

MOVADO GROUP INC
Form 10-Q
August 26, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended July 31, 2014

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

For the transition period from _____ to _____

Commission File Number: 1-16497

MOVADO GROUP, INC.

(Exact Name of Registrant as Specified in its Charter)

New York	13-2595932
(State or Other Jurisdiction	(IRS Employer
of Incorporation or Organization)	Identification No.)

650 From Road, Ste. 375

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

(201) 267-8000

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(Registrant's telephone number, including area code)

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

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

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

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

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

The number of shares outstanding of the registrant's Common Stock and Class A Common Stock as of August 20, 2014 were 18,679,631 and 6,642,184, respectively.

MOVADO GROUP, INC.

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July 31, 2014

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

MOVADO GROUP, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)

(Unaudited)

	July 31, 2014	January 31, 2014	July 31, 2013
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 169,649	\$ 157,659	\$ 151,516
Short-term investments	—	33,099	—
Trade receivables	91,214	68,683	74,567
Inventories	195,331	181,305	182,718
Other current assets	41,018	44,564	38,426
Total current assets	497,212	485,310	447,227
Property, plant and equipment, net	46,141	47,796	47,296
Deferred income taxes	14,604	14,891	21,667
Other non-current assets	33,486	30,613	27,451
Total assets	\$591,443	\$578,610	\$543,641
LIABILITIES AND EQUITY			
Current liabilities:			
Accounts payable	\$37,604	\$33,598	\$31,169
Accrued liabilities	40,334	43,573	40,902
Deferred and current income taxes payable	4,819	6,422	5,150
Total current liabilities	82,757	83,593	77,221
Deferred and non-current income taxes payable	3,360	3,518	3,880
Other non-current liabilities	28,063	25,509	24,542
Total liabilities	114,180	112,620	105,643
Commitments and contingencies (Note 8)			
Equity:			
Preferred Stock, \$0.01 par value, 5,000,000 shares authorized; no shares issued	—	—	—
Common Stock, \$0.01 par value, 100,000,000 shares authorized; 26,835,876, 26,643,108 and 26,616,145 shares issued, respectively	268	266	266
Class A Common Stock, \$0.01 par value, 30,000,000 shares authorized; 6,642,184,	66	66	66

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6,638,262 and 6,638,223 shares issued and outstanding, respectively			
Capital in excess of par value	171,424	165,342	162,367
Retained earnings	330,791	316,334	290,209
Accumulated other comprehensive income	103,075	103,702	98,113
Treasury Stock, 8,143,597, 7,945,419 and 7,770,281 shares, respectively, at cost	(131,112)	(122,406)	(115,172)
Total Movado Group, Inc. shareholders' equity	474,512	463,304	435,849
Noncontrolling interests	2,751	2,686	2,149
Total equity	477,263	465,990	437,998
Total liabilities and equity	\$591,443	\$578,610	\$543,641
See Notes to Consolidated Financial Statements			

MOVADO GROUP, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended July 31,		Six Months Ended July 31,	
	2014	2013	2014	2013
Net sales	\$143,591	\$138,301	\$264,512	\$248,311
Cost of sales	65,985	63,483	121,755	113,574
Gross profit	77,606	74,818	142,757	134,737
Selling, general and administrative	60,438	57,778	114,668	107,692
Operating income	17,168	17,040	28,089	27,045
Other income (Note 12)	—	—	—	1,526
Interest expense	(100)	(115)	(194)	(180)
Interest income	11	16	46	39
Income before income taxes	17,079	16,941	27,941	28,430
Provision for income taxes (Note 9)	4,909	4,287	8,342	7,597
Net income	12,170	12,654	19,599	20,833
Less: Net income attributed to noncontrolling interests	19	200	83	169
Net income attributed to Movado Group, Inc.	\$12,151	\$12,454	\$19,516	\$20,664
Basic income per share:				
Weighted basic average shares outstanding	25,384	25,565	25,355	25,544
Net income per share attributed to Movado Group, Inc.	\$0.48	\$0.49	\$0.77	\$0.81
Diluted income per share:				
Weighted diluted average shares outstanding	25,674	25,846	25,685	25,859
Net income per share attributed to Movado Group, Inc.	\$0.47	\$0.48	\$0.76	\$0.80
Dividends declared per share	\$0.10	\$0.05	\$0.20	\$0.10

See Notes to Consolidated Financial Statements

MOVADO GROUP, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

	Three Months Ended July 31,		Six Months Ended July 31,	
	2014	2013	2014	2013
Comprehensive income, net of taxes:				
Net income including noncontrolling interests	\$12,170	\$12,654	\$19,599	\$20,833
Net unrealized (loss) /gain on investments	(1)	112	69	113
Gain on available-for-sale securities	(81)	-	(81)	-
Foreign currency translation adjustments	(8,764)	942	(633)	(4,293)
Comprehensive income including noncontrolling interests	3,324	13,708	18,954	16,653
Less: Comprehensive (loss) / income attributable to noncontrolling interests	(70)	216	65	147
Total comprehensive income attributable to Movado Group, Inc.	\$3,394	\$13,492	\$18,889	\$16,506
See Notes to Consolidated Financial Statements				

MOVADO GROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Six Months Ended July 31,	
	2014	2013
Cash flows from operating activities:		
Net income including noncontrolling interests	\$19,599	\$20,833
Adjustments to reconcile net income to net cash (used in) operating activities:		
Depreciation and amortization	6,097	5,769
Transactional losses	1,077	210
Write-down of inventories	872	691
Deferred income taxes	137	(897)
Stock-based compensation	2,612	1,625
Excess tax benefit from stock-based compensation	(1,204)	(465)
Gain on sale of an asset held for sale	-	(1,526)
Gain on available-for-sale securities	(131)	-
Changes in assets and liabilities:		
Trade receivables	(22,450)	(13,625)
Inventories	(15,158)	(17,979)
Other current assets	1,444	(425)
Accounts payable	4,086	9,237
Accrued liabilities	(2,363)	(8,450)
Income taxes payable	124	5,353
Other non-current assets	(2,977)	(3,561)
Other non-current liabilities	2,556	3,015
Net cash (used in) operating activities	(5,679)	(195)
Cash flows from investing activities:		
Capital expenditures	(4,294)	(10,206)
Trademarks	(32)	(164)
Proceeds from sale of an asset held for sale	-	2,196
Proceeds from short-term investments	33,736	-
Proceeds from available-for-sale securities	307	-
Net cash provided by / (used in) investing activities	29,717	(8,174)
Cash flows from financing activities:		
Stock options exercised and other changes	108	(608)
Excess tax benefit from stock-based compensation	1,204	465
Dividends paid	(5,059)	(2,549)
Stock repurchase	(7,684)	(3,310)
Net cash (used in) financing activities	(11,431)	(6,002)
	(617)	(2,002)

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Effect of exchange rate changes on cash and cash equivalents		
Net increase / (decrease) in cash and cash equivalents	11,990	(16,373)
Cash and cash equivalents at beginning of period	157,659	167,889
Cash and cash equivalents at end of period	\$ 169,649	\$ 151,516

See Notes to Consolidated Financial Statements

MOVADO GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

BASIS OF PRESENTATION

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

NOTE 1 – RECLASSIFICATIONS

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

NOTE 2 – FAIR VALUE MEASUREMENTS

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

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

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

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

The following tables present the fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis (in thousands):

	Balance Sheet Location	Fair Value at July 31, 2014			Total
		Level 1	Level 2	Level 3	
Assets:					
Available-for-sale securities	Other current assets	\$377	\$ —	\$ —	\$377
SERP assets - employer	Other non-current assets	1,521	—	—	1,521
SERP assets - employee	Other non-current assets	23,382	—	—	23,382

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Hedge derivatives	Other current assets	—	1	—	1
Total		\$25,280	\$ 1	\$ —	\$25,281
Liabilities:					
SERP liabilities - employee	Other non-current liabilities	\$23,382	\$ —	\$ —	\$23,382
Hedge derivatives	Accrued liabilities	—	829	—	829
Total		\$23,382	\$ 829	\$ —	\$24,211

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

	Balance Sheet Location	Fair Value at July 31, 2013			
		Level 1	Level 2	Level 3	Total
Assets:					
Available-for-sale securities	Other current assets	\$399	\$ —	\$ —	\$399
SERP assets - employer	Other non-current assets	1,171	—	—	1,171
SERP assets - employee	Other non-current assets	19,302	—	—	19,302
Hedge derivatives	Other current assets	—	863	—	863
Total		\$20,872	\$ 863	\$ —	\$21,735
Liabilities:					
SERP liabilities - employee	Other non-current liabilities	\$19,302	\$ —	\$ —	\$19,302
Hedge derivatives	Accrued liabilities	—	40	—	40
Total		\$19,302	\$ 40	\$ —	\$19,342

The fair values of the Company's available-for-sale securities are based on quoted prices. Time deposits are classified as short-term investments and held to original maturity. 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 – EQUITY

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

	Movado Group, Inc. Shareholders' Equity							
	Class A		Capital in Excess of Par Value	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income	Noncontrolling Interests	Total
Common Stock (1)	Common Stock (2)							
Balance, January 31, 2014	\$ 266	\$ 66	\$ 165,342	\$ 316,334	\$(122,406)	\$ 103,702	\$ 2,686	\$ 465,990
Net income				19,516			83	19,599
Dividends				(5,059)				(5,059)
Stock repurchase					(7,684)			(7,684)
Stock options exercised, net of tax benefit of \$1,204	2		2,717		(1,407)			1,312
Supplemental executive retirement plan			82					82
Stock-based compensation expense			2,612					2,612
Net unrealized gain on investments, net of tax of \$39						69		69
Stock donation			671		385			1,056
Gain on available-for-sale securities, net of tax benefit \$50						(81)		(81)
Foreign currency translation adjustment (3)						(615)	(18)	(633)
Balance, July 31, 2014	\$ 268	\$ 66	\$ 171,424	\$ 330,791	\$(131,112)	\$ 103,075	\$ 2,751	\$ 477,263

	Class							
	Class A		Capital in Excess of Par Value	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income	Noncontrolling Interests	Total
Common Stock (1)	Common Stock (2)							
Balance, January 31, 2013	\$ 264	\$ 66	\$ 159,696	\$ 272,094	\$(110,701)	\$ 102,271	\$ 2,002	\$ 425,692

Net income	20,664	169	20,833
Dividends			