

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, 2017

☐ 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)

650 From Road, Ste. 375  
Paramus, New Jersey  
(Address of Principal Executive Offices)

13-2595932  
(IRS Employer  
Identification No.)

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 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, smaller reporting company, or an emerging growth 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 number of shares outstanding of the registrant's Common Stock and Class A Common Stock as of August 22, 2017 were 16,319,145 and 6,651,950, respectively.

MOVADO GROUP, INC.  
Index to Quarterly Report on Form 10-Q  
July 31, 2017

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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, 2017	January 31, 2017	July 31, 2016
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 162,417	\$ 256,279	\$ 205,795
Trade receivables, net	81,513	66,847	72,737
Inventories	176,967	153,167	186,090
Other current assets	31,825	28,487	34,807
Total current assets	452,722	504,780	499,429
Property, plant and equipment, net	31,412	34,173	35,726
Deferred and non-current income taxes	24,924	24,837	20,656
Goodwill	56,116	—	—
Other intangibles, net	23,184	1,633	1,837
Other non-current assets	45,715	42,379	41,088
Total assets	<u>\$ 634,073</u>	<u>\$ 607,802</u>	<u>\$ 598,736</u>
<b>LIABILITIES AND EQUITY</b>			
Current liabilities:			
Loans payable to bank, current	\$ 5,000	\$ 5,000	\$ 3,000
Accounts payable	35,174	27,192	26,013
Accrued liabilities	44,192	35,061	37,676
Income taxes payable	1,730	4,149	2,120
Total current liabilities	86,096	71,402	68,809
Loans payable to bank	25,000	25,000	35,000
Deferred and non-current income taxes payable	7,759	3,322	3,089
Other non-current liabilities	37,060	34,085	32,206
Total liabilities	155,915	133,809	139,104
Commitments and contingencies (Note 9)			
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; 27,291,230, 27,176,656 and 27,137,049 shares issued and outstanding, respectively	273	272	271
Class A Common Stock, \$0.01 par value, 30,000,000 shares authorized; 6,651,950, 6,644,105 and 6,644,105 shares issued and outstanding, respectively	67	66	66
Capital in excess of par value	187,852	185,354	182,185
Retained earnings	411,275	415,919	396,432
Accumulated other comprehensive income	85,478	76,780	83,413
Treasury Stock, 10,972,873, 10,869,321 and 10,830,958 shares, respectively, at cost	(206,787)	(204,398)	(203,384)
Total Movado Group, Inc. shareholders' equity	478,158	473,993	458,983
Noncontrolling interests	—	—	649
Total equity	478,158	473,993	459,632
Total liabilities and equity	<u>\$ 634,073</u>	<u>\$ 607,802</u>	<u>\$ 598,736</u>

See Notes to Consolidated Financial Statements

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

	<b>Three Months Ended July 31,</b>		<b>Six Months Ended July 31,</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Net sales	\$ 128,781	\$ 128,086	\$ 228,046	\$ 242,149
Cost of sales	62,655	57,823	112,783	110,569
Gross profit	66,126	70,263	115,263	131,580
Selling, general, and administrative	57,809	60,172	110,594	116,111
Operating income	8,317	10,091	4,669	15,469
Interest expense	(390)	(331)	(746)	(706)
Interest income	129	36	251	93
Income before income taxes	8,056	9,796	4,174	14,856
Provision for income taxes (Note 10)	2,574	3,441	2,851	5,164
Net income	5,482	6,355	1,323	9,692
Less: Net income attributed to noncontrolling interests	—	49	—	78
Net income attributed to Movado Group, Inc.	\$ 5,482	\$ 6,306	\$ 1,323	\$ 9,614
<b>Basic income per share:</b>				
Weighted basic average shares outstanding	23,085	23,092	23,080	23,083
Net income per share attributed to Movado Group, Inc.	\$ 0.24	\$ 0.27	\$ 0.06	\$ 0.42
<b>Diluted income per share:</b>				
Weighted diluted average shares outstanding	23,218	23,192	23,253	23,237
Net income per share attributed to Movado Group, Inc.	\$ 0.24	\$ 0.27	\$ 0.06	\$ 0.41
Dividends declared per share	0.13	\$ 0.13	0.26	\$ 0.26

See Notes to Consolidated Financial Statements

**MOVADO GROUP, INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(In thousands)  
(Unaudited)

	<b>Three Months Ended July 31,</b>		<b>Six Months Ended July 31,</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
<b>Comprehensive income, net of taxes:</b>				
Net income including noncontrolling interests	\$ 5,482	\$ 6,355	\$ 1,323	\$ 9,692
Net unrealized gain / (loss) on investments, net of tax (benefit) of \$6, \$(5), \$0 and \$(3), respectively	13	(4)	1	2
Net change in effective portion of hedging contracts, net of tax (benefit) of \$(53), \$60, \$(79) and \$14, respectively	(266)	306	(411)	74
Foreign currency translation adjustments	10,838	(3,092)	9,108	14,808
Comprehensive income including noncontrolling interests	16,067	3,565	10,021	24,576
Less: Comprehensive income attributed to noncontrolling interests	—	17	—	54
Total comprehensive income attributed to Movado Group, Inc.	\$ 16,067	\$ 3,548	\$ 10,021	\$ 24,522

See Notes to Consolidated Financial Statements

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

	Six Months Ended July 31,	
	2017	2016
Cash flows from operating activities:		
Net income including noncontrolling interests	\$ 1,323	\$ 9,692
Adjustments to reconcile net income to net cash (used in) operating activities:		
Depreciation and amortization	6,009	5,688
Transactional (gains) / losses	(444)	1,925
Write-down of inventories	886	867
Deferred income taxes	9	142
Stock-based compensation	2,433	4,026
Cost savings initiative	6,419	—
Changes in assets and liabilities:		
Trade receivables	(10,267)	(1,614)
Inventories	(18,774)	(21,134)
Other current assets	(2,237)	(5,271)
Accounts payable	7,102	(1,806)
Accrued liabilities	911	(1,196)
Income taxes payable	(3,090)	(4,392)
Other non-current assets	(3,250)	(4,863)
Other non-current liabilities	2,948	3,603
Net cash (used in) operating activities	(10,022)	(14,333)
Cash flows from investing activities:		
Capital expenditures	(2,005)	(1,796)
Short-term investment	—	(154)
Restricted cash deposits	1,018	(1,156)
Trademarks and other intangibles	(463)	(263)
Acquisition, net of cash acquired	(78,991)	—
Net cash (used in) investing activities	(80,441)	(3,369)
Cash flows from financing activities:		
Proceeds from bank borrowings	—	3,000
Repayments of bank borrowings	—	(5,000)
Stock options exercised and other changes	(733)	(1,248)
Dividends paid	(5,967)	(5,970)
Stock repurchase	(1,655)	(2,858)
Net cash (used in) financing activities	(8,355)	(12,076)
Effect of exchange rate changes on cash and cash equivalents	4,956	7,385
Net (decrease) in cash and cash equivalents	(93,862)	(22,393)
Cash and cash equivalents at beginning of period	256,279	228,188
Cash and cash equivalents at end of period	\$ 162,417	\$ 205,795

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, 2017 (the “2017 Annual Report on Form 10-K”). The unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, which require the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the unaudited consolidated financial statements and the reported amounts of revenues and expenses during the periods reported. Actual results could differ from those estimates. 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, 2017 is derived from the audited annual financial statements, which are included in the Company’s 2017 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 fiscal 2018 presentation. As a result of the adoption of ASU 2016-09, “Improvements to Employee Share-Based Payment Accounting,” excess tax benefits and deficiencies related to sharebased compensation are reported as operating activities in the statement of cash flows.

**NOTE 2 - CHANGES TO CRITICAL ACCOUNTING POLICIES**

As a result of the acquisition of JLB Brands Ltd., the owner of the Olivia Burton brand, in the second quarter of fiscal 2018, the Company has made the following additions to its critical accounting policies related to intangible assets and goodwill (see Note 17 – Acquisitions).

*Intangibles*

In accordance with applicable guidance, the Company estimates and records the fair value of purchased intangible assets at the time of its acquisition, which in the acquisition of the Olivia Burton brand primarily consist of a trade name and customer relationships. The fair values of these intangible assets are estimated based on independent third-party appraisals. Finite-lived intangible assets are amortized over their respective estimated useful lives and are evaluated for impairment periodically whenever events or changes in circumstances indicate that their related carrying values may not be fully recoverable. Estimates of fair value for finite-lived intangible assets are primarily determined using discounted cash flows, with consideration of market comparisons and recent transactions. This approach may use significant estimates and assumptions, including projected future cash flows, discount rates and growth rates.

*Goodwill*

At the time of acquisition, in accordance with applicable guidance, the Company records all acquired net assets at their estimated fair values. These estimated fair values are based on management’s assessments and independent third-party appraisals. The excess of the purchase consideration over the aggregate estimated fair values of the acquired net assets is recorded as goodwill.

Goodwill will not be amortized but will be assessed for impairment at least annually. Under applicable guidance, the Company generally performs its annual goodwill impairment analysis using a qualitative approach to determine whether it is more likely than not that the fair value of goodwill is less than its carrying value. If, based on the results of the qualitative assessment, it is concluded that it is more likely than not that the fair value of goodwill is less than its carrying value, a quantitative test is performed. The Company early adopted ASU 2017-04 “Intangibles - Goodwill and Other: Simplifying the Test for Goodwill Impairment” (see Note 14 – Accounting Changes and Recent Accounting Pronouncements) on a prospective basis during the second quarter of fiscal 2018 in light of goodwill in the period, associated with the acquisition of the Olivia Burton brand.

The quantitative impairment test is performed to measure the amount of impairment loss, if any. The quantitative impairment test identifies the existence of potential impairment by comparing the fair value of each reporting unit with its carrying value, including goodwill. If a reporting unit's carrying amount exceeds its fair value, the Company will record an impairment charge, as an operating expense item, based on that difference. The impairment charge will be limited to the amount of goodwill allocated to that reporting unit.

Determination of the fair value of a reporting unit and the fair value of individual assets and liabilities of a reporting unit is based on management's assessment, including the consideration of independent third-party appraisals when necessary. Furthermore, this determination is subjective in nature and involves the use of significant estimates and assumptions. These estimates and assumptions could have a significant impact on whether or not an impairment charge is recognized and the amount of any such charge. Estimates of fair value are primarily determined using discounted cash flows, market comparisons, and recent transactions. These approaches use significant estimates and assumptions, including projected future cash flows, discount rates, growth rates, and determination of appropriate market comparisons.

### NOTE 3 – 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 July 31, 2017 and 2016 and January 31, 2017:

		Fair Value at July 31, 2017			
	Balance Sheet Location	Level 1	Level 2	Level 3	Total
<b>Assets:</b>					
Available-for-sale securities	Other current assets	\$ 313	\$ —	\$ —	\$ 313
Short-term investment	Other current assets	161	—	—	161
SERP assets - employer	Other non-current assets	1,394	—	—	1,394
SERP assets - employee	Other non-current assets	34,007	—	—	34,007
Hedge derivatives	Other current assets	—	402	—	402
Total		<u>\$ 35,875</u>	<u>\$ 402</u>	<u>\$ —</u>	<u>\$ 36,277</u>
<b>Liabilities:</b>					
SERP liabilities - employee	Other non-current liabilities	\$ 34,007	\$ —	\$ —	\$ 34,007
Hedge derivatives	Accrued liabilities	—	489	—	489
Total		<u>\$ 34,007</u>	<u>\$ 489</u>	<u>\$ —</u>	<u>\$ 34,496</u>

		Fair Value at January 31, 2017			
	Balance Sheet Location	Level 1	Level 2	Level 3	Total
<b>Assets:</b>					
Available-for-sale securities	Other current assets	\$ 309	\$ —	\$ —	\$ 309
Short-term investment	Other current assets	154	—	—	154
SERP assets - employer	Other non-current assets	1,091	—	—	1,091
SERP assets - employee	Other non-current assets	30,831	—	—	30,831
Hedge derivatives	Other current assets	—	145	—	145
Total		<u>\$ 32,385</u>	<u>\$ 145</u>	<u>\$ —</u>	<u>\$ 32,530</u>
<b>Liabilities:</b>					
SERP liabilities - employee	Other non-current liabilities	\$ 30,831	\$ —	\$ —	\$ 30,831
Hedge derivatives	Accrued liabilities	—	211	—	211
Total		<u>\$ 30,831</u>	<u>\$ 211</u>	<u>\$ —</u>	<u>\$ 31,042</u>



	Balance Sheet Location	Fair Value at July 31, 2016			
		Level 1	Level 2	Level 3	Total
<b>Assets:</b>					
Available-for-sale securities	Other current assets	\$ 271	\$ —	\$ —	\$ 271
Short-term investment	Other current assets	154	—	—	154
SERP assets - employer	Other non-current assets	1,364	—	—	1,364
SERP assets - employee	Other non-current assets	28,469	—	—	28,469
Hedge derivatives	Other current assets	—	549	—	549
Total		<u>\$ 30,258</u>	<u>\$ 549</u>	<u>\$ —</u>	<u>\$ 30,807</u>
<b>Liabilities:</b>					
SERP liabilities - employee	Other non-current liabilities	\$ 28,469	\$ —	\$ —	\$ 28,469
Hedge derivatives	Accrued liabilities	—	92	—	92
Total		<u>\$ 28,469</u>	<u>\$ 92</u>	<u>\$ —</u>	<u>\$ 28,561</u>

The fair values of the Company's available-for-sale securities are based on quoted prices. The fair value of the short-term investment, which is a guaranteed investment certificate, is based on its purchase price plus one half of a percent calculated annually. 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 exchange rate risks. Fair values of the Company's hedge derivatives are calculated based on quoted foreign exchange rates and quoted interest rates. The carrying amount of debt approximated fair value as of July 31, 2017.

#### NOTE 4 – EQUITY

The components of equity for the six months ended July 31, 2017 and 2016 are as follows (in thousands):

	Movado Group, Inc. Shareholders' Equity							
	Common Stock (1)	Class A Common Stock (2)	Capital in Excess of Par Value	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income	Noncontrolling Interests	Total
Balance, January 31, 2017	\$ 272	\$ 66	\$ 185,354	\$ 415,919	\$ (204,398)	\$ 76,780	\$ —	\$ 473,993
Net income				1,323				1,323
Dividends				(5,967)				(5,967)
Stock repurchase					(1,655)			(1,655)
Stock options exercised	1	1	(1)		(734)			(733)
Supplemental executive retirement plan			66					66
Stock-based compensation expense			2,433					2,433
Net unrealized gain on investments, net of tax of \$0						1		1
Net change in effective portion of hedging contracts, net of tax benefit of \$79						(411)		(411)
Foreign currency translation adjustment (3)						9,108		9,108
Balance, July 31, 2017	\$ 273	\$ 67	\$ 187,852	\$ 411,275	\$ (206,787)	\$ 85,478	\$ —	\$ 478,158
	Common Stock (1)	Class A Common Stock (2)	Capital in Excess of Par Value	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income	Noncontrolling Interests	Total
Balance, January 31, 2016	\$ 270	\$ 66	\$ 178,118	\$ 392,788	\$ (199,195)	\$ 68,505	\$ 595	\$ 441,147
Net income				9,614			78	9,692
Dividends				(5,970)				(5,970)
Stock repurchase					(2,858)			(2,858)
Stock options exercised, net of tax of \$160	1		(78)		(1,331)			(1,408)
Supplemental executive retirement plan			119					119
Stock-based compensation expense			4,026					4,026
Net unrealized gain on investments, net of tax benefit of \$3						2		2
Net change in effective portion of hedging contracts, net of tax of \$14						74		74
Foreign currency translation adjustment (3)						14,832	(24)	14,808
Balance, July 31, 2016	\$ 271	\$ 66	\$ 182,185	\$ 396,432	\$ (203,384)	\$ 83,413	\$ 649	\$ 459,632

(1) Each share of common stock is entitled to one vote per share on all matters submitted to a vote of the shareholders.

(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 5 – SEGMENT AND GEOGRAPHIC INFORMATION

The Company follows accounting guidance which requires disclosure of segment data based on how management makes decisions about allocating resources to segments and measuring their performance.

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 owned brands and licensed brands, in addition to revenue generated from after-sales service activities and shipping. The Retail segment includes the Company's retail outlet locations.

The Company divides its business into two major geographic locations: United States operations, and International, which includes the results of all non-U.S. 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 26.4%, 10.2%, 9.3% and 6.1%, respectively, of the Company's total net sales for the three months ended July 31, 2017. For the three months ended July 31, 2016, the Company's International operations in Europe, the Americas (excluding the United States), the Middle East and Asia accounted for 22.3%, 8.3%, 10.0% and 7.2%, respectively, of the Company's total net sales.

The Company's International operations in Europe, the Americas (excluding the United States), the Middle East and Asia accounted for 27.8%, 10.4%, 8.9% and 6.1%, respectively, of the Company's total net sales for the six months ended July 31, 2017. For the six months ended July 31, 2016, the Company's International operations in Europe, the Americas (excluding the United States), the Middle East and Asia accounted for 22.8%, 9.2%, 9.3% and 6.3%, respectively, of the Company's total net sales. Substantially all of the Company's tangible International assets are located in Switzerland and Hong Kong.

**Operating Segment Data for the Three Months Ended July 31, 2017 and 2016 (in thousands):**

	Net Sales	
	2017	2016
Wholesale:		
Owned brands category	\$ 46,339	\$ 46,643
Licensed brands category	62,529	61,571
After-sales service and all other	2,150	2,997
Total Wholesale	111,018	111,211
Retail	17,763	16,875
Consolidated total	\$ 128,781	\$ 128,086
	Operating Income (3) (4)	
	2017	2016
Wholesale	\$ 4,797	\$ 6,633
Retail	3,520	3,458
Consolidated total	\$ 8,317	\$ 10,091

**Operating Segment Data for the Six Months Ended July 31, 2017 and 2016 (in thousands):**

	Net Sales	
	2017	2016
Wholesale:		
Owned brands category	\$ 79,481	\$ 88,679
Licensed brands category	113,899	118,411
After-sales service and all other	4,798	6,079
Total Wholesale	198,178	213,169
Retail	29,868	28,980
Consolidated total	\$ 228,046	\$ 242,149
	Operating Income (3) (4)	
	2017	2016
Wholesale	\$ 309	\$ 11,201
Retail	4,360	4,268
Consolidated total	\$ 4,669	\$ 15,469

	Total Assets		
	July 31, 2017	January 31, 2017	July 31, 2016
Wholesale	\$ 609,893	\$ 584,518	\$ 575,903
Retail	24,180	23,284	22,833
Consolidated total	\$ 634,073	\$ 607,802	\$ 598,736

**Geographic Location Data for the Three Months Ended July 31, 2017 and 2016 (in thousands):**

	Net Sales		Operating Income / (Loss) (3) (4)	
	2017	2016	2017	2016
United States (1)	\$ 61,845	\$ 66,823	\$ 1,401	\$ (392)
International (2)	66,936	61,263	6,916	10,483
Consolidated total	<u>\$ 128,781</u>	<u>\$ 128,086</u>	<u>\$ 8,317</u>	<u>\$ 10,091</u>

United States and International net sales are net of intercompany sales of \$62.3 million and \$72.4 million for the three months ended July 31, 2017 and 2016, respectively.

**Geographic Location Data for the Six Months Ended July 31, 2017 and 2016 (in thousands):**

	Net Sales		Operating (Loss) / Income (3) (4)	
	2017	2016	2017	2016
United States (1)	\$ 106,640	\$ 126,880	\$ (8,380)	\$ (1,785)
International (2)	121,406	115,269	13,049	17,254
Consolidated total	<u>\$ 228,046</u>	<u>\$ 242,149</u>	<u>\$ 4,669</u>	<u>\$ 15,469</u>

United States and International net sales are net of intercompany sales of \$124.6 million and \$155.9 million for the six months ended July 31, 2017 and 2016, respectively.

- (1) The United States operating income / (loss) included \$7.2 million and \$10.0 million of unallocated corporate expenses for the three months ended July 31, 2017 and 2016, respectively. The United States operating loss included \$13.4 million and \$18.7 million of unallocated corporate expenses for the six months ended July 31, 2017 and 2016, respectively.
- (2) The International operating income included \$7.9 million and \$9.4 million of certain intercompany profits related to the Company's supply chain operations for the three months ended July 31, 2017 and 2016, respectively. The International operating income included \$15.5 million and \$16.5 million of certain intercompany profits related to the Company's supply chain operations for the six months ended July 31, 2017 and 2016, respectively.
- (3) In the International location of the Wholesale segment, for the three months ended July 31, 2017, operating income included a pre-tax charge of \$0.1 million, as a result of the Company's cost savings initiatives. In the United States and International locations of the Wholesale segment, for the six months ended July 31, 2017, operating (loss) / income included a pre-tax charge of \$3.8 million and \$2.6 million, respectively, as a result of the Company's cost savings initiatives.
- (4) In the United States and International locations of the Wholesale segment, for both the three and the six months ended July 31, 2017, operating income / (loss) included \$0.2 million and \$4.3 million, respectively, of expenses primarily related to transaction costs and adjustments in acquisition accounting, as a result of the Company's acquisition of the Olivia Burton brand.

	Total Assets		
	July 31, 2017	January 31, 2017	July 31, 2016
United States	\$ 216,929	\$ 207,246	\$ 221,081
International	417,144	400,556	377,655
Consolidated total	<u>\$ 634,073</u>	<u>\$ 607,802</u>	<u>\$ 598,736</u>

	Property, Plant and Equipment, Net		
	July 31, 2017	January 31, 2017	July 31, 2016
United States	\$ 17,521	\$ 19,197	\$ 21,686
International	13,891	14,976	14,040
Consolidated total	<u>\$ 31,412</u>	<u>\$ 34,173</u>	<u>\$ 35,726</u>

**NOTE 6 – INVENTORIES**

Inventories consisted of the following (in thousands):

	July 31, 2017	January 31, 2017	July 31, 2016
Finished goods	\$ 132,659	\$ 112,297	\$ 134,421
Component parts	41,932	38,482	47,717
Work-in-process	2,376	2,388	3,952
	<u>\$ 176,967</u>	<u>\$ 153,167</u>	<u>\$ 186,090</u>

**NOTE 7 – DEBT AND LINES OF CREDIT**

On January 30, 2015, the Company, together with Movado Group Delaware Holdings Corporation, Movado Retail Group, Inc. and Movado LLC (collectively, the “Borrowers”), each a wholly-owned domestic subsidiary of the Company, entered into a Credit Agreement (the “Credit Agreement”) with the lenders party thereto and Bank of America, N.A. as administrative agent (in such capacity, the “Agent”). The Credit Agreement provides for a \$100.0 million senior secured revolving credit facility (the “Facility”) including a \$15.0 million letter of credit sub-facility that matures on January 30, 2020, with provisions for uncommitted increases of up to \$50.0 million in the aggregate, subject to customary terms and conditions. In connection with the Credit Agreement, the Borrowers also entered into a Security and Pledge Agreement dated as of January 30, 2015 in favor of the Agent (the “Security Agreement”).

As of July 31, 2017, \$30.0 million in loans were drawn under the Facility. Additionally, approximately \$0.3 million in letters of credit, which were outstanding under the Borrower’s pre-existing asset-based revolving credit facility that was concurrently terminated when the Credit Agreement became effective, are deemed to be issued and outstanding under the Facility. As of July 31, 2017, availability under the Facility was approximately \$69.7 million.

Borrowings under the Facility bear interest at rates selected periodically by the Company at LIBOR plus a spread ranging from 1.25% to 1.75% per annum, based on the Company’s consolidated leverage ratio, or at a base rate plus a spread ranging from 0.25% to 0.75% per annum based on the Company’s consolidated leverage ratio (as defined in the Credit Agreement). At July 31, 2017, the Company’s spreads were 1.25% over LIBOR and 0.25% over the base rate. The Company has also agreed to pay certain fees and expenses and to provide certain indemnities, all of which are customary for such financings.

The borrowings under the Facility are joint and several obligations of the Borrowers and are also cross-guaranteed by each Borrower. In addition, pursuant to the Security Agreement, the Borrowers’ obligations under the Facility are secured by first priority liens, subject to permitted liens, on substantially all of the Borrowers’ assets other than certain excluded assets. The Security Agreement contains representations, warranties and covenants, which are customary for pledge and security agreements of this type, relating to the creation and perfection of security interests in favor of the Agent over various categories of the Borrowers’ assets.

The Credit Agreement contains affirmative and negative covenants binding on the Borrowers and their subsidiaries that are customary for credit facilities of this type, including, but not limited to, restrictions and limitations on the incurrence of debt and liens, dispositions of assets, capital expenditures, dividends and other payments in respect of equity interests, the making of loans and equity investments, mergers, consolidations, liquidations and dissolutions, and transactions with affiliates (in each case, subject to various exceptions).

The Borrowers are also subject to a minimum consolidated EBITDA (as defined in the Credit Agreement) test of \$50.0 million, measured at the end of each fiscal quarter based on the four most recent fiscal quarters and a consolidated leverage ratio (as defined in the Credit Agreement) covenant not to exceed 2.50 to 1.00, measured as of the last day of each fiscal quarter. As of July 31, 2017, the Company was in compliance with its covenants under the Credit Agreement.

The Credit Agreement contains events of default that are customary for facilities of this type, including, but not limited to, nonpayment of principal, interest, fees and other amounts when due, failure of any representation or warranty to be true in any material respect when made or deemed made, violation of covenants, cross default with material indebtedness, material judgments, material ERISA liability, bankruptcy events, asserted or actual revocation or invalidity of the loan documents, and change of control.

As of July 31, 2017, the Company classified \$5.0 million of the outstanding balance under the Facility as current based on voluntary payments estimated to be made in the next twelve months, with the remainder classified as long-term debt based on the 2020 maturity date of the Facility and the Company’s intent and ability to refinance its obligations thereunder.

As of July 31, 2017, Bank of America, N.A. issued two irrevocable standby letters of credit in connection with retail and operating facility leases to various landlords and for Canadian payroll to the Royal Bank of Canada. As of July 31, 2017, the Company had outstanding letters of credit totaling \$0.3 million with expiration dates through May 31, 2018.

A Swiss subsidiary of the Company maintains unsecured lines of credit with an unspecified maturity with a Swiss bank. As of July 31, 2017 and 2016, these lines of credit totaled 6.5 million Swiss francs and 5.0 million Swiss francs with a dollar equivalent of \$6.7 million and \$5.2 million, respectively. As of July 31, 2017 and 2016, there were no borrowings against these lines. As of July 31, 2017, two European banks had guaranteed obligations to third parties on behalf of two of the Company's foreign subsidiaries in the dollar equivalent of \$1.2 million, in various foreign currencies, of which \$0.6 million is a restricted deposit as it relates to lease agreements. As of July 31, 2016, three European banks had guaranteed obligations to third parties on behalf of two of the Company's foreign subsidiaries in the dollar equivalent of \$1.2 million in various foreign currencies, of which \$0.6 million is a restricted deposit as it relates to lease agreements.

**NOTE 8 – EARNINGS PER SHARE**

The Company presents net income per share on a basic and diluted basis. Basic earnings per share are computed using weighted-average shares outstanding during the period. Diluted earnings per share are computed using the weighted-average number of shares outstanding adjusted for dilutive common stock equivalents.

The weighted-average number of shares outstanding for basic earnings per share was approximately 23,085,000 and 23,092,000 for the three months ended July 31, 2017 and 2016, respectively. For the three months ended July 31, 2017 and 2016, the number of shares outstanding for diluted earnings per share increased by approximately 133,000 and 100,000, respectively, due to potentially dilutive common stock equivalents issuable under the Company's stock compensation plans and SERP.

For the three months ended July 31, 2017 and 2016, approximately 810,000 and 1,005,000, respectively, of potentially dilutive common stock equivalents were excluded from the computation of diluted earnings per share because their effect would have been antidilutive.

The weighted-average number of shares outstanding for basic earnings per share was approximately 23,080,000 and 23,083,000 for the six months ended July 31, 2017 and 2016, respectively. For the six months ended July 31, 2017 and 2016, the number of shares outstanding for diluted earnings per share increased by approximately 173,000 and 154,000, respectively, due to potentially dilutive common stock equivalents issuable under the Company's stock compensation plans and SERP.

For the six months ended July 31, 2017 and 2016, approximately 807,000 and 837,000, respectively, of potentially dilutive common stock equivalents were excluded from the computation of diluted earnings per share because their effect would have been antidilutive.

**NOTE 9 – COMMITMENTS AND CONTINGENCIES**

The Company has minimum commitments related to the Company's license agreements and endorsement agreements with brand ambassadors. The Company sources, distributes, advertises and sells watches pursuant to its exclusive license agreements with unaffiliated licensors. Royalty amounts under the license agreements are generally based on a stipulated percentage of revenues, although most of these agreements contain provisions for the payment of minimum annual royalty amounts. The license agreements have various terms and some have additional renewal options, provided that minimum sales levels are achieved. Additionally, the license agreements require the Company to pay minimum annual advertising amounts.

The Company believes that income tax reserves are adequate; however, amounts asserted by taxing authorities could be greater or less than amounts accrued and reflected in the consolidated balance sheets. Accordingly, the Company could record adjustments to the amounts for federal, state, and foreign liabilities in the future as the Company revises estimates or settles or otherwise resolves the underlying matters. In the ordinary course of business, the Company may take new positions that could increase or decrease unrecognized tax benefits in future periods.

During the three months ended July 31, 2017, the Company released to cash \$1.0 million in restricted cash deposits that were previously recorded in other current assets on the Company's Consolidated Balance Sheet, related to a certain vendor agreement.

In December 2016, U.S. Customs and Border Protection ("U.S. Customs") issued an audit report concerning the methodology used by the Company to allocate the cost of certain watch styles imported into the U.S. among the component parts of those watches for tariff purposes. The report disputes the reasonableness of the Company's historical allocation formulas and proposes an alternative methodology that would imply approximately \$5.1 million in underpaid duties over the five-year period covered by the statute of limitations, plus possible penalties and interest. The Company believes that U.S. Customs' alternative duty methodology and estimate

are not consistent with the Company's facts and circumstances and is disputing U.S. Customs' position. On February 24, 2017, the Company provided U.S. Customs with supplemental analyses and information supporting the Company's historical allocation formulas and is in the process of providing additional information for U.S. Customs' review. Although the Company disagrees with U.S. Customs' position, it cannot predict with any certainty the outcome of this matter. The Company intends to continue to work with U.S. Customs to reach a mutually-satisfactory resolution.

The Company is involved in legal proceedings and claims from time to time, in the ordinary course of its business. Legal reserves are recorded in accordance with the accounting guidance for contingencies. Contingencies are inherently unpredictable and it is possible that results of operations, balance sheets or cash flows could be materially and adversely affected in any particular period by unfavorable developments in, or resolution or disposition of, such matters. For those legal proceedings and claims for which the Company believes that it is probable that a reasonably estimable loss may result, the Company records a reserve for the potential loss. For proceedings and claims where the Company believes it is reasonably possible that a loss may result that is materially in excess of amounts accrued for the matter, the Company either discloses an estimate of such possible loss or range of loss or includes a statement that such an estimate cannot be made. As of July 31, 2017, the Company is party to legal proceedings and contingencies, the resolution of which is not expected to materially affect its financial condition, future results of operations beyond the amounts accrued, or cash flows.

#### **NOTE 10 – INCOME TAXES**

The Company recorded income tax expense of \$2.6 million and \$3.4 million for the three months ended July 31, 2017 and 2016, respectively.

The effective tax rate was 32.0% and 35.1% for the three months ended July 31, 2017 and 2016, respectively. The decrease in the effective tax rate results primarily from decreased losses in the current period for certain foreign operations in which no tax benefit is recognized, partially offset by acquisition costs related to the Olivia Burton brand acquisition (see Note 17 – Acquisitions for additional disclosures).

The Company recorded income tax expense of \$2.9 million and \$5.2 million for the six months ended July 31, 2017 and 2016, respectively.

The effective tax rate was 68.3% and 34.8% for the six months ended July 31, 2017 and 2016, respectively. The increase in the effective tax rate was primarily due to the adoption of ASU 2016-09, "Improvements to Employee Share-Based Payment Accounting," (which requires that excess tax benefits and deficiencies associated with share-based compensation activity be recorded as an income tax expense or benefit in the period the shares vest or are settled. See Note 14 – Accounting Changes and Recent Accounting Pronouncements for additional disclosures) and acquisition costs related to the acquisition of the Olivia Burton brand (see Note 17 – Acquisitions for additional disclosures), partially offset by changes in jurisdictional earnings.

The effective tax rate for the three and six months ended July 31, 2017 differs from the U.S. statutory tax rate of 35.0% primarily due to foreign profits being taxed in lower taxing jurisdictions and acquisition costs related to the acquisition of the Olivia Burton brand (see Note 17 – Acquisitions for additional disclosures). The effective tax rate for the six months ended July 31, 2017 also includes an increase primarily due to the adoption of ASU 2016-09 and no tax benefit being recognized on losses incurred by certain foreign operations.

The effective tax rate for the three and six months ended July 31, 2016 differs from the U.S. statutory tax rate of 35.0% primarily due to foreign profits being taxed in lower taxing jurisdictions, partially offset by no tax benefit being recognized on losses incurred by certain foreign operations.

## NOTE 11 – DERIVATIVE FINANCIAL INSTRUMENTS

The Company accounts for its derivative financial instruments in accordance with the accounting guidance which requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. A significant portion of the Company's purchases are denominated in Swiss francs and, to a lesser extent, the Japanese Yen. The Company also sells to third-party customers in a variety of foreign currencies, most notably the Euro and the British Pound. The Company reduces its exposure to the Swiss franc, Euro, British Pound and Japanese Yen exchange rate risks through a hedging program. Under the hedging program, the Company manages most of its foreign currency exposures on a consolidated basis, which allows it to net certain exposures and take advantage of natural offsets. In the event these exposures do not offset, from time to time the Company uses forward contracts to further reduce the net exposures to currency fluctuations. When entered into, the Company designates and documents these derivative instruments as a cash flow hedge of a specific underlying exposure, as well as the risk management objectives and strategies for undertaking the hedge transactions. Changes in the fair value of a derivative that is designated and documented as a cash flow hedge and is highly effective, are recorded in other comprehensive income until the underlying transaction affects earnings, and then are later reclassified into earnings in the same account as the hedged transaction. The earnings impact is mostly offset by the effects of currency movements on the underlying hedged transactions. The Company formally assesses, both at the inception and at each financial quarter thereafter, the effectiveness of the derivative instrument hedging the underlying forecasted cash flow transaction. The Company does not exclude any designated cash flow hedges from its effectiveness testing. Any ineffectiveness related to the derivative financial instruments' change in fair value will be recognized as other income in the Consolidated Statements of Operations in the period in which the ineffectiveness was calculated. No ineffectiveness has been recorded in the three and six months ended July 31, 2017 and 2016.

The Company uses forward exchange contracts to offset its exposure to certain foreign currency receivables and liabilities. These forward contracts are not designated as qualified hedges and, therefore, changes in the fair value of these derivatives are recognized in earnings in the period they arise, thereby offsetting the current earnings effect resulting from the revaluation of the related foreign currency receivables and liabilities.

All of the Company's derivative instruments have liquid markets to assess fair value. The Company does not enter into any derivative instruments for trading purposes.

As of July 31, 2017, the Company's entire net forward contracts hedging portfolio consisted of 22.0 million Swiss francs equivalent, 11.0 million Euros equivalent and 4.0 million British Pounds equivalent, with various expiry dates ranging through January 10, 2018.

The following table summarizes the fair value and presentation in the Consolidated Balance Sheets for derivatives (in thousands):

	Asset Derivatives				Liability Derivatives			
	Balance Sheet Location	July 31, 2017 Fair Value	January 31, 2017 Fair Value	July 31, 2016 Fair Value	Balance Sheet Location	July 31, 2017 Fair Value	January 31, 2017 Fair Value	July 31, 2016 Fair Value
<b>Derivatives not designated as hedging instruments:</b>								
Foreign Exchange Contracts	Other Current Assets	\$ 402	\$ 145	\$ 355	Accrued Liabilities	\$ 25	\$ 211	\$ 92
<b>Total Derivative Instruments</b>		<b>\$ 402</b>	<b>\$ 145</b>	<b>\$ 355</b>		<b>\$ 25</b>	<b>\$ 211</b>	<b>\$ 92</b>

	Asset Derivatives				Liability Derivatives			
	Balance Sheet Location	July 31, 2017 Fair Value	January 31, 2017 Fair Value	July 31, 2016 Fair Value	Balance Sheet Location	July 31, 2017 Fair Value	January 31, 2017 Fair Value	July 31, 2016 Fair Value
<b>Derivatives designated as hedging instruments:</b>								
Foreign Exchange Contracts	Other Current Assets	\$ —	\$ —	\$ 194	Accrued Liabilities	\$ 464	\$ —	\$ —
<b>Total Derivative Instruments</b>		<b>\$ —</b>	<b>\$ —</b>	<b>\$ 194</b>		<b>\$ 464</b>	<b>\$ —</b>	<b>\$ —</b>



As of July 31, 2017 and 2016, the balance of deferred net loss on derivative financial instruments documented as cash flow hedges included in accumulated other comprehensive income (“AOCI”) was \$0.4 million, net of tax benefit of \$0.1 million and an immaterial amount, respectively. The maximum length of time the Company hedges its exposure to the fluctuation in future cash flows for forecasted transactions is 24 months. For the three and six months ended July 31, 2017, the Company reclassified from AOCI to earnings \$0.4 million of net loss, net of tax benefit of \$0.1 million, for both periods, respectively. For the three and six months ended July 31, 2016, the Company reclassified amounts from AOCI to earnings that were immaterial for both periods.

## NOTE 12- ACCUMULATED OTHER COMPREHENSIVE INCOME

The components of accumulated other comprehensive income consisted of the following (in thousands):

	Currency Translation Adjustments	Available-for- sale securities	Hedging Contracts	Total
Balance, January 31, 2017	\$ 76,569	\$ 197	\$ 14	\$ 76,780
Other comprehensive income before reclassifications	9,108	1	31	9,140
Amounts reclassified from accumulated other comprehensive income (1)	—	—	(442)	(442)
Net current-period other comprehensive income / (loss)	9,108	1	(411)	8,698
As of July 31, 2017	<u>\$ 85,677</u>	<u>\$ 198</u>	<u>\$ (397)</u>	<u>\$ 85,478</u>
	Currency Translation Adjustments	Available-for- sale securities	Hedging Contracts	Total
Balance, January 31, 2016	\$ 68,265	\$ 189	\$ 51	\$ 68,505
Other comprehensive income before reclassifications	14,832	2	153	14,987
Amounts reclassified from accumulated other comprehensive income (1)	—	—	(79)	(79)
Net current-period other comprehensive income	14,832	2	74	14,908
As of July 31, 2016	<u>\$ 83,097</u>	<u>\$ 191</u>	<u>\$ 125</u>	<u>\$ 83,413</u>

(1) Amounts reclassified to earnings in the Consolidated Statements of Operations.

## NOTE 13 – TREASURY STOCK

On August 29, 2017, the Board approved a share repurchase program under which the Company is authorized to purchase up to \$50.0 million of its outstanding common stock from time to time, depending on market conditions, share price and other factors. The Company may purchase shares of its common stock through open market purchases, repurchase plans, block trades or otherwise. This authorization expires on August 29, 2020.

On March 31, 2016, the Board approved a share repurchase program under which the Company was authorized to purchase up to \$50.0 million of its outstanding common stock from time to time, depending on market conditions, share price and other factors. This program authorized the Company to purchase shares of its common stock through open market purchases, repurchase plans, block trades or otherwise. As of August 29, 2017, this program was canceled and a new share repurchase program was simultaneously approved. During the six months ended July 31, 2017, the Company repurchased a total of 71,507 shares of its common stock at a total cost of approximately \$1.7 million or an average cost of \$23.15 per share, which included 20,000 shares repurchased from the Movado Group Foundation at a total cost of approximately \$0.5 million or \$22.90 average per share. During the six months ended July 31, 2016, the Company repurchased a total of 119,499 shares of its common stock at a total cost of approximately \$2.9 million or an average cost of \$23.92 per share, which included 15,000 shares repurchased from the Movado Group Foundation at a total cost of approximately \$0.4 million or \$27.67 average per share.

There were 32,045 and 46,947 shares of common stock repurchased during the six months ended July 31, 2017 and 2016, respectively, as a result of the surrender of shares in connection with the vesting of certain stock awards. At the election of an employee, shares having an aggregate value on the vesting date equal to the employee’s withholding tax obligation may be surrendered to the Company to fund the payment of such taxes.

#### NOTE 14 – ACCOUNTING CHANGES AND RECENT ACCOUNTING PRONOUNCEMENTS

On January 26, 2017, FASB issued ASU 2017-04, “Intangibles - Goodwill and Other: Simplifying the Test for Goodwill Impairment,” which eliminates the requirement to calculate the implied fair value when calculating goodwill, essentially eliminating step two from the goodwill impairment test. The new standard requires goodwill impairment to be based upon the results of step one of the impairment test, which evaluates the extent, if any, by which the carrying value of a reporting unit exceeds its fair value, with any resulting impairment not exceeding the carrying amount of goodwill. The Company early adopted ASU 2017-04 on a prospective basis during the second quarter of fiscal 2018 in light of goodwill in the period, associated with the acquisition of the Olivia Burton brand (see Note 17 – Acquisitions). If the Company’s goodwill becomes impaired, the adoption of ASU 2017-04 could make the impairment recorded materially different from what would have been recorded under the previous standard.

On January 5, 2017, FASB issued ASU 2017-01, “Business Combinations: Clarifying the Definition of a Business,” which clarifies the definition of a business. The objective of this ASU is to assist entities in determining whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The Company early adopted ASU 2017-01 on a prospective basis during the second quarter of fiscal 2018, in connection with the acquisition of the Olivia Burton brand (see Note 17 – Acquisitions). The adoption of this standard did not have a material impact on the Company’s consolidated results of operations or financial position.

On March 30, 2016, FASB issued ASU 2016-09, “Improvements to Employee Share-Based Payment Accounting,” which amends the accounting for certain aspects of share-based payments to employees. The new guidance requires, among its other provisions, that excess tax benefits (which represent the excess of actual tax benefits received at the date of vesting or settlement over the benefits recognized over the vesting period or upon issuance of share-based payments) and tax deficiencies (which represent the amount by which actual tax benefits received at the date of vesting or settlement is lower than the benefits recognized over the vesting period or upon issuance of share-based payments) be recorded in the income statement as an increase or decrease in income taxes when the awards vest or are settled. This is in comparison to the prior requirement that these excess tax benefits be recognized in additional paid-in capital and these tax deficiencies be recognized either as an offset to accumulated excess tax benefits, if any, or in the income statement. The new guidance also requires excess tax benefits to be classified along with other income tax cash flows as an operating activity in the statement of cash flows rather than, as previously required, a financing activity. The Company adopted the provisions of ASU 2016-09 during the first quarter of fiscal 2018. The Company applied the change in the presentation on the cash flow statement retrospectively. In addition, the guidance allows for a policy election to account for forfeitures as they occur, however, the Company continues to apply its policy of estimating forfeiture rates. As required upon the adoption ASU 2016-09, the Company recognized excess tax expense of \$1.0 million in the provision for income taxes as a discrete item during the first quarter of fiscal 2018. This amount may not necessarily be indicative of future amounts that may be recognized as any excess tax benefits recognized would be dependent on future stock price, employee exercise behavior and applicable tax rates.

On February 25, 2016, FASB issued ASU 2016-02, “Leases,” which requires lessees to recognize most leases on the balance sheet. This change is expected to increase both reported assets and liabilities. The new lease standard does not substantially change lessor accounting. For public companies, the standard will be effective for the first interim reporting period within annual periods beginning after December 15, 2018, although early adoption is permitted. Lessees and lessors will be required to apply the new standard at the beginning of the earliest period presented in the financial statements in which they first apply the new guidance, using a modified retrospective transition method. The requirements of this standard include a significant increase in required disclosures. The Company is analyzing the impact of the adoption of this guidance on the Company’s consolidated financial statements, including assessing changes that might be necessary to information technology systems, processes and internal controls to capture new data and address changes in financial reporting.

On May 28, 2014, FASB issued ASU 2014-09, "Revenue from Contracts with Customers." This pronouncement 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. In July 2015, FASB deferred the effective date of the guidance. The new revenue standard is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017 and allows either a full retrospective adoption to all periods presented or a modified retrospective adoption approach with the cumulative effect of initial application of the revised guidance recognized at the date of initial application. Early adoption is permitted for periods beginning after December 15, 2016. On March 30, 2016, FASB issued ASU 2016-08, "Revenue from Contracts with Customers (Principal versus Agent Considerations)," to clarify the implementation guidance on principal versus agent considerations. On April 14, 2016, FASB issued ASU 2016-10, "Revenue from Contracts with Customers (Identifying Performance Obligations and Licensing)," to clarify the implementation guidance on identifying performance obligations and accounting for licenses of intellectual property. On May 9, 2016, FASB issued ASU 2016-12, "Revenue from Contracts with Customers (Narrow-Scope Improvements and Practical Expedients)," to clarify the implementation guidance on assessing collectability, presentation of sales taxes, noncash consideration and completed contracts and contract modifications at transition. The Company is assessing the impact of the guidance by reviewing its current accounting policies and practices to identify differences, if any, that will result from applying the new requirements to its existing agreements, including evaluation of its performance obligations, return policy, customer payments and principal versus agent consideration. The Company is assessing how it determines its transaction price in relation to its customer agreements. The Company will continue evaluating the impact, if any, on changes to the business processes, systems and controls to support recognition and disclosure under the new guidance. The Company is still evaluating the impact of the adoption of this guidance on the Company's consolidated financial statements. The Company expects to adopt the new guidance in the beginning of fiscal 2019.

#### NOTE 15 – OPERATING EFFICIENCY INITIATIVES AND OTHER ITEMS

In fiscal 2016, the Company commenced an initiative to achieve greater operating efficiencies and streamline its operations, primarily at certain of its foreign subsidiaries. In the first quarter of fiscal 2016, the Company recorded \$2.7 million of pre-tax expenses primarily for severance, occupancy charges, and fixed assets. In the fourth quarter of fiscal 2016, the Company recorded an additional pre-tax charge of \$1.3 million primarily related to severance and the write-off of unamortized shop-in-shops with no expected future value. The Company substantially completed the actions under this initiative as of January 31, 2016.

A summary rollforward of costs related to the operating efficiency initiatives and other items is as follows (in thousands):

	Balance at January 31, 2017	Cash payments	Foreign exchange	Accrued balance at July 31, 2017
Severance	\$ 78	\$ (1)	\$ 4	\$ 81
Occupancy charges	330	(65)	10	275
Total	<u>\$ 408</u>	<u>\$ (66)</u>	<u>\$ 14</u>	<u>\$ 356</u>

**NOTE 16 – COST SAVINGS INITIATIVES**

As a result of actions taken by the Company in the first quarter of fiscal 2018 to better align its global infrastructure with the current business environment by consolidating certain operations and streamlining functions to reduce costs and improve profitability, the Company recorded \$6.3 million of pre-tax expenses primarily for severance and payroll related, other and occupancy charges, predominantly impacting the Company's North American and Swiss operations. The Company recorded an additional \$0.1 million of pre-tax expenses in the second quarter of fiscal 2018 related to Other. The Company expects the cost savings initiatives to be substantially completed by the end of fiscal 2018.

A summary rollforward of costs related to the cost savings initiatives is as follows (in thousands):

	<b>Fiscal 2018 Charges (2)</b>	<b>Cash payments</b>	<b>Non-cash adjustments</b>	<b>Foreign exchange</b>	<b>Accrued balance at July 31, 2017</b>
Severance and payroll related (1)	\$ 5,943	\$ (4,243)	\$ (153)	\$ 73	\$ 1,620
Other (1)	377	(27)	(13)	29	366
Occupancy charges (1)	99	(11)	—	9	97
Total	<u>\$ 6,419</u>	<u>\$ (4,281)</u>	<u>\$ (166)</u>	<u>\$ 111</u>	<u>\$ 2,083</u>

- (1) The total severance and payroll related charges of \$5.9 million include \$4.5 million in SG&A and \$1.4 million in Cost of Sales in the Consolidated Statement of Operations for the six months ended July 31, 2017. The other charges of \$0.4 million and occupancy charges of \$0.1 million are included in SG&A in the Consolidated Statement of Operations for the six months ended July 31, 2017.
- (2) The United States and International locations of the Wholesale segment include a pre-tax charge of \$3.8 million and \$2.6 million, respectively.

**NOTE 17 – ACQUISITIONS**

On July 3, 2017, the Company, through a wholly-owned U.K. subsidiary, acquired JLB Brands Ltd., the owner of the Olivia Burton brand, one of the United Kingdom's fastest growing fashion watch and jewelry brands, for \$78.2 million, or £60.0 million in cash, subject to working capital and other closing adjustments. After giving effect to the closing adjustments, the purchase price was \$79.0 million, or £60.7 million, net of cash acquired of approximately \$5.9 million, or £4.5 million. The acquisition was funded with cash on hand of the Company's non-U.S. subsidiaries, and no debt was assumed in the acquisition. The acquisition adds a new brand with significant global growth potential to the Company's portfolio.

The results of the Olivia Burton brand's operations have been included in the consolidated financial statements since the date of acquisition within the International location of the Wholesale segment. In the United States and International locations of the Wholesale segment, for the three months ended July 31, 2017, operating income / (loss) included \$0.2 million and \$4.3 million, respectively, of expenses primarily related to transaction costs and adjustments in acquisition accounting, as a result of the Company's acquisition of the Olivia Burton brand.

The acquisition was accounted for in accordance with FASB Topic ASC 805 ("Business Combinations"), which requires that the total cost of an acquisition be allocated to the tangible and intangible assets acquired and liabilities assumed based upon their respective fair values at the date of acquisition.

The following table summarizes the fair value of the assets acquired and liabilities assumed as of the July 3, 2017 acquisition date (in thousands):

Assets Acquired and Liabilities Assumed	Fair Value
Cash and cash equivalents	\$ 5,909
Trade receivables, net	3,106
Inventories	4,164
Prepaid expenses and other current assets	913
Property, plant and equipment, net	131
Goodwill	55,322
Trade name and other intangibles	21,415
Total assets acquired	90,960
Accounts payable	608
Accrued liabilities	844
Income taxes payable	643
Deferred and non-current income taxes payable	3,965
Total liabilities assumed	6,060
Total purchase price	\$ 84,900

Inventories include a step-up adjustment of approximately \$0.8 million, which is being amortized over three months. The components of Trade name and other intangibles include a trade name of approximately \$12.8 million (amortized over 10 years), and customer relationships of \$8.6 million (amortized over 6 years).

The Company recorded goodwill of \$55.3 million based on the amount by which the purchase price exceeded the fair value of the net assets acquired. Goodwill is not deductible for income tax purposes.

The operating results of the Olivia Burton brand have been included in the Company's Consolidated Financial Statements beginning July 3, 2017. Net sales of the acquired Olivia Burton brand since the date of acquisition through July 31, 2017 were \$0.9 million. The Olivia Burton brand's net income since the date of acquisition was \$0.1 million.

The following table provides the Company's unaudited pro forma net sales, net income and net income per basic and diluted common share as if the results of operations of the Olivia Burton brand had been included in the Company's operations commencing on February 1, 2016, based on available information relating to operations of the Olivia Burton brand. This pro forma information is not necessarily indicative either of the combined results of operations that actually would have been realized by the Company had the Olivia Burton brand acquisition been consummated at the beginning of the period for which the pro forma information is presented, or of future results.

	Six Months Ended July 31,			
	2017		2016	
(In thousands, except per share data)	(Unaudited)			
Net sales	\$	239,309	\$	248,136
Net income	\$	6,214	\$	9,770
Basic income per share:				
Net income per share attributed to Movado Group, Inc.	\$	0.27	\$	0.42
Diluted income per share:				
Net income per share attributed to Movado Group, Inc.	\$	0.27	\$	0.42

The change in the carrying amount of the Company's goodwill, which is included in the International location of the Wholesale segment, is as follows (in thousands):

	Total
Balance at January 31, 2017	\$ —
Acquisition of the Olivia Burton brand	55,322
Foreign exchange impact	794
Balance at July 31, 2017	\$ 56,116

Trade name and other intangible assets consist of the following (in thousands):

	Three months ended July 31, 2017			
	Gross carrying amount	Accumulated amortization	Foreign exchange	Net
Intangible assets subject to amortization:				
Trade name	\$ 12,766	\$ (108)	\$ 184	\$ 12,842
Customer relationships	8,598	(121)	123	8,600
Total intangible assets	<u>\$ 21,364</u>	<u>\$ (229)</u>	<u>\$ 307</u>	<u>\$ 21,442</u>

#### NOTE 18 – SUBSEQUENT EVENT

On August 29, 2017, the Board approved a share repurchase program under which the Company is authorized to purchase up to \$50.0 million of its outstanding common stock from time to time, depending on market conditions, share price and other factors. The Company may purchase shares of its common stock through open market purchases, repurchase plans, block trades or otherwise. This authorization expires on August 29, 2020.

FORWARD-LOOKING STATEMENTS

Statements in this Quarterly Report on Form 10-Q, including, without limitation, statements under Item 2 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and elsewhere in this report, as well as statements in future filings by the Company with the Securities and Exchange Commission (the “SEC”), in the Company’s press releases and oral statements made by or with the approval of an authorized executive officer of the Company, which are not historical in nature, are intended to be, and are hereby identified as, “forward-looking statements” for purposes of the safe harbor provided by the Private Securities Litigation Reform Act of 1995. These statements are based on current expectations, estimates, forecasts and projections about the Company, its future performance, the industry in which the Company operates and management’s assumptions. Words such as “expects”, “anticipates”, “targets”, “goals”, “projects”, “intends”, “plans”, “believes”, “seeks”, “estimates”, “may”, “will”, “should” and variations of such words and similar expressions are also intended to identify such forward-looking statements. The Company cautions readers that forward-looking statements include, without limitation, those relating to the Company’s future business prospects, projected operating or financial results, revenues, working capital, liquidity, capital needs, plans for future operations, expectations regarding capital expenditures, operating efficiency initiatives and other items, cost savings initiatives, and operating expenses, effective tax rates, margins, interest costs, and income as well as assumptions relating to the foregoing. Forward-looking statements are subject to certain risks and uncertainties, some of which cannot be predicted or quantified. Actual results and future events could differ materially from those indicated in the forward-looking statements, due to several important factors herein identified, among others, and other risks and factors identified from time to time in the Company’s reports filed with the SEC, including, without limitation, the following: general economic and business conditions, which may impact disposable income of consumers in the United States and the other significant markets (including Europe) where the Company’s products are sold, uncertainty regarding such economic and business conditions, trends in consumer debt levels and bad debt write-offs, general uncertainty related to possible terrorist attacks, natural disasters, the stability of the European Union (including the impact of the June 23, 2016 referendum advising that the United Kingdom exit from the European Union) and defaults on or downgrades of sovereign debt and the impact of any of those events on consumer spending, changes in consumer preferences and popularity of particular designs, new product development and introduction, the ability of the Company to successfully implement its business strategies, competitive products and pricing, the impact of “smart” watches and other wearable tech products on the traditional watch market, seasonality, availability of alternative sources of supply in the case of the loss of any significant supplier or any supplier’s inability to fulfill the Company’s orders, the loss of or curtailed sales to significant customers, the Company’s dependence on key employees and officers, the ability to successfully integrate the operations of acquired businesses (including the Olivia Burton brand) without disruption to other business activities, the possible impairment of goodwill if the carrying value of any reporting unit were to exceed its fair value, the continuation of the company’s major warehouse and distribution centers, the continuation of licensing arrangements with third parties, losses possible from pending or future litigation, the ability to secure and protect trademarks, patents and other intellectual property rights, the ability to lease new stores on suitable terms in desired markets and to complete construction on a timely basis, the ability of the Company to successfully manage its expenses on a continuing basis, information systems failure or breaches of network security, the continued availability to the Company of financing and credit on favorable terms, business disruptions, disease, general risks associated with doing business outside the United States including, without limitation, import duties, tariffs, quotas, political and economic stability, changes to existing laws or regulations, and success of hedging strategies with respect to currency exchange rate fluctuations.

These risks and uncertainties, along with the risk factors discussed under Item 1A. “Risk Factors” in the Company’s 2017 Annual Report on Form 10-K, should be considered in evaluating any forward-looking statements contained in this report or incorporated by reference herein. All forward-looking statements speak only as of the date of this report or, in the case of any document incorporated by reference, the date of that document. All subsequent written and oral forward-looking statements attributable to the Company or any person acting on its behalf are qualified by the cautionary statements in this section. The Company undertakes no obligation to update or publicly release any revisions to forward-looking statements to reflect events, circumstances or changes in expectations after the date of this report.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the consolidated financial statements. These estimates and assumptions also affect the reported amounts of revenues and expenses. Estimates by their nature are based on judgments and available information. Therefore, actual results could materially differ from those estimates under different assumptions and conditions.

Critical accounting policies are those that are most important to the portrayal of the Company’s financial condition and the results of operations and require management’s most difficult, subjective and complex judgments as a result of the need to make estimates about the effect of matters that are inherently uncertain. The Company’s most critical accounting policies have been discussed in the Company’s 2017 Annual Report on Form 10-K and are incorporated by reference herein.

## Recent Developments

On August 29, 2017, the Board of Directors approved the payment of a cash dividend in the amount of \$0.13 for each share of the Company’s outstanding common stock and class A common stock. The dividend will be paid on September 25, 2017 to all shareholders of record as of the close of business on September 11, 2017. The decision of whether to declare any future cash dividend, including the amount of any such dividend and the establishment of record and payment dates, will be determined, in each quarter, by the Board, in its sole discretion.

On August 29, 2017, the Board of Directors approved a share repurchase program under which the Company is authorized to purchase up to \$50.0 million of its outstanding common stock from time to time, depending on market conditions, share price and other factors. The Company may purchase shares of its common stock through open market purchases, repurchase plans, block trades or otherwise. This authorization expires on August 29, 2020. Concurrent with this approval, the Board of Directors cancelled the previously authorized \$50 million share buyback program which would have expired on September 30, 2017.

On July 3, 2017, the Company, through a wholly-owned U.K. subsidiary, acquired JLB Brands Ltd., the owner of the Olivia Burton brand, one of the United Kingdom’s fastest growing fashion watch and jewelry brands, for \$78.2 million, or £60.0 million in cash, subject to working capital and other closing adjustments. After giving effect to the closing adjustments, the purchase price was \$79.0 million, or £60.7 million, net of cash acquired of approximately \$5.9 million, or £4.5 million. The acquisition was funded with cash on hand of the Company’s non-U.S. subsidiaries, and no debt was assumed in the acquisition. The acquisition adds a new brand with significant global growth potential to the Company’s portfolio. The results of the Olivia Burton brand’s operations have been included in the consolidated financial statements since the date of acquisition within the International location of the Wholesale segment.

On May 25, 2017, the Board of Directors approved the payment of a cash dividend in the amount of \$0.13 for each share of the Company’s outstanding common stock and class A common stock.

On March 20, 2017, the Company announced cost savings initiatives to better align its global infrastructure with the current business environment by consolidating certain operations and streamlining functions to reduce costs and improve profitability. The cost savings initiatives include a reduction in the Company’s workforce predominantly impacting the Company’s North American and Swiss operations. The Company expects to realize approximately \$12.0 million of savings in fiscal 2018 and estimates approximately \$15.0 million in on-going annual pre-tax savings from these initiatives, with the majority being in general and administrative expenses. The Company recorded \$6.4 million of pre-tax expenses primarily for severance and payroll related, other and occupancy charges in the first half of fiscal 2018 and expects the cost savings initiatives to be substantially completed by the end of fiscal 2018.

## Overview

The Company conducts its business primarily in two operating segments: Wholesale and Retail. The Company’s Wholesale segment includes the designing, manufacturing and distribution of watches of quality luxury and licensed brands, in addition to revenue generated from after-sales service activities and shipping. The Retail segment includes the Company’s retail outlet locations. The Company also operates in two major geographic locations: United States operations and International, the latter of which includes the results of all non-U.S. Company operations.

As of July 31, 2017, the Company divides its watch business into two principal categories: the owned brands category and the licensed brands category. The owned brands category consists of the Movado®, Olivia Burton®, Ebel®, Concord® and ESQ® Movado brands. Previously, the Company classified the Movado®, Ebel®, Concord® and ESQ® Movado brands together as a category referred to as luxury brands. Watches in the licensed brands category include the following brands manufactured and distributed under license agreements with the respective brand owners: Coach®, HUGO BOSS®, Juicy Couture®, Lacoste®, Tommy Hilfiger®, SCUDERIA FERRARI® and Rebecca Minkoff® and Uri Minkoff®. These changes to the Company’s watch brand categories did not change the Company’s operating segments.

Gross margins vary among the brands included in the Company’s portfolio and also among watch models within each brand. Watches in the Company’s owned brands category generally earn higher gross margin percentages than watches in the licensed brands category. The difference in gross margin percentages within the licensed brands category is primarily the impact of royalty payments made on the licensed brands. Gross margins in the Company’s outlet business are affected by the mix of product sold and may exceed those of the wholesale business since the Company earns margins on its outlet store sales from manufacture to point of sale to the consumer.



**Results of operations for the three months ended July 31, 2017 as compared to the three months ended July 31, 2016**

*Net Sales:* Comparative net sales by business segment were as follows (in thousands):

	Three Months Ended July 31,	
	2017	2016
<b>Wholesale:</b>		
United States	\$ 44,082	\$ 49,948
International	66,936	61,263
Total Wholesale	111,018	111,211
<b>Retail</b>	<b>17,763</b>	<b>16,875</b>
Net Sales	<u>\$ 128,781</u>	<u>\$ 128,086</u>

Comparative net sales by categories were as follows (in thousands):

	Three Months Ended July 31,	
	2017	2016
<b>Wholesale:</b>		
Owned brands category	\$ 46,339	\$ 46,643
Licensed brands category	62,529	61,571
After-sales service and all other	2,150	2,997
Total Wholesale	111,018	111,211
Retail	17,763	16,875
Consolidated total	<u>\$ 128,781</u>	<u>\$ 128,086</u>

Net sales for the three months ended July 31, 2017 were \$128.8 million, above the prior year period by \$0.7 million or 0.5%. For the three months ended July 31, 2017, fluctuations in foreign currency exchange rates unfavorably impacted net sales by \$0.9 million when compared to the prior year period.

Net sales for the three months ended July 31, 2017 in the Wholesale segment were \$111.0 million, below the prior year period by \$0.2 million or 0.2%. The decrease in net sales was the result of a decrease in net sales in the United States location of the Wholesale segment, partially offset by an increase in net sales in the International location of the Wholesale segment.

Net sales for the three months ended July 31, 2017 in the United States location of the Wholesale segment were \$44.1 million, below the prior year period by \$5.9 million or 11.7%, driven by net sales decreases in both the licensed brands and owned brands categories. The net sales decreases recorded in the licensed and owned brands categories were \$3.8 million, or 26.0%, and \$2.0 million, or 5.9%, respectively. The net sales decreases in both categories reflected the overall watch market, which continues to be challenging and unpredictable, as well as declining traffic in malls and traditional department stores. The net sales decrease in the licensed brands category was partially offset by the launch of Rebecca Minkoff and Uri Minkoff brand watches in the three months ended July 31, 2017.

Net sales for the three months ended July 31, 2017 in the International location of the Wholesale segment were \$66.9 million, above the prior year by \$5.7 million or 9.3%, which included fluctuations in foreign currency exchange rates which unfavorably impacted net sales by \$0.9 million when compared to the prior year period. This increase was primarily driven by net sales increases in both the licensed brands and owned brands categories. The net sales increase in the licensed brands category was \$4.7 million, or 10.1%, primarily due to net sales increases in Latin America, Europe and Asia. The net sales increase recorded in the owned brands category was \$1.7 million, or 12.8%, primarily due to sales increases in Asia and Latin America. The net sales increase in the owned brands category included \$0.9 million of sales attributable to the acquisition of the Olivia Burton brand.

Net sales for the three months ended July 31, 2017 in the Retail segment were \$17.8 million, above the prior year period by \$0.9 million, or 5.3%, as a result of higher sales in both comparable and non-comparable stores resulting from better product mix and higher conversion rates as products resonate well with customers in the current period. As of July 31, 2017 and 2016, the Company operated 40 retail outlet locations.

**Gross Profit.** Gross profit for the three months ended July 31, 2017 was \$66.1 million or 51.3% of net sales as compared to \$70.3 million or 54.9% of net sales in the prior year period. The decrease in gross profit of \$4.2 million was primarily due to a lower gross margin percentage. The decrease in the gross margin percentage of approximately 360 basis points for the three months ended July 31, 2017, resulted primarily from an unfavorable shift in channel and product mix of approximately 340 basis points, an unfavorable impact of fluctuations in foreign currency exchange rates of approximately 30 basis points, and an unfavorable impact of approximately 20 basis points related to the amortization of the inventory step-up adjustment due to the acquisition of the Olivia Burton brand in the current period. These unfavorable impacts were partially offset by the Company's cost savings initiatives of approximately 30 basis points.

**Selling, General and Administrative ("SG&A").** SG&A expenses for the three months ended July 31, 2017 were \$57.8 million, representing a decrease from the prior year period of \$2.4 million or 3.9%. The decrease in SG&A expenses was attributable to the fluctuations in foreign currency exchange rates of \$3.1 million (resulting from a \$0.9 million transactional gain in the current period compared to a \$1.7 million transactional loss in the prior year period and \$0.5 million of which arose from the translation of foreign subsidiary results), and a decrease in compensation and benefit expenses of \$2.2 million, primarily related to the Company's cost savings initiatives, which predominately included a reduction in the Company's workforce in the Company's North American and Swiss operations. Also contributing to the decrease in SG&A expenses were lower customer related expenses of \$1.9 million, primarily due to a recovery of \$0.8 million of the allowances for uncollectible receivables from a customer in the current period and a charge of \$0.8 million to allowances for uncollectible receivables in the prior year period and lower marketing expenses of \$0.7 million. These decreases in SG&A expenses were partially offset by \$4.2 million of expenses related to the Company's acquisition of the Olivia Burton brand, which included transaction costs and the amortization of acquired intangible assets, as well as higher distribution related expenses of \$0.4 million and higher performance-based compensation expenses of \$0.3 million.

**Wholesale Operating Income.** In the three months ended July 31, 2017 and 2016, respectively, the Company recorded Wholesale segment operating income of \$4.8 million and \$6.6 million, which includes \$7.2 million and \$10.0 million of unallocated corporate expenses as well as \$7.9 million and \$9.4 million of certain intercompany profits related to the Company's supply chain operations. The \$1.8 million decrease in operating income was the net result of a decrease in gross profit of \$4.3 million, partially offset by lower SG&A expenses of \$2.5 million when compared to the prior year period. The decrease in gross profit of \$4.3 million was primarily due to a lower gross margin percentage. The decrease in SG&A expenses was attributable to the fluctuations in foreign currency exchange rates of \$3.1 million (resulting from a \$0.9 million transactional gain in the current period compared to a \$1.7 million transactional loss in the prior year period and \$0.5 million of which arose from the translation of foreign subsidiary results), and a decrease in compensation and benefit expenses of \$2.3 million, primarily related to the Company's cost savings initiatives, which included predominately a reduction in the Company's workforce in the Company's North American and Swiss operations. Also contributing to the decrease in SG&A expenses were lower customer related expenses of \$1.9 million, primarily due to a recovery of \$0.8 million of the allowances for uncollectible receivables from a customer in the current period and a charge of \$0.8 million to allowances for uncollectible receivables in the prior year period and lower marketing of \$0.7 million. These decreases in SG&A expenses were partially offset by \$4.2 million of expenses related to the Company's acquisition of the Olivia Burton brand, which included transaction costs and the amortization of acquired intangible assets, as well as higher distribution related expenses of \$0.4 million and higher performance-based compensation expenses of \$0.3 million.

**U.S. Wholesale Operating Loss.** In the United States location of the Wholesale segment, during the three months ended July 31, 2017 and 2016, respectively, the Company recorded operating loss of \$2.1 million and \$3.9 million, which included unallocated corporate expenses of \$7.2 million and \$10.0 million. The increase in operating loss of \$1.8 million was the net result of lower SG&A expenses of \$5.9 million, partially offset by lower gross profit of \$4.1 million. The decrease in SG&A expenses of \$5.9 million was attributable to a decrease in compensation and benefit expenses of \$2.4 million due to lower headcount related to the Company's cost savings initiatives, lower customer related expenses of \$1.5 million, primarily due to a recovery of \$0.8 million of the allowances for uncollectible receivables from a customer in the current period and a charge of \$0.8 million to allowances for uncollectible receivables in the prior year period and lower marketing expense of \$1.6 million. The decrease in gross profit of \$4.1 million was due to lower sales and a lower gross margin percentage.

**International Wholesale Operating Income.** In the International location of the Wholesale segment, during the three months ended July 31, 2017 and 2016, respectively, the Company recorded operating income of \$6.9 million and \$10.5 million, which included \$7.9 million and \$9.4 million of certain intercompany profits related to the Company's International supply chain operations. The decrease in operating income of \$3.6 million was primarily due to higher SG&A expenses of \$3.4 million and a lower gross profit of \$0.2 million. The increase in SG&A expenses of \$3.4 million was primarily attributable to \$4.2 million of expenses related to the Company's acquisition of the Olivia Burton brand, which included transaction costs and the amortization of acquired intangible assets, higher marketing expense of \$0.9 million, higher other selling related expenses of \$0.6 million and higher distribution related expenses of \$0.4 million, partially offset by the fluctuations in foreign currency exchange rates of \$3.1 million (resulting from a \$0.9 million transactional gain in the current period compared to a \$1.7 million transactional loss in the prior year period and \$0.5 million of which arose from the translation of foreign subsidiary results). The decrease in gross profit of \$0.2 million was primarily due to a lower gross margin percentage, partially offset by higher sales.

**Retail Operating Income.** Operating income of \$3.5 million was recorded in the Retail segment for both the three months ended July 31, 2017 and 2016, respectively. The flat operating income of \$3.5 million was the result of flat gross profit and flat SG&A expenses, when compared to the prior year period. The flat gross profit was the result of higher sales offset by a lower gross margin percentage.

**Income Taxes.** The Company recorded income tax expense of \$2.6 million and \$3.4 million for the three months ended July 31, 2017 and 2016, respectively.

The effective tax rate was 32.0% and 35.1% for the three months ended July 31, 2017 and 2016, respectively. The decrease in the effective tax rate results primarily from decreased losses in the current period for certain foreign operations in which no tax benefit is recognized, partially offset by acquisition costs related to the Olivia Burton brand acquisition.

The effective tax rate for the three months ended July 31, 2017 differs from the U.S. statutory tax rate of 35.0% primarily due to foreign profits being taxed in lower taxing jurisdictions and acquisition costs related to the Olivia Burton brand.

The effective tax rate for the three months ended July 31, 2016 differs from the U.S. statutory tax rate of 35.0% primarily due to foreign profits being taxed in lower taxing jurisdictions, partially offset by no tax benefit being recognized on losses incurred by certain foreign operations.

**Net Income Attributed to Movado Group, Inc.** The Company recorded net income attributed to Movado Group, Inc. of \$5.5 million and \$6.3 million for the three months ended July 31, 2017 and 2016, respectively.

## Results of operations for the six months ended July 31, 2017 as compared to the six months ended July 31, 2016

**Net Sales:** Comparative net sales by business segment were as follows (in thousands):

	Six Months Ended July 31,	
	2017	2016
Wholesale:		
United States	\$ 76,772	\$ 97,900
International	121,406	115,269
Total Wholesale	198,178	213,169
Retail	29,868	28,980
Net Sales	\$ 228,046	\$ 242,149

Comparative net sales by categories were as follows (in thousands):

	Six Months Ended July 31,	
	2017	2016
Wholesale:		
Owned brands category	\$ 79,481	\$ 88,679
Licensed brands category	113,899	118,411
After-sales service and all other	4,798	6,079
Total Wholesale	198,178	213,169
Retail	29,868	28,980
Consolidated total	\$ 228,046	\$ 242,149

Net sales for the six months ended July 31, 2017 were \$228.0 million, below the prior year period by \$14.1 million or 5.8%. For the six months ended July 31, 2017, fluctuations in foreign currency exchange rates unfavorably impacted net sales by \$3.2 million when compared to the prior year period.

Net sales for the six months ended July 31, 2017 in the Wholesale segment were \$198.2 million, below the prior year period by \$15.0 million or 7.0%. The decrease in net sales was the result of a decrease in net sales in the United States location of the Wholesale segment, partially offset by an increase in net sales in the International location of the Wholesale segment.

Net sales for the six months ended July 31, 2017 in the United States location of the Wholesale segment were \$76.8 million, below the prior year period by \$21.1 million or 21.6%, driven by net sales decreases in both the owned brands and licensed brands categories. The net sales decreases recorded in the owned and licensed brands categories were \$11.9 million, or 18.0%, and \$8.7 million, or 31.2%, respectively. The sales decreases in both categories reflected the overall watch market, which continues to be challenging and unpredictable, as well as declining traffic in malls and traditional department stores. The net sales decrease in the licensed brands category was partially offset by the launch of Rebecca Minkoff and Uri Minkoff brand watches during the second quarter of fiscal 2018.

Net sales for the six months ended July 31, 2017 in the International location of the Wholesale segment were \$121.4 million, above the prior year by \$6.1 million or 5.3%, which included fluctuations in foreign currency exchange rates which unfavorably impacted net sales by \$3.2 million when compared to the prior year period. This increase was primarily driven by net sales increases in both the licensed brands and owned brands categories. The net sales increase in the licensed brands category was \$4.2 million, or 4.6%, primarily due to sales increases in Europe and Asia. The net sales increase recorded in the owned brands category was \$2.7 million, or 12.1%, primarily due to sales increases in Asia and Latin America, partially offset by sales decreases in Europe. The net sales increase in the owned brands category included \$0.9 million of sales attributable to the acquisition of the Olivia Burton brand.

Net sales for the six months ended July 31, 2017 in the Retail segment were \$29.9 million, above the prior year period by \$0.9 million, or 3.1%, as a result of higher sales in both comparable and non-comparable stores resulting from better product mix and higher conversion rates as products resonate well with customers in the current period.

**Gross Profit.** Gross profit for the six months ended July 31, 2017 was \$115.3 million or 50.5% of net sales as compared to \$131.6 million or 54.3% of net sales in the prior year period. The decrease in gross profit of \$16.3 million was primarily due to lower net sales and a lower gross margin percentage. The decrease in the gross margin percentage of approximately 380 basis points for the six months ended July 31, 2017, resulted primarily from an unfavorable shift in channel and product mix of approximately 260 basis points, severance related to the Company's cost savings initiative of approximately 60 basis points, an unfavorable impact of fluctuations in foreign currency exchange rates of approximately 60 basis points, and an unfavorable impact of approximately 10 basis points related to the amortization of the inventory step-up adjustment due to the acquisition of the Olivia Burton brand in the current period. These unfavorable impacts were partially offset by the Company's cost savings initiatives of approximately 10 basis points.

**Selling, General and Administrative ("SG&A").** SG&A expenses for the six months ended July 31, 2017 were \$110.6 million, representing a decrease from the prior year period of \$5.5 million or 4.8%. The decrease in SG&A expenses was attributable to a decrease in compensation and benefit expenses of \$5.5 million, primarily due to the Company's cost savings initiatives, which predominately included a reduction in the Company's workforce in the Company's North American and Swiss operations and the non-recurrence of a \$1.8 million charge related to the retirement announcement of the Company's former Vice Chairman and Chief Operating Officer, which occurred in the prior year period. Also contributing to the decrease in SG&A expenses were the fluctuations in foreign currency exchange rates of \$4.3 million (resulting from a \$1.1 million transactional gain in the current period compared to a \$2.1 million transactional loss in the prior year period and \$1.1 million of which arose from the translation of foreign subsidiary results), lower marketing expenses of \$2.7 million and lower customer related expenses of \$2.2 million, primarily due to a recovery of \$0.8 million of the allowances for uncollectible receivables from a customer in the current period and a charge of \$0.8 million to allowances for uncollectible receivables in the prior year period. These decreases in SG&A expenses were partially offset by a \$5.0 million charge related to the Company's cost savings initiatives and \$4.2 million of expenses related to the Company's acquisition of the Olivia Burton brand, which included transaction costs and the amortization of acquired intangible assets.

**Wholesale Operating Income.** In the six months ended July 31, 2017 and 2016, respectively, the Company recorded Wholesale segment operating income of \$0.3 million and \$11.2 million, which includes \$13.4 million and \$18.7 million of unallocated corporate expenses as well as \$15.5 million and \$16.5 million of certain intercompany profits related to the Company's supply chain operations. The \$10.9 million decrease in operating income was the net result of a decrease in gross profit of \$16.4 million, partially offset by lower SG&A expenses of \$5.5 million when compared to the prior year period. The decrease in gross profit of \$16.4 million was primarily due to lower net sales and lower gross margin percentage. The decrease in SG&A expenses was attributable to a decrease in compensation and benefit expenses of \$5.5 million, primarily due to the Company's cost savings initiatives, which predominately included a reduction in the Company's workforce in the Company's North American and Swiss operations and the non-recurrence of a \$1.8 million charge related to the retirement announcement of the Company's former Vice Chairman and Chief Operating Officer, which occurred in the prior year period. Also contributing to the decrease in SG&A expenses were the fluctuations in foreign currency exchange rates of \$4.3 million (resulting from a \$1.1 million transactional gain in the current period compared to a \$2.1 million transactional loss in the prior year period and \$1.1 million of which arose from the translation of foreign subsidiary results), lower marketing expenses of \$2.7 million and lower customer related expenses of \$2.2 million, primarily due to a recovery of \$0.8 million of the allowances for uncollectible receivables from a customer in the current period and a charge of \$0.8 million to allowances for uncollectible receivables in the prior year period. These decreases in SG&A expenses were partially offset by a \$5.0 million charge related to the Company's cost savings initiatives, which predominantly included severance for the reduction in the Company's workforce and \$4.2 million of expenses related to the Company's acquisition of the Olivia Burton brand, which included transaction costs and the amortization of acquired intangible assets.

**U.S. Wholesale Operating Loss.** In the United States location of the Wholesale segment, during the six months ended July 31, 2017 and 2016, respectively, the Company recorded operating loss of \$12.7 million and \$6.1 million, which included unallocated corporate expenses of \$13.4 million and \$18.7 million. The increase in operating loss of \$6.6 million was the net result of lower gross profit of \$15.0 million, partially offset by lower SG&A expenses of \$8.4 million. The decrease in gross profit of \$15.0 million was due to lower sales and a lower gross margin percentage. The decrease in SG&A expenses of \$8.4 million was primarily attributable to lower compensation and benefit expenses of \$6.4 million due to the Company's cost savings initiatives, and the non-recurrence of a \$1.8 million charge related to the retirement announcement of the Company's former Vice Chairman and Chief Operating Officer, which occurred in the prior year period and lower marketing expense of \$3.4 million, lower customer related expenses of \$1.4 million, primarily due to a recovery of \$0.8 million of the allowances for uncollectible receivables from a customer in the current period and a charge of \$0.8 million to allowances for uncollectible receivables in the prior year period, partially offset by a \$3.6 million charge related to the Company's cost savings initiatives.

**International Wholesale Operating Income.** In the International location of the Wholesale segment, during the six months ended July 31, 2017 and 2016, respectively, the Company recorded operating income of \$13.0 million and \$17.3 million, which included \$15.5 million and \$16.5 million of certain intercompany profits related to the Company's International supply chain operations. The decrease in operating income of \$4.3 million was primarily due to higher SG&A expenses of \$2.9 million and lower gross profit of \$1.4 million. The increase in SG&A expenses of \$2.9 million was primarily attributable to \$4.0 million of expenses related to the Company's acquisition of the Olivia Burton brand, which included transaction costs and the amortization of acquired intangible assets, a \$1.4 million charge related to the Company's cost savings initiatives and higher compensation and benefit expenses of \$0.9 million and higher marketing of \$0.7 million, partially offset by the fluctuations in foreign currency exchange rates of \$4.3 million (resulting from a \$1.1 million transactional gain in the current period compared to a \$2.1 million transactional loss in the prior year period and \$1.1 million of which arose from the translation of foreign subsidiary results). The decrease in gross profit of \$1.4 million was primarily due to a lower gross margin percentage.

**Retail Operating Income.** Operating income of \$4.4 million and \$4.3 million was recorded in the Retail segment for the six months ended July 31, 2017 and 2016, respectively. The slight increase in operating income of \$0.1 million was the result of an increase in gross profit of \$0.1 million and flat SG&A expenses, when compared to the prior year period. The increase in gross profit of \$0.1 million was primarily due to higher net sales, partially offset by a lower gross margin percentage.

**Income Taxes.** The Company recorded income tax expense of \$2.9 million and \$5.2 million for the six months ended July 31, 2017 and 2016, respectively.

The effective tax rate was 68.3% and 34.8% for the six months ended July 31, 2017 and 2016, respectively. The increase in the effective tax rate was primarily due to the adoption of ASU 2016-09, "Improvements to Employee Share-Based Payment Accounting," (which requires that excess tax benefits and deficiencies associated with share-based compensation activity be recorded as an income tax expense or benefit in the period the shares vest or are settled) and acquisition costs related to the acquisition of the Olivia Burton brand, partially offset by changes in jurisdictional earnings.

The effective tax rate for the six months ended July 31, 2017 differs from the U.S. statutory tax rate of 35.0% primarily due to foreign profits being taxed in lower taxing jurisdictions and acquisition costs related to the acquisition of the Olivia Burton brand, as well as an increase primarily due to the adoption of ASU 2016-09 and no tax benefit being recognized on losses incurred by certain foreign operations.

The effective tax rate for the six months ended July 31, 2016 differs from the U.S. statutory tax rate of 35.0% primarily due to foreign profits being taxed in lower taxing jurisdictions, partially offset by no tax benefit being recognized on losses incurred by certain foreign operations.

*Net Income Attributed to Movado Group, Inc.* The Company recorded net income attributed to Movado Group, Inc. of \$1.3 million and \$9.6 million for the six months ended July 31, 2017 and 2016, respectively.

## LIQUIDITY AND CAPITAL RESOURCES

At July 31, 2017 and July 31, 2016, respectively, the Company had \$162.4 million and \$205.8 million of cash and cash equivalents, \$150.9 million and \$195.9 million of which consisted of cash and cash equivalents at the Company's foreign subsidiaries. The majority of the foreign cash balances are associated with earnings that the Company has asserted are permanently reinvested, and which are required to support continued growth outside the United States through funding of capital expenditures, operating expenses and similar cash needs of the foreign operations. The Company has recorded a federal tax liability of \$2.9 million related to \$12.6 million of pre-2013 foreign earnings which have been earmarked for future repatriation. A deferred tax liability has not been recorded for the remaining undistributed foreign earnings of approximately \$312 million, because the Company intends to permanently reinvest such earnings in its foreign operations. It is, therefore, not practicable to estimate the amount of tax that may be payable on the future possible distribution of these earnings.

Cash used in operating activities was \$10.0 million and \$14.3 million for the six months ended July 31, 2017 and 2016, respectively. The \$10.0 million of cash used in operating activities for the six months ended July 31, 2017, was primarily due to an unfavorable change in working capital as presented on the consolidated statements of cash flows of \$26.4 million, partially offset by favorable non-cash items of \$15.3 million, which included a \$6.4 million charge related to the Company's cost savings initiatives. The unfavorable change in working capital of \$26.4 million was primarily due to the normal building of inventory to meet anticipated future demand, higher trade receivables and higher other current assets primarily due to the prepayments made to suppliers, partially offset by higher accounts payable. Included in the change in working capital were \$4.3 million of payments related to the Company's cost savings initiatives. The \$14.3 million of cash used in operating activities for the six months ended July 31, 2016, was primarily due to an unfavorable change in working capital as presented on the consolidated statements of cash flows of \$35.4 million, partially offset by favorable non-cash items of \$12.6 million and net income for the period of \$9.7 million. The unfavorable change in working capital of \$35.4 million was primarily due to the timing of building of inventory in anticipation of the holiday selling season in the second half of the fiscal year, higher other current assets primarily due to prepayments on certain royalties and tradeshows, as well as payments made on income taxes.

Cash used in investing activities was \$80.4 million and \$3.4 million for the six months ended July 31, 2017 and 2016, respectively. The cash used in investing activities for the six months ended July 31, 2017 was primarily for the acquisition, net of cash acquired, of the Olivia Burton brand. The cash used in investing activities for the six months ended July 31, 2016 was primarily for restricted cash deposits and capital expenditures related to the construction of shop-in-shops at some of the Company's wholesale customers, computer hardware and software and spending on tooling and design.

Cash used in financing activities was \$8.4 million and \$12.1 million for the six months ended July 31, 2017 and 2016, respectively. Cash used in financing activities for the six months ended July 31, 2017 included the payment of dividends, the repurchase of shares of the Company's common stock, and the surrender of shares in connection with the vesting of certain stock awards. Cash used in financing activities for the six months ended July 31, 2016 included the payment of dividends, the repayments of bank borrowings, the surrender of shares in connection with the vesting of certain stock awards and the repurchase of shares of the Company's common stock.

On January 30, 2015, the Company, together with Movado Group Delaware Holdings Corporation, Movado Retail Group, Inc. and Movado LLC (collectively, the "Borrowers"), each a wholly-owned domestic subsidiary of the Company, entered into a Credit Agreement (the "Credit Agreement") with the lenders party thereto and Bank of America, N.A. as administrative agent (in such capacity, the "Agent"). The Credit Agreement provides for a \$100.0 million senior secured revolving credit facility (the "Facility") including a \$15.0 million letter of credit sub-facility that matures on January 30, 2020, with provisions for uncommitted increases of up to \$50.0 million in the aggregate, subject to customary terms and conditions. In connection with the Credit Agreement, the Borrowers also entered into a Security and Pledge Agreement dated as of January 30, 2015 in favor of the Agent (the "Security Agreement").

As of July 31, 2017, \$30.0 million in loans were drawn under the Facility. Additionally, approximately \$0.3 million in letters of credit, which were outstanding under the Borrower's pre-existing asset-based revolving credit facility that was concurrently terminated when the Credit Agreement became effective, are deemed to be issued and outstanding under the Facility. As of July 31, 2017, availability under the Facility was approximately \$69.7 million.

Borrowings under the Facility bear interest at rates selected periodically by the Company at LIBOR plus a spread ranging from 1.25% to 1.75% per annum, based on the Company's consolidated leverage ratio, or at a base rate plus a spread ranging from 0.25% to 0.75% per annum based on the Company's consolidated leverage ratio (as defined in the Credit Agreement). At April 30, 2017, the Company's spreads were 1.25% over LIBOR and 0.25% over the base rate. The Company has also agreed to pay certain fees and expenses and to provide certain indemnities, all of which are customary for such financings.

The borrowings under the Facility are joint and several obligations of the Borrowers and are also cross-guaranteed by each Borrower. In addition, pursuant to the Security Agreement, the Borrowers' obligations under the Facility are secured by first priority liens, subject to permitted liens, on substantially all of the Borrowers' assets other than certain excluded assets. The Security Agreement contains representations, warranties and covenants, which are customary for pledge and security agreements of this type, relating to the creation and perfection of security interests in favor of the Agent over various categories of the Borrowers' assets.

The Credit Agreement contains affirmative and negative covenants binding on the Borrowers and their subsidiaries that are customary for credit facilities of this type, including, but not limited to, restrictions and limitations on the incurrence of debt and liens, dispositions of assets, capital expenditures, dividends and other payments in respect of equity interests, the making of loans and equity investments, mergers, consolidations, liquidations and dissolutions, and transactions with affiliates (in each case, subject to various exceptions).

The Borrowers are also subject to a minimum consolidated EBITDA (as defined in the Credit Agreement) test of \$50.0 million, measured at the end of each fiscal quarter based on the four most recent fiscal quarters and a consolidated leverage ratio (as defined in the Credit Agreement) covenant not to exceed 2.50 to 1.00, measured as of the last day of each fiscal quarter. As of July 31, 2017, the Company was in compliance with its covenants under the Credit Agreement.

The Credit Agreement contains events of default that are customary for facilities of this type, including, but not limited to, nonpayment of principal, interest, fees and other amounts when due, failure of any representation or warranty to be true in any material respect when made or deemed made, violation of covenants, cross default with material indebtedness, material judgments, material ERISA liability, bankruptcy events, asserted or actual revocation or invalidity of the loan documents, and change of control.

As of July 31, 2017, the Company classified \$5.0 million of the outstanding balance under the Facility as current based on voluntary payments estimated to be made in the next twelve months, with the remainder classified as long-term debt based on the 2020 maturity date of the Facility and the Company's intent and ability to refinance its obligations thereunder.

As of July 31, 2017, Bank of America, N.A. issued two irrevocable standby letters of credit in connection with retail and operating facility leases to various landlords and for Canadian payroll to the Royal Bank of Canada. As of July 31, 2017, the Company had outstanding letters of credit totaling \$0.3 million with expiration dates through May 31, 2018.

A Swiss subsidiary of the Company maintains unsecured lines of credit with an unspecified maturity with a Swiss bank. As of July 31, 2017 and 2016, these lines of credit totaled 6.5 million Swiss francs and 5.0 million Swiss francs with a dollar equivalent of \$6.7 million and \$5.2 million, respectively. As of July 31, 2017 and 2016, there were no borrowings against these lines. As of July 31, 2017, two European banks had guaranteed obligations to third parties on behalf of two of the Company's foreign subsidiaries in the dollar equivalent of \$1.2 million, in various foreign currencies, of which \$0.6 million is a restricted deposit as it relates to lease agreements. As of July 31, 2016, three European banks had guaranteed obligations to third parties on behalf of two of the Company's foreign subsidiaries in the dollar equivalent of \$1.2 million in various foreign currencies, of which \$0.6 million is a restricted deposit as it relates to lease agreements.

The Company paid dividends of \$0.26 per share or approximately \$6.0 million for both the six months ended July 31, 2017 and 2016.

On August 29, 2017, the Board of Directors approved the payment of a cash dividend in the amount of \$0.13 for each share of the Company's outstanding common stock and class A common stock. The dividend will be paid on September 25, 2017 to all shareholders of record as of the close of business on September 11, 2017. The decision of whether to declare any future cash dividend, including the amount of any such dividend and the establishment of record and payment dates, will be determined, in each quarter, by the Board, in its sole discretion.

On May 25, 2017, the Board of Directors approved the payment of a cash dividend in the amount of \$0.13 for each share of the Company's outstanding common stock and class A common stock.

On March 20, 2017, the Board of Directors approved the payment of a cash dividend in the amount of \$0.13 for each share of the Company's outstanding common stock and class A common stock.

Cash at July 31, 2017 amounted to \$162.4 million compared to \$205.8 million at July 31, 2016. The decrease in cash is primarily the result of the acquisition of the Olivia Burton brand, the payout of dividends, capital expenditures and the repayment of bank borrowings, partially offset by cash provided by operating activities.

Management believes that the cash on hand in addition to the expected cash flow from operations and the Company's short-term borrowing capacity will be sufficient to meet its working capital needs for at least the next twelve months.

#### **Off-Balance Sheet Arrangements**

The Company does not have off-balance sheet financing or unconsolidated special-purpose entities.

#### **Accounting Changes and Recent Accounting Pronouncements**

See Note 14 to the accompanying unaudited consolidated financial statements for a description of certain accounting changes and recent accounting pronouncements which may impact our consolidated financial statements in future reporting periods.

#### *Item 3. Quantitative and Qualitative Disclosures About Market Risk*

##### **Foreign Currency Risk**

The Company's primary market risk exposure relates to foreign currency exchange risk. A significant portion of the Company's purchases are denominated in Swiss francs and, to a lesser extent, the Japanese Yen. The Company also sells to third-party customers in a variety of foreign currencies, most notably the Euro and the British Pound. The Company reduces its exposure to the Swiss franc, Euro, British Pound and Japanese Yen exchange rate risk through a hedging program. Under the hedging program, the Company manages most of its foreign currency exposures on a consolidated basis, which allows it to net certain exposures and take advantage of natural offsets. In the event these exposures do not offset, from time to time the Company uses various derivative financial instruments to further reduce the net exposures to currency fluctuations, predominately forward and option contracts. When entered into, the Company designates and documents these derivative instruments as a cash flow hedge of a specific underlying exposure, as well as the risk management objectives and strategies for undertaking the hedge transactions. Changes in the fair value of a derivative that is designated and documented as a cash flow hedge and is highly effective, are recorded in other comprehensive income until the underlying transaction affects earnings, and then are later reclassified into earnings in the same account as the hedged transaction. The earnings impact is mostly offset by the effects of currency movements on the underlying hedged transactions. To the extent that the Company does not engage in a hedging program, any change in the Swiss franc, Euro, British Pound and Japanese Yen exchange rates to local currency have an equal effect on the Company's earnings.

From time to time the Company uses forward exchange contracts to offset its exposure to certain foreign currency receivables and liabilities. These forward contracts are not designated as qualified hedges and, therefore, changes in the fair value of these derivatives are recognized in earnings in the period they arise, thereby offsetting the current earnings effect resulting from the revaluation of the related foreign currency receivables and liabilities.

As of July 31, 2017, the Company's entire net forward contracts hedging portfolio consisted of 22.0 million Swiss francs equivalent, 11.0 million Euros equivalent and 4.0 million British Pounds equivalent, with various expiry dates ranging through January 10, 2018 compared to a portfolio of 36.0 million Swiss francs equivalent and 10.0 million Euros equivalent, with various expiry dates ranging through January 10, 2017 as of July 31, 2016. If the Company were to settle its Swiss franc forward contracts at July 31, 2017 and 2016, the net result would be a gain of \$0.2 million, net of tax of \$0.2 million and a gain of \$0.2 million, net of tax of \$0.1 million, respectively. If the Company were to settle its Euro forward contracts at July 31, 2017 and 2016, the net result would be a loss of \$0.4 million, net of tax benefit of \$0.1 million and an immaterial gain, respectively. As of July 31, 2017, the Company's British Pound forward contracts had no value. The Company had no Swiss franc, Euro or British Pound option contracts related to cash flow hedges as of July 31, 2017 and 2016, respectively.



### **Commodity Risk**

The Company considers its exposure to fluctuations in commodity prices to be primarily related to gold used in the manufacturing of the Company's watches. Under its hedging program, the Company can purchase various commodity derivative instruments, primarily futures contracts. When held, these derivatives are documented as qualified cash flow hedges, and the resulting gains and losses on these derivative instruments are first reflected in other comprehensive income, and later reclassified into earnings, partially offset by the effects of gold market price changes on the underlying actual gold purchases. The Company did not hold any future contracts in its gold hedge portfolio as of July 31, 2017 and 2016; thus, any changes in the gold purchase price will have an equal effect on the Company's cost of sales.

### **Debt and Interest Rate Risk**

The Company has certain debt obligations with variable interest rates, which are based on LIBOR plus a spread ranging from 1.25% to 1.75% or on a base rate plus a spread ranging from 0.25% to 0.75% per annum. The Company does not hedge these interest rate risks. As of July 31, 2017, the Company had \$30.0 million in outstanding debt. The Company estimates that a 1% increase in interest rates would decrease the Company's annual income by approximately \$0.3 million. For additional information concerning potential changes to future interest obligations, see "Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources."

### *Item 4. Controls and Procedures*

#### Evaluation of Disclosure Controls and Procedures

The Company's disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives. However, it should be noted that a control system, no matter how well conceived or operated, can only provide reasonable, not absolute, assurance that its objectives will be met and may not prevent all errors or instances of fraud.

The Company, under the supervision and with the participation of its management, including the Chief Executive Officer and the Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures, as such terms are defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective at a reasonable assurance level as of the end of the period covered by this report.

#### Changes in Internal Control Over Financial Reporting

There has been no change in the Company's internal control over financial reporting during the three months ended July 31, 2017, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting. On July 3, 2017, the Company acquired JLB Brands Ltd., the owner of the Olivia Burton brand. In conducting its evaluation of the effectiveness of internal control over financial reporting as of July 31, 2017, the Company excluded JLB Brands Ltd. from that evaluation in accordance with the rules relating to recently-acquired entities.

## PART II – OTHER INFORMATION

### *Item 1. Legal Proceedings*

The Company is involved in legal proceedings and claims from time to time, in the ordinary course of its business. Legal reserves are recorded in accordance with the accounting guidance for contingencies. Contingencies are inherently unpredictable and it is possible that results of operations, balance sheets or cash flows could be materially and adversely affected in any particular period by unfavorable developments in, or resolution or disposition of, such matters. For those legal proceedings and claims for which the Company believes that it is probable that a reasonably estimable loss may result, the Company records a reserve for the potential loss. For proceedings and claims where the Company believes it is reasonably possible that a loss may result that is materially in excess of amounts accrued for the matter, the Company either discloses an estimate of such possible loss or range of loss or includes a statement that such an estimate cannot be made. As of July 31, 2017, the Company is party to legal proceedings and contingencies, the resolution of which is not expected to materially affect its financial condition, future results of operations beyond the amounts accrued, or cash flows.

In December 2016, U.S. Customs and Border Protection (“U.S. Customs”) issued an audit report concerning the methodology used by the Company to allocate the cost of certain watch styles imported into the U.S. among the component parts of those watches for tariff purposes. The report disputes the reasonableness of the Company’s historical allocation formulas and proposes an alternative methodology that would imply approximately \$5.1 million in underpaid duties over the five-year period covered by the statute of limitations, plus possible penalties and interest. The Company believes that U.S. Customs’ alternative duty methodology and estimate are not consistent with the Company’s facts and circumstances and is disputing U.S. Customs’ position. On February 24, 2017, the Company provided U.S. Customs with supplemental analyses and information supporting the Company’s historical allocation formulas and is in the process of providing additional information for U.S. Customs’ review. Although the Company disagrees with U.S. Customs’ position, it cannot predict with any certainty the outcome of this matter. The Company intends to continue to work with U.S. Customs to reach a mutually-satisfactory resolution.

### *Item 1A. Risk Factors*

As of July 31, 2017, there have been no material changes to any of the risk factors previously reported in the Company’s 2017 Annual Report on Form 10-K.

### *Item 2. Unregistered Sales of Equity Securities and Use of Proceeds*

On August 29, 2017, the Board approved a share repurchase program under which the Company is authorized to purchase up to \$50.0 million of its outstanding common stock from time to time, depending on market conditions, share price and other factors. The Company may purchase shares of its common stock through open market purchases, repurchase plans, block trades or otherwise. This authorization expires on August 29, 2020.

On March 31, 2016, the Board of Directors approved a share repurchase program under which the Company was authorized to purchase up to \$50.0 million of its outstanding common stock from time to time, depending on market conditions, share price and other factors. Under the program the Company was authorized to purchase shares of its common stock through open market purchases, repurchase programs, block trades or otherwise. As of August 29, 2017, this program was canceled and a new share repurchase program was simultaneously approved. During the three months ended July 31, 2017, the Company repurchased a total of 27,507 shares of its common stock in the open market at a total cost of approximately \$0.6 million or an average cost of \$22.79 per share.

There were 1,839 shares of common stock repurchased during the three months ended July 31, 2017 as a result of the surrender of shares in connection with the vesting of certain stock awards. At the election of an employee, shares having an aggregate value on the vesting date equal to the employee’s withholding tax obligation may be surrendered to the Company to fund the payment of such taxes.

The following table summarizes information about the Company's purchases for the three months ended July 31, 2017 of equity securities that are registered by the Company pursuant to Section 12 of the Securities Exchange Act of 1934, as amended:

**Issuer Repurchase of Equity Securities**

<b>Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid Per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Maximum Amount that May Yet Be Purchased Under the Plans or Programs</b>
May 1, 2017 – May 31, 2017	25,507	\$ 22.92	25,507	\$ 44,522,804
June 1, 2017 – June 30, 2017	3,839	21.60	2,000	44,480,613
July 1, 2017 – July 31, 2017	—	—	—	44,480,613
<b>Total</b>	<b>29,346</b>	<b>\$ 22.75</b>	<b>27,507</b>	<b>\$ 44,480,613</b>

Item 6. Exhibits

- |      |   |
|------|---|
| 2.1  | Sale and Purchase Agreement dated July 3, 2017 between MGS Distribution Ltd and Lesa Bennett and Jemma Fennings in respect of the share capital of JLB Brands Ltd.*   |
| 31.1 | Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.   |
| 31.2 | Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.   |
| 32.1 | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.  |
| 32.2 | Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.  |
| 101  | The following financial information from Movado Group, Inc.'s Quarterly Report on Form 10-Q for the quarter ended July 31, 2017 filed with the SEC, formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Balance Sheets; (ii) the Consolidated Statements of Operations; (iii) the Consolidated Statements of Comprehensive Income; (iv) the Consolidated Statements of Cash Flows; and (v) the Notes to the Consolidated Financial Statements. |

\* Confidential portions of this Exhibit 2.1 have been omitted and filed separately with the Securities and Exchange Commission pursuant to Rule 24b-2 of the Securities Exchange Act of 1934.

**SIGNATURE**

Pursuant to the requirements 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.

**MOVADO GROUP, INC.**  
(Registrant)

Dated: August 29, 2017

By: /s/ Sallie A. DeMarsilis  
Sallie A. DeMarsilis  
Senior Vice President,  
Chief Financial Officer and  
Principal Accounting Officer



3 July 2017\*

THE PERSONS LISTED IN SCHEDULE 1  
and  
MGS DISTRIBUTION LIMITED

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SALE AND PURCHASE AGREEMENT  
in respect of the entire issued share capital of  
JLB BRANDS LIMITED

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Herbert Smith Freehills LLP

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\* CONFIDENTIAL PORTIONS OF THIS EXHIBIT HAVE BEEN OMITTED FROM PAGES 7, 14, 17, 20, 34, 45 AND 46 AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE

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\* THESE SCHEDULES HAVE BEEN OMITTED PURSUANT TO ITEM 601(B)(2) OF REGULATION S-K. COPIES OF THE OMITTED SCHEDULES WILL BE FURNISHED SUPPLEMENTALLY TO THE SEC UPON REQUEST.

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BETWEEN:

- (1) THE PERSONS whose names and addresses are set out in Schedule 1 (the "Sellers" and each a "Seller"); and
- (2) MGS Distribution Limited, a company incorporated in England and Wales (registered number 06183896) and whose registered office is at Meadway House, Meadway, Haslemere, Surrey, GU27 1NN (the "Purchaser").

RECITALS:

- (A) The Company (as defined in Schedule 9) is a private company limited by shares. Certain details of the Company are set out in Part 2 of Schedule 1.
- (B) The Sellers have agreed to sell and transfer to the Purchaser, and the Purchaser has agreed to buy, the entire issued share capital of the Company upon the terms and subject to the conditions set out in this Agreement.

IT IS AGREED as follows:

1. INTERPRETATION
- 1.1 The definitions and other interpretative provisions set out in Schedule 9 shall apply throughout this Agreement, unless the contrary intention appears.
- 1.2 In this Agreement, except where the context otherwise requires, any reference to this Agreement includes a reference to the Schedules, each of which forms part of this Agreement for all purposes.
2. SALE AND PURCHASE
- Sale and purchase
- 2.1 Each Seller is the legal and/or beneficial owner of and shall sell and the Purchaser shall purchase those Shares set opposite each Seller's name in columns (2), (3) and (4) of Schedule 1 on the basis that they are sold at Completion with Full Title Guarantee and free from any Encumbrance and together with all rights attached to them at the date of this Agreement or subsequently becoming attached to them.
- 2.2 The Trustee has the full and unrestricted power to sell and to confer on the Purchaser the full beneficial and legal title of those Shares set opposite the Trustee's name in column (3) of Schedule 1 (Number of Shares legally but not beneficially held at the date of Agreement) and the Purchaser shall purchase those Shares on the basis that they are sold at Completion with Full Title Guarantee and free from any Encumbrance and together with all rights attached to them at the date of this Agreement or subsequently becoming attached to them.
- 2.3 Neither of the Sellers nor the Purchaser shall be obliged to complete the sale or purchase of any of the Shares unless the sale and purchase of all of the Shares is completed simultaneously.
- Waiver of rights
- 2.4 Each Seller waives and agrees to procure the waiver of any restrictions on transfer, including pre-emption rights, which may exist in relation to the Shares she has agreed to sell pursuant to this Agreement, under the articles of association of the Company, any shareholders' agreement or otherwise.



3. **CONSIDERATION**
- 3.1 The consideration for the sale of the Shares shall be the sum of the payment at Completion to each of the Sellers of an amount equal to £30,000,000 plus 50% of the LB Cash Amount plus 50% of the WC & Other Adjustment, being the sum set opposite her name in column (5) of Schedule 1 (the "**Purchase Price**").
- 3.2 Each Seller severally warrants to the Purchaser that, from but excluding the Locked Box Date up to and including Completion:
- 3.2.1 (in respect of itself and its Seller Related Persons only and not in respect of the other Seller or its Seller Related Persons) neither the Seller nor any of its Seller Related Persons has received any Direct Leakage; and
- 3.2.2 there has been no Indirect Leakage.
- 3.3 Schedule 2 shall apply.
4. **COMPLETION**
- Completion Date**
- 4.1 Completion shall take place on the Completion Date at the offices of the Purchaser's Solicitors immediately after this Agreement is entered into.
- Sellers' obligations**
- 4.2 At Completion, each Seller shall observe and perform all of the provisions of Part 1 of Schedule 3.
- 4.3 At Completion, the Purchaser shall observe and perform all of the provisions of Part 2 of Schedule 3.
5. **SELLER WARRANTIES**
- Seller Title and Capacity Warranties**
- 5.1 Subject to the limitations in Clause 6, each Seller severally warrants to the Purchaser on the date of this Agreement in the terms set out paragraphs 1 and 2 of Part A of Schedule 4.
- 5.2 Each of the Title and Capacity Warranties shall be construed as a separate and independent warranty and, except where this Agreement expressly provides otherwise, each Title and Capacity Warranty is not limited by the other provisions of this Agreement, including the other Title and Capacity Warranties.
- Business Warranties and Tax Warranties**
- 5.3 Subject to the limitations in Clause 6, each Seller severally warrants to the Purchaser on the date of this Agreement in the terms set out paragraphs 3 to 16 of Part A of Schedule 4 and Part B of Schedule 4.
- 5.4 Each of the Business Warranties and the Tax Warranties shall be construed as a separate and independent warranty and, except where this Agreement expressly provides otherwise, each Business Warranty and each Tax Warranty is not limited by the other provisions of this Agreement, including the other Business Warranties and the other Tax Warranties.
- Sellers' knowledge**
- 5.5 Each Seller Warranty (other than Title and Capacity Warranties) shall be qualified by a reference to the knowledge or awareness of the relevant Seller, being limited to the actual

knowledge or awareness of the relevant Seller and no Seller shall be deemed to have any imputed or constructive knowledge regarding the subject matter of such Seller Warranty.

**Covenant not to sue**

- 5.6 Save in the case of fraud, no Seller shall (if a claim is made against her by any person in connection with the sale of the Shares to the Purchaser) make any claim against the Company or against any director, employee, agent or officer of the Company on whom a Seller may have relied before agreeing to any term of this Agreement or authorising any statement in the Disclosure Letter. Save in the case of fraud, each Seller acknowledges that she has no rights to make any such claim. This shall not prevent either Seller from claiming against the other Seller under any right of contribution or indemnity to which she may be entitled. The rights of the Company and any director, employee, agent or officer of the Company under this Clause are subject to the provisions of Clause 10.9.

**Accounts**

- 5.7 Subject to Clause 6.14, in calculating the liability of any Seller in respect of any Claim for breach of the Seller Business Warranties set out in paragraphs 3 of Schedule 4, no credit shall be given to that Seller for any understatement of the value of any asset nor overstatement of the amount of any liability in the Accounts, nor shall credit be given to that Seller for any provision or reserve in the Accounts which proves to be unnecessary or greater than the amount of the item in respect of which it is provided or reserved.

**Subrogation**

- 5.8 The Purchaser shall ensure that the W&I Policy includes an express waiver in a form reasonably satisfactory to the Sellers' Solicitors of any rights of subrogation against the Sellers (except in the case of fraud by that Seller) and shall deliver evidence of the same to the Sellers' Solicitors on or prior to the date of this Agreement.

6. **SELLER LIMITATIONS ON LIABILITY**

**Disclosure**

- 6.1 No Seller shall be liable in respect of any General Claim or any Tax Warranty Claim to the extent that the fact, matter or circumstances giving rise to the General Claim or Tax Warranty Claim are fairly disclosed (with sufficient details to enable a reasonable purchaser to identify the value, nature and scope of the matter disclosed) in the Disclosure Letter or in the Data Room.

**Time limits**

- 6.2 No Seller shall be liable for any General Claim unless the Purchaser gives that Seller written notice, setting out reasonable details of the General Claim as far as it is then known to the Purchaser (including the grounds on which it is based and the Purchaser's good faith estimate of the amount of the General Claim) as soon as reasonably possible after the Purchaser Group becomes aware that the Purchaser has is or likely to have such a General Claim and in any event on or before the date being 12 months from Completion.
- 6.3 No Seller shall be liable for any Tax Claim unless the Purchaser gives that Seller written notice, setting out reasonable details of the Tax Claim as far as it is then known to the Purchaser (including the grounds on which it is based and the Purchaser's good faith estimate of the amount of the Tax Claim) as soon as reasonably possible after the Purchaser Group becomes aware that the Purchaser has is or likely to have such a Tax Claim and in any event on or before the date being five (5) years from Completion.
- 6.4 Any failure by the Purchaser to provide notice to a Seller as soon as reasonably possible in respect of any Claim will not (provided always that Claim is made before the expiry of the

applicable time limit in Clause 6.2 or Clause 6.3) invalidate such Claim or preclude the Purchaser from bringing such Claim.

- 6.5 No Claim (other than a Tax Claim) shall be enforceable against either Seller, and any such Claim shall be deemed to have been withdrawn, unless legal proceedings in respect of such Claim are commenced (by being properly issued on the relevant Seller) within 6 months of the notice of the Claim first being served on the relevant Seller.
- 6.6 No Tax Claim shall be enforceable against either Seller, and any such Tax Claim shall be deemed to have been withdrawn, unless legal proceedings in respect of such Tax Claim are commenced (by being properly issued on the relevant Seller) by the earlier of the following dates:
- 6.6.1 where the Liability for Taxation forming the subject matter of the Tax Claim has been finally determined (whether by way of agreement with the relevant Tax Authority or where all appeals and other reasonable means of contesting such Tax liability having been exhausted), the date falling six months after the date that such Liability for Taxation has been finally determined; and
- 6.6.2 the date falling 24 months after notice of the Tax Claim first being served on the relevant Seller.

#### **Monetary Limits**

- 6.7 The aggregate liability of each Seller in respect of the aggregate of all demands or claims against any Seller, whether in contract or otherwise, under or in relation to or for any breach of any Acquisition Document (including any General Claim, Title and Capacity Claim, Tax Claim and Leakage Claim), including interest and costs, shall not exceed the amount specified against each Seller's name in column (5) of Part 1 of Schedule 1.
- 6.8 Notwithstanding any non-payment under the W&I Policy or any vitiation or expiry or termination of the W&I Policy or insolvency of the insurers or for any other reason whatsoever, the aggregate liability (including interest and costs) of each Seller in respect of all Claims (other than Title and Capacity Claims, Excluded Tax Claims and Leakage Claims) shall be capped at her Proportionate Liability of £300,000.
- 6.9 Notwithstanding any non-payment under the W&I Policy or any vitiation or expiry or termination of the W&I Policy or insolvency of the insurers or for any other reason whatsoever, the aggregate liability (including interest and costs) of each Seller in respect of all Excluded Tax Claims shall be capped at her Proportionate Liability of £9,000,000.
- 6.10 No Seller shall have any liability in respect of any Claim (other than any Title and Capacity Claim or Leakage Claim) unless the aggregate amount of the liability of the Sellers (taken together) in respect of all Claims exceeds £300,000 in which case, subject to Clause 6.8, the Sellers shall be liable for the excess of such amount only and not the initial £300,000.
- 6.11 No Seller shall have any liability in respect of any Claim (other than any Title and Capacity Claim or Leakage Claim) unless the aggregate amount of the liability of the Sellers (taken together) in respect of the Claim (or the aggregate of a series of connected Claims or Claims arising out of similar facts or circumstances) exceeds £60,000, in which case the Sellers shall, subject to Clause 6.8, be liable for their Proportionate Liability of the full amount of such Claim, subject to the threshold in Clause 6.10.

#### **Proportionality**

- 6.12 The maximum liability of each Seller in respect of a Claim for which both Sellers are liable shall not exceed an amount equal to the value of that Claim (including interest and costs) multiplied by 0.5 ("**Proportionate Liability**").
- 6.13 In the event that the Purchaser is entitled to make any Claim against both Sellers, no one Seller shall be liable for such Claim unless and until, so far as reasonably practicable, the Purchaser has also made such Claim against the other Seller.

- 6.14

If the Purchaser withdraws a Claim against a Seller which it has also made against the other Seller (or the Claim lapses under Clauses 6.2 to 6.4), the Purchaser shall also withdraw any Claim against the other Seller to the extent that the matter or thing giving rise to both Claims is the same ("**Same Claim**"). If the Purchaser settles any Same Claim against one Seller, the Purchaser shall offer to settle each Same Claim on terms which are, so far as reasonably practicable, the same as those agreed with that Seller with whom the Purchaser has settled.
- Accounts**
- 6.15

No Seller shall be liable for any Claim (other than a Tax Deed Claim) to the extent that, specific provision or reserve has been made in the Accounts in respect of the matter or thing giving rise to such Claim, or to the extent that such matter or thing has otherwise been specifically referred to in the notes to the Accounts.
- No double recovery**
- 6.16

Any payment made by or on behalf of a Seller in respect of any Claim shall satisfy and discharge any other Claim which is capable of being made against that Seller in respect of the same matter or thing, but only to the extent of the payment made.
- Leakage**
- 6.17

The Purchaser's only remedy in relation to any matter or thing constituting Leakage is that contained in paragraph 2.1 and 2.2 of Schedule 2 of this Agreement and any Leakage Claim shall be dealt with in accordance with paragraph 2 of Schedule 2 of this Agreement.
- 6.18

No Seller shall be liable in respect of any Claim to the extent that the matter or thing giving rise to such Claim constitutes Permitted Leakage.
- Other exclusions and limitations**
- 6.19

No Seller shall be liable in respect of any Claim (other than a Tax Claim) to the extent that such Claim arises from or is otherwise attributable to, or the amount of such Claim is increased as a result of:
- 6.19.1

the failure by the Purchaser to comply with the provisions of this Clause;
- 6.19.2

any change in legislation or law, administrative or regulatory practice or in the generally accepted interpretation or application of any legislation or law, in each case occurring after the date of this Agreement;
- 6.19.3

any voluntary act, transaction or omission of the Purchaser or the Company after Completion, other than:
- (A)

in the ordinary course of the Company's business as conducted at or prior to Completion or in a manner that is substantially consistent with such conduct of business or a natural extension thereof; or
- (B)

pursuant to a legally binding obligation created or entered into before or on Completion or in order to comply with any law in force on or before Completion;
- 6.19.4

Completion or any acts, transactions or arrangements expressly required or expressly contemplated by this Agreement.
- 6.20

No Seller shall be liable in respect of any Claim (other than a Tax Claim) to the extent that the matter or thing giving rise to such Claim has been or is made good or is otherwise compensated for without cost to the Purchaser, the Company or any member of the Purchaser's Group.

#### Sums recoverable from third parties

- 6.21 Where the Purchaser or any member of the Purchaser Group is entitled to recover from any person any sum in respect of any matter or event which has or is likely to give rise to a Claim (other than a Tax Claim), the Purchaser shall, or shall procure that the relevant member of the Purchaser Group shall, use its reasonable endeavours to recover that sum and shall keep each Seller who is or is likely to be liable in respect of such a Claim (other than a Tax Claim) ("**Claim Seller(s)**") informed of the conduct of such recovery. Save as provided in this Clause 6.24, the Purchaser shall not be restricted from pursuing that or any other Claim in relation to the same subject matter against the Claim Seller(s). Any sum recovered by the Purchaser or the relevant member of the Purchaser Group before settlement or final determination of the Claim (other than a Tax Claim) (less any costs and expenses incurred by the Purchaser and the Company in recovering the sum and any Tax attributable to or suffered in respect of the sum recovered) will reduce the liability of the Claim Seller(s) in respect of such Claim (other than a Tax Claim) by an amount equal to the net sum recovered by the Purchaser or any member of the Purchaser Group (such amount being, if the Claim is against both Sellers, multiplied by the Claim Seller's Proportionate Liability in respect of that Claim (other than a Tax Claim)). If recovery is delayed until after the Claim (other than a Tax Claim) has been satisfied by the Claim Seller(s), the Purchaser shall, or shall procure that the relevant member of the Purchaser Group shall, repay to the Claim Seller(s) the amount so recovered (less any costs and expenses incurred by the Purchaser and the Company in recovering the sum and any Tax attributable to or suffered in respect of the sum recovered) pro rata to the amount paid by the Claim Seller(s) to the Purchaser in respect of that Claim (other than a Tax Claim) save where, and only to the extent that the Buyer or Buyer's Group is obliged to pay or credit such sum to the Underwriters of the W&I Insurance Policy; If the amount so recovered by the Purchaser or relevant member of the Purchaser Group exceeds the amount of the Claim (other than a Tax Claim) satisfied by the Claim Seller(s) the Purchaser or relevant member of the Purchaser Group (as applicable) shall be entitled to retain the excess.

#### Actions by third parties

- 6.22 If the Purchaser or a member of the Purchaser Group becomes aware of any claim, action or demand made against it, or the Company, by a third party which may give rise to a Claim (other than a Tax Claim) (a "**Third Party Claim**"), the Purchaser shall, or shall procure that the relevant member of the Purchaser Group shall:
- 6.22.1 as soon as practicable, notify each Seller giving reasonable details, so far as they are known to the Purchaser or relevant member of the Purchaser Group, of the relevant facts and circumstances relating to the Third Party Claim; and
- 6.22.2 as soon as reasonably practicable, keep each Seller reasonably informed of all material developments in relation to the Third Party Claim within its knowledge,
- subject always to Applicable Law, to any duty of confidentiality which the Purchaser or the Company owes to any third party, and provided that the Purchaser shall not be obliged to take any action which could result in any person losing the benefit of any applicable privilege.
- 6.23 Any failure by the Purchaser to comply with its obligations under Clause 6.22 will not invalidate such Claim or preclude the Purchaser from bringing a Claim against such Seller in relation to such Third Party Claim.

#### Claim to be reduction of consideration

- 6.24 Any payment made by or on behalf of a Seller in respect of any Claim shall, to the extent legally possible, be deemed to reduce the Purchase Price received by that Seller.

## General

- 6.25 Nothing in this Clause 6 restricts or limits any general obligation at law of the Purchaser or the Company to mitigate any loss or damage which it may suffer or incur as a consequence of any breach of any Seller Warranties.
- 6.26 The limitations on the liability of the Sellers set out in this Clause 6 shall not apply to the extent that the claim is in respect of any fraud on the part or behalf of any Seller.
- 6.27 Notwithstanding any other provision of this Agreement, none of the limitations in Clause 6 shall prejudice a claim under the W&I Policy or prevent recovery by the Purchaser of any proceeds under such a policy. In particular, the Purchaser shall not be required to (and shall not be liable to the Sellers if it does not) take or omit to take any action or do anything that is reasonably likely to compromise in any way its ability to make a recovery under the W&I Policy or which would put it in breach of the W&I Policy.

## 7. PURCHASER WARRANTIES

The Purchaser warrants to the Sellers on the date of this Agreement in the terms of the warranties set out in Schedule 5.

## 8. PROTECTION OF PURCHASER INTERESTS

### Definitions

8.1 In this Clause 8:

8.1.1 each of the following words and expressions shall have the following meanings:

- (A) **"Competing Business"** any business carried on within a country in which the Company currently does business or has existing plans to do business in the foreseeable future, or all or any of them, which wholly or partly competes with the business of designing and/or selling watches and jewellery;
- (B) **"Recognised Stock Exchange"** has the meaning given to it in section 1137 of the CTA 2010;
- (C) **"Restricted Goods or Services"** means watches and jewellery and the design or sale of watches and jewellery; and
- (D) **"Restricted Goods or Services"** also means \*; and
- (E) **"Restricted Parties"** means each of the Sellers; and

8.1.2 references to acting directly or indirectly include (without prejudice to the generality of that expression) acting alone or on behalf of any other person or jointly with or through or by means of any other person.

### Competition

8.2 Each of the Restricted Parties covenants with the Purchaser that until the expiration of 3 years from Completion, she shall not directly or indirectly carry on or be engaged or interested in a Competing Business, save that she may hold for investment up to 3% of any class of securities quoted or dealt in on a Recognised Stock Exchange. Nothing in Clause 8.2 shall prohibit any Seller from performing her duties as an employee of any member of the Purchaser's Group.

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\* CONFIDENTIAL PORTION OF THIS EXHIBIT OMITTED AND FILED SEPARATELY WITH THE SEC PURSUANT TO RULE 24b-2 OF THE 1934 ACT

#### **Customers**

- 8.3 Each of the Restricted Parties covenants with the Purchaser that until the expiration of 3 years from Completion, she shall not directly or indirectly accept orders for or supply or cause orders to be accepted for or cause to be supplied Restricted Goods or Services to any person who is a Key Customer.
- 8.4 Each of the Restricted Parties covenants with the Purchaser that until the expiration of 3 years from Completion, she shall not directly or indirectly solicit, canvass or approach or endeavour to solicit, canvass or approach or cause to be solicited, canvassed or approached any person who is a Key Customer or Prospective Key Customer for the purpose of offering to that person Restricted Goods or Services.

#### **Suppliers**

- 8.5 Each of the Restricted Parties covenants with the Purchaser that until the expiration of 3 years from Completion, she shall not directly or indirectly solicit, canvass or approach or endeavour to solicit, canvass or approach or cause to be solicited, canvassed or approached any Key Supplier in connection with the supply of Restricted Goods or Services.

#### **Employees**


- 8.6 Each of the Restricted Parties covenants with the Purchaser that until the expiration of 3 years from Completion, she shall not directly or indirectly:
- 8.6.1 solicit or entice away or endeavour to solicit or entice away or cause to be solicited or enticed away from the Company any person who is, and was at Completion, employed or directly or indirectly engaged by the Company in an executive, sales, marketing, research or technical capacity (including, for the avoidance of doubt, the Executive Team) or whose departure from the Company would have a material adverse effect on the business of such company (whether or not such person would commit a breach of their contract of employment or engagement by reason of leaving);
- 8.6.2 solicit or endeavour to solicit or cause to be solicited any person who was at any time during the 12 months up to and including Completion employed or directly or indirectly engaged by the Company who, by reason of their employment or engagement, possesses any trade secrets or a material amount of confidential information concerning the business or affairs of the Company or is likely to be able to solicit away from the Company the custom of any Key Customer or Key Supplier in connection with the Restricted Goods or Services.
- 8.7 Nothing in Clause 8.6 shall prohibit any Seller from employing any person who responds to a general recruitment or other general advertisement or whose employment with the Purchaser has been terminated, provided that such response or termination was not solicited or induced directly or indirectly by that Seller.

#### **Confidentiality**

- 8.8 Each of the Restricted Parties covenants with the Purchaser that until the expiration of 5 years from Completion, she shall not disclose or use, for her own benefit or that of any other person (other than for the proper performance of any employment contract which she enters into with the Company) any Know How which she possesses concerning the business or affairs of the Company (in relation to or in connection with the Restricted Goods or Services), except any such Know How which is in the public domain other than by reason of any breach by the Restricted Party of any of her obligations under this Agreement or any breach by any person of any duty of confidentiality in relation to the business or affairs of the Company.

8.9 Each of the Restricted Parties covenants with the Purchaser that until the expiration of 5 years from Completion, she shall not disclose or use, for her own benefit or that of any other person (other than for the proper performance of her duties to the Company) any confidential information or trade secrets which she possesses concerning the business or affairs of the Company (in relation to or in connection with the Restricted Goods or Services), except any such information which is in the public domain other than by reason of any breach by the Restricted Party of any of her obligations under this Agreement or any breach by any person of any duty of confidentiality in relation to the business or affairs of the Company.

**Restriction on use of names**

8.10 Each of the Restricted Parties covenants with the Purchaser that following the date of this Agreement, she will not and she will procure that no Seller Related Person will, and she will not authorise any third party to, in connection with any business, use, anywhere in the world, the words "OLIVIA BURTON", the logo  or any words or images which are, in the reasonable opinion of the Purchaser, confusingly similar to either such mark.

**Severability**

8.11 Each of the restrictions set out in Clauses 8.2, 8.3, 8.4, 8.5, 8.6.1, 8.6.2, 8.8, 8.9 and 8.10 of this Agreement is separate and severable and, in the event of any such restriction (including the defined expressions in Clauses 8.1.1(A), 8.1.1(C), 8.1.1(D) and 8.1.2) being determined as unenforceable in whole or in part for any reason, such unenforceability shall not affect the enforceability of the remaining restrictions or, in the case of part of a restriction being unenforceable, the remainder of that restriction. The restriction in Clause 8.2 shall be deemed to be separate and severable in relation to each of the countries set out in Clause 8.1.1(A).

**Benefit of restrictions**

8.12 The restrictions entered into by the Restricted Parties in Clauses 8.2, 8.3, 8.4, 8.5, 8.6.1, 8.6.2, 8.8, and 8.9 are given to the Purchaser for itself and for each other member of the Purchaser's Group and each of the Restricted Parties agrees that she will at the request and cost of the Purchaser enter into a further agreement with each other member of the Purchaser's Group whereby she will accept restrictions equivalent to (and no more onerous than) the restrictions in this Agreement (or such of them as the Purchaser in its absolute discretion shall deem appropriate). The rights of each member of the Purchaser's Group (other than the Purchaser) under this Clause are subject to the provisions of Clause 10.9.

9. **ACCESS TO INFORMATION**

The Purchaser shall procure that, for so long as the Purchaser retains Control of the Company:

- 9.1 all books of account, records, documents and information of the Company (in whatever form) relating to the period before Completion ("Company Information") are preserved for seven years from the Completion Date; and
- 9.2 (on giving reasonable notice to the Purchaser and subject to any duty of confidence owed by the Company to any person, and provided that nothing in this Clause shall require the Purchaser to permit any disclosure which could result in the loss of any applicable privilege) (a) each Seller and (b) any of such Seller's Representatives are permitted during normal business hours to have access to, and to take copies (at such person's own expense) of, such Company Information as they reasonably require for tax or accounting purposes or to comply with any law, judgment or requirement of any Authority, securities



exchange or industry body to which such person is subject or submits, wherever situated, whether or not such requirement has the force of law.

**Non-exclusive remedies**

9.3 The rights conferred on the Purchaser and each Seller by this Agreement are in addition, and without prejudice, to any equitable rights and remedies which may be granted to the Purchaser and each Seller.

10. **MISCELLANEOUS**

**Announcements**

10.1 Subject to the remaining provisions of this Clause 10 and with the exception of general announcements relating to the Company's business (provided that details of the Sellers and confidential information relating the transaction contemplated by this Agreement are omitted from such announcements), no Party shall release any announcement or except as provided in this Agreement despatch any announcement or circular, relating to this Agreement unless the form and content of such announcement or circular have been submitted to, and agreed by, the other Parties. Nothing in this Clause 10.1 shall prohibit any Party from making any announcement or despatching any circular as required by law or regulation or any regulatory body in which case, the announcement shall only be released or the circular despatched after consultation with the other Parties and after taking into account the reasonable requirements of the other Parties as to the content of such announcement or circular.

**Confidentiality**

10.2 For the purposes of Clauses 10.3 and 10.4, "**Confidential Information**" means the existence and contents of this Agreement and any other agreement or arrangement contemplated by this Agreement and:

10.2.1 information of whatever nature concerning the business, finances, assets, liabilities, dealings, transactions, Know How, customers, suppliers, processes or affairs of the other Parties from time to time; and

10.2.2 any information which is expressly indicated to be confidential in relation to the Party disclosing it (or in relation to any of its group undertakings) from time to time,

which any party may from time to time receive or obtain (verbally or in writing or in disk or electronic form) from any other Party as a result of negotiating, entering into, or performing its obligations pursuant to this Agreement and provided that such information concerning the Company in relation to the period before Completion shall not be treated as Confidential Information belonging to the Sellers following Completion and such information concerning the Company or the Purchaser's Group in relation to the period before or after Completion shall be treated as Confidential Information belonging to the Purchaser.

10.3 Each Party undertakes to the other Parties that, subject to Clause 10.4, unless the prior written consent of the other Parties shall first have been obtained it shall, and shall procure that its officers, employees, advisers and agents shall, keep confidential and shall not by failure to exercise due care or otherwise by any act or omission disclose to any person whatever, or use or exploit commercially for its or their own purposes, any of the Confidential Information belonging to the other Parties.

10.4 The consent referred to in Clause 10.3 shall not be required for disclosure by a Party of any Confidential Information:

10.4.1 to its officers, employees, advisers and agents, in each case, as may be contemplated by this Agreement or, to the extent required to enable such Party to

carry out its obligations under this Agreement and who shall in each case be made aware by such Party of its obligations under this Clause and shall be required by such Party to observe the same restrictions on the use of the relevant information as are contained in Clauses 10.3 and 10.5, subject to the same exceptions as are contained in this Clause 10.4;

10.4.2 subject to Clause 10.5, to the extent required by Applicable Law or by the regulations of any stock exchange or regulatory authority to which such Party is or may become subject or pursuant to any order of court or other competent authority or tribunal;

10.4.3 to the extent that the relevant Confidential Information is in the public domain otherwise than by breach of this Agreement by any Party;

10.4.4 which is disclosed to such Party by a third party who is not in breach of any undertaking or duty as to confidentiality whether express or implied;

10.4.5 which that Party lawfully possessed prior to obtaining it from another;

10.4.6 to any professional advisers who are bound by a duty of confidence to such Party which applies to any information disclosed;

10.4.7 to the other Parties to this Agreement;

10.4.8 pursuant to the terms of this Agreement; or

10.4.9 which is information that a prudent prospective purchaser of shares in the Company, or a prospective provider of debt finance to such prudent prospective purchaser of shares in the Company, might reasonably require to know and which is disclosed pursuant to negotiations for an arm's length sale of shares in the Company to a recipient which, in the reasonable opinion of the disclosing Party, is a prospective purchaser able to complete the purchase of the shares in the Company or which is a provider of debt finance to such prospective purchaser.

10.5 If a Party becomes required, in circumstances contemplated by Clause 10.4.2, to disclose any information such Party shall (to the extent permitted by Applicable Law) give to the other Parties such notice as is practical in the circumstances of such disclosure and shall co-operate with the other Parties, having due regard to the other Parties' views, and take such steps as the other Parties may reasonably require in order to enable it to mitigate the effects of, or avoid the requirements for, any such disclosure.

**Several liability**

10.6 Where in this Agreement any liability is undertaken by two or more persons (including in respect of any Claim) the liability of each of them shall be several and not joint (or joint and several).

**No partnership**

10.7 Nothing in this Agreement or in any document referred to in it shall constitute any of the Parties a partner of any other, nor shall the execution, completion and implementation of this Agreement confer on any Party any power to bind or impose any obligations to any third parties on any other Party or to pledge the credit of any other Party.

**Assignment**

10.8 No Party may assign (whether absolutely or by way of security and whether in whole or in part), transfer, mortgage, charge or otherwise dispose in any manner whatsoever of the benefit of this Agreement without the prior written consent of each other Party.

### Third party rights

10.9

With the exception of:

10.9.1 the rights of the Company and of any director, employee, officer or agent of the Company to enforce the terms contained in Clause 5.6;

10.9.2 the rights of each member of the Purchaser's Group (other than the Purchaser) to enforce the terms contained in Clause 8,

(each such party being, for the purposes of this Clause 10.9, a "**Third Party**") and

10.9.3 the rights of each Third Party to enforce the terms of Clause 13,

no term of this Agreement is enforceable under the Contracts (Rights of Third Parties) Act 1999 by a person who is not a Party to this Agreement. The rights of the relevant Third Parties to enforce the terms of Clause 5.6, Clause 8 and Clause 13 are subject to the condition that the Purchaser has the right (which it may waive in whole or in part in its absolute discretion and without the consent of or consultation with any Third Party) to have the sole conduct of any proceedings in relation to the enforcement of such rights (including any decision as to commencement or compromise of such proceedings) but will not owe any duty or have any liability to any of the Third Parties in relation to such conduct. The rights of the relevant Third Parties under Clause 5.6, Clause 8 and Clause 13 are also subject to the terms of Clauses 10.8 and 12.

10.10

No term of this Agreement is enforceable under the Contracts (Rights of Third Parties) Act 1999 by a person who is not a Party to this Agreement.

### Unenforceable provisions

10.11

Without prejudice to Clause 8.11, if any provision or part of this Agreement is void or unenforceable due to any Applicable Law, it shall be deemed to be deleted and the remaining provisions of this Agreement shall continue in full force and effect.

### Waiver

10.12

The rights and remedies of the Parties shall not be affected by any failure to exercise or delay in exercising any right or remedy or by the giving of any indulgence by any other Party or by anything whatsoever except a specific waiver or release in writing and any such waiver or release shall not prejudice or affect any other rights or remedies of the Parties. No single or partial exercise of any right or remedy shall prevent any further or other exercise thereof or the exercise of any other right or remedy.

### Counterparts

10.13

This Agreement may be executed in any number of counterparts and by the Parties to it on separate counterparts, each of which when executed and delivered shall be an original, but all the counterparts together constitute one instrument.

### Payments

10.14

Any payment to be made to any Seller under this Agreement shall be effected by transfer of immediately available funds through a UK clearing bank to the Sellers' Solicitors Nominated Account. The Sellers' Solicitors are irrevocably and unconditionally authorised to receive any sum paid to them in accordance with this Clause 10.14, receipt of such sum in their client account shall be a full and effective discharge of the Purchaser's obligation to pay such sum, and the Purchaser shall not be concerned to see to the application of it.

#### **Taxation of payments**

- 10.15 Any payment made by or due from each Party under, or pursuant to the terms of, this Agreement shall be free and clear of all Taxation whatsoever save only for any deductions or withholdings required by law.

#### **Payments net of Tax**

- 10.16 If any deductions or withholdings referred to in Clause 10.15 are required, or any payments made by or due from a Party under this Agreement are liable for Taxation (whether in the hands of any Party, the Company or otherwise), or would have been liable for Taxation but for the utilisation of any Tax relief in respect of such liability, the relevant paying Party shall be liable to pay to the other Party or the Company (as the case may be) such further sums as shall be required to ensure that the net amount received by the other Party or the Company (as the case may be) will equal the full amount which would have been received under the relevant provisions of this Agreement in the absence of any such deductions, withholdings or Taxation liabilities. No additional sum shall be paid pursuant to this Clause where an amount in respect of such deduction, withholding or Taxation has already been taken into account in calculating the amount of the original payment, provided that the Purchaser shall not have any obligation to pay further sums under this Clause 10.16 on account of

10.16.1 any liability for Taxation of any of the Sellers which arises in respect of any payments of, or in respect of the Purchase Price; and

10.16.2 any deductions or withholdings which are required in respect of any payments of, or in respect of the Purchase Price unless such deductions or withholdings are required as a result of the Purchaser's residence, place or business or other attributes for Tax purposes (and, for the avoidance of doubt, any requirement to deduct or withhold on account of any liability of the Sellers to UK income tax or UK national insurance contributions shall not oblige the Purchaser to pay further sums under this Clause 10.16).

No additional sum shall be paid pursuant to this Clause 10.16 where an amount in respect of such deduction, withholding or Taxation has already been taken into account in calculating the amount of the original payment.

#### **No set off, deduction or counterclaim**

- 10.17 Every payment payable by each Party under this Agreement shall be made in full without any set off or counterclaim howsoever arising and shall be free and clear of, and without deduction of, or withholding for or on account of, any amount which is due and payable to each Party under this Agreement.

#### **Costs**

- 10.18 Each Party shall pay its own costs in connection with the preparation and negotiation of this Agreement and any matter contemplated by it.
- 10.19 The Purchaser shall be responsible for paying all stamp duty or other similar transfer Tax payable in respect of the transfers of the Shares.
- 10.20 The Purchaser shall be responsible for paying the premium under the W&I policy.

#### **Further assurance**

- 10.21 Each of the Sellers shall after Completion execute all such deeds and documents and do all such things as the Purchaser may reasonably require for perfecting the transactions

intended to be effected under, or pursuant to, this Agreement and for giving the Purchaser the full benefit of the provisions of this Agreement, including vesting in the Purchaser the legal and beneficial title to the Shares. No provision of this Agreement or the Tax Deed shall require any Seller to make any payment of or in respect of stamp duty or any other transfer tax payable in connection with the entry into this Agreement or the transfer of the legal or beneficial title to the Shares to the Purchaser.

11.

#### NOTICES

11.1

A notice (including any approval, consent or other communication) in connection with this Agreement and the documents referred to in it:

11.1.1

must be in writing;

11.1.2

must be left at or delivered by courier to the address of the addressee or sent by pre-paid recorded delivery (airmail if posted to or from a place outside the United Kingdom) to the address of the addressee or sent by facsimile to the facsimile number of the addressee in each case which is specified in this Clause (if applicable) in relation to the Party to whom the notice is addressed, and marked for the attention of the person so specified, or to such other address or facsimile number in the United Kingdom or marked for the attention of such other person, as the relevant Party may from time to time specify by notice given in accordance with this Clause.

The relevant details of each Party at the date of this Agreement are:

##### **Sellers**

Lesa Bennett of \*

Jemma Fennings of \*

##### **Purchaser**

Address: MGS Distribution Limited, Meadway House, Meadway, Haslemere, Surrey, GU27 1NN

Attention: Company Secretary

11.1.3

must not be sent by electronic mail.

11.2

In the absence of evidence of earlier receipt, any notice shall take effect from the time that it is deemed to be received in accordance with Clause 11.3.

11.3

Subject to Clause 11.4, a notice is deemed to be received:

11.3.1

in the case of a notice left at the address of the addressee, upon delivery at that address;

11.3.2

in the case of a posted letter, on the third day after posting or, if posted from a place outside the United Kingdom, the seventh day after posting; and

11.3.3

in the case of a facsimile, on production of a transmission report from the machine from which the facsimile was sent which indicates that the facsimile was sent in its entirety to the facsimile number of the recipient.

11.4

A notice received or deemed to be received in accordance with Clause 11.3 above on a day which is not a Business Day, or after 5pm on any Business Day, shall be deemed to be received on the next following Business Day.

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- 11.5 A notice given or document supplied to the Sellers or any of them in accordance with the details specified for the Sellers above shall be deemed to have been given or supplied to all the Sellers to whom such notice is addressed.
12. **ENTIRE AGREEMENT**
- 12.1 In this Clause 12, “**Representations**” means any drafts, agreements, undertakings, representations, warranties, statements, promises, assurances, undertakings and arrangements of any nature whatsoever, whether or not in writing and whether given by a party to this Agreement or not, relating to the sale and purchase of the Shares, this Agreement or any other Acquisition Documents.
- 12.2 This Agreement and the other Acquisition Documents together set out the entire agreement and understanding between the parties relating to their subject matter and, save to the extent expressly set out in this Agreement or any other Acquisition Document, supersede and extinguish any prior Representations.
- 12.3 The Purchaser and the Sellers acknowledge and agree that in entering into this Agreement and the other Acquisition Documents to which they are a party, they have not relied and are not relying on, and shall have no claim or remedy in respect of, any Representation which is not expressly set out in this Agreement or any other Acquisition Document.
- 12.4 The Purchaser and the Sellers acknowledge and agree that neither they nor any of their representatives have any rights against, and shall not make any claim or bring any action against, any representative of any of the other parties in relation to the sale and purchase of the Shares, this Agreement or the other Acquisition Documents.
- 12.5 Save as expressly set out in this Agreement, the only right or remedy of the Purchaser or the Sellers in relation to any representation set out in this Agreement or any other Acquisition Document shall be for breach of this Agreement or the relevant Acquisition Document to the exclusion of all other rights or remedies (including those in tort or arising under statute) and, in respect of any breach of this Agreement or any Acquisition Document, the only remedy shall be a claim for damages in respect of such breach.
- 12.6 This Clause 12 shall not exclude any liability for or remedy in respect of fraud.
13. **GOVERNING LAW**
- This Agreement and any dispute or claim arising out of or in connection with it or its subject matter, existence, negotiation, validity, termination or enforceability (including non-contractual disputes or claims) shall be governed by and construed in accordance with English law.
14. **DISPUTE RESOLUTION**
- 14.1 Each Party irrevocably agrees that the Courts of England shall have exclusive jurisdiction in relation to any dispute or claim arising out of or in connection with this Agreement or its subject matter, existence, negotiation, validity, termination or enforceability (including non-contractual disputes or claims).
- 14.2 Each Party irrevocably waives any right that it may have to object to an action being brought in those Courts, to claim that the action has been brought in an inconvenient forum, or to claim that those Courts do not have jurisdiction.
- 14.3 Each Party agrees that without preventing any other mode of service, any document in an action (including a claim form or any other document to be served under the Civil Procedure Rules) may be served on any Party by being delivered to or left for that Party at its address for service of notices under Clause 11 and each Party undertakes to maintain such an address at all times in the United Kingdom and to notify the other Party in advance of any change from time to time of the details of such address in accordance with the manner prescribed for service of notices under Clause 11.

IN WITNESS whereof this Agreement has been entered into by the Parties hereto on the date first written above.

Signed for and on behalf of **MGS Distribution))**  
**Limited by:** Signature

/s/ Sallie A. DeMarsilis

Name (block capitals) Sallie A. DeMarsilis

**Director/authorised  
signatory**

Signed by **JEMMA FENNINGS:** )) Signature /s/ Jemma Fennings

Signed by **LESA BENNETT:** )) Signature /s/ Lesa Bennett

**SCHEDULE 1**

**DETAILS OF SELLERS, SHARES, CONSIDERATION AND SHAREHOLDERS**

**PART 1: SELLERS AND SELLERS' SHARES**

(1)	(2)	(3)	(4)	(5)
Sellers' names and addresses	Number of Shares legally and beneficially held at the date of Agreement	Number of Shares legally but not beneficially held at the date of Agreement	Number of Shares beneficially but not legally held at date the of Agreement	Purchase Price in £ sterling
Lesa Bennett of *	100	25	0	32,630,688
Jemma Fennings of *	75	0	25	32,630,688
<b>TOTALS</b>	<b>175</b>	<b>25</b>	<b>25</b>	<b>65,261,376</b>

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**PART 2**

**DETAILS OF THE COMPANY**

Registered number:	07793580
Company status:	Private limited company
Country of incorporation:	England and Wales
Registered office:	Zetland House, 5-25 Scrutton Street, London, England, EC2A 4HJ
Issued share capital:	200 ordinary shares of £1 each
Directors:	Jemma Fennings Lesa Bennett
Auditors:	Mercer and Hole, Batchworth House, Batchworth Place, Church Street, Rickmansworth, Hertfordshire WD3 1JE
Outstanding charges:	None

**SCHEDULE 2**  
**LOCKED BOX ARRANGEMENT**

1.

**INTERPRETATION**

For the purposes of this Schedule 2 the following additional terms shall have the following meanings:

**"Direct Leakage":**

- (a) any dividend or distribution declared, paid or made, or any repurchase, redemption or return of capital made, in each case by the Company to any Seller or any Seller Related Person of such Seller;
- (b) any payments made or agreed to be made by the Company in respect of the issuance of any securities by the Company to any Seller or any Seller Related Person of such Seller;
- (c) any payment of principal of, or interest on, any loan by the Company to any Seller or any Seller Related Person of such Seller;
- (d) any payments (including management fees, consulting fees, monitoring fees, directors' fees, licence fees, costs, expenses or royalties) made to, or any assets transferred to, or liabilities (actual or contingent) assumed or incurred for the benefit of, or indemnification given, or services having tangible and objectively quantifiable economic benefit provided by, in each case by the Company to any Seller or any Seller Related Person of such Seller;
- (e) the forgiving, waiver, or agreement to forgive or waive (whether conditional or not) by the Company of any amount owed to the Company by any Seller or any Seller Related Person of such Seller, or of any claims (or parts thereof) or rights of the Company against any Seller or any Seller Related Person of such Seller;
- (f) the payment by the Company, or the agreement to pay by the Company, of any fees, costs, expenses, Tax or other amounts in connection with any of the matters referred to above; and
- (g) any agreement, arrangement, understanding or commitment to do any of the things set out in paragraphs (a) to (f) above,

but does not include any Permitted Leakage Payment;

**"Indirect Leakage":**

- (a) any dividend or distribution declared, paid or made, or any repurchase, redemption or return of capital made, in each case by the Company;
- (b) any payments made or agreed to be made by the Company in respect of the issuance of any securities by the Company;
- (c) any transaction costs or expenses (including management fees, consulting fees, finder's fees, monitoring fees and directors' fees) incurred by the Company in connection with the matters contemplated by this Agreement ("**Fees**");
- (d) any bonuses paid, or agreed to be paid, by the Company to any employee or officer of the Company as a result of Completion ("**Bonuses**");
- (e) any payments made by the Company to any charity, as such term is defined in section 1 of the Charities Act 2011;
- (f) the payment by the Company, or the agreement to pay by the Company, of any fees, costs, expenses, Tax or other amounts in connection with any of the matters referred to above; and
- (g) any agreement, arrangement, understanding or commitment to do any of the things set out in (a) to (f) above,

but does not include any Permitted Leakage Payment or Direct Leakage;

"Leakage" means Direct Leakage and Indirect Leakage;

"Permitted Leakage Payment":

- (a) anything constituting Leakage to the extent that provision or reserve has been specifically made for it in the Accounts or the Locked Box Balance Sheet;
- (b) any payment by the Company expressly permitted in this Agreement to be made by the Company;
- (c) any matter undertaken at the written request of the Purchaser to the extent that such written request specifies that such amount is to be treated as Permitted Leakage;
- (d) the payment of £27,958 (inclusive of VAT) to BDO LLP in June 2017 in connection with certain strategic advice given to the Company exclusively in connection with the Transaction;
- (e) the payment of £38,776 to Pragma (inclusive of VAT) in connection with a market report prepared for the benefit of the Company;
- (f) directors' fees, salaries, bonuses, pensions contributions (and pensions accruals) and expenses paid to or on behalf of each of the Sellers up to £175,000 in aggregate;
- (g) payments by the Company on or shortly after Completion of an aggregate amount of up to £68,280 to certain employees of the Company (inclusive of any applicable employer national insurance contributions and payroll or income Tax in respect of such payments) (the "**Employee Bonuses**");
- (h) the provision by the Company of certain stock samples to any Seller or any Seller Related Person of such Seller in the ordinary course of business and with a maximum retail value of up to £750;
- (i) any Data Room Costs in an amount up to £4,000;
- (j) any salary or expenses paid to \* up to £\* in aggregate;
- (k) any salary or expenses paid to \* up to £\* in aggregate;
- (l) any salary or expenses paid to \* up to £\* in aggregate;
- (m) any salary or expenses paid to \* up to £\* in aggregate;
- (n) any liability to Tax that arises in connection with any of the matters referred to above.

## 2. LEAKAGE

- 2.1 In the event that any Direct Leakage occurs during the period from, but excluding, the Locked Box Date to, and including, the Completion Date, each Seller undertakes to pay to the Purchaser (or the Company as the Purchaser directs) on demand an amount in cash equal to the amount of the Direct Leakage received by such Seller or any Seller Related Person of such Seller.
- 2.2 In the event that any Indirect Leakage occurs during the period from, but excluding the Locked Box Date to, and including, the Completion Date, each Seller undertakes to pay to the Purchaser (or the Company as the Purchaser directs) on demand an amount in cash equal to the amount of the Indirect Leakage multiplied by 0.5.
- 2.3 Any demand for payment under paragraph 2.1 or 2.2 must be by written notice to the Seller and must set out the details of the Leakage (so far as is known to the Purchaser), the amount of such Leakage, the amount payable by that Seller and the bank account of the Purchaser into which such payment should be made.

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- 2.4

No Seller shall be liable under paragraph 2.1 or 2.2 unless a demand for payment is made in accordance with paragraph 2.3 within six months of Completion.
- 2.5

Any payment under this paragraph 2 must be made to the Purchaser within 30 days of the notice of demand for payment first being served on the relevant Seller and shall, to the extent legally possible, be treated as adjusting the proportion of the consideration accordingly.
3.

**JOINT AND SEVERAL OBLIGATIONS**

The obligations of the Sellers under this Schedule 2 shall be several.

**SCHEDULE 3**  
**COMPLETION OBLIGATIONS\***

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\* THIS SCHEDULE HAS BEEN OMMITTED PURSUANT TO ITEM 601(B)(2) OF REGULATION S-K.

**SCHEDULE 4**  
**SELLER WARRANTIES**

**1. TITLE**

**1.1 Title to Shares**

- 1.1.1 The Seller is the legal and beneficial owner of, and is entitled to transfer the legal and beneficial title to, those Shares set out opposite the Seller's name in column 2 of Schedule 1, free from any Encumbrances.
- 1.1.2 The Seller is the legal owner of, and is entitled to transfer the legal title to, those Shares set out opposite the Seller's name in column 3 of Schedule 1, free from any Encumbrances.
- 1.1.3 The Seller is the beneficial owner of, and is entitled to transfer the beneficial title to, those Shares set out opposite the Seller's name in column 4 of Schedule 1, free from any Encumbrances.

**1.2 Issued shares**

The Shares of the Company are fully paid up and the Company has not exercised or purported to exercise or claimed any lien over any of the Shares. There are no obligations of the Seller whatsoever to pay in any additional capital or to provide any other contribution such as a contribution in kind.

**1.3 Rights of third parties**

No person has the right to call for the issue of any share or loan capital of the Company by reason of any conversion rights or under any option or other agreement.

**1.4 Issued share capital**

The Shares represent the entire issued share capital of the Company and there are not outstanding any warrants, options, debentures, rights of conversion or any other security, instrument or agreement giving any person the right to subscribe for, purchase or receive any shares in the capital of the Company.

**2. CAPACITY**

- 2.1 The Seller is a natural person who is of sound mind and competent to execute and deliver this Agreement.
- 2.2 This Agreement will, when executed, constitute valid and binding obligations of the Seller, enforceable against her in accordance with its terms.
- 2.3 The execution and delivery of, and the performance by, the Seller of her obligations under this Agreement will not result in a default or a breach of any order, judgment or decree or regulation or any other restriction of any kind by which that Seller is bound or is subject.
- 2.4 The Seller has not entered into any bankruptcy procedure or arrangement with her creditor(s) nor is any such procedure or arrangement proposed.

- 2.5 Each Seller has duly authorised, executed and delivered this Agreement and will at Completion have authorised, executed and delivered any agreements to be entered into pursuant to the terms of this Agreement.
3. **ACCOUNTS**
- 3.1 **General**
- The Accounts:
- 3.1.1 have been prepared in accordance with UK GAAP as at the Accounts Date and the accounting policies stated therein;
- 3.1.2 show a true and fair view of the state of affairs of the Company as at the Accounts Date and its financial performance for the period to which they relate;
- 3.1.3 comply with the requirements of all Applicable Laws;
- 3.1.4 (save as the Accounts expressly disclose) are not affected by any event or circumstance outside the ordinary course of business or by any other factor rendering them unusually high or low and have not, in relation to the statement of comprehensive income, been affected by any unusual or non-recurring item.
- 3.2 **Application of warranties to Previous Accounts**
- Each of the statements in sub-paragraphs 3.1.1 to 3.1.4 would be true and accurate in relation to the Previous Accounts if:
- 3.2.1 each reference to Accounts were to be substituted with a reference to the Previous Accounts;
- 3.2.2 each reference to Accounts Date were to be substituted with a reference to the Previous Accounts Date and the 12 month period immediately preceding the Previous Accounts Date.
- 3.3 **Position since Accounts Date**
- Since the Accounts Date:
- 3.3.1 apart from the dividends provided for or disclosed in the Accounts no dividend or other distribution has been declared, paid or made by the Company to the Sellers or any third party;
- 3.3.2 the business of the Company has been carried on as a going concern and in all material respects in the ordinary course;
- 3.3.3 no Key Customer or Key Supplier has ceased to trade with the Company and the Company has not received written notice from any Key Customer or Key Supplier:
- (A) of its express intention to cease to trade with the Company; or
- (B) (excluding any trading updates and any purchase orders received by the Company) to significantly reduce its business with the Company (by reference to the financial year ending 31 March 2017),
- in each case which, by itself, has an effect on the revenue of the Company of not less than £200,000 per annum;

3.3.4 the Company has not acquired or disposed of or agreed to acquire or dispose of any business or any material asset other than trading stock in the ordinary course of business; and

3.3.5 no debtor owing the Company more than £25,000 has been released by the Company on terms that he pays less than the book value of its debt (subject to settlement discounts on the usual terms which have been disclosed to the Purchaser) and no debt in excess of £25,000 has been written off or has proved to be irrecoverable.

#### 3.4 **Management Accounts**

The Management Accounts:

3.4.1 (save as the Management Accounts expressly disclose) have been prepared using the same estimation techniques and accounting policies as those used to prepare Accounts; and

3.4.2 (taking into account the purpose for which they were prepared) present with reasonable accuracy the financial position of the Company as at the date on which they were prepared and the results of the operations of the Company for the period indicated.

#### 3.5 **Inventory and Accounts Receivable**

3.5.1 In the 12 months prior to the date of this Agreement, the aggregate value of:

(A) inventory rejected by the Company due to defects in quality has not exceeded £50,000; and

(B) customer returns due to defects in quality or in relation to any product warranty claims has not exceeded 3% of the Company's sales.

3.5.2 No sales to customers of the Company are made on a consignment basis.

3.5.3 All trade debtors (including both billed and accrued) of the Company that are reflected in the Accounts represent valid obligations arising from sales actually made and/or services actually performed by the Company in the ordinary course of business consistent with past practice.

3.5.4 No trade debtors of the Company that are reflected in the Accounts have given written notice of any contests, claims or rights of set-off relating to the amount or validity of such account receivable, other than customer returns in the ordinary course of business consistent with past practice.

3.5.5 No material debts of the Company that are reflected in the Accounts are overdue by more than 90 days from the due date of payment.

#### 4. **ASSETS**

##### 4.1 **Title to Assets**

The material assets included in the Accounts or material assets acquired by the Company since the Accounts Date (other than trading stock disposed of since that date in the ordinary course of business or assets acquired subject to retention of title provisions or subject to liens arising by operation of law) and all other material assets used or employed by the



Company are the absolute property of the Company free from any mortgage, charge, lien, bill of sale or other Encumbrance and are not the subject of any leasing, hiring or hire purchase or agreement for payment on deferred terms or assignment or factoring or similar agreement (unless specifically disclosed in the Accounts), and all such material assets are in the possession or under the control of the Company.

4.2 **Condition of office equipment and computer systems**

The office equipment and computer systems used by the Company are in good repair and are suitable for the purposes for which they are used.

4.3 **Nature of debts**

The Company is not owed any sums in excess of £25,000 other than trade debts incurred in the ordinary course of business and cash at bank.

5. **REGULATORY**

5.1 The operations of the Company are, and have at all times in the three years prior to the date of this Agreement, conducted in all material respects in compliance with all Applicable Laws.

5.2 The Company has not received written notice that any investigation (that is material in the context of the Company's business) by or on behalf of any authority or court or governmental agency or tribunal of competent jurisdiction, in relation to any aspect of the business of the Company or the conduct of the Company or any agreement or arrangement to which the Company is or was a party, is pending and the Company has not received written notice that any such investigations are threatened or contemplated.

5.3 The Company has put in place procedures designed to satisfy the requirements of the defence described in section 7(2) of the Bribery Act 2010 to the offence described in section 7(1) of the Bribery Act 2010.

6. **FINANCIAL OBLIGATIONS**

6.1 **General**

6.1.1 The Data Room contains details of any overdraft, loan or other financial facilities or borrowings (other than trade credit arising in the ordinary course of business) (a) currently available to the Company or (b) under which the Company is a debtor ("**Facilities**").

6.1.2 The Company has not provided any guarantees, indemnities or any letters of support that remain outstanding.

6.1.3 The Company has no outstanding Encumbrance subsisting over the whole or any part of its present or future revenues or assets.

6.1.4 There is not outstanding any guarantee, indemnity or Encumbrance given by any Seller in respect of any indebtedness or liability of the Company.

6.1.5 The Company has not received written notice (which is current and still outstanding) that it is in material default under the terms of any of the Facilities or to repay any of the Facilities before their normal or originally stated maturity.

- 6.1.6 The Company is in compliance with its notification obligations under the Facilities with respect to reporting any events or circumstances that give rise to, or are likely to give rise to, a default thereunder.
- 6.1.7 No Financial Obligation under the Facilities of the Company has become, or is now due and payable, or is capable of being declared due and payable, before its originally stated maturity.

6.2

**Grants and subsidies**

The Company has not done or agreed to do anything as a result of which:

- 6.2.1 any investment grant or other grant or any subsidy received by the Company is or may be liable to be refunded wholly or partly; or
- 6.2.2 any application made by the Company for such a grant or subsidy shall or may be refused wholly or partly;
- and neither the signature nor the performance of the Agreement shall have any such result.

6.3

**Loans to directors and connected persons**

There is not outstanding:

- 6.3.1 any loan made by the Company to, or debt owing to the Company by, any of the Sellers or any director of the Company or any person connected with any of them; or
- 6.3.2 any agreement or arrangement to which the Company is a party and in which any of the Sellers or any director of the Company or any person connected with any of them is interested.

7.

**REAL ESTATE**

7.1

The Real Properties comprise all land and buildings owned or leased by the Company or used or occupied by the Company or in which the Company has any other interest, right or liability.

7.2

In relation to the Real Properties, a full and accurate copy of the agreements are contained in the Data Room.

7.3

There is not outstanding any circumstance which would entitle any third party to exercise a right or power of entry or to take possession or which would in any material way restrict the continued possession or use of the Real Properties by the Company.

7.4

In relation to the Lease Property, the Company has paid rent payable under the lease when the same has become due, and all other sums which have been demanded in writing.

7.5

The Company has not in the three years preceding the date of this Agreement had vested in it (whether as original tenant or under-tenant or as an assignee, transferee or otherwise) any freehold or leasehold property other than the Real Properties nor has it given any covenant or entered into any agreement, deed or other documents in any capacity in respect of any freehold or leasehold property in respect of which any actual contingent or potential liability remains with the Company.

7.6	Neither the Seller nor the Company has received any written notice or order from any government department, authority or third party which adversely affects the Lease Property.
7.7	No action, claim, proceeding, demand, dispute or liability (contingent or otherwise) in respect of any of the Real Properties is outstanding.
8.	<b>ENVIRONMENTAL AND HEALTH AND SAFETY</b>
8.1	The Company has not received any written notice from an environmental or health and safety regulator alleging a material breach of, or a material liability under, Environmental Law or any Applicable Laws relating to health and safety.
9.	<b>INTELLECTUAL PROPERTY AND DATA PROTECTION</b>
9.1	<b>Ownership and Title</b>
9.1.1	Complete and accurate details (in all material respects) of: <ul style="list-style-type: none"> <li>(A) all registered Intellectual Property (including current applications for any registrations of Intellectual Property and including domain names) owned by or registered to the Company are set out in Part 1A of Schedule 7 and all such rights are valid, subsisting and enforceable ("<b>Registered IPR</b>");</li> <li>(B) all material unregistered Intellectual Property owned by the Company are set out in Part1B of Schedule 7</li> <li>(C) and all such rights are owned solely, legally and beneficially by the Company free from any Encumbrance.</li> </ul>
9.1.2	All renewal and application fees and other steps required for the maintenance of any Registered IPR have been paid and taken and no steps need to be taken now or in the next 3 months from the date of this Agreement to meet any administrative or procedural deadline in order to maintain or obtain any rights or registrations in respect of such Registered IPR.
9.1.3	Neither the validity or subsistence of the Company IPR is the subject of any current, pending or threatened challenge, claim or proceedings (including opposition, cancellation, modification, revocation or rectification) nor has it been in the three years prior to the date of this Agreement. There are no facts or matters which might give rise to any such challenge, claim or proceedings.
9.2	<b>Licences</b>
9.2.1	Complete and accurate copies (or in the case of unwritten licences, agreements or arrangements, the material details) of all material licences, agreements and arrangements (express or implied) under which the Company, or the business of the Company, (a) uses or exploits, or has agreed to use or exploit any Intellectual Property owned by a third party (including a Seller Related Persons); or (b) has licensed or agreed to licence any Company IPR to any third party (including a Seller Related Persons); ( <b>IPR Licences</b> ) are set out in Part 2 of Schedule 7.
9.2.2	Complete and accurate details of any co-existence agreements or settlement agreements ( <b>IPR Agreements</b> ) are disclosed in Part 3 of Schedule 7

9.2.3	No person has breached or is in breach, or is in default of, and the Company nor any of the Seller Related Persons have within the last 12 months received or issued a written notice in respect of any breach or termination, in relation to any IPR Licences or IPR Agreements. The Sellers have not, in the last 12 months, received written notice of any circumstances which are likely to give rise to a material default by the Company or other parties under the IPR Licences or IPR Agreements.
9.3	<b>Sufficiency</b>
9.3.1	All registered Intellectual Property and all material unregistered Intellectual Property which are used by the business of the Company are set out in Schedule 7 Part 1 and Part 2.
9.3.2	Neither of the Sellers, nor any Seller Related Person or any of the Company's officers, directors, employees or agents, owns or is licensed to use any Intellectual Property which is also used in and is material to the business of the Company.
9.4	<b>Infringement of third party rights</b>
9.4.1	The activities of the Company do not infringe the Intellectual Property of any third party, and the Company has not received written notice of any such alleged infringement.
9.4.2	None of the Company IPR is the subject of any litigation, arbitration, mediation, administrative or criminal proceedings (other than the ordinary prosecution of applications for registration or maintenance) and the Company has not received any written notice that such proceedings are pending or threatened.
9.5	<b>Infringement by third parties</b>
9.5.1	No third party is infringing any Company IPR.
9.6	<b>Confidential information</b>
9.6.1	No confidential information or Know How relating to the business of the Company has been disclosed, or permitted, undertaken or arranged to be disclosed by or on behalf of the Company to any person (except in the ordinary course of business and under an obligation of confidence) and the Company has not received written notice that there has been unauthorised use of such confidential information or Know how by any third party.
9.6.2	Nothing done or omitted to be done by the Company has breached, or is breaching, any right of any third party to confidence.
9.7	<b>Creation of Intellectual Property</b>
9.7.1	All employees and contractors who have created or developed any Intellectual Property which is material to the business of the Company, are and were contracted on terms under which any Intellectual Property created, developed or discovered by any person, vested in the Company; and where such IP currently subsists, it is fully vested in the Company.
9.8	<b>Data Protection</b>

- 9.8.1 The Company has complied with all applicable requirements of the Data Protection Legislation.
- 9.8.2 The Company has not received any notice alleging non-compliance with the Data Protection Legislation (including any Enforcement Notice) and no order has been made against the Company for the rectification, blocking, erasure or destruction of any data under the Data Protection Legislation.

10. **COMMERCIAL ARRANGEMENTS AND CONDUCT**

10.1 **Material Contracts**

Save as contained in the Data Room, there is not outstanding:

- 10.1.1 any contract to which the Company is a party of guarantee, indemnity or suretyship or any contract to which the Company is a party to secure any obligation of any person;
- 10.1.2 any Material Contract;
- 10.1.3 any sale or purchase option or similar agreement or arrangement affecting any material assets owned or used by the Company or by which it is bound;
- 10.1.4 any joint venture, consortium or partnership agreement or arrangement to which the Company is a party;
- 10.1.5 any material liability, obligation or commitment on the part of the Company which:
- (A) is incapable of complete performance within three months from the date of this Agreement; or
- (B) has not been incurred in the ordinary course of business;
- 10.1.6 any material agreement or arrangement relating to commercial agents;
- 10.1.7 any agreement or arrangement that limits or purports to limit the ability of the Company or any current or future Affiliate thereof to compete in any line of business or with any person or in any geographic area or during any period of time; or
- 10.1.8 any written notice of material default under a Material Contract sent or received by the Company in the last six months.

10.2 **Systems compliance**

All computer systems that are used by (and material to the business of) the Company in connection with the operation of its business as carried on at the date of this Agreement and at Completion are owned or validly authorised for use by the Company.

11. **LITIGATION AND INSURANCE**

11.1 **Legal Proceedings**

Apart from normal debt collection, the Company is not engaged or preparing to engage in any litigation, arbitration, prosecution or other legal proceedings, and there are no claims or actions (whether criminal or civil) in progress, outstanding, pending or threatened against the Company or the directors in their capacity as directors of the Company, in each case for a value exceeding £25,000.

11.2	<p><b>Unlawful acts</b></p> <p>The Company has not, and none of its officers or Employees has, committed any criminal or unlawful act, or any material breach of trust, contract or statutory duty, or any material tortious act, in each case in connection with the businesses or affairs of the Company, which is likely to have a material adverse effect on the Company.</p>
11.3	<p><b>Official investigations</b></p> <p>The Company has not received any written notice that any governmental or official investigation or inquiry concerning the Company is in progress or that there are any circumstances which are likely to give rise to any such investigation or inquiry.</p>
11.4	<p><b>Insurance</b></p> <p>11.4.1 The Data Room contains summary details of all material policies of insurance taken out in connection with the business or assets of the Company ("<b>Policies</b>"). The Policies are in full force and effect and all premiums due in respect of the Policies have been paid.</p> <p>11.4.2 No claim under the Policies in excess of £25,000 is outstanding and there are no circumstances notified to the insurers likely to give rise to such a claim.</p> <p>11.4.3 No claim under any policy of insurance taken out in connection with the business or assets of the Company is outstanding and there are no circumstances notified to the insurers likely to give rise to such a claim.</p> <p>11.4.4 The Company is in compliance with its notification obligations under the Policies with respect to reporting to insurers any events or circumstances that give rise to, or are likely to give rise to, any claim thereunder.</p>
12.	<p><b>CORPORATE ORGANISATION AND BUSINESS</b></p>
12.1	<p><b>The Company</b></p> <p>The details of the Company set out in Part 2 of Schedule 1 are accurate. The Company does not have, and has never had, any subsidiary undertaking and there are no entities, other than the Company, the accounts of which are required by accounting standards to be consolidated with the accounts of the Company.</p>
12.2	<p><b>Constitutional documents</b></p> <p>The Data Room contains true, complete and up to date copies of the constitutional documents of the Company and the Company has complied with the provisions of its constitutional documents in all material respects.</p>
12.3	<p><b>Books and registers</b></p> <p>The statutory books and registers of the Company are accurate and up to date in all material respects in accordance with Applicable Laws.</p>
12.4	<p><b>Compliance with law</b></p> <p>The Company and its officers have complied in all material respects with all UK legal requirements pertaining to the Company under the 2006 Act.</p>
13.	<p><b>EMPLOYEES</b></p>

- 13.1 In respect of the role, hours and location of work, current salaries, ages, lengths of continuous service, notice periods, bonus and other incentive and benefit arrangements of (i) the Executive Team, full and accurate details are contained in the Data Room, and (ii) all other current Employees, details have been disclosed (on an anonymised basis) in the Data Room.
- 13.2 Complete copies of the Company's current standard terms and conditions of employment and staff handbook and policies and procedures applicable to Employees have been included in the Data Room.
- 13.3 Complete copies of the contracts of employment (including details of any and all variations of current remuneration and benefits) of the Executive Team have been included in the Data Room.
- 13.4 Complete copies of all current written collective agreements with any recognised trade union representing all or any of the Employees (if any) have been included in the Data Room.
- 13.5 The Company has not entered into and there is not in effect any contract with any Employee which cannot be terminated in accordance with its terms by the Company by giving three months' notice or less or which entitles the Employee to compensation exceeding the value of three months' remuneration if terminated without notice.
- 13.6 No member of the Executive Team has given or been given notice to terminate his/her employment, which has not yet expired.
- 13.7 No change from the terms of employment or consultancy included in the Data Room has been proposed to any person.
- 13.8 There are no existing claims or actual or threatened litigation against the Company by or in respect of any Employee or former Employee of the Company in respect of his/her employment, or the termination of his/her employment or the provision of any benefits, or any disputes or industrial action for the purposes of collective industrial relations, and no such litigation, claim, action or dispute has arisen or taken place within the last two years.
- 13.9 There are no disciplinary or grievance proceedings in relation to any Employee or former Employee of the Company currently contemplated, anticipated or threatened or in the course of being followed by the Company or which are the subject of appeal.
- 13.10 The Company does not have any agreement or arrangement or practice for the making of payments or the provision of benefits to any Employee on redundancy other than the statutory minimum required by Applicable Law.
- 13.11 Complete details of all atypical workers, including but not limited to consultants, individual contractors and agency workers, currently engaged by the Company and all terms and conditions applicable to their engagement have been included in the Data Room.
- 13.12 The Company has, in relation to each of its Employees and to each of its former Employees (a) complied with its obligations under all Applicable Laws in all material respects and (b) discharged fully its obligations to pay all salaries, wages, commissions, bonuses, overtime pay, holiday pay, sick pay, insurance premiums, accrued entitlement under incentive schemes and other benefits of or connected with employment or services up to the date of this Agreement.

13.13 Individuals who work in Topshop (Oxford Circus) pursuant to the Topshop Concession are Employees of the Company.

14. **PENSIONS**

14.1 There is no arrangement or agreement to which the Company contributes or has or may have any obligation whether or not legally binding to provide or contribute towards for the provision of any retirement benefits for any Employee, or officer, or former Employee, or officer of the Company or for the spouse or dependant of any such person.

14.2 The Data Room contains particulars of any arrangements for the provision of medical, sickness, permanent health, death, disability or accident benefits or similar cover for Employees or officers or former Employees or officers of the Company or for any spouse or dependant of any such person.

14.3 There are not in respect of the provision of (or failure to provide) pension, lump-sum, death, ill-health, disability or accident benefits by the Company in relation to the Employees or members of the Executive Team, any claims or actions in progress, pending, threatened or anticipated (other than routine claims for benefits) and there are no circumstances which could give rise to any such claims, actions or disputes.

14.4 The Company has complied with its automatic enrolment obligations as required by the Pensions Act 2008 ("PA 2008") and associated legislation. No notices, fines, or other sanctions have been issued by the Pensions Regulator and no instances of non-compliance with the automatic enrolment obligations have been notified to the Pensions Regulator in respect of the Company.

14.5 No written undertaking or assurance has been given by the Company to any Employee as to any changes to, or the continuance of pension entitlements.

14.6 No Employee or member of the Executive Team has any rights to enhanced pension benefits on redundancy, dismissal or early retirement as a result of a transfer of an undertaking or part of an undertaking to which either the Transfer of Undertakings (Protection of Employment) Regulations 1981 or the Transfer of Undertakings (Protection of Employment) Regulations 2006 applied.

14.7 The Company has not, at any time within the six years prior to Completion, been "connected" with or an "associate" of any employer which is or has been participating in a pension scheme to which section 38, 43, 47 or 58 of the Pensions Act 2004 applies. For these purposes "connected" and "associate" have the meanings given to them in sections 435 and 249 of the Insolvency Act 1986 respectively.

15. **INSOLVENCY**

15.1 The Company has not initiated, engaged in, or received written notice that any steps have been taken or proposed, in relation to the winding up, bankruptcy, administration, insolvency, dissolution or re-organisation of the Company, nor that any analogous procedure or step has been taken in any jurisdiction in relation to the Company.

15.2 The Company has not appointed and has not received written notice of the appointment of any administrator, receiver, administrative receiver, liquidator, compulsory manager or similar officer has been appointed in respect of the Company or any of its respective assets, nor that any steps intended to result in such an appointment have been taken.



- 15.3 The Company is not insolvent or bankrupt under the laws of its jurisdiction of incorporation or unable to pay its debts as they fall due and the Company has not stopped paying its debts as they fall due or notified any material creditor of the Company that it intends to do so.
- 15.4 No compromise or arrangement with any creditor has been proposed in respect of the Company.
- 15.5 The Company has not taken, and has received written notice of any step towards enforcement of any security over any asset of the Company.
16. **WARRANTOR KNOWLEDGE**
- The Seller has made reasonable enquiries of the following Employees in respect of the following Seller Warranties:
- 16.1 \* (Finance and Operations Director) - all paragraphs of Schedule 4
- 16.2 \*(Head of International) - paras 3.3.3, 3.3.4, 3.5.2 (consignment sales), 3.5.3, 3.5.4 and 3.5.5 (trade debtors), 10.1 (material contracts), 11.1-11.4 (legal claims), 12.4 (legal compliance) of Part A of Schedule 4
- 16.3 \*(International Brand Manager) - paras 3.3.3, 3.3.4, 3.5.2 (consignment sales), 3.5.3, 3.5.4 and 3.5.5 (trade debtors), 10.1 (material contracts), 11.1-11.4 (legal claims), 12.4 (legal compliance) of Part A of Schedule 4
- 16.4 \*(UK Brand Manager) - paras 3.3.3, 3.3.4, 3.5.2 (consignment sales), 3.5.3, 3.5.4 and 3.5.5 (trade debtors), 10.1 (material contracts), 11.1-11.4 (legal claims), 12.4 (legal compliance) of Part A of Schedule 4
- 16.5 \*(Training and Concessions Manager) - para 4.1, and 13.1 of Part A of Schedule 4;
- 16.6 \*(Production Coordinator) - para 3.5.1 (product defects), 5.1, 5.2 (investigations), 9 (Intellectual Property), 10.1 (material contracts), 11.1-11.4 (legal claims), 12.4 (legal compliance) of Part A of Schedule 4
- 16.7 \*(Office Manager/PA) - para 4.2 (office assets), 5.3, 7.1 - 7.7 (real property), 8.1, 10.1 (material contracts), 10.2, 11.1 – 11.3 (legal claims), 11.4 (insurance), 12.4 (legal compliance) 13 and 14 (employee matters), of Part A of Schedule 4
- 16.8 \*(Creative Brand Manager) – para 9.3.1 and 9.5.1 (Intellectual Property), of Part A of Schedule 4

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\* CONFIDENTIAL PORTION OF THIS EXHIBIT OMITTED AND FILED SEPARATELY WITH THE SEC PURSUANT TO RULE 24b-2 OF THE 1934 ACT

## PART B

## 1. TAX

## 1.1. Compliance

- 1.1.1. The Company has properly submitted all material Tax Records to the relevant Tax Authorities within such periods as are required by law, all such submitted Tax Records were, when submitted, complete, correct and accurate in all material respects and all Tax Records assumed to have been submitted for the purposes of drawing up the Accounts have been properly submitted.
- 1.1.2. The Company has duly and punctually paid all Tax (including where required by way of deduction or withholding and including any requirement to account for such deducted or withheld tax) for which it is liable and which has fallen due for payment prior to the date of this Agreement and the Company is not liable nor has it since the date of its incorporation been liable, to pay any material interest, fine or other penalty in connection with Tax.

## 1.2. Accounts

To the extent required by the relevant accounting standards pursuant to which the Accounts were prepared, full provision or reserve has been made in the Accounts in respect of any period ended on or before the Accounts Date for any liability to Tax (whether actual, contingent or disputed) assessed, liable to be assessed or deemed to be assessed on the Company or for which the Company is accountable at the Accounts Date, whether or not the Company has or may have any right to reimbursement against any other person, including (without prejudice to the generality of the foregoing) Tax in respect of income, profits or gains earned, accrued or received or deemed for Tax purposes to have been earned, accrued or received by the Company on or before the Accounts Date or by reference to any event occurring, act done, transaction effected or circumstances existing on or before the Accounts Date.

## 1.3. Events since the Accounts Date

Since the Accounts Date:

- 1.3.1. the Company has not entered into or carried out any transaction outside the ordinary course of business which has given rise to a liability to Taxation on the Company (or would have given rise to such a liability but for the availability of any Tax Relief); and
- 1.3.2. no accounting period of the Company has ended.

## 1.4. Tax disputes

The Company has not been or is not involved in any material dispute with any Tax Authority, and the Company is not the subject of any enquiry with any Tax Authority concerning any matter relating to Tax other than routine enquiries of a minor nature. None of the Sellers have received notice from any Tax Authority of an intention to carry out such a dispute or enquiry.

## 1.5. Tax residence and permanent establishments

1.5.1. The Company has at all times since its incorporation been resident for Tax purposes only in the United Kingdom and will be so resident as at the date of this Agreement.

1.5.2. The Company has no permanent establishments in any jurisdiction outside the United Kingdom.

#### 1.6. Transfer taxes and duties

All documents to which the Company is a party and which relate to any assets of the Company owned at the date of this Agreement and in the enforcement of which the Company is interested or which is or may be necessary to prove title to such assets, have been duly and properly stamped or, if appropriate, otherwise annotated as any Tax due being fully and properly paid.

#### 1.7. Tax Records and information

To the extent the same are required to be maintained by law, the Company has maintained appropriate Tax Records to enable it to prepare complete, correct and accurate tax returns and any other tax filings and to determine an accurate calculation of its liability to Tax.

#### 1.8. Clearances

Where any clearance or consent for a transaction, scheme or arrangement has been sought by the Company from a Tax Authority, that transaction, scheme or arrangement has been implemented strictly in accordance with the terms of such clearance or consent and any conditions attaching to such clearance or consent.

#### 1.9. Groups, fiscal consolidations and fiscal unities

The Company is not, and since the date of its incorporation has never been, a member of a group (howsoever defined for the purposes of any Tax and whether or not on a consolidated or unified basis).

#### 1.10. Employees and participators

1.10.1. The Company has, to the extent required by law, properly, in full and on a timely basis, paid or accounted to the relevant Tax Authority for any Tax and social security contributions due on, deducted or withheld from any payment made or on the provision of any benefit or other reward or emolument to any employee or officer or former or future employee or officer of the Company or any person required for any Tax purpose to be treated as an employee or officer of the Company.

1.10.2. For any restricted securities (as defined in section 423 of ITEPA 2003) acquired by any of the Sellers in the Company:

1.10.2.1. a joint election fully to disapply Chapter 2 of Part 7 of ITEPA 2003 has been made under section 431(1) of ITEPA 2003;

1.10.2.2. all such joint elections have been properly made using forms approved by HMRC and within the applicable time limits;

1.10.2.3. the amount paid by a Seller to acquire any restricted securities owned by them was not less than their unrestricted market value at the time of the relevant acquisition.

- 1.10.3. No distributions within Chapter 4 Part 23 CTA 2010 have been made by the Company.
- 1.10.4. No outstanding loan or advance within section 455 CTA 2010 has been made or agreed to by the Company and the Company has not since the Accounts Date released or written off the whole or part of the debt in respect of loan or advance falling within section 455 CTA 2010.

**1.11. Transfer pricing**

All transactions entered into by the Company with the Sellers and which may be subject to adjustment under transfer pricing legislation have been entered into on an arm's length basis and the consideration (if any) which has been charged, received or paid by the Company on all such transactions has been equal to the consideration which would have been expected to be charged, received or paid between independent persons dealing at arm's length.

**1.12. Material assets**

There has been no transaction to which any of the following provisions applies in respect of any asset held by the Company at the date of this Agreement:

- 1.12.1. section 23 of TCGA 1992 (compensation and insurance monies);
- 1.12.2. section 135 and 136 of TCGA 1992 (reconstructions and amalgamations);
- 1.12.3. section 139 of TCGA 1992 (transfers of assets on reconstructions and amalgamations);
- 1.12.4. sections 140A and 140C of TCGA 1992 (transfer of a trade);
- 1.12.5. section 152-154 (inclusive) of TCGA 1992 (replacement of business assets); and
- 1.12.6. section 165 of TCGA 1992 (gifts of business assets).

**1.13. VAT**

- 1.13.1. The Company is and always has been a taxable person for VAT purposes and is registered as such with the relevant Tax Authority in the jurisdictions where such registration is required under Tax Statute.
- 1.13.2. All supplies made by the Company in the 2 years prior to the date of this Agreement, including those made in respect of all Real Properties in which the Company has or has had an interest, are subject to VAT in full. The Company is able to and does fully recover or obtain credit or allowance for any VAT paid by the Company.

**1.14. Anti-avoidance**

The Company is not or has not been party to any scheme, arrangement, transaction or series of transactions the main purpose, or one of the main purposes of which was the avoidance of tax.

**1.15. Secondary Liabilities**

- 1.15.1. The Company has not given any extant indemnity or guarantee to any other person in respect of such person's Tax liability, save for any liability in respect of VAT incurred in the ordinary course of business.

**SCHEDULE 5**  
**PURCHASER WARRANTIES**

**1. INCORPORATION**

The Purchaser is duly incorporated and validly existing under the laws of its jurisdiction and has full power to conduct its business as conducted at the date of this Agreement.

**2. CORPORATE POWER AND AUTHORITY**

The Purchaser has the legal right, full corporate power and authority and all necessary consents and authorisations to enter into and perform this Agreement and any agreement entered into pursuant to the terms of this Agreement and the provisions of this Agreement and any agreement entered into pursuant to the terms of this Agreement, constitute valid and binding obligations on the Purchaser and are enforceable against the Purchaser, in accordance with their respective terms.

**3. DUE AUTHORISATION, EXECUTION AND DELIVERY**

The Purchaser has duly authorised, executed and delivered this Agreement and will, at Completion, have authorised, executed and delivered any agreements to be entered into pursuant to the terms of this Agreement.

**4. NO BREACH**

The execution and delivery by the Purchaser of, and the performance by the Purchaser of its obligations under, this Agreement and any agreement entered into pursuant to the terms of this Agreement will not:

- 4.1 result in a breach of or conflict with any provision of its articles of association or equivalent constitutional documents;
- 4.2 result in a material breach of, or constitute a material default under, any agreement or instrument to which it is a party or by which it is bound; nor
- 4.3 result in a breach of any Applicable Laws or regulations or of any order, decree or judgment of any court or any Authority in any jurisdiction or any restriction of any kind by which the Purchaser is bound or subject;

**5. SOLVENCY**

- 5.1 No steps have been taken or proposed in relation to the winding up, bankruptcy, administration, insolvency, dissolution or re-organisation of the Purchaser, nor has any analogous procedure or step been taken or proposed in any jurisdiction in relation to the Purchaser.
- 5.2 No administrator, receiver, administrative receiver, liquidator, compulsory manager or similar officer has been appointed in respect of the Purchaser or any of its respective assets, and no steps intended to result in such an appointment have been taken.
- 5.3 The Purchaser is not insolvent or bankrupt under the laws of its jurisdiction of incorporation or unable to pay its debts as they fall due, and the Purchaser has not stopped paying its debts or indicated an intention to do so.
- 5.4 No compromise or arrangement with any creditor has been proposed in respect of the Purchaser.
- 5.5 No step has been taken towards enforcement of any security over any asset of the Purchaser.

**6. NO CLAIM**

The Purchaser is not actually aware of any fact, matter or circumstance that would reasonably be expected to give rise to a Claim (other than a Tax Deed Claim). For the purpose of this paragraph, the Purchaser shall be deemed to be aware of any fact, matter

or circumstance which was within the actual knowledge or awareness of the Purchaser Deal Team as at the date of this Agreement, and no deemed or constructive knowledge shall be imputed to the Purchaser.

**SCHEDULE 6**  
**REAL PROPERTY\***

\* THIS SCHEDULE HAS BEEN OMITTED PURSUANT TO ITEM 601(B)(2) OF REGULATION S-K.

**SCHEDULE 7**  
**INTELLECTUAL PROPERTY\***

\* THIS SCHEDULE HAS BEEN OMITTED PURSUANT TO ITEM 601(B)(2) OF REGULATION S-K.



**SCHEDULE 8**  
**POWER OF ATTORNEY\***

\* THIS SCHEDULE HAS BEEN OMITTED PURSUANT TO ITEM 601(B)(2) OF REGULATION S-K.

## SCHEDULE 9

### DEFINITIONS AND INTERPRETATION

1.

In this Agreement each of the following words and expressions shall have the following meanings:

**"the 1985 Act"** the Companies Act 1985;

**"the 2006 Act"** the Companies Act 2006;

**"Accounts"** the audited balance sheet, profit and loss account, and the notes thereto as described under Sections 3-7 of FRS 102 of the Company for the 12 month period ended on the Accounts Date;

**"Accounts Date"** 31 March 2017;

**"Acquisition Documents"** means this Agreement, the Disclosure Letter, the Tax Deed and each of the agreed form documents and any other documents to be delivered on Completion pursuant to this Agreement;

**"Affiliate"** in relation to any person, any other person directly or indirectly Controlled by, or Controlling of, or under common Control with, that person and, in the case of a trust, any trustee or beneficiary (actual or potential) of that trust and, in the case of an individual, any person connected with him within the meaning of sections 252 to 254 (inclusive) of the 2006 Act;

**"Applicable Law(s)"** all laws, regulations, directives, statutes, subordinate legislation, common law or civil codes in each case for the time being in force, having legally binding effect and which apply in the jurisdiction in which the relevant Party is incorporated;

**"Authority"** means a supra-national, national or sub-national authority, commission, department, agency, regulator or regulatory body with jurisdiction in the United Kingdom;

**"Business Day"** a day (other than a Saturday or Sunday) on which banks are open for general business in London;

**"Business Warranties"** the warranties given in paragraphs 3 to 16 of Part A of Schedule 4;

**"Claim"** means any General Claim, Title and Capacity Claim, Tax Claim or Leakage Claim;

**"Companies Acts"** the 1985 Act and the 2006 Act, to the extent that either is in force at the relevant time;

**"Companies House"** the Registrar of Companies for England and Wales whose registered office is at Crown Way, Cardiff CF14;

**"Company"** JLB Brands Limited, a company incorporated in England and Wales with registered number 07793580;

**"Company Information"** has the meaning given in Clause 9.1;

**"Company IPR"** all (i) registered Intellectual Property (including current applications for any registrations of Intellectual Property) owned by or registered to the Company and (ii) unregistered Intellectual Property material to the business of the Company;

**"Completion"** completion of the sale and purchase of the Shares in accordance with Clause 4;

**"Completion Date"** means the date of this Agreement;

**"Confidential Information"** has the meaning given to that term in Clause 10.2;

**"Control"** the power of a person to secure, directly or indirectly (whether by the holding of shares, possession of voting rights or by virtue of any other power conferred by the articles of association, constitution, partnership deed or other documents regulating another person or otherwise) that the affairs of such other person are conducted in accordance with his or its wishes and **"Controlled"** and **"Controlling"** shall be construed accordingly;

"CTA 2010" the Corporation Tax Act 2010;

"Data Protection Legislation" any applicable legislation in force from time to time which implements either or both of the European Community's Directive 95/46/EC and Directive 2002/58/EC;

"Data Room" means the data room in respect of the transaction as hosted by SmartRoom as it was constituted at 10:30am on 30 June 2017;

"Data Room Costs" means any costs, fees or other sums paid or agreed to be paid by the Company for or in connection with the Data Room;

"Declaration of Trust" means a declaration of trust evidencing the Trust, in the agreed form;

"Disclosure Letter" the letter dated the same date as this Agreement from the Sellers to the Purchaser in relation to the Seller Warranties;

"Employee" any individual who has entered into or works under a contract of employment or any other contract with the Company whereby the individual undertakes to do or perform personally any work or services (save where the Company's status by virtue of that contract is that of a client or customer or any profession or business undertaking carried on by an individual) and any other individual within the definition of "employee" or "worker" in respect of all Applicable Laws;

"Employment Agreements" the employment agreements between the Company and each of the Sellers in the agreed form, to be entered into before Completion, on the terms contained therein;

"Encumbrance" any claim, option, charge (fixed or floating), mortgage, lien, pledge, equity, encumbrance, right to acquire, right of pre-emption, right of first refusal, title retention or any other third party right, or other security interest or any other agreement or arrangement having a similar effect or any agreement to create any of the foregoing;

"Enforcement Notice" has the meaning given to that term in the UK Data Protection Act 1998, or its equivalent in other relevant Data Protection Legislation;

"Environment" air (including air within buildings and air within other natural or man-made structures above or below ground), water (including groundwater and water within any natural or man-made structure and territorial, coastal and inland waters), land (including land under water, surface land and sub-surfaced land) and any organisms or ecosystems supported by the air, water or land;

"Environmental Law" each Applicable Law which relates to pollution or protection of the Environment, or human health and safety, or the generation, transportation, storage, treatment, disposal or presence of any Hazardous Substance;

"Excluded Tax Claim" means any Tax Claim made:

- a) pursuant to Clause 2.1.2 or 2.2 of the Tax Deed;
- b) for breach of any of the Tax Warranties given at paragraphs 1.10.2.3, 1.11 and 1.15 of Part B of Schedule 4;
- c) in respect of any tax liability which is primarily the liability of a party other than a member of the Target Group, whether as a result of an election or otherwise, or which arises by virtue of a member of the Target Group being a member of a tax group, but which is not referable to supplies, income or profits made by a member of the Target Group; or
- d) in respect of any tax liability arising in connection with the application of transfer pricing legislation in respect of any Target Group member or an inability of the relevant Target Group member to substantiate a transfer pricing policy to the relevant taxation authority;

**"Executive Team"** those persons employed or engaged by the Company on the date of this Agreement earning £50,000 or more per annum or the pro-rata equivalent for those working part-time;

**"Fees"** has the meaning given to it in Schedule 2;

**"Financial Obligation"** means any outstanding obligations for the payment or repayment of money, whether present or future, actual or contingent;

**"FRS 102"** Financial Reporting Standard 102 "The Financial Reporting Standard Applicable in the UK and Republic of Ireland" as issued by the Financial Reporting Council applying the permitted reduced disclosure requirements as set out in Section 1A thereof;

**"Full Title Guarantee"** with the benefit of the implied covenants set out in Part 1 of the Law of Property (Miscellaneous Provisions) Act 1994 when a disposition is expressed to be made with full title guarantee;

**"General Claim"** a claim for breach of any of the Business Warranties;

**"Hazardous Substance"** any natural or artificial substance or thing (whether in solid, liquid or gaseous form) which is (alone or in combination) capable of causing harm to human health or to the Environment;

**"Higher Deductible"** means £600,000

**"IHTA 1984"** the Inheritance Tax Act 1984;

**"Intellectual Property"** all inventions (whether patentable or not), patents, utility models, petty patents, registered designs, design rights, database rights, copyright and related rights, moral rights, semiconductor topography rights, plant variety rights, trade marks, service marks, logos, get up, trade names, business names, domain names, (in each case whether registered or unregistered) and including any applications for registration and any renewals or extensions of any of the foregoing, and, in each case, the goodwill attaching to any of the foregoing, rights to sue for passing off or for unfair competition, all Know How, confidential information and trade secrets and any rights or forms of protection of a similar nature or having equivalent or similar effect to any of them which subsist anywhere in the world;

**"Insurer"** means Hunter George & Partners Limited

**"ITEPA 2003"** the Income Tax (Earnings and Pensions) Act 2003;

**"Key Customer"** means: \*

**"Know How"** all know how, trade secrets and confidential information, in any form (including paper, electronically stored data, magnetic media, film and microfilm) including financial and technical information, drawings, formulae, test results or reports, project reports and testing procedures, information relating to the working of any product, process, invention, improvement or development, instruction and training manuals, tables of operating conditions, information concerning intellectual property portfolio and strategy, market forecasts, lists or particulars of customers and suppliers, sales targets, sales statistics, prices, discounts, margins, future business strategy, tenders, price sensitive information, market research reports, information relating to research and development and business development and planning reports and any information derived from any of them;

**"Key Supplier"** means: \*

**"LB Cash Amount"** means the amount of the Company's cash on the Accounts Date, being £5,125,146;

**"Leakage"** means Direct Leakage and Indirect Leakage, as such terms are defined in Schedule 2;

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\* CONFIDENTIAL PORTION OF THIS EXHIBIT OMITTED AND FILED SEPARATELY WITH THE SEC PURSUANT TO RULE 24b-2 OF THE 1934 ACT

"**Leakage Claim**" a claim against the Sellers whether in contract or otherwise, under paragraph 2 of Schedule 2;

"**Liability for Taxation**" has the meaning given to it in the Tax Deed;

"**Locked Box Date**" 31 March 2017;

"**Lower Deductible**" means £150,000.

"**Management Accounts**" means all of the monthly management accounts of the Company produced during the period from and including the Accounts Date to and including the date of this Agreement, copies of which are contained in the Data Room;

"**Material Contracts**" means any subsisting agreement with a Key Customer or a Key Supplier, together with any other agreement that would be reasonably be understood to be material to the results of operations, or financial position of the Company, provided that any agreement with a financial impact of less than £100,000 shall be deemed not to be material for the purposes of this definition;

"**Party**" or "**Parties**" a party or the parties to this Agreement;

"**Previous Accounts**" the audited balance sheet, profit and loss and the notes thereto as described under FRS 102 of the Company for the 12 month period ended on the Previous Accounts Date and the 12 month period immediately preceding the Previous Accounts Date;

"**Previous Accounts Date**" 31 March 2016;

"**Proportionate Liability**" has the meaning given to it in Clause 6.12;

"**Purchase Price**" is as defined in Clause 3.1;

"**Purchaser Deal Team**" means Efraim Grinberg, Sallie DeMarsilis, Mitchell Sussis and James Halpin;

"**Purchaser Group**" the Purchaser and its group undertakings from time to time including, after Completion, the Company;

"**Purchaser's Solicitors**" Herbert Smith Freehills LLP;

"**Real Properties**" the properties listed in Schedule 6;

"**Same Claim**" has the meaning given to it in Clause 6.14;

"**Seller Related Person**" in respect of any Seller, any of her Affiliates (excluding the Company) or any member of her immediate family, including any parent, child, grandchild, spouse or sibling;

"**Sellers' Solicitors**" DLA Piper UK LLP;

"**Sellers' Solicitors Nominated Account**" means the bank account of the Sellers' Solicitors at \* or such other account as notified by the Sellers' Solicitors to the Purchaser after the date of this agreement;

"**Seller Warranties**" the Title and Capacity Warranties, the Business Warranties and the Tax Warranties and "**Seller Warranty**" shall be construed accordingly;

"**Seller Warranty Claim**" means all and any General Claims, Title and Capacity Claims and Tax Claims;

"**Seller's Representatives**" means, in relation to any Seller, its legal, accounting, financial and other advisers, consultants, agents or brokers (as applicable);

"**Shares**" the 200 issued ordinary shares of £1 each in the capital of the Company;

"**Software**" all software used in connection with the business of the Company as is currently conducted or contemplated to be conducted;

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\* CONFIDENTIAL PORTION OF THIS EXHIBIT OMITTED AND FILED SEPARATELY WITH THE SEC PURSUANT TO RULE 24b-2 OF THE 1934 ACT

"**Target Group**" has the meaning given to it in the W&I Policy;

"**Taxation**" or "**Tax**" has the meaning given to those terms in the Tax Deed;

"**Tax Authority**" has the meaning given to that term in the Tax Deed;

"**Tax Claim**" any Tax Deed Claim or Tax Warranty Claim;

"**Tax Deed**" the deed in relation to Tax entered into pursuant to this Agreement in the agreed form;

"**Tax Deed Claim**" any claim under the Tax Deed;

"**Tax Records**" all returns, information, statements, accounts, registrations, computations, disclosures, notices, claims, disclaimers, elections, surrenders and applications relating to Tax;

"**Tax Relief**" has the meaning given to that term in the Tax Deed;

"**Tax Statute**" any directive, statute, enactment, law or regulation wherever enacted or issued, coming into force or entered into providing for or imposing any Tax, or providing for the reporting, collection, assessment or administration of any Tax liability, and shall include orders, regulations, instruments, bye-laws or other subordinate legislation made under the relevant statute or statutory provision and any directive, statute, enactment, law, order, regulation or provision that amends, extends, consolidates or replaces the same or that has been amended, extended, consolidated or replaced by the same;

"**Tax Warranties**" the warranties given in Part B of Schedule 4;

"**Tax Warranty Claim**" any claim for breach of any of the Tax Warranties;

"**TCGA 1992**" the Taxation of Capital Gains Act 1992;

"**Third Party Claim**" has the meaning given to that term in Clause 6.22;

"**Title and Capacity Claim**" a claim for breach of any of the Title and Capacity Warranties;

"**Title and Capacity Warranties**" the warranties given in paragraphs 1 and 2 of Part A of Schedule 4;

"**Trinity Maxell**" means Trinity Maxwell Limited (company number 07391869), whose registered office is Unicorn House, 221 Shoreditch High Street, London, England, E1 6PJ;

"**Trust**" means the trust agreement between Lesa Bennett and Jemma Fennings dated immediately prior to the date of this Agreement (with an effective date of April 2012) in respect of 25 Shares, with the legal and beneficial title rights as set out in columns 3 and 4 of Schedule 1;

"**Trustee**" means Lesa Bennett who sells as trustee (and any person appointed to act jointly with her or in her place as trustee) those Shares set out opposite her name in column 3 of Schedule 1 and the term "Trustees" shall include the personal representative of the Trustee or person assuming similar office in any jurisdiction other than England and Wales;

"**UK GAAP**" the Financial Reporting Standards issued by the UK Financial Reporting Council which came into mandatory force on 1 January 2015 and the applicable provisions of the Companies Acts;

"**Unicorn Lease (2014)**" means the lease agreement dated 4 April 2014 between the Company and LT Holdings Jersey Limited, in respect of Second Floor (Front) Unicorn House, 221-222 Shoreditch High Street, London E1 6PJ which, which was assigned by the Company to Trinity Maxwell (see documents 6.3 and 6.4 in the Data Room);

"**Unicorn Lease (2015)**" means the lease agreement dated 4 March 2015 between the Company and LT Holdings Jersey Limited, in respect of Second Floor (Rear) Unicorn House, 221-222 Shoreditch High Street, London E1 6PJ which, which was assigned by the Company to Trinity Maxwell (see documents 6.3 and 6.4 in the Data Room);

"**VAT**" has the meaning given to that term in the Tax Deed;

"VATA 1994" the Value Added Tax Act 1994;

"W&I Policy" means the warranty and indemnity insurance policy to be taken out on or before Completion by the Purchaser at the cost of the Sellers;

"WC & Other Adjustment" means £136,230 in cash.

2. In this Agreement, words and expressions defined in the Companies Acts shall bear the same meaning as in those Acts unless expressly stated otherwise.
3. In this Agreement, except where the context otherwise requires:
- 3.1 any reference to this Agreement includes the Schedules to it each of which forms part of this Agreement for all purposes;
- 3.2 a reference to an enactment, EU instrument or statutory provision shall include a reference to any subordinate legislation made under the relevant enactment, EU instrument or statutory provision and is a reference to that enactment, EU instrument, statutory provision or subordinate legislation as from time to time amended, modified, incorporated or reproduced and to any enactment, EU instrument, statutory provision or subordinate legislation that from time to time (with or without modifications) re-enacts, replaces, consolidates, incorporates or reproduces it;
- 3.3 words in the singular shall include the plural and vice versa;
- 3.4 "material" or "materially" shall be construed as a reference to materiality in the context of the business of the Company as a whole;
- 3.5 references to one gender include other genders;
- 3.6 a reference to a person shall include a reference to a firm, a body corporate, an unincorporated association, a partnership or to an individual's executors or administrators;
- 3.7 a reference to a Clause, paragraph, Schedule (other than to a schedule to a statutory provision) shall be a reference to a Clause, paragraph, Schedule (as the case may be) of or to this Agreement;
- 3.8 if a period of time is specified as from a given day, or from the day of an act or event, it shall be calculated exclusive of that day;
- 3.9 references to any English legal term for any action, remedy, method of judicial proceeding, legal document, legal status, court, official or any legal concept or thing shall in respect of any jurisdiction other than England be deemed to include what most nearly approximates the English legal term in that jurisdiction and references to any English statute or enactment shall be deemed to include any equivalent or analogous laws or rules in any other jurisdiction;
- 3.10 a person shall be deemed to be connected with another if that person is connected with another within the meaning of section 1122 of the CTA 2010;
- 3.11 references to writing shall include any modes of reproducing words in any legible form and shall include email except where expressly stated otherwise;
- 3.12 a reference to a balance sheet or profit and loss account shall include a reference to any note forming part of it;
- 3.13 a reference to "includes" or "including" shall mean "includes without limitation" or "including without limitation";
- 3.14 references to documents "in the agreed form" or any similar expression shall be to documents agreed between the Parties, annexed to this Agreement and initialled for identification by, or on behalf of, the Sellers and the Purchaser;
- 3.15 the contents page and headings in this Agreement are for convenience only and shall not affect its interpretation; and
- 3.16 references to this Agreement include this Agreement as amended or supplemented in accordance with its terms.

## CERTIFICATIONS

I, Efraim Grinberg, certify that:

- 1) I have reviewed this quarterly report on Form 10-Q of Movado 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.

Date: August 29, 2017

/s/ Efraim Grinberg  
Efraim Grinberg  
Chairman of the Board of Directors and Chief  
Executive Officer



## CERTIFICATIONS

I, Sallie A. DeMarsilis, certify that:

- 1) I have reviewed this quarterly report on Form 10-Q of Movado 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.

Date: August 29, 2017

/s/ Sallie A. DeMarsilis  
 Sallie A. DeMarsilis  
 Senior Vice President,  
 Chief Financial Officer and  
 Principal Accounting Officer

CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report on Form 10-Q of Movado Group, Inc. (the "Company") for the quarter ended July 31, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Report") the undersigned hereby certifies, in the capacity indicated below and pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (i) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (ii) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 29, 2017

/s/ Efraim Grinberg

Efraim Grinberg  
Chairman of the Board of Directors and Chief  
Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report on Form 10-Q of Movado Group, Inc. (the "Company") for the quarter ended July 31, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report") the undersigned hereby certifies, in the capacity indicated below and pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (i) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (ii) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 29, 2017

/s/ Sallie A. DeMarsilis  
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Sallie A. DeMarsilis  
Senior Vice President,  
Chief Financial Officer and  
Principal Accounting Officer