

MOVADO GROUP INC
Form 10-Q
December 09, 2009

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

FORM 10-Q

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

For the Quarterly Period Ended October 31, 2009

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

For the transition period from to

Commission File Number 1-16497

MOVADO GROUP, INC.
(Exact Name of Registrant as Specified in its Charter)

New York
(State or other jurisdiction
of incorporation or organization)

13-2595932
(IRS Employer
Identification No.)

650 From Road, Ste. 375
Paramus, New Jersey
(Address of principal executive
offices)

07652-3556
(Zip Code)

(201) 267-8000

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate 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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The number of shares outstanding of the registrant's common stock and class A common stock as of November 30, 2009 was 17,931,736 and 6,634,319, respectively.

MOVADO GROUP, INC.

Index to Quarterly Report on Form 10-Q
October 31, 2009

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

MOVADO GROUP, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share amounts)
(Unaudited)

	October 31, 2009	January 31, 2009	October 31, 2008
ASSETS			
Current assets:			
Cash and cash equivalents	\$49,478	\$86,621	\$85,077
Trade receivables, net	105,469	76,710	118,464
Inventories, net	228,766	228,884	236,734
Other current assets	35,711	47,863	42,245
Total current assets	419,424	440,078	482,520
Property, plant and equipment, net	58,142	66,749	71,359
Deferred income taxes	10,014	23,449	17,753
Other non-current assets	28,648	33,714	34,761
Total assets	\$516,228	\$563,990	\$606,393
LIABILITIES AND EQUITY			
Current liabilities:			
Loans payable to banks	\$-	\$40,000	\$-
Current portion of long-term debt	-	25,000	10,000
Accounts payable	17,373	20,794	33,146
Accrued liabilities	43,760	47,686	50,010
Deferred and current income taxes payable	484	430	392
Total current liabilities	61,617	133,910	93,548
Long-term debt	24,910	-	59,324
Deferred and non-current income taxes payable	6,116	6,856	6,706
Other non-current liabilities	20,763	22,459	21,279
Total liabilities	113,406	163,225	180,857
Commitments and contingencies (Note 8)			
Equity:			
Preferred Stock, \$0.01 par value, 5,000,000 shares authorized; no shares issued	-	-	-
Common Stock, \$0.01 par value, 100,000,000 shares authorized; 25,103,084, 24,592,682 and 24,588,116 shares issued, respectively	251	246	246
Class A Common Stock, \$0.01 par value, 30,000,000 shares authorized; 6,634,319, 6,634,319 and 6,634,319 shares issued and outstanding, respectively	66	66	66
Capital in excess of par value	137,078	131,796	131,972
Retained earnings	289,414	320,481	344,501
Accumulated other comprehensive income	76,114	44,041	44,520

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Treasury Stock, 7,171,348, 6,826,734 and 6,824,799 shares, respectively, at cost	(102,071)	(97,371)	(97,329)
Total Movado Group, Inc. shareholders' equity	400,852	399,259	423,976
Noncontrolling interests	1,970	1,506	1,560
Total equity	402,822	400,765	425,536
Total liabilities and equity	\$516,228	\$563,990	\$606,393

See Notes to Consolidated Financial Statements

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

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2009	2008	2009	2008
Net sales	\$128,966	\$135,846	\$286,242	\$366,888
Cost of sales	68,618	50,405	138,544	133,944
Gross profit	60,348	85,441	147,698	232,944
Selling, general and administrative	57,409	70,821	155,098	205,571
Operating (loss) / income	2,939	14,620	(7,400)	27,373
Interest expense	(1,080)	(691)	(3,797)	(2,191)
Interest income	16	413	87	1,893
(Loss) / income before income taxes and noncontrolling interests	1,875	14,342	(11,110)	27,075
Provision for / (benefit from) income taxes (Note 9)	22,519	(1,434)	19,725	1,802
Net (loss) / income	(20,644)	15,776	(30,835)	25,273
Less: Net income attributed to noncontrolling interests	226	47	232	159
Net (loss) / income attributed to Movado Group, Inc.	\$(20,870)	\$15,729	\$(31,067)	\$25,114
Basic (loss) / income per share:				
Net (loss) / income per share	\$(0.85)	\$0.64	\$(1.27)	\$1.01
Weighted basic average shares outstanding	24,558	24,391	24,509	24,892
Diluted (loss) / income per share:				
Net (loss) / income per share	\$(0.85)	\$0.62	\$(1.27)	\$0.97
Weighted diluted average shares outstanding	24,558	25,225	24,509	25,792
Dividends per share	\$-	\$0.08	\$-	\$0.24

See Notes to Consolidated Financial Statements

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

	Nine Months Ended October 31,	
	2009	2008
Cash flows from operating activities:		
Net (loss) / income	\$ (30,835)	\$ 25,273
Adjustments to reconcile net (loss) / income to net cash used in operating activities:		
Depreciation and amortization	14,346	13,615
Deferred income taxes	20,442	(5,953)
Provision for losses on accounts receivable	1,453	1,855
Provision for losses on inventory	656	1,818
Loss on disposition of property, plant and equipment	-	37
Stock-based compensation	862	(475)
Excess tax / (benefit) from stock-based compensation	478	(361)
Changes in assets and liabilities:		
Trade receivables	(25,787)	(29,752)
Inventories	15,989	(43,391)
Other current assets	9,937	5,721
Accounts payable	(4,294)	(4,393)
Accrued liabilities	(4,353)	4,751
Current income taxes payable	(430)	(2,049)
Other non-current assets	1,429	3,072
Other non-current liabilities	(1,700)	(2,920)
Net cash used in operating activities	(1,807)	(33,152)
Cash flows from investing activities:		
Capital expenditures	(3,373)	(16,990)
Trademarks	(382)	(629)
Net cash used in investing activities	(3,755)	(17,619)
Cash flows from financing activities:		
Proceeds from borrowings	55,909	40,000
Repayments of borrowings	(89,928)	(31,753)
Stock options exercised and other changes	203	934
Purchase of treasury stock	-	(37,872)
Excess (tax) / benefit from stock-based compensation	(478)	361
Financing fee	(2,751)	-
Distribution of minority interests earnings	-	(297)
Dividends paid	(1,220)	(5,909)
Net cash used in financing activities	(38,265)	(34,536)
Effect of exchange rate changes on cash and cash equivalents	6,684	833
Net decrease in cash and cash equivalents	(37,143)	(84,474)

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Cash and cash equivalents at beginning of period	86,621	169,551
Cash and cash equivalents at end of period	\$ 49,478	\$ 85,077

See Notes to Consolidated Financial Statements

MOVADO GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared by Movado Group, Inc. (the “Company”) in a manner consistent with that used in the preparation of the consolidated financial statements included in the Company’s fiscal 2009 Annual Report filed on Form 10-K. In the opinion of management, unless otherwise noted, the accompanying consolidated financial statements reflect all adjustments, consisting of only normal and recurring adjustments, necessary for a fair statement of the financial position and results of operations for the periods presented. These consolidated financial statements should be read in conjunction with the aforementioned Annual Report. Operating results for the interim periods presented are not necessarily indicative of the results that may be expected for the full year.

NOTE 1 – RECLASSIFICATIONS AND REVISIONS

Certain reclassifications were made to prior year’s financial statement amounts and related note disclosures to conform to the fiscal 2010 presentation as a result of the adoption of new accounting guidance related to noncontrolling interests in the consolidated financial statements. Additionally, certain expenses associated with the Company’s watch repair activities were reclassified from selling, general and administrative expenses to cost of sales on the Company’s Consolidated Statements of Income.

During the previous quarters of fiscal 2010, the Company had accounted for certain items within inventory and cost of sales which resulted in an overstatement of gross margin by \$1.3 million and \$1.0 million for the three months ended April 30, 2009 and July 31, 2009, respectively. Such amounts were not material to the previously issued financial statements for the first and second quarter of fiscal 2010. The Company has reflected this revision in its financial statements for the nine months ended October 31, 2009 and, as a result, the adjustment recorded had no impact on the results for the three months ended October 31, 2009. Furthermore, the Company will make the corresponding adjustments to the April 30, 2009 and July 31, 2009 financial statements as appropriate the next time those financial statements are filed.

NOTE 2 – FAIR VALUE MEASUREMENTS

As of February 1, 2008, the Company adopted accounting guidance related to fair value measurements for financial assets and liabilities that are recognized or disclosed at fair value in the Company’s consolidated financial statements and on February 1, 2009, the Company adopted fair value measurements for non-recurring financial assets and liabilities. The adoption did not have a material effect on the Company’s consolidated financial statements. The guidance defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The guidance establishes a fair value hierarchy which prioritizes the inputs used in measuring fair value into three broad levels as follows:

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

The guidance requires the use of observable market data if such data is available without undue cost and effort. The Company's adoption of the guidance did not result in any changes to the accounting for its financial assets and

liabilities. Therefore, the primary impact to the Company upon its adoption of this guidance was to expand its fair value measurement disclosures.

The following table presents the fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of October 31, 2009 (in thousands):

	Fair Value at October 31, 2009			
	Level 1	Level 2	Level 3	Total
Assets:				
Available-for-sale securities	\$ 216	\$ -	\$ -	\$ 216
SERP assets - employer	720	-	-	720
SERP assets - employee	12,131	-	-	12,131
Hedge derivatives	-	1,919	-	1,919
Total	\$ 13,067	\$ 1,919	\$ -	\$ 14,986
Liabilities:				
SERP liabilities - employee	\$ 12,131	\$ -	\$ -	\$ 12,131
Hedge derivatives	-	152	-	152
Total	\$ 12,131	\$ 152	\$ -	\$ 12,283

The fair values of the Company's available-for-sale securities are based on quoted prices. The hedge derivatives are entered into by the Company principally to reduce its exposure to the Swiss franc exchange rate risk. Fair values of the Company's hedge derivatives are calculated based on quoted foreign exchange rates, quoted interest rates and market volatility factors. The assets related to the Company's defined contribution supplemental executive retirement plan ("SERP") consist of both employer (employee unvested) and employee assets which are invested in investment funds with fair values calculated based on quoted market prices. The SERP liability represents the Company's liability to the employees in the plan for their vested balances.

NOTE 3 – TOTAL EQUITY

The components of equity for the nine months ended October 31, 2009 and 2008 are as follows (in thousands):

	Common Stock	Class A Common Stock	Capital in Excess of Par Value	Accumulated		Noncontrolling Interests	Total
				Retained Earnings	Other Comprehensive Income		
Balance, January 31, 2009	\$ 246	\$ 66	\$ 20,396	\$ 20,396	\$ 44,041	\$ 40,566	\$ 105,505
Net (loss) / income			(31,067)				(30,835)
Stock options exercised, net of tax	5		(4,600)				(77)
Stock-based compensation expense			862				862
Supplemental executive			(198)				(198)

retirement plan					
Net					
unrealized gain					
on					
investments,					
net of tax				81	81
Net change in					
effective					
portion of					
hedging					
contracts, net					
of tax				(738)	(738)
Foreign					
currency					
translation					
adjustment				32,730	32,962
Balance,					
October 31,		\$			
2009	\$251	66	(\$282,073)	\$76,114	\$401,970

	Common Stock	Class A Common Stock	Capital in Excess of Par Value	Accumulated Other Comprehensive Income	Noncontrolling Interests	Total
Balance, January 31, 2008	\$243	\$66	\$(25,900) \$(25,900)	\$65,748	\$463,060	\$502,957
Net income			25,114		25,114	25,114
Dividends declared			(5,909)		(5,909)	(5,909)
Stock repurchase			(37,872)		(37,872)	(37,872)
Stock options exercised, net of tax	3		(3,419)		1,177	(2,242)
Stock-based compensation expense			(475)		(475)	(475)
Supplemental executive retirement plan			116		116	116
Net unrealized loss on investments, net of tax				(92)	(92)	(92)
Net change in effective portion of hedging contracts, net of tax				(1,777)	(1,777)	(1,777)
Foreign currency translation adjustment				(19,359)	(19,359)	(19,359)
Distribution of noncontrolling interests earnings					(297)	(297)
Balance, October 31, 2008	\$246	\$66	\$(91,902) \$(91,902)	\$44,520	\$432,308	\$487,932