

MOVADO GROUP INC
Form 10-Q
May 27, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended April 30, 2015

“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.)
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650 From Road, Ste. 375

Paramus, New Jersey (Address of Principal Executive Offices)	07652-3556 (Zip Code)
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(201) 267-8000

(Registrant's telephone number, including area code)

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

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

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

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

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

The number of shares outstanding of the registrant’s Common Stock and Class A Common Stock as of May 21, 2015 were 17,114,255 and 6,644,105, respectively.

MOVADO GROUP, INC.

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April 30, 2015

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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)

	April 30, 2015	January 31, 2015	April 30, 2014
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 185,828	\$ 199,852	\$ 137,827
Short-term investments	—	—	34,063
Trade receivables	73,472	74,106	77,395
Inventories	183,904	170,788	184,443
Other current assets	43,960	40,532	47,228
Total current assets	487,164	485,278	480,956
Property, plant and equipment, net	44,354	46,673	46,806
Deferred income taxes	13,536	13,550	15,058
Other non-current assets	39,483	37,522	32,064
Total assets	\$ 584,537	\$ 583,023	\$ 574,884
LIABILITIES AND EQUITY			
Current liabilities:			
Loans payable to bank	\$ 25,000	\$ —	\$ —
Accounts payable	25,647	27,767	25,644
Accrued liabilities	37,899	30,933	36,854
Deferred and current income taxes payable	1,352	7,372	5,777
Total current liabilities	89,898	66,072	68,275
Deferred and non-current income taxes payable	3,505	3,470	3,792
Other non-current liabilities	30,484	29,196	27,244
Total liabilities	123,887	98,738	99,311
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;	269	268	268

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26,926,331,26,849,080 and 26,753,324 shares issued, respectively
 Class A Common Stock, \$0.01 par value, 30,000,000 shares authorized;

6,644,105,6,642,184 and 6,638,262 shares issued and outstanding, respectively	66	66	66
Capital in excess of par value	176,524	174,826	168,067
Retained earnings	358,992	358,006	321,176
Accumulated other comprehensive income	95,221	98,854	111,832
Treasury Stock, 9,662,176, 8,784,497 and 8,081,423 shares, respectively, at cost	(172,515)	(149,811)	(128,657)
Total Movado Group, Inc. shareholders' equity	458,557	482,209	472,752
Noncontrolling interests	2,093	2,076	2,821
Total equity	460,650	484,285	475,573
Total liabilities and equity	\$584,537	\$583,023	\$574,884

See Notes to Consolidated Financial Statements

MOVADO GROUP, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended April 30,	
	2015	2014
Net sales	\$ 120,461	\$ 120,921
Cost of sales	58,012	55,770
Gross profit	62,449	65,151
Selling, general, and administrative	55,574	54,230
Operating income	6,875	10,921
Interest expense	(152)	(94)
Interest income	53	35
Income before income taxes	6,776	10,862
Provision for income taxes (Note 9)	3,135	3,433
Net income	3,641	7,429
Less: Net income attributed to noncontrolling interests	19	64
Net income attributed to Movado Group, Inc.	\$ 3,622	\$ 7,365
Basic income per share:		
Weighted basic average shares outstanding	24,279	25,325
Net income per share attributed to Movado Group, Inc.	\$ 0.15	\$ 0.29
Diluted income per share:		
Weighted diluted average shares outstanding	24,569	25,696
Net income per share attributed to Movado Group, Inc.	\$ 0.15	\$ 0.29
Dividends declared per share	\$ 0.11	\$ 0.10

See Notes to Consolidated Financial Statements

MOVADO GROUP, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) \ INCOME

(In thousands)

(Unaudited)

	Three Months Ended April 30,	
	2015	2014
Comprehensive (loss) \ income, net of taxes:		
Net income including noncontrolling interests	\$3,641	\$7,429
Net unrealized gain on investments, net of tax of \$4 and \$39, respectively	10	70
Net change in effective portion of hedging contracts, net of tax benefit of \$100 and \$0, respectively	(508)	-
Foreign currency translation adjustments	(3,137)	8,131
Comprehensive income including noncontrolling interests	6	15,630
Less: Comprehensive income attributable to noncontrolling interests	17	135
Total comprehensive (loss) \ income attributable to Movado Group, Inc.	\$(11)	\$15,495

See Notes to Consolidated Financial Statements

MOVADO GROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Three Months Ended April 30,	
	2015	2014
Cash flows from operating activities:		
Net income including noncontrolling interests	\$3,641	\$7,429
Adjustments to reconcile net income to net cash (used in) operating activities:		
Depreciation and amortization	2,981	3,022
Transactional (gains) \ losses	(774)	1,097
Write-down of inventories	330	302
Deferred income taxes	283	155
Stock-based compensation	1,520	1,180
Excess tax benefit from stock-based compensation	(42)	(858)
Operating efficiency initiatives and other items	2,670	-
Changes in assets and liabilities:		
Trade receivables	685	(8,092)
Inventories	(14,205)	(1,034)
Other current assets	(3,959)	(2,775)
Accounts payable	(2,079)	(8,228)
Accrued liabilities	4,044	(5,950)
Income taxes payable	(5,914)	1,473
Other non-current assets	(1,641)	(1,477)
Other non-current liabilities	1,286	1,703
Net cash (used in) operating activities	(11,174)	(12,053)
Cash flows from investing activities:		
Capital expenditures	(1,461)	(1,523)
Trademarks	(94)	(20)
Net cash (used in) investing activities	(1,555)	(1,543)
Cash flows from financing activities:		
Stock options exercised and other changes	(513)	(1,324)
Excess tax benefit from stock-based compensation	42	858
Proceeds from bank borrowings	25,000	-
Dividends paid	(2,636)	(2,523)
Stock repurchase	(22,154)	(5,312)
Net cash (used in) financing activities	(261)	(8,301)
Effect of exchange rate changes on cash and cash equivalents	(1,034)	2,065
Net (decrease) in cash and cash equivalents	(14,024)	(19,832)
Cash and cash equivalents at beginning of period	199,852	157,659
Cash and cash equivalents at end of period	\$185,828	\$137,827

See Notes to Consolidated Financial Statements

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MOVADO GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

BASIS OF PRESENTATION

The accompanying interim unaudited consolidated financial statements have been prepared by Movado Group, Inc. (the “Company”), in a manner consistent with that used in the preparation of the annual audited consolidated financial statements included in the Company’s Annual Report on Form 10-K for the fiscal year ended January 31, 2015 (the “2015 Annual Report on Form 10-K”). In the opinion of management, the accompanying unaudited consolidated financial statements reflect all adjustments, consisting of only normal and recurring adjustments, necessary for a fair statement of the financial position and results of operations for the periods presented. The consolidated balance sheet data at January 31, 2015 is derived from the audited annual financial statements, which are included in the Company’s 2015 Annual Report on Form 10-K and should be read in connection with these interim unaudited financial statements. Operating results for the interim periods presented are not necessarily indicative of the results that may be expected for the full year.

NOTE 1 – FAIR VALUE MEASUREMENTS

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

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

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

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

The following tables present the fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis (in thousands) as of April 30, 2015 and 2014 and January 31, 2015:

	Balance Sheet Location	Fair Value at April 30, 2015			Total
		Level 1	Level 2	Level 3	
Assets:					
Available-for-sale securities	Other current assets	\$327	\$ —	\$—	\$327
Long-term investment	Other non-current assets	—	—	1,264	1,264
SERP assets - employer	Other non-current assets	1,520	—	—	1,520
SERP assets - employee	Other non-current assets	26,047	—	—	26,047
Hedge derivatives	Other current assets	—	866	—	866
Total		\$27,894	\$ 866	\$ 1,264	\$30,024
Liabilities:					
SERP liabilities - employee	Other non-current liabilities	\$26,047	\$ —	\$—	\$26,047
Hedge derivatives	Accrued liabilities	—	690	—	690

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Total	\$26,047	\$ 690	\$—	\$26,737
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	Balance Sheet Location	Fair Value at January 31, 2015			Total
		Level 1	Level 2	Level 3	
Assets:					
Available-for-sale securities	Other current assets	\$314	\$—	\$—	\$314
Long-term investment	Other non-current assets	—	—	1,240	1,240
SERP assets - employer	Other non-current assets	1,351	—	—	1,351
SERP assets - employee	Other non-current assets	24,811	—	—	24,811
Hedge derivatives	Other current assets	—	1,298	—	1,298
Total		\$26,476	\$ 1,298	\$ 1,240	\$29,014
Liabilities:					
SERP liabilities - employee	Other non-current liabilities	\$24,811	\$—	\$—	\$24,811
Hedge derivatives	Accrued liabilities	—	71	—	71
Total		\$24,811	\$ 71	\$—	\$24,882

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	Balance Sheet Location	Fair Value at April 30, 2014			
		Level 1	Level 2	Level 3	Total
Assets:					
Available-for-sale securities	Other current assets	\$ 687	\$ —	\$ —	\$ 687
Time deposits	Short-term investments	34,063	—	—	34,063
SERP assets - employer	Other non-current assets	1,273	—	—	1,273
SERP assets - employee	Other non-current assets	22,478	—	—	22,478
Hedge derivatives	Other current assets	—	772	—	772
Total		\$ 58,501	\$ 772	\$ —	\$ 59,273
Liabilities:					
SERP liabilities - employee	Other non-current liabilities	\$ 22,478	\$ —	\$ —	\$ 22,478
Hedge derivatives	Accrued liabilities	—	10	—	10
Total		\$ 22,478	\$ 10	\$ —	\$ 22,488

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

The following table presents a reconciliation of the assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as of April 30, 2015 and 2014 and January 31, 2015. Level 3 consists of a long-term investment.

	April 30, 2015	January 31, 2015	April 30, 2014
Balance, beginning of fiscal year	\$ 1,240	\$ —	\$ —
Purchase of long-term investment	—	1,200	—
Interest income	24	40	—
Balance, end of period	\$ 1,264	\$ 1,240	\$ —

NOTE 2 – EQUITY

The components of equity for the three months ended April 30, 2015 and 2014 are as follows (in thousands):

	Movado Group, Inc. Shareholders' Equity							
	Class Common Stock		Capital in Common Excess of Par Value	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income	Noncontrolling Interests	Total
	(1)	(2)						
Balance, January 31, 2015	\$268	\$ 66	\$174,826	\$358,006	\$(149,811)	\$ 98,854	\$ 2,076	\$484,285
Net income				3,622			19	3,641
Dividends				(2,636)				(2,636)
Stock repurchase					(22,154)			(22,154)
Stock options exercised, net of								
tax benefit of \$42	1		78		(550)			(471)
Supplemental executive retirement plan			100					100
Stock-based compensation expense			1,520					1,520
Net unrealized gain on investments, net of tax of \$4						10		10
Net change in effective portion of hedging contracts, net of tax benefit of \$100						(508)		(508)
Foreign currency translation adjustment (3)						(3,135)	(2)	(3,137)
Balance, April 30, 2015	\$269	\$ 66	\$176,524	\$358,992	\$(172,515)	\$ 95,221	\$ 2,093	\$460,650

	Movado Group, Inc. Shareholders' Equity							
	Class Common Stock		Capital in Common Excess of Par Value	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income	Noncontrolling Interests	Total
	(1)	(2)						
Balance, April 30, 2014	\$266	\$ 66	\$165,342	\$316,334	\$(122,406)	\$ 103,702	\$ 2,686	\$465,990

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Balance, January 31, 2014								
Net income			7,365			64		7,429
Dividends			(2,523)					(2,523)
Stock repurchase					(5,312)			(5,312)
Stock options exercised, net of								
tax benefit of \$858	2		856			(1,324)		(466)
Supplemental executive								
retirement plan			18					18
Stock-based compensation								
expense			1,180					1,180
Net unrealized gain on								
investments, net of tax of \$39						70		70
Stock donation			671		385			1,056
Foreign currency translation								
adjustment (3)						8,060	71	8,131
Balance, April 30, 2014	\$268	\$ 66	\$ 168,067	\$321,176	\$(128,657)	\$ 111,832	\$ 2,821	\$475,573

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

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

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

NOTE 3 – SEGMENT INFORMATION

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

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

The Company divides its business into two major geographic locations: United States operations, and International, which includes the results of all other Company operations. The allocation of geographic revenue is based upon the location of the customer. The Company's International operations in Europe, the Americas (excluding the United States), the Middle East and Asia accounted for 18.6%, 11.0%, 8.7% and 8.1%, respectively, of the Company's total net sales for the three months ended April 30, 2015. For the three months ended April 30, 2014, the Company's International operations in Europe, the Americas (excluding the United States), the Middle East and Asia accounted for 20.3%, 12.8%, 8.1% and 7.4%, respectively, of the Company's total net sales. Substantially all of the Company's International assets are located in Switzerland and Hong Kong.

Operating Segment Data for the Three Months Ended April 30, 2015 and 2014 (in thousands):

	Net Sales	
	2015	2014
Wholesale:		
Luxury brands category	\$44,903	\$44,220
Licensed brands category	60,842	61,729
After-sales service and all other	3,852	3,736
Total Wholesale	109,597	109,685
Retail	10,864	11,236
Consolidated total	\$120,461	\$120,921

	Operating Income	
	2015	2014
Wholesale	\$5,925	\$9,375
Retail	950	1,546
Consolidated total	\$6,875	\$10,921

	Total Assets		
	April 30, 2015	January 31, 2015	April 30, 2014
Wholesale	\$563,947	\$562,462	\$553,833
Retail	20,590	20,561	21,051
Consolidated total	\$584,537	\$583,023	\$574,884

Geographic Location Data for the Three Months Ended April 30, 2015 and 2014 (in thousands):

	Net Sales		Operating Income / (Loss)	
	2015	2014	2015	2014

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United States (1)	\$64,584	\$62,279	\$2,429	\$(843)
International (2)	55,877	58,642	4,446	11,764
Consolidated total	\$120,461	\$120,921	\$6,875	\$10,921

United States and International net sales are net of intercompany sales of \$81.5 million and \$64.8 million for the three months ended April 30, 2015 and 2014, respectively.

(1) The United States operating income included \$7.1 million and \$7.0 million of unallocated corporate expenses for the three months ended April 30, 2015 and 2014.

(2) The International operating income included \$8.8 million and \$9.6 million of certain intercompany profits related to the Company's supply chain operations for the three months ended April 30, 2015 and 2014.

	Total Assets		
	April 30, 2015	January 31, 2015	April 30, 2014
United States	\$214,062	\$209,660	\$218,760
International	370,475	373,363	356,124
Consolidated total	\$584,537	\$583,023	\$574,884

	Long-Lived Assets		
	April 30, 2015	January 31, 2015	April 30, 2014
United States	\$25,072	\$ 25,950	\$24,969
International	19,282		