year				Growth (Decline)		
	2017		2016		Dollars	Percentage as Reported	Percentage Constant Currency
	Amounts	Percentage of Total	Amounts	Percentage of Total			
Americas	\$ 1,316.2	47.2%	\$ 1,524.9	50.1%	\$ (208.7)	(13.7)%	(13.8)%
Europe	974.2	34.9	1,002.1	32.9	(27.9)	(2.8)	(4.7)
Asia	497.8	17.9	515.4	17.0	(17.6)	(3.4)	(3.9)
Total net sales	\$ 2,788.2	100.0%	\$ 3,042.4	100.0%	\$ (254.2)	(8.4)%	(9.1)%

Americas Net Sales. During fiscal year 2017, the Americas segment remained our most challenging. Americas net sales decreased \$208.7 million or 13.7% (13.8% in constant currency), largely driven by watches. During fiscal year 2017, our multi-brand watch portfolio decreased \$132.2 million or 11.4% (11.5% in constant currency), with declines across all brands. Continued softness in traditional watches was partially offset by increases in connected watches, with the strongest performances coming from FOSSIL and MICHAEL KORS connected watches. Our leathers category decreased \$49.5 million or 20.0% (20.2% in constant currency), largely driven by FOSSIL branded product and our jewelry business decreased \$21.1 million or 23.0% (23.3% in constant currency), largely due to MISFIT branded product. Within the region, sales declined in the U.S. and Canada, while sales in Mexico were flat. Comparable retail sales (including e-commerce) decreased moderately in the region, as negative comparable sales in our stores were partially offset by positive comparable sales in our e-commerce business.

The following table sets forth product net sales for the Americas segment on a reported and constant currency basis by fiscal year (dollars in millions):

	Net Sales		Growth (Decline)		
	Fiscal Year		Dollars	Percentage as Reported	Percentage Constant Currency
	2017	2016			
Watches	\$ 1,030.1	\$ 1,162.3	\$ (132.2)	(11.4)%	(11.5)%
Leathers	198.2	247.7	(49.5)	(20.0)	(20.2)
Jewelry	70.6	91.7	(21.1)	(23.0)	(23.3)
Other	17.3	23.2	(5.9)	(25.4)	(25.0)
Total	\$ 1,316.2	\$ 1,524.9	\$ (208.7)	(13.7)%	(13.8)%

Europe Net Sales. During fiscal year 2017, Europe net sales decreased \$27.9 million or 2.8% (4.7% in constant currency). Across the Eurozone, sales were down modestly while distributor markets in Eastern Europe and the Middle East declined significantly. Our multi-brand watch portfolio increased \$2.3 million or 0.3% (decreased 1.7% in constant currency), with growth in connected watches largely offsetting declines in traditional watches on a constant currency basis. Within our watch portfolio, ARMANI EXCHANGE, ARMANI and FOSSIL increased, while all other brands declined. Our jewelry category decreased \$12.9 million or 8.8% (10.3% in constant currency), and our leathers business decreased \$9.0 million or 10.7% (12.4% in constant currency) in fiscal year 2017, as compared to fiscal year 2016. Comparable retail sales in the Europe

segment (including e-commerce) decreased modestly, with increases in the watch category more than offset by decreases in our other product categories. Strong e-commerce increases were more than offset by declines in our owned retail stores driven by both store closures and negative comparable retail sales.

The following table sets forth product net sales for the Europe segment on a reported and constant currency basis by fiscal year (dollars in millions):

	Net Sales		Growth (Decline)		
	Fiscal Year		Dollars	Percentage as Reported	Percentage Constant Currency
	2017	2016			
Watches	\$ 742.2	\$ 739.9	\$ 2.3	0.3 %	(1.7)%
Leathers	75.4	84.4	(9.0)	(10.7)	(12.4)
Jewelry	134.2	147.1	(12.9)	(8.8)	(10.3)
Other	22.4	30.7	(8.3)	(27.0)	(27.4)
Total	\$ 974.2	\$ 1,002.1	\$ (27.9)	(2.8)%	(4.7)%

Asia Net Sales. In fiscal year 2017, Asia net sales decreased \$17.6 million or 3.4% (3.9% in constant currency). On a constant currency basis, sales growth in India and China was more than offset by decreases in most other markets, with the sharpest declines in Japan and South Korea. Our watch category decreased \$1.3 million or 0.3% (0.8% in constant currency), with increases in EMPORIO ARMANI, driven by both traditional and connected watches, and FOSSIL watches more than offset by decreases in most other brands. Our leathers products decreased \$9.7 million or 15.7% (16.5% in constant currency), and our jewelry business decreased \$5.8 million or 46.0% (45.2% in constant currency). Comparable retail sales (including e-commerce) in the Asia region decreased moderately, with declines in leathers and jewelry partially offset by increases in watches.

The following table sets forth product net sales for the Asia segment on a reported and constant currency basis by fiscal year (dollars in millions):

	Net Sales		Growth (Decline)		
	Fiscal Year		Dollars	Percentage as Reported	Percentage Constant Currency
	2017	2016			
Watches	\$ 426.8	\$ 428.1	\$ (1.3)	(0.3)%	(0.8)%
Leathers	52.0	61.7	(9.7)	(15.7)	(16.5)
Jewelry	6.8	12.6	(5.8)	(46.0)	(45.2)
Other	12.2	13.0	(0.8)	(6.2)	(5.4)
Total	\$ 497.8	\$ 515.4	\$ (17.6)	(3.4)%	(3.9)%

Stores. The following table sets forth the number of stores by concept for the fiscal years ended below:

	December 30, 2017				December 31, 2016			
	Americas	Europe	Asia	Total	Americas	Europe	Asia	Total
Accessory stores	108	106	59	273	122	119	63	304
Outlets	136	74	46	256	143	73	45	261
Full priced multi-brand	—	8	7	15	—	8	12	20
Total stores	244	188	112	544	265	200	120	585

During fiscal year 2017, we opened 8 new stores and closed 49 stores. During fiscal year 2018, we anticipate opening approximately five additional retail stores and closing approximately 60 stores globally, depending on lease negotiations.

Both stores and e-commerce sites are included in comparable retail 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. Comparable retail sales also exclude the effects of foreign currency fluctuations.

Gross Profit. Gross profit of \$1.4 billion in fiscal year 2017 decreased 13.9% compared to \$1.6 billion in fiscal year 2016, mainly as a result of decreased sales and a lower gross margin rate. Gross profit margin decreased 320 basis points to 48.7% in fiscal year 2017 compared to 51.9% in the prior fiscal year. The decrease in gross margin rate as compared to fiscal year 2016 was primarily driven by the impact of connected products due to both the increase in sales mix of connected products which carry relatively lower margins than traditional products, as well as additional product valuation charges. Our strategy in fiscal 2017 was to invest in margin to drive significant volume in wearables and leverage that volume to drive future cost efficiencies. During fiscal 2017, we nearly doubled our connected sales volumes and finished ahead of the initial cost goals that we set for ourselves in fiscal year 2017. However, we did not achieve the aggressive sales goals that we set for ourselves in this new category, resulting in carrying greater levels of connected product inventory. Consequently, having higher levels of connected inventory than planned and even deferring some receipts to fiscal year 2018, resulted in additional valuation charges of approximately \$40 million to support our efforts to clear this inventory. The shift in sales mix towards connected product and the related valuation charges reduced our gross margin rate by 280 basis points. The gross margin rate was also negatively impacted by increased promotional activity in our outlets and e-commerce channels. Product cost benefits generated from our NWF supply chain initiatives partially offset these headwinds, and the currency impact for the year remained neutral.

Operating Expenses. For fiscal year 2017, total operating expenses increased by \$332.1 million and, as a percentage of net sales, increased to 64.0%, compared to 47.7% in fiscal year 2016, primarily due to intangible impairment charges recorded in the second quarter of fiscal 2017. During the second quarter of fiscal year 2017, interim impairment tests were performed on goodwill and trade names due to the sustained declines in our market capitalization and sales trends, resulting in impairment expenses of \$359.5 million for goodwill and \$47.6 million for trade names. For additional information, please refer to "Note 1 - Significant Accounting Policies" in the consolidated financial statements. During fiscal year 2017, we incurred restructuring charges of \$48.2 million under our NWF initiative compared to restructuring charges of \$27.8 million in fiscal year 2016. During fiscal year 2017, SG&A expenses decreased, primarily due to corporate overhead reductions and cost reductions in our regional organizations across the globe, as well as a lower store base and reduced marketing expenses. The translation of foreign-denominated expenses during fiscal year 2017 increased operating expenses by approximately \$8.1 million as a result of the weaker U.S. dollar. As a percentage of net sales, SG&A expenses increased to 47.6% in fiscal 2017, as compared to 46.8% in fiscal 2016.

Consolidated Operating Income (Loss). Operating income (loss) decreased to a loss of \$424.2 million in fiscal year 2017, as compared to income of \$127.1 million in the prior fiscal year, primarily driven by non-cash intangible impairment charges of \$407.1 million and also by decreased sales and gross margin rate. As a percentage of net sales, operating margin decreased to (15.2)% in fiscal year 2017 as compared to 4.2% in fiscal year 2016. For fiscal year 2017, the positive currency impact on gross margin was offset by the negative currency impact on expenses, resulting in a neutral impact to operating income (loss). In fiscal year 2017, we continued to face retail pressure, most significantly in our traditional watch business in all segments. Additionally, the gross margin rate was negatively impacted by connected products, due to both lower connected margins as well as additional product valuation charges, and lower retail margins due to increased promotional activity in outlets and the e-commerce channel in all segments. Operating expenses increased significantly, primarily due to non-cash impairment charges on our goodwill of \$202.3 million, \$114.3 million and \$42.9 million in the Americas, Europe and Asia segments, respectively, and impairment charges on our trade names of \$47.6 million in corporate. Increased restructuring charges were more than offset by savings in our infrastructure, store costs and marketing expenses.

Operating income (loss) by operating segment is summarized as follows (dollars in millions):

	Fiscal Year		Growth (Decline)		Operating Margin %	
	2017	2016	Dollars	Percentage	2017	2016
Americas	\$ (46.0)	\$ 241.1	\$ (287.1)	(119.1)%	(3.5)%	15.8%
Europe	33.8	174.2	(140.4)	(80.6)	3.5	17.4
Asia	(10.9)	77.6	(88.5)	(114.0)	(2.2)	15.1
Corporate	(401.1)	(365.8)	(35.3)	9.7		
Total operating income (loss)	\$ (424.2)	\$ 127.1	\$ (551.3)	(433.8)%	(15.2)%	4.2%

Interest Expense. Interest expense increased by \$16.3 million in fiscal year 2017, primarily as a result of increased interest rates in comparison to the prior fiscal year.

Other Income (Expense)—Net. During fiscal year 2017, other income (expense) - net decreased by approximately \$0.3 million, driven by fewer gains on the liquidation of non-operating assets, losses on the extinguishment of our term loan in fiscal year 2017 and decreased net foreign currency gains resulting from cash flow hedging and other transactional activities as

compared to fiscal year 2016. These headwinds were mostly offset by increased interest income and decreased losses on our equity method investment.

Provision for Income Taxes. Income tax expense for fiscal year 2017 was \$19.8 million, resulting in an effective tax rate of (4.4)%, compared to 25.1% in fiscal year 2016. The 2017 effective rate was negatively impacted by the accrual of a valuation allowance on U.S. net deferred tax assets as well as some foreign deferred tax assets, the non-deductibility of intangible asset impairments, and the imposition of a one-time repatriation tax on deferred foreign earnings under the Tax Act. The impacts from the tax reform and the U.S. valuation allowances resulted in combined charges of \$106.7 million or \$2.20 per diluted share. For additional information, please refer to "Note 12 - Taxes" in the consolidated financial statements.

Net Income (Loss) Attributable to Fossil Group, Inc. Fiscal year 2017 net income (loss) attributable to Fossil Group, Inc. was a loss of \$9.87 per diluted share in comparison to net income of \$1.63 per diluted share in the prior fiscal year. Diluted earnings (loss) per share included non-cash intangible asset impairment charges of \$7.07 per diluted share, tax charges resulting from the Tax Act and valuation allowances established on deferred tax assets of \$2.20 per diluted share and restructuring charges of \$0.65 per diluted share. Fiscal year 2016, diluted earnings (loss) per share included restructuring charges of \$0.37 per diluted share. Fiscal year 2017 net income (loss) attributable to Fossil Group, Inc. was also negatively impacted by lower sales and gross margin rate. Currencies, including both the translation impact on operating earnings and the impact of foreign currency hedging contracts, unfavorably affected the year-over-year diluted earnings (loss) per share comparison by \$(0.01).

Fiscal Year 2016 Compared to Fiscal Year 2015

Consolidated Net Sales. Net sales decreased \$186.4 million or 5.8%, (4.4% in constant currency) for fiscal year 2016 as compared to fiscal year 2015. Global watch sales decreased \$145.5 million or 5.9% (4.5% in constant currency) as a result of increases in our owned brands FOSSIL and SKAGEN and licensed brands KATE SPADE NEW YORK and TORY BURCH, being more than offset by declines in most other brands in our portfolio. Our leathers business decreased \$15.6 million or 3.8% (2.5% in constant currency). Our jewelry category decreased \$20.7 million or 7.6% (5.9% in constant currency), mostly as a result of a decrease in sales of MICHAEL KORS and FOSSIL branded products during fiscal year 2016 as compared to fiscal year 2015.

Net sales information by product category is summarized on a reported and constant currency basis as follows (dollars in millions):

	Fiscal Year				Growth (Decline)		
	2016		2015		Dollars	Percentage as Reported	Percentage Constant Currency
	Amounts	Percentage of Total	Amounts	Percentage of Total			
Watches	\$ 2,330.3	76.6%	\$ 2,475.8	76.7%	\$ (145.5)	(5.9)%	(4.5)%
Leathers	393.8	12.9	409.4	12.7	(15.6)	(3.8)	(2.5)
Jewelry	251.4	8.3	272.1	8.4	(20.7)	(7.6)	(5.9)
Other	66.9	2.2	71.5	2.2	(4.6)	(6.4)	(5.6)
Total net sales	\$ 3,042.4	100.0%	\$ 3,228.8	100.0%	\$ (186.4)	(5.8)%	(4.4)%

The following table sets forth consolidated net sales by segment on a reported and constant currency basis (dollars in millions):

	Fiscal Year				Growth (Decline)		
	2016		2015		Dollars	Percentage as Reported	Percentage Constant Currency
	Amounts	Percentage of Total	Amounts	Percentage of Total			
Americas	\$ 1,524.9	50.1%	\$ 1,661.9	51.5%	\$ (137.0)	(8.2)%	(7.5)%
Europe	1,002.1	32.9	1,069.8	33.1	(67.7)	(6.3)	(3.5)
Asia	515.4	17.0	497.1	15.4	18.3	3.7	4.0
Total net sales	\$ 3,042.4	100.0%	\$ 3,228.8	100.0%	\$ (186.4)	(5.8)%	(4.4)%

Americas Net Sales. During fiscal year 2016, we experienced the most significant retail headwinds in the Americas segment. Americas net sales decreased \$137.0 million or 8.2% (7.5% in constant currency), driven by watches but with jewelry

and leathers contributing to the declines as well. During fiscal year 2016, our multi-brand watch portfolio decreased \$100.6 million or 8.0% (7.1% in constant currency) and our leathers category decreased \$21.9 million or 8.1% (7.7% in constant currency). Our Americas watch sales decline during fiscal year 2016 was primarily driven by MICHAEL KORS and partially offset by increases in KATE SPADE NEW YORK and TORY BURCH. Our jewelry business decreased \$8.1 million or 8.1% (7.7% in constant currency) in fiscal year 2016 as compared to the fiscal year 2015 primarily driven by declines in MICHAEL KORS jewelry partially offset by increases from the MISFIT brand. Within the region, sales declined in the U.S. and were slightly offset by growth in Mexico and Canada on a constant currency basis. Comparable retail store sales decreased modestly in our owned retail stores, most notably in our outlets.

The following table sets forth product net sales for the Americas segment on a reported and constant currency basis by fiscal year (dollars in millions):

	Net Sales		Growth (Decline)		
	Fiscal Year		Dollars	Percentage as Reported	Percentage Constant Currency
	2016	2015			
Watches	\$ 1,162.3	\$ 1,262.9	\$ (100.6)	(8.0)%	(7.1)%
Leathers	247.7	269.6	(21.9)	(8.1)	(7.7)
Jewelry	91.7	99.8	(8.1)	(8.1)	(7.7)
Other	23.2	29.6	(6.4)	(21.6)	(20.9)
Total	\$ 1,524.9	\$ 1,661.9	\$ (137.0)	(8.2)%	(7.5)%

Europe Net Sales. During fiscal year 2016, Europe net sales decreased \$67.7 million or 6.3% (3.5% in constant currency). We experienced declines in most countries, with the most significant sales declines in the United Kingdom and our distributor markets. Our multi-brand watch portfolio decreased \$49.8 million or 6.3% (3.4% in constant currency) while our jewelry category decreased \$18.0 million or 10.9% (8.5% in constant currency) and our leathers business remained flat (increased 3.7% in constant currency) in fiscal year 2016 as compared to fiscal year 2015. Comparable retail store sales in our owned retail stores in the European region remained flat, with increases in our outlets and watch categories offset by decreases in our full-priced stores and other product categories.

The following table sets forth product net sales for the Europe segment on a reported and constant currency basis by fiscal year (dollars in millions):

	Net Sales		Growth (Decline)		
	Fiscal Year		Dollars	Percentage as Reported	Percentage Constant Currency
	2016	2015			
Watches	\$ 739.9	\$ 789.7	\$ (49.8)	(6.3)%	(3.4)%
Leathers	84.4	84.4	—	—	3.7
Jewelry	147.1	165.1	(18.0)	(10.9)	(8.5)
Other	30.7	30.6	0.1	0.3	2.9
Total	\$ 1,002.1	\$ 1,069.8	\$ (67.7)	(6.3)%	(3.5)%

Asia Net Sales. In fiscal year 2016, Asia net sales increased \$18.3 million or 3.7% (4.0% in constant currency). Sales growth was led by India, our distributor markets, South Korea, Australia and China and was partially offset by decreases in Hong Kong, Taiwan and Macau on a constant currency basis. Our watch category increased \$4.9 million or 1.2% (1.4% in constant currency), while our leathers products increased \$6.4 million or 11.6% (13.2% in constant currency). Our jewelry business increased \$5.4 million or 75.0% (76.4% in constant currency). Comparable retail store sales in our owned retail stores in the Asia region increased slightly with modest comparable store sale increases in our full-priced and outlet FOSSIL branded stores partially offset by declines in our other store concepts.

The following table sets forth product net sales for the Asia segment on a reported and constant currency basis by fiscal year (dollars in millions):

	Net Sales		Growth (Decline)		
	Fiscal Year		Dollars	Percentage as Reported	Percentage Constant Currency
	2016	2015			
Watches	\$ 428.1	\$ 423.2	\$ 4.9	1.2%	1.4%
Leathers	61.7	55.3	6.4	11.6	13.2
Jewelry	12.6	7.2	5.4	75.0	76.4
Other	13.0	11.4	1.6	14.0	10.5
Total	\$ 515.4	\$ 497.1	\$ 18.3	3.7%	4.0%

Stores. The following table sets forth the number of stores by concept for the fiscal years ended below:

	December 31, 2016				January 2, 2016			
	Americas	Europe	Asia	Total	Americas	Europe	Asia	Total
Full price	122	119	63	304	128	126	68	322
Outlets	143	73	45	261	153	71	46	270
Full priced multi-brand	—	8	12	20	—	7	20	27
Total stores	265	200	120	585	281	204	134	619

During fiscal year 2016, we opened 18 new stores and closed 52 stores.

Gross Profit. Gross profit of \$1.6 billion in fiscal year 2016 decreased 10.0% in comparison to \$1.8 billion in fiscal year 2015 mainly as a result of decreased sales. Gross profit margin decreased 240 basis points to 51.9% in fiscal year 2016 compared to 54.3% in fiscal year 2015. The gross margin rate decreased as compared to fiscal year 2015 primarily due to increased promotional activity in our outlet stores and an increased mix of connected product sales. Additionally, our wholesale channel was burdened by an increased mix of off-price sales at lower margin rates and the impacts of currency decreased our gross profit margin rate by 70 basis points. Partially offsetting these headwinds were the favorable impacts of our margin improvement initiatives.

Operating Expenses. For fiscal year 2016, total operating expenses decreased by \$11.2 million and, as a percentage of net sales, increased to 47.7%, compared to 45.3% in fiscal year 2015. Operating expenses decreased due to lower store and core infrastructure costs, a \$14.9 million favorable impact from changes in foreign currency, the non-recurrence of both the SKAGEN trade name impairment and Misfit acquisition-related professional services recorded in fiscal year 2015, partially offset by an increase in expenses associated with wearables infrastructure and Misfit intangible amortization.

Consolidated Operating Income. Operating income decreased by \$164.1 million, or 56.4%, in fiscal year 2016 as compared to fiscal year 2015 mainly driven by decreased sales and gross margin rate and included a \$31.7 million unfavorable impact from changes in foreign currencies. As a percentage of net sales, operating income decreased to 4.2% in fiscal year 2016 as compared to 9.0% in fiscal year 2015 and was negatively impacted by approximately 90 basis points due to changes in foreign currencies.

Sales and gross profit margins were negatively impacted by currencies in all regional segments in fiscal year 2016 as compared to fiscal year 2015, although not as extensively as in fiscal year 2015 compared to fiscal year 2014. On a constant currency basis, sales and gross profit margins decreased in the Americas and Europe and increased in Asia while the gross profit margin rate decreased across all segments. The gross margin rate declined primarily as a result of promotional activity in our outlet stores and an increased mix of connected product sales in all geographies. Additionally, the Americas gross profit margin rate was unfavorably impacted by an increased mix of sales in the wholesale off-price channel to manage inventory levels. These unfavorable impacts to the gross profit margin rate were partially offset by a favorable impact from our margin improvement initiatives in all segments. In fiscal year 2016, total operating expenses decreased compared to fiscal year 2015 as reduced store expenses and lower core infrastructure costs were partially offset by corporate cost increases in wearables infrastructure and Misfit purchase accounting related costs. Our operating expenses in fiscal year 2016 also benefited from real estate sales in the Americas and Europe. During fiscal year 2016 as compared to fiscal 2015, operating expense leverage was

relatively flat in Europe and improved in Asia while weakening in the Americas largely due to fixed expenses on lower sales and increased restructuring costs related to store closures.

Operating income by operating segment is summarized as follows (dollars in millions):

	Fiscal Year		Growth (Decline)		Operating Margin %	
	2016	2015	Dollars	Percentage	2016	2015
Americas	\$ 241.1	\$ 354.3	\$ (113.2)	(32.0)%	15.8%	21.3%
Europe	174.2	210.5	(36.3)	(17.2)	17.4	19.7
Asia	77.6	71.7	5.9	8.2	15.1	14.4
Corporate	(365.8)	(345.3)	(20.5)	5.9		
Total operating income	\$ 127.1	\$ 291.2	\$ (164.1)	(56.4)%	4.2%	9.0%

Interest Expense. Interest expense increased by \$6.9 million in fiscal year 2016 as a result of increased interest rates in comparison to the fiscal year 2015.

Other Income (Expense)—Net. During fiscal year 2016, other income (expense) - net decreased by approximately \$26.4 million, largely driven by decreased net foreign currency gains resulting from cash flow hedging and other transactional activities as compared to fiscal year 2015. Additionally, the fiscal year 2015 other income (expense) - net amount included a \$5.2 million gain related to an interest rate hedge settlement related to a potential debt issuance which did not occur. Fiscal year 2016 includes a gain of \$3.5 million for the liquidation of some non-operating Misfit assets, which partially offset our unfavorable other income (expense) - net change.

Provision for Income Taxes. Income tax expense for fiscal year 2016 was \$28.7 million, resulting in an effective tax rate of 25.1%, compared to 26.2% in fiscal year 2015. The lower effective tax rate for fiscal year 2016 as compared to fiscal year 2015 was mostly attributable to lower U.S. taxable income taxed at higher effective tax rates.

Net Income Attributable to Fossil Group, Inc. Fiscal year 2016 net income attributable to Fossil Group, Inc. was \$1.63 per diluted share in comparison to \$4.51 per diluted share in fiscal year 2015, mainly driven by the sales decline and reduced margin rate. Diluted earnings per share decreased \$0.87 due to the translation impact of a stronger U.S. dollar and less net foreign currency gains resulting from cash flow hedging and other transactional activities. Diluted earnings per share was also unfavorably impacted by a \$0.37 per diluted share decrease due to the amortization of acquired Misfit intangible assets and of related contingent equity grants. An increase in interest expense negatively impacted our diluted earnings per share by \$0.11 due to increased interest rates. Partially offsetting these decreases was a \$0.16 favorable impact to diluted earnings per share due to the sale of real estate.

Liquidity and Capital Resources

Historically, our business operations have not required substantial cash during the first several months of our fiscal year. Generally, starting in the third quarter, our cash needs begin to increase, typically reaching a peak in the September-November time frame as we increase inventory levels in advance of the holiday season. Our quarterly cash requirements are also impacted by the number of new stores we open, other capital expenditures and strategic investments such as acquisitions. Our cash and cash equivalents balance at the end of fiscal year 2017 was \$231.2 million, including \$186.4 million held by foreign subsidiaries outside the U.S., in comparison to \$297.3 million at the end of fiscal year 2016.

For fiscal year 2017, we generated operating cash flow of \$179.5 million. This operating cash flow combined with cash on hand was utilized to fund \$190.1 million in net repayments on our credit facilities and \$25.5 million in capital expenditures. Net losses of \$473.6 million were offset by net non-cash items of \$498.0 million and a net decrease in working capital items of \$155.1 million. Non-cash items primarily consisted of goodwill and trade name impairment charges of \$407.1 million, depreciation, amortization and accretion charges of \$81.0 million, stock-based compensation of \$30.4 million, partially offset by deferred income taxes and other of \$43.5 million.

Accounts receivable decreased by 2.3% to \$367.0 million at the end of fiscal year 2017 compared to \$375.5 million at the end of the prior fiscal year. Average days sales outstanding for our wholesale business for fiscal year 2017 was 55 days compared to 50 days in the prior fiscal year due to shifts in customer mix and the elimination of an early pay discount customer program in parts of Europe.

Inventory at the end of fiscal year 2017 was \$573.8 million, representing an increase of 5.8% from the prior fiscal year inventory balance of \$542.5 million driven by our connected business. We have significantly reduced our inventories of traditional watches, and we are working to clear the previous generation connected products over the next few quarters.

The following table reflects our common stock repurchase activity under our repurchase programs for the periods indicated (in millions):

Fiscal Year Authorized	Dollar Value Authorized	Termination Date	For the 2017 Fiscal Year		For the 2016 Fiscal Year	
			Number of Shares Repurchased	Dollar Value Repurchased	Number of Shares Repurchased	Dollar Value Repurchased
2014	\$ 1,000.0	December 2018	—	\$ —	0.1	\$ 5.2
2010	\$ 30.0	None	—	\$ —	—	\$ —

We did not repurchase any shares of common stock under our repurchase programs during fiscal year 2017. During fiscal year 2016, we effectively retired approximately 0.1 million shares of common stock repurchased under our repurchase programs. The effective retirement of common stock repurchased during the 2016 fiscal year decreased common stock by \$1,100, additional paid-in capital by \$0.2 million, retained earnings by \$5.0 million and treasury stock by \$5.2 million. At December 31, 2016 and December 30, 2017, all treasury stock had been effectively retired. We are currently prohibited by the terms of our revolving credit facility from repurchasing additional shares of common stock under our repurchase programs.

At the end of fiscal year 2017, we had working capital of \$781.9 million compared to working capital of \$932.7 million at the end of the prior fiscal year. Additionally, at the end of fiscal year 2017, we had approximately \$2.1 million of outstanding short-term borrowings and \$443.9 million in long-term debt.

As of December 30, 2017, we do not consider \$650.3 million of undistributed earnings of our foreign subsidiaries to be indefinitely reinvested. Tax legislation enacted in 2017 allows a federal tax exemption on foreign dividends, and foreign withholding tax is not applicable. As such, we have only accrued state income taxes on these amounts. We have not provided taxes on the remaining \$378.0 million of undistributed earnings of our foreign subsidiaries because we consider such earnings to be indefinitely reinvested outside the U.S and our current plans do not indicate a need to repatriate them to fund our U.S. operations.

For the fiscal year ending December 29, 2018, we expect total capital expenditures to be approximately \$25 million. Of this amount, we expect approximately 40% will be for technology and facilities maintenance, approximately 35% will be for strategic growth, including investments in omni-channel, global concessions and technology and approximately 25% will be for retail store expansion and renovation. Our capital expenditure budget and allocation of it to the foregoing investments are estimates and are subject to change. We believe that cash flows from operations combined with existing cash on hand and amounts available under our credit facilities will be sufficient to fund our working capital needs and planned capital expenditures for the next twelve months.

Debt Facilities

On March 9, 2015, we entered into an Amended and Restated Credit Agreement (as amended, the “Credit Agreement”). The Credit Agreement provided for (i) revolving credit loans (the “Revolving Credit Facility”), with an up to \$20.0 million subfacility for swingline loans (the “Swingline Loan”), and an up to \$10.0 million subfacility for letters of credit, and (ii) a term loan in the amount of \$231.3 million (the “Term Loan”). The Credit Agreement amended and restated that certain credit agreement, dated as of May 17, 2013, as amended (the “Prior Agreement”).

On March 10, 2017, we entered into the Second Amendment to the Amended and Restated Credit Agreement (the “Second Amendment”). The Second Amendment reduced the Revolving Credit Facility under the Credit Agreement from \$1.05 billion to \$850.0 million. The Second Amendment also removed the incremental term loan that was available under the Credit Agreement, extended the maturity date of the Credit Agreement to May 17, 2019 and removed our ability to make offers to the lenders to extend the maturity date of the Term Loan or the Revolving Credit Facility. The Second Amendment also amended the repayment schedule for the Term Loan and required us to make monthly payments on the last business day of each month beginning April 30, 2018. The Second Amendment also amended the mandatory prepayment provisions under the Credit Agreement and provided that to the extent there were excess proceeds remaining from the issuance of debt following the repayment in full of the Term Loan, we were required to repay the Revolving Credit Facility in the amount of such excess proceeds, with a corresponding permanent reduction in the Revolving Credit Facility in the amount of up to \$50.0 million.

The Second Amendment amended the applicable margin used to calculate the interest rate that was applicable to base rate loans and London Interbank Offer Rate ("LIBOR") rate loans and provided that the interest rate margin for base rate loans was 2.50% per annum and the interest rate margin for LIBOR rate loans was 3.50% per annum. On October 1, 2017, the applicable margin on the Term Loan automatically increased to 2.75% per annum for base rate loans and 3.75% per annum for LIBOR rate loans. The Second Amendment also changed the commitment fee payable with respect to the Revolving Credit Facility to 0.50% per annum. Furthermore, the Second Amendment changed the consolidated total leverage ratio that we were required to comply with from 3.25 to 1.00 to the ratios as set forth below:

Period	Maximum Ratio
October 1, 2017 through and including March 31, 2018	3.25 to 1.00
April 1, 2018 through and including September 29, 2018	3.50 to 1.00
September 30, 2018 and thereafter	3.25 to 1.00

As of December 30, 2017, amounts outstanding under the Revolving Credit Facility and the Term Loan under the Credit Agreement bore interest, at our option, at (i) the base rate plus 2.75% or (ii) the LIBOR rate (defined as the quotient obtained by dividing (a) LIBOR by (b) 1.00 minus the Eurodollar reserve percentage) plus 3.75%.

During fiscal year 2017, we made principal payments of \$193.8 million under the Term Loan, which repaid the outstanding balance. During fiscal year 2017, we had average outstanding borrowings of \$618.7 million under the Revolving Credit Facility at an average interest rate of 4.45%. As of December 30, 2017, we had \$445.0 million outstanding under the Revolving Credit Facility. As of December 30, 2017, we also had unamortized debt issuance costs of \$4.7 million, which reduce the corresponding debt liability. In addition, we had \$0.8 million of outstanding standby letters of credit at December 30, 2017. Amounts available under the Revolving Credit Facility are reduced by any amounts outstanding under standby letters of credit. As of December 30, 2017, we had \$199.8 million available for borrowing under the Revolving Credit Facility, which was favorably impacted by a \$149.6 million international cash balance. At December 30, 2017, we were in compliance with all debt covenants related to all our credit facilities.

On January 29, 2018, we and certain of our foreign subsidiaries entered into a Second Amended and Restated Credit Agreement (the "Second A&R Credit Agreement"). The Second A&R Credit Agreement provides for (i) revolving credit loans in the amount of \$325 million, subject to a borrowing base (as described below) (the "Second A&R Revolving Credit Facility"), with an up to \$45.0 million subfacility for letters of credit, and (ii) a term loan in the amount of \$425 million (the "Term Loan Facility"). The Second A&R Credit Agreement expires and is due and payable on December 31, 2020. Borrowings under the Second A&R Credit Agreement were used to pay the outstanding balance under the Revolving Credit Facility.

Availability under the Second A&R Revolving Credit Facility and any letters of credit are subject to a borrowing base equal to, (a) with respect to Fossil Group, Inc., the sum of (i) 85% of eligible U.S. accounts receivable and 90% of net U.S.

credit card receivables (less any dilution reserve), (ii) the lesser of (A) 65% of the lower of cost or market value of eligible U.S. finished good inventory and (B) 85% of the appraised net orderly liquidation value of eligible U.S. finished goods inventory, and (iii) until the earlier of (x) March 31, 2018 and (y) the date on which certain of our foreign subsidiaries join the Second A&R Credit Agreement as non-U.S. borrowers, (A) 35% of eligible foreign accounts receivable of certain pledged foreign subsidiaries, plus (B) the least of (x) 35% of the lower of cost or market value of eligible foreign finished good inventory of such pledged foreign subsidiaries, (y) 35% of the appraised net orderly liquidation value of eligible foreign finished good inventory of such pledged foreign subsidiaries, and (z) \$100,000,000, minus (C) all indebtedness for borrowed money of such pledged foreign subsidiaries (subject to exceptions) minus (iv) the aggregate amount of reserves, if any, established by the Administrative Agent in good faith and in the exercise of reasonable business judgment from the perspective of a secured asset-based lender; and (b) with respect to each non-U.S. borrower, the sum of (i) 85% of eligible accounts receivable of the non-U.S. borrowers (less any dilution reserve) and (ii) the least of (A) 65% of the lower of cost or market value of eligible foreign finished goods inventory of the non-U.S. borrowers, (B) 85% of the appraised net orderly liquidation value of eligible foreign finished goods inventory of the non-U.S. borrowers, and (C) \$185,000,000 minus (iii) the aggregate amount of reserves, if any, established by the Administrative Agent in good faith and in the exercise of reasonable business judgment from the perspective of a secured asset-based lender.

In connection with the Second A&R Credit Agreement, we and all of our domestic subsidiaries entered into a Collateral Agreement in favor of the Administrative Agent, pursuant to which we and our subsidiaries granted liens on all or substantially all of our assets in order to secure our obligations under the Second A&R Credit Agreement and the other loan documents (the "Obligations"). Additionally, all of our domestic subsidiaries entered into a Guaranty Agreement in favor of the Administrative Agent, pursuant to which such subsidiaries guarantee the payment and performance of the Obligations. Additionally, Fossil Group Europe and the other non-U.S. borrowers from time to time party to the Second A&R Credit Agreement are required to enter into security instruments with respect to all or substantially all of their assets that can be pledged under applicable local law.

As of January 29, 2018, amounts outstanding under the Second A&R Revolving Credit Facility bear interest at (a) the LIBOR rate plus the applicable interest margin, (b) the daily LIBOR rate plus the applicable interest margin or (c) the base rate plus the applicable interest margin. The applicable interest margin varies from 4.00% to 5.00% for LIBOR rate loans and daily LIBOR rate loans and 1.50% to 3.00% for base rate loans and is based on our average daily excess availability under the revolving credit loans under the Second A&R Credit Agreement for the most recently ended calendar quarter, which is an amount equal to (a) the lesser of (i) \$325 million and (ii) the aggregate borrowing base minus (b) the amount of all outstanding borrowings and letter of credit obligations under the revolving credit facility under the Second A&R Credit Agreement, for each day during the applicable period divided by the number of days in such period.

Amounts outstanding under the Term Loan Facility bear interest at a rate per annum equal to (a) the LIBOR rate plus 7%, increasing to the LIBOR rate plus 8% on the first anniversary of the closing of the Second A&R Credit Agreement and the LIBOR rate plus 9% on the second anniversary of the closing of the Second A&R Credit Agreement and thereafter or (b) the base rate plus 5.5%, increasing to the base rate plus 6.5% on the first anniversary of the closing of the Second A&R Credit Agreement and to the base rate plus 7.5% on the second anniversary of the closing of the Second A&R Credit Agreement and thereafter.

We are required to repay the outstanding principal balance of the Term Loan Facility in the amount of \$25 million on March 31, 2018, \$125 million on March 31, 2019, \$75 million on March 31, 2020 and the outstanding balance on December 31, 2020. Additionally, loans under the Second A&R Credit Agreement may be prepaid, in whole or in part, at our option, in minimum principal amounts of (a) \$1.0 million or increments of \$1.0 million in excess thereof, with respect to a base rate loan under the Second A&R Revolving Credit Facility, (b) \$5.0 million or increments of \$1.0 million in excess thereof, with respect to a LIBOR rate loan or a daily LIBOR rate loan under the Second A&R Revolving Credit Facility, and (c) \$5.0 million or increments of \$1.0 million in excess thereof, with respect to the Term Loan Facility. Loans under the Second A&R Credit Agreement must be repaid with the net cash proceeds of certain asset sales, insurance and condemnation events, certain debt and equity issuances and certain cash dividends received from our subsidiaries. We may permanently reduce the revolving credit commitment at any time, in whole or in part, without premium or penalty, in a minimum aggregate principal amount of not less than \$3.0 million or increments of \$1.0 million in excess thereof.

We are required to pay a commitment fee on the unused amounts of the commitments under the Second A&R Revolving Credit Facility, payable quarterly in arrears, of 0.5% on the average daily unused portion of the overall commitment under the Second A&R Revolving Credit Facility.

The repayment obligation under the Second A&R Credit Agreement can be accelerated upon the occurrence of an event of default, including the failure to pay principal or interest, a material inaccuracy of a representation or warranty, violation of

covenants, cross-default, change in control, bankruptcy events, failure of a loan document provision, certain ERISA events and material judgments.

Financial covenants governing the Second A&R Credit Agreement require us to maintain (a) a minimum fixed charge coverage ratio measured quarterly on a rolling twelve-month basis of 1.15 to 1.00 if our quarter-end balances of cash and cash equivalents plus the excess availability under the Second A&R Revolving Credit Facility is less than \$200 million; (b) a maximum leverage ratio measured as of the last day of each fiscal quarter for the period of four fiscal quarters ending on such date of (i) 4.5 to 1.0 for the period ending March 31, 2018, (ii) 4.75 to 1.0 for the period ending June 30, 2018, (iii) 5.0 to 1.0 for the period ending September 29, 2018, (iv) 4.25 to 1.0 for the period ending December 29, 2018, (v) 3.75 to 1.0 for each fiscal quarter ending during the period from December 30, 2018 through September 28, 2019, and (vi) 3.5 to 1.0 thereafter; (c) a minimum trailing twelve-month EBITDA tested quarterly of \$110 million (beginning with the fiscal quarter ending December 29, 2018); (d) a minimum liquidity covenant of unrestricted cash and cash equivalents plus available and unused capacity under the Second A&R Revolving Credit Facility equal to \$160 million; and (e) maximum capital expenditures of \$35 million per year.

On June 23, 2016, Fossil Accessories South Africa Pty Ltd, entered into a 20 million South African rand short-term note with First National Bank (the "Fossil South Africa Note") that is used for working capital purposes. The Fossil South Africa Note bears interest at the bank's prime rate, 10.25% as of year end 2017. The Fossil South Africa Note is reviewed annually for renewal. South African rand-based borrowings, in U.S. dollars, under the Fossil South Africa Note were approximately \$0.9 million at the end of fiscal year 2017.

Contractual Obligations

The following table identifies our contractual obligations as of December 30, 2017 (in thousands):

	Total	Less than 1 Year	1 - 3 Years	3 - 5 Years	More than 5 Years
Debt obligations ⁽¹⁾	\$ 445,906	\$ 906	\$ 445,000	\$ —	\$ —
Interest payments on debt ⁽²⁾	32,370	23,565	8,805	—	—
Minimum royalty payments ⁽³⁾	164,701	154,115	10,586	—	—
Capital lease obligations ⁽⁴⁾	4,960	1,285	2,108	1,567	—
Operating lease obligations	712,955	144,108	227,245	155,167	186,435
Purchase obligations ⁽⁵⁾	357,253	317,326	38,269	1,524	134
Uncertain tax positions ⁽⁶⁾	5,360	5,360	—	—	—
Total contractual obligations ⁽⁷⁾⁽⁸⁾	<u>\$ 1,723,505</u>	<u>\$ 646,665</u>	<u>\$ 732,013</u>	<u>\$ 158,258</u>	<u>\$ 186,569</u>

(1) Consists of borrowings, excluding contractual interest payments and unamortized debt issuance costs of \$4.7 million.

(2) Consists of estimated interest payments under the Revolving Credit Facility.

(3) Consists primarily of minimum royalty commitments under exclusive licenses to manufacture watches and jewelry under trademarks not owned by us. However these minimum royalty commitments do not include 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.

(4) Payments shown include interest.

(5) Consists primarily of open non-cancelable purchase orders.

(6) Management has only included its current ASC 740 liability in the table above. Long-term amounts of \$30.0 million have been excluded because the payment timing cannot be reasonably estimated.

(7) Pension obligations of \$13.8 million and deferred compensation liabilities of \$5.2 million have been excluded because the payment timing cannot be reasonably estimated.

(8) The contingent consideration liability of \$6.5 million related to Fossil Accessories South Africa Pty. Ltd. has been excluded because the payment timing cannot be reasonably estimated.

Off Balance Sheet Arrangements

We are the guarantor for a 5.0 million Swiss franc credit facility agreement entered into by Swiss Technology Components Ltd. ("STC"), our equity method investee. We are obligated to pay up to 5.5 million Swiss francs in the event of default by STC.

There are no other off balance sheet arrangements other than those disclosed in Note 13—Commitments and Contingencies to our consolidated financial statements set forth in Part II, Item 8 of this Annual Report on Form 10-K.

Selected Quarterly Consolidated Financial Data

The table below sets forth selected quarterly consolidated financial information. The information is derived from our unaudited consolidated financial statements and includes 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. Certain line items presented in the tables below, when aggregated, may not agree with the corresponding line items on our consolidated statements of income (loss) and comprehensive income (loss) for fiscal years 2017 and 2016 due to rounding (in thousands, except percentage and per share data).

<u>Fiscal Year 2017</u>	<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>
Net sales	\$ 581,790	\$ 596,846	\$ 688,722	\$ 920,805
Gross profit	289,519	301,347	319,893	448,080
Net income (loss)	(46,789)	(343,099)	(5,479)	(78,192)
Net income (loss) attributable to noncontrolling interest	1,397	1,613	(80)	1,683
Net income (loss) attributable to Fossil Group, Inc.	\$ (48,186)	\$ (344,712)	\$ (5,399)	\$ (79,875)
Earnings (loss) per share:				
Basic	\$ (1.00)	\$ (7.11)	\$ (0.11)	\$ (1.65)
Diluted	\$ (1.00)	\$ (7.11)	\$ (0.11)	\$ (1.65)
Gross profit as a percentage of net sales	49.8%	50.5%	46.4%	48.7%

<u>Fiscal Year 2016</u>	<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>
Net sales	\$ 659,847	\$ 685,368	\$ 737,990	\$ 959,166
Gross profit	348,337	355,750	385,080	489,019
Net income	7,396	8,072	19,348	50,786
Net income attributable to noncontrolling interest	1,603	2,051	1,992	1,088
Net income attributable to Fossil Group, Inc.	\$ 5,793	\$ 6,021	\$ 17,356	\$ 49,698
Earnings per share:				
Basic	\$ 0.12	\$ 0.13	\$ 0.36	\$ 1.03
Diluted	\$ 0.12	\$ 0.12	\$ 0.36	\$ 1.03
Gross profit as a percentage of net sales	52.8%	51.9%	52.2%	51.0%

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 fiscal year. Our third and fourth quarters, which include the "back to school" and Christmas seasons, have historically generated a significant portion of our annual operating income. Connected products appear to be more seasonal than traditional products which may further impact our operational performance in the third and fourth quarters as compared to the first half of the year. 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 of the following fiscal year as a result of higher levels of restocking orders placed by retailers.

As we expand our e-commerce business and improve productivity in our retail store base, sales from the direct to consumer distribution channel may increase as a percentage of the total sales mix. Based upon the historical seasonality of

direct to consumer sales, we believe this expansion could result in higher levels of profitability in the fourth quarter and lower levels of profitability in the first and second quarters when, due to seasonality, it is more difficult to leverage retail store four wall operating costs and back office expenses against a lower level of sales productivity. 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, the timing of investments and the mix of products sold by us.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Foreign Currency Exchange Rate 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, to a lesser extent, the Canadian dollar, British pound, Japanese yen, Mexican peso and Australian dollar as compared to the U.S. dollar. Due to our vertical nature whereby a significant portion of goods are sourced from our owned entities, the foreign currency risks relate primarily to the necessary current settlement of intercompany inventory transactions. We employ a variety of operating practices to manage these market risks relative to foreign currency exchange rate changes and, where deemed appropriate, utilize forward contracts. These operating practices include, among others, our ability to convert foreign currency into U.S. dollars at spot rates and to maintain U.S. dollar pricing relative to sales of our products to certain distributors located outside the U.S. The use of forward contracts allows us 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 managed foreign currency transactional exposure in fiscal year 2017 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.

The following table shows our outstanding forward contracts designated as cash flow hedges for intercompany inventory transactions (in millions) at December 30, 2017 and their expiration dates.

Functional Currency		Contract Currency		
Type	Amount	Type	Amount	Expiring Through
Euro	245.2	U.S. dollar	286.6	November 2019
Canadian dollar	88.4	U.S. dollar	68.7	December 2019
British pound	41.1	U.S. dollar	54.8	December 2019
Japanese yen	4,105.7	U.S. dollar	37.9	December 2019
Mexican peso	388.5	U.S. dollar	20.2	September 2018
Australian dollar	8.6	U.S. dollar	6.7	June 2018
U.S. Dollar	33.5	Japanese Yen	3,670.0	November 2018

If we were to settle our euro, Canadian dollar, British pound, Japanese yen, Mexican peso, Australian dollar and U.S. dollar based forward contracts hedging intercompany inventory transactions as of December 30, 2017, the net result would have been a net loss of approximately \$11.0 million, net of taxes. As of December 30, 2017, a 10% unfavorable change in the U.S. dollar strengthening against foreign currencies to which we have balance sheet transactional exposures would have decreased net pre-tax income by \$28.8 million. The translation of the balance sheets of our foreign-based operations from their local currencies into U.S. dollars is also sensitive to changes in foreign currency exchange rates. As of December 30, 2017, a 10% unfavorable change in the exchange rate of the U.S. dollar strengthening against the foreign currencies to which we have exposure would have reduced consolidated stockholders' equity by approximately \$61.1 million.

Interest Rate Risk

We are subject to interest rate volatility with regard to debt borrowings. Based on our variable-rate debt outstanding as of December 30, 2017, a 100 basis point increase in interest rates would increase annual interest expense by approximately \$4.5 million.

Item 8. Consolidated Financial Statements and Supplementary Data

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the stockholders and the Board of Directors of Fossil Group, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Fossil Group, Inc. and subsidiaries (the "Company") as of December 30, 2017 and December 31, 2016, and the related consolidated statements of income (loss) and comprehensive income (loss), stockholders' equity, and cash flows for each of the three years in the period ended December 30, 2017, and the related notes and the schedule listed in the Index at Item 15 (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 30, 2017 and December 31, 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 30, 2017, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 30, 2017, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 2, 2018, expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Deloitte & Touche LLP

Dallas, Texas
March 2, 2018

We have served as the Company's auditor since 1988.

FOSSIL GROUP, INC.
CONSOLIDATED BALANCE SHEETS
IN THOUSANDS

	December 30, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 231,244	\$ 297,330
Accounts receivable-net	367,013	375,520
Inventories	573,788	542,487
Prepaid expenses and other current assets	118,943	131,953
Total current assets	<u>1,290,988</u>	<u>1,347,290</u>
Property, plant and equipment-net	219,742	273,851
Goodwill	—	355,263
Intangible and other assets-net	147,642	210,493
Total long-term assets	<u>367,384</u>	<u>839,607</u>
Total assets	<u>\$ 1,658,372</u>	<u>\$ 2,186,897</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 204,981	\$ 163,644
Short-term and current portion of long-term debt	2,144	26,368
Accrued expenses:		
Compensation	70,725	52,993
Royalties	39,874	30,062
Co-op advertising	27,946	29,111
Transaction taxes	36,547	26,743
Other	109,211	69,565
Income taxes payable	17,660	16,099
Total current liabilities	<u>509,088</u>	<u>414,585</u>
Long-term income taxes payable	47,093	18,584
Deferred income tax liabilities	1,096	55,877
Long-term debt	443,942	609,961
Other long-term liabilities	76,206	72,452
Total long-term liabilities	<u>568,337</u>	<u>756,874</u>
Commitments and contingencies (Note 13)		
Stockholders' equity:		
Common stock, 48,643 and 48,269 shares issued and outstanding at December 30, 2017 and December 31, 2016, respectively	486	483
Additional paid-in capital	242,263	213,352
Retained earnings	409,653	887,825
Accumulated other comprehensive income (loss)	(76,269)	(95,424)
Total Fossil Group, Inc. stockholders' equity	<u>576,133</u>	<u>1,006,236</u>
Noncontrolling interest	4,814	9,202
Total stockholders' equity	<u>580,947</u>	<u>1,015,438</u>
Total liabilities and stockholders' equity	<u>\$ 1,658,372</u>	<u>\$ 2,186,897</u>

See notes to the consolidated financial statements.

FOSSIL GROUP, INC.
CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)
IN THOUSANDS, EXCEPT PER SHARE DATA

Fiscal Year	2017	2016	2015
Net sales	\$ 2,788,163	\$ 3,042,371	\$ 3,228,836
Cost of sales	1,429,324	1,464,185	1,475,369
Gross profit	1,358,839	1,578,186	1,753,467
Operating expenses:			
Selling, general and administrative expenses	1,327,816	1,423,262	1,428,717
Goodwill and trade name impairments	407,128	—	9,116
Restructuring charges	48,171	27,778	24,400
Total operating expenses	1,783,115	1,451,040	1,462,233
Operating income (loss)	(424,276)	127,146	291,234
Interest expense	43,214	26,894	20,018
Other income (expense) - net	13,736	14,056	40,443
Income (loss) before income taxes	(453,754)	114,308	311,659
Provision for income taxes	19,805	28,705	81,757
Net income (loss)	(473,559)	85,603	229,902
Less: Net income attributable to noncontrolling interest	4,613	6,735	9,265
Net income (loss) attributable to Fossil Group, Inc.	\$ (478,172)	\$ 78,868	\$ 220,637
Other comprehensive income (loss), net of taxes:			
Currency translation adjustment	\$ 37,368	\$ (20,160)	\$ (54,466)
Cash flow hedges - net change	(20,448)	2,929	(7,057)
Pension plan activity	2,235	2,313	(2,573)
Total other comprehensive income (loss)	19,155	(14,918)	(64,096)
Total comprehensive income (loss)	(454,404)	70,685	165,806
Less: Comprehensive income attributable to noncontrolling interest	4,613	6,735	9,265
Comprehensive income (loss) attributable to Fossil Group, Inc.	\$ (459,017)	\$ 63,950	\$ 156,541
Earnings (loss) per share:			
Basic	\$ (9.87)	\$ 1.64	\$ 4.52
Diluted	\$ (9.87)	\$ 1.63	\$ 4.51
Weighted average common shares outstanding:			
Basic	48,468	48,136	48,800
Diluted	48,468	48,323	48,924

See notes to the consolidated financial statements.

FOSSIL GROUP, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
AMOUNTS IN THOUSANDS

	Common stock			Treasury stock	Retained earnings	Accumulated other comprehensive income (loss)	Stockholders' equity attributable to Fossil Group, Inc.	Noncontrolling interest	Total stockholders' equity
	Shares	Par value	Additional paid-in capital						
Balance, January 4, 2015	50,771	\$ 508	\$ 171,669	\$ —	\$ 822,093	\$ (16,410)	\$ 977,860	\$ 5,941	\$ 983,801
Common stock issued upon exercise of stock options and stock appreciation rights	113	1	769	—	—	—	770	—	770
Tax benefit derived from stock-based compensation	—	—	(1,128)	—	—	—	(1,128)	—	(1,128)
Acquisition of common stock	—	—	887	(232,169)	—	—	(231,282)	—	(231,282)
Retirement of common stock	(2,759)	(28)	(3,368)	232,169	(228,773)	—	—	—	—
Stock-based compensation	—	—	18,627	—	—	—	18,627	—	18,627
Net income	—	—	—	—	220,637	—	220,637	9,265	229,902
Other comprehensive income (loss)	—	—	—	—	—	(64,096)	(64,096)	—	(64,096)
Distribution of noncontrolling interest earnings and other	—	—	—	—	—	—	—	(9,883)	(9,883)
Purchase of noncontrolling interest shares	—	—	—	—	—	—	—	5,832	5,832
Balance, January 2, 2016	48,125	\$ 481	\$ 187,456	\$ —	\$ 813,957	\$ (80,506)	\$ 921,388	\$ 11,155	\$ 932,543
Common stock issued upon exercise of stock options and stock appreciation rights	310	3	93	—	—	—	96	—	96
Tax expense derived from stock-based compensation	—	—	(2,995)	—	—	—	(2,995)	—	(2,995)
Acquisition of common stock	—	—	247	(7,484)	—	—	(7,237)	—	(7,237)
Retirement of common stock	(166)	(1)	(2,483)	7,484	(5,000)	—	—	—	—
Stock-based compensation	—	—	31,034	—	—	—	31,034	—	31,034
Net income	—	—	—	—	78,868	—	78,868	6,735	85,603
Other comprehensive income (loss)	—	—	—	—	—	(14,918)	(14,918)	—	(14,918)
Distribution of noncontrolling interest earnings and other	—	—	—	—	—	—	—	(8,688)	(8,688)
Balance, December 31, 2016	48,269	\$ 483	\$ 213,352	\$ —	\$ 887,825	\$ (95,424)	\$ 1,006,236	\$ 9,202	\$ 1,015,438
Common stock issued upon exercise of stock options, stock appreciation rights and restricted stock units	467	4	(4)	—	—	—	—	—	—
Acquisition of common stock	—	—	126	(1,344)	—	—	(1,218)	—	(1,218)
Retirement of common stock	(93)	(1)	(1,343)	1,344	—	—	—	—	—
Stock-based compensation	—	—	31,604	—	—	—	31,604	—	31,604
Net income (loss)	—	—	—	—	(478,172)	—	(478,172)	4,613	(473,559)
Other comprehensive income (loss)	—	—	—	—	—	19,155	19,155	—	19,155
Distribution of noncontrolling interest earnings and other	—	—	—	—	—	—	—	(4,022)	(4,022)
Purchase of noncontrolling interest shares	—	—	(1,472)	—	—	—	(1,472)	(4,979)	(6,451)
Balance, December 30, 2017	48,643	\$ 486	\$ 242,263	\$ —	\$ 409,653	\$ (76,269)	\$ 576,133	\$ 4,814	\$ 580,947

See notes to consolidated financial statements.

FOSSIL GROUP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
AMOUNTS IN THOUSANDS

Fiscal Year	2017	2016	2015
Operating Activities:			
Net income (loss)	\$ (473,559)	\$ 85,603	\$ 229,902
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation, amortization and accretion	80,973	94,592	87,662
Stock-based compensation	30,400	31,034	18,627
Decrease in allowance for returns-net of inventory in transit	(336)	(3,600)	(1,282)
Loss (gain) on disposal of assets	2,510	(9,851)	1,913
Fixed asset and other long-lived asset impairment losses	3,213	2,828	7,688
Goodwill and tradename impairment losses	407,128	—	9,116
Non-cash restructuring charges	10,684	15,745	3,962
Equity method investment losses	460	1,321	—
Increase (decrease) in allowance for doubtful accounts	7,140	(2,819)	2,384
Excess tax benefits from stock-based compensation	—	(5)	(177)
Loss on extinguishment of debt	1,029	—	—
Deferred income taxes and other	(43,491)	(18,561)	929
Gain on business divestiture	(1,750)	(3,500)	—
Changes in operating assets and liabilities, net of effect of acquisitions:			
Accounts receivable	14,367	(12,900)	42,912
Inventories	6,829	64,827	(43,082)
Prepaid expenses and other current assets	13,509	26,098	(36,902)
Accounts payable	34,864	(43,020)	41,843
Accrued expenses	52,761	(20,116)	12,545
Income taxes payable	32,811	2,451	(17,269)
Net cash provided by operating activities	<u>179,542</u>	<u>210,127</u>	<u>360,771</u>
Investing Activities:			
Additions to property, plant and equipment	(25,520)	(65,674)	(79,767)
(Increase) decrease in intangible and other assets	(1,499)	771	(3,730)
Skagen Designs arbitration settlement	—	—	5,968
Proceeds from the sale of property, plant, equipment and other	548	44,908	179
Misfit escrow receipts	—	3,341	—
Business acquisitions-net of cash acquired	—	—	(220,189)
Net investment hedge settlement	—	752	3,709
Business divestiture	1,750	3,500	—
Net cash used in investing activities	<u>(24,721)</u>	<u>(12,402)</u>	<u>(293,830)</u>
Financing Activities:			
Acquisition of common stock	(1,218)	(7,237)	(231,282)
Distribution of noncontrolling interest earnings and other	(4,022)	(8,688)	(9,883)
Debt borrowings	2,128,181	1,035,838	2,548,650
Debt payments	(2,318,246)	(1,207,205)	(2,368,408)
Payment for shares of Fossil, S.L.	—	(8,657)	—
Other financing activities	(6,405)	(2,545)	(3,104)
Net cash used in financing activities	<u>(201,710)</u>	<u>(198,494)</u>	<u>(64,027)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(19,197)</u>	<u>8,824</u>	<u>10,100</u>
Net (decrease) increase in cash and cash equivalents	<u>(66,086)</u>	<u>8,055</u>	<u>13,014</u>
Cash and cash equivalents:			
Beginning of year	297,330	289,275	276,261
End of year	<u>\$ 231,244</u>	<u>\$ 297,330</u>	<u>\$ 289,275</u>

See notes to the consolidated financial statements.

FOSSIL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Significant Accounting Policies

Consolidated Financial Statements include the accounts of Fossil Group, Inc., a Delaware corporation, and its subsidiaries (the "Company"). The Company is a leader in the design, development, marketing and distribution of contemporary, high quality fashion accessories on a global basis. The Company's products are sold primarily through department stores, specialty retailers, Company-owned retail stores and commercial websites worldwide. The Company reports on a fiscal year reflecting the retail-based calendar (containing 4-4-5 week calendar quarters). References to fiscal years 2017, 2016 and 2015 are for the fiscal years ended December 30, 2017, December 31, 2016 and January 2, 2016, respectively. All intercompany balances and transactions are eliminated in consolidation.

Use of Estimates is required in the preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America. Management makes estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, management evaluates its estimates and judgments, including those related to product returns, inventories, long-lived assets, goodwill and trade names, income taxes, warranty costs, hedge accounting and stock-based compensation. Management bases its estimates and judgments on historical experience and on various other factors that it believes are reasonable under the circumstances. Management estimates form the basis for making judgments about the carrying value of the assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates under different assumptions or conditions.

Concentration of Risk involves financial instruments that potentially expose the Company to concentration of credit risk and consist primarily of cash investments and accounts receivable. The Company places its cash investments with high-credit quality financial institutions and currently invests primarily in corporate debt securities and money market funds with major banks and financial institutions. Accounts receivable are generally diversified due to the number of entities comprising the Company's customer base and their dispersion across many geographic regions. The Company believes no significant concentration of credit risk exists with respect to these cash investments and accounts receivable.

A significant portion of sales of the Company's products are supplied by manufacturers located outside of the U.S., primarily in Asia. While the Company is not dependent on any single manufacturer outside the U.S., the Company could be adversely affected by political or economic disruptions affecting the business or operations of third-party manufacturers located outside of the U.S. In fiscal year 2017, two of the Company's majority-owned assembly factories accounted for approximately 55% of the Company's non-Swiss watch assembly, and one of the Company's majority-owned assembly factories accounted for approximately 63% of the Company's jewelry production.

The Company has entered into multi-year, worldwide exclusive license agreements for the manufacture, distribution and sale of products bearing the brand names of certain globally recognized fashion companies. Sales of the Company's licensed products amounted to 47.0% of the consolidated net sales for fiscal year 2017, of which MICHAEL KORS® product sales accounted for 22.6% of the consolidated net sales for fiscal year 2017.

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

Accounts Receivable at the end of fiscal years 2017 and 2016 are stated net of allowances of approximately \$75.2 million and \$66.9 million for estimated customer returns, respectively, and net of doubtful accounts of approximately \$12.9 million and \$12.8 million, respectively. The Company's policy is to maintain allowances for bankruptcies until the bankruptcies are actually settled. The total amount charged to expenses during fiscal year 2017 relating to the Company's doubtful accounts receivable was \$7.1 million.

Inventories are stated at the lower of cost and net realizable value, including any applicable duty and freight charges. Inventory held at consignment locations is included in the Company's finished goods inventory, and at the end of fiscal years 2017 and 2016, was \$54.5 million and \$51.1 million, respectively.

Investments in which the Company has significant influence over the investee are accounted for utilizing the equity method. The Company had an equity method investment of \$1.8 million and \$1.3 million at the end of fiscal years 2017 and 2016, respectively, recorded in other long-term liabilities due to the Company's practice of continuing to loan funds to the investee to cover the investee's accumulated losses. If the Company does not have significant influence over the investee, the

FOSSIL GROUP, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

cost method is utilized. The Company's cost method investments at the end of fiscal years 2017 and 2016 were \$0.5 million and \$2.0 million, respectively.

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

Depreciation is calculated using the straight-line method over the estimated useful lives of the assets of 30 years for buildings, generally five years for machinery and equipment and furniture and fixtures and two to seven years for computer equipment and software. Leasehold improvements are amortized over the shorter of the lease term or the asset's estimated useful life.

Property, plant and 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. Property, plant and equipment and other long-lived assets losses of underperforming Company-owned retail stores of approximately \$8.3 million, \$13.5 million and \$3.4 million were recorded in restructuring charges in fiscal years 2017, 2016 and 2015, respectively, and losses of approximately \$1.6 million, \$2.8 million and \$7.7 million were recorded in selling, general, and administrative ("SG&A") in fiscal years 2017, 2016 and 2015, respectively. Additionally, in fiscal years 2017 and 2016, the Company recorded non-impairment losses related to the disposal of property, plant and equipment of \$0.4 million and \$1.5 million, respectively, included in restructuring charges in the Company's consolidated statements of income (loss) and comprehensive income (loss).

Property Held for Sale is recorded at the lower of cost or estimated fair value, less estimated costs to sell once the property meets certain criteria. Depreciation on property held for sale is discontinued. At the end of fiscal year 2017, the Company had property held for sale of \$12.3 million recorded in prepaid expenses and other current assets primarily related to an office building in Germany that the Company plans to sell and leaseback in fiscal year 2018. A loss of \$0.7 million was recorded in restructuring charges in the Company's consolidated statements of income (loss) and comprehensive income (loss) for the amount the carrying value of the office exceeded the fair value.

Goodwill and Other Intangible Assets include the acquisition cost in excess of net assets acquired (goodwill), trademarks, trade names, developed technology, customer lists and patents. Trademarks, trade names with finite lives, developed technology, customer lists and patents are amortized using the straight-line method over their estimated useful lives, which are generally three to 20 years. Goodwill and other indefinite-lived intangible assets, such as indefinite-lived trade names, are evaluated for impairment annually as of the end of the fiscal year. Additionally, if events or conditions were to indicate the carrying value of a reporting unit or an indefinite-lived intangible asset may not be recoverable, the Company would evaluate the asset for impairment at that time. Impairment testing compares the carrying amount of the reporting unit or other intangible assets with its fair value. When the carrying amount of the reporting unit or other intangible assets exceeds its fair value, an impairment charge is recorded.

The Company has three reporting units for which it evaluated goodwill for impairment. These reporting units are (i) Americas, (ii) Europe and (iii) Asia. At the end of fiscal year 2016, the Company's market capitalization exceeded the carrying amount of its net assets by 23%. At the end of the first quarter of fiscal 2017, the Company experienced a decline in market capitalization and, as a result of the decline, the Company's market capitalization was 14% below the carrying amount of its net assets as of April 1, 2017. During the second quarter of fiscal 2017, the Company's market capitalization continued to decline, at which point the Company determined the decrease in stock price to be sustained and thus a strong indicator of impairment. Due to a change in key assumptions used in interim testing, a decline in sales projections, the Company believed that impairment of goodwill and trade names was more likely than not as of June 15, 2017, and therefore performed interim tests for each reporting unit and trade name. Using a combination of discounted cash flow and guideline public company methodologies, the Company compared the fair value of each of its three reporting units with their carrying value and concluded that goodwill was fully impaired. Accordingly, in the second quarter of fiscal 2017, the Company recognized pre-tax impairment charges in operations of \$202.3 million, \$114.3 million and \$42.9 million in the Americas, Europe and Asia segments, respectively.

During the second quarter of fiscal 2017, the SKAGEN[®] trade name with a carrying amount of \$55.6 million was written down to its implied fair value of \$27.3 million, resulting in a pre-tax impairment charge of \$28.3 million; the MISFIT[®] trade name with a carrying amount of \$11.8 million was deemed not recoverable, resulting in a pre-tax impairment charge of \$11.8 million and the MICHELE[®] trade name with a carrying amount of \$18.5 million was written down to its implied fair value of \$10.9 million, resulting in a pre-tax impairment charge of \$7.6 million. The fair values of the Company's indefinite-lived SKAGEN and MICHELE trade names were estimated using the relief from royalty method. The fair value of the Company's definite-lived MISFIT trade name was estimated using a discounted cash flow methodology. A reduction in expected future cash flows negatively affected the valuation compared to previous valuation assumptions. Due to the inherent uncertainties

FOSSIL GROUP, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

involved in making the estimates and assumptions used in the fair value analysis, actual results may differ, which could alter the fair value of the trade names and possibly result in impairment charges in future periods. No impairment charges were recorded in fiscal year 2016. In fiscal year 2015, impairment charges of \$9.1 million were recorded related to the SKAGEN trade name.

Accrued Expenses Other includes liabilities relating to warranties, duty, deferred compensation, gift cards, foreign exchange forward contracts ("forward contracts"), deferred rent, and other liabilities which are current in nature.

Other Long-Term Liabilities includes obligations relating to asset retirements, deferred rent, forward contracts and defined benefits relating to certain international employees that are not current in nature.

Cumulative Translation Adjustment is included as a component of accumulated other comprehensive income (loss) and reflects the adjustments resulting from translating the financial statements of foreign subsidiaries into U.S. dollars. The functional currency of the Company's foreign subsidiaries is the currency of the primary economic environment in which the entity operates, which is generally the local currency of the country. Accordingly, assets and liabilities of the foreign subsidiaries are translated to U.S. dollars at fiscal year-end exchange rates. Income and expense items are translated at average monthly exchange rates. Cumulative translation adjustments remain in accumulated other comprehensive income (loss) and are reclassified into earnings in the event the related foreign subsidiary is sold or liquidated.

Foreign Transaction Gains and Losses are those changes in exchange rates of currencies not considered the functional currency that affect cash flows and the related receivables or payables. The Company incurred net foreign currency transaction gains, including gains and losses associated with the settlement of forward contracts, of approximately \$7.8 million, \$8.7 million and \$32.6 million for fiscal years 2017, 2016 and 2015, respectively. These net gains have been included in other income (expense)—net in the Company's consolidated statements of income (loss) and comprehensive income (loss).

Hedging Instruments The Company is exposed to certain market risks relating to foreign exchange rates and interest rates. The Company actively monitors and attempts to mitigate, but does not eliminate, these exposures using derivative instruments, including forward contracts and interest rate swaps. The Company's foreign subsidiaries periodically enter into forward contracts to hedge the future payment of intercompany inventory transactions denominated in U.S. dollars. Additionally, during the first quarter of fiscal year 2016, the Company entered into forward contracts to manage fluctuations in Japanese yen exchange rates that will be used to settle future third-party inventory component purchases by a U.S. dollar functional currency subsidiary. If the Company was to settle its euro, Canadian dollar, British pound, Japanese yen, Mexican peso, Australian dollar and U.S. dollar forward contracts as of December 30, 2017, the result would have been a net loss of approximately \$11.0 million, net of taxes. This unrealized loss is recognized in other comprehensive income (loss), net of taxes on the Company's consolidated statements of income (loss) and comprehensive income (loss). Additionally, to the extent that any of these contracts are not considered to be effective in offsetting the change in the value of the cash flows being hedged, any changes in fair value relating to the ineffective portion of these contracts would be recognized in other income (expense)-net on the Company's consolidated statements of income (loss) and comprehensive income (loss). Also, the Company entered into an interest rate swap agreement in order to manage its variable rate debt obligations. The underlying debt related to the interest rate swap was extinguished during the fourth quarter of fiscal year 2017, at which point the interest rate swap was considered a non-designated hedge. Prior to the debt extinguishment, changes in the fair value of the interest rate swap were recorded as a component of accumulated other comprehensive income (loss) within stockholders' equity, and recognized in interest expense in the period in which the payment was settled. When the interest rate swap was converted to a non-designated hedge, the amount in accumulated other comprehensive income (loss) was reclassified into other income (expense) on the Company's consolidated statements of income (loss) and comprehensive income (loss). Any future changes in fair value of the interest rate swap will be recognized in other income (expense) when the changes occur. To reduce exposure to changes in currency exchange rates adversely affecting the Company's investment in foreign currency-denominated subsidiaries, the Company periodically enters into forward contracts designated as net investment hedges. Both realized and unrealized gains and losses from net investment hedges are recognized in the cumulative translation adjustment component of other comprehensive income (loss), and will be reclassified into earnings in the event the Company's underlying investments are liquidated or disposed. The Company does not enter into derivative financial instruments for trading or speculative purposes. See Note 8—Derivatives and Risk Management for additional disclosures about the Company's use of derivatives.

Litigation Liabilities are estimated amounts for claims that are probable and can be reasonably estimated and are recorded as liabilities in the Company's consolidated balance sheets. The likelihood of a material change in these estimated liabilities would be dependent on new claims that may arise, changes in the circumstances used to estimate amounts for prior period claims and favorable or unfavorable final settlements of prior period claims. As additional information becomes

FOSSIL GROUP, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

available, the Company assesses the potential liability related to new claims and existing claims and revises estimates as appropriate. As new claims arise or circumstances change relative to prior claim assessments, revisions in estimates of the potential liability could materially impact the Company's consolidated results of operations and financial position.

Stock-Based Compensation is recognized as expense related to the fair value of employee stock-based awards. The Company utilizes the Black-Scholes model to determine the fair value of stock options and stock appreciation rights on the date of grant. The model requires the Company to make assumptions concerning (i) the length of time employees will retain their vested stock options and stock appreciation rights before exercising them ("expected term"), (ii) the volatility of the Company's common stock price over the expected term and (iii) the number of stock options and stock appreciation rights that will be forfeited. Changes in these assumptions can materially affect the estimate of fair value of stock-based compensation and, consequently, the related expense amounts recognized on the Company's consolidated statements of income (loss) and comprehensive income (loss).

Revenues from sales of the Company's products including those that are subject to inventory consignment agreements are recognized when title and risk of loss transfers, delivery has occurred, the price to the buyer is determinable and collectability is reasonably assured. 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. Product returns are accounted for as reductions to revenue, cost of sales, accounts receivable and an increase in inventory to the extent the returned product is resalable. While returns have historically been within management's expectations and the provisions established, future return rates may differ from those experienced in the past. In the event that the Company's products are performing poorly in the retail market and/or it experiences product damages or defects at a rate significantly higher than the historical rate, the resulting returns could have an adverse impact on the operating results for the period or periods in which such returns occur. Taxes imposed by governmental authorities on the Company's revenue-producing activities with customers, such as sales taxes and value added taxes, are excluded from net sales.

Cost of Sales includes raw material costs, assembly labor, assembly overhead including depreciation expense, assembly warehousing costs and shipping and handling costs related to the movement of finished goods from assembly locations to sales distribution centers and from sales distribution centers to customer locations. Additionally, cost of sales includes customs duties, product packaging cost, royalty cost associated with sales of licensed products, the cost of molding and tooling and inventory shrinkage and damages.

Operating Expenses include SG&A, goodwill and trade name impairments and restructuring charges. SG&A expenses include selling and distribution expenses primarily consisting of sales and distribution labor costs, sales distribution center and warehouse facility costs, depreciation expense related to sales distribution and warehouse facilities, the four-wall operating costs of the Company's retail stores, point-of-sale expenses, advertising expenses and art, design and product development labor costs. SG&A also includes general and administrative expenses primarily consisting of administrative support labor and "back office" or support costs such as treasury, legal, information services, accounting, internal audit, human resources, executive management costs and costs associated with stock-based compensation. Restructuring charges include costs to reorganize, refine and optimize the Company's infrastructure and store closures. See Note 19—Restructuring for additional information on the Company's restructuring plan.

Advertising Costs for in-store and media advertising as well as co-op advertising, catalog costs, product displays, show/exhibit costs, advertising royalties related to the sales of licensed brands, internet costs associated with affiliation fees, printing, sample costs and promotional allowances are expensed as incurred within SG&A. Advertising costs were approximately \$207.1 million, \$238.4 million and \$241.3 million for fiscal years 2017, 2016 and 2015, respectively.

Warranty Costs are included in SG&A. The Company records an estimate for future warranty costs based on historical repair costs and adjusts the liability as required. Warranty costs have historically been within the Company's expectations and the provisions established. If such costs were to substantially exceed estimates, this could have an adverse effect on the Company's operating results. See Note 4—Warranty Liabilities, for more information regarding warranties.

Research and Development Costs are incurred primarily through the Company's in-house engineering team and also through some outside consulting and labor and consist primarily of personnel-related expenses, tooling and prototype materials and overhead costs. The Company's research and development expenses are related to designing and developing new products

FOSSIL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

and features and improving existing products. The Company's research and development expenses are recorded in SG&A and consisted of \$42.8 million, \$38.6 million and \$5.2 million in fiscal years 2017, 2016 and 2015, respectively.

Noncontrolling Interest is recognized as equity in the Company's consolidated balance sheets, is reflected in net income attributable to noncontrolling interest in the consolidated statements of income (loss) and comprehensive income (loss) and is captured within the summary of changes in equity attributable to controlling and noncontrolling interests. Noncontrolling interests represent ownership interests in the Company's subsidiaries held by third parties.

Other Comprehensive Income (Loss) which is reported in the consolidated statements of income (loss) and comprehensive income (loss) and consolidated statements of stockholders' equity, consists of net income and other gains and losses affecting equity that are excluded from net income. The components of other comprehensive income (loss) primarily consist of foreign currency translation gains and losses and net realized and unrealized gains and losses on the following: (i) derivatives designated as cash flow hedges; and (ii) the Company's defined benefit plans.

Earnings (Loss) Per Share ("EPS") is based on the weighted average number of common shares outstanding during each period. Diluted EPS adjusts basic EPS for the effects of dilutive common stock equivalents 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 (in thousands except per share data):

<u>Fiscal Year</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Numerator:			
Net income (loss) attributable to Fossil Group, Inc.	\$ (478,172)	\$ 78,868	\$ 220,637
Denominator:			
Basic EPS computation:			
Basic weighted average common shares outstanding	48,468	48,136	48,800
Basic EPS	\$ (9.87)	\$ 1.64	\$ 4.52
Diluted EPS computation:			
Basic weighted average common shares outstanding	48,468	48,136	48,800
Stock options, stock appreciation rights and restricted stock units	—	187	124
Diluted weighted average common shares outstanding	48,468	48,323	48,924
Diluted EPS	\$ (9.87)	\$ 1.63	\$ 4.51

Approximately 4.6 million weighted average shares issuable under stock-based awards were not included in the diluted EPS calculation in fiscal year 2017 because they were antidilutive, including approximately 1.2 million weighted performance-based shares.

Approximately 2.3 million and 0.6 million weighted average shares issuable under stock-based awards were not included in the diluted EPS calculation in fiscal years 2016 and 2015, respectively, because they were antidilutive. In fiscal year 2016, approximately 0.3 million weighted average performance-based shares were not included in the diluted EPS calculation as the performance targets were not met. Performance shares were not issued prior to fiscal year 2015.

Income Taxes are provided for under the asset and liability method for temporary differences in the recognition of assets and liabilities recognized for income tax and financial reporting purposes. Deferred tax assets are periodically assessed for the likelihood of whether they are more likely than not to be realized. In fiscal year 2017, tax expense of \$56.5 million was accrued for valuation allowances against U.S. and foreign income tax deferred tax assets. Tax benefits associated with uncertain tax positions are recognized in the period in which one of the following conditions is satisfied: (i) the more likely than not recognition threshold is satisfied; (ii) the position is ultimately settled through negotiation or litigation; or (iii) the statute of limitations for the taxing authority to examine and challenge the position has expired. Tax benefits associated with an uncertain tax position are derecognized in the period in which the more likely than not recognition threshold is no longer satisfied.

FOSSIL GROUP, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The new Global Intangible Low-Taxed Income (“GILTI”) provisions of the Tax Act requiring the inclusion of certain foreign earnings in U.S. taxable income will increase our effective tax rate in future years. Due to the complexity of these new tax rules, we are continuing to evaluate these provisions of the Tax Act. We are not yet able to reasonably estimate the effect of the GILTI provision of the Tax Act and have not made any adjustments related to potential GILTI tax in our financial statements. If applicable, GILTI tax would first apply to our fiscal year 2018 and will be accounted for as incurred under the period cost method.

Accounting for the income tax effects of the Tax Act requires significant judgments and estimates in the interpretation and calculations of the provisions of the Tax Act. Due to the timing of the enactment and the complexity involved in applying the provisions of the Tax Act, the Company has made reasonable estimates of the effects and recorded provisional amounts in its financial statements for fiscal year 2017 as permitted under Staff Accounting Bulletin No. 118, (“SAB 118”) *Income Tax Accounting Implications of the Tax Cuts and Jobs Act*, which provides guidance on accounting for the Tax Act’s impact. As the Company collects and prepares necessary data, and interprets any additional guidance issued by the U.S. Treasury Department or the Internal Revenue Service, the Company may make adjustments to the provisional amounts. In addition, the Company’s valuation allowance analysis is affected by various aspects of the Tax Act, including the new limitation on the deductibility of interest expense and the impact of GILTI. Those adjustments may materially impact the provision for income taxes and the effective tax rate in the period in which the adjustments are made. The accounting for the tax effects of the enactment of the Tax Act will be completed in fiscal year 2018.

Recently Issued Accounting Standards

In August 2017, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities* (“ASU 2017-12”). ASU 2017-12 amends and simplifies hedge accounting guidance in order to enable entities to better portray the economics of their risk management activities. The guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those periods. Early adoption is permitted. The Company is currently evaluating the impact of the standard on its consolidated financial statements and related disclosures.

In May 2017, the FASB issued ASU 2017-09, *Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting* (“ASU 2017-09”). ASU 2017-09 clarifies when to account for a change to the terms or conditions of a share-based payment award as a modification. Under the new guidance, modification accounting is required only if the fair value, the vesting conditions, or the classification of the award changes as a result of the modification. The guidance is effective for annual periods beginning after December 15, 2017, including interim periods within those periods. Early adoption is permitted. This standard will not have a material impact on the Company’s consolidated results of operations or financial position.

In January 2017, the FASB issued ASU 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business* (“ASU 2017-01”). ASU 2017-01 clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The guidance is effective for annual periods beginning after December 15, 2017, including interim periods within those periods. This standard will not have a material impact on the Company’s consolidated results of operations or financial position.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* (“ASU 2016-18”). ASU 2016-18 requires that a statement of cash flows explain the change during the period in total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. ASU 2016-18 is effective for annual periods, and interim periods within those years, beginning after December 15, 2017. Early adoption is permitted. This standard will not have a material impact on the Company’s consolidated results of operations or financial position.

In October 2016, the FASB issued ASU 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory* (“ASU 2016-16”). ASU 2016-16 requires an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. ASU 2016-16 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early adoption is permitted. This standard will not have a material impact on the Company’s consolidated results of operations or financial position.

FOSSIL GROUP, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments* (“ASU 2016-15”). ASU 2016-15 provides guidance on how certain cash receipts and cash payments should be presented and classified in the statement of cash flows with the objective of reducing existing diversity in practice with respect to these items. ASU 2016-15 is effective for annual periods, and interim periods within those years, beginning after December 15, 2017. Early adoption is permitted. This standard will not have a material impact on the Company’s consolidated results of operations or financial position.

In March 2016, the FASB issued ASU 2016-04, *Liabilities—Extinguishments of Liabilities (Subtopic 405-20)- Recognition of Breakage for Certain Prepaid Stored-Value Products* (“ASU 2016-04”). ASU 2016-04 entitles a company to derecognize amounts related to expected breakage to the extent that it is probable a significant reversal of the recognized breakage amount will not subsequently occur. ASU 2016-04 is effective for annual periods, and interim periods within those years, beginning after December 15, 2017. Early adoption is permitted. This standard will not have a material impact on the Company’s consolidated results of operations or financial position.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842): Amendments to the FASB Accounting Standards Codification®* (“ASU 2016-02”), which supersedes the existing guidance for lease accounting, *Leases (Topic 840)*. ASU 2016-02 requires lessees to recognize leases on their balance sheets, and modifies accounting, presentation and disclosure for both lessors and lessees. ASU 2016-02 requires a modified retrospective approach for all leases existing at, or entered into after, the date of initial application, with an option to elect to use certain transition relief. ASU 2016-02 is effective for annual periods, and interim periods within those years, beginning after December 15, 2018. Early adoption is permitted. Many of the Company’s leases are considered operating leases and are not capitalized under ASC 840. Under ASC 842 the majority of these leases will qualify for capitalization and will result in the recognition of lease assets and lease liabilities once the new standard is adopted. The Company is in the process of reviewing lease contracts to determine the impact of adopting ASU 2016-02, but expects the standard to have a material impact on the Company's financial position.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* (“ASU 2014-09”). ASU 2014-09 affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets, unless those contracts are within the scope of other standards (for example, insurance contracts or lease contracts). The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The FASB later amended ASU-2014-09 with the following:

- ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*
- ASU 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*
- ASU 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*
- ASU 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients*
- ASU 2016-20, *Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers*
- ASU 2017-13, *Revenue Recognition (Topic 605), Revenue from Contracts with Customers (Topic 606), Leases (Topic 840), and Leases (Topic 842)*
- ASU 2017-14, *Income Statement—Reporting Comprehensive Income (Topic 220), Revenue Recognition (Topic 605), and Revenue from Contracts with Customers (Topic 606)*

The Company has performed a review of its revenue streams including reviewing contracts and comparing current accounting policies and practices to the new standard to identify differences from the application of ASU 2014-09. The Company's performance obligations underlying its core revenue streams (i.e., its retail and standard wholesale businesses) will remain substantially unchanged. Revenues for these businesses are generated through the sale of finished products, and will continue to be generally recognized at the point in time when merchandise is transferred to the customer and in an amount that considers the impacts of estimated allowances. The Company does anticipate some timing changes, including accelerated recognition of markdowns which upon adoption will reduce the Company's retained earnings by less than \$40 million to record additional markdown allowances as a reduction to accounts receivable. The Company will also have a change in classification of certain considerations paid to customers from SG&A to a reduction of net sales, which the Company does not believe will be

FOSSIL GROUP, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

material. Upon adoption of ASU 2014-09, the Company's return allowance will be reported as a current liability instead of as a reduction of accounts receivable. The standard will also require additional disclosures about the nature of revenue as well as the judgment involved in the timing of revenue recognition. The Company adopted ASU 2014-09 on the first day of fiscal 2018 and used the modified retrospective approach.

Recently Adopted Accounting Standards

In January 2017, the FASB issued ASU 2017-04, *Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. Under ASU 2017-04, goodwill impairment testing is done by comparing the fair value of the reporting unit to its carrying value. If the carrying amount exceeds the fair value, the Company would recognize an impairment charge for the amount that the reporting unit's carrying value exceeds the fair value, not to exceed the total amount of goodwill allocated to that reporting unit. The Company concluded that ASU 2017-04 is preferable to the current guidance due to efficiency, since ASU 2017-04 eliminates the requirement to determine the fair value of individual assets and liabilities of a reporting unit to measure goodwill impairment. The Company early adopted ASU 2017-04 effective June 15, 2017 in conjunction with the interim impairment test of goodwill for all reporting units and goodwill impairment was recorded according to the new standard. The Company believes the adoption of ASU 2017-04 did not change the amount of impairment charges recorded in the second quarter of fiscal 2017. See "Note 2—Goodwill and Intangibles Impairment Charges" for additional information on our interim goodwill impairment test performed.

In March 2016, the FASB issued ASU 2016-09, *Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting* ("ASU 2016-09"). ASU 2016-09 simplified several areas of accounting for share-based compensation arrangements, including the income tax impact, classification on the statement of cash flows and forfeitures. ASU 2016-09 was effective for the Company beginning fiscal year 2017 and did not have a material impact on the Company's consolidated results of operations or financial position. As a result of adoption, the Company now recognizes excess tax benefits or deficiencies associated with share-based compensation activity as an income tax expense or benefit in the period the awards vest or are settled. In addition, the Company now presents excess tax benefits from share-based compensation activity with other income tax cash flows as an operating activity on the statement of cash flows, which differs from the Company's historical classification of excess tax benefits as a financing activity. The Company has elected to apply this change in cash flow presentation on a prospective basis. The standard also permits the Company to make a policy election for how it accounts for forfeitures, and the Company has elected to continue estimating forfeitures.

In July 2015, the FASB issued ASU 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory* ("ASU 2015-11"). ASU 2015-11 requires that inventory be measured at the lower of cost and net realizable value. The standard was effective for the Company beginning fiscal year 2017 and did not have a material impact on the Company's consolidated results of operations or financial position.

2. Acquisitions, Divestiture and Goodwill

Fossil Spain Acquisition. On August 10, 2012, the Company's joint venture company, Fossil, S.L. ("Fossil Spain"), entered into a Framework Agreement (the "Framework Agreement") with several related and unrelated parties, including General De Relojeria, S.A. ("General De Relojeria"), the Company's joint venture partner. Pursuant to the Framework Agreement, Fossil Spain was granted the right to acquire the outstanding 50% of its shares owned by General De Relojeria upon the expiration of the joint venture agreement on December 31, 2015. As of January 1, 2013, pursuant to the Framework Agreement, the Company assumed control over the board of directors and the day-to-day management of Fossil Spain, and began consolidating Fossil Spain, instead of treating it as an equity method investment. The Company completed the acquisition of these shares in the second quarter of fiscal year 2016, at which time Fossil Spain became a wholly-owned subsidiary of the Company. During the second quarter of fiscal year 2016, the fixed and previously remaining variable components of the purchase price were settled in the amounts of 4.3 million euros (approximately \$4.8 million as of the settlement date) and 3.5 million euros (approximately \$3.9 million as of the settlement date), respectively.

Misfit, Inc. Acquisition. On December 22, 2015, the Company acquired Misfit, Inc. ("Misfit"), an innovator and distributor of wearable technology and stylish connected devices. Misfit was a U.S.-based, privately held company. The primary purpose of the acquisition was to acquire a scalable technology platform that could be integrated across the Company's multi-brand portfolio, a native wearable technology brand and a pipeline of innovative products. Misfit's position in the

FOSSIL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

wearable technology space combined with their software and hardware engineering teams enabled the Company to expand its addressable market with new distribution channels, products, brands and enterprise partnerships.

The purchase price was \$215.4 million in cash, net of cash acquired and subject to working capital adjustments, and \$1.7 million in replacement awards attributable to precombination service. At closing, \$12.5 million of the cash payment was placed into an escrow fund for the Company for working capital adjustments and indemnification obligations of the seller incurred within 12 months from the closing date. During fiscal year 2016, the Company received \$3.3 million from the escrow for claims incurred and as a working capital settlement and recorded a receivable for additional claims incurred. To fund the cash purchase price, the Company utilized cash on hand and approximately \$60 million of availability under its revolving line of credit. The results of Misfit's operations have been included in the Company's consolidated financial statements since December 22, 2015.

Assets acquired and liabilities assumed in the transaction were recorded at their acquisition date fair values, while transaction costs of \$8.4 million associated with the acquisition were expensed as incurred during the fourth quarter of fiscal year 2015.

Divestiture. On December 30, 2016, the Company completed the sale of its machine vision operations, a part of Misfit. In connection with the transaction, the Company received a cash payment of \$3.5 million and recognized a corresponding pre-tax gain in other income (expense) - net, in the consolidated statements of income (loss) and comprehensive income (loss). At the time of sale, another \$3.5 million was placed into escrow. The Company received \$1.8 million from the escrow during fiscal year 2017, and the remainder, less any amounts due by the Company under the sales agreement that may be paid by the Company from the escrow balance, will be released to the Company upon the two year anniversary of the closing date, if certain conditions are met.

Goodwill. The changes in the carrying amount of goodwill were as follows (in thousands):

	Americas	Europe	Asia	Total
Balance at January 3, 2016	\$ 283,598	\$ 63,981	\$ 11,815	\$ 359,394
Segment allocation and acquisition adjustments ⁽¹⁾	(81,166)	48,046	30,949	(2,171)
Foreign currency changes	(245)	(1,736)	21	(1,960)
Balance at December 31, 2016	\$ 202,187	\$ 110,291	\$ 42,785	\$ 355,263
Foreign currency changes	162	3,983	85	4,230
Impairment charges ⁽²⁾	(202,349)	(114,274)	(42,870)	(359,493)
Balance at December 30, 2017	\$ —	\$ —	\$ —	\$ —

⁽¹⁾ All goodwill resulting from the Misfit acquisition was recorded in the Americas segment as of January 2, 2016, on a preliminary basis. This line item includes an allocation of the goodwill across reporting segments and also purchase accounting adjustments made during fiscal year 2016.

⁽²⁾ See Note 1—Significant Accounting Policies for additional disclosures about impairment charges.

3. Inventories

Inventories consisted of the following (in thousands):

<u>At Fiscal Year End</u>	<u>2017</u>	<u>2016</u>
Components and parts	\$ 52,837	\$ 49,438
Work-in-process	15,983	12,345
Finished goods	504,968	480,704
Inventories	<u>\$ 573,788</u>	<u>\$ 542,487</u>

4. Warranty Liabilities

The Company's warranty liabilities are primarily related to watch products and are included in accrued expenses—other in the consolidated balance sheets. The Company's watch products are covered by limited warranties against defects in materials or workmanship. Historically, the Company's FOSSIL® and RELIC® watch products sold in the U.S. have been covered for warranty periods of 11 years and 12 years, respectively, and SKAGEN brand watches have been covered by a lifetime warranty. Beginning in 2017, these brands are covered by a two year warranty. Generally, all other products sold in the U.S. and internationally are covered by a comparable one to two year warranty. The Company's warranty liability is estimated using historical warranty repair expense. As changes occur in sales volumes and warranty costs, the warranty accrual is adjusted as necessary. Due to the nature of connected products, their warranty costs are usually more than traditional products. A shift in product mix from traditional to connected products generally results in an increase in the Company's warranty liabilities. Warranty liability activity consisted of the following (in thousands):

Fiscal Year	2017	2016	2015
Beginning balance	\$ 15,421	\$ 13,669	\$ 13,500
Settlements in cash or kind	(15,177)	(9,616)	(9,310)
Warranties issued and adjustments to preexisting warranties ⁽¹⁾	19,161	11,368	9,435
Liabilities assumed in acquisition	—	—	44
Ending balance	<u>\$ 19,405</u>	<u>\$ 15,421</u>	<u>\$ 13,669</u>

⁽¹⁾ Changes in cost estimates related to preexisting warranties are aggregated with accruals for new standard warranties issued and foreign currency changes.

5. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consisted of the following (in thousands):

At Fiscal Year End	2017	2016
Prepaid royalties	\$ 19,353	\$ 26,298
Prepaid taxes and tax receivables	41,811	43,102
Other receivables	12,659	12,396
Forward contracts	2,291	23,288
Prepaid rent	7,763	9,875
Property held for sale	12,273	—
Short term deposits	1,679	2,363
Other	21,114	14,631
Prepaid expenses and other current assets	<u>\$ 118,943</u>	<u>\$ 131,953</u>

FOSSIL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
6. Property, Plant and Equipment

Property, plant and equipment—net consisted of the following (in thousands):

<u>At Fiscal Year End</u>	2017	2016
Land	\$ 5,725	\$ 7,795
Buildings	30,887	39,031
Machinery and equipment	41,221	38,756
Furniture and fixtures	111,641	112,145
Computer equipment and software	243,199	241,160
Leasehold improvements	214,485	233,566
Construction in progress	4,498	16,159
	<u>651,656</u>	<u>688,612</u>
Less accumulated depreciation and amortization	431,914	414,761
Property, plant and equipment-net	<u>\$ 219,742</u>	<u>\$ 273,851</u>

7. Intangible and Other Assets

Intangible and other assets-net consisted of the following (in thousands):

<u>At Fiscal Year End</u>	Useful Lives	2017		2016	
		Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
Intangibles-subject to amortization:					
Trademarks	10 yrs.	\$ 4,310	\$ 3,676	\$ 4,310	\$ 3,443
Customer lists	5 - 10 yrs.	55,164	34,023	53,625	26,986
Patents	3 - 20 yrs.	2,325	2,132	2,325	2,099
Noncompete agreement	3 - 6 yrs.	2,553	2,243	2,505	1,662
Developed technology	7 yrs.	36,100	10,314	36,100	5,157
Trade name	6 yrs.	—	—	15,700	2,617
Other	7 - 20 yrs.	266	241	253	215
Total intangibles-subject to amortization		<u>100,718</u>	<u>52,629</u>	<u>114,818</u>	<u>42,179</u>
Intangibles-not subject to amortization:					
Trade names		<u>38,643</u>		<u>74,485</u>	
Other assets:					
Key money deposits		27,196	23,845	26,948	22,038
Other deposits		19,269		19,344	
Deferred compensation plan assets		4,806		2,385	
Deferred tax asset-net		27,112		23,061	
Restricted cash		377		500	
Shop-in-shop		8,864	8,606	8,807	8,019
Tax receivable		478		—	
Forward contracts		147		5,648	
Investments		500		2,078	
Other		4,612		4,655	
Total other assets		<u>93,361</u>	<u>32,451</u>	<u>93,426</u>	<u>30,057</u>
Total intangible and other assets		<u>\$ 232,722</u>	<u>\$ 85,080</u>	<u>\$ 282,729</u>	<u>\$ 72,236</u>
Total intangible and other assets-net			<u>\$ 147,642</u>		<u>\$ 210,493</u>

FOSSIL GROUP, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Key money is the amount of funds paid to a landlord or tenant to acquire the rights of tenancy under a commercial property lease for a certain property. Key money represents the "right to lease" with an automatic right of renewal. This right can be subsequently sold by the Company or can be recovered should the landlord refuse to allow the automatic right of renewal to be exercised. Key money is amortized over the initial lease term, which ranges from approximately four to 18 years.

Amortization expense for intangible assets was approximately \$13.5 million, \$15.0 million and \$4.9 million for fiscal years 2017, 2016 and 2015, respectively. Estimated aggregate future amortization expense by fiscal year for intangible assets is as follows (in thousands):

Fiscal Year	Amortization Expense
2018	\$ 11,905
2019	11,575
2020	11,028
2021	7,190
2022	6,273

8. Derivatives and Risk Management

Cash Flow Hedges. The primary risks managed by using derivative instruments are the fluctuations in global currencies that will ultimately be used by non-U.S. dollar functional currency subsidiaries to settle future payments of intercompany inventory transactions denominated in U.S. dollars. Specifically, the Company projects future intercompany purchases by its non-U.S. dollar functional currency subsidiaries generally over a period of up to 24 months. The Company enters into forward contracts generally for up to 85% of its forecasted purchases to manage fluctuations in global currencies that will ultimately be used to settle such U.S. dollar denominated inventory purchases. Additionally, during the first quarter of fiscal year 2016, the Company entered into forward contracts to manage fluctuations in Japanese yen exchange rates that will be used to settle future third-party inventory component purchases by a U.S. dollar functional currency subsidiary. Forward contracts represent agreements to exchange the currency of one country for the currency of another country at an agreed-upon settlement date and exchange rate. These forward contracts are designated as single cash flow hedges. Fluctuations in exchange rates will either increase or decrease the Company's U.S. dollar equivalent cash flows from these inventory transactions, which will affect the Company's U.S. dollar earnings. Gains or losses on the forward contracts are expected to offset these fluctuations to the extent the cash flows are hedged by the forward contracts.

These forward contracts meet the criteria for hedge accounting, which requires that they represent foreign-currency-denominated forecasted transactions in which (i) the operating unit that has the foreign currency exposure is a party to the hedging instrument and (ii) the hedged transaction is denominated in a currency other than the hedging unit's functional currency.

At the inception of each forward contract designated as a cash flow hedge, the hedging relationship is expected to be highly effective in achieving offsetting cash flows attributable to the hedged risk. The Company assesses hedge effectiveness under the critical terms matched method at inception and at least quarterly throughout the life of the hedging relationship. If the critical terms (i.e., amounts, currencies and settlement dates) of the forward contract match the terms of the forecasted transaction, the Company concludes that the hedge is effective. Hedge accounting is discontinued if it is determined that the derivative is not highly effective.

For a derivative instrument that is designated and qualifies as a cash flow hedge, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income (loss), net of taxes and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings. Due to the high degree of effectiveness between the hedging instruments and the underlying exposures being hedged, the Company's hedges resulted in no ineffectiveness in its consolidated statements of income (loss) and comprehensive income (loss), and there were no components excluded from the assessment of hedge effectiveness for fiscal years 2017, 2016 and 2015.

FOSSIL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

All derivative instruments are recognized as either assets or liabilities at fair value in the consolidated balance sheets. The Company records all forward contract hedge assets and liabilities on a gross basis as they do not meet the balance sheet netting criteria because the Company does not have master netting agreements established with the derivative counterparties that would allow for net settlement. Derivatives designated as cash flow hedges are recorded at fair value at each balance sheet date and the change in fair value is recorded to accumulated other comprehensive income (loss) within the equity section of the Company's consolidated balance sheets until such derivative's gains or losses become realized or the cash flow hedge relationship is terminated.

If the cash flow hedge relationship is terminated, the derivative's gains or losses that are recorded in accumulated other comprehensive income (loss) will be immediately recognized in earnings. During fiscal year 2017, the Company paid off its U.S.-based term loan (as amended and restated, the "Term Loan") which discontinued the interest rate swap cash flow hedge treatment resulting in a gain of \$0.2 million being reclassified into other income (expense). There were no gains or losses reclassified into earnings as a result of the discontinuance of cash flow hedges for fiscal years 2016 and 2015.

As of December 30, 2017, the Company had the following outstanding forward contracts designated as cash flow hedges that were entered into to hedge the future payments of intercompany inventory transactions (in millions):

Functional Currency		Contract Currency	
Type	Amount	Type	Amount
Euro	245.2	U.S. dollar	286.6
Canadian dollar	88.4	U.S. dollar	68.7
British pound	41.1	U.S. dollar	54.8
Japanese yen	4,105.7	U.S. dollar	37.9
Mexican peso	388.5	U.S. dollar	20.2
Australian dollar	8.6	U.S. dollar	6.7
U.S. dollar	33.5	Japanese Yen	3,670.0

Net Investment Hedges. The Company is also exposed to risk that adverse changes in foreign currency exchange rates could impact its net investment in foreign operations. During the first quarter of fiscal year 2016, the Company entered into a forward contract designated as a net investment hedge to reduce exposure to changes in currency exchange rates on 45.0 million euros of its total investment in a wholly-owned, euro-denominated foreign subsidiary. The hedge was settled during the second quarter of fiscal year 2016 resulting in a net gain of \$0.5 million net of taxes that was recognized in the currency translation component of accumulated other comprehensive income (loss).

Non-designated Hedges. The Company also periodically enters into forward contracts to manage exchange rate risks associated with certain intercompany transactions and for which the Company does not elect hedge accounting treatment. As of December 30, 2017, the Company had non-designated forward contracts of approximately \$2.9 million on 39.8 million rand associated with a South African rand-denominated foreign subsidiary. Changes in the fair value of derivatives not designated as hedging instruments are recognized in earnings when they occur.

On July 26, 2013, the Company entered into an approximately five year interest rate swap agreement in order to manage the interest rate risk related to its Term Loan. Under the terms of the swap, the Company pays a fixed interest rate of 1.288% per annum to the swap counterparty plus the London Interbank Offer Rate ("LIBOR") rate applicable margin of 3.50%. The Company receives interest from the swap counterparty at a variable rate based on 1-month LIBOR. As mentioned above, during the fourth quarter of fiscal year 2017, the Company paid off the Term Loan and, as a result, the interest rate swap cash flow hedge relationship was terminated. When the interest rate swap was designated as a cash flow hedge, the change in fair value was recorded to accumulated other comprehensive income (loss) until such gains or losses became realized and were reclassified into interest expense. At the time the cash flow hedge relationship was terminated, the existing gains and losses were reclassified from accumulated other comprehensive income (loss) into other income (expense). Future changes in the fair value of the interest rate swap will be recognized in earnings when they occur.

FOSSIL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The effective portion of gains and losses on cash flow hedges that were recognized in other comprehensive income (loss), net of taxes during fiscal years 2017, 2016 and 2015 are set forth below (in thousands):

Fiscal Year	2017	2016	2015
Cash flow hedges:			
Forward contracts	\$ (25,088)	\$ 13,565	\$ 22,763
Interest rate swaps	278	(730)	1,544
Total gain (loss) recognized in other comprehensive income (loss), net of taxes	<u>\$ (24,810)</u>	<u>\$ 12,835</u>	<u>\$ 24,307</u>

The following table illustrates the effective portion of gains and losses on derivative instruments recorded in other comprehensive income (loss), net of taxes during the term of the hedging relationship and reclassified into earnings, and gains and losses on derivatives not designated as hedging instruments recorded directly to earnings during fiscal years 2017, 2016 and 2015 (in thousands):

Derivative Instruments	Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) Location	Effect of Derivative Instruments	Fiscal Year 2017	Fiscal Year 2016	Fiscal Year 2015
Forward contracts designated as cash flow hedging instruments	Other income (expense)-net	Total gain (loss) reclassified from accumulated other comprehensive income (loss)	\$ (4,297)	\$ 10,986	\$ 29,629
Forward contracts not designated as hedging instruments	Other income (expense)-net	Total gain (loss) recognized in income	\$ (652)	\$ (82)	\$ (210)
Interest rate swap designated as a cash flow hedging instrument	Interest expense	Total gain (loss) reclassified from accumulated other comprehensive income (loss)	\$ (260)	\$ (1,080)	\$ (1,596)
Interest rate swap not designated as a cash flow hedging instrument	Other income (expense)-net	Total gain (loss) reclassified from accumulated other comprehensive income (loss)	\$ 195	\$ —	\$ —
Interest rate swap designated as a cash flow hedging instrument	Other income (expense)-net	Total gain (loss) reclassified from accumulated other comprehensive income (loss)	\$ —	\$ —	\$ 3,331

FOSSIL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table discloses the fair value amounts for the Company's derivative instruments as separate asset and liability values, presents the fair value of derivative instruments on a gross basis, and identifies the line items in the consolidated balance sheets in which the fair value amounts for these categories of derivative instruments are included (in thousands):

	Asset Derivatives				Liability Derivatives			
	December 30, 2017		December 31, 2016		December 30, 2017		December 31, 2016	
	Consolidated Balance Sheets Location	Fair Value	Consolidated Balance Sheets Location	Fair Value	Consolidated Balance Sheets Location	Fair Value	Consolidated Balance Sheets Location	Fair Value
Forward contracts designated as cash flow hedging instruments	Prepaid expenses and other current assets	\$ 2,291	Prepaid expenses and other current assets	\$ 23,288	Accrued expenses-other	\$ 14,798	Accrued expenses-other	\$ 4,696
Forward contracts not designated as cash flow hedging instruments	Prepaid expenses and other current assets	—	Prepaid expenses and other current assets	—	Accrued expenses-other	362	Accrued expenses-other	2
Interest rate swap designated as a cash flow hedging instrument	Prepaid expenses and other current assets	—	Prepaid expenses and other current assets	—	Accrued expenses-other	—	Accrued expenses-other	613
Interest rate swap not designated as a cash flow hedging instrument	Prepaid expenses and other current assets	195	Prepaid expenses and other current assets	—	Accrued expenses-other	—	Accrued expenses-other	—
Forward contracts designated as cash flow hedging instruments	Intangible and other assets-net	147	Intangible and other assets-net	5,648	Other long-term liabilities	2,725	Other long-term liabilities	268
Interest rate swap designated as a cash flow hedging instrument	Intangible and other assets-net	—	Intangible and other assets-net	73	Other long-term liabilities	—	Other long-term liabilities	—
Total		<u>\$ 2,633</u>		<u>\$ 29,009</u>		<u>\$ 17,885</u>		<u>\$ 5,579</u>

At the end of fiscal year 2017, the Company had forward contracts designated as cash flow hedges with maturities extending through December 2019. As of December 30, 2017, an estimated net loss of \$8.9 million is expected to be reclassified into earnings within the next twelve months at prevailing foreign currency exchange rates. See Note 1—Significant Accounting Policies for additional disclosures on foreign currency hedging instruments.

9. Fair Value Measurements

The Company defines fair value as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date.

ASC 820, *Fair Value Measurement and Disclosures* ("ASC 820"), establishes a fair value hierarchy, which prioritizes the inputs used in measuring fair value into three broad levels as follows:

- Level 1—Quoted prices in active markets for identical assets or liabilities.
- Level 2—Inputs, other than quoted prices in active markets, that are observable either directly or indirectly.
- Level 3—Unobservable inputs based on the Company's assumptions.

ASC 820 requires the use of observable market data if such data is available without undue cost and effort.

FOSSIL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table presents the fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of December 30, 2017 (in thousands):

	Fair Value at December 30, 2017			
	Level 1	Level 2	Level 3	Total
Assets:				
Forward contracts	\$ —	\$ 2,438	\$ —	\$ 2,438
Deferred compensation plan assets:				
Investment in publicly traded mutual funds	4,806	—	—	4,806
Interest rate swap	—	195	—	195
Total	\$ 4,806	\$ 2,633	\$ —	\$ 7,439
Liabilities:				
Contingent consideration	\$ —	\$ —	\$ 6,452	\$ 6,452
Forward contracts	—	17,885	—	17,885
Total	\$ —	\$ 17,885	\$ 6,452	\$ 24,337

The following table presents the fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of December 31, 2016 (in thousands):

	Fair Value at December 31, 2016			
	Level 1	Level 2	Level 3	Total
Assets:				
Forward contracts	\$ —	\$ 28,936	\$ —	\$ 28,936
Deferred compensation plan assets:				
Investment in publicly traded mutual funds	2,385	—	—	2,385
Interest rate swaps	—	73	—	73
Total	\$ 2,385	\$ 29,009	\$ —	\$ 31,394
Liabilities:				
Forward contracts	\$ —	\$ 4,966	\$ —	\$ 4,966
Interest rate swap	—	613	—	613
Total	\$ —	\$ 5,579	\$ —	\$ 5,579

The fair values of the Company's deferred compensation plan assets are based on quoted prices. The deferred compensation plan assets are recorded in intangible and other assets—net in the Company's consolidated balance sheets. The fair values of the Company's forward contracts are based on published quotations of spot currency rates and forward points, which are converted into implied forward currency rates.

As of December 30, 2017, debt, excluding unamortized debt issuance costs and capital leases, was recorded at cost and had a carrying value of \$445.9 million and a fair value of approximately \$439.2 million. The fair value of the Company's debt approximated its carrying amount as of December 31, 2016. The fair value of debt was obtained from a third-party based on observable market inputs.

The fair values of the interest rate swap asset and liability are determined using valuation models based on market observable inputs, including forward curves, mid-market price, foreign exchange spot or forward rates and volatility levels. See Note 8—Derivatives and Risk Management for additional disclosures about the interest rate swap.

Property, plant and equipment—net with a carrying amount of \$9.2 million related to retail store leasehold improvements and fixturing and related key money in the amount of \$0.7 million was deemed not recoverable, resulting in total impairment charges of \$9.9 million for fiscal year 2017.

FOSSIL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The fair values of assets related to Company-owned retail stores were determined using Level 3 inputs. Of the \$9.9 million impairment expense, \$5.6 million, \$1.9 million and \$0.8 million were recorded in restructuring charges in the Americas, Europe and Asia segments, respectively, and \$0.9 million, \$0.4 million and \$0.3 million were recorded in SG&A in the Europe, Americas and Asia segments, respectively.

In fiscal year 2016, property, plant and equipment—net with a carrying amount of \$15.0 million related to retail store leasehold improvements and fixturing was written down to a fair value of \$0.7 million, and related key money in the amount of \$2.0 million was deemed not recoverable, resulting in total impairment charges of \$16.3 million for fiscal year 2016.

The fair value of goodwill and trade names are measured on a non-recurring basis using Level 3 inputs, including forecasted cash flows, discounts rates and implied royalty rates.

In fiscal year 2017, the Company fully impaired its goodwill balance and recorded pre-tax impairment charges of \$202.3 million, \$114.3 million and \$42.9 million in the Americas, Europe and Asia segments, respectively.

In fiscal year 2017, the SKAGEN trade name with a carrying amount of \$55.6 million was written down to its implied fair value of \$27.3 million, resulting in a pre-tax impairment charge of \$28.3 million; the MISFIT trade name with a carrying amount of \$11.8 million was deemed not recoverable, resulting in a pre-tax impairment charge of \$11.8 million and the MICHELE trade name with a carrying amount of \$18.5 million was written down to its implied fair value of \$10.9 million, resulting in a pre-tax impairment charge of \$7.6 million. Trade name impairment charges were recorded in the Corporate cost area. See Note 1—Significant Accounting Policies for additional disclosures about goodwill and trade name impairment.

The fair value of the contingent consideration liability related to Fossil Accessories South Africa Pty. Ltd. (“Fossil South Africa”) was determined using Level 3 inputs. See Note 14—Stockholders' Equity for additional disclosures about the equity transaction. The contingent consideration is based on Fossil South Africa's projected earnings and dividends through fiscal year 2020 with the final payments expected the following year. A discount rate of 14% was used to calculate the present value of the contingent consideration. The present value of the contingent consideration liability was valued at \$6.5 million as of December 30, 2017.

In fiscal year 2017, the Company recorded a pre-tax impairment charge of \$1.6 million related to a cost method investment and recorded a pre-tax impairment charge of \$0.7 million related to property held for sale.

10. Debt

The Company's debt consisted of the following, excluding capital lease obligations, (in millions):

	December 30, 2017	December 31, 2016
U.S. revolving line of credit ⁽¹⁾	\$ 440.3	\$ 441.0
U.S. term loan	—	189.9
Other international	0.9	—
Total debt	\$ 441.2	\$ 630.9
Less current portion	0.9	25.0
Long-term debt	\$ 440.3	\$ 605.9

⁽¹⁾ Net of debt issuance costs of \$4.7 million and \$3.8 million at December 30, 2017 and December 31, 2016, respectively.

U.S.-Based. On March 9, 2015, the Company entered into an Amended and Restated Credit Agreement (the “Credit Agreement”). On March 10, 2017, the Company entered into the Second Amendment to the Credit Agreement (the “Second Amendment”). The Second Amendment reduced the Company's revolving credit facility (the “Revolving Credit Facility”) and (i) provided for revolving credit loans in the amount of \$850.00 million, with an up to \$20.0 million subfacility for swingline loans (the “Swingline Loan”), and an up to \$10.0 million subfacility for letters of credit, and (ii) continued the Company's Term Loan in the amount of \$231.3 million. The Second Amendment extended the maturity date of the Credit Agreement to May 17, 2019 and removed the Company's ability to make offers to the lenders to extend the maturity date of the Term Loan or the

FOSSIL GROUP, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Revolving Credit Facility. The Second Amendment also amended the mandatory prepayment provisions under the credit agreement and provided that to the extent there were excess proceeds remaining from the issuance of debt by the Company following the repayment in full of the Term Loan, the Company would be required to repay the Revolving Credit Facility in the amount of such excess proceeds, with a corresponding permanent reduction in the Revolving Credit Facility in the amount of up to \$50.0 million. In accordance with the Second Amendment, dividends paid from foreign subsidiaries to U.S. subsidiaries or Fossil Group, Inc., were required to be used to repay the Term Loan and then up to \$50.0 million of the Revolving Credit Facility.

The Second Amendment amended the applicable margin used to calculate the interest rate that was applicable to base rate loans and LIBOR rate loans under the Credit Agreement. As of December 30, 2017, the interest rate margin for base rate loans was 2.75% per annum and the interest rate margin for LIBOR rate loans was 3.75% per annum.

As of December 30, 2017, amounts outstanding under the Revolving Credit Facility and the Term Loan under the Credit Agreement bore interest, at the Company's option, at (i) the base rate (defined as the highest of (a) the prime rate publicly announced by Wells Fargo (4.5% at fiscal year end 2017), (b) the federal funds rate plus 0.5% and (c) the London Interbank Offer Rate ("LIBOR") (1.49% at fiscal year end 2017) for an interest period of one month plus 1.0%) plus the base rate applicable margin (2.75% at fiscal year end 2017) or (ii) the LIBOR rate (defined as the quotient obtained by dividing (a) LIBOR by (b) 1.00 minus the Eurodollar reserve percentage) plus the LIBOR rate applicable margin (3.75% at fiscal year end 2017). Amounts outstanding under the Swingline Loan under the Credit Agreement or upon any drawing under a letter of credit bore interest at the base rate plus the applicable margin. Interest based upon the base rate is payable quarterly in arrears. Interest based upon the LIBOR rate is payable on the last day of the applicable interest period. The Second Amendment changed the consolidated total leverage ratio that the Company was required to comply with from 3.25 to 1.00 to the ratios as set forth below:

Period	Maximum Ratio
October 1, 2017 through and including March 31, 2018	3.25 to 1.00
April 1, 2018 through and including September 29, 2018	3.50 to 1.00
September 30, 2018 and thereafter	3.25 to 1.00

The Second Amendment also changed the commitment fee payable by the Company for unused amounts of the commitments under the Revolving Credit Facility to 0.50% per annum, payable quarterly in arrears. In connection with any letter of credit, the Company was required to pay (i) a letter of credit commission, payable quarterly in arrears, in an amount equal to the daily amount available to be drawn under such letter of credit multiplied by the applicable margin with respect to revolving credit loans that were LIBOR rate loans, (ii) a fronting fee, payable quarterly in arrears, as set forth in the applicable letter of credit application or as otherwise separately agreed by the Company and the issuing lender and (iii) normal and customary costs and expenses incurred or charged by the issuing lender in issuing, effecting payment under, amending or otherwise administering the letter of credit.

Loans under the Credit Agreement could be prepaid, in whole or in part, at the option of the Company, in minimum principal amounts of (i) \$2.0 million or increments of \$1.0 million in excess thereof, with respect to a base rate loan under the Revolving Credit Facility, (ii) \$5.0 million or increments of \$1.0 million in excess thereof, with respect to a LIBOR rate loan under the Revolving Credit Facility, (iii) \$5.0 million or increments of \$1.0 million in excess thereof, with respect to the Term Loan and (iv) \$0.1 million or increments of \$0.1 million in excess thereof, with respect to a Swingline Loan. Loans under the Credit Agreement were required to be repaid with the net cash proceeds of certain asset sales or insurance and condemnation events. The Company could permanently reduce the revolving credit commitment at any time, in whole or in part, without premium or penalty, in a minimum aggregate principal amount of not less than \$3.0 million or increments of \$1.0 million in excess thereof.

The repayment obligation under the Credit Agreement could be accelerated upon the occurrence of an event of default, including the failure to pay principal or interest, a material inaccuracy of a representation or warranty, violation of covenants, cross-default, change in control, bankruptcy events, failure of a loan document provision, certain ERISA events and material judgments.

FOSSIL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

During fiscal year 2017, the Company made principal payments of \$193.8 million under the Term Loan, which repaid the outstanding balance. The Company had net borrowings of \$4.0 million under the Revolving Credit Facility during fiscal year 2017. Amounts available under the Revolving Credit Facility were reduced by any amounts outstanding under standby letters of credit. As of December 30, 2017, the Company had available borrowing capacity of approximately \$199.8 million under the Revolving Credit Facility, which was favorably impacted by a \$149.6 million international cash balance. The Company incurred approximately \$8.5 million of interest expense under the Term Loan during fiscal year 2017, including the impact of the related interest rate swap. The Company incurred approximately \$27.4 million of interest expense under the Revolving Credit Facility during fiscal year 2017. The Company incurred approximately \$3.7 million of interest expense related to the amortization of debt issuance costs during fiscal year 2017. Additionally, the Company recorded a loss of \$1.0 million in other income (expense) - net for debt issuance costs associated with the Term Loan that was paid off during fiscal year 2017. See Note 20—Subsequent Event for more information about the Company's amended credit facilities.

Foreign-Based. On June 23, 2016, Fossil Accessories South Africa Pty Ltd, entered into a 20 million South African rand short-term note with First National Bank (the "Fossil South Africa Note") that is used for working capital purposes. The Fossil South Africa Note bears interest at the bank's prime rate, 10.25% as of year end 2017. The Fossil South Africa note is reviewed annually for renewal. South African rand-based borrowings, in U.S. dollars, under the Fossil South Africa Note were approximately \$0.9 million as of December 30, 2017.

The Company's debt as of December 30, 2017, excluding capital lease obligations, matures as follows (in millions):

Less than 1 Year	\$ 0.9
Year 2	445.0
Principal amounts repayable	<u>445.9</u>
Debt issuance costs	(4.7)
Total debt outstanding	<u><u>\$ 441.2</u></u>

Letters of Credit. At the end of fiscal year 2016, the Company had \$54.3 million of outstanding commercial letters of credit under the Company's Letter of Credit Facility (the "LC Facility"). During fiscal year 2017, the LC facility was canceled and all outstanding letters of credit were paid.

Capital Lease Obligations. At the end of fiscal years 2017 and 2016, the Company had current capital lease obligations of \$1.2 million and \$1.4 million, respectively, and long-term capital lease obligations of \$3.6 million and \$4.0 million, respectively.

11. Other Income (Expense)—Net

Other income (expense)—net consisted of the following (in thousands):

<u>Fiscal Year</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Interest income	\$ 4,729	\$ 2,156	\$ 1,026
Gain on interest rate swap	195	—	5,241
Equity in losses of unconsolidated investment	(460)	(1,321)	—
Extinguishment of debt	(1,029)	—	—
Gain on machine vision divestiture	1,750	3,500	—
Net currency gains	7,849	8,729	32,611
Other net gains	702	992	1,565
Other income (expense) - net	<u><u>\$ 13,736</u></u>	<u><u>\$ 14,056</u></u>	<u><u>\$ 40,443</u></u>

FOSSIL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. Taxes

Income Taxes. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the consolidated deferred tax assets and liabilities were (in thousands):

<u>Fiscal Year</u>	<u>2017</u>	<u>2016</u>
Deferred income tax assets (liabilities):		
Bad debt allowance	\$ 2,920	\$ 3,936
Returns allowance	3,662	5,464
Inventory	13,409	15,243
Warranty liabilities	2,656	3,244
Compensation	19,005	19,286
Accrued liabilities	9,881	7,276
Deferred rent	12,403	17,518
Unrealized exchange gains (losses)	5,553	(6,498)
State income tax and interest on tax contingencies	1,410	2,808
Fixed assets	(13,442)	(20,872)
Trade names and customer lists	(2,607)	(26,166)
Goodwill	19,982	(16,758)
Other intangibles	(5,985)	(11,414)
Undistributed earnings of certain foreign subsidiaries	(1,018)	(53,761)
Foreign accruals	8,501	8,503
Loss carryforwards	27,868	20,898
Tax credit carryforwards	—	17,363
Valuation allowance	(78,314)	(19,415)
Other	132	529
Net deferred income tax assets (liabilities)	<u>\$ 26,016</u>	<u>\$ (32,816)</u>
Total deferred income tax assets	<u>\$ 27,112</u>	<u>\$ 23,061</u>
Total deferred income tax liabilities	<u>(1,096)</u>	<u>(55,877)</u>
Net deferred income tax assets (liabilities)	<u>\$ 26,016</u>	<u>\$ (32,816)</u>

Operating Loss Carryforwards. The balance sheet includes \$27.9 million of deferred tax assets for net operating losses of foreign subsidiaries. Valuation allowances have been recorded to reflect the estimated amount of deferred tax assets that may not be realized on these losses. The amounts and the fiscal year of expiration of the loss carryforwards are (in thousands):

Expires 2018 through 2022	\$ 37,291
Expires 2023 through 2027	26,082
Expires 2028 through 2032	5,979
Expires 2033 through 2037	32,439
Indefinite	19,176
Total loss carryforwards	<u>\$ 120,967</u>

FOSSIL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table identifies income (loss) before income taxes for the Company's U.S. and non-U.S. based operations for the fiscal years indicated (in thousands):

Fiscal Year	2017	2016	2015
U.S	\$ (517,227)	\$ (72,249)	\$ 24,864
Non-U.S	63,473	186,557	286,795
Total	\$ (453,754)	\$ 114,308	\$ 311,659

The Company's provision for income taxes consisted of the following for the fiscal years indicated (in thousands):

Fiscal Year	2017	2016	2015
Current provision:			
U.S. federal	\$ 30,817	\$ 2,111	\$ 10,666
Non-U.S	40,423	53,880	72,336
State and local	(2,055)	(1,482)	1,180
Total current	69,185	54,509	84,182
Deferred provision (benefit):			
U.S. federal	(45,990)	(20,216)	1,798
Non-U.S	(3,770)	(5,584)	(4,511)
State and local	380	(4)	288
Total deferred	(49,380)	(25,804)	(2,425)
Provision for income taxes	\$ 19,805	\$ 28,705	\$ 81,757

The expected cash payments for current U.S. income tax expense for fiscal years 2017, 2016 and 2015 were reduced by approximately \$1.6 million, \$3.3 million and \$2.4 million, respectively, as a result of tax deductions related to the exercise of non-qualified stock options and stock appreciation rights and the vesting of restricted stock and restricted stock units. The expected cash payments for current foreign tax expense for fiscal years 2017, 2016 and 2015 were reduced by \$0.1 million, \$0.2 million and \$0.3 million, respectively, as a result of tax deductions related to the exercise of stock options and the vesting of restricted stock granted to foreign employees. The income tax benefits resulting from these stock-based compensation plans have been recorded to additional paid-in capital in the Company's consolidated balance sheets. Total deferred income tax expense of \$49.4 million, \$25.8 million and \$2.4 million for fiscal years 2017, 2016 and 2015, respectively, are included in deferred income taxes on the Company's consolidated statements of cash flows.

A reconciliation of the U.S. federal statutory income tax rate of 35.0% to the Company's effective tax rate is as follows:

Fiscal Year	2017	2016	2015
Tax at statutory rate	35.0 %	35.0%	35.0%
Non-deductible expenses	(0.6)	5.3	0.7
State, net of federal tax benefit	1.0	0.6	0.5
Foreign rate differential	3.7	(30.9)	(15.6)
U.S. tax on foreign income	(1.7)	5.0	4.3
Valuation allowances	(12.5)	8.1	1.4
Repatriation tax - net impact	(7.4)	—	—
Non-deductible goodwill impairment	(15.2)	—	—
Tax Reform rate reduction impact on deferred tax assets	(6.2)	—	—
Other	(0.5)	2.0	(0.1)
Provision for income taxes	(4.4)%	25.1%	26.2%

FOSSIL GROUP, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

On December 22, 2017, the U.S. government enacted comprehensive tax legislation that significantly revised the Internal Revenue Code of 1986, including a corporate income tax rate reduction from 35% to 21%, under the Tax Cuts and Jobs Act (the "Tax Act"). The newly enacted federal income tax law contains significant changes in the taxation of foreign income earned by U.S. shareholders, specifically adding new rules related to low-taxed foreign earnings and allowing an exemption on foreign dividends paid after 2017. In anticipation of the tax exemption on foreign dividends, the law imposes a one-time repatriation tax on historical earnings generated offshore that have not been previously taxed in the U.S. Foreign earnings held in cash or liquid assets are taxed at 15.5%, and the remaining earnings are taxed at 8%. The Company accrued \$86.4 million for the repatriation tax and released \$52.8 million in deferred tax liabilities for foreign earnings not indefinitely reinvested, resulting in a net charge of \$33.6 million. After applying foreign tax credit carry forwards and the current year net operating loss, the actual cash repatriation tax liability is expected to be \$15.7 million, payable in installments over eight years.

Accounting for the income tax effects of the Tax Act requires significant judgments and estimates in the interpretation and calculations of the provisions of the Tax Act. Due to the timing of the enactment and the complexity involved in applying the provisions of the Tax Act, the Company has made reasonable estimates of the effects and recorded provisional amounts in its financial statements for fiscal year 2017 as permitted under SAB 118. As the Company collects and prepares necessary data, and interprets any additional guidance issued by the U.S. Treasury Department or the Internal Revenue Service, the Company may make adjustments to the provisional amounts. In addition, the Company's valuation allowance analysis is affected by various aspects of the Tax Act, including the new limitation on the deductibility of interest expense and the impact of the GILTI. Those adjustments may materially impact the provision for income taxes and the effective tax rate in the period in which the adjustments are made. The accounting for the tax effects of the enactment of the Tax Act will be completed in fiscal year 2018.

The Company recognized expense of \$28.2 million on the reduction in U.S. deferred tax assets as a result of the corporate income tax reduction from 35% to 21%. The Company also accrued valuation allowances of \$44.7 million on net U.S. deferred tax assets and \$11.8 million on net foreign deferred tax assets. The effective tax rate was also impacted by non-deductible intangible asset impairment charges recognized during fiscal year 2017.

The Company will not indefinitely reinvest \$650.3 million of earnings of foreign subsidiaries. Since under the Tax Act there will be no additional federal income tax when these amounts are repatriated, and the foreign jurisdiction does not impose a withholding tax on dividends, the Company has only accrued state income taxes on these earnings. Deferred U.S. federal income taxes and foreign withholding taxes are not recorded on the remaining \$378.0 million of undistributed earnings of foreign subsidiaries where management plans to continue reinvesting these earnings outside the U.S. Determining tax amounts that would be payable if these earnings were distributed to the U.S. parent company is not practicable.

The total amount of unrecognized tax benefits, excluding interest and penalties that would favorably impact the effective tax rate in future periods if recognized, was \$33.0 million, \$20.6 million and \$20.0 million for fiscal years 2017, 2016 and 2015, respectively. The U.S. Internal Revenue Service has completed examinations of the Company's federal income tax returns through 2013. Fiscal years 2014-2017 remain open for federal income tax examination. The Company is also subject to examinations in various state and foreign jurisdictions for its 2011-2016 tax years, none of which the Company believes are significant, individually or in the aggregate. Tax audit outcomes and timing of tax audit settlements are subject to significant uncertainty.

The Company has classified uncertain tax positions as long-term income taxes payable unless such amounts are expected to be paid within twelve months from December 30, 2017. As of December 30, 2017, the Company had recorded \$5.4 million of unrecognized tax benefits, excluding interest and penalties, for positions that could be settled within the next twelve months. Consistent with its past practice, the Company recognizes interest and/or penalties related to income tax overpayments and income tax underpayments in income tax expense and income taxes receivable/payable, respectively. The total amount of accrued income tax-related interest in the Company's consolidated balance sheets was \$2.8 million and \$2.3 million at December 30, 2017 and December 31, 2016, respectively. The total amount of accrued income tax-related penalties in the Company's consolidated balance sheets was \$1.3 million and \$1.4 million at December 30, 2017 and December 31, 2016, respectively. The Company accrued income tax-related interest expense of \$0.5 million, \$0.1 million and \$0.3 million in fiscal years 2017, 2016 and 2015, respectively.

FOSSIL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following is a tabular reconciliation of the total amounts of unrecognized tax benefits for the fiscal years indicated (in thousands):

Fiscal Year	2017	2016	2015
Balance at beginning of year	\$ 23,399	\$ 23,022	\$ 20,086
Gross increases tax positions in prior years	2,104	918	1,800
Gross decreases tax positions in prior years	(845)	(183)	(9,282)
Gross increases—tax positions in current year	13,444	974	11,909
Settlements	(81)	(181)	(583)
Lapse in statute of limitations	(2,706)	(1,106)	(758)
Change due to currency revaluation	40	(45)	(150)
Balance at end of year	<u>\$ 35,355</u>	<u>\$ 23,399</u>	<u>\$ 23,022</u>

13. Commitments and Contingencies

License Agreements. The Company has various license agreements to market watches and jewelry bearing certain trademarks or patents owned by various third parties. In accordance with these agreements, the Company incurred royalty expense of approximately \$190.0 million, \$206.1 million and \$243.5 million in fiscal years 2017, 2016 and 2015, respectively. These amounts are included in the Company's cost of sales or, if advertising related, in SG&A. These license agreements have expiration dates between fiscal years 2018 and 2025 and require the Company to pay royalties ranging from 5% to 15% of defined net sales. The Company has future minimum royalty commitments through fiscal year 2020 under these license agreements as follows by fiscal year (in thousands):

Fiscal Year	Minimum Royalty Commitments
2018	\$ 154,115
2019	8,086
2020	2,500
Total	<u>\$ 164,701</u>

These minimum royalty commitments do not include amounts owed under these license agreements for obligations of the Company to pay the licensors a percentage of net sales of these licensed products.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Leases. The Company leases its retail and outlet store facilities as well as certain of its office and warehouse facilities and equipment under non-cancelable operating leases and capital leases. Most of the retail and outlet store leases provide for contingent rental payments 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. Total rent expense under these agreements was approximately \$171.6 million, \$188.7 million and \$186.1 million for fiscal years 2017, 2016 and 2015, respectively. The Company's total rent expense included contingent rent expense of approximately \$8.2 million, \$10.5 million and \$13.3 million for fiscal years 2017, 2016 and 2015, respectively. The Company includes capital leases as a component of short-term and current portion of long-term debt and long-term debt in the consolidated balance sheets. Future minimum rental commitments under non-cancelable leases, by fiscal year, are as follows (in thousands):

<u>Fiscal Year</u>	<u>Operating Leases</u>	<u>Capital Leases</u>
2018	\$ 144,108	\$ 1,285
2019	124,176	1,056
2020	103,069	1,052
2021	85,064	1,045
2022	70,103	522
Thereafter	186,435	—
	<u>\$ 712,955</u>	<u>\$ 4,960</u>
Less amounts representing interest at 2.2% to 10.8%		117
Capital lease obligations		<u>\$ 4,843</u>

Purchase Obligations. As of December 30, 2017, the Company had purchase obligations totaling \$357.3 million that consisted primarily of open non-cancelable purchase orders.

Asset Retirement Obligations. ASC 410, *Asset Retirement and Environmental Obligations* requires (i) that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made and (ii) that the associated asset retirement costs be capitalized as part of the carrying amount of the long-lived asset. The Company's asset retirement obligations relate to costs associated with the retirement of leasehold improvements under office leases and retail store leases within the Americas, Europe and Asia segments.

The following table summarizes the changes in the Company's asset retirement obligations (in thousands):

<u>Fiscal Year</u>	<u>2017</u>	<u>2016</u>
Beginning asset retirement obligation	\$ 12,678	\$ 8,894
Liabilities incurred during the period	549	4,331
Liabilities settled during the period	(1,472)	(684)
Accretion expense	363	401
Currency translation	968	(264)
Ending asset retirement obligations	<u>\$ 13,086</u>	<u>\$ 12,678</u>

Litigation. The Company is occasionally subject to litigation or other legal proceedings in the normal course of its business. The Company does not believe that the outcome of any currently pending legal matters, individually or collectively, will have a material effect on the business or financial condition of the Company.

14. Stockholders' Equity

Common and Preferred Stock. The Company has 100,000,000 shares of common stock, par value \$0.01 per share, authorized, with 48,642,703 and 48,268,599 shares issued and outstanding at fiscal year-end 2017 and 2016, respectively. The Company has 1,000,000 shares of preferred stock, par value \$0.01 per share, authorized, with none issued or outstanding at fiscal year-end 2017 and 2016. Rights, preferences and other terms of preferred stock will be determined by the Board of Directors at the time of issuance.

FOSSIL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Common Stock Repurchase Programs. Purchases of the Company's common stock have been made from time to time pursuant to its repurchase programs, subject to market conditions and at prevailing market prices, through the open market. Repurchased shares of common stock are recorded at cost and become authorized but unissued shares which may be issued in the future for general corporate or other purposes. In the event the repurchased shares are canceled, the Company accounts for retirements by allocating the repurchase price to common stock, additional paid-in capital and retained earnings. The repurchase price allocation is based upon the equity contribution associated with historical issuances. The repurchase programs have been conducted pursuant to Rule 10b-18 of the Securities Exchange Act of 1934.

During the period from the announcement of the Company's buyback authorizations in December 2012 and December 2014 for \$1.0 billion each, until the end of the fiscal year 2017, the Company has repurchased approximately \$1.2 billion of its common stock, representing approximately 11.8 million shares. The Company has not repurchased any shares under the \$30 million repurchase plan authorized in 2010.

At December 30, 2017 and December 31, 2016, all treasury stock had been effectively retired. As of December 30, 2017, the Company had \$824.2 million of repurchase authorizations remaining under the combined repurchase plans. However, under the Company's credit agreement, the Company is restricted from making open market repurchases of its common stock. See Note 10—Debt for additional disclosures about the Second Amendment and Note 20—Subsequent Event for more information about the Company's amended credit facilities.

The following table shows the Company's common stock repurchase activity for the periods indicated (in millions):

Fiscal Year Authorized	Dollar Value Authorized	Termination Date	For the 2017 Fiscal Year		For the 2016 Fiscal Year	
			Number of Shares Repurchased	Dollar Value Repurchased	Number of Shares Repurchased	Dollar Value Repurchased
2014	\$ 1,000.0	December 2018	—	\$ —	0.1	\$ 5.2
2010	\$ 30.0	None	—	\$ —	—	\$ —

Noncontrolling Interest. The Company has entered into an agreement to purchase the outstanding minority interest shares in Fossil South Africa, representing the entire noncontrolling interest in the subsidiary. The purchase price is based on variable payments through fiscal year 2020, the present value of which the Company has measured at \$6.5 million as of December 30, 2017. The transaction was accounted for as an equity transaction, and the Company's ownership interest in Fossil South Africa increased to 100%. The Company recorded \$2.0 million of the variable consideration in accrued expenses-other and \$4.5 million in other long-term liabilities in the consolidated balance sheets at December 30, 2017.

15. Employee Benefit Plans

Deferred Compensation and Savings Plans. The Company has a defined contribution savings plan (the "401(k) Plan") for substantially all U.S.-based full-time employees of the Company, which includes a Roth 401(k) option. The Company's common stock is one of several investment alternatives available under the 401(k) Plan. The Company has a discretionary match for the 401(k) Plan. After 90 days of service (minimum of 250 hours worked), the Company matches 50% of employee contributions up to 6% of their compensation. Matching contributions made by the Company to the 401(k) Plan totaled approximately \$2.9 million for both fiscal years 2017 and 2016 and \$2.8 million for fiscal year 2015. The Company also has the right to make additional matching contributions not to exceed 15% of employee compensation. The Company did not make any additional matching contributions during fiscal years 2017, 2016 and 2015.

Under the Fossil Group, Inc. and Affiliates Deferred Compensation Plan (the "Deferred Plan") eligible participants may elect to defer up to 50% of their salary or up to 100% of any bonuses paid pursuant to the terms and conditions of the Deferred Plan. 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 2017, 2016 and 2015. In prior periods, the Company made payments pursuant to the Deferred Plan into a Rabbi Trust. The funds held in the Rabbi Trust are directed to certain investments available through life insurance products. The Company had an asset of \$4.8 million and \$2.4 million related to the Company's invested balances recorded in intangible and other assets—net and a liability of \$5.2 million and \$3.9

FOSSIL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

million related to the participants' invested balances recorded in accrued expenses—other, each on the Company's consolidated balance sheets at the end of fiscal years 2017 and 2016, respectively.

Stock-Based Compensation Plans. The Company's grants under its current stock-based compensation plans generally include: (i) stock options, restricted stock units, and performance restricted stock units for its international employees, (ii) restricted stock units for its nonemployee directors, and (iii) stock appreciation rights, performance stock appreciation rights, restricted stock, restricted stock units, and performance restricted stock units for its U.S.-based employees. As of December 30, 2017, the Company had approximately \$43.7 million of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Company's stock based compensation plans. This cost is expected to be recognized over a weighted-average period of approximately 1.4 years. All time-based or performance-based stock appreciation rights and restricted stock units are settled in shares of the Company's common stock with the exception of two employees' grants that were converted to cash settled awards.

Long-Term Incentive Plans. An aggregate of 3,000,000 shares of the Company's common stock were reserved for issuance pursuant to the Company's 2016 Long-Term Incentive Plan ("2016 LTIP"), adopted in March 2016. Under the 2016 LTIP, designated employees of the Company, including officers, certain contractors, and outside directors of the Company, are eligible to receive (i) stock options, (ii) stock appreciation rights, (iii) restricted or non-restricted stock awards, (iv) restricted stock units, (v) performance awards, (vi) cash awards, or (vii) any combination of the foregoing. The 2016 LTIP is administered by the Compensation Committee of the Company's Board of Directors (the "Compensation Committee"). Each award issued under the 2016 LTIP terminates at the time designated by the Compensation Committee, not to exceed ten years. The current outstanding stock options, stock appreciation rights, performance stock appreciation rights, restricted stock, restricted stock units and performance restricted stock units issued under the 2016 LTIP predominantly have original vesting periods of three years. Time-based or performance-based stock appreciation rights and restricted stock units are predominately settled in shares of the Company's common stock. Each nonemployee director receives restricted stock units valued at \$130,000 on the date of the Company's annual stockholders' meeting. These grants vest on the earlier of one year from the date of grant or the date of Company's next annual stockholders' meeting.

Stock Options, Stock Appreciation Rights and Performance Stock Appreciation Rights. The fair value of stock options, stock appreciation rights and performance stock appreciation rights granted under the Company's stock-based compensation plans were estimated on the date of grant using the Black-Scholes option pricing model. The table below outlines the weighted-average assumptions for these award grants:

<u>Fiscal Year</u>	<u>2016</u>	<u>2015</u>
Risk-free interest rate	1.1%	1.3%
Expected term (in years)	3.0	3.2
Expected volatility	38.8%	42.3%
Expected dividend yield	—%	—%
Estimated fair value per stock option/stock appreciation right granted	\$ 11.25	\$ 12.74

The expected term of the stock options represents the estimated period of time until exercise and is based on historical experience of similar awards. Expected stock price volatility is based on the historical volatility of the Company's common stock. The risk-free interest rate is based on the implied yield available on U.S. Treasury securities with an equivalent remaining term.

The Company did not issue stock options, stock appreciation rights and performance stock appreciation rights in fiscal year 2017.

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The following table summarizes stock option, stock appreciation rights and performance stock appreciation rights activity:

Stock Options and Stock Appreciation Rights	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
	in thousands			in thousands
Outstanding at January 3, 2015	663	\$ 85.08	5.6	\$ 20,751
Granted	1,496	41.16		
Exercised	(36)	31.04		1,544
Forfeited or expired	(95)	102.86		
Outstanding at January 2, 2016	2,028	52.80	8.7	2,095
Granted	326	41.53		
Exercised	(10)	26.93		186
Forfeited or expired	(57)	81.93		
Outstanding at December 31, 2016	2,287	50.58	6.2	627
Granted	—	—		
Exercised	(13)	13.65		35
Forfeited or expired	(97)	67.99		
Outstanding at December 30, 2017	2,177	50.01	5.3	—
Exercisable at December 30, 2017	1,058	\$ 62.01	4.6	\$ —

The aggregate intrinsic value in the table above is before income taxes and is based on the exercise price for outstanding and exercisable options/rights at December 30, 2017 and based on the fair market value of the Company's common stock on the exercise date for options/rights that were exercised during the fiscal year.

Stock Options, Stock Appreciation Rights and Performance Stock Appreciation Rights Outstanding and Exercisable. The following tables summarize information with respect to stock options, stock appreciation rights and performance stock appreciation rights outstanding and exercisable at December 30, 2017:

Range of Exercise Prices	Stock Options Outstanding			Stock Options Exercisable	
	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Number of Shares	Weighted-Average Exercise Price
	in thousands			in thousands	
\$13.65 - \$29.49	35	\$ 14.12	1.2	35	\$ 14.12
\$29.78 - \$47.99	74	36.53	1.3	74	36.53
\$55.04 - \$83.83	87	81.35	3.1	87	81.35
\$95.91 - \$131.46	124	127.98	4.1	124	127.98
Total	320	\$ 81.71	2.9	320	\$ 81.71

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

<u>Range of Exercise Prices</u>	Stock Appreciation Rights Outstanding			Stock Appreciation Rights Exercisable	
	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Number of Shares	Weighted-Average Exercise Price
	in thousands			in thousands	
\$13.65 - \$29.49	101	\$ 29.49	6.6	34	\$ 29.49
\$29.78 - \$47.99	1,467	38.05	6.0	490	38.11
\$55.04 - \$83.83	125	79.16	4.6	91	79.43
\$95.91 - \$131.46	103	114.46	2.8	103	114.46
Total	1,796	\$ 44.82	5.7	718	\$ 53.95

<u>Range of Exercise Prices</u>	Cash Stock Appreciation Rights Outstanding			Cash Stock Appreciation Rights Exercisable	
	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Number of Shares	Weighted-Average Exercise Price
	in thousands			in thousands	
\$29.78 - \$47.99	61	\$ 36.73	6.0	20	\$ 36.73
Total	61	\$ 36.73	6.0	20	\$ 36.73

Restricted Stock, Restricted Stock Units and Performance Restricted Stock Units. The following table summarizes restricted stock, restricted stock unit and performance restricted stock unit activity:

<u>Restricted Stock, Restricted Stock Units and Performance Restricted Stock Units</u>	Number of Shares	Weighted-Average Grant Date Fair Value Per Share
	in thousands	
Nonvested at January 3, 2015	255	\$ 110.17
Granted	1,131	49.16
Vested	(115)	109.97
Forfeited	(63)	94.54
Nonvested at January 2, 2016	1,208	\$ 53.87
Granted	588	27.94
Vested	(327)	64.51
Forfeited	(64)	56.29
Nonvested at December 31, 2016	1,405	\$ 40.41
Granted	2,381	14.81
Vested	(479)	44.79
Forfeited	(326)	25.62
Nonvested at December 30, 2017	2,981	\$ 20.84

The total fair value of shares/units vested during fiscal years 2017, 2016 and 2015 was \$6.3 million, \$12.3 million and \$9.0 million, respectively.

Other Retirement Plans. The Company maintains a defined benefit plan for its employees located in Switzerland. The plan is funded through payments to an insurance company. The payments are determined by periodic actuarial calculations. During fiscal years 2017, 2016 and 2015, the Company recorded pension expenses of \$1.8 million, \$2.2 million and \$1.5

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

million, respectively, related to this plan. The liability for the Company's defined benefit plan was \$12.5 million and \$11.3 million at the end of fiscal years 2017 and 2016, respectively. This liability is recorded in other long-term liabilities on the Company's consolidated balance sheets.

Under French law, the Company is required to maintain a defined benefit plan for its employees located in France, which is referred to as a "retirement indemnity." The amount of the retirement indemnity is based on the employee's last salary and duration of employment with the Company. The employee's right to receive the retirement indemnity is subject to the employee remaining with the Company until retirement. During fiscal years 2017, 2016 and 2015, the Company recorded pension gains (expenses) of \$0.7 million, \$(0.2) million and \$(0.1) million, respectively, for its retirement indemnity obligations. The liability for the Company's retirement indemnity was \$1.3 million and \$1.7 million at the end of fiscal years 2017 and 2016, respectively. This liability is recorded in other long-term liabilities on the Company's consolidated balance sheets.

16. Supplemental Cash Flow Information

The following table summarizes supplemental cash flow information (in thousands):

Fiscal Year	2017	2016	2015
Cash paid during the year for:			
Interest	\$ 43,245	\$ 26,867	\$ 20,042
Income taxes, net of refunds	\$ 36,571	\$ 14,163	\$ 131,838
Supplemental disclosures of non-cash investing and financing activities:			
Additions to property, plant and equipment included in accounts payable	\$ 2,300	\$ 4,762	\$ 7,966
Additions to property, plant and equipment acquired under capital leases	\$ —	\$ 432	\$ 1,462

17. Supplemental Disclosure for Accumulated Other Comprehensive Income (Loss)

The following table illustrates changes in the balances of each component of accumulated other comprehensive income (loss), net of taxes (in thousands):

	December 30, 2017				
	Currency Translation Adjustments	Cash Flow Hedges			Total
		Forward Contracts	Interest Rate Swaps	Pension Plan	
Beginning balance	\$ (101,867)	\$ 10,693	\$ (343)	\$ (3,907)	\$ (95,424)
Other comprehensive income (loss) before reclassifications	37,368	(34,873)	437	2,677	5,609
Tax (expense) benefit	—	9,785	(159)	(442)	9,184
Amounts reclassified from accumulated other comprehensive income (loss)	—	(1,076)	(214)	—	(1,290)
Tax (expense) benefit	—	(3,221)	149	—	(3,072)
Total other comprehensive income (loss)	37,368	(20,791)	343	2,235	19,155
Ending balance	\$ (64,499)	\$ (10,098)	\$ —	\$ (1,672)	\$ (76,269)

	December 31, 2016					
	Currency Translation Adjustments	Cash Flow Hedges			Pension Plan	Total
		Forward Contracts	Interest Rate Swaps			
Beginning balance	\$ (81,707)	\$ 8,114	\$ (693)	\$ (6,220)	\$ (80,506)	
Other comprehensive income (loss) before reclassifications	(19,773)	22,638	(1,149)	2,650	4,366	
Tax (expense) benefit	(283)	(9,073)	419	(337)	(9,274)	
Amounts reclassified from accumulated other comprehensive income (loss)	104	16,143	(1,699)	—	14,548	
Tax (expense) benefit	—	(5,157)	619	—	(4,538)	
Total other comprehensive income (loss)	(20,160)	2,579	350	2,313	(14,918)	
Ending balance	<u>\$ (101,867)</u>	<u>\$ 10,693</u>	<u>\$ (343)</u>	<u>\$ (3,907)</u>	<u>\$ (95,424)</u>	

	January 2, 2016					
	Currency Translation Adjustments	Cash Flow Hedges			Pension Plan	Total
		Forward Contracts	Interest Rate Swaps			
Beginning balance	\$ (27,241)	\$ 14,980	\$ (502)	\$ (3,647)	\$ (16,410)	
Other comprehensive income (loss) before reclassifications	(54,466)	33,475	2,430	(2,846)	(21,407)	
Tax (expense) benefit	—	(10,712)	(886)	463	(11,135)	
Amounts reclassified from accumulated other comprehensive income (loss)	—	44,859	2,730	210	47,799	
Tax (expense) benefit	—	(15,230)	(995)	(20)	(16,245)	
Total other comprehensive income (loss)	(54,466)	(6,866)	(191)	(2,573)	(64,096)	
Ending balance	<u>\$ (81,707)</u>	<u>\$ 8,114</u>	<u>\$ (693)</u>	<u>\$ (6,220)</u>	<u>\$ (80,506)</u>	

18. Major Customer, Segment and Geographic Information

Major Customer

Wholesale customers of the Company consist principally of major department stores and specialty retail stores located throughout the world. No individual customer accounts for 10% or more of the Company's net sales.

Segment Information

The Company reports segment information based on the "management approach". The management approach designates the internal reporting used by management for making decisions and assessing performance as the source of the Company's reportable segments.

The Company manages its business primarily on a geographic basis. The Company's reportable operating segments are comprised of (i) Americas, (ii) Europe and (iii) Asia. Each reportable operating segment includes sales to wholesale and distributor customers, and sales through Company-owned retail stores and e-commerce activities based on the location of the selling entity. The Americas segment primarily includes sales to customers based in Canada, Latin America and the United States. The Europe segment primarily includes sales to customers based in European countries, the Middle East and Africa. The Asia segment primarily includes sales to customers based in Australia, China, India, Indonesia, Japan, Malaysia, New Zealand, Singapore, South Korea, Taiwan and Thailand. Each reportable operating segment provides similar products and services.

The Company evaluates the performance of its reportable segments based on net sales and operating income (loss). Net sales for geographic segments are based on the location of the selling entity. Operating income (loss) for each segment includes net sales to third parties, related cost of sales and operating expenses directly attributable to the segment. General corporate expenses, including certain administrative, legal, accounting, technology support costs, equity compensation costs, payroll costs attributable to executive management, brand management, product development, art, creative/product design, marketing,

strategy, compliance and back office supply chain expenses are not allocated to the various segments because they are managed at the corporate level internally. The Company does not include intercompany transfers between segments for management reporting purposes.

Summary information by operating segment was as follows (in thousands):

	Fiscal Year 2017				
	Net Sales	Operating Income (Loss)	Depreciation and Amortization	Long-term Assets	Total Assets
Americas	\$ 1,316,149	\$ (46,035)	\$ 21,214	\$ 81,444	\$ 463,175
Europe	974,198	33,783	21,368	113,621	471,375
Asia	497,816	(10,897)	10,798	33,160	216,660
Corporate		(401,127)	28,197	139,159	507,162
Consolidated	\$ 2,788,163	\$(424,276)	\$ 81,577	\$ 367,384	\$ 1,658,372

	Fiscal Year 2016				
	Net Sales	Operating Income	Depreciation and Amortization	Long-term Assets	Total Assets
Americas	\$ 1,524,912	\$ 241,118	\$ 22,612	\$ 313,437	\$ 741,082
Europe	1,002,076	174,205	22,505	237,801	534,413
Asia	515,383	77,626	12,676	81,434	237,695
Corporate		(365,803)	33,704	206,935	673,707
Consolidated	\$ 3,042,371	\$ 127,146	\$ 91,497	\$ 839,607	\$ 2,186,897

	Fiscal Year 2015				
	Net Sales	Operating Income	Depreciation and Amortization	Long-term Assets	Total Assets
Americas	\$ 1,661,899	\$ 354,295	\$ 26,021	\$ 427,026	\$ 905,168
Europe	1,069,820	210,514	21,671	204,947	543,649
Asia	497,117	71,684	13,073	57,754	203,304
Corporate		(345,259)	24,532	223,264	703,540
Consolidated	\$ 3,228,836	\$ 291,234	\$ 85,297	\$ 912,991	\$ 2,355,661

The following table shows revenue for each class of similar products for fiscal years 2017, 2016 and 2015 (in thousands):

	Fiscal Year 2017		Fiscal Year 2016		Fiscal Year 2015	
	Net Sales	Percentage of Total	Net Sales	Percentage of Total	Net Sales	Percentage of Total
Watches	\$2,199,031	78.9%	\$2,330,275	76.6%	\$2,475,814	76.7%
Leathers	325,502	11.7	393,761	12.9	409,381	12.7
Jewelry	211,694	7.6	251,391	8.3	272,146	8.4
Other	51,936	1.8	66,944	2.2	71,495	2.2
Total	\$2,788,163	100.0%	\$3,042,371	100.0%	\$3,228,836	100.0%

Geographic Information

Net sales and long-lived assets related to the Company's operations in the U.S., Europe, Asia and all other international markets were as follows (in thousands):

	Fiscal Year 2017	
	Net Sales ⁽¹⁾	Long-term Assets
United States	\$ 1,157,568	\$ 189,209
Europe	974,198 ⁽²⁾	127,344
Asia	497,816	40,874
All other international	158,581	9,957
Consolidated	\$ 2,788,163	\$ 367,384

	Fiscal Year 2016	
	Net Sales ⁽¹⁾	Long-term Assets
United States	\$ 1,355,586	\$ 470,358
Europe	1,002,077 ⁽²⁾	260,277
Asia	515,383	93,111
All other international	169,325	15,861
Consolidated	\$ 3,042,371	\$ 839,607

	Fiscal Year 2015	
	Net Sales ⁽¹⁾	Long-term Assets
United States	\$ 1,491,638	\$ 379,461
Europe	1,069,820 ⁽²⁾	224,018
Asia	497,117	66,140
All other international	170,261	243,372
Consolidated	\$ 3,228,836	\$ 912,991

⁽¹⁾ Net sales are based on the location of the selling entity.

⁽²⁾ Net sales from Germany accounted for more than 10% of the Company's consolidated net sales and were approximately \$406.2 million, \$467.7 million and \$505.4 million in fiscal years 2017, 2016 and 2015, respectively.

19. Restructuring

The Company implemented a multi-year restructuring program that began in fiscal year 2016 called New World Fossil ("NWF"). As part of NWF, the Company targets to improve operating profit and support sales growth through a leaner infrastructure and an enhanced business model. The Company is working to achieve greater efficiencies from production to distribution through activities such as organizational changes, reducing its overall product assortment, optimizing its base cost structure and consolidating facilities. The Company also intends to build a quicker and thereby more responsive operating platform. The Company is reducing its retail footprint to reflect the evolving shopping habits of today's consumer, which includes restructuring costs, such as store impairment, recorded lease obligations and termination fees and accelerated depreciation. Of the total estimated \$150 million restructuring charges, approximately \$27.8 million and \$48.2 million were recorded during fiscal year 2016 and 2017, respectively. The Company estimates total fiscal year 2018 NWF restructuring charges of approximately \$50 million.

During fiscal year 2015, the Company completed a restructuring program to refine its operating structure and store locations. The costs associated with this plan included various charges, including severance and other employment-related costs, professional services and costs related to store closures.

The following tables show a rollforward of the liabilities incurred under the Company's restructuring plans (in thousands):

	Fiscal Year 2017					
	Liabilities		Charges	Cash payments	Non-cash items	Liabilities
	December 31, 2016	December 30, 2017				
Store closures	\$ 4,546	\$ 2,973	\$ 13,045	\$ 6,636	\$ 7,982	\$ 2,973
Professional services and other	794	185	3,507	2,618	1,498	185
Severance and employee-related benefits	—	1,317	31,619	29,098	1,204	1,317
Total	\$ 5,340	\$ 4,475	\$ 48,171	\$ 38,352	\$ 10,684	\$ 4,475

	Fiscal Year 2016					
	Liabilities		Charges	Cash payments	Non-cash items	Liabilities
	January 2, 2016	December 31, 2016				
Store closures	\$ —	\$ 4,546	\$ 22,247	\$ 3,430	\$ 14,271	\$ 4,546
Professional services	—	794	4,057	3,263	—	794
Supply chain relocation	—	—	1,474	—	1,474	—
Total	\$ —	\$ 5,340	\$ 27,778	\$ 6,693	\$ 15,745	\$ 5,340

	Fiscal Year 2015					
	Liabilities		Charges	Cash payments	Non-cash items	Liabilities
	January 3, 2015	January 2, 2016				
Store closures	\$ —	\$ —	\$ 8,715	\$ 4,753	\$ 3,962	\$ —
Professional services	—	—	5,462	5,462	—	—
Severance and employee-related benefits	—	—	10,223	10,223	—	—
Total	\$ —	\$ —	\$ 24,400	\$ 20,438	\$ 3,962	\$ —

Restructuring charges by operating segment were as follows by fiscal year (in thousands):

	2017	2016	2015
Americas	\$ 12,964	\$ 19,745	\$ 8,715
Europe	12,606	1,888	3,554
Asia	9,894	746	210
Corporate	12,707	5,399	11,921
Consolidated	<u>\$ 48,171</u>	<u>\$ 27,778</u>	<u>\$ 24,400</u>

20. Subsequent Events

Credit Agreement. On January 29, 2018, the Company, as U.S. borrower, and certain of its foreign subsidiaries, as non-U.S. borrowers, entered into a Second Amended and Restated Credit Agreement (the "Second A&R Credit Agreement"). The Second A&R Credit Agreement provides for (i) revolving credit loans in the amount of \$325 million, subject to a borrowing base (as described below), (the "Second A&R Revolving Credit Facility"), with an up to \$45.0 million subfacility for letters of credit, and (ii) a term loan made to the Company in the amount of \$425 million (the "Term Loan Facility"). The Second A&R Credit Agreement expires and is due and payable on December 31, 2020.

Availability under the Second A&R Revolving Credit Facility and any letters of credit are subject to a borrowing base equal to, (a) with respect to Fossil Group Inc., the sum of (i) 85% of eligible U.S. accounts receivable and 90% of net U.S. credit card receivables (less any dilution reserve), (ii) the lesser of (A) 65% of the lower of cost or market value of eligible U.S. finished good inventory and (B) 85% of the appraised net orderly liquidation value of eligible U.S. finished good inventory, and (iii) until the earlier of (x) March 31, 2018 and (y) the date on which certain foreign subsidiaries of Fossil Group Inc. join the Second A&R Credit Agreement as non-U.S. borrowers, (A) 35% of eligible foreign accounts receivable of certain pledged foreign subsidiaries, plus (B) the least of (x) 35% of the lower of cost or market value of eligible foreign finished good inventory of such pledged foreign subsidiaries, (y) 35% of the appraised net orderly liquidation value of eligible foreign finished good inventory of such pledged foreign subsidiaries, and (z) \$100,000,000, minus (C) all indebtedness for borrowed money of such pledged foreign subsidiaries (subject to exceptions) minus (iv) the aggregate amount of reserves, if any, established by the Administrative Agent in good faith and in the exercise of reasonable business judgment from the perspective of a secured asset-based lender; and (b) with respect to each non-U.S. borrower, the sum of (i) 85% of eligible accounts receivable of the non-U.S. borrowers (less any dilution reserve) and (ii) the least of (A) 65% of the lower of cost or market value of eligible foreign finished goods inventory of the non-U.S. borrowers, (B) 85% of the appraised net orderly liquidation value of eligible foreign finished goods inventory of the non-U.S. borrowers, and (C) \$185,000,000 minus (iii) the aggregate amount of reserves, if any, established by the Administrative Agent in good faith and in the exercise of reasonable business judgment from the perspective of a secured asset-based lender.

In connection with the Second A&R Credit Agreement, the Company and all of its domestic subsidiaries entered into a Collateral Agreement in favor of the Administrative Agent, pursuant to which the Company and such subsidiaries granted liens on all or substantially all of their assets in order to secure the Company's obligations under the Second A&R Credit Agreement and the other loan documents (the "Obligations"). Additionally, all of the Company's domestic subsidiaries entered into a Guaranty Agreement in favor of the Administrative Agent, pursuant to which such subsidiaries guarantee the payment and performance of the Obligations. Additionally, Fossil Group Europe and the other non-U.S. borrowers from time to time party to the Second A&R Credit Agreement are required to enter into security instruments with respect to all or substantially all of their assets that can be pledged under applicable local law.

Amounts outstanding under the Second A&R Revolving Credit Facility bear interest per annum at the (a) LIBOR rate plus the applicable interest margin, (b) the daily LIBOR rate plus the applicable interest margin or (c) the base rate plus the applicable interest margin. The applicable interest margin varies from 4.00% to 5.00% for LIBOR rate loans and daily LIBOR rate loans and 1.50% to 3.00% for base rate loans and is based on the Company's average daily excess availability under the Second A&R Revolving Credit Facility for the most recently ended calendar quarter, which is an amount equal (a) the lesser of (i) \$325 million and (ii) the aggregate borrowing base minus (b) the amount of all outstanding borrowings and letter of credit obligations under the Second A&R Revolving Credit Facility, for each day during the applicable period divided by the number of days in such period. The applicable interest margin will increase by 1% per annum on each anniversary of the closing of the Second A&R Credit Agreement. The base rate loans under the Second A&R Revolving Credit Facility are available only to the Company and Fossil Group Europe and loans denominated in U.S. dollars.

Amounts outstanding under the Term Loan Facility bear interest at a rate per annum equal to (a) the LIBOR rate plus 7%, increasing to the LIBOR rate plus 8% on the first anniversary of the closing of the Second A&R Credit Agreement and the LIBOR rate plus 9% on the second anniversary of the closing of the Second A&R Credit Agreement and thereafter or (b) the base rate plus 5.5%, increasing to the base rate plus 6.5% on the first anniversary of the closing of the Second A&R Credit Agreement and to the base rate plus 7.5% on the second anniversary of the closing of the Second A&R Credit Agreement and thereafter.

The Company is required to repay the outstanding principal balance of the Term Loan Facility in the amount of \$25 million on March 31, 2018, \$125 million on March 31, 2019, \$75 million on March 31, 2020 and the outstanding balance on December 31, 2020. Additionally, loans under the Second A&R Credit Agreement may be prepaid, in whole or in part, at the option of the Company, in minimum principal amounts of (a) \$1.0 million or increments of \$1.0 million in excess thereof, with respect to a base rate loan under the Second A&R Revolving Credit Facility, (b) \$5.0 million or increments of \$1.0 million in excess thereof, with respect to a LIBOR rate loan or a daily LIBOR rate loan under the Second A&R Revolving Credit Facility, and (c) \$5.0 million or increments of \$1.0 million in excess thereof, with respect to the Term Loan Facility. Loans under the Second A&R Credit Agreement must be repaid with the net cash proceeds of certain asset sales, insurance and condemnation events, certain debt and equity issuances and certain cash dividends received from the Company's subsidiaries. The Company may permanently reduce the revolving credit commitment at any time, in whole or in part, without premium or penalty, in a minimum aggregate principal amount of not less than \$3.0 million or increments of \$1.0 million in excess thereof.

The Company is required to pay a commitment fee on the unused amounts of the commitments under the Second A&R Revolving Credit Facility, payable quarterly in arrears, of 0.5% on the average daily unused portion of the overall commitment under the Second A&R Revolving Credit Facility.

The repayment obligation under the Second A&R Credit Agreement can be accelerated upon the occurrence of an event of default, including the failure to pay principal or interest, a material inaccuracy of a representation or warranty, violation of covenants, cross-default, change in control, bankruptcy events, failure of a loan document provision, certain ERISA events and material judgments.

Financial covenants governing the Second A&R Credit Agreement require the Company to maintain (a) a minimum fixed charge coverage ratio measured quarterly on a rolling twelve-month basis of 1.15 to 1.00 if the Company's quarter-end balances of cash and cash equivalents plus the excess availability under the Second A&R Revolving Credit Facility is less than \$200 million; (b) a maximum leverage ratio measured as of the last day of each fiscal quarter for the period of four fiscal quarters ending on such date of (i) 4.5 to 1.0 for the period ending March 31, 2018, (ii) 4.75 to 1.0 for the period ending June 30, 2018, (iii) 5.0 to 1.0 for the period ending September 29, 2018, (iv) 4.25 to 1.0 for the period ending December 29, 2018, (v) 3.75 to 1.0 for each fiscal quarter ending during the period from December 30, 2018 through September 28, 2019, and (vi) 3.5 to 1.0 thereafter; (c) a minimum trailing twelve-month EBITDA tested quarterly of \$110 million (beginning with the fiscal quarter ending December 29, 2018); (d) a minimum liquidity covenant of unrestricted cash and cash equivalents plus available and unused capacity under the Second A&R Revolving Credit Facility equal to \$160 million; and (e) maximum capital expenditures of \$35 million per year. Additionally, the Company is restricted from making open market repurchases of its common stock.

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

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We conducted an evaluation of the effectiveness of our "disclosure controls and procedures" ("Disclosure Controls"), as defined by Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of December 30, 2017, the end of the period covered by this Annual Report on Form 10-K. The Disclosure Controls evaluation was done under the supervision and with the participation of management, including our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"). There are inherent limitations to the effectiveness of any system of disclosure controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

Based upon this evaluation, our CEO and CFO have concluded that our Disclosure Controls were effective at the reasonable assurance level as of December 30, 2017.

Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the consolidated financial statements for external reporting purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of the effectiveness of internal control over financial reporting to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate over time.

Management, including our CEO and our CFO, assessed the effectiveness of the Company's internal control over financial reporting as of December 30, 2017. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control—Integrated Framework (2013)*. Based on its assessment and those criteria, management has concluded that the Company maintained effective internal control over financial reporting as of December 30, 2017.

Deloitte & Touche LLP, the independent registered public accounting firm that audited the Company's consolidated financial statements included in this Annual Report on Form 10-K, has issued an attestation report on the Company's internal control over financial reporting, which is included herein.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting other than our change in CFO as described in our Form 8-K filed on August 14, 2017, during the quarter ended December 30, 2017 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the stockholders and the Board of Directors of Fossil Group, Inc.

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Fossil Group, Inc. and subsidiaries (the “Company”) as of December 30, 2017, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 30, 2017, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements and financial statement schedule as of and for the year ended December 30, 2017, of the Company and our report dated March 2, 2018, expressed an unqualified opinion on those consolidated financial statements and financial statement schedule.

Basis for Opinion

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, included in the accompanying Management’s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. 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, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed 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 its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Deloitte & Touche LLP

Dallas, Texas
March 2, 2018

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

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 SEC 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 officer and controller. The full text of our Code of Conduct and Ethics is published on the Investors section of our website at *www.fossilgroup.com*. We intend to disclose any 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 website within five business days following the date of any 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 SEC 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 and Related Stockholder Matters

The information required in response to this Item is incorporated herein by reference to our proxy statement to be filed with the SEC 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, and Director Independence

The information required in response to this Item is incorporated herein by reference to our proxy statement to be filed with the SEC 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 SEC 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 Consolidated Financial Statement Schedules

(a) Documents filed as part of Report.

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Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)	56
Consolidated Statements of Stockholders' Equity	57
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2. Consolidated Financial Statement Schedule: See "Schedule II"	99
3. Exhibits required to be filed by Item 601 of Regulation S-K	100

The exhibits required to be filed by this Item 15 are set forth in the Exhibit Index accompanying this report.

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.

March 2, 2018

FOSSIL GROUP, INC.

/s/ KOSTA N. KARTSOTIS

Kosta N. Kartsotis,
Chairman of the Board of Directors and Chief Executive Officer

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.

<u>Signature</u>	<u>Capacity</u>	<u>Date</u>
<u>/s/ KOSTA N. KARTSOTIS</u> Kosta N. Kartsotis	Chairman of the Board of Directors and Chief Executive Officer (Principal Executive Officer)	March 2, 2018
<u>/s/ JEFFREY N. BOYER</u> Jeffrey N. Boyer	Executive Vice President, Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)	March 2, 2018
<u>/s/ WILLIAM B. CHIASSON</u> William B. Chiasson	Director	March 2, 2018
<u>/s/ MAURIA A. FINLEY</u> Mauria A. Finley	Director	March 2, 2018
<u>/s/ DIANE L. NEAL</u> Diane L. Neal	Director	March 2, 2018
<u>/s/ THOMAS M. NEALON</u> Thomas M. Nealon	Director	March 2, 2018
<u>/s/ MARK D. QUICK</u> Mark D. Quick	Director	March 2, 2018
<u>/s/ JAMES E. SKINNER</u> James E. Skinner	Director	March 2, 2018
<u>/s/ GAIL B. TIFFORD</u> Gail B. Tifford	Director	March 2, 2018
<u>/s/ JAMES M. ZIMMERMAN</u> James M. Zimmerman	Director	March 2, 2018

SCHEDULE II
FOSSIL GROUP, INC. AND SUBSIDIARIES
VALUATIONS AND QUALIFYING ACCOUNTS
Fiscal Years 2015, 2016 and 2017
(in thousands)

<u>Classification</u>	<u>Balance at Beginning of Period</u>	<u>Additions Charged (Credited) to Operations</u>	<u>Deductions Actual Returns or Writeoffs</u>	<u>Balance at End of Period</u>
Fiscal Year 2015:				
Account receivable allowances:				
Sales returns	\$ 68,207	\$ 136,067	\$ 135,539	\$ 68,735
Bad debts	\$ 11,840	\$ 6,307	\$ 2,324	\$ 15,823
Deferred tax asset valuation allowance	\$ 6,821	\$ 4,236	\$ 200	\$ 10,857
Fiscal Year 2016:				
Account receivable allowances:				
Sales returns	\$ 68,735	\$ 122,018	\$ 123,852	\$ 66,901
Bad debts	\$ 15,823	\$ 4,520	\$ 7,538	\$ 12,805
Deferred tax asset valuation allowance	\$ 10,857	\$ 8,793	\$ 235	\$ 19,415
Fiscal Year 2017:				
Account receivable allowances:				
Sales returns	\$ 66,901	\$ 148,814	\$ 140,515	\$ 75,200
Bad debts	\$ 12,805	\$ 7,140	\$ 7,017	\$ 12,928
Deferred tax asset valuation allowance	\$ 19,415	\$ 59,676	\$ 777	\$ 78,314

EXHIBIT INDEX

Exhibit Number	Description
3.1	Third Amended and Restated Certificate of Incorporation of Fossil Group, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on May 25, 2010).
3.2	Certificate of Amendment of the Third Amended and Restated Certificate of Incorporation of Fossil, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on May 28, 2013).
3.3	Fifth Amended and Restated Bylaws of Fossil Group, Inc. (incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K filed on April 3, 2017).
10.1 (1)(2)	Fossil Group, Inc. Savings and Retirement Plan.
10.2 (2)	Fossil Group, Inc. 2008 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 23, 2008).
10.3 (2)	Amendment Number One to the 2008 Long-Term Incentive Plan of Fossil Group, Inc. (incorporated by reference to Exhibit 10.23 to the Company's Annual Report on Form 10-K filed on February 29, 2012).
10.4 (2)	Amendment Number Two to the 2008 Long-Term Incentive Plan of Fossil Group, Inc. (incorporated by reference to Exhibit 10.24 to the Company's Annual Report on Form 10-K filed on February 29, 2012).
10.5 (2)	Amendment Number Three to the Fossil Group, Inc. 2008 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on May 7, 2015).
10.6 (2)	Form of Stock Option Award Agreement for Outside Directors under the Fossil Group, Inc. 2008 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on January 5, 2009).
10.7 (2)	Form of Performance Restricted Stock Unit Award under the Fossil Group, Inc. 2008 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed on May 7, 2015).
10.8 (2)	Third Amended and Restated Fossil Group, Inc. and Affiliates Deferred Compensation Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on December 21, 2010).
10.9	Master License Agreement dated as of August 30, 1994, by and between Fossil Group, Inc. and Fossil Partners, L.P. (incorporated by reference to Exhibit 10.6 to the Company's Annual Report on Form 10-K filed on March 2, 2011).
10.10	Agreement of Limited Partnership of Fossil Partners, L.P. (incorporated by reference to Exhibit 10.7 to the Company's Annual Report on Form 10-K filed on March 2, 2011).
10.11 (2)	Form of Restricted Stock Unit Award (2012) under the Fossil Group, Inc. 2008 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on March 14, 2012).
10.12 (2)	Form of Stock Appreciation Rights Award (2012) under the Fossil Group, Inc. 2008 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on March 14, 2012).
10.13 (2)	Amendment to the Restricted Stock Unit Award Under the Fossil Group, Inc. 2008 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on August 11, 2016).
10.14 (2)	Amendment to the Stock Appreciation Rights Award Under the Fossil Group, Inc. 2008 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed on August 11, 2016).
10.15 (2)	Amendment to the Restricted Stock Unit Award Under the Fossil Group, Inc. 2008 Long-Term Incentive Plan for Performance Grants (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q filed on August 11, 2016).
10.16 (2)	Restricted Stock Unit Award Under the Fossil Group, Inc. 2016 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q filed on August 11, 2016).
10.17 (2)	Stock Appreciation Rights Award Under the Fossil Group, Inc. 2016 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q filed on August 11, 2016).
10.18 (2)	Restricted Stock Unit Award Under the Fossil Group, Inc. 2016 Long-Term Incentive Plan for Performance Grants (incorporated by reference to Exhibit 10.6 to the Company's Quarterly Report on Form 10-Q filed on August 11, 2016).

Table of Contents

Exhibit Number	Description
10.19 (2)	Form of Executive Severance Agreement (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on January 8, 2016).
10.20	Second Amended & Restated Credit Agreement, dated as of January 29, 2018, by and among Fossil Group, Inc., Fossil Group Europe GMBH, certain of the Company's foreign subsidiaries and certain lenders party thereto, Wells Fargo Bank, National Association, as administrative agent and an issuing lender, Bank of America, N.A. and JPMorgan Chase Bank, N.A., as syndication agents, HSBC Bank USA, National Association, Compass Bank and Fifth Third Bank, as documentation agents, and Wells Fargo Securities, LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated and JPMorgan Chase Bank, N.A., as joint lead arrangers and joint bookrunners (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed on January 30, 2018).
10.21 (2)	Fossil Group, Inc. 2015 Cash Incentive Plan (incorporated by reference to Exhibit 10.26 to the Company's Annual Report on Form 10-K filed on March 1, 2017).
10.22 (2)	Fossil Group, Inc. 2016 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.27 to the Company's Annual Report on Form 10-K filed on March 1, 2017).
10.23 (2)	Addendum to Executive Severance Agreement, by and between Fossil Group Inc. and Dennis R. Secor, dated as of August 31, 2017 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on September 5, 2017).
10.24 (2)	Restricted Stock Unit Award under the Fossil Group, Inc. 2016 Long Term Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed November 9, 2017).
21.1 (1)	Subsidiaries of Fossil Group, Inc.
23.1 (1)	Consent of Independent Registered Public Accounting Firm.
31.1 (1)	Certification of Chief Executive Officer Pursuant to Section 302 of Sarbanes-Oxley Act of 2002.
31.2 (1)	Certification of Chief Financial Officer Pursuant to Section 302 of Sarbanes-Oxley Act of 2002.
32.1 (3)	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 (3)	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.
101.INS (1)	XBRL Instance Document.
101.SCH (1)	XBRL Taxonomy Extension Schema Document.
101.DEF (1)	XBRL Taxonomy Extension Definition Link Document.
101.CAL (1)	XBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB (1)	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE (1)	XBRL Taxonomy Extension Presentation Linkbase Document.

-
- (1) Filed herewith.
(2) Management contract or compensatory plan or arrangement.
(3) Furnished herewith.

FOSSIL GROUP, INC. SAVINGS AND RETIREMENT PLAN

**ADOPTION AGREEMENT #003
VOLUME SUBMITTER 401(k) PLAN**

The undersigned Employer, by executing this Adoption Agreement, establishes a retirement plan and trust (collectively "Plan") under the Wells Fargo Bank, N.A. Defined Contribution Volume Submitter Plan and Trust (basic plan document #08). The Employer, subject to the Employer's Adoption Agreement elections, adopts fully the Volume Submitter Plan and Trust provisions. This Adoption Agreement, the basic plan document and any attached Appendices or agreements permitted or referenced therein, constitute the Employer's entire plan and trust document. *All "Election" references within this Adoption Agreement are Adoption Agreement Elections. All "Article" or "Section" references are basic plan document references. Numbers in parentheses which follow election numbers are basic plan document references.* Where an Adoption Agreement election calls for the Employer to supply text, the Employer (without altering the content of any existing printed text) may lengthen any space or line, or create additional tiers. When Employer-supplied text uses terms substantially similar to existing printed options, all clarifications and caveats applicable to the printed options apply to the Employer-supplied text unless the context requires otherwise. The Employer makes the following elections granted under the corresponding provisions of the basic plan document.

**ARTICLE I
DEFINITIONS**

1. **EMPLOYER (1.24).**

Name: Fossil Group, Inc.
Address: 901 S Central Expressway, Richardson, Texas 75080
Phone number: (800)699-3949 (fax 469-364-5201)
Taxpayer Identification Number (TIN): 75-2018505
E-mail (optional): benefits4me@fossil.com
Employer's Taxable Year (optional): December 31st

2. **PLAN (1.42).**

Name: Fossil Group, Inc. Savings and Retirement Plan
Plan number: 002 (3-digit number for Form 5500 reporting)
Trust EIN (optional): _____

3. **PLAN/LIMITATION YEAR (1.44/1.34).** Plan Year and Limitation Year mean the 12 consecutive month period (except for a short Plan/Limitation Year) ending every:

[Note: Complete any applicable blanks under Election 3 with a specific date, e.g., June 30 OR the last day of February OR the first Tuesday in January. In the case of a Short Plan Year or a Short Limitation Year, include the year, e.g., May 1, 2014.]

Plan Year (Choose one of (a) or (b). Choose (c) if applicable.):

- (a) **December 31.**
(b) **Fiscal Plan Year:** ending: _____.
(c) **Short Plan Year:** commencing: _____ and ending: _____.

Limitation Year (Choose one of (d) or (e). Choose (f) if applicable.):

- (d) **Generally same as Plan Year.** The Limitation Year is the same as the Plan Year except where the Plan Year is a short year in which event the Limitation Year is always a 12 month period, unless the short Plan Year (and short Limitation Year) result from a Plan amendment.
(e) **Different Limitation Year:** ending: _____.
(f) **Short Limitation Year:** commencing: _____ and ending: _____.

4. **EFFECTIVE DATE (1.20).** The Employer's adoption of the Plan is a (Choose one of (a) or (b). Complete (c) if new plan OR complete (c) and (d) if an amendment and restatement. Choose (e) and (f) if applicable.):

- (a) **New Plan.**
(b) **Restated Plan.**

PPA RESTATEMENT (leave blank if not applicable)

- (1) This is an amendment and restatement to bring a plan into compliance with the Pension Protection Act of 2006 ("PPA") and other legislative and regulatory changes.

Initial Effective Date of Plan (enter date)

(c) July 1, 1992 (hereinafter called the "Effective Date" unless 4(d) is entered below)

Restatement Effective Date (If this is an amendment and restatement, enter effective date of the restatement.)

(d) January 1, 2016 (enter month day, year; may enter a restatement date that is the first day of the current Plan Year. The Plan contains appropriate retroactive effective dates with respect to provisions for the appropriate laws if the Plan is a PPA Restatement.) (hereinafter called the "Effective Date")

[Note: See Section 1.54 for the definition of Restated Plan. If this Plan is a PPA Restatement, the PPA restatement Effective Date may be a current date (as the basic plan document supplies the Effective Dates of various PPA and other provisions) or may be a retroactive date. If specific Plan provisions, as reflected in this Adoption Agreement and the basic plan documents, do not have the Effective Date stated in this Election 4, indicate as such in the election where called for or in Appendix A.]

(e) **Restatement of surviving and merging plans.** The Plan restates two (or more) plans (Complete 4(c) and (d) above for this (surviving) Plan. Complete (1) below for the merging plan. Choose (2) if applicable. Unless otherwise noted, the restated Effective Date with regard to a merging plan is the later of the date of the merger or the restated Effective Date of this Plan.):

- (1) **Merging plan.** The Skagen Designs, Ltd. Savings Retirement Plan was or will be merged into this surviving Plan as of: September 1, 2012. The merging plan's restated Effective Date is: January 1, 2016. The merging plan's original Effective Date was: January 1, 1998.

[See the Note under Election 4(d) if this document is the merging plan's PPA restatement.]

- (2) **Additional merging plans.** The following additional plans were or will be merged into this surviving Plan (Complete a. and b. as applicable.):

<u>Name of merging plan</u>	<u>Merger date</u>	<u>Restated Effective Date</u>	<u>Original Effective Date</u>
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a.

b.

(f) **Special Effective Date for Elective Deferral provisions:**

[Note: If Elective Deferral provision is not effective as of the Initial Effective Date or the Restatement Effective Date, enter the date as of which the Elective Deferral provision is effective. The Special Effective Date may not precede the date on which the Employer adopted the Plan.]

5. **TRUSTEE (1.67).** The Trustee executing this Adoption Agreement is (Choose one or more of (a), (b), or (c). Choose (d) or (e) if applicable.):

(a) **A discretionary Trustee.** See Section 8.02(A).

(b) **A nondiscretionary (directed) Trustee or Custodian.** See Section 8.02(B).

(c) **A Trustee under the:** _____ (specify name of trust), a separate trust agreement the Trustee has executed and that the IRS has approved for use with this Plan. Under this Election 5(c) the Trustee is not executing the Adoption Agreement and Article VIII of the basic plan document does not apply, except as indicated otherwise in the separate trust agreement. See Section 8.11(C).

(d) **Permitted Trust amendments apply.** Under Section 8.11(B) the Employer has made certain permitted amendments to the Trust. Such amendments do not constitute a separate trust under Election 5(c). See Election 59 in Appendix C.

(e) **Use of non-approved trust.** A Trustee under the: _____ (specify name of trust), a separate trust agreement the Trustee has executed for use with this Plan. Under this Election 5(e) the Trustee is not executing the Adoption Agreement and Article VIII of the basic plan document does not apply, except as indicated otherwise in the separate trust agreement. See Section 8.11(C). [Caution: Election 5(e) will result in the Plan losing reliance on its Advisory Letter and the Plan will be an individually designed plan.]

6. **CONTRIBUTION TYPES (1.12).** The selections made below should correspond with the selections made under Article III of this Adoption Agreement. (If this is a frozen Plan (i.e., all contributions have ceased), choose (a) only.):

Frozen Plan. See Sections 3.01(J) and 11.04.

(a) **Contributions cease.** All Contributions have ceased or will cease (Plan is frozen).

- (1) **Effective date of freeze:** _____ [Note: Effective date is optional unless this is the amendment or restatement to freeze the Plan.]

[Note: Elections 20 through 30 and Elections 36 through 38 do not apply to any Plan Year in which the Plan is frozen.]

Contributions. The Employer and/or Participants, in accordance with the Plan terms, make the following Contribution Types to the Plan/Trust (Choose one or more of (b) through (h).):

- (b) **Pre-Tax Deferrals.** See Section 3.02 and Elections 20-23, and 34.
 - (1) **Roth Deferrals.** See Section 3.02(E) and Elections 20, 21, and 23. [Note: The Employer may not limit Elective Deferrals to Roth Deferrals only.]
- (c) **Matching.** See Sections 1.35 and 3.03 and Elections 24-26. [Note: The Employer may make an Operational QMAC without electing 6(c). See Section 3.03(C)(2). Do not elect for a safe harbor plan; use 6(e) instead.]
- (d) **Nonelective.** See Sections 1.38 and 3.04 and Elections 27-29. [Note: The Employer may make an Operational QNEC without electing 6(d). See Section 3.04(C)(2).]
- (e) **Safe Harbor/Additional Matching.** The Plan is (or pursuant to a delayed election, may be) a safe harbor 401(k) Plan. The Employer will make (or under a delayed election, may make) Safe Harbor Contributions as it elects in Election 30. The Employer may or may not make Additional Matching Contributions as it elects in Election 30. See Election 26 as to matching Catch-Up Deferrals. See Section 3.05.
- (f) **Employee (after-tax).** See Section 3.09 and Election 36.
- (g) **SIMPLE 401(k).** The Plan is a SIMPLE 401(k) Plan. See Section 3.10. [Note: The Employer electing 6(g) must elect a calendar year under 3(a) and may not elect any other Contribution Types except under Elections 6(b) and 6(h).]
- (h) **Designated IRA.** See Section 3.12 and Election 37.

7. **DISABILITY (1.16).** Disability means (Choose one of (a) or (b).):

- (a) **Basic Plan.** Disability as defined in Section 1.16(A).
- (b) **Describe:**

[Note: The Employer may elect an alternative definition of Disability for purposes of Plan distributions. However, the use of an alternative definition may result in loss of favorable tax treatment of the Disability distribution.]

8. **EXCLUDED EMPLOYEES (1.22(D)).** The following Employees are not Eligible Employees but are Excluded Employees (Choose one of (a), (b), or (c).):

[Note: Regardless of the Employer's elections under Election 8: (i) Employees of any Related Employers (excluding the Signatory Employer) are Excluded Employees unless the Related Employer becomes a Participating Employer; and (ii) Reclassified Employees and Leased Employees are Excluded Employees unless the Employer in Appendix B elects otherwise. See Sections 1.22(B), 1.22(D)(3), and 1.24(D). However, in the case of a Multiple Employer Plan, see Section 12.02(B) as to the Employees of the Lead Employer.]

- (a) **No Excluded Employees.** There are no additional excluded Employees under the Plan as to any Contribution Type (skip to Election 9).
- (b) **Exclusions - same for all Contribution Types.** The following Employees are Excluded Employees for all Contribution Types (Choose one or more of (e) through (j). Choose column (1) for each exclusion elected at (e) through (i).):
- (c) **Exclusions - different exclusions apply.** The following Employees are Excluded Employees for the designated Contribution Type (Choose one or more of (d) through (j). Choose Contribution Type as applicable.):

[Note: For this Election 8, unless described otherwise in Election 8(j), Elective Deferrals includes Pre-Tax Deferrals, Roth Deferrals, Employee Contributions and Safe Harbor Contributions. Matching includes all Matching Contributions except Safe Harbor Matching Contributions. Nonelective includes all Nonelective Contributions except Safe Harbor Nonelective Contributions.]

Exclusions	(1) All Contributions		(2) Elective Deferrals	(3) Matching	(4) Nonelective
(d) <input type="checkbox"/> No exclusions. No exclusions as to the designated Contribution Type.	N/A (See Election 8(a))		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(e) <input checked="" type="checkbox"/> Collective Bargaining (union) Employees. As described in Code §410(b)(3)(A). See Section 1.22(D)(1).	<input checked="" type="checkbox"/>	OR	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(f) <input checked="" type="checkbox"/> Non-Resident Aliens. As described in Code §410(b)(3)(C). See Section 1.22(D)(2).	<input checked="" type="checkbox"/>	OR	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(g) <input type="checkbox"/> HCEs. See Section 1.22(E). See Election 30(f) as to exclusion of some or all HCEs from Safe Harbor Contributions.	<input type="checkbox"/>	OR	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(h) <input type="checkbox"/> Hourly paid Employees.	<input type="checkbox"/>	OR	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

- (i) **Part-Time/Temporary/Seasonal Employees.** **OR**
- See Section 1.22(D)(4). A Part-Time, Temporary or Seasonal Employee is an Employee whose regularly scheduled Service is less than (specify a maximum of 1,000) Hours of Service in the relevant Eligibility Computation Period.
- [Note: The "relevant" Eligibility Computation Period is the Initial or Subsequent Eligibility Computation Period as defined in Section 2.02(C).]

[Note: If the Employer under Election 8(i) elects to treat Part-Time, Temporary and Seasonal Employees as Excluded Employees and any such an Employee actually completes at least 1,000 Hours of Service during the relevant Eligibility Computation Period, the Employee becomes an Eligible Employee. See Section 1.22(D)(4).]

- (j) **Describe exclusion category and/or Contribution Type:** For All Contributions: temporary and seasonal Employees whose regularly scheduled service is less than 750 Hours of Service in the relevant Eligibility Computation Period; provided, however, that effective on January 1, 2017, (a) the 1,000 Hours of Service threshold in Section 1.22(D)(4) is reduced to "750" in each place it appears in that Section, and (b) if any such temporary or seasonal Employee actually completes at least 750 Hours of Service during the relevant Eligibility Computation Period, the affected Excluded Employee will no longer be an Excluded Employee and will enter the Plan on the next Entry Date following completion of such Eligibility Computation Period.
(e.g., Exclude Division B Employees OR Exclude salaried Employees from Discretionary Matching Contributions.)

[Note: Any exclusion under Election 8(j), except as to Part-Time/Temporary/Seasonal Employees, may not be based on age or Service or level of Compensation. See Election 14 for eligibility conditions based on age or Service. The exclusions entered under Election 8(j) cannot result in the group of Nonhighly Compensated Employees (NHCEs) participating under the plan being only those NHCEs with the lowest amount of compensation and/or the shortest periods of service and who may represent the minimum number of these employees necessary to satisfy coverage under Code §410(b).]

9. **COMPENSATION (1.11(B)).** The following base Compensation (as adjusted under Elections 10 and 11) applies in allocating Employer Contributions (or the designated Contribution Type) (Choose one or more of (a) through (d) and choose Contribution Type as applicable. Choose (e) if applicable.):

[Note: For this Election 9 all definitions include Elective Deferrals unless excluded under Election 11. See Section 1.11(D). Unless described otherwise in Election 9(d), Elective Deferrals includes Pre-Tax Deferrals, Roth Deferrals and Employee Contributions, Matching includes all Matching Contributions and Nonelective includes all Nonelective Contributions. In applying any Plan definition which references Section 1.11 Compensation, where the Employer in this Election 9 elects more than one Compensation definition for allocation purposes, the Plan Administrator will use W-2 Wages for other Plan definitions of Compensation if the Employer has elected W-2 Wages for any Contribution Type or Participant group under Election 9. If the Employer has not elected W-2 Wages, the Plan Administrator for such other Plan definitions will use 415 Compensation. If the Plan is a Multiple Employer Plan, see Section 12.07. Election 9(d) below may cause allocation Compensation to fail to be nondiscriminatory under Treas. Reg. §1.414(s).]

Exclusions	(1) All Contributions	(2) Elective Deferrals	(3) Matching	(4) Nonelective
(a) <input checked="" type="checkbox"/> W-2 Wages (plus Elective Deferrals). See Section 1.11(B)(1).	<input checked="" type="checkbox"/>	OR	<input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/>
(b) <input type="checkbox"/> Code §3401 Federal Income Tax Withholding Wages (plus Elective Deferrals). See Section 1.11(B)(2).	<input type="checkbox"/>	OR	<input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/>
(c) <input type="checkbox"/> 415 Compensation (simplified). See Section 1.11(B)(3). [Note: The Employer may elect an alternative "general 415 Compensation" definition by electing 9(c) and by electing the alternative definition in Appendix B. See Section 1.11(B)(4).]	<input type="checkbox"/>	OR	<input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/>
(d) <input type="checkbox"/> Describe Compensation by Contribution Type or by Participant group: _____ [Note: Under Election 9(d), the Employer may: (i) elect Compensation from the elections available under Elections 9(a), (b), or (c), or a combination thereof as to a Participant group (e.g., W-2 Wages for Matching Contributions for Division A Employees and 415 Compensation in all other cases); and/or (ii) define the Contribution Type column headings in a manner which differs from the "all-inclusive" description in the Note immediately preceding Election 9(a) (e.g., Compensation for Safe Harbor Matching Contributions means W-2 Wages and for Additional Matching Contributions means 415 Compensation).]				
(e) <input type="checkbox"/> Allocate based on specified 12-month period.	<input type="checkbox"/>	OR	<input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/>

The allocation of all Contribution Types (or specified Contribution Types) will be made based on Compensation within a specified 12-month period ending within the Plan Year as follows:

_____.

10. **PRE-ENTRY/POST-SEVERANCE COMPENSATION (1.11(H)(I)).** Compensation under Election 9:

[Note: For this Election 10, unless described otherwise in Elections 10(c) or (n), Elective Deferrals includes Pre-Tax Deferrals, Roth Deferrals and Employee Contributions, Matching includes all Matching Contributions and Nonelective includes all Nonelective Contributions. Election 10(c) below may cause allocation Compensation to fail to be nondiscriminatory under Treas. Reg. §1.414(s).]

Pre-Entry Compensation (Choose one of (a) or (b). Choose Contribution Type as applicable.):	(1) All Contributions	(2) Elective Deferrals	(3) Matching	(4) Nonelective
(a) <input type="checkbox"/> Plan Year. Compensation for the entire Plan Year which includes the Participant's Entry Date. [Note: If the Employer under Election 9(e) elects to allocate some or all Contribution Types based on a specified 12-month period, Election 10(a) applies to that 12-month period in lieu of the Plan Year.]	<input type="checkbox"/>	OR	<input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/>
(a) <input checked="" type="checkbox"/> Participating Compensation. Only Participating Compensation. See Section 1.11(H)(1).	<input checked="" type="checkbox"/>	OR	<input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/>

[Note: Under a Participating Compensation election, in applying any Adoption Agreement elected contribution limit or formula, the Plan Administrator will count only the Participant's Participating Compensation. See Section 1.11(H)(1) as to plan disaggregation.]

(c) **Describe Pre-Entry Compensation by Contribution Type or by Participant group:**

[Note: Under Election 10(c), the Employer may: (i) elect Compensation from the elections available under Pre-Entry Compensation or a combination thereof as to a Participant group (e.g., Participating Compensation for all Contribution Types as to Division A Employees, Plan Year Compensation for all Contribution Types to Division B Employees); and/or (ii) define the Contribution Type column headings in a manner which differs from the "all-inclusive" description in the Note immediately preceding Pre-Entry Compensation (e.g., Compensation for Nonelective Contributions is Participating Compensation and for Safe Harbor Nonelective Contributions is Plan Year Compensation).]

Post-Severance Compensation. The following adjustments apply to Post-Severance Compensation paid within any applicable time period as may be required (Choose one of (d), (e), or (f).):

[Note: Under the basic plan document, if the Employer does not elect any adjustments, post-severance compensation includes regular pay, leave cashouts, and deferred compensation, and excludes military and disability continuation payments.]

- (d) **None.** The Plan includes post-severance regular pay, leave cashouts, and deferred compensation, and excludes post-severance military and disability continuation payments as to any Contribution Type except as required under the basic plan document (skip to Election 11).
- (e) **Same for all Contribution Types.** The following adjustments to Post-Severance Compensation apply to all Contribution Types (Choose one or more of (h) through (n). Choose column (1) for each option elected at (h) through (m).):
- (f) **Adjustments - different conditions apply.** The following adjustments to Post-Severance Compensation apply to the designated Contribution Types (Choose one or more of (g) through (n). Choose Contribution Type as applicable.):

Post-Severance Compensation: Contributions	(1) All Contributions	(2) Elective Deferrals	(3) Matching	(4) Nonelective
(g) <input type="checkbox"/> None. The Plan takes into account Post-Severance Compensation as to the designated Contribution Types as under the basic plan document.	N/A (See Election 10(d)) specified	OR	<input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/>
(h) <input type="checkbox"/> Exclude All. Exclude all Post-Severance Compensation. [Note: 415 testing Compensation (versus allocation Compensation) must include Post-Severance Compensation comprised of regular pay. See Section 4.05(F).]	<input type="checkbox"/> <input type="checkbox"/>	OR	<input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/>
(i) <input type="checkbox"/> Regular Pay. Exclude Post-Severance Compensation comprised of regular pay. See Section 1.11(I)(1)(a). [Note: 415 testing Compensation (versus allocation Compensation) must include Post-Severance Compensation comprised of regular pay. See Section 4.05(F).]	<input type="checkbox"/> <input type="checkbox"/>	OR	<input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/>
(j) <input type="checkbox"/> Leave cash-out. Exclude Post-Severance Compensation comprised of leave cash-out. See Section 1.11(I)(1)(b).	<input type="checkbox"/> <input type="checkbox"/>	OR	<input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/>
(k) <input checked="" type="checkbox"/> Deferred Compensation. Exclude Post-Severance Compensation. See Section 1.11(I)(1)(c).	Compensation comprised of deferred			
(l) <input type="checkbox"/> Salary continuation for military service. Include Post-Severance Compensation comprised of salary continuation for military service. See Section 1.11(I)(2).	<input type="checkbox"/> <input type="checkbox"/>	OR	<input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/>
(m) <input type="checkbox"/> Salary continuation for disabled Participants. Include Post-Severance Compensation comprised of salary continuation for disabled Participants. See Section 1.11(I)(3). (Choose one of (1) or (2).):	<input type="checkbox"/> <input type="checkbox"/>	OR	<input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/>
(1) <input type="checkbox"/> For NHCEs only.				
(2) <input type="checkbox"/> For all Participants. The salary continuation will continue for the following fixed or determinable period: __ (specify period).				

(n) **Describe Post-Severance Compensation by Contribution Type or by Participant group:**

[Note: Under Election 10(n), the Employer may: (i) elect Compensation from the elections available under Post-Severance Compensation or a combination thereof as to a Participant group (e.g., Include regular pay Post-Severance Compensation for all Contribution Types as to Division A Employees, no Post-Severance Compensation for all Contribution Types to Division B Employees); and/or (ii) define the Contribution Type column headings in a manner which differs from the "all-inclusive" description in the Note immediately preceding Pre-Entry Compensation (e.g., Compensation for Nonelective Contributions does not include any Post-Severance Compensation and for Safe Harbor Nonelective Contributions includes regular pay Post-Severance Compensation).]

11. **EXCLUDED COMPENSATION (1.11(G)).** Apply the following Compensation exclusions to Elections 9 and 10 (Choose one of (a), (b), or (c).):

- (a) **No exclusions.** Compensation as to all Contribution Types means Compensation as elected in Elections 9 and 10 (skip to Election 12).

- (b) **Exclusions - same for all Contribution Types.** The following exclusions apply to all Contribution Types (*Choose one or more of (e) through (l).* Choose column (1) for each option elected at (e) through (k).):
- (c) **Exclusions - different conditions apply.** The following exclusions apply for the designated Contribution Types (*Choose one or more of (d) through (l) below. Choose Contribution Type as applicable.*):

[Note: In a safe harbor 401(k) plan, allocations qualifying for the ADP or ACP test safe harbors must be based on a nondiscriminatory definition of Compensation. If the Plan applies permitted disparity, allocations also must be based on a nondiscriminatory definition of Compensation if the Plan is to avoid more complex testing. Elections 11(g) through (l) below may cause allocation Compensation to fail to be nondiscriminatory under Treas. Reg. §1.414(s). In a non-safe harbor 401(k) plan, Elections 11(g) through (l) which result in Compensation failing to be nondiscriminatory, may result in more complex nondiscrimination testing. For this Election 11, unless described otherwise in Election 11(l), Elective Deferrals includes Pre-Tax Deferrals, Roth Deferrals and Employee Contributions, Matching includes all Matching Contributions and Nonelective includes all Nonelective Contributions.]

Compensation Exclusion		(1) All Contributions		(2) Elective Deferrals	(3) Matching	(4) Nonelective
(d)	<input type="checkbox"/> No exclusions - limited. No exclusion as to the designated Contribution Type(s).	N/A (See Election 11(a))		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(e)	<input type="checkbox"/> Elective Deferrals. See Section 1.21.	N/A		N/A	<input type="checkbox"/>	<input type="checkbox"/>
(f)	<input checked="" type="checkbox"/> Fringe benefits. As described in Treas. Reg. §1.414(s)-1(c)(3).	<input checked="" type="checkbox"/>	OR	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(g)	<input type="checkbox"/> Compensation exceeding \$__. Apply this election to (<i>Choose one of (1) or (2).</i>):	<input type="checkbox"/>	OR	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	(1) <input type="checkbox"/> All Participants. [Note: If the Employer elects Safe Harbor Contributions under Election 6(e), the Employer may not elect 11(g)(1) to limit the Safe Harbor Contribution allocation to the NHCEs.]					
	(2) <input type="checkbox"/> HCE Participants only.					
(h)	<input type="checkbox"/> Bonus.	<input type="checkbox"/>	OR	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(i)	<input type="checkbox"/> Commission.	<input type="checkbox"/>	OR	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(j)	<input type="checkbox"/> Overtime.	<input type="checkbox"/>	OR	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(k)	<input type="checkbox"/> Related Employers. See Section 1.24(C). (<i>If there are Related Employers, choose one or both of (1) and (2).</i>):					
	(1) <input type="checkbox"/> Non-Participating. Compensation paid to Employees by a Related Employer that is not a Participating Employer.	<input type="checkbox"/>	OR	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	(2) <input type="checkbox"/> Participating. As to the Employees of any Participating Employer, Compensation paid by any other Participating Employer to its Employees. See Election 28(g)(2)a.	<input type="checkbox"/>	OR	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

(l) **Describe Compensation exclusion(s):** modifications of compensation for deferral, matching and nonelective contributions to exclude amounts reported as income from (a) stock based programs, (b) without limiting the exclusion of fringe benefits under Election 11(f), [I] tuition reimbursements, [II] housing and car allowances, and [III] COBRA reimbursements, (c) international compensation or other payments made from sources outside of the United States, and (d) cost of living adjustments.

[Note: Under Election 11(l), the Employer may: (i) describe Compensation from the elections available under Elections 11(d) through (k), or a combination thereof as to a Participant group (e.g., No exclusions as to Division A Employees and exclude bonus as to Division B Employees); (ii) define the Contribution Type column headings in a manner which differs from the "all-inclusive" description in the Note immediately following Election 11(c) (e.g., Elective Deferrals means §125 cafeteria deferrals only OR No exclusions as to Safe Harbor Contributions and exclude bonus as to Nonelective Contributions); and/or (iii) describe another exclusion (e.g., Exclude shift differential pay).]

12. **HOURS OF SERVICE (1.32).** The Plan credits Hours of Service for the following purposes (and to the Employees described in Elections 12(d) or (e)) as follows (*Choose one or more of (a) through (e) as applicable.*):

Compensation Exclusion	(1) All Contributions	(2) Elective Deferrals	(3) Matching	(4) Nonelective
(a) <input type="checkbox"/> Actual Method. See Section 1.32(A)(1).	<input type="checkbox"/>	OR	<input type="checkbox"/>	<input type="checkbox"/>
(b) <input type="checkbox"/> Equivalency Method: <i>(e.g., daily, weekly, etc.)</i> . See Section 1.32(A)(2).	<input type="checkbox"/>	OR	<input type="checkbox"/>	<input type="checkbox"/>
(c) <input type="checkbox"/> Elapsed Time Method. See Section 1.32(A)(3).	<input type="checkbox"/>	OR	<input type="checkbox"/>	<input type="checkbox"/>
(d) <input checked="" type="checkbox"/> Actual (hourly) and Equivalency (salaried). Actual Method for hourly paid Employees and Equivalency Method: weekly (e.g., daily, weekly, etc.) for salaried Employees.	<input checked="" type="checkbox"/>	OR	<input type="checkbox"/>	<input type="checkbox"/>
(e) <input type="checkbox"/> Describe method:				

[Note: Under Election 12(e), the Employer may describe Hours of Service from the elections available under Elections 12(a) through (d), or a combination thereof as to a Participant group and/or Contribution Type (e.g., For all purposes, Actual Method applies to office workers and Equivalency Method applies to truck drivers).]

13. **ELECTIVE SERVICE CREDITING (1.59(C)).** The Plan must credit Related Employer Service under Section 1.24(C) and also must credit certain Predecessor Employer/Predecessor Plan Service under Section 1.59(B). If the Plan is a Multiple Employer Plan, the Plan also must credit Service as provided in Section 12.08. The Plan also elects under Section 1.59(C) to credit as Service the following Predecessor Employer service (*Choose one of (a) or (b).*):

- (a) **Not applicable.** No elective Predecessor Employer Service crediting applies.
- (b) **Applies.** The Plan credits the specified service with the following designated Predecessor Employers as Service for the Employer for the purposes indicated (*Choose one or both of (1) and (2) as applicable. Complete (3). Choose (4) if applicable.*):

[Note: Any elective Service crediting under this Election 13 must be nondiscriminatory.]

- (1) **All purposes.** Credit as Service for all purposes, service with Predecessor Employer(s): (*insert as many names as needed*).
- (2) **Designated purposes.** Credit as Service, service with the following Predecessor Employer(s) for the designated purpose(s):

	(1) Eligibility	(2) (Vesting)	(3) Contribution Allocation
a. Employer:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b. Employer:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
c. Employer:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
- (3) **Time period.** Subject to any exceptions noted under Election 13(b)(4), the Plan credits as Service under Elections 13(b)(1) or (2) (*Choose one or more of a., b., and c. as applicable.*):
 - a. **All.** All service, regardless of when rendered.
 - b. **Service after.** All service, which is or was rendered after: _____ (*specify date*).
 - c. **Service before.** All service, which is or was rendered before: (*specify date*).
- (4) **Describe elective Predecessor Employer Service crediting:**

[Note: Under Election 13(b)(4), the Employer may describe service crediting from the elections available under Elections 13(b)(1) through (3), or a combination thereof as to a Participant group and/or Contribution Type (e.g., For all purposes credit all service with X, but credit service with Y only on/after 1/1/05 OR Credit all service for all purposes with entities the Employer acquires after 12/31/04 OR Service crediting for X Company applies only for purposes of Nonelective Contributions and not for Matching Contributions).]

ARTICLE II ELIGIBILITY REQUIREMENTS

14. **ELIGIBILITY (2.01).** To become a Participant in the Plan, an Eligible Employee must satisfy (*Choose one of (a), (b), or (c).*):

[Note: If the Employer under a safe harbor plan elects "early" eligibility for Elective Deferrals (e.g., less than one Year of Service and age 21), but does not elect early eligibility for any Safe Harbor Contributions, also see Election 30(g).]

[Note: No eligibility conditions apply to Prevailing Wage Contributions. See Section 2.01(D).]

- (a) **No conditions.** No eligibility conditions as to all Contribution Types. Entry is on the Employment Commencement Date (if that date is also an Entry Date), or if later, upon the next following Plan Entry Date (*skip to Election 16*).

- (b) **Eligibility - same for all Contribution Types.** To become a Participant in the Plan as to all Contribution Types, an Eligible Employee must satisfy the following eligibility conditions (*Choose one or more of (e) through (k). Choose column (1) for each option elected at (e) through (j).*):
- (c) **Eligibility - different conditions apply.** To become a Participant in the Plan for the designated Contribution Types, an Eligible Employee must satisfy the following eligibility conditions (either as to all Contribution Types or as to the designated Contribution Type) (*Choose one or more of (d) through (k). Choose Contribution Type as applicable.*):

[*Note: For this Election 14, unless described otherwise in Election 14(k), or the context otherwise requires, Elective Deferrals includes Pre-Tax Deferrals, Roth Elective Deferrals and Employee Contributions, Matching includes all Matching Contributions (except Safe Harbor Matching Contributions under Section 3.05(E)(3) and Operational QMACs under Section 3.03(C)(2)) and Nonelective includes all Nonelective Contributions (except Safe Harbor Nonelective Contributions under Section 3.05(E)(2) and Operational QNECs under Section 3.04(C)(2)). Safe Harbor includes Safe Harbor Nonelective and Safe Harbor Matching Contributions. If the Employer elects more than one Year of Service as to Additional Matching, the Plan will not satisfy the ACP test safe harbor. See Section 3.05(F)(3).*]

Eligibility Conditions

	(1) All Contributions		(2) Elective Deferrals	(3) Matching	(4) Nonelective	(5) Safe Harbor
(d) <input checked="" type="checkbox"/> None. Entry on the Employment Commencement Date (if that date is also an Entry Date) or if later, upon the next following Plan Entry Date.	N/A (See Election 14(a))		<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(e) <input type="checkbox"/> Age (<i>not to exceed age 21</i>).	<input type="checkbox"/>	OR	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(f) <input checked="" type="checkbox"/> One Year of Service. See Election 16(a).	<input type="checkbox"/>	OR	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
(g) <input type="checkbox"/> Two Years of Service (without an intervening Break in Service). 100% vesting is required.	N/A		N/A	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<i>[Note: Two Years of Service does not apply to Elective Deferrals, Safe Harbor Contributions or SIMPLE Contributions.]</i>						
(h) <input type="checkbox"/> _____ month(s) (<i>not exceeding 12 months for Elective Deferrals, Safe Harbor Contributions and SIMPLE Contributions and not exceeding 24 months for other contributions</i>). If more than 12 months, 100% vesting is required. Service need not be continuous (no minimum Hours of Service required, and is mere passage of time).	<input type="checkbox"/>	OR	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<i>[Note: While satisfying a months of service condition without an Hours of Service requirement involves the mere passage of time, the Plan need not apply the Elapsed Time Method in Election 12(c) above, and still may elect the Actual Method in 12(a) above.]</i>						
_____ month(s) (<i>not exceeding 12 months for Elective Deferrals, Safe Harbor Contributions and SIMPLE Contributions and not exceeding 24 months for other contributions</i>). If more than 12 months, 100% vesting is required. Service need not be continuous (no minimum Hours of Service required, and is mere passage of time).	<input type="checkbox"/>	OR	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

[Note: While satisfying a months of service condition without an Hours of Service requirement involves the mere passage of time, the Plan need not apply the Elapsed Time Method in Election 12(c) above, and still may elect the Actual Method in 12(a) above.]

month(s) with at least **Hours of Service in each month** (not exceeding 12 months for Elective Deferrals, Safe Harbor Contributions and SIMPLE Contributions and not exceeding 24 months for other contributions). If more than 12 months, 100% vesting is required. If the Employee does not complete the designated Hours of Service each month during the specified monthly time period, the Employee is subject to the one Year of Service (or two Years of Service if elect more than 12 months) requirement as defined in Election 16. The months during which the Employee completes the specified Hours of Service (Choose one of (1) or (2).):

OR

- (1) **Consecutive.** Must be consecutive.
- (2) **Not consecutive.** Need not be consecutive.

(j) **250 Hours of Service within the 3-month time period following the Employee's Employment Commencement Date** (not exceeding 12 months for Elective Deferrals, Safe Harbor Contributions and SIMPLE Contributions and not exceeding 24 months for other contributions). If more than 12 months, 100% vesting is required. If the Employee does not complete the designated Hours of Service during the specified time period (if any), the Employee is subject to the one Year of Service (or two Years of Service if elect more than 12 months) requirement as defined in Election 16.

OR

[Note: The Employer may leave the time period option blank in Election 14(j) if the Employer wishes to impose an Hour of Service requirement without specifying a time period within which an Employee must complete the required Hours of Service.]

(k) **Describe eligibility conditions:** Effective on January 1, 2017, (a) with respect to Elective Deferrals for temporary and seasonal Eligible Employees only: (i) he or she must actually complete 750 Hours of Service during the relevant Eligibility Computation Period following such Employee's Employment Commencement Date; and (ii) the requirements under Election 14(d) shall not apply; and (b) with respect to Matching Contributions for temporary and seasonal Eligible Employees only: (i) he or she must actually complete 750 Hours of Service during the relevant Eligibility Computation Period following such Employee's Employment Commencement Date; and (ii) the requirements under Election 14(j) shall not apply.

[Note: The Employer may use Election 14(k) to describe different eligibility conditions as to different Contribution Types or Employee groups (e.g., As to all Contribution Types, no eligibility requirements for Division A Employees and one Year of Service as to Division B Employees). The Employer also may elect different ages for different Contribution Types and/or to specify different months or Hours of Service requirements under Elections 14(h), (i), or (j) as to different Contribution Types. Any election must satisfy Code §410(a).]

15. **SPECIAL ELIGIBILITY EFFECTIVE DATE (DUAL ELIGIBILITY) (2.01(E))**. The eligibility conditions of Election 14 and the entry date provisions of Election 17 apply to all Employees unless otherwise elected below (*Choose (a) or (b) if applicable.*):

[*Note: Elections 15(a) or (b) may trigger a coverage failure under Code §410(b).*]

- (a) **Waiver of eligibility conditions for certain Employees.** For all Contribution Types, the eligibility conditions and entry dates apply solely to an Eligible Employee employed or reemployed by the Employer after _____ (*specify date*). If the Eligible Employee was employed or reemployed by the Employer by the specified date, the Employee will become a Participant on the latest of: (i) the Effective Date; (ii) the restated Effective Date; (iii) the Employee's Employment Commencement Date or Re-Employment Commencement Date; or (iv) the date the Employee attains age _____ (*not exceeding age 21*).

[*Note: If the Employer does not wish to impose an age condition under clause (iv) as part of the requirements for the eligibility conditions waiver, leave the age blank.*]

- (b) **Describe special eligibility Effective Date(s):**

[*Note: Under Election 15(b), the Employer may describe special eligibility Effective Dates as to a Participant group and/or Contribution Type (e.g., Eligibility conditions apply only as to Nonelective Contributions and solely as to the Eligible Employees of Division B who were hired or reemployed by the Employer after January 1, 2012).*]

16. **YEAR OF SERVICE - ELIGIBILITY (2.02(A))**. (*Choose (a), (b), and (c) as applicable.*):

[*Note: If the Employer under Election 14 elects a one or two Year(s) of Service condition (including any requirement which defaults to such conditions under Elections 14(i), (j), and (k)) or elects to apply a Year of Service for eligibility under any other Adoption Agreement election, the Employer should complete this Election 16. The Employer should not complete Election 16 if it elects the Elapsed Time Method for eligibility.*]

- (a) **Year of Service.** An Employee must complete 1,000 Hour(s) of Service during the relevant Eligibility Computation Period to receive credit for one Year of Service under Article II. [*Note: The number may not exceed 1,000. If left blank, the requirement is 1,000 Hours of Service.*]
- (b) **Subsequent Eligibility Computation Periods.** After the Initial Eligibility Computation Period described in Section 2.02(C)(2), the Plan measures Subsequent Eligibility Computation Periods as (*Choose one of (1), (2), or (3).*):
- (1) **Plan Year.** The Plan Year beginning with the Plan Year which includes the first anniversary of the Employee's Employment Commencement Date.
- (2) **Anniversary Year.** The Anniversary Year, beginning with the Employee's second Anniversary Year.
- (3) **Split.** The Plan Year as described in Election 16(b)(1) as to: _____ (*describe Contribution Type(s)*) and the Anniversary Year as described in Election 16(b)(2) as to: _____ (*describe Contribution Type(s)*).

[*Note: To maximize delayed entry under a two Years of Service condition for Nonelective Contributions or Matching Contributions, the Employer should elect to remain on the Anniversary Year for such contributions.*]

- (c) **Describe:** Effective on January 1, 2017: the provisions of Election 16(a) shall apply by substituting "750" in Election 16(a) in lieu of "1,000" for purposes of Election 14(k) above.

(*e.g., Anniversary Year as to Division A and Plan Year as to Division B.*)

17. **ENTRY DATE (2.02(D))**. Entry Date means the Effective Date and (*Choose one or more of (a) through (g). Choose Contribution Types as applicable.*):

[*Note: For this Election 17, unless described otherwise in Election 17(g), Elective Deferrals includes Pre-Tax Deferrals, Roth Elective Deferrals and Employee Contributions, Matching includes all Matching Contributions (except Operational QMACs under Section 3.03(C)(2)) and Nonelective includes all Nonelective Contributions (except Operational QNECs under Section 3.04(C)(2)). Entry as to Prevailing Wage Contributions is on the Employment Commencement Date. See Section 2.02(D)(3).*]

- | | (1)
All
Contributions | | (2)
Elective
Deferrals | (3)
Matching | (4)
Nonelective |
|--|-------------------------------------|-----------|------------------------------|--------------------------|--------------------------|
| (a) <input type="checkbox"/> Semi-annual. The first day of the first month and of the seventh month of the Plan Year. | <input type="checkbox"/> | OR | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| (b) <input type="checkbox"/> First day of Plan Year. | <input type="checkbox"/> | OR | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| (c) <input type="checkbox"/> First day of each Plan Year quarter. | <input type="checkbox"/> | OR | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| (d) <input type="checkbox"/> The first day of each month. | <input type="checkbox"/> | OR | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| (e) <input checked="" type="checkbox"/> Immediate. Upon Employment Commencement Date or if later, upon satisfaction of eligibility conditions. | <input checked="" type="checkbox"/> | OR | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| (f) <input type="checkbox"/> First day of each payroll period. | <input type="checkbox"/> | OR | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| (g) <input checked="" type="checkbox"/> Describe Entry Date(s): <u>All Contributions: With respect to temporary and seasonal Eligible Employees only, effective beginning on January 1, 2017: (i) the Entry Date shall be the first day of the Plan Year coincident with or following satisfaction of eligibility conditions; and (ii) the provisions under Election 17(e) shall not apply.</u> | | | | | |

[Note: Under Election 17(g), the Employer may describe Entry Dates from the elections available under Elections 17(a) through (f), or a combination thereof as to a Participant group and/or Contribution Type or may elect additional Entry Dates (e.g., As to Matching Contributions excluding Additional Matching, immediate as to Division A Employees and semi-annual as to Division B Employees OR The earlier of the Plan's semi-annual Entry Dates or the entry dates under the Employer's medical plan).]

18. **PROSPECTIVE/RETROACTIVE ENTRY DATE (2.02(D)).** An Employee after satisfying the eligibility conditions in Election 14 will become a Participant (unless an Excluded Employee under Election 8) on the Entry Date (if employed on that date) (Choose one or more of (a) through (f). Choose Contribution Type as applicable.):

[Note: Unless otherwise excluded under Election 8, an Employee who remains employed by the Employer on the relevant date must become a Participant by the earlier of: (i) the first day of the Plan Year beginning after the date the Employee completes the age and service requirements of Code §410(a); or (ii) 6 months after the date the Employee completes those requirements. For this Election 18, unless described otherwise in Election 18(f), Elective Deferrals includes Pre-Tax Deferrals, Roth Deferrals and Employee Contributions, Matching includes all Matching Contributions (except Operational QMACs under Section 3.03(C)(2)) and Nonelective includes all Nonelective Contributions, (except Operational QNECs under Section 3.04(C)(2)).]

- | | (1)
All
Contributions | | (2)
Elective
Deferrals | (3)
Matching | (4)
Nonelective |
|---|-------------------------------------|-----------|------------------------------|--------------------------|--------------------------|
| (a) <input checked="" type="checkbox"/> Immediately following or coincident with the date the Employee completes the eligibility conditions. | <input checked="" type="checkbox"/> | OR | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| (b) <input type="checkbox"/> Immediately following the date the Employee completes the eligibility conditions. | <input type="checkbox"/> | OR | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| (c) <input type="checkbox"/> Immediately preceding or coincident with the date the Employee completes the eligibility conditions. | N/A | | N/A | <input type="checkbox"/> | <input type="checkbox"/> |
| (d) <input type="checkbox"/> Immediately preceding the date the Employee completes the eligibility conditions. | N/A | | N/A | <input type="checkbox"/> | <input type="checkbox"/> |
| (e) <input type="checkbox"/> Nearest the date the Employee completes the eligibility conditions. | N/A | | N/A | <input type="checkbox"/> | <input type="checkbox"/> |
| (f) <input type="checkbox"/> Describe retroactive/prospective entry relative to Entry Date: | | | | | |

[Note: Under Election 18(f), the Employer may describe the timing of entry relative to an Entry Date from the elections available under Elections 18(a) through (e), or a combination thereof as to a Participant group and/or Contribution Type (e.g., As to Matching Contributions excluding Additional Matching nearest as to Division A Employees and immediately following as to Division B Employees).]

19. **BREAK IN SERVICE - PARTICIPATION (2.03).** The one year hold-out rule described in Section 2.03(C) (Choose one of (a), (b), or (c).):

- (a) **Does not apply.**

(b) **Applies.** Applies to the Plan and to all Participants.

(c) **Limited application.** Applies to the Plan, but only to a Participant who has incurred a Severance from Employment.

[Note: The Plan does not apply the rule of parity under Code §410(a)(5)(D) unless the Employer in Appendix B specifies otherwise. See Section 2.03(D).]

**ARTICLE III
PLAN CONTRIBUTIONS AND FORFEITURES**

20. **ELECTIVE DEFERRAL LIMITATIONS (3.02(A)).** The following limitations apply to Elective Deferrals under Election 6(b), which are in addition to those limitations imposed under the basic plan document (Choose (a) or choose (b) and (c) as applicable.):

(a) **None.** No additional Plan imposed limits (skip to Election 21).

[Note: The Employer under Election 20 may not impose a lower deferral limit applicable only to Catch-Up Eligible Participants and the Employer's elections must be nondiscriminatory. The elected limits apply to Pre-Tax Deferrals and to Roth Deferrals unless described otherwise. Under a safe harbor plan: (i) NHCEs must be able to defer enough to receive the maximum Safe Harbor Matching and Additional Matching Contribution under the Plan and must be permitted to defer any lesser amount; and (ii) the Employer may limit Elective Deferrals to a whole percentage of Compensation or to a whole dollar amount. See Section 1.57(C) as to administrative limitations on Elective Deferrals.]

(b) **Additional Plan limit(s).** (Choose (1) and (2) as applicable. Complete (3) if (1) or (2) is chosen.):

(1) **Maximum deferral amount.** A Participant's Elective Deferrals may not exceed: 5% (specify dollar amount and/or percentage of Compensation).

(2) **Minimum deferral amount.** A Participant's Elective Deferrals may not be less than: 1% (specify dollar amount and/or percentage of Compensation).

(3) **Application of limitations.** The Election 20(b)(1) and (2) limitations apply based on Elective Deferral Compensation described in Elections 9 - 11. If the Employer elects Plan Year/Participating Compensation under column (1) and in Election 10 elects Participating Compensation, in the Plan Years commencing after an Employee becomes a Participant, apply the elected minimum or maximum limitations to the Plan Year. Apply the elected limitation based on such Compensation during the designated time period and only to HCEs as elected below. (Choose a. or choose b. and c. as applicable. Under each of a., b., or c. choose one of (1) or (2). Choose (3) if applicable.):

		(1) Plan Year/ Participating Compensation	(2) Payroll period	(3) HCEs only
a.	<input type="checkbox"/>	Both. Both limits under Elections 20(b)(1) and (2).	<input type="checkbox"/>	<input type="checkbox"/>
b.	<input checked="" type="checkbox"/>	Maximum limit. The maximum amount limit under Election 20(b)(1).	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
c.	<input checked="" type="checkbox"/>	Minimum limit. The minimum amount limit under Election 20(b)(2).	<input checked="" type="checkbox"/>	<input type="checkbox"/>

(c) **Describe Elective Deferral limitation(s):**

[Note: Under Election 20(c), the Employer: (i) may describe limitations on Elective Deferrals from the elections available under Elections 20(a) and (b) or a combination thereof as to a Participant group (e.g., No limit applies to Division A Employees. Division B Employees may not defer in excess of 10% of Plan Year Compensation); (ii) may elect a different time period to which the limitations apply; and/or (iii) may apply a different limitation to Pre-Tax Deferrals and to Roth Deferrals.]

21. **AUTOMATIC DEFERRAL (ACA/EACA/QACA) (3.02(B)).** The Automatic Deferral provisions of Section 3.02(B) (Choose one of (a) or (b). Also see Election 34 regarding Automatic Escalation of Salary Reduction Agreements.):

(a) **Do not apply.** The Plan is not an ACA, EACA, or QACA (skip to Election 22).

(b) **Apply.** The Automatic Deferral Effective Date is the effective date of automatic deferrals or, as appropriate, any subsequent amendment thereto. (As to an EACA or QACA, this provision may not be effective earlier than Plan Years beginning on or after January 1, 2008). (Complete (1), (2), and (3). Complete (4) and (5) if an EACA or an EACA/QACA. Choose (6), (7), and/or (8) as applicable.):

(1) **Type of Automatic Deferral Arrangement.** The Plan is an (Choose one of a., b., or c.):

- a. **ACA.** The Plan is an Automatic Contribution Arrangement (ACA) under Section 3.02(B)(1).
- b. **EACA.** The Plan is an Eligible Automatic Contribution Arrangement (EACA) under Section 3.02(B)(2).
- c. **EACA/QACA.** The Plan is a combination EACA and Qualified Automatic Contribution Arrangement (QACA) under Sections 3.02(B)(3) and 3.05(J).

[Note: If the Employer chooses Elections 21(b)(1)c, the Employer also must choose election 6(e) and complete Election 30 as to the Safe Harbor Contributions under the QACA.]

(2) **Participants affected.** The Automatic Deferral applies to (Choose one of a., b., c., or d. Choose e. if applicable.):

- a. **All Participants.** All Participants, regardless of any prior Salary Reduction Agreement, unless and until they make a Contrary Election after the Automatic Deferral Effective Date.
- b. **Election of at least Automatic Deferral Percentage.** All Participants, except those who have in effect a Salary Reduction Agreement on the Automatic Deferral Effective Date provided that the Elective Deferral amount under the Agreement is at least equal to the Automatic Deferral Percentage.
- c. **No existing Salary Reduction Agreement.** All Participants, except those who have in effect a Salary Reduction Agreement on the Automatic Deferral Effective Date regardless of the Elective Deferral amount under the Agreement.
- d. **New Participants (not applicable to QACA).** Each Employee whose Entry Date is on or following the Automatic Deferral Effective Date.
- e. **Describe affected Participants (not applicable to QACA):**

[Note: The Employer in Election 21(b)(2)e. may further describe affected Participants, e.g., non-Collective Bargaining Employees OR Division A Employees. However, for Plan Years commencing on or after January 1, 2010, all Employees eligible to defer must be Covered Employees to apply the 6-month correction period without excise tax under Code §4979.]

(3) **Automatic Deferral Percentage/Scheduled increases.** (Choose one of a., b., or c.):

- a. **Fixed percentage.** The Employer, as to each Participant affected, will withhold as the Automatic Deferral Percentage, _____% from the Participant's Compensation each payroll period unless the Participant makes a Contrary Election. The Automatic Deferral Percentage will or will not increase in Plan Years following the Plan Year containing the Automatic Deferral Effective Date (or, if later, the Plan Year or partial Plan Year in which the Automatic Deferral first applies to a Participant) as follows (Choose one of d., e., or f.):

[Note: In order to satisfy the QACA requirements, enter an amount between 6% and 10% if no scheduled increase.]

- b. **QACA statutory increasing schedule.** The Automatic Deferral Percentage will be:

<u>Plan Year of application to a Participant</u>	<u>Automatic Deferral Percentage</u>
1	3%
2	3%
3	4%
4	5%
5 and thereafter	6%

- c. **Other increasing schedule.** The Automatic Deferral Percentage will be:

<u>Plan Year of application to a Participant</u>	<u>Automatic Deferral Percentage</u>
—	—%
—	—%
—	—%
—	—%
—	—%

- d. **No scheduled increase.** The Automatic Deferral Percentage applies in all Plan Years.
- e. **Automatic increase.** The Automatic Deferral Percentage will increase by ___% per year up to a maximum of ___% of Compensation.
- f. **Describe increase:**

[Note: To satisfy the QACA requirements, the Automatic Deferral Percentage must be: (i) a fixed percentage which is at least 6 % and not more than 10% of Compensation; (ii) an increasing Automatic Deferral Percentage in accordance with the schedule under Election 20(b)(3)b.; or (iii) an alternative schedule which must require, for each Plan Year, an Automatic Deferral Percentage that is at least equal to the Automatic Deferral Percentage under the schedule in Election 21(b)(3)b. and which does not exceed 10%. See Section 3.02(B)(3).]

(4) **EACA permissible withdrawal.** The permissible withdrawal provisions of Section 3.02(B)(2)(d) (Choose one of a., b., or c.):

- a. **Do not apply.**
 - b. **90 day withdrawal.** Apply within 90 days of the first Automatic Deferral.
 - c. **30-90 day withdrawal.** Apply, within _____ days of the first Automatic Deferral (*may not be less than 30 nor more than 90 days*).
- (5) **Contrary Election/Covered Employee.** For Plan Years beginning on or after January 1, 2010, any Participant who makes a Contrary Election (*Choose one of a. or b.; leave blank if an ACA or a QACA not subject to the ACP test.*):
- a. **Covered Employee.** Is a Covered Employee and continues to be covered by the EACA provisions. [*Note: Under this Election, the Participant's Contrary Election will remain in effect, but the Participant must receive the EACA annual notice.*]
 - b. **Not a Covered Employee.** Is not a Covered Employee and will not continue to be covered by the EACA provisions. [*Note: Under this Election, the Participant no longer must receive the EACA annual notice, but the Plan cannot use the six-month period for relief from the excise tax of Code §4979(f)(1).*]
- (6) **Change Date.** The Elective Deferrals under Election 21(b)(3)b., c., e., or f. will increase on the following day each Plan Year:
- a. **First day of the Plan Year.**
 - b. **Other:**
(*must be a specified or definitely determinable date that occurs at least annually*)
- (7) **First Year of Increase.** The automatic increase under Election 21(b)(3)e. or f. will apply to a Participant beginning with the first Change Date after the Participant first has automatic deferrals withheld, unless a. is selected below:
- a. **The increase will apply as of the second Change Date thereafter.**

(8) **Describe Automatic Deferral:**

[*Note: Under Election 21(b)(8), the Employer may describe Automatic Deferral provisions from the elections available under Election 21 and/or a combination thereof as to a Participant group (e.g., Automatic Deferrals do not apply to Division A Employees. All Division B Employee/Participants are subject to an Automatic Deferral Amount equal to 3% of Compensation effective as of January 1, 2013).*]

22. **CODA (3.02(C)).** The CODA provisions of Section 3.02(C) (*Choose one of (a) or (b).*):

- (a) **Do not apply.**
- (b) **Apply.** For each Plan Year for which the Employer makes a designated CODA contribution under Section 3.02(C), a Participant may elect to receive directly in cash not more than the following portion (or, if less, the Elective Deferral Limit) of his/her proportionate share of that CODA contribution (*Choose one of (1) or (2).*):
 - (1) **All or any portion.**
 - (2) _____%

23. **CATCH-UP DEFERRALS (3.02(D)).** The Plan permits Catch-Up Deferrals unless the Employer elects otherwise below. (*Choose (a) if applicable.*)

- (a) **Not Permitted.** May not make Catch-Up Deferrals to the Plan.

24. **MATCHING CONTRIBUTIONS (EXCLUDING SAFE HARBOR MATCH AND ADDITIONAL MATCH UNDER SECTION 3.05) (3.03(A)).** The Employer Matching Contributions under Election 6(c) are subject to the following additional elections regarding type (discretionary/fixed), rate/amount, limitations and time period (collectively, such elections are "the matching formula") and the allocation of Matching Contributions is subject to Section 3.06 except as otherwise provided (*Choose one or more of (a) through (g) as applicable; then, for the elected match, complete (1), (2), and/or (3) as applicable. If the Employer completes (2) or (3), also complete one of (4), (5), or (6).*):

[*Note: If the Employer wishes to make any Matching Contributions that satisfy the ADP or ACP safe harbor, the Employer should make these Elections under Election 30, and not under this Election 24.*]

	(1) Match Rate/Amt [\$/% of Elective Deferrals]	(2) Limit on Deferrals Matched [\$/% of Compensation]	(3) Limit on Match Amount [\$/% of Compensation]	(4) Apply limit(s) per Plan Year ["true-up"]	(5) Apply limit(s) per payroll period [no "true-up"]	(6) Apply limit(s) per designated time period [no "true- up"]
(a) <input checked="" type="checkbox"/> Discretionary – see Section 1.35(B) (<i>The Employer may, but is not required to complete (a)(1)-(6). See the "Note" following Election 24.</i>)	_____	_____	_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(b) <input type="checkbox"/> Fixed – uniform rate/amount	_____	_____	_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(c) <input type="checkbox"/> Fixed – tiered	Elective Deferral 1 % _____ _____ _____ _____	Match ing Rate % _____ _____ _____ _____	_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(d) <input type="checkbox"/> Fixed – Years of Service		_____	_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

(1) "Years of Service" under this Election 24(d) means (*Choose one of a. or b.*):

- a. **Eligibility.** Years of Service for eligibility in Election 16.
- b. **Vesting.** Years of Service for vesting in Elections 43 and 44.

- (e) **Fixed** – multiple formulas
- Formula 1: _____
- Formula 2: _____
- Formula 3: _____

(f) **Related and Participating Employers.** If any Related and Participating Employers (or in the case of a Multiple Employer Plan, Participating Employers regardless of whether they are Related Employers) contribute Matching Contributions to the Plan, the following apply (*Complete (1) and (2).*):

- (1) **Matching formula.** The matching formula for the Participating Employer(s) (*Choose one of a. or b.*):
- a. **All the same.** Is (are) the same as for the Signatory Employer under this Election 24.
- b. **At least one different.** Is (are) as follows: _____.
- (2) **Allocation sharing.** The Plan Administrator will allocate the Matching Contributions made by the Signatory Employer and by any Participating Employer (*Choose one of a. or b.*):
- a. **Employer by Employer.** Only to the Participants directly employed by the contributing Employer.
- b. **Across Employer lines.** To all Participants regardless of which Employer directly employs them and regardless of whether their direct Employer made Matching Contributions for the Plan Year.

[*Note: Unless the Plan is a Multiple Employer Plan, the Employer should not elect 24(f) unless there are Related Employers which are also Participating Employers. See Section 1.24(D).*]

(g) **Describe:** _____
 (*The formula described must satisfy the definitely determinable requirement under Treas. Reg. §1.401-1(b). If the formula is non-uniform, it is not a design-based safe harbor for nondiscrimination purposes.*)

[*Note: See Section 1.35(A) as to Fixed Matching Contributions. A Participant's Elective Deferral percentage is equal to the Participant's Elective Deferrals divided by his/her Compensation. The matching rate/amount is the specified rate/amount of match for the corresponding Elective Deferral amount/percentage. Any Matching Contributions apply to Pre-Tax Deferrals and to Roth Deferrals unless described otherwise in Election 24(g). Matching Contributions for nondiscrimination testing purposes are subject to the targeting limitations. See Section 4.10(D). The Employer under Election 24(a) in its discretion may determine the amount of a Discretionary Matching Contribution and the matching contribution formula. Alternatively, the Employer in Election 24(a) may specify the Discretionary Matching Contribution formula.*]

25. **QMAC (PLAN-DESIGNATED) (3.03(C)(1)).** The following provisions apply regarding Plan-Designated QMACs (*Choose one of (a) or (b).*):

[*Note: Regardless of its elections under this Election 25, the Employer under Section 3.03(C)(2) may elect for any Plan Year where the Plan is using Current Year Testing to make Operational QMACs which the Plan Administrator will allocate only to NHCEs for purposes of correction of an ADP or ACP test failure.*]

- (a) **Not applicable.** There are no Plan-Designated QMACs.
- (b) **Applies.** There are Plan-Designated QMACs to which the following provisions apply (*Complete (1) and (2).*):
- (1) **Matching Contributions affected.** The following Matching Contributions (as allocated to the designated allocation group under Election 25(b)(2)) are Plan-Designated QMACs (*Choose one of a. or b.*):
- a. **All.** All Matching Contributions.
- b. **Designated.** Only the following Matching Contributions under Election 24: _____.
- (2) **Allocation Group.** Subject to Section 3.06, allocate the Plan-Designated QMAC (*Choose one of a. or b.*):
- a. **NHCEs only.** Only to NHCEs who make Elective Deferrals subject to the Plan-Designated QMAC.
- b. **All Participants.** To all Participants who make Elective Deferrals subject to the Plan-Designated QMAC.

The Plan Administrator will allocate all other Matching Contributions as Regular Matching Contributions under Section 3.03(B), except as provided in Sections 3.03(C)(2) or 3.05.

[*Note: See Section 4.10(D) as to targeting limitations applicable to QMAC nondiscrimination testing.*]

26. **MATCHING CATCH-UP DEFERRALS (3.03(D))**. If a Participant makes a Catch-Up Deferral, the Employer (Choose one of (a) or (b); leave blank if Election 23(a) is selected.):

(a) **Match**. Will apply to the Catch-Up Deferral (Choose one of (1) or (2).):

(1) **All**. All Matching Contributions.

(2) **Designated**. The following Matching Contributions in Election 24: _____.

(b) **No Match**. Will not match any Catch-Up Deferrals.

[Note: Election 26 does not apply to a safe harbor 401(k) plan unless the Employer will apply the ACP test. See Elections 38(a)(2)b. In this case, Election 26 applies only to Additional Matching, if any. A safe harbor 401(k) Plan will apply the Basic Match, QACA Basic Match or Enhanced Match to Catch-Up Deferrals. If the Employer elects to apply the ACP test safe harbor under Election 38(a)(2)a., Election 26 does not apply and the Plan also will apply any Additional Match to Catch-Up Deferrals.]

27. **NONELECTIVE CONTRIBUTIONS (TYPE/AMOUNT) INCLUDING PREVAILING WAGE CONTRIBUTIONS (3.04(A))**. The Employer Nonelective Contributions under Election 6(d) are subject to the following additional elections as to type and amount (Choose one or more of (a) through (e) as applicable.):

(a) **Discretionary**. An amount the Employer in its sole discretion may determine.

(b) **Fixed**. (Choose one or more of (1) through (3) as applicable.):

(1) **Uniform %**. ___% of each Participant's Compensation, per ___ (e.g., Plan Year, month).

(2) **Fixed dollar amount**. \$___, per ___ (e.g., Plan Year, month, HOS, per Participant per month).

(3) **Describe**:

(The formula described must satisfy the definitely determinable requirement under Treas. Reg. §1.401-1(b). If the formula is non-uniform, it is not a design-based safe harbor for nondiscrimination purposes.)

[Note: The Employer under Election 27(b)(3) may specify any Fixed Nonelective Contribution formula not described under Elections 27(b)(1) or (2) (e.g., For each Plan Year, 2% of net profits exceeding \$50,000, or The cash value of unused paid time off, as described in Section 3.04(A)(2)(a) and the Employer's Paid Time Off Plan) and/or the Employer may describe different Fixed Nonelective Contributions as applicable to different Participant groups (e.g., A Fixed Nonelective Contribution equal to 5% of Plan Year Compensation applies to Division A Participants and a Fixed Nonelective Contribution equal to \$500 per Participant each Plan Year applies to Division B Participants).]

(c) **Prevailing Wage Contribution**. The Prevailing Wage Contribution amount(s) specified for the Plan Year or other applicable period in the Employer's Prevailing Wage Contract(s). The Employer will make a Prevailing Wage Contribution only to Participants covered by the Contract and only as to Compensation paid under the Contract. The Employer must specify the Prevailing Wage Contribution by attaching an appendix to the Adoption Agreement that indicates the contribution rate(s) applicable to the prevailing wage employment/job classification(s). If the Participant accrues an allocation of Employer Contributions (including forfeitures) under the Plan or any other Employer plan in addition to the Prevailing Wage Contribution, the Plan Administrator will (Choose one of (1) or (2).):

(1) **No offset**. Not reduce the Participant's Employer Contribution allocation by the amount of the Prevailing Wage Contribution.

(2) **Offset**. Reduce the Participant's Employer Contribution allocation by the amount of the Prevailing Wage Contribution.

(d) **Related and Participating Employers**. If any Related and Participating Employers (or in the case of a Multiple Employer Plan, Participating Employers regardless of whether they are Related Employers) contribute Nonelective Contributions to the Plan, the contribution formula(s) (Choose one of (1) or (2).):

(1) **All the same**. Is (are) the same as for the Signatory Employer under this Election 27.

(2) **At least one different**. Is (are) as follows: _____.

[Note: Unless the Plan is a Multiple Employer Plan, the Employer should not elect 27(d) unless there are Related Employers which are also Participating Employers. See Section 1.24(D). The Employer electing 27(d) also must complete Election 28(g) as to the allocation methods which apply to the Participating Employers.]

(e) **Describe**: _____

(The formula described must satisfy the definitely determinable requirement under Treas. Reg. §1.401-1(b). If the formula is non-uniform, it is not a design-based safe harbor for nondiscrimination purposes.)

[Note: Under Election 27(e), the Employer may describe the amount and type of Nonelective Contributions from the elections available under Election 27 and/or a combination thereof as to a Participant group (e.g., A Discretionary Nonelective Contribution applies to Division A Employees. A Fixed Nonelective Contribution equal to 5% of Plan Year Compensation applies to Division B Employees).]

(2) **Mortality table.** (Choose one of a. or b.):

a. **UP-1984.** See Appendix D.

b. **Alternative:** _____ (Specify 1983 GAM, 1983 IAM, 1971 GAM or 1971 IAM and attach applicable tables using such mortality table and the specified interest rate as replacement Appendix D.)

(f) **Uniform points.** In accordance with the uniform points allocation provisions of Section 3.04(B)(6). Under the uniform points allocation formula, a Participant receives (Choose one or both of (1) and (2). Choose (3) if applicable.):

(1) **Years of Service.** _____ point(s) for each Year of Service. The maximum number of Years of Service counted for points is _____.

"Year of Service" under this Election 28(f) means (Choose one of a. or b.):

a. **Eligibility.** Years of Service for eligibility in Election 16.

b. **Vesting.** Years of Service for vesting in Elections 43 and 44.

[Note: A Year of Service must satisfy Treas. Reg. §1.401(a)(4)-11(d)(3) for the uniform points allocation to qualify as a safe harbor allocation under Treas. Reg. §1.401(a)(4)-2(b)(3).]

(2) **Age.** _____ point(s) for each year of age attained during the Plan Year.

(3) **Compensation.** _____ point(s) for each \$ _____ (not to exceed \$200) increment of Plan Year Compensation.

(g) **Related and Participating Employers.** If any Related and Participating Employers (or in the case of a Multiple Employer Plan, Participating Employers regardless of whether they are Related Employers) contribute Nonelective Contributions to the Plan, the Plan Administrator will allocate the Nonelective Contributions made by the Participating Employer(s) under Election 27(d) (Complete (1) and (2).):

(1) **Allocation Method.** (Choose one of a. or b.):

a. **All the same.** Using the same allocation method as applies to the Signatory Employer under this Election 28.

b. **At least one different.** Under the following allocation method(s): _____.

(2) **Allocation sharing.** The Plan Administrator will allocate the Nonelective Contributions made by the Signatory Employer and by any Participating Employer (Choose one of a. or b.):

a. **Employer by Employer.** Only to the Participants directly employed by the contributing Employer.

b. **Across Employer lines.** To all Participants regardless of which Employer directly employs them and regardless of whether their direct Employer made Nonelective Contributions for the Plan Year.

[Note: Unless the Plan is a Multiple Employer Plan, the Employer should not elect 28(g) unless there are Related Employers which are also Participating Employers. See Section 1.24(D) and Election 27(d). If the Employer elects 28(g)(2)a., the Employer should also elect 11(k)(2), to disregard the Compensation paid by "Y" Participating Employer in determining the allocation of the "X" Participating Employer contribution to a Participant (and vice versa) who receives Compensation from both X and Y. If the Employer elects 28(g)(2)b., the Employer should not elect 11(k)(2). Election 28(g)(2)a. does not apply to Safe Harbor Nonelective Contributions.]

(h) **Describe:** _____
(The formula described must satisfy the definitely determinable requirement under Treas. Reg. §1.401-1(b). If the formula is non-uniform, it is not a design-based safe harbor for nondiscrimination purposes.)

29. **QNEC (PLAN-DESIGNATED) (3.04(C)(1)).** The following provisions apply regarding Plan-Designated QNECs (Choose one of (a) or (b).):

[Note: Regardless of its elections under this Election 29, the Employer under Section 3.04(C)(2) may elect for any Plan Year where the Plan is using Current Year Testing to make Operational QNECs which the Plan Administrator will allocate only to NHCEs for purposes of correction of an ADP or ACP test failure.]

(a) **Not applicable.** There are no Plan-Designated QNECs.

(b) **Applies.** There are Plan-Designated QNECs to which the following provisions apply (Complete (1), (2), and (3).):

(1) **Nonelective Contributions affected.** The following Nonelective Contributions (as allocated to the designated allocation group under Election 29(b)(2)) are Plan-Designated QNECs (Choose one of a. or b.):

a. **All.** All Nonelective Contributions.

b. **Designated.** Only the following Nonelective Contributions under Election 27: _____.

- (2) **Allocation Group.** Subject to Section 3.06, allocate the Plan-Designated QNEC (*Choose one of a. or b.*):
- NHCEs only.** Only to NHCEs under the method elected in Election 29(b)(3).
 - All Participants.** To all Participants under the method elected in Election 29(b)(3).
- (3) **Allocation Method.** The Plan Administrator will allocate a Plan-Designated QNEC using the following method (*Choose one of a., b., c., or d.*):
- Pro rata.**
 - Flat dollar.**
 - Reverse.** See Section 3.04(C)(3).
 - Describe:** _____
(The formula described must satisfy the definitely determinable requirement under Treas. Reg. §1.401-1(b). If the formula is non-uniform, it is not a design-based safe harbor for nondiscrimination purposes.)

[*Note: See Section 4.10(D) as to targeting limitations applicable to QNEC nondiscrimination testing.*]

30. **SAFE HARBOR 401(k) PLAN (SAFE HARBOR CONTRIBUTIONS/ADDITIONAL MATCHING CONTRIBUTIONS) (3.05).** The Employer under Election 6(e) will (or in the case of the Safe Harbor Nonelective Contribution may) contribute the following Safe Harbor Contributions described in Section 3.05(E) and will or may contribute Additional Matching Contributions described in Section 3.05(F) (*Choose one of (a) through (e) when and as applicable. Complete (f) and (i). Choose (g), (h), and (j) as applicable.*):

- Safe Harbor Nonelective Contribution (including QACA).** The Safe Harbor Nonelective Contribution equals _____% of a Participant's Compensation [*Note: The amount in the blank must be at least 3%. The Safe Harbor Nonelective Contribution applies toward (offsets) most other Employer Nonelective Contributions. See Section 3.05(E)(12).*]
- Safe Harbor Nonelective Contribution (including QACA)/delayed year-by-year election (maybe and supplemental notices).** In connection with the Employer's provision of the maybe notice under Section 3.05(I)(1), the Employer elects into safe harbor status by giving the supplemental notice and by making this Election 30(b) to provide for a Safe Harbor Nonelective Contribution equal to _____% (*specify amount at least equal to 3%*) of a Participant's Compensation. This Election 30(b) and safe harbor status applies for the Plan Year ending: _____ (*specify Plan Year end*), which is the Plan Year to which the Employer's maybe and supplemental notices apply.

[*Note: An Employer distributing the maybe notice can use election 30(b) without completing the year. Doing so requires the Plan to perform Current Year Testing unless the Employer decides to elect safe harbor status. If the Employer wishes to elect safe harbor status for a single year, the Employer must amend the Plan to enter the Plan Year end above.*]

- Basic Matching Contribution.** A Matching Contribution equal to 100% of each Participant's Elective Deferrals not exceeding 3% of the Participant's Compensation, plus 50% of each Participant's Elective Deferrals in excess of 3% but not in excess of 5% of the Participant's Compensation. See Sections 1.35(E) and 3.05(E)(4). (*Complete (1).*):
 - Time period.** For purposes of this Election 30(c), "Compensation" and "Elective Deferrals" mean Compensation and Elective Deferrals for: _____. [*Note: The Employer must complete the blank line with the applicable time period for computing the Basic Match, such as "each payroll period," "each calendar month," "each Plan Year quarter" or "the Plan Year."*]
- QACA Basic Matching Contribution.** A Matching Contribution equal to 100% of a Participant's Elective Deferrals not exceeding 1% of the Participant's Compensation, plus 50% of each Participant's Elective Deferrals in excess of 1% but not in excess of 6% of the Participant's Compensation. (*Complete (1).*): [*Note: This election is available only if the Employer has elected the QACA automatic deferrals provisions under Election 21.*]
 - Time period.** For purposes of this Election 30(d), "Compensation" and "Elective Deferrals" mean Compensation and Elective Deferrals for: _____. [*Note: The Employer must complete the blank line with the applicable time period for computing the QACA Basic Match, such as "each payroll period," "each calendar month," "each Plan Year quarter" or "the Plan Year."*]
- Enhanced Matching Contribution (including QACA).** See Sections 1.35(F) and 3.05(E)(6). (*Choose one of (1) or (2) and complete (3) for any election.*):
 - Uniform percentage.** A Matching Contribution equal to _____% of each Participant's Elective Deferrals but not as to Elective Deferrals exceeding _____% of the Participant's Compensation.
 - Tiered formula.** A Matching Contribution equal to the specified matching rate for the corresponding level of each Participant's Elective Deferral percentage. A Participant's Elective Deferral percentage is equal to the Participant's Elective Deferrals divided by his/her Compensation.

Elective Deferral Percentage

_____%
_____%
_____%

Matching Rate

_____%
_____%
_____%

- (3) **Time period.** For purposes of this Election 30(e), "Compensation" and "Elective Deferrals" mean Compensation and Elective Deferrals for:_____. [Note: The Employer must complete the blank line with the applicable time period for computing the Enhanced Match, such as "each payroll period," "each calendar month," "each Plan Year quarter" or "the Plan Year."]

[Note: The matching rate may not increase as the Elective Deferral percentage increases and the Enhanced Matching formula otherwise must satisfy the requirements of Code §§401(k)(12)(B)(ii) and (iii) (taking into account Code §401(k)(13)(D)(ii) in the case of a QACA). If the Employer elects to satisfy the ACP safe harbor under Election 38(a)(2)a., the Employer also must limit Elective Deferrals taken into account for the Enhanced Matching Contribution to a maximum of 6% of Plan Year Compensation.]

- (f) **Participants who will receive Safe Harbor Contributions.** The allocation of Safe Harbor Contributions (Choose one of (1), (2), or (3). Choose (4) if applicable.):

- (1) **Applies to all Participants.** Applies to all Participants except as may be limited under Election 30(g).
- (2) **NHCEs only.** Is limited to NHCE Participants only and may be limited further under Election 30(g). No HCE will receive a Safe Harbor Contribution allocation.
- (3) **NHCEs and designated HCEs.** Is limited to NHCE Participants and to the following HCE Participants and may be limited further under Election 30(g):_____.

[Note: Any HCE allocation group the Employer describes under Election 30(f)(3) must be definitely determinable. (e.g., Division "A" HCEs OR HCEs who own more than 5% of the Employer without regard to attribution rules).]

- (4) **Applies to all Participants except Collective Bargaining Employees.** Notwithstanding Elections 30(f)(1), (2) or (3), the Safe Harbor Contributions are not allocated to Collective Bargaining (union) Employees and may be further limited under Election 30(g).

- (g) **Early Elective Deferrals/delay of Safe Harbor Contribution.** The Employer may elect this Election 30(g) only if the Employer in Election 14 elects eligibility requirements for Elective Deferrals of less than age 21 and/or one Year of Service but elects age 21 and one Year of Service for Safe Harbor Matching or for Safe Harbor Nonelective Contributions. The Employer under this Election 30(g) applies the rules of Section 3.05(D) to limit the allocation of any Safe Harbor Contribution under Election 30 for a Plan Year to those Participants who the Plan Administrator in applying the OEE rule described in Section 4.06(C), treats as benefiting in the disaggregated plan covering the Includible Employees.

- (h) **Another plan.** The Employer will make the Safe Harbor Contribution to the following plan:_____.

- (i) **Additional Matching Contributions.** See Sections 1.35(G) and 3.05(F). (Choose one of (1) or (2).):

- (1) **No Additional Matching Contributions.** The Employer will not make any Additional Matching Contributions to its safe harbor Plan.
- (2) **Additional Matching Contributions.** The Employer will or may make the following Additional Matching Contributions to its safe harbor Plan. (Choose a., b., and c. as applicable.):
 - a. **Fixed Additional Matching Contribution.** The following Fixed Additional Matching Contribution (Choose (i) and (ii) as applicable and complete (iii) for any election.):
 - (i) **Uniform percentage.** A Matching Contribution equal to _____ % of each Participant's Elective Deferrals but not as to Elective Deferrals exceeding _____ % of the Participant's Compensation.
 - (ii) **Tiered formula.** A Matching Contribution equal to the specified matching rate for the corresponding level of each Participant's Elective Deferral percentage. A Participant's Elective Deferral percentage is equal to the Participant's Elective Deferrals divided by his/her Compensation.

Elective Deferral Percentage

_____%
_____%
_____%

Matching Rate

_____%
_____%
_____%

- (iii) **Time period.** For purposes of this Election 30(i)(2)a., "Compensation" and "Elective Deferrals" mean Compensation and Elective Deferrals for:_____. [Note: The Employer must complete the blank line with the applicable time period for computing the Additional Match, e.g., each payroll period, each calendar month, each Plan Year quarter OR the Plan Year. If the Employer elects a match under both (i) and (ii) and will apply a different time period to each match, the Employer may indicate as such in the blank line.]

- b. **Discretionary Additional Matching Contribution.** The Employer may make a Discretionary Additional Matching Contribution. If the Employer makes a Discretionary Matching Contribution, the Discretionary Matching Contribution will not apply as to Elective Deferrals exceeding _____ % of the Participant's Compensation (*complete the blank if applicable or leave blank*).
- (i) **Time period.** For purposes of this Election 30(i)(2)b., "Compensation" and "Elective Deferrals" mean Compensation and Elective Deferrals for: ___. [*Note: The Employer must complete the blank line with the applicable time period for computing the Additional Discretionary Matching Contribution, e.g., each payroll period, each calendar month, each Plan Year quarter OR the Plan Year. If the Employer fails to specify a time period, the Employer is deemed to have elected to compute its Additional Matching Contribution based on the Plan Year.*]
- c. **Describe Additional Matching Contribution formula and time period:**

(The formula described must satisfy the definitely determinable requirement under Treas. Reg. §1.401-1(b) and, if the Employer elects to satisfy the ACP safe harbor under Election 38(a)(2)a., the formula must comply with Section 3.05(G).)

[Note: If the Employer elects to satisfy the ACP safe harbor under Election 38(a)(2)a. then as to any and all Matching Contributions, including Fixed Additional Matching Contributions and Discretionary Additional Matching Contributions: (i) the matching rate may not increase as the Elective Deferral percentage increases; (ii) no HCE may be entitled to a greater rate of match than any NHCE; (iii) the Employer may limit Elective Deferrals taken into account for the Additional Matching Contributions to a maximum of 6% of Plan Year Compensation; (iv) the Plan must apply all Matching Contributions to Catch-Up Deferrals; and (v) in the case of a Discretionary Additional Matching Contribution, the contribution amount may not exceed 4% of the Participant's Plan Year Compensation.]

- (j) **Multiple Safe Harbor Contributions in disaggregated Plan.** The Employer elects to make different Safe Harbor Contributions and/or Additional Matching Contributions to disaggregated parts of its Plan under Treas. Reg. §1.401(k)-1(b)(4) as follows: _____
(Specify contributions for disaggregated plans, e.g., as to collectively bargained employees a 3% Nonelective Safe Harbor Contribution applies and as to non-collectively bargained employees, the Basic Matching Contribution applies).

31. **ALLOCATION CONDITIONS (3.06(B)/(C)).** The Plan does not apply any allocation conditions to: (i) Elective Deferrals; (ii) Safe Harbor Contributions; (iii) Additional Matching Contributions which will satisfy the ACP test safe harbor; (iv) Employee Contributions; (v) Rollover Contributions; (vi) Designated IRA Contributions; (vii) SIMPLE Contributions; or (viii) Prevailing Wage Contributions. To receive an allocation of Matching Contributions, Nonelective Contributions or Participant forfeitures, a Participant must satisfy the following allocation condition(s) (*Choose one of (a) or (b). Choose (c) if applicable.*):

- (a) **No conditions.** No allocation conditions apply to Matching Contributions, to Nonelective Contributions or to forfeitures.
- (b) **Conditions.** The following allocation conditions apply to the designated Contribution Type and/or forfeitures (*Choose one or more of (1) through (7). Choose Contribution Type as applicable.*):

[Note: For this Election 31, except as the Employer describes otherwise in Election 31(b)(7) or as provided in Sections 3.03(C)(2) and 3.04(C)(2) regarding Operational QMACs and Operational QNECs, Matching includes all Matching Contributions and Nonelective includes all Nonelective Contributions to which allocation conditions may apply. The Employer under Election 31(b)(7) may not impose an Hour of Service condition exceeding 1,000 Hours of Service in a Plan Year.]

			(1) Matching, Nonelective and Forfeitures		(2) Matching	(3) Nonelective	(4) Forfeitures
(1)	<input checked="" type="checkbox"/>	None.	N/A (See Election 31(a))		<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(2)	<input type="checkbox"/>	501 HOS/terminees (91 consecutive days if Elapsed Time). See Section 3.06(B)(1)(b).	<input type="checkbox"/>	OR	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(3)	<input checked="" type="checkbox"/>	Last day of the Plan Year.	<input type="checkbox"/>	OR	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
(4)	<input type="checkbox"/>	Last day of the Election 31(c) time period.	<input type="checkbox"/>	OR	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(5)	<input checked="" type="checkbox"/>	1,000 HOS in the Plan Year (182 consecutive days in Plan Year if Elapsed Time).	<input type="checkbox"/>	OR	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
(6)	<input type="checkbox"/>	(specify) HOS within the Election 31(c) time period , (but not exceeding 1,000 HOS in a Plan Year).	<input type="checkbox"/>	OR	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(7)	<input type="checkbox"/>	Describe conditions: <i>(e.g., Last day of the Plan Year as to Nonelective Contributions for Participating Employer "A" Participants. No allocation conditions for Participating Employer "B" Participants.)</i>					

(c) **Time period.** Under Section 3.06(C), apply Elections 31(b)(4), (b)(6), or (b)(7) to the specified contributions/forfeitures based on each *(Choose one or more of (1) through (5). Choose Contribution Type as applicable.):*

(1)	<input type="checkbox"/>	Plan Year.	<input type="checkbox"/>	OR	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(2)	<input type="checkbox"/>	Plan Year quarter.	<input type="checkbox"/>	OR	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(3)	<input type="checkbox"/>	Calendar month.	<input type="checkbox"/>	OR	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(4)	<input type="checkbox"/>	Payroll period.	<input type="checkbox"/>	OR	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(5)	<input type="checkbox"/>	Describe time period:					

[Note: If the Employer elects 31(b)(4) or (b)(6), the Employer must choose (c). If the Employer elects 31(b)(7), choose (c) if applicable.]

32. **ALLOCATION CONDITIONS - APPLICATION/WAIVER/SUSPENSION (3.06(D)/(F)).** Under Section 3.06(D), in the event of Severance from Employment as described below, apply or do not apply Election 31(b) allocation conditions to the specified contributions/forfeitures as follows *(If the Employer elects 31(b), the Employer must complete Election 32. Choose one of (a) or (b). Complete (c).):*

[Note: For this Election 32, except as the Employer describes otherwise in Election 31(b)(7) or as provided in Sections 3.03(C)(2) and 3.04(C)(2) regarding Operational QMACs and Operational QNECs, Matching includes all Matching Contributions and Nonelective includes all Nonelective Contributions to which allocation conditions may apply.]

(a) **Total waiver or application.** If a Participant incurs a Severance from Employment on account of or following death, Disability or attainment of Normal Retirement Age or Early Retirement Age *(Choose one of (1) or (2).):*

- (1) **Do not apply.** Do not apply elected allocation conditions to Matching Contributions, to Nonelective Contributions or to forfeitures.
- (2) **Apply.** Apply elected allocation conditions to Matching Contributions, to Nonelective Contributions and to forfeitures.

(b) **Application/waiver as to Contribution Types events.** If a Participant incurs a Severance from Employment, apply allocation conditions *except* such conditions are waived if Severance from Employment is on account of or following death, Disability or attainment of Normal Retirement Age or Early Retirement Age as specified, and as applied to the specified Contribution Types/forfeitures *(Choose one or more of (1) through (4). Choose Contribution Type as applicable.):*

	(1)		(2)		(3)		(4)
	Matching, Nonelective and Forfeitures			Matching	Nonelective		Forfeitures
(1) <input type="checkbox"/> Death.	<input type="checkbox"/>	OR	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(2) <input type="checkbox"/> Disability.	<input type="checkbox"/>	OR	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(3) <input type="checkbox"/> Normal Retirement Age.	<input type="checkbox"/>	OR	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(4) <input type="checkbox"/> Early Retirement Age.	<input type="checkbox"/>	OR	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

(c) **Suspension.** The suspension of allocation conditions of Section 3.06(F) (*Choose one of (1) or (2).*):

- (1) **Applies.** Applies as follows (*Choose one of a., b., or c.*):
- a. **Both.** Applies both to Nonelective Contributions and to Matching Contributions.
 - b. **Nonelective.** Applies only to Nonelective Contributions.
 - c. **Match.** Applies only to Matching Contributions.
- (2) **Does not apply.**

33. **FORFEITURE ALLOCATION METHOD (3.07).** (*Choose one of (a) or (b).*):

[Note: Even if the Employer elects immediate vesting, the Employer should complete Election 33. See Section 7.07.]

(a) **Safe harbor/top-heavy exempt.** Apply all forfeitures to Safe Harbor Contributions and Plan expenses in accordance with Section 3.07(A)(4).

(b) **Apply to Contributions.** The Plan Administrator will allocate a Participant forfeiture attributable to all Contribution Types or attributable to all Nonelective Contributions or to all Matching Contributions as follows (*Choose one or more of (1) through (6) and choose Contribution Type as applicable. Choose (5) only in conjunction with at least one other election.*):

	(1)		(2)		(3)
	All Forfeitures		Non Elective Forfeitures		Matching Forfeitures
(2) <input type="checkbox"/> Additional Match. Allocate as additional Discretionary Matching Contribution.	<input type="checkbox"/>	OR	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(3) <input type="checkbox"/> Reduce Nonelective. Apply to Nonelective Contribution.	<input type="checkbox"/>	OR	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(4) <input checked="" type="checkbox"/> Reduce Match. Apply to Matching Contribution.	<input checked="" type="checkbox"/>	OR	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(5) <input checked="" type="checkbox"/> Plan expenses. Pay reasonable Plan expenses. (See Section 7.04(C).)	<input checked="" type="checkbox"/>	OR	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(6) <input type="checkbox"/> Describe: ___ (<i>must satisfy the definitely determinable requirement under Treas. Reg. §1.401-1(b) and be applied in a uniform and nondiscriminatory manner; e.g., Forfeitures attributable to transferred balances from Plan X are allocated only to former Plan X participants.</i>)					

34. **AUTOMATIC ESCALATION (3.02(G)).** The Automatic Escalation provisions of Section 3.02(G) (*Choose one of (a) or (b). See Election 21 regarding Automatic Deferrals. Automatic Escalation applies to Participants who have a Salary Reduction Agreement in effect.*):

(a) **Do not apply.**

(b) **Apply.** (*Complete (1), (2), (3), and if appropriate (4).*):

- (1) **Participants affected.** The Automatic Escalation applies to (*Choose one of a., b., or c.*):
- a. **All Deferring Participants.** All Participants who have a Salary Reduction Agreement in effect to defer at least ___% of Compensation.
 - b. **New Deferral Elections.** All Participants who file a Salary Reduction Agreement after the effective date of this Election, or, as appropriate, any amendment thereto, to defer at least ___% of Compensation.
 - c. **Describe affected Participants:**

[Note: The Employer in Election 34(b)(1)c. may further describe affected Participants, e.g., non-Collective Bargaining Employees OR Division A Employees. The group of Participants must be definitely determinable and if an EACA under Election 21, must be uniform.]

(2) **Automatic Increases.** (Choose one of a. or b.):

a. **Automatic increase.** The Participant's Elective Deferrals will increase by % per year up to a maximum of % of Compensation unless the Participant has filed a Contrary Election after the effective date of this Election or, as appropriate, any amendment thereto.

b. **Describe increase:**

[Note: The Employer in Election 34(b)(2)b. may define different increases for different groups of Participants or may otherwise limit Automatic Escalation. Any such provisions must be definitely determinable.]

(3) **Change Date.** The Elective Deferrals will increase on the following day each Plan Year:

a. **First day of the Plan Year.**

b. **Other:**
(must be a specified or definitely determinable date that occurs at least annually)

(4) **First Year of Increase.** The automatic escalation provision will apply to a participant beginning with the first Change Date after the Participant files a Salary Reduction Agreement (or, if sooner, the effective date of this Election, or, as appropriate, any amendment thereto), unless a. is selected below:

a. **The escalation provision will apply as of the second Change Date thereafter.**

35. **IN-PLAN ROTH ROLLOVER CONTRIBUTION (3.08(E)).** The following provisions apply regarding In-Plan Roth Rollover Contributions (Choose one of (a) or (b); also see Election 56(d)(1); leave blank if Election 6(b)(1) is not selected.):

(a) **Not Applicable.** The Plan does not permit In-Plan Roth Rollover Contributions.

(b) **Applies.** The Plan permits In-Plan Roth Rollover Contributions. (Choose (1) if applicable.)

(1) **Effective Date.** _____ (enter date not earlier than September 28, 2010; may be left blank if same as Plan or Restatement Effective Date).

36. **EMPLOYEE (AFTER-TAX) CONTRIBUTIONS (3.09).** The following additional elections apply to Employee Contributions under Election 6(f). (Choose one or both of (a) and (b) if applicable.):

(a) **Additional limitations.** The Plan permits Employee Contributions subject to the following limitations, if any, in addition to those already imposed under the Plan:

[Note: Any designated limitation(s) must be the same for all Participants and must be definitely determinable (e.g., Employee Contributions may not exceed the lesser of \$5,000 dollars or 10% of Compensation for the Plan Year and/or Employee Contributions may not be less than \$50 or 2% of Compensation per payroll period).]

(b) **Apply Matching Contribution.** For each Plan Year, the Employer's Matching Contribution made as to Employee Contributions is:

[Note: The Employer Matching Contribution formula must be the same for all Participants and must be definitely determinable (e.g., A fixed Matching Contribution equal to 50% of Employee Contributions not exceeding 6% of Plan Year Compensation or A Discretionary Matching Contribution based on Employee Contributions).]

37. **DESIGNATED IRA CONTRIBUTIONS (3.12).** Under Election 6(h), a Participant may make Designated IRA Contributions. (Complete (a) and (b).):

(a) **Type of IRA contribution.** A Participant's Designated IRA Contributions will be (Choose one of (1), (2), or (3).):

(1) **Traditional.**

(2) **Roth.**

(3) **Traditional/Roth.** As the Participant elects at the time of contribution.

(b) **Type of Account.** A Participant's Designated IRA Contributions will be held in the following form of Account(s) (Choose one of (1), (2), or (3).):

(1) **IRA.**

(2) **Individual Retirement Annuity.**

(3) **IRA/Individual Retirement Annuity.** As the Participant elects at the time of contribution.

**ARTICLE IV
LIMITATIONS AND TESTING**

38. **ANNUAL TESTING ELECTIONS (4.06(B)).** The Employer makes the following Plan specific annual testing elections under Section 4.06(B). *(Complete (a) and (b) as applicable. Leave (a) blank if the Plan is a SIMPLE 401(k) plan.):*

(a) **Nondiscrimination testing.** *(Choose one or more of (1), (2), and (3).):*

(1) **Traditional 401(k) Plan/ADP/ACP test.** The following testing method(s) apply:

[Note: The Plan may "split test". For Current Year Testing, See Section 4.11(E). For Prior Year Testing, see Section 4.11(I) and, as to the first Plan Year, see Sections 4.10(B)(4)(f)(iv) and 4.10(C)(5)(e)(iv).]

ADP Test *(Choose one of a. or b.)*

a. **Current Year Testing.**

b. **Prior Year Testing. ACP**

Test *(Choose one of c., d., or e.)*

c. **Not applicable.** The Plan does not permit Matching Contributions or Employee Contributions and the Plan Administrator will not recharacterize Elective Deferrals as Employee Contributions for testing.

d. **Current Year Testing.**

e. **Prior Year Testing.**

(2) **Safe Harbor Plan/No testing or ACP test only.** *(Choose one of a. or b.):*

a. **No testing.** ADP test safe harbor applies and if applicable, ACP test safe harbor applies.

b. **ACP test only.** ADP test safe harbor applies, but Plan will perform ACP test as follows *(Choose one of (i) or (ii).):*

(i) **Current Year Testing.**

(ii) **Prior Year Testing.**

(3) **Maybe notice (Election 30(b)).** See Section 3.05(I).

[Note: The Employer may make elections under both the Traditional 401(k) Plan and Safe Harbor Plan elections, in order to accommodate a Plan that applies both testing elections (e.g., Safe Harbor Includible Employees group and tested Otherwise Excludible Employees group, or Safe Harbor Plan with tested after-tax Employee Contributions). In the absence of an election regarding ADP or ACP tested contributions, Current Year Testing applies.]

(b) **HCE determination.** The Top-Paid Group election and the calendar year data election are not used unless elected below *(Choose one or both of (1) and (2) if applicable.):*

(1) **Top-paid group election applies.**

(2) **Calendar year data election (fiscal year Plan only) applies.**

**ARTICLE V
VESTING REQUIREMENTS**

39. **NORMAL RETIREMENT AGE (5.01).** A Participant attains Normal Retirement Age under the Plan on the following date *(Choose one of (a) or (b).):*

(a) **Specific age.** The date the Participant attains age 65. *[Note: The age may not exceed age 65.]*

(b) **Age/participation.** The later of the date the Participant attains age _____ or the _____ anniversary of the first day of the Plan Year in which the Participant commenced participation in the Plan. *[Note: The age may not exceed age 65 and the anniversary may not exceed the 5th.]*

40. **EARLY RETIREMENT AGE (5.01).** *(Choose one of (a) or (b).):*

(a) **Not applicable.** The Plan does not provide for an Early Retirement Age.

(b) **Early Retirement Age.** Early Retirement Age is the later of: (i) the date a Participant attains age _____; (ii) the date a Participant reaches his/her _____ anniversary of the first day of the Plan Year in which the Participant commenced participation in the Plan; or (iii) the date a Participant completes _____ Years of Service.

[Note: The Employer should leave blank any of clauses (i), (ii), and (iii) which are not applicable.]

"Years of Service" under this Election 40 means *(Choose one of (1) or (2) as applicable.):*

- (1) **Eligibility.** Years of Service for eligibility in Election 16.
- (2) **Vesting.** Years of Service for vesting in Elections 43 and 44.

[Note: Election of an Early Retirement Age does not affect the time at which a Participant may receive a Plan distribution. However, a Participant becomes 100% vested at Early Retirement Age.]

41. **ACCELERATION ON DEATH OR DISABILITY (5.02).** Under Section 5.02, if a Participant incurs a Severance from Employment as a result of death or Disability (Choose one of (a), (b), or (c).):

- (a) **Applies.** Apply 100% vesting.
- (b) **Not applicable.** Do not apply 100% vesting. The Participant's vesting is in accordance with the applicable Plan vesting schedule.
- (c) **Limited application.** Apply 100% vesting, but only if a Participant incurs a Severance from Employment as a result of (Choose one of (1) or (2).):
 - (1) **Death.**
 - (2) **Disability.**

42. **VESTING SCHEDULE (5.03).** A Participant has a 100% Vested interest at all times in his/her Accounts attributable to: (i) Elective Deferrals; (ii) Employee Contributions; (iii) QNECs; (iv) QMACs; (v) Safe Harbor Contributions (other than QACA Safe Harbor Contributions); (vi) SIMPLE Contributions; (vii) Rollover Contributions; (viii) Prevailing Wage Contributions; (ix) DECs; and (x) Designated IRA Contributions. The following vesting schedule applies to Regular Matching Contributions, to Additional Matching Contributions (irrespective of ACP testing status), to Nonelective Contributions (other than Prevailing Wage Contributions) and to QACA Safe Harbor Contributions. (Choose (a) or choose one or both of (b) and (c) as applicable.):

- (a) **Immediate vesting.** 100% Vested at all times in all Accounts.

[Note: Unless all Contribution Types are 100% Vested, the Employer should not elect 42(a). If the Employer elects immediate vesting under 42(a), the Employer should not complete the balance of Election 42 or Elections 43 and 44 (except as noted therein). The Employer must elect 42(a) if the eligibility Service condition under Election 14 as to all Contribution Types (except Elective Deferrals and Safe Harbor Contributions) exceeds one Year of Service or more than 12 months. The Employer must elect 42(b)(1) as to any Contribution Type where the eligibility service condition exceeds one Year of Service or more than 12 months. The Employer should elect 42(b) if any Contribution Type is subject to a vesting schedule.]

- (b) **Vesting schedules:** Apply the following vesting schedules (Choose one or more of (1) through (6). Choose Contribution Type as applicable.):

			(1)	(2)	(3)	(4)	(5)
			All Contributions	Nonelective	Regular Matching	Additional Matching (See Section 3.05(F))	QACA Safe Harbor
(1)	<input type="checkbox"/>	Immediate vesting.	N/A See Election 42(a)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(2)	<input type="checkbox"/>	6-year graded.	<input type="checkbox"/>	OR	<input type="checkbox"/>	<input type="checkbox"/>	N/A
(3)	<input type="checkbox"/>	3-year cliff.	<input type="checkbox"/>	OR	<input type="checkbox"/>	<input type="checkbox"/>	N/A
(4)	<input checked="" type="checkbox"/>	Modified schedule:	<input checked="" type="checkbox"/>	OR	<input type="checkbox"/>	<input type="checkbox"/>	N/A
		Years of Service	Vested %				
		Less than 1	a. <u>0%</u>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
		1	b. <u>20%</u>				
		2	c. <u>40%</u>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
		3	d. <u>60%</u>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
		4	e. <u>80%</u>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
		5	f. <u>100%</u>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
		6 or more	100%				
(5)	<input type="checkbox"/>	2-year cliff.	<input type="checkbox"/>	OR	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(6)	<input type="checkbox"/>	Modified 2-year schedule:	<input type="checkbox"/>	OR	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
		Years of Service	Vested %				
		Less than 1	Less than				
		1	a. _____				
		2	b. _____				
			100%				

[Note: If the Employer does not elect 42(a), the Employer under 42(b) must elect immediate vesting or must elect one of the specified alternative vesting schedules. The Employer must elect either 42(b)(5) or (6) as to QACA Safe Harbor Contributions. The modified top-heavy schedule of Election 42(b)(4) must satisfy Code §411(a)(2)(B). If the Employer elects Additional Matching under Election 30(i), the Employer should elect vesting under the Additional Matching column in this Election 42(b). That election applies to the Additional Matching even if the Employer has given the maybe notice but does not give the supplemental notice for any Plan Year and as to such Plan Years, the Plan is not a safe harbor plan and the Matching Contributions are not Additional Matching Contributions. If the Plan's Effective Date is before January 1, 2007, the Employer may wish to complete the override elections in Appendix B relating to the application of non-top-heavy vesting.]

(c) **Special vesting provisions:**

[Note: The Employer under Election 42(c) may describe special vesting provisions from the elections available under Election 42 and/or a combination thereof as to a: (i) Participant group (e.g., Full vesting applies to Division A Employees OR to Employees hired on/before "x" date. 6-year graded vesting applies to Division B Employees OR to Employees hired after "x" date.); and/or (ii) Contribution Type (e.g., Full vesting applies as to Discretionary Nonelective Contributions. 6-year graded vesting applies to Fixed Nonelective Contributions). Any special vesting provision must satisfy Code §411(a) and must be nondiscriminatory.]

43. **YEAR OF SERVICE - VESTING (5.05).** (Complete both (a) and (b).):

[Note: If the Employer elects the Elapsed Time Method for vesting the Employer should not complete this Election 43. If the Employer elects immediate vesting, the Employer should not complete Election 43 or Election 44 unless it elects to apply a Year of Service for vesting under any other Adoption Agreement election.]

- (a) **Year of Service.** An Employee must complete at least 1,000 Hours of Service during a Vesting Computation Period to receive credit for a Year of Service under Article V. [Note: The number may not exceed 1,000. If left blank, the requirement is 1,000.]
- (b) **Vesting Computation Period.** The Plan measures a Year of Service based on the following 12-consecutive month period (Choose one of (1) or (2).):
- (1) **Plan Year.**
- (2) **Anniversary Year.**

44. **EXCLUDED YEARS OF SERVICE - VESTING (5.05(C)).** (Choose (a) or (b).):

- (a) **None.** None other than as specified in Section 5.05(C)(1).
- (b) **Exclusions.** The Plan excludes the following Years of Service for purposes of vesting (Choose one or more of (1) through (4).):
- (1) **Age 18.** Any Year of Service before the Vesting Computation Period during which the Participant attained the age of 18.
- (2) **Prior to Plan establishment.** Any Year of Service during the period the Employer did not maintain this Plan or a predecessor plan.
- (3) **Rule of Parity.** Any Year of Service excluded under the rule of parity. See Plan Section 5.06(C).
- (4) **Additional exclusions.** The following Years of Service:

[Note: The Employer under Election 44(b)(4) may describe vesting service exclusions provisions available under Election 44 and/or a combination thereof as to a: (i) Participant group (e.g., No exclusions apply to Division A Employees OR to Employees hired on/before "x" date. The age 18 exclusion applies to Division B Employees OR to Employees hired after "x" date.); or (ii) Contribution Type (e.g., No exclusions apply as to Discretionary Nonelective Contributions. The age 18 exclusion applies to Fixed Nonelective Contributions). Any exclusion specified under Election 44(b)(4) must comply with Code §411(a)(4). Any exclusion must be nondiscriminatory.]

**ARTICLE VI
DISTRIBUTION OF ACCOUNT BALANCE**

45. **MANDATORY DISTRIBUTION (6.01(A)(1)/6.08(D)).** The Plan provides or does not provide for Mandatory Distribution of a Participant's Vested Account Balance following Severance from Employment, as follows (Choose one of (a) or (b). Choose (c) if applicable.):

- (a) **No Mandatory Distribution.** The Plan will not make a Mandatory Distribution following Severance from Employment.
- (b) **Mandatory Distribution.** The Plan will make a Mandatory Distribution following Severance from Employment. (Complete (1) and (2). Choose (3) unless the Employer elects to limit Mandatory Distributions to \$1,000 including Rollover Contributions under Elections 45(b)(1)b. and 45(b)(2)b.):
- (1) **Amount limit.** As to a Participant who incurs a Severance from Employment and who will receive distribution before attaining the later of age 62 or Normal Retirement Age, the Mandatory Distribution maximum amount is equal to (Choose one of a., b., or c.):
- a. **\$5,000.**
- b. **\$1,000.**
- c. **Specify amount: \$_(may not exceed \$5,000).**

[Note: This election only applies to the Mandatory Distribution maximum amount. For other Plan provisions subject to a \$5,000 limit, see election 56(g)(7) in Appendix B.]

- (2) **Application of Rollovers to amount limit.** In determining whether a Participant's Vested Account Balance exceeds the Mandatory Distribution dollar limit in Election 45(b)(1), the Plan (Choose one of a. or b.):
- a. **Disregards Rollover Contribution Account.**
- b. **Includes Rollover Contribution Account.**
- (3) **Amount of Mandatory Distribution subject to Automatic Rollover.** A Mandatory Distribution to a Participant before attaining the later of age 62 or Normal Retirement Age is subject to Automatic Rollover under Section 6.08(D) (Choose one of a. or b.):
- a. **Only if exceeds \$1,000.** Only if the amount of the Mandatory Distribution exceeds \$1,000, which for this purpose must include any Rollover Contributions Account.

b. **Specify lesser amount.** Only if the amount of the Mandatory Distribution is at least: \$_____ (specify \$1,000 or less), which for this purpose must include any Rollover Contributions Account.

(c) **Required distribution at Normal Retirement Age.** A severed Participant may not elect to delay distribution beyond the later of age 62 or Normal Retirement Age.

46. **SEVERANCE DISTRIBUTION TIMING (6.01).** Subject to the timing limitations of Section 6.01(A)(1) in the case of a Mandatory Distribution, or in the case of any Distribution Requiring Consent under Section 6.01(A)(2), for which consent is received, the Plan Administrator will instruct the Trustee to distribute a Participant's Vested Account Balance as soon as is administratively practical following the time specified below (Choose one or more of (a) through (i) as applicable; choose (j) if applicable.):

[Note: If a Participant dies after Severance from Employment but before receiving distribution of all of his/her Account, the elections under this Election 46 no longer apply. See Section 6.01(B) and Election 50.]

			(1) Mandatory Distribution	(2) Distribution Requiring Consent
(a)	<input checked="" type="checkbox"/>	Immediate. Immediately following Severance from Employment.	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
(b)	<input type="checkbox"/>	Next Valuation Date. After the next Valuation Date following Severance from Employment.	<input type="checkbox"/>	<input type="checkbox"/>
(c)	<input type="checkbox"/>	Plan Year. In the ___ Plan Year following Severance from Employment (e.g., next or fifth).	<input type="checkbox"/>	<input type="checkbox"/>
(d)	<input type="checkbox"/>	Plan Year quarter. In the ___ Plan Year quarter following Severance from Employment (e.g., next or fifth).	<input type="checkbox"/>	<input type="checkbox"/>
(e)	<input type="checkbox"/>	Contribution Type Accounts. (specify timing) as to the Participant's ___ Account(s) and ___ (specify timing) as to the Participant's ___ Account(s) (e.g., As soon as is practical following Severance from Employment as to the Participant's Elective Deferral Account and as soon as is practical in the next Plan Year following Severance from Employment as to the Participant's Nonelective and Matching Accounts).	<input type="checkbox"/>	<input type="checkbox"/>
(f)	<input type="checkbox"/>	Vesting controlled timing. If the Participant's total Vested Account Balance exceeds \$___, distribute ___ (specify timing) and if the Participant's total Vested Account Balance does not exceed \$___, distribute ___ (specify timing).	<input type="checkbox"/>	<input type="checkbox"/>
(g)	<input type="checkbox"/>	Distribute at Normal Retirement Age. As to a Mandatory Distribution, distribute not later than 60 days after the beginning of the Plan Year following the Plan Year in which the previously severed Participant attains the earlier of Normal Retirement Age or age 65. [Note: An election under column (2) only will have effect if the Plan's NRA is less than age 62.]	<input type="checkbox"/>	<input type="checkbox"/>
(h)	<input type="checkbox"/>	No buy-back/vesting controlled timing. Distribute as soon as is practical following Severance from Employment if the Participant is fully Vested. Distribute as soon as is practical following a Forfeiture Break in Service if the Participant is not fully Vested.	<input type="checkbox"/>	<input type="checkbox"/>
(i)	<input type="checkbox"/>	Describe Severance from Employment distribution timing:		

[Note: The Employer under Election 46(i) may describe Severance from Employment distribution timing provisions from the elections available under Election 46 and/or a combination thereof as to any: (i) Participant group (e.g., Immediate distribution after Severance from Employment applies to Division A Employees OR to Employees hired on/before "x" date. Distribution after the next Valuation Date following Severance from Employment applies to Division B Employees OR to Employees hired after "x" date.); (ii) Contribution Type and Participant group (e.g., As to Division A Employees, immediate distribution after Severance from Employment applies as to Elective Deferral Accounts and distribution after the next Valuation Date following Severance from Employment applies to Nonelective Contribution Accounts); and/or (iii) merged plan account now held in the Plan (e.g., The accounts from the X plan merged into this Plan continue to be distributable in accordance with the X plan terms [supply terms] and not in accordance with the terms of this Plan). An Employer's election under Election 46(i) must: (i) be objectively determinable; (ii) not be subject to Employer discretion; (iii) comply with Code §401(a)(14) timing requirements; (iv) be nondiscriminatory and (v) preserve Protected Benefits as required.]

- (j) **Acceleration.** Notwithstanding any later specified distribution date in Election 46, a Participant may elect an earlier distribution following Severance from Employment (*Choose (1) and (2) as applicable.*):
- (1) **Disability.** If Severance from Employment is on account of Disability or if the Participant incurs a Disability following Severance from Employment.
- (2) **Hardship.** If the Participant incurs a hardship under Section 6.07(B) following Severance from Employment.

47. **IN-SERVICE DISTRIBUTIONS/EVENTS (6.01(C)).** A Participant may elect an In-Service Distribution of the designated Contribution Type Accounts based on any of the following events in accordance with Section 6.01(C) (*Choose one of (a) or (b).*):

[Note: If the Employer elects any In-Service Distribution option, a Participant may elect to receive as many In-Service Distributions per Plan Year (with a minimum of one per Plan Year) as the Plan Administrator's In-Service Distribution form or policy may permit. If the form or policy is silent, the number of In-Service Distributions is not limited. Prevailing Wage Contributions are treated as Nonelective Contributions. See Section 6.01(C)(4)(d) if the Employer elects to use Prevailing Wage Contributions to offset other contributions.]

- (a) **None.** The Plan does not permit any In-Service Distributions except as to any of the following (if applicable): (i) RMDs under Section 6.02; (ii) Protected Benefits; and (iii) Designated IRA Contributions. Also see Section 6.01(C)(4)(e) with regard to Rollover Contributions, Employee Contributions and DEC's.
- (b) **Permitted.** In-Service Distributions are permitted as follows from the designated Contribution Type Accounts (*Choose one or more of (1) through (9).*):

[Note: Unless the Employer elects otherwise in Election (b)(9) below, Elective Deferrals under Election 47(b) includes Pre-Tax and Roth Deferrals and Matching Contributions includes Additional Matching Contributions (irrespective of the Plan's ACP testing status).]

			(1) All Contrib.		(2) Elective Deferrals	(3) Safe Harbor Contrib.	(4) QNECs	(5) QMACs	(6) Matching Contrib.	(7) Nonelective/ SIMPLE
(1)	<input type="checkbox"/>	None. Except for Election 47(a)	N/A (See Election 47(a))		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(2)	<input checked="" type="checkbox"/>	Age (Choose one or both of a. and b.):								
	a.	<input checked="" type="checkbox"/> Age <u>59 1/2</u> (must be at least 59 1/2).	<input type="checkbox"/>	OR	<input checked="" type="checkbox"/>				<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
	b.	<input type="checkbox"/> Age _____ (must be at least 59 1/2).	N/A		N/A	N/A	N/A	N/A	<input type="checkbox"/>	<input type="checkbox"/>
(3)	<input checked="" type="checkbox"/>	Hardship (Choose one or both of a. and b.):								
	a.	<input checked="" type="checkbox"/> Hardship (safe harbor) See Section 6.07(A)	N/A		<input checked="" type="checkbox"/>	N/A	N/A	N/A	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
	b.	<input type="checkbox"/> Hardship (non-safe harbor) See Section 6.07(B)	N/A		<input type="checkbox"/>	N/A	N/A	N/A	<input type="checkbox"/>	<input type="checkbox"/>
(4)	<input checked="" type="checkbox"/>	Disability.	<input checked="" type="checkbox"/>	OR		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(5)	<input type="checkbox"/>	<u> </u> year contributions. (specify minimum of two years) See Section 6.01(C)(4)(a)(i)	N/A		N/A	N/A	N/A	N/A	<input type="checkbox"/>	<input type="checkbox"/>
(6)	<input type="checkbox"/>	<u> </u> months of participation. (specify minimum of 60 months)	N/A		N/A	N/A	N/A	N/A	<input type="checkbox"/>	<input type="checkbox"/>
(7)	<input type="checkbox"/>	Qualified Reservist Distribution See section 6.01(C)(4)(b)(iii).	N/A		<input type="checkbox"/>	N/A	N/A	N/A	N/A	N/A
(8)	<input checked="" type="checkbox"/>	Deemed Severance Distribution. See Section 6.11.	<input checked="" type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(9)	<input type="checkbox"/>	Describe. _____								

[Note: The Employer under Election 47(b)(9) may describe In-Service Distribution provisions from the elections available under Election 47 and/or a combination thereof as to any: (i) Participant group (e.g., Division A Employee Accounts are distributable at age 59 1/2 OR Accounts of Employees hired on/before "x" date are distributable at age 59 1/2. No In-Service Distributions apply to Division B Employees OR to Employees hired after "x" date.); (ii) Contribution Type (e.g., Discretionary Nonelective Contribution Accounts are distributable on Disability. Fixed Nonelective Contribution Accounts are distributable on Disability or Hardship (non-safe harbor)); and/or (iii) merged plan account now held in the Plan (e.g., The accounts from the X plan merged into this Plan continue to be distributable in accordance with the X plan terms [supply terms] and not in accordance with the terms of this Plan). An Employer's election under Election 47(b)(9) must: (i) be objectively determinable; (ii) not be subject to Employer discretion; (iii) preserve Protected Benefits as required; (iv) be nondiscriminatory; and (v) not permit an "early" distribution of any Restricted 401(k) Accounts or Restricted Pension Accounts. See Sections 6.01(C)(4) and 11.02(C)(3).]

48. **IN-SERVICE DISTRIBUTIONS/ADDITIONAL CONDITIONS (6.01(C)).** The following additional conditions apply to In-Service Distributions under Election 47(b) (Choose one of (a) or (b).):

(a) **Additional conditions.** (Choose one or more of (1) through (3) as applicable.):

- (1) **100% vesting required.** A Participant may not receive an In-Service Distribution unless the Participant is 100% Vested in the distributing Account. This restriction applies to *(Choose one or more of a. or b.):*
- a. **Hardship distributions.** Distributions based on hardship.
- b. **Other In-Service.** In-Service distributions other than distributions based on hardship.
- (2) **Minimum amount.** A Participant may not receive an In-Service Distribution in an amount which is less than: \$_____ *(specify amount not exceeding \$1,000).*
- (3) **Describe other conditions:** The additional limitations indicated above do not apply to distributions for deemed severance of employment, but the amount of the distribution may not exceed the vested amount in the distributing account.

[Note: An Employer's election under Election 48(a)(3) must: (i) be objectively determinable; (ii) not be subject to Employer discretion; (iii) preserve Protected Benefits as required; (iv) be nondiscriminatory; and (v) not permit an "early" distribution of any Restricted 401(k) Accounts or Restricted Pension Accounts. See Section 6.01(C)(4).]

- (b) **No other conditions.** A Participant may elect to receive an In-Service Distribution upon any Election 47(b) event without further condition, provided that the amount distributed may not exceed the Vested amount in the distributing Account.

49. **POST-SEVERANCE AND LIFETIME RMD DISTRIBUTION METHODS (6.03).** A Participant whose Vested Account Balance exceeds \$5,000 (or any lesser amount elected in Appendix B, Election 56(g)(7)): (i) who has incurred a Severance from Employment and will receive a distribution; or (ii) who remains employed but who must receive lifetime RMDs, may elect distribution under one of the following method(s) of distribution described in Section 6.03 and subject to any Section 6.03 limitations. *(Choose one or more of (a) through (f) as applicable.):*

[Note: If a Participant dies after Severance from Employment but before receiving distribution of all of his/her Account, the elections under this Election 49 no longer apply. See Section 6.01(B) and Election 50.]

- (a) **Lump-Sum.** See Section 6.03(A)(3).
- (b) **Installments only if Participant subject to lifetime RMDs.** A Participant who is required to receive lifetime RMDs may receive installments payable in monthly, quarterly or annual installments equal to or exceeding the annual RMD amount. See Sections 6.02(A) and 6.03(A)(4)(a).
- (c) **Installments.** See Section 6.03(A)(4).
- (d) **Alternative Annuity:** _____
See Section 6.03(A)(5).

[Note: Under a Plan which is subject to the joint and survivor annuity distribution requirements of Section 6.04 (Election 51(b)), the Employer may elect under 49(d) to offer one or more additional annuities (Alternative Annuity) to the Plan's QJSA, QPSA or QOSA. If the Employer elects under Election 51(a) to exempt Exempt Participants from the joint and survivor annuity requirements, the Employer should not elect to provide an Alternative Annuity under 49(d).]

- (e) **Ad-Hoc distributions.** See Section 6.03(A)(6).

[Note: If an Employer elects to permit Ad-Hoc distributions the option must be available to all Participants.]

- (f) **Describe distribution method(s):**

[Note: The Employer under Election 49(f) may describe Severance from Employment distribution methods from the elections available under Election 49 and/or a combination thereof as to any: (i) Participant group (e.g., Division A Employee Accounts are distributable in a Lump-Sum OR Accounts of Employees hired after "x" date are distributable in a Lump-Sum. Division B Employee Accounts are distributable in a Lump-Sum or in Installments OR Accounts of Employees hired on/before "x" date are distributable in a Lump-Sum or in Installments.); (ii) Contribution Type (e.g., Discretionary Nonelective Contribution Accounts are distributable in a Lump-Sum. Fixed Nonelective Contribution Accounts are distributable in a Lump-Sum or in Installments); and/or (iii) merged plan account now held in the Plan (e.g., The accounts from the X plan merged into this Plan continue to be distributable in accordance with the X plan terms [supply terms] and not in accordance with the terms of this Plan). An Employer's election under Election 49(f) must: (i) be objectively determinable; (ii) not be subject to Employer, Plan Administrator or Trustee discretion; (iii) be nondiscriminatory; and (iv) preserve Protected Benefits as required.]

50. **BENEFICIARY DISTRIBUTION ELECTIONS (6.01(B)).** Distributions following a Participant's death will be made as follows *(Choose one of (a), (b), or (c); choose (d) if applicable.):*

- (a) **Immediate.** As soon as practical following the Participant's death.
- (b) **Next Calendar Year.** At such time as the Beneficiary may elect, but in any event on or before the last day of the calendar year which next follows the calendar year of the Participant's death.
- (c) **As Beneficiary elects.** At such time as the Beneficiary may elect, consistent with Section 6.02.
- (d) **Describe:**

[Note: The Employer under Election 50(d) may describe an alternative distribution timing or afford the Beneficiary an election which is narrower than that permitted under election 50(c), or include special provisions related to certain beneficiaries, (e.g., a surviving spouse). However, any election under Election 50(d) must require distribution to commence no later than the Section 6.02 required date.]

51. **JOINT AND SURVIVOR ANNUITY REQUIREMENTS (6.04).** The joint and survivor annuity distribution requirements of Section 6.04 (Choose one of (a) or (b).):

- (a) **Profit sharing exception.** Do not apply to an Exempt Participant, as described in Section 6.04(G)(1), but apply to any other Participants (or to a portion of their Account as described in Section 6.04(G)) (Complete (1).):
 - (1) **One-year marriage rule.** Under Section 7.05(A)(3) relating to an Exempt Participant's Beneficiary designation under the profit sharing exception (Choose one of a. or b.):
 - a. **Applies.** The one-year marriage rule applies.
 - b. **Does not apply.** The one-year marriage rule does not apply.
- (b) **Joint and survivor annuity applicable.** Section 6.04 applies to all Participants (Complete (1).):
 - (1) **One-year marriage rule.** Under Section 6.04(B) relating to the QPSA (Choose one of a. or b.):
 - a. **Applies.** The one-year marriage rule applies.
 - b. **Does not apply.** The one-year marriage rule does not apply.

**ARTICLE VII
ADMINISTRATIVE PROVISIONS**

52. **ALLOCATION OF EARNINGS (7.04(B)).** For each Contribution Type provided under the Plan, the Plan allocates Earnings using the following method (Choose one or more of (a) through (f). Choose Contribution Type as applicable.):

[Note: Elective Deferrals/Employee Contributions also includes Rollover Contributions, Transfers, DEC's and Designated IRA Contributions, Matching Contributions includes all Matching Contributions and Nonelective Contributions includes all Nonelective Contributions, unless described otherwise in Election 52(f).]

	(1)		(2) Elective Deferrals/ Employee Contributions	(3) Matching Contributions	(4) Nonelective Contributions
All Contributions					
(a) <input checked="" type="checkbox"/> Daily. See Section 7.04(B)(4)(a).	<input checked="" type="checkbox"/>	OR	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(b) <input type="checkbox"/> Balance forward. See Section 7.04(B)(4)(b).	<input type="checkbox"/>	OR	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(c) <input type="checkbox"/> Balance forward with adjustment. See Section 7.04(B)(4)(c). Allocate pursuant to the balance forward method, except treat as part of the relevant Account at the beginning of the Valuation Period ___% of the contributions made during the following Valuation Period: ___.	<input type="checkbox"/>	OR	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(d) <input type="checkbox"/> Weighted average. See Section 7.04(B)(4)(d). If not a monthly weighting period, the weighting period is: ___.	<input type="checkbox"/>	OR	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(e) <input type="checkbox"/> Participant-Directed Account method. See Section 7.04(B)(4)(e).	<input type="checkbox"/>	OR	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(f) <input type="checkbox"/> Describe Earnings allocation method:					

[Note: The Employer under Election 52(f) may describe Earnings allocation methods from the elections available under Election 52 and/or a combination thereof as to any: (i) Participant group (e.g., Daily applies to Division A Employees OR to Employees hired after "x" date. Balance forward applies to Division B Employees OR to Employees hired on/before "x" date.); (ii) Contribution Type (e.g., Daily applies as to Discretionary Nonelective Contribution Accounts. Participant-Directed Account applies to Fixed Nonelective Contribution Accounts); (iii) investment type, investment vendor or Account type (e.g., Balance forward applies to investments placed with vendor A and Participant-Directed Account applies to investments placed with vendor B OR Daily applies to Participant-Directed Accounts and balance forward applies

to pooled Accounts); and/or (iv) merged plan account now held in the Plan (e.g., The accounts from the X plan merged into this Plan continue to be subject to Earnings allocation in accordance with the X plan terms [supply terms] and not in accordance with the terms of this Plan). An Employer's election under Election 52(f) must: (i) be objectively determinable; (ii) not be subject to Employer discretion; and (iii) be nondiscriminatory.]

**ARTICLE VIII
TRUSTEE AND CUSTODIAN, POWERS AND DUTIES**

53. **VALUATION OF TRUST (8.02(C)(4)).** In addition to the last day of the Plan Year, the Trustee (or Named Fiduciary as applicable) must value the Trust Fund on the following Valuation Date(s) (Choose one or more of (a) through (d). Choose Contribution Type as applicable.):

[Note: Elective Deferrals/Employee Contributions also include Rollover Contributions, Transfers, DEC's and Designated IRA Contributions, Matching Contributions includes all Matching Contributions and Nonelective Contributions includes all Nonelective Contributions, unless described otherwise in Election 53(d).]

- | (1) | (2) | (3) | (4) |
|---|---|--------------------------|---------------------------|
| All Contributions | Elective Deferrals/
Employee Contributions | Matching Contributions | Nonelective Contributions |
| (a) <input type="checkbox"/> No additional Valuation Dates. <input type="checkbox"/> | OR | <input type="checkbox"/> | <input type="checkbox"/> |
| (b) <input checked="" type="checkbox"/> Daily Valuation Dates. Each business day of the Plan Year on which Plan assets for which there is an established market are valued and the Trustee is conducting business. <input checked="" type="checkbox"/> | OR | <input type="checkbox"/> | <input type="checkbox"/> |
| (c) <input type="checkbox"/> Last day of a specified period. The last day of each ___ of the Plan Year. <input type="checkbox"/> | OR | <input type="checkbox"/> | <input type="checkbox"/> |
| (d) <input type="checkbox"/> Specified Valuation Dates: | | | |

[Note: The Employer under Election 53(d) may describe Valuation Dates from the elections available under Election 53 and/or a combination thereof as to any: (i) Participant group (e.g., No additional Valuation Dates apply to Division A Employees OR to Employees hired after "x" date. Daily Valuation Dates apply to Division B Employees OR to Employees hired on/before "x" date.); (ii) Contribution Type (e.g., No additional Valuation Dates apply as to Discretionary Nonelective Contribution Accounts. The last day of each Plan Year quarter applies to Fixed Nonelective Contribution Accounts); (iii) investment type, investment vendor or Account type (e.g., No additional Valuation Dates apply to investments placed with vendor A and Daily Valuation Dates apply to investments placed with vendor B OR Daily Valuation Dates apply to Participant-Directed Accounts and no additional Valuation Dates apply to pooled Accounts); and/or (iv) merged plan account now held in the Plan (e.g., The accounts from the X plan merged into this Plan continue to be subject to Trust valuation in accordance with the X plan terms [supply terms] and not in accordance with the terms of this Plan). An Employer's election under Election 53(d) must: (i) be objectively determinable; (ii) not be subject to Employer discretion; and (iii) be nondiscriminatory.]

**ARTICLE XII
MULTIPLE EMPLOYER PLAN**

54. **MULTIPLE EMPLOYER PLAN (12.01/12.02/12.03).** The Employer makes the following elections regarding the Plan's Multiple Employer Plan status and the application of Article XII (Choose one of (a) or (b).):

- (a) **Not applicable.** The Plan is not a Multiple Employer Plan and Article XII does not apply.
- (b) **Applies.** The Plan is a Multiple Employer Plan and the Article XII Effective Date is: _____. The Employer makes the following additional elections (Choose (1) if applicable.):
- (1) **Participating Employer may modify.** See Section 12.03. A Participating Employer in the Participation Agreement may modify Adoption Agreement elections applicable to each Participating Employer (including electing to not apply Adoption Agreement elections) as follows (Choose one of a. or b. Choose c. if applicable.):
- a. **All.** May modify all elections.
 - b. **Specified elections.** May modify the following elections: _____ (specify by election number).
 - c. **Restrictions.** May modify subject to the following additional restrictions: _____ (Specify restrictions. Any restrictions must be definitely determinable and may not violate Code §412 or the regulations thereunder.).

[Note: If Election (b)(1) above is not chosen, Participating Employers may not modify any Adoption Agreement elections. The Participation Agreement must be consistent with this Election 54(b)(1). Any Participating Employer election in the Participation Agreement which is not permitted under this Election 54(b)(1) is of no force or effect and the applicable election in the Adoption Agreement applies.]

**APPENDIX A
SPECIAL RETROACTIVE OR PROSPECTIVE EFFECTIVE DATES**

55. **SPECIAL EFFECTIVE DATES (1.20).** The Employer elects or does not elect Appendix A special Effective Date(s) as follows. (Choose (a) or one or more of (b) through (s) as applicable.):

[Note: If the Employer elects 55(a), do not complete the balance of this Election 55.]

(a) **Not applicable.** The Employer does not elect any Appendix A special Effective Dates.

[Note: The Employer may use this Appendix A to specify an Effective Date for one or more Adoption Agreement elections which do es not correspond to the Plan's new Plan or Restated Plan Effective Date under Election 4. As to Restated Plans, for periods prior to: (i) the below-specified special Effective Date(s); or (ii) the Restated Plan's general Effective Date under Election 4, as applicable, the Plan terms in effect prior to its restatement under this Adoption Agreement control for purposes of the designated provisions.]

(b) **Trustee (1.67).** The Trustee provisions under Election 5 or Appendix C are effective:_____.

(c) **Contribution Types (1.12).** The Contribution Types under Election(s) 6_____ are effective:_____.

(d) **Excluded Employees (1.22(D)).** The Excluded Employee provisions under Election(s) 8 (j)_____ are effective: January 1, 2017 to the extent provided in Election 8(j).

(e) **Compensation (1.11).** The Compensation definition under Election(s)_____ (specify 9-11 as applicable) are effective: _____.

(f) **Hour of Service/Elective Service Crediting (1.32/1.59(C)).** The Hour of Service and/or elective Service crediting provisions under Election(s)_____ (specify 12-13 as applicable) are effective:_____.

(g) **Eligibility (2.01-2.03).** The eligibility provisions under Election(s) 14(k) & 17(g) (specify 14-19 as applicable) are effective: January 1, 2017.

(h) **Elective Deferrals (3.02(A)-(D)).** The Elective Deferral provisions under Election(s)_____ (specify 20-23 as applicable) are effective:_____.

(i) **Matching Contributions (3.03).** The Matching Contribution provisions under Election(s)_____ (specify 24-26 as applicable) are effective:_____.

(j) **Nonelective Contributions (3.04).** The Nonelective Contribution provisions under Election(s)_____ (specify 27-29 as applicable) are effective:_____.

(k) **401(k) safe harbor (3.05).** The 401(k) safe harbor provisions under Election(s) 30_____ are effective: _____.

(l) **Allocation conditions (3.06).** The allocation conditions under Election(s)_____ (specify 31-32 as applicable) are effective: _____.

(m) **Forfeitures (3.07).** The forfeiture allocation provisions under Election(s) 33_____ are effective: _____.

(n) **Employee Contributions (3.09).** The Employee Contribution provisions under Election(s) 36_____ are effective: _____.

(o) **Testing elections (4.06(B)).** The testing elections under Election(s) 38_____ are effective:_____.

(p) **Vesting (5.03).** The vesting provisions under Election(s)_____ (specify 39-44 as applicable) are effective: _____.

(q) **Distributions (6.01, 6.03 and 6.04).** The distribution elections under Election(s)_____ (specify 45-51 as applicable) are effective:_____.

(r) **Earnings/Trust valuation (7.04(B)/8.02(C)(4)).** The Earnings allocation and Trust valuation provisions under Election(s) (specify 52-53 as applicable) are effective:_____.

(s) **Special Effective Date(s) for other elections (specify elections and dates):** Effective as September 1, 2012, the Skagen Designs, Ltd. Savings Retirement Plan was merged into the Plan, and all Protected Benefits, if any, along with any distribution restrictions on any amounts merged into the Plan, shall continue to be in effect with respect to any such amounts to the extent required by law.

APPENDIX B
BASIC PLAN DOCUMENT OVERRIDE ELECTIONS

56. BASIC PLAN OVERRIDES. The Employer elects or does not elect to override various basic plan provisions as follows (*Choose (a) or choose one or more of (b) through (l) as applicable.*):

[*Note: If the Employer elects 56(a), do not complete the balance of this Election 56.*]

(a) **Not applicable.** The Employer does not elect to override any basic plan provisions.

[*Note: The Employer at the time of restating its Plan with this Adoption Agreement may make an election on Appendix A (Election 55(s)) to specify a special Effective Date for any override provision the Employer elects in this Election 56. If the Employer, after it has executed this Adoption Agreement, later amends its Plan to change any election on this Appendix B, the Employer should document the Effective Date of the Appendix B amendment on the Execution Page or otherwise in the amendment.*]

(b) **Definition (Article I) overrides.** (*Choose one or more of (1) through (8) as applicable.*):

(1) **W-2 Compensation exclusion of paid/reimbursed moving expenses (1.11(B)(1)).** W-2 Compensation excludes amounts paid or reimbursed by the Employer for moving expenses incurred by an Employee, but only to the extent that, at the time of payment, it is reasonable to believe that the Employee may deduct these amounts under Code §217.

(2) **Alternative (general) 415 Compensation (1.11(B)(4)).** The Employer elects to apply the alternative (general) 415 definition of Compensation in lieu of simplified 415 Compensation.

(3) **Inclusion of Deemed 125 Compensation (1.11(C)).** Compensation under Section 1.11 includes Deemed 125 Compensation.

(4) **Pre-Regulatory inclusion of Post-Severance Compensation (1.11(I) and 4.05(F)).** Prior to the first Limitation Year beginning on or after July 1, 2007 (the Effective Date of the final 415 regulations), the Plan includes Post-Severance Compensation within the meaning of Prop. Treas. Reg. §1.415(c)-2(e) as described in Sections 1.11(I) and 4.05(F) as follows (*Choose one or both of a. and b.*):

a. **Include for 415 testing.** Include for 415 testing and for other testing which uses 415 Compensation. This provision applies effective as of _____ (*specify a date which is no earlier than January 1, 2005*).

b. **Include for allocations.** Include for allocations as follows (*specify affected Contribution Type(s) and any adjustments to Post-Severance Compensation used for allocation*): _____. This provision applies effective as of (*specify a date which is no earlier than January 1, 2002*).

(5) **Inclusion of Deemed Disability Compensation (1.11(K)).** Include Deemed Disability Compensation. (*Choose one of a. or b.*):

a. **NHCEs only.** Apply only to disabled NHCEs.

b. **All Participants.** Apply to all disabled Participants. The Employer will make Employer Contributions for such disabled Participants for: _____ (*specify a fixed or determinable period*).

(6) **Treatment of Differential Wage Payments (1.11(L)).** In lieu of the provisions of Section 1.11(L), the Employer elects the following (*Choose one or more of a., b., c., and d. as applicable.*):

a. **Effective date.** The inclusion is effective for Plan Years beginning after _____ (*may not be earlier than December 31, 2008*).

b. **Elective Deferrals only.** The inclusion only applies to Compensation for purposes of Elective Deferrals.

c. **Not included.** The inclusion does not apply to Compensation for purposes of any Contribution Type.

d. **Other:**
(*specify other Contribution Type Compensation which includes Differential Wage Payments*)

(7) **Leased Employees (1.22(B)).** (*Choose one or both of a. and b. if applicable.*):

a. **Inclusion of Leased Employees (1.22(B)).** The Employer for purposes of the following Contribution Types, does not exclude Leased Employees: _____ (*specify Contribution Types*).

b. **Offset if contributions to leasing organization plan (1.22(B)(2)).** The Employer will reduce allocations to this Plan for any Leased Employee to the extent that the leasing organization contributes to or provides benefits under a leasing organization plan to or for the Leased Employee and which are attributable to the Leased Employee's services for the Employer. The amount of the offset is as follows:

[*Note: The election of an offset under this Election 56(b)(7)b. may require that the Employer aggregate its plan with the leasing organization's plan for coverage and nondiscrimination testing.*]

- (8) **Inclusion of Reclassified Employees (1.22(D)(3)).** The Employer for purposes of the following Contribution Types, does not exclude Reclassified Employees (or the following categories of Reclassified Employees): _____
(specify Contribution Types and/or categories of Reclassified Employees).
- (c) **Rule of parity - participation (Article II) override (2.03(D)).** For purposes of Plan participation, the Plan applies the "rule of parity" under Code §410(a)(5)(D).
- (d) **Contribution/allocation (Article III) overrides.** (Choose one or more of (1) through (9) as applicable.):
- (1) **Roth overrides.** (Choose one or more of a., b., c., or d. as applicable.):
- a. **Treatment of Automatic Deferrals as Roth Deferrals (3.02(B)).** The Employer elects to treat Automatic Deferrals as Roth Deferrals in lieu of treating Automatic Deferrals as Pre-Tax Deferrals.
- b. **In-Plan Roth Rollovers limited to In-Service only (3.08(E)(2)(a)).** Only Participants who are Employees may elect to make an In-Plan Roth Rollover Contribution.
- c. **Vested In-Plan Roth Rollovers (3.08(E)(2)(b)).** Distributions related to In-Plan Roth Rollovers may only be made from accounts which are fully Vested.
- d. **Source of In-Plan Roth Rollover Contribution (3.08(E)(3)(b)).** The Plan permits an In-Plan Roth Rollover only from the following qualifying sources (Choose one or more.):
- (i) Elective Deferrals
- (ii) Matching Contributions (including any Safe Harbor Matching Contributions and Additional Matching Contributions)
- (iii) Nonelective Contributions
- (iv) QNECs (including any Safe Harbor Nonelective Contributions)
- (v) Rollovers
- (vi) Transfers
- (vii) _____] Other: _____
(specify account(s) and conditions in a manner that is definitely determinable and not subject to Employer discretion)
- (2) **No offset of Safe Harbor Contributions to other allocations (3.05(E)(12)).** Any Safe Harbor Nonelective Contributions allocated to a Participant's account will *not* be applied toward (offset) any allocation to the Participant of a non-Safe Harbor Nonelective Contribution.
- (3) **Short Plan Year or allocation period (3.06(B)(1)(c)).** The Plan Administrator (Choose one of a. or b.):
- a. **No pro-ration.** Will *not* pro-rate Hours of Service in any short allocation period.
- b. **Pro-ration based on months.** Will pro-rate any Hour of Service requirement based on the number of months in the short allocation period.
- (4) **Limited waiver of allocation conditions for rehired Participants (3.06(G)).** The allocation conditions the Employer has elected in the Adoption Agreement do not apply to rehired Participants in the Plan Year they resume participation, as described in Section 3.06(G).
- (5) **Associated Match forfeiture timing (3.07(A)(1)(c)).** Forfeiture of associated matching contributions occurs in the Testing Year.
- (6) **Safe Harbor top-heavy exempt fail-safe (3.07(A)(4)).** In lieu of ordering forfeitures as (a), (b), and (c) under Section 3.07(A)(4), the Employer establishes the following forfeiture ordering rules (Specify the ordering rules, for example, (b), (c), and (a).): _____.
- (7) **HEART Act continued benefit accrual (3.11(K)).** The Employer elects to apply the benefit accrual provisions of Section 3.11(K). The provisions are effective as of (Choose one of a. or b.; and choose c. if the provisions no longer are effective.):
- a. **2007 Effective Date.** The first day of the 2007 Plan Year.
- b. **Other Effective Date.** _____ (may not be earlier than the first day of the 2007 Plan Year).
- c. **No longer effective.** The provisions no longer apply effective as of _____.
- (8) **Classifications allocation formula (3.04(B)(3)).** If a Participant shifts from one classification to another during a Plan Year, the Plan Administrator will apportion the Participant's allocation during that Plan Year (Choose one of a., b., or c.):
- a. **Months in each classification.** Pro rata based on the number of months the Participant spent in each classification.

- b. **Days in each classification.** Pro rata based on the number of days the Participant spent in each classification.
 - c. **One classification only.** The Employer in a nondiscriminatory manner will direct the Plan Administrator to place the Participant in only one classification for the entire Plan Year during which the shift occurs.
- (9) **Suspension (3.06(F)(3)).** The Plan Administrator in applying Section 3.06(F) will *(Choose one or more of a., b., and c. as applicable.):*
- a. **Re-order tiers.** Apply the suspension tiers in Section 3.06(F)(2) in the following order: _____ *(specify order).*
 - b. **Hours of Service tie-breaker.** Apply the greatest Hours of Service as the tie-breaker within a suspension tier in lieu of applying the lowest Compensation.
 - c. **Additional/other tiers.** Apply the following additional or other tiers: _____ *(specify suspension tiers and ordering).*

(e) **Testing (Article IV) overrides.** *(Choose one or both of (1) and (2) as applicable.):*

- (1) **First few weeks rule for Code §415 testing Compensation (4.05(F)(1)).** The Plan applies the first few weeks rule in Section 4.05(F)(1).
- (2) **Post-Severance Compensation for Code §415 testing Compensation (4.05(F)).** The Employer elects the following adjustments to Post-Severance Compensation for purposes of determining 415 testing Compensation *(Choose one or more of a. through d.):*

[Note: Under the basic plan document, if the Employer does not elect any adjustments, post-severance compensation includes leave cashouts and deferred compensation, and excludes military and disability continuation payments.]

- a. **Exclude leave cash-outs.** See Section 1.11(I)(1)(b).
- b. **Exclude deferred compensation.** See Section 1.11(I)(1)(c).
- c. **Include salary continuation for military service.** See Section 1.11(I)(2).
- d. **Include salary continuation for disabled Participants.** See Section 1.11(I)(3). *(Choose one of (i) or (ii).):*
 - (i) **For Nonhighly Compensated Employees only.**
 - (ii) **For all Participants.** In which case the salary continuation will continue for the following fixed or determinable period: _____

(f) **Vesting (Article V) overrides.** *(Choose one or more of (1) through (6) as applicable.):*

- (1) **Application of non-top-heavy vesting and top-heavy vesting (5.03(A)(2)).** The Employer makes the following elections regarding the application of non-top-heavy vesting and top-heavy vesting *(Choose a., b., and c. as applicable.):*
 - a. **Election of non-top-heavy vesting.** As to Plan Years where permitted and in such Plan Years when the Plan is not top-heavy, the following vesting schedule(s) apply. See Section 5.03(B). *(Choose one or more of (i), (ii), or (iii) as applicable and complete (iv) and (v).):*
 - (i) **5-year cliff.**
 - (ii) **7-year graded.**
 - (iii) **Modified non-top-heavy.** A modified non-top-heavy schedule as follows: _____

[Note: A modified non-top-heavy schedule must satisfy Code §411(a)(2).]

- (iv) **Application to Contribution Types.** Apply the elected non-top-heavy vesting schedule *(Choose one of A. or B.):*
 - A. **All.** To all Contribution Types subject to vesting (other than QACA Safe Harbor Contributions).
 - B. **Describe application to affected Contribution Type(s):**
- (v) **Application of top-heavy and non-top-heavy schedules.** *(Choose one of A. or B.):*
 - A. **Apply top-heavy schedule in all Plan Years once top-heavy.**
 - B. **Apply top-heavy schedule only in top-heavy Plan Years.**
- b. **Election to eliminate HOS requirement post-EGTRRA or post-PPA for top-heavy vesting.** The top-heavy vesting schedule(s) apply *(Choose one or both of (i) and (ii).):*
 - (i) **No post-EGTRRA HOS requirement for Matching.** To all Participants even if they do not have one Hour of Service in a Plan Year beginning after December 31, 2001.

- (ii) **No post-PPA HOS requirement for affected other Employer Contributions.** To all Participants even if they do not have one Hour of Service in a Plan Year beginning after December 31, 2006.
- c. **Election to apply top-heavy vesting only as to post-EGTRRA or post-PPA contributions.** The top-heavy vesting schedule(s) apply (*Choose one or both of (i) and (ii).*):
- (i) **Post-EGTRRA Matching Contributions.** Only to Regular Matching Contributions and Additional Matching Contributions made in Plan Years beginning after December 31, 2001 and to the associated Earnings.
- (ii) **Post-PPA other Employer Contributions.** Only to non-Matching Contributions made in Plan Years beginning after December 31, 2006, and to the associated Earnings.
- (2) **Alternative "grossed-up" vesting formula (5.03(C)(2)).** The Employer elects the alternative vesting formula described in Section 5.03(C)(2).
- (3) **Source of Cash-Out forfeiture restoration (5.04(B)(5)).** To restore a Participant's Account Balance as described in Section 5.04(B)(5), the Plan Administrator, to the extent necessary, will allocate from the following source(s) and in the following order (*Specify, in order, one or more of the following: Forfeitures, Earnings, and/or Employer Contribution*):__.
- (4) **Deemed Cash-Out of 0% Vested Participant (5.04(C)).** The deemed cash-out rule of Section 5.04(C) does not apply to the Plan.
- (5) **Accounting for Cash-Out repayment; Contribution Type (5.04(D)(2)).** In lieu of the accounting described in Section 5.04(D)(2), the Plan Administrator will account for a Participant's Account Balance attributable to a Cash-Out repayment (*Choose one of a. or b.*):
- a. **Nonelective rule.** Under the nonelective rule.
- b. **Rollover rule.** Under the rollover rule.
- (6) **One-year hold-out rule - vesting (5.06(D)).** The one-year hold-out Break in Service rule under Code §411(a)(6) (B) applies.
- (g) **Distribution (Article VI) overrides.** (*Choose one or more of (1) through (9) as applicable.*):
- (1) **Restriction on In-Service Rollover Distributions (6.01(C)).** A Participant shall be entitled to receive a distribution of Rollover Contributions, Employee Contributions and DEC's (*Choose one or more of a. through d. as applicable.*):
- a. **Deferrals.** Under the same provisions which apply to Elective Deferrals.
- b. **Match.** Under the same provisions which apply to Matching Contributions.
- c. **Nonelective.** Under the same provisions which apply to Nonelective Contributions.
- d. **Other:**

[Note: The Employer under Election 56(g)(1)d. may describe In-Service Rollover Distribution restrictions using the options available for In-Service Distributions under Election 47 and/or a combination thereof as to all Participants or as to any: (i) Participant group (e.g., Division A Rollover Accounts are distributable at age 59 1/2 OR Rollover Accounts of Employees hired on/before "x" date are distributable at age 59 1/2. No In-Service Rollover Distributions apply to Division B Employees OR to Employees hired after "x" date). An Employer's election under Election 56(g)(1)d. must: (i) be objectively determinable; (ii) not be subject to Employer discretion; (iii) preserve Protected Benefits as required; (iv) be nondiscriminatory; and (v) not permit an "early" distribution of any Restricted 401(k) Accounts or Restricted Pension Accounts. See Sections 6.01(C)(4) and 11.02(C)(3).]

- (2) **Elections related to In-Plan Roth Rollovers (6.01(C)(7)).** (*Choose one or more of a. through c. as applicable.*):
- a. **In-Service Roth Rollover events.** The Employer elects to permit In-Service Distributions under the following conditions solely for purposes of making an In-Plan Roth Rollover Contribution (*Choose one or more of (i) through (iv); select (v) if applicable.*):
- (i) **Age.** The Participant has attained age_____.
- (ii) **Participation.** The Participant has_____months of participation (*specify minimum of 60 months*). Section 6.01(C)(4)(a)(ii).
- (iii) **Seasoning.** The amounts being distributed have accumulated in the Plan for at least_____years (*at least 2*). See Section 6.01(C)(4)(a)(i).
- (iv) **Other** (describe): _____
(must be definitely determinable and not subject to Employer discretion (e.g., age 50, but only with respect to Nonelective Contributions, and not Matching Contributions))

[Note: Regardless of any election above to the contrary, In-Plan Roth Rollover Contributions are not permitted from a Participant's Elective Deferral Account, Qualified Matching Contribution Account, Qualified Nonelective Contribution Account and accounts attributable to Safe Harbor Contributions prior to age 59 1/2.]

- (v) **Distribution for withholding.** A Participant may elect to have a portion of the amount that may be distributed as an In-Plan Roth Rollover Contribution distributed solely for purposes of federal or state income tax withholding related to the In-Plan Roth Rollover Contribution.
- b. **Minimum amount.** The minimum amount that may be rolled over is _____ (may not exceed \$1,000).
- c. **No transfer of loans.** Loans may not be distributed as part of an In-Plan Roth Rollover Contribution. (if not selected, any loans may be transferred)
- (3) **Elections related to Required Minimum Distributions.** (Choose one or more of a. through c. as applicable.):
- a. **RMD overrides if Participant dies before DCD (6.02(B)(1)(e)).** If the Participant dies before the DCD and the Beneficiary is a designated Beneficiary, the RMD distribution rules are modified as follows (Choose one of (i) through (iv).):
- (i) **Election of 5-year rule.** If a Designated Beneficiary does not make a timely election, the 5-year rule applies in lieu of the Life Expectancy rule.
- (ii) **Life Expectancy rule.** The Life Expectancy rule applies to the Designated Beneficiary. See Section 6.02(B)(1)(d).
- (iii) **5-year rule.** The 5-year rule applies to the Beneficiary. See Section 6.02(B)(1)(c).
- (iv) **Other:**
(Describe, e.g., the 5-year rule applies to all Beneficiaries other than a surviving spouse Beneficiary.)
- b. **RBD definition (6.02(E)(7)(c)).** In lieu of the RBD definition in Section 6.02(E)(7)(a) and (b), the Plan Administrator (Choose one of (i) or (ii).):
- (i) **SBJPA definition indefinitely.** Indefinitely will apply the pre-SBJPA RBD definition.
- (ii) **SBJPA definition to specified date.** Will apply the pre-SBJPA definition until _____ (the stated date may not be earlier than January 1, 1997), and thereafter will apply the RBD definition in Sections 6.02(E)(7)(a) and (b).
- c. **2009 RMD waiver elections (6.02(F)).** In lieu of the 2009 RMDs suspension (subject to a Participant or Beneficiary election to continue), as provided in Section 6.02(F) (Choose one of (i) through (iii) if applicable. Choose (iv) or (v) if applicable.):
- (i) **RMDs continued unless election.** 2009 RMDs are continued as provided in Section 6.02(F)(2), unless a Participant or Beneficiary otherwise elects.
- (ii) **RMDs continued - no election.** 2009 RMDs are continued as provided in Section 6.02(F)(3), without regard to a waiver. No election is available to Participants or Beneficiaries.
- (iii) **Other:** _____
(Describe, e.g., the Plan suspended 2009 RMDs and did not offer an election or the Plan changed from one treatment of 2009 RMDs to another treatment during 2009.)
- Treatment as Eligible Rollover Distribution.** For purposes of 2009 RMDs, the Plan also will treat the following distributions as Eligible Rollover Distributions (Choose (iv) or (v), if applicable. If the Employer elects neither (iv) nor (v), then a direct rollover for 2009 will be offered only for distributions that would be Eligible Rollover Distributions without regard to Code §401(a)(9)(H).):
- (iv) 2009 RMDs and Extended 2009 RMDs, both as defined in Section 6.02(F).
- (v) 2009 RMDs, as defined in Section 6.02(F), but only if paid with an additional amount that is an Eligible Rollover Distribution without regard to Code §401(a)(9)(H).
- (4) **Distribution Methods** (Choose one or both of a. and b. if applicable.):
- a. **Default Distribution Methods (6.03(B)(2)).** If a Participant or Beneficiary does not make a timely election as to distribution method and timing the Plan Administrator will direct the Trustee to distribute using the following method and timing:
(Describe, e.g., Installments sufficient to satisfy RMD beginning at the Required Beginning Date. The selected method and timing must not be discriminatory and must be an option the plan makes available to participants and/or beneficiaries.)
- b. **Beneficiary Distribution Methods (6.03(A)(2)).** The Plan will distribute to the Beneficiary under the following distribution method(s). If more than one method is elected, the Beneficiary may choose the method of distribution:

- (i) **Lump-Sum.** See Section 6.03(A)(3).
 - (ii) **Installments sufficient to satisfy RMD.** See Section 6.03(A)(4)(a).
 - (iii) **Ad-Hoc sufficient to satisfy RMD.** See Section 6.03(A)(6).
 - (iv) **Other:** Installments, but only if the Life Expectancy Rule is timely elected by a Designated Beneficiary, to the extent permitted by the Plan. (Describe, e.g., Lump-Sum or Installments for surviving spouse Beneficiaries, Lump-Sum only for all other Beneficiaries.)
- (5) **Annuity Distributions (6.04).** (Choose one or both of a. and b. if applicable.):
- a. **Modification of QJSA (6.04(A)(3)).** The Survivor Annuity percentage will be __%. (Specify a percentage between 50% and 100%.)
 - b. **Modification of QPSA (6.04(B)(2)).** The QPSA percentage will be ____%. (Specify a percentage between 50% and 100%.)
- (6) **Hardship Distributions (6.07).** (Choose one or both of a. and b. if applicable.):
- a. **Restriction on hardship source; grandfathering (6.07(E)).** The hardship distribution limit includes grandfathered amounts.
 - b. **Hardship acceleration.** The existence of a hardship occurring after Separation from Service/Severance from Employment will be determined under the non-safe harbor rules of Section 6.07(B).
- (7) **Replacement of \$5,000 amount (6.09).** All Plan references (except in Sections 3.02(D), 3.10 and 3.12(C)(2)) to "\$5,000" will be \$__. (Specify an amount less than \$5,000.)
- (8) **Beneficiary's hardship need (6.07(H)).** Effective (Specify date not earlier than August 17, 2006), a Participant's hardship includes an immediate and heavy financial need of the Participant's primary Designated Beneficiary under the Plan, as described in Section 6.07(H).
- (9) **Non-spouse beneficiary rollover not permitted before required (6.08(G)).** For distributions after December 31, 2006, and before (Specify a date not later than January 1, 2010), the Plan does not permit a Designated Beneficiary other than the Participant's surviving spouse to elect to roll over a death benefit distribution.
- (h) **Administrative overrides (Article VII).** (Choose one or more of (1) through (7) as applicable.):
- (1) **Contributions prior to accrual or precise determination (7.04(B)(5)(b)).** The Plan Administrator will allocate Earnings described in Section 7.04(B)(5)(b) as follows (Choose one of a., b., or c.):
 - a. **Treat as contribution.** Treat the Earnings as an Employer Matching or Nonelective Contribution and allocate accordingly.
 - b. **Balance forward.** Allocate the Earnings using the balance forward method described in Section 7.04(B)(4)(b).
 - c. **Weighted average.** Allocate the Earnings on Matching Contributions using the weighted average method in a manner similar to the method described in Section 7.04(B)(4)(d).
 - (2) **Automatic revocation of spousal designation (7.05(A)(1)).** The automatic revocation of a spousal Beneficiary designation in the case of divorce does not apply.
 - (3) **Limitation on frequency of Beneficiary designation changes (7.05(A)(4)).** Except in the case of a Participant incurring a major life event, a period of at least _____ must elapse between Beneficiary designation changes. (Specify a period of time, e.g., 90 days OR 12 months.)
 - (4) **Definition of "spouse" (7.05(A)(5)).** The following definition of "spouse" applies: _____ (Specify a definition.)
 - (5) **Administration of default provision; default Beneficiaries (7.05(C)).** The following list of default Beneficiaries will apply: _____ (Specify, in order, one or more Beneficiaries who will receive the interest of a deceased Participant.)
 - (6) **Subsequent restoration of forfeiture-sources and ordering (7.07(A)(3)).** Restoration of forfeitures will come from the following sources, in the following order _____ (Specify, in order, one or more of the following: Forfeitures, Employer Contribution, Trust Fund Earnings.)
 - (7) **State law (7.10(H)).** The law of the following state will apply: _____ (Specify one of the 50 states or the District of Columbia, or other appropriate legal jurisdiction, such as a territory of the United States or an Indian tribal government.)

- (i) **Trust and insurance overrides (Articles VIII and IX).** (Choose one or more of (1) through (3) if applicable.):
 - (1) **Employer securities/real property in Profit Sharing Plans/401(k) Plans (8.02(A)(13)(a)).** The Plan limit on investment in qualifying Employer securities/real property is 25%. (Specify a percentage which is less than 100%)
 - (2) **Provisions relating to insurance and insurance company (9.08).** The following provisions apply:
(Specify such language as necessary to accommodate life insurance Contracts the Plan holds.)

[Note: The provisions in this Election 56(i)(2) may override provisions in Article IX of the Plan, but must be consistent with all other provisions of the Plan.]

- (3) **Cross-pay when more than one entity adopts Plan not applicable (8.12).** The cross-pay provisions of Section 8.12 do not apply.
- (j) **Code Section 415 (Article XI) override (11.02(A)(1), 4.02(F)).** Because of the required aggregation of multiple plans, to satisfy Code §415, the following overriding provisions apply: _____
(Specify such language as necessary to satisfy §415, e.g., the Employer will reduce Additional Additions to this plan before reducing Annual Additions to other plans.)
- (k) **Code Section 416 (Article XI) override (11.02(A)(1), 10.03(D)).** Because of the required aggregation of multiple plans, to satisfy Code §416, the following overriding provisions apply: _____
(Specify such language as necessary to satisfy §416, e.g., If an Employee participates in this Plan and another Plan the Employer maintains, the Employer will satisfy any Top-Heavy Minimum Allocation in this Plan and not the other plan.)
- (l) **Multiple Employer Plan (Article XII) overrides.** (Choose (1) if applicable.):
 - (1) **No involuntary termination for Participating Employer (12.11).** The Lead Employer may not involuntarily terminate the participation of any Participating Employer under Section 12.11.

LIST OF GROUP TRUST FUNDS/PERMISSIBLE TRUST AMENDMENTS

57. **INVESTMENT IN GROUP TRUST FUND (8.09).** The nondiscretionary Trustee, as directed or the discretionary Trustee acting without direction (and in addition to the discretionary Trustee's authority to invest in its own funds under Section 8.02(A)(3)), may invest in any of the following group trust funds: _____
(Specify the names of one or more group trust funds in which the Plan can invest.)

[Note: A discretionary or nondiscretionary Trustee also may invest in any group trust fund authorized by an independent Named Fiduciary.]

58. **DUTY TO COLLECT (8.02(D)(1)).** _____ is hereby appointed as a Trustee for the Plan, and is referred to as the Special Trustee. The sole responsibility of the Special Trustee is to collect contributions the Employer owes to the Plan. No other Trustee has any duty to ensure that the contributions received comply with the provisions of the Plan or is obliged to collect any contributions from the Employer. No Trustee, other than the Special Trustee, is obliged to ensure that funds deposited are deposited according to the provisions of the Plan. The Special Trustee will execute a form accepting its position and agreeing to its obligations hereunder.

59. **PERMISSIBLE TRUST AMENDMENTS (8.11).** The Employer makes the following amendments to the Trust as permitted under Rev. Proc. 2011-49, Sections 5.09 and 14.04 (Choose one or more of (a) through (c) as applicable.):

[Note: Any amendment under this Election 59 must not: (i) conflict with any Plan provision unrelated to the Trust or Trustee; or (ii) cause the Plan to violate Code §401(a). The amendment may override, add to, delete or otherwise modify the Trust provisions. Do not use this Election 59 to substitute another pre-approved trust for the Trust. See Election 5(c) as to a substitute trust.]

(a) **Investments.** The Employer amends the Trust provisions relating to Trust investments as follows:

Future contributions will have a 25% limit on investment in qualifying Employer securities.

(b) **Duties.** The Employer amends the Trust provisions relating to Trustee (or Custodian) duties as follows:

(c) **Other administrative provisions.** The Employer amends the other administrative provisions of the Trust as follows:

APPENDIX D
TABLE I: ACTUARIAL FACTORS
UP-1984
Without Setback

Number of years from attained age at the end of Plan Year until <u>Normal Retirement Age</u>	<u>7.50%</u>	<u>8.00</u>	<u>8.50</u>
0	8.458	8.196	7.949
1	7.868	7.589	7.326
2	7.319	7.027	6.752
3	6.808	6.506	6.223
4	6.333	6.024	5.736
5	5.891	5.578	5.286
6	5.480	5.165	4.872
7	5.098	4.782	4.491
8	4.742	4.428	4.139
9	4.412	4.100	3.815
10	4.104	3.796	3.516
11	3.817	3.515	3.240
12	3.551	3.255	2.986
13	3.303	3.014	2.752
14	3.073	2.790	2.537
15	2.859	2.584	2.338
16	2.659	2.392	2.155
17	2.474	2.215	1.986
18	2.301	2.051	1.831
19	2.140	1.899	1.687
20	1.991	1.758	1.555
21	1.852	1.628	1.433
22	1.723	1.508	1.321
23	1.603	1.396	1.217
24	1.491	1.293	1.122
25	1.387	1.197	1.034
26	1.290	1.108	0.953
27	1.200	1.026	0.878
28	1.116	0.950	0.810
29	1.039	0.880	0.746
30	0.966	0.814	0.688
31	0.899	0.754	0.634
32	0.836	0.698	0.584
33	0.778	0.647	0.538
34	0.723	0.599	0.496
35	0.673	0.554	0.457
36	0.626	0.513	0.422
37	0.582	0.475	0.389
38	0.542	0.440	0.358
39	0.504	0.407	0.330
40	0.469	0.377	0.304
41	0.436	0.349	0.280
42	0.406	0.323	0.258
43	0.377	0.299	0.238
44	0.351	0.277	0.219
45	0.327	0.257	0.202

Note: A Participant's Actuarial Factor under Table I is the factor corresponding to the number of years until the Participant reaches his/her Normal Retirement Age under the Plan. A Participant's age as of the end of the current Plan Year is his/her age on his/her last birthday. For any Plan Year beginning on or after the Participant's attainment of Normal Retirement Age, the factor for "zero" years applies.

**TABLE II: ADJUSTMENT TO ACTUARIAL FACTORS FOR NORMAL RETIREMENT AGE
OTHER THAN 65
UP-1984
Without Setback**

<u>Normal Retirement Age</u>	<u>7.50%</u>	<u>8.00%</u>	<u>8.50%</u>
55	1.2242	1.2147	1.2058
56	1.2043	1.1959	1.1879
57	1.1838	1.1764	1.1694
58	1.1627	1.1563	1.1503
59	1.1411	1.1357	1.1305
60	1.1188	1.1144	1.1101
61	1.0960	1.0925	1.0891
62	1.0726	1.0700	1.0676
63	1.0488	1.0471	1.0455
64	1.0246	1.0237	1.0229
65	1.0000	1.0000	1.0000
66	0.9752	0.9760	0.9767
67	0.9502	0.9518	0.9533
68	0.9251	0.9274	0.9296
69	0.8998	0.9027	0.9055
70	0.8740	0.8776	0.8810
71	0.8478	0.8520	0.8561
72	0.8214	0.8261	0.8307
73	0.7946	0.7999	0.8049
74	0.7678	0.7735	0.7790
75	0.7409	0.7470	0.7529
76	0.7140	0.7205	0.7268
77	0.6874	0.6942	0.7008
78	0.6611	0.6682	0.6751
79	0.6349	0.6423	0.6494
80	0.6090	0.6165	0.6238

Note: Use Table II only if the Normal Retirement Age for any Participant is not 65. If a Participant's Normal Retirement Age is not 65, adjust Table I by multiplying *all* factors applicable to that Participant in Table I by the appropriate Table II factor.

**PPD ADOPTION AGREEMENT
ADMINISTRATIVE CHECKLIST**

January 1, 2016

This Administrative Checklist ("AC") is not part of the Adoption Agreement or Plan but is for the use of the Plan Administrator in administering the Plan. Relius software also uses the AC and the following Supporting Forms Checklist ("SFC") in preparing the Plan's SPD and some administrative forms, such as the Loan Policy, if applicable.

The plan document preparer need not complete the AC but may find it useful to do so. The preparer may modify the AC, including adding items, without affecting reliance on the Plan's opinion or advisory letter since the AC is not part of the approved Plan. Any change to this AC is not a Plan amendment and is not subject to any Plan provision or to Applicable Law regarding the timing or form of Plan amendments. However, the Plan Administrator's administration of any AC item must be in accordance with applicable Plan terms and with Applicable Law.

The AC reflects the Plan policies and operation as of the date set forth above and may also reflect Plan policies and operation pre-dating the specified date.

AC1. **PLAN LOANS (7.06)**. The Plan permits or does not permit Participant Loans as follows (Choose one of (a) or (b)):

- (a) **Does not permit.**
- (b) **Permitted pursuant to the Loan Policy.** See SFC Election 74 to complete Loan Policy.

AC2. **PARTICIPANT DIRECTION OF INVESTMENT (7.03(B))**. The Plan permits Participant direction of investment or does not permit Participant direction of investment as to some or all Accounts as follows (Choose one of (a) or (b)):

- (a) **Does not permit.** The Plan does not permit Participant direction of investment of any Account.
- (b) **Permitted as follows.** The Plan permits Participant direction of investment. (Complete (1) through (4)):
 - (1) **Accounts affected.** (Choose a. or choose one or more of b. through f.):
 - a. **All Accounts.**
 - b. **Elective Deferral Accounts (Pre-tax and Roth) and Employee Contributions.**
 - c. **All Nonelective Contribution Accounts.**
 - d. **All Matching Contribution Accounts.**
 - e. **All Rollover Contribution and Transfer Accounts.**
 - f. **Specify Accounts:**
 - (2) **Restrictions on Participant direction** (Choose one of a. or b.):
 - a. **None.** Provided the investment does not result in a prohibited transaction, give rise to UBTI, create administrative problems or violate the Plan terms or Applicable Law.
 - b. **Restrictions:** The percentage of a Participant's contribution (i.e. redirect future contributions) or account balance (i.e. redirect current balance) that a Participant may direct to be invested in Fossil, Inc. Common Stock shall not exceed twenty five percent (25%).
 - (3) **ERISA §404(c).** (Choose one of a. or b.):
 - a. **Applies.**
 - b. **Does not apply.**
 - (4) **QDIA (Qualified Default Investment Alternative).** (Choose one of a. or b.):
 - a. **Applies.** See SFC Election 122 for details.
 - b. **Does not apply.**

AC3. **ROLLOVER CONTRIBUTIONS (3.08)**. The Plan permits or does not permit Rollover Contributions as follows (Choose one of (a) or (b)):

- (a) **Does not permit.**
- (b) **Permits.** Subject to approval by the Plan Administrator and as further described below (Complete (1) and (2)):
 - (1) **Who may roll over.** (Choose one of a. or b.):
 - a. **Participants only.**
 - b. **Eligible Employees or Participants.**
 - (2) **Sources/Types.** The Plan will accept a Rollover Contribution (Choose one of a. or b.):
 - a. **All.** From any Eligible Retirement Plan and as to all Contribution Types eligible to be rolled into this Plan.
 - b. **Limited.** Only from the following types of Eligible Retirement Plans and/or as to the following Contribution Types: From any Eligible Retirement Plan, excluding Voluntary After-Tax contributions

AC4. **PLAN EXPENSES (7.04(C))**. The Employer will pay or the Plan will be charged with non-settlor Plan expenses as follows (Choose one of (a) or (b)):

- (a) **Employer pays all expenses except those intrinsic to Trust assets which the Plan will pay (e.g., brokerage commissions).**
- (b) **Plan pays some or all non-settlor expenses.** See SFC Election 119 for details.

AC5. RELATED AND PARTICIPATING EMPLOYERS/MULTIPLE EMPLOYER PLAN (1.24(C)(D)). There are or are not Related Employers and Participating Employers as follows (Complete (a) through (d).):

- (a) **Related Employers.** (Choose one of (1) or (2).):
(1) **None.**
(2) **Name(s) of Related Employers:**
- (b) **Participating (Related) Employers.** (Choose one of (1) or (2).):
(1) **None.**
(2) **Name(s) of Participating Employers:** Fossil Partners, L.P., Arrow Merchandising, Inc., Fossil Stores I, Inc.
See SFC Election 76 for details.
- (c) **Former Participating Employers.** (Choose one of (1) or (2).):
(1) **None.**
(2) **Applies.**

Name(s)

Date of cessation

Fossil East, Tempus International Corp.

Prior to January 1, 2016 "Date of Cessation" will be provided upon request.

Fossil Stores II, Inc., Fossil New York, Inc.

Prior to January 1, 2016 "Date of Cessation" will be provided upon request.

- (d) **Multiple Employer Plan status.** (Choose one of (1) or (2).):
(1) **Does not apply.**
(2) **Applies.** The Signatory Employer is the Lead Employer and at least one Participating Employer is not a Related Employer. (Complete a.)
a. **Name(s) of Participating Employers** (other than Related Employers described above): _____
See SFC Election 76 for details.

AC6. TOP-HEAVY MINIMUM-MULTIPLE PLANS (10.03). If the Employer maintains another plan, this Plan provides that the Plan Administrator operationally will determine in which plan the Employer will satisfy the Top-Heavy Minimum Contribution (or benefit) requirement as to Non-Key Employees who participate in such plans and who are entitled to a Top-Heavy Minimum Contribution (or benefit). This Election documents the Plan Administrator's operational election. (Choose (a) or choose one of (b) or (c).):

- (a) **Does not apply.**
(b) **If only another Defined Contribution Plan.** Make the Top-Heavy Minimum Allocation (Choose one of (1) or (2).):
(1) **To this Plan.**
(2) **To another Defined Contribution Plan:** _____ (plan name)
(c) **If one or more Defined Benefit Plans.** Make the Top-Heavy Minimum Allocation or provide the top-heavy minimum benefit (Choose one of (1), (2), or (3).):
(1) **To this Plan.** Increase the Top-Heavy Minimum Allocation to 5%.
(2) **To another Defined Contribution Plan.** Increase the Top-Heavy Minimum Allocation to 5% and provide under the: (name of other Defined Contribution Plan).
(3) **To a Defined Benefit Plan.** Provide the 2% top-heavy minimum benefit under the: _____ (name of Defined Benefit Plan) and applying the following interest rate and mortality assumptions: _____.

AC7. SELF-EMPLOYED PARTICIPANTS (1.22(A)). One or more self-employed Participants with Earned Income benefits in the Plan as follows (Choose one of (a) or (b).):

- (a) **None.**
(b) **Applies.**

AC8. PROTECTED BENEFITS (11.02(C)). The following Protected Benefits no longer apply to all Participants or do not apply to designated amounts/Participants as indicated, having been eliminated by a Plan amendment (Choose one of (a) or (b).):

- (a) **Does not apply.** No Protected Benefits have been eliminated.
(b) **Applies.** Protected Benefits have been eliminated as follows (Choose one or more of rows (1) through (4) as applicable. Choose one of columns (1), (2), or (3), and complete column (4).):

	(1) All Participants/ Accounts	(2) Post-E.D. Contribution Accounts only	(3) Post-E.D. Participants only	(4) Effective Date (E.D.)
(1) <input type="checkbox"/> QJSA/QPSA distributions	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
(2) <input type="checkbox"/> Installment distributions <input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
(3) <input type="checkbox"/> In-kind distributions	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
(4) <input type="checkbox"/> Specify:				

AC9. LIFE INSURANCE (9.01). The Trust invests or does not invest in life insurance Contracts as follows (*Choose one of (a) or (b).*):
 (a) **Does not apply.**
 (b) **Applies.** Subject to the limitations and other provisions in Article IX and/or Appendix B.

AC10. DISTRIBUTION OF CASH OR PROPERTY (8.04). The Plan provides for distribution in the form of (*Choose one of (a) or (b).*):
 (a) **Cash only.** Except where property distribution is required or permitted under Section 8.04.
 (b) **Cash or property.** At the distributee's election and consistent with any Plan Administrator policy under Section 8.04.

AC11. EMPLOYER SECURITIES/EMPLOYER REAL PROPERTY (8.02(A)(13)). The Trust invests or does not invest in qualifying Employer securities and/or qualifying Employer real property as follows (*Choose one of (a) or (b).*):
 (a) **Does not apply.**
 (b) **Applies.** Such investments are subject to the limitations of Section 8.02(A)(13) and/or Appendix B.

**Subsidiaries of Fossil Group, Inc.
as of December 30, 2017**

Name of Subsidiary	Place of Incorporation	Parent Company	Percent Ownership
Fossil Intermediate, Inc.	Delaware	Fossil Group, Inc.	100
Fossil Stores I, Inc.	Delaware	Fossil Group, Inc.	100
Arrow Merchandising, Inc.	Texas	Fossil Group, Inc.	100
Fossil Canada, Inc.	Canada	Fossil Group, Inc.	100
Fossil Europe B.V.	the Netherlands	Fossil Group, Inc.	100
Fossil Japan, Inc	Japan	Fossil Group, Inc.	100
Fossil Holdings, LLC	Delaware	Fossil Group, Inc.	100
Fossil (Gibraltar) Ltd.	Gibraltar	Fossil Group, Inc.	100
Fossil International Holdings, Inc.	Delaware	Fossil Group, Inc.	100
Fossil (East) Limited	Hong Kong	Fossil Group, Inc.	100
Swiss Technology Holding GmbH	Switzerland	Fossil Group, Inc.	100
Fossil Trust	Delaware	Fossil Intermediate, Inc.	100
Fossil Holdings LLC Luxembourg, SCS	Luxembourg	Fossil Group, Inc.	100
Fossil Partners, L.P.	Texas	Fossil Trust	99
Fossil Mexico, S.A. de C.V.	Mexico	Fossil International Holdings, Inc.	100
Servicios Fossil Mexico, S.A. de C.V.	Mexico	Fossil International Holdings, Inc.	100
Fossil Luxembourg Sarl	Luxembourg	Fossil Holdings LLC Luxembourg, SCS	100
Pulse Time Center Company, Ltd.	Hong Kong	Fossil (East) Limited	98
Fossil (Hong Kong) Ltd	Hong Kong	Fossil (East) Limited	100
Fossil Singapore Pte. Ltd.	Singapore	Fossil (East) Limited	100
FDT, 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
Fossil Industries Ltd.	Hong Kong	Fossil (East) Limited	100
Fossil Trading (Shanghai) Company Ltd.	China	Fossil (East) Limited	100
Fossil (Asia) Holdings Ltd.	Hong Kong	Fossil (East) Limited	100
Fossil (Korea) Limited	Korea	Fossil (East) Limited	100
Fossil India Private Ltd.	India	Fossil (East) Limited	100
Fossil Asia Pacific Ltd.	Hong Kong	Fossil (East) Limited	100
Fossil Commercial (Shanghai) Company Ltd.	China	Fossil (East) Limited	100
Fossil Vietnam LLC	Vietnam	Fossil (East) Limited	100
Fossil Services (Shenzhen) Co. Ltd.	China	Fossil (East) Limited	100
Skagen Designs, Ltd.	Hong Kong	Fossil (East) Limited	100

Shanghai Fossil Retail Co. Ltd.	China	Fossil (East) Limited	100
Fossil (New Zealand) Limited	New Zealand	Fossil (Australia) Pty Ltd.	100
Fossil Retail Stores (Australia) Pty. Ltd.	Australia	Fossil (Australia) Pty Ltd.	100
Fossil Management Services Pty. Ltd.	Australia	Fossil (Australia) Pty Ltd.	100
Pulse Time Center (Shenzhen) Co. Ltd.	China	Pulse Time Center Company, Ltd.	100
Fossil (Macau) Limited	Macau	Fossil (Hong Kong) Ltd	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 S.L.U.	Spain	Fossil Europe B.V.	100
Fossil U.K. Holdings Ltd.	United Kingdom	Fossil Europe B.V.	100
FESCO GmbH	Germany	Fossil Europe B.V.	100
Fossil Switzerland GmbH	Switzerland	Fossil Europe B.V.	100
Fossil (Austria) GmbH	Austria	Fossil Europe B.V.	100
Fossil Sweden AB	Sweden	Fossil Europe B.V.	100
Fossil Stores Belgium BVBA	Belgium	Fossil Europe B.V.	100
Fossil Belgium BVBA	Belgium	Fossil Europe B.V.	100
Fossil Accessories South Africa Pty Ltd	South Africa	Fossil Europe B.V.	51
Fossil Poland Spolka ZOO	Poland	Fossil Europe B.V.	100
Fossil France SA	France	GUM, SA	100
Fast Europe Sarl	France	Fossil France SA	100
Fossil Norway AS	Norway	Fossil Sweden AB	100
Fossil Denmark A/S	Denmark	Fossil Sweden AB	100
Fossil Stores France SAS	France	Fossil France SA	100
Fossil Stores S.r.l.	Italy	Fossil Italia, S.r.l.	100
Fossil U.K. Ltd.	United Kingdom	Fossil U.K. Holdings Ltd.	100
Montres Antima SA	Switzerland	Swiss Technology Holding GmbH	100
In Time-Distribuicao de Relogios, SUL	Portugal	Fossil S.L.	100
Fossil Group Europe, GmbH	Switzerland	Swiss Technology Holding GmbH	100
Fossil Management GmbH	Switzerland	Swiss Technology Holding GmbH	100
Swiss Technology Production SA	Switzerland	Swiss Technology Holding GmbH	51
Latin America Services, Ltd	BVI	Fossil International Holdings, Inc.	100
Fossil Shared Services GmbH	Germany	Fossil Europe B.V.	100
Misfit, Inc.	Delaware	Fossil Group, Inc.	100

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Post-Effective Amendment No. 1 to Registration Statement No. 33-77526 and Registration Statement Nos. 33-65980, 333-70477, 333-151645, and 333-212293 on Form S-8, and Registration Statement No. 333-202599 on Form S-3 of our reports dated March 2, 2018, relating to the consolidated financial statements and consolidated financial statement schedule of Fossil Group, Inc. and subsidiaries, and the effectiveness of Fossil Group, Inc. and subsidiaries' internal control over financial reporting, appearing in this Annual Report on Form 10-K of Fossil Group, Inc. for the year ended December 30, 2017.

/s/ Deloitte & Touche LLP

Dallas, Texas
March 2, 2018

CERTIFICATION

I, Kosta N. Kartsotis, certify that:

1. I have reviewed this Annual Report on Form 10-K of Fossil Group, Inc.;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;
4. The registrant's other certifying officer(s) 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)) 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 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 report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) 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 officer(s) 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 2, 2018

/s/ KOSTA N. KARTSOTIS

Kosta N. Kartsotis
Chief Executive Officer

QuickLinks

EXHIBIT 31.1

CERTIFICATION

CERTIFICATION

I, Jeffrey N. Boyer, certify that:

1. I have reviewed this Annual Report on Form 10-K of Fossil Group, Inc.;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;
4. The registrant's other certifying officer(s) 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)) 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 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 report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) 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 officer(s) 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 2, 2018

/s/ JEFFREY N. BOYER

Jeffrey N. Boyer
*Executive Vice President
Chief Financial Officer and Treasurer*

QuickLinks

EXHIBIT 31.2

CERTIFICATION

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Fossil Group, Inc. (the "Company") on Form 10-K for the fiscal year ended December 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Form 10-K"), I, Kosta N. Kartsotis, Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- (1) The Form 10-K fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 2, 2018

/s/ KOSTA N. KARTSOTIS

Kosta N. Kartsotis
Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to Fossil Group, Inc. and will be retained by Fossil Group, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

The foregoing certification is being furnished as an exhibit to the Form 10-K pursuant to Item 601(b)(32) of Regulation S-K and Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) and, accordingly, is not being filed as part of the Form 10-K for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

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Exhibit 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Fossil Group, Inc. (the "Company") on Form 10-K for the fiscal year ended December 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Form 10-K"), I, Jeffrey N. Boyer, Executive Vice President, Chief Financial Officer and Treasurer of the Company, hereby certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- (1) The Form 10-K fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 2, 2018

/s/ JEFFREY N. BOYER

Jeffrey N. Boyer
*Executive Vice President
Chief Financial Officer and Treasurer*

A signed original of this written statement required by Section 906 has been provided to Fossil Group, Inc. and will be retained by Fossil Group, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

The foregoing certification is being furnished as an exhibit to the Form 10-K pursuant to Item 601(b)(32) of Regulation S-K and Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) and, accordingly, is not being filed as part of the Form 10-K for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

QuickLinks

Exhibit 32.2

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002