

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549  
**FORM 10-K**

(Mark one)

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934  
For fiscal year ended January 31, 2009,  
OR  
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period From \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number 1-16497

**MOVADO GROUP, INC.**  
(Exact name of registrant as specified in its charter)

New York  
(State or Other Jurisdiction  
of Incorporation or Organization)

13-2595932  
(IRS Employer  
Identification No.)

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

07652-3556  
(Zip Code)

Registrant's Telephone Number, Including Area Code:(201) 267-8000  
Securities Registered Pursuant to Section 12(b) of the Act:

**Title of Each Class**

Common stock, par value \$0.01 per share

**Name of Each Exchange  
on which Registered**

New York Stock Exchange

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

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

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

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

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

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

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

The aggregate market value of the voting stock held by non-affiliates of the registrant as of July 31, 2008 was approximately \$414,787,000 (based on the closing sale price of the registrant's Common Stock on that date as reported on the New York Stock Exchange). For purposes of this computation, each share of Class A Common Stock is assumed to have the same market value as one share of Common Stock into which it is convertible and only shares of stock held by directors and executive officers were excluded.

The number of shares outstanding of the registrant's Common Stock and Class A Common Stock as of March 31, 2009 were 17,768,629 and 6,634,319, respectively.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the definitive proxy statement relating to registrant's 2009 annual meeting of shareholders (the "Proxy Statement") are incorporated by reference in Part III hereof.

## PART I

### FORWARD-LOOKING STATEMENTS

Statements in this annual report on Form 10-K, including, without limitation, statements under Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operation” and elsewhere in this report, as well as statements in future filings by the Company with the Securities and Exchange Commission, 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 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 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 and the impact on consumer spending, changes in consumer preferences and popularity of particular designs, new product development and introduction, competitive products and pricing, seasonality, availability of alternative sources of supply in the case of the loss of any significant supplier, the loss of significant customers, the Company’s dependence on key employees and officers, the ability to successfully integrate the operations of acquired businesses without disruption to other business activities, the continuation of licensing arrangements with third parties, 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 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, 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 this 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.

**GENERAL**

In this Form 10-K, all references to the “Company” or “Movado Group” include Movado Group, Inc. and its subsidiaries, unless the context requires otherwise.

Movado Group, Inc. designs, sources, markets and distributes fine watches and jewelry. Its portfolio of brands is comprised of Movado®, Ebel®, Concord®, ESQ®, Coach® Watches, HUGO BOSS® Watches, Juicy Couture® Watches, Tommy Hilfiger® Watches and Lacoste® Watches. The Company is a leader in the design, development, marketing and distribution of watch brands sold in almost every major category comprising the watch industry. The Company also designs, develops and markets proprietary Movado-branded jewelry which it retails in its luxury Movado Boutiques.

The Company was incorporated in New York in 1967 under the name North American Watch Corporation, to acquire Piaget Watch Corporation and Corum Watch Corporation, which had been, respectively, the exclusive importers and distributors of Piaget and Corum watches in the United States since the 1950’s. The Company sold its Piaget and Corum distribution businesses in 1999 and 2000, respectively, to focus on its own portfolio of brands. Since its incorporation, the Company has developed its brand-building reputation and distinctive image across an expanding number of brands and geographic markets. Strategic acquisitions of watch brands and their subsequent growth, along with license agreements, have played an important role in the expansion of the Company’s brand portfolio.

In 1970, the Company acquired the Concord brand and the Swiss company that had been manufacturing Concord watches since 1908. In 1983, the Company acquired the U.S. distributor of Movado watches and substantially all of the assets related to the Movado brand from the Swiss manufacturer of Movado watches. The Company changed its name to Movado Group, Inc. in 1996. In March 2004, the Company completed its acquisition of Ebel, one of the world’s premier luxury watch brands that was established in La Chaux-de-Fonds, Switzerland in 1911.

The Company is very selective in its licensing strategy and chooses to enter into long-term partnerships with only powerful brands that are leaders in their respective businesses. The following table sets forth the brands licensed by the Company and the year in which the Company launched each licensed brand for watches. All of the Company’s license agreements are exclusive.

<b>Brand</b>	<b>Licensor</b>	<b>Year Launched</b>
ESQ	Hearst Communication, Inc.	1993
Coach	Coach, Inc.	1999
Tommy Hilfiger	Tommy Hilfiger Licensing, Inc.	2001
HUGO BOSS	HUGO BOSS Trade Mark Management GmbH & Co KG	2006
Juicy Couture	L.C. Licensing, Inc.	2007
Lacoste	Lacoste S.A., Sporloisirs S.A. and Lacoste Alligator S.A.	2007

On October 7, 1993, the Company completed a public offering of 2,666,667 shares of common stock, par value \$0.01 per share. On October 21, 1997, the Company completed a secondary stock offering in

which 1,500,000 shares of common stock were issued. On May 21, 2001, the Company moved from the NASDAQ National Market to the New York Stock Exchange (“NYSE”). The Company’s common stock is traded on the NYSE under the trading symbol MOV.

## RECENT DEVELOPMENTS

Economic conditions both in the United States and around the world have deteriorated since the beginning of fiscal 2009 and over the course of the last quarter ended January 31, 2009. As the events that have caused this deterioration continue to unfold, the Company does not have significant, meaningful visibility into the further effects they could have on the U.S. and the global economy, although they likely will continue to have a negative impact on the Company’s sales and profits into fiscal 2010. Nevertheless, the Company intends to continue to take actions to appropriately manage its business while strategically positioning itself for long-term success, including:

- capitalizing on the strength of the Company’s brands to gain market share across all price categories;
- the expense reduction initiatives implemented throughout fiscal 2009;
- working with retail customers to help them better manage their inventory, improve their productivity and reduce credit risk; and
- continuing to tightly manage cash and inventory levels.

As a result of the Company’s fourth quarter fiscal 2009 financial results, the Company was not in compliance with one of its financial covenants under certain of its current debt agreements, specifically the interest coverage ratio covenant. As a result of the Company’s non-compliance with the interest coverage ratio covenant, any amounts owed under these agreements have been reclassified to current liabilities. Additionally, the Company is prohibited from borrowing any additional funds under these agreements, and the amounts owed as of January 31, 2009 may be declared immediately due and payable by the lenders. The lenders have not taken any action in respect to this default, but they may do so in the future.

Through the date of this filing, the Company is in negotiations with banking institutions for a new three year asset-based revolving credit facility for an amount up to \$110 million. To provide for available liquidity in the event that the \$110 million asset-based revolving credit facility is not consummated, the Company has received a commitment for a three year \$50 million asset-based credit facility from Bank of America. The commitment is subject to the completion of due diligence by Bank of America and the satisfaction of a number of additional customary conditions precedent, certain of which are at the sole discretion of Bank of America. For more information on current and proposed debt and credit arrangements, see Notes 4 and 5 to the Consolidated Financial Statements.

On April 9, 2009, the Company announced that its Board of Directors has decided to discontinue the quarterly cash dividend. This decision was based on the Company’s desire to retain capital during the current challenging economic environment. The Board will evaluate the reinstatement of a quarterly dividend once the economy has stabilized and the Company has returned to an appropriate level of profitability.

During the second half of fiscal 2009, the Company announced initiatives designed to streamline operations, reduce expenses, and improve efficiencies and effectiveness across the Company’s global organization. In fiscal 2009, the Company recorded a total pre-tax charge of \$11.1 million related to the

completion of these programs and a restructuring of certain benefit arrangements. These expenses were recorded in SG&A expenses in the Consolidated Statements of Income.

## INDUSTRY OVERVIEW

The largest markets for watches are North America, Western Europe and Asia. The Company divides the watch market into six principal categories as set forth in the following table.

<u>Market Category</u>	<u>Suggested Retail Price Range</u>	<u>Primary Category of Movado Group, Inc. Brands</u>
Exclusive	\$10,000 and over	Concord
Luxury	\$1,500 to \$9,999	Ebel
Premium	\$500 to \$1,499	Movado
Moderate	\$100 to \$499	ESQ, Coach, HUGO BOSS, Juicy Couture and Lacoste
Fashion	\$55 to \$99	Tommy Hilfiger
Mass Market	Less than \$55	-

### *Exclusive Watches*

Exclusive watches are usually made of precious metals, including 18 karat gold or platinum, and are often set with precious gems. These watches are primarily mechanical or quartz-analog watches. Mechanical watches keep time with intricate mechanical movements consisting of an arrangement of wheels, jewels and winding and regulating mechanisms. Quartz-analog watches have quartz movements in which time is precisely calibrated to the regular frequency of the vibration of quartz crystal. Exclusive watches are manufactured almost entirely in Switzerland. In addition to the Company's Concord watches, well-known brand names of exclusive watches include Audemars Piguet, Patek Philippe, Piaget and Vacheron Constantin.

### *Luxury Watches*

Luxury watches are either quartz-analog watches or mechanical watches. These watches typically are made with either 14 or 18 karat gold, stainless steel or a combination of gold and stainless steel, and are occasionally set with precious gems. Luxury watches are primarily manufactured in Switzerland. In addition to a majority of the Company's Ebel watches, well-known brand names of luxury watches include Baume & Mercier, Breitling, Cartier, Omega, Rolex and TAG Heuer.

### *Premium Watches*

The majority of premium watches are quartz-analog watches. These watches typically are made with gold finish, stainless steel or a combination of gold finish and stainless steel. Premium watches are manufactured primarily in Switzerland, although some are manufactured in Asia. In addition to a majority of the Company's Movado watches, well-known brand names of premium watches include Gucci, Rado and Raymond Weil.

### *Moderate Watches*

Most moderate watches are quartz-analog watches. Moderate watches are manufactured primarily in Asia and Switzerland. These watches typically are made with gold finish, stainless steel, brass or a combination of gold finish and stainless steel. In addition to the Company's ESQ, Coach, HUGO BOSS, Juicy Couture and Lacoste brands, well-known brand names of watches in the moderate category include Anne Klein, Bulova, Citizen, Guess, Seiko and Wittnauer.

### *Fashion Watches*

Watches comprising the fashion market are primarily quartz-analog watches but also include some digital watches. Watches in the fashion category are generally made with stainless steel, gold finish, brass and/or plastic and are manufactured primarily in Asia. Fashion watches feature designs that reflect current and emerging fashion trends. Many are sold under licensed designer and brand names that are well-known principally in the apparel industry. In addition to the Company's Tommy Hilfiger brand, well-known brands of fashion watches include Anne Klein II, DKNY, Fossil, Guess, Kenneth Cole and Swatch.

### *Mass Market Watches*

Mass market watches typically consist of digital watches and analog watches made from stainless steel, brass and/or plastic and are manufactured in Asia. Well-known brands include Casio, Citizen, Pulsar, Seiko and Timex. The Company does not compete in the mass market watch category.

## **BRANDS**

The Company designs, develops, sources, markets and distributes products under the following watch brands:

### *Movado*

Founded in 1881 in La Chaux-de-Fonds, Switzerland, Movado is an icon of modern design. Today the brand includes a line of watches, inspired by the simplicity of the Bauhaus movement, including the world famous Movado Museum watch and a number of other watch collections with more traditional dial designs. The design for the Movado Museum watch was the first watch design chosen by the Museum of Modern Art for its permanent collection. It has since been honored by other museums throughout the world. The Movado brand also includes Series 800, a sport watch collection that incorporates Movado quality and craftsmanship with the characteristics of a true sport watch. Movado watches have Swiss movements and are made with 14 or 18 karat gold, 18 karat gold finish, stainless steel or a combination of 18 karat gold finish and stainless steel. The core collection of Movado watches has suggested retail prices between \$595 and \$1,595, with select models exceeding this range.

### *Ebel*

The Ebel brand, one of the world's premier luxury watch brands, was established in La Chaux-de-Fonds, Switzerland in 1911. Since acquiring Ebel, Movado Group has returned Ebel to its roots as the "Architects of Time" through its product development, marketing initiatives and global advertising campaigns. All Ebel watches feature Swiss movements and are made with solid 18 karat gold, stainless

steel or a combination of 18 karat gold and stainless steel. The core collection of Ebel watches has suggested retail prices between \$3,450 and \$21,500, with select models exceeding this range.

#### *Concord*

Concord was founded in 1908 in Bienne, Switzerland. Inspired by its avant garde roots, Concord is designed to be resolutely upscale with a modern, edgy point of view and has been repositioned as a niche luxury brand with exclusive distribution. The brand's products center on its iconic C1 collection,

a breakthrough in modern design. Concord watches have Swiss movements and are made with solid 18 karat gold, stainless steel or a combination of 18 karat gold and stainless steel. The core collection of Concord watches has suggested retail prices between \$10,500 and \$37,700, with select models exceeding this range.

#### *Coach Watches*

Coach Watches are an extension of the Coach leathersgoods brand and reflect the Coach brand image. A distinctive American brand, Coach delivers stylish, aspirational, well-made products that represent excellent value. Coach watches contain Swiss movements and are made with stainless steel, gold finish or a combination of stainless steel and gold finish with leather straps, stainless steel bracelets or gold finish bracelets. The core collection of Coach watches has suggested retail prices between \$298 and \$558, with select models exceeding this range.

#### *ESQ*

ESQ competes in the entry level Swiss watch category and is defined by bold sport and fashion designs. All ESQ watches contain Swiss movements and are made with stainless steel, gold finish or a combination of stainless steel and gold finish, with leather straps, stainless steel bracelets or gold finish bracelets. The core collection of ESQ watches has suggested retail prices between \$195 and \$595, with select models exceeding this range.

#### *Tommy Hilfiger Watches*

Reflecting the fresh, fun all-American style for which Tommy Hilfiger is known, Tommy Hilfiger watches feature quartz, digital or analog-digital movements, with stainless steel, titanium, aluminum, silver-tone, two-tone or gold-tone cases and bracelets, and leather, fabric, plastic or rubber straps. The line includes fashion and sport models with the core collection of Tommy Hilfiger watches having suggested retail prices between \$85 and \$145, with select models exceeding this range.

#### *HUGO BOSS Watches*

HUGO BOSS is a global market leader in the world of fashion. The HUGO BOSS watch collection is an extension of the parent brand and includes classy, sporty, elegant and fashion timepieces with distinctive features, giving this collection a strong and coherent identity. The core collection of HUGO BOSS watches has suggested retail prices between \$225 and \$550, with select models exceeding this range.

### *Juicy Couture Timepieces*

Juicy Couture is a premium designer, marketer and wholesaler of sophisticated, yet fun fashion for women, men and children. Liz Claiborne, Inc. (NYSE: LIZ) purchased Juicy Couture in the spring of 2003, and has facilitated Juicy Couture's growth into a powerhouse lifestyle brand. Juicy Couture timepieces reflect the brand's clear vision, unique identity and leading brand position in the upscale contemporary category, encompassing both trend-right and core styling contemporary watches having suggested retail prices for its core collection between \$150 and \$395, with select models exceeding this range.

### *Lacoste Watches*

The Lacoste watch collection embraces the Lacoste lifestyle proposition which encompasses elegance, refinement and comfort, as well as a dedication to quality and innovation. Mirroring key attributes of the Lacoste brand, the collection features stylish timepieces with a contemporary sport elegant feel, having suggested retail prices for its core collection between \$165 to \$395, with select models exceeding this range.

## **DESIGN AND PRODUCT DEVELOPMENT**

The Company's offerings undergo two phases before they are produced for sale to customers: design and product development. The design phase includes the creation of artistic and conceptual renderings while product development involves the construction of prototypes. The Company's ESQ and licensed brands are designed by in-house design teams in Switzerland and the United States in cooperation with outside sources, including (in the case of the licensed brands except for ESQ) licensors' design teams. Product development for these watches takes place in the Company's Asia operations. For the Company's Movado, Ebel and Concord brands, the design phase is performed by a combination of in-house and freelance designers in Europe while product development is carried out in the Company's Swiss operations. Senior management of the Company is actively involved in the design and product development process.

## **MARKETING**

The Company's marketing strategy is to communicate a consistent, brand-specific message to the consumer. Recognizing that advertising is an integral component to the successful marketing of its product offerings, the Company devotes significant resources to advertising and, since 1972, has maintained its own in-house advertising department. The Company's advertising department focuses primarily on the implementation and management of global marketing and advertising strategies for each of its brands, ensuring consistency of presentation. The Company utilizes outside agencies for the creative development of advertising campaigns which are developed individually for each of the Company's brands and are directed primarily to the end consumer rather than to trade customers. The Company's advertising targets consumers with particular demographic characteristics appropriate to the image and price range of the brand. Most Company advertising is placed predominantly in magazines and other print media but some is also created for radio and television campaigns, catalogs, outdoor and other promotional materials. Marketing expenses totaled 17.4%, 15.4% and 14.9% of net sales in fiscal 2009, 2008 and 2007, respectively.



## OPERATING SEGMENTS

The Company conducts its business primarily in two operating segments: Wholesale and Retail. For operating segment data and geographic segment data for the years ended January 31, 2009, 2008 and 2007, see Note 15 to the Consolidated Financial Statements regarding Segment Information.

The Company's wholesale segment includes the design, development, sourcing, marketing and distribution of high quality watches, in addition to after-sales service activities and shipping. The retail segment includes the Company's Movado Boutiques and its outlet stores.

The Company divides its business into two major geographic segments: United States operations, and International, which includes the results of all other Company operations. The allocation of geographic revenue is based upon the location of the customer. The Company's international operations are principally conducted in Europe, Asia, Canada, the Middle East, South America and the Caribbean. The Company's international assets are substantially located in Switzerland.

### Wholesale

#### *United States Wholesale*

The Company sells all of its brands in the U.S. wholesale market primarily to major jewelry store chains such as Helzberg Diamonds Corp., Sterling, Inc. and Zale Corporation; department stores, such as Macy's, Nordstrom and Saks Fifth Avenue, as well as independent jewelers. Sales to trade customers in the United States are made directly by the Company's U.S. sales force of approximately 90 employees. Of these employees, sales representatives are responsible for a defined geographic territory, specialize in a particular brand and sell to and service independent jewelers within their territory. Their compensation is based on salary plus commission. The sales force also consists of account executives and account representatives who, respectively, sell to and service chain and department store accounts. The latter typically handle more than one of the Company's brands and are compensated based on salary and incentives.

#### *International Wholesale*

Internationally, the Company's brands are sold in department stores such as El Cortes Ingles in Spain and Galeries Lafayette in France, jewelry chain stores such as Christ in Switzerland and Germany and independent jewelers. The Company employs its own international sales force of approximately 50 employees operating at the Company's sales and distribution offices in Canada, China, France, Germany, Hong Kong, Japan, Singapore, Switzerland, the United Kingdom and the United Arab Emirates. In addition, the Company sells all of its brands other than ESQ through a network of independent distributors operating in numerous countries around the world. Distribution of ESQ watches which, outside of the United States are sold only in Canada and the Caribbean, is handled by the Company's Canadian subsidiary and Caribbean based sales team. A majority of the Company's arrangements with its international distributors are long-term, generally require certain minimum purchases and minimum advertising expenditures and restrict the distributor from selling competitive products.

In France and Germany, the Company's licensed brands are marketed and distributed by subsidiaries of a joint venture company owned 51% by the Company and 49% by Financiere TWC SA ("TWC"), a French company with established distribution, marketing and sales operations in France and Germany.

The terms of the joint venture agreement include financial performance measures which, if not attained, give either party the right to terminate the agreement after the fifth (5th) and the tenth (10th) years (January 31, 2011 and January 31, 2016); restrictions on the transfer of shares in the joint venture company; and a buy out right whereby the Company can purchase all of TWC's shares in the joint venture company as of July 1, 2016 and every fifth (5th) anniversary thereafter at a pre-determined price.

In the UK, the Company signed a joint venture agreement (the "JV Agreement") on May 11, 2007, with Swico Limited ("Swico"), an English company with established distribution, marketing and sales operations in the UK. Swico had been the Company's exclusive distributor of HUGO BOSS watches in the UK since 2005. Under the JV Agreement, the Company and Swico control 51% and 49%, respectively, of MGS Distribution Limited, a newly formed English company ("MGS") that is responsible for the marketing, distribution and sale in the UK of the Company's licensed HUGO BOSS, Tommy Hilfiger, Lacoste and Juicy Couture brands, as well as future brands licensed to the Company, subject to the terms of the applicable license agreement. Swico is responsible for the day to day management of MGS, including staffing and providing logistical support, inventory management, order fulfillment, distribution and after sale services, systems and back office support. The terms of the JV Agreement include financial performance measures which, if not attained, give either party the right to terminate the JV Agreement after the fifth (5th) and the tenth (10th) years (January 31, 2012 and January 31, 2017); restrictions on the transfer of shares in MGS; and a buy out right whereby the Company can purchase all of Swico's shares in MGS as of July 1, 2017 and every 5th anniversary thereafter at a pre-determined price.

## **Retail**

The Company operates in two retail markets, the luxury boutique market and the outlet market. Movado Boutiques reinforce the luxury image and are a primary strategic focus of the Movado brand. The Company operates 29 Movado Boutiques in the United States that are located in upscale regional shopping centers and metropolitan areas. Movado Boutiques are merchandised with select models of Movado watches, as well as proprietary Movado-branded jewelry and clocks. The modern store design creates a distinctive environment that showcases these products and provides consumers with the ability to fully experience the complete Movado design philosophy. The Company's 32 outlet stores are multi-branded and serve as an effective vehicle to sell discontinued models and factory seconds of all of the Company's watches and jewelry.

## **SEASONALITY**

The Company's U.S. sales are traditionally greater during the Christmas and holiday season. Consequently, the Company's net sales historically have been higher during the second half of the fiscal years. The amount of net sales and operating profit generated during the second half of each fiscal year depends upon the general level of retail sales during the Christmas and holiday season, as well as economic conditions and other factors beyond the Company's control. Major selling seasons in certain international markets center on significant local holidays that occur in late winter or early spring. The second half of each year accounted for 49.9%, 57.0%, and 57.9% of the Company's net sales for the fiscal years ended January 31, 2009, 2008, and 2007, respectively. In fiscal 2009, the Company did not experience the usual seasonality of its business due to the downturn in the global economy, which resulted in the percentage of net sales for the second half of the fiscal year not being comparable to that in previous years.

## **BACKLOG**

At March 25, 2009, the Company had unfilled orders of \$36.0 million compared to \$42.4 million at March 14, 2008 and \$55.8 million at March 15, 2007. Unfilled orders include both confirmed orders and orders the Company believes will be confirmed based on the historic experience with the customers. It is customary for many of the Company's customers not to confirm their future orders with formal purchase orders until shortly before their desired delivery dates.

## **CUSTOMER SERVICE, WARRANTY AND REPAIR**

The Company has developed an approach to managing the retail sales process of its wholesale customers that involves monitoring their sales and inventories by product category and style. The Company also assists in the conception, development and implementation of customers' marketing vehicles. The Company places considerable emphasis on cooperative advertising programs with its major retail customers. The Company's retail sales process has resulted in close relationships with its principal customers, often allowing for influence on the mix, quantity and timing of their purchasing decisions. The Company believes that customers' familiarity with its sales approach has facilitated, and should continue to facilitate, the introduction of new products through its distribution network.

The Company permits the return of damaged or defective products. In addition, although the Company has no obligation to do so, it accepts other returns from customers in certain instances.

The Company has service facilities around the world including seven Company-owned service facilities and approximately 300 independent service centers which are authorized to perform warranty repairs. In order to maintain consistency and quality at its service facilities and authorized independent service centers, the Company conducts training sessions for and distributes technical information and updates to repair personnel. All watches sold by the Company come with limited warranties covering the movement against defects in material and workmanship for periods ranging from two to three years from the date of purchase, with the exception of Tommy Hilfiger watches, for which the warranty period is ten years. In addition, the warranty period is five years for the gold plating on certain Movado watch cases and bracelets. Products that are returned under warranty to the Company are generally serviced by the Company's employees at its service facilities.

The Company retains adequate levels of component parts to facilitate after-sales service of its watches for an extended period of time after the discontinuance of such watches.

The Company makes available Customer Wins, a web-based system providing immediate access for the Company's retail partners and consumers to the information they may want or need about after sales service issues. Customer Wins allows the Company's retailers and end consumers to track their repair status online 24 hours a day. The system also permits customers to authorize repairs, track repair status through the entire repair life cycle, view repair information and obtain service order history. Customer Wins can be accessed online at [www.mgiservice.com](http://www.mgiservice.com).

## **SOURCING, PRODUCTION AND QUALITY**

The Company does not own any product manufacturing facilities, with the exception of limited in-house assembly operations in Bienne, Switzerland and a small manufacturing facility for proprietary movements for its Ebel brand in La Chaux-de-Fonds, Switzerland. The Company employs a flexible manufacturing model that relies primarily on independent manufacturers to meet shifts in marketplace

demand and changes in consumer preferences. All product sources must achieve and maintain the Company's high quality standards and specifications. With strong supply chain organizations in Switzerland, China and Hong Kong, the Company maintains control over the quality of its products, wherever they are manufactured. Compliance is monitored with strictly implemented quality control standards, including on-site quality inspections.

A majority of the Swiss watch movements used in the manufacture of Movado, Ebel, Concord and ESQ watches are purchased from two suppliers. Additionally, the Company manufactures some proprietary movements for its Ebel brand. The Company obtains other watch components for all of its brands, including movements, cases, hands, dials, bracelets and straps from a number of other suppliers. The Company does not have long-term supply contract commitments with any of its component parts suppliers.

Movado, Ebel and Concord watches are generally manufactured in Switzerland by independent third party assemblers with some in-house assembly in Bienne and La Chaux-de-Fonds, Switzerland. Movado, Ebel and Concord watches are manufactured using Swiss movements and other components obtained from third party suppliers. Coach, ESQ, Tommy Hilfiger, HUGO BOSS, Juicy Couture, and Lacoste watches are manufactured by independent contractors. Coach and ESQ watches are manufactured using Swiss movements and other components purchased from third party suppliers. Tommy Hilfiger, HUGO BOSS, Juicy Couture, and Lacoste watches are manufactured using movements and other components purchased from third party suppliers.

#### **TRADEMARKS, PATENTS AND LICENSE AGREEMENTS**

The Company owns the trademarks MOVADO®, EBEL® and CONCORD®, as well as trademarks for the Movado Museum dial design, and related trademarks for watches and jewelry in the United States and in numerous other countries.

The Company licenses ESQUIRE®, ESQ® and related trademarks on an exclusive worldwide basis for use in connection with the manufacture, distribution, advertising and sale of watches pursuant to a license agreement with Hearst Magazine, a division of Hearst Communications, Inc., dated as of January 1, 1992 (as amended, the "Hearst License Agreement"). The current term of the Hearst License Agreement expires December 31, 2012, but contains options for renewal at the Company's discretion through December 31, 2042.

The Company licenses the trademark COACH® and related trademarks on an exclusive worldwide basis for use in connection with the manufacture, distribution, advertising and sale of watches pursuant to a license agreement with Coach, Inc., dated December 9, 1996 (as amended, the "Coach License Agreement"). The Coach License Agreement expires on June 30, 2015.

Under an agreement with Tommy Hilfiger Licensing, Inc., dated June 3, 1999, as amended, the Company has the exclusive license to use the trademark TOMMY HILFIGER® and related trademarks in connection with the manufacture of watches worldwide and in connection with the marketing, advertising, sale and distribution of watches at wholesale (and at retail through its outlet stores) in the Western Hemisphere, Europe, Pan Pacific (excluding Japan), Latin America, the Middle East, China and Korea. The term of the license agreement with Tommy Hilfiger Licensing, Inc. expires March 31, 2012.

Under its 2004 agreement with HUGO BOSS Trademark Management GmbH & Co, the Company received a worldwide exclusive license to use the trademark HUGO BOSS® and any other trademarks

containing the names “HUGO” or “BOSS”, in connection with the production, promotion and sale of watches. The term of the license continues through December 31, 2013, with an optional five-year renewal period.

On November 21, 2005, the Company entered into an agreement with L.C. Licensing, Inc., for the exclusive worldwide license to use the trademarks JUICY COUTURE® and COUTURE COUTURE LOS ANGELES™, in connection with the manufacture, advertising, merchandising, promotion, sale and distribution of timepieces and components. The term of the license is through December 31, 2011, with a four-year renewal period at the option of the Company, provided that certain sales thresholds are met.

On March 27, 2006, the Company entered into an exclusive worldwide license agreement with Lacoste S.A., Sporloisirs, S.A. and Lacoste Alligator, S.A. to design, produce, market and distribute Lacoste watches under the Lacoste® name and the distinctive “alligator” logo beginning in the first half of 2007. The agreement continues through December 31, 2014 and renews automatically for successive five year periods unless either party notifies the other of non-renewal at least six months before the end of the initial term or any renewal period.

The Company also owns, and has pending applications for, a number of design patents in the United States and internationally for various watch designs, as well as designs of watch dials, cases, bracelets and jewelry.

The Company actively seeks to protect and enforce its intellectual property rights by working with industry associations, anti-counterfeiting organizations, private investigators and law enforcement authorities, including customs authorities in the United States and internationally, and, when necessary, suing infringers of its trademarks and patents. Consequently, the Company is involved from time to time in litigation or other proceedings to determine the enforceability, scope and validity of these rights. With respect to the trademarks MOVADO®, EBEL®, CONCORD® and certain other related trademarks, the Company has received exclusion orders that prohibit the importation of counterfeit goods or goods bearing confusingly similar trademarks into the United States and other countries. In accordance with customs regulations, these exclusion orders, however, do not cover the importation of genuine Movado, Ebel and Concord watches because the Company is the manufacturer of such watches. All of the Company’s exclusion orders are renewable.

## **COMPETITION**

The markets for each of the Company’s watch brands are highly competitive. With the exception of Swatch Group, Ltd., a large Swiss-based competitor, no single company competes with the Company across all of its brands. Certain companies, however, compete with Movado Group, Inc. with respect to one or more of its watch brands. Certain of these companies have, and other companies that may enter the Company’s markets in the future may have, greater financial, distribution, marketing and advertising resources than the Company. The Company’s future success will depend, to a significant degree, upon its continued ability to compete effectively with regard to, among other things, the style, quality, price, advertising, marketing, distribution and availability of supply of the Company’s watches and other products.

## EMPLOYEES

As of January 31, 2009, the Company had approximately 1,300 full-time employees in its global operations. The Company expects that the number of employees will decrease to approximately 1,250 during the first quarter of fiscal 2010. This represents a reduction of approximately 250 employees when compared to the approximately 1,500 employed as of January 31, 2008. No employee of the Company is represented by a labor union or is subject to a collective bargaining agreement. The Company has never experienced a work stoppage due to labor difficulties and believes that its employee relations are good.

## AVAILABLE INFORMATION

The Company's annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, are available free of charge on the Company's website, located at [www.movadogroup.com](http://www.movadogroup.com), as soon as reasonably practicable after the same are electronically filed with, or furnished to, the Securities and Exchange Commission. The public may read any materials filed by the Company with the SEC at the SEC's public reference room at 100 F. Street, N.E., Washington, D.C., 20549. The public may obtain information on the operation of the public reference room by calling the SEC at 1-800-SEC-0330. The SEC maintains a website that contains reports, proxy and information statements, and other information regarding the Company at [www.sec.gov](http://www.sec.gov).

The Company has adopted a Code of Business Conduct and Ethics that applies to all directors, officers and employees, including the Company's Chief Executive Officer, Chief Financial Officer and principal accounting and financial officers, which is posted on the Company's website. The Company will post any amendments to the Code of Business Conduct and Ethics and any waivers that are required to be disclosed by SEC regulations on the Company's website. In addition, the committee charters for the audit committee, the compensation committee and the nominating/corporate governance committee of the Board of Directors of the Company and the Company's corporate governance guidelines have been posted on the Company's website.

### *Item 1A. Risk Factors*

The following risk factors and the forward-looking statements contained in this Form 10-K should be read carefully in connection with evaluating Movado Group, Inc.'s business. These risks and uncertainties could cause actual results and events to differ materially from those anticipated. Additional risks which the Company does not presently consider material, or of which it is not currently aware, may also have an adverse impact on the business. Please also see "Forward-Looking Statements" on page 1.

**The deterioration of economic conditions in the U.S. and around the world, and the resulting declines in consumer confidence and spending, could have a material adverse effect on the Company's operating results.**

The Company's results are dependent on a number of factors impacting consumer confidence and spending, including, but not limited to, general economic and business conditions; wages and employment levels; volatility in the stock market; falling home values; inflation; consumer debt levels; availability of consumer credit; rising interest costs; solvency concerns of major financial institutions;

fluctuations in foreign currency exchange rates; fuel and energy costs; energy shortages; tax issues; and general political conditions, both domestic and abroad.

The current volatility and disruption to the capital and credit markets have reached unprecedented levels and have significantly adversely impacted global economic conditions, resulting in declines in employment levels, disposable income and actual and/or perceived wealth and further declines in consumer confidence and economic growth. These conditions have led and could further lead to continuing substantial declines in consumer spending over the foreseeable future. The current negative economic environment has been characterized by a dramatic decline in consumer discretionary spending and has disproportionately affected retailers and sellers of consumer goods, particularly those whose goods are viewed as discretionary purchases. The Company's products fall into categories that are considered discretionary items. The current downturn and uncertain outlook in the global economy will likely continue to have a material adverse impact on the Company's business, financial condition, liquidity and results of operations. In addition, events such as war, terrorism, natural disasters or outbreaks of disease could further dampen consumer spending on discretionary items. If any of these events should occur, the Company's future sales could decline.

**The Company faces intense competition in the worldwide watch industry.**

The watch industry is highly competitive and the Company competes globally with numerous manufacturers, importers and distributors, some of which are larger and have greater financial, distribution, advertising and marketing resources. The Company's products compete on the basis of price, features, perceived desirability, reliability and perceived attractiveness. The Company also faces increased competition from internet-based retailers. The Company's future results of operations may be adversely affected by these and other competitors.

**Maintaining favorable brand recognition is essential to the success of the Company, and failure to do so could materially and adversely affect the Company's results of operations.**

Favorable brand recognition is an important factor to the future success of the Company. The Company sells its products under a variety of owned and licensed brands. Factors affecting brand recognition are often outside the Company's control, and the Company's efforts to create or enhance favorable brand recognition, such as making significant investments in marketing and advertising campaigns, product design and anticipation of fashion trends, may not have their desired effects. Additionally, the Company relies on its license partners to maintain favorable brand recognition of their respective parent brands, and the Company often has no control over the brand management efforts of its license partners. Finally, although the Company's independent distributors are subject to contractual requirements to protect the Company's brands, it may be difficult to monitor or enforce such requirements, particularly in foreign jurisdictions. Any decline in perceived favorable recognition of the Company's owned or licensed brands could materially and adversely affect future results of operations and profitability. If the Company is unable to respond to changes in consumer demands and fashion trends in a timely manner, sales and profitability could be adversely affected.

Fashion trends and consumer demands and tastes often shift quickly. The Company attempts to monitor these trends in order to adapt its product offerings to suit customer demand. There is a risk that the Company will not properly perceive changes in trends or tastes, which may result in the failure to adapt the Company's products accordingly. In addition, new model designs are regularly introduced into the market for all brands to keep ahead of evolving fashion trends as well as to initiate new trends of their own. There is risk that the public may not favor these new models or that the models may not be ready

for sale until after the trend has passed. If the Company fails to respond to and keep up to date with fashion trends and consumer demands and tastes, its brand image, sales, profitability and results of operations could be materially and adversely affected.

**If the Company misjudges the demand for its products, high inventory levels could adversely affect future operating results and profitability.**

Consumer demand for the Company's products can affect inventory levels. If consumer demand is lower than expected, inventory levels can rise causing a strain on operating cash flow. If the inventory cannot be sold through the Company's wholesale or retail outlets, additional reserves or write-offs to future earnings could be necessary. Conversely, if consumer demand is higher than expected, insufficient inventory levels could result in unfulfilled customer orders, loss of revenue and an unfavorable impact on customer relationships. Failure to properly judge consumer demand and properly manage inventory could have a material adverse effect on profitability and liquidity.

**An increase in product returns could negatively impact the Company's operating results and profitability.**

The Company recognizes revenue as sales when merchandise is shipped and title transfers to the customer. The Company permits the return of damaged or defective products and accepts limited amounts of product returns in certain instances. Accordingly, the Company provides allowances for the estimated amounts of these returns at the time of revenue recognition based on historical experience. While such returns have historically been within management's expectations and the provisions established, future return rates may differ from those experienced in the past. Any significant increase in damaged or defective products or expected returns could have a material adverse effect on the Company's operating results for the period or periods in which such returns materialize.

**The Company's business relies on the use of independent parties to manufacture its products. Any loss of an independent manufacturer, or the Company's inability to deliver quality goods in a timely manner, could have an adverse effect on customer relations, brand image, net sales and results of operations.**

The Company employs a flexible manufacturing model that relies primarily on independent manufacturers to meet shifts in marketplace demand. All such independent manufacturers must achieve and maintain the Company's high quality standards and specifications. The inability of a manufacturer to ship orders in a timely manner or to meet the Company's high quality standards and specifications could cause the Company to miss committed delivery dates with customers, which could result in cancellation of the customers' orders. In addition, delays in delivery of satisfactory products could have a material adverse effect on the Company's profitability, particularly if the delays cause the Company to be unable to market certain products during the seasonal periods when its sales are typically higher. See "Risk Factors – The Company's business is seasonal, with sales traditionally greater during certain holiday seasons, so events and circumstances that adversely affect holiday consumer spending will have a disproportionately adverse effect on the Company's results of operations." A majority of the Swiss watch movements used in the manufacture of Movado, Ebel, Concord and ESQ watches are purchased from two suppliers, one of which is a wholly-owned subsidiary of one of the Company's competitors. Additionally, the Company does not have long-term supply commitments with its manufacturers and thus competes for production facilities with other organizations, some of which are larger and have greater resources. Any loss of an independent manufacturer, or the Company's inability to deliver



quality goods in a timely manner, could have an adverse effect on customer relations, brand image, net sales and results of operations.

**If the Company loses any of its license agreements, there may be significant loss of revenues and a negative effect on business.**

The Company has the right to produce, market and distribute watches under the brand names of ESQ, Coach, Tommy Hilfiger, HUGO BOSS, Juicy Couture and Lacoste pursuant to license agreements with the respective owners of those trademarks. There are certain minimum royalty payments as well as other requirements associated with these agreements. Failure to meet any of these requirements could result in the loss of the license. Additionally, after the term of any license agreement has concluded, the licensor may decide not to renew with the Company. Any loss of one or more of the Company's licenses could result in loss of future revenues which could adversely affect its financial condition.

**Changes in the sales mix of the Company's products could impact gross profit margins.**

The individual brands that are sold by the Company are sold at a wide range of price points and yield a variety of gross profit margins. Thus, the mix of sales by brand can have an impact on the gross profit margins of the Company. If the Company's sales mix shifts unfavorably toward brands with lower gross profit margins than the Company's historical consolidated gross profit margin or if the mix of business changes significantly in the Movado Boutiques, it could have an adverse effect on the results of operations.

**The Company's business is seasonal, with sales traditionally greater during certain holiday seasons, so events and circumstances that adversely affect holiday consumer spending will have a disproportionately adverse effect on the Company's results of operations.**

The Company's sales are seasonal by nature. The Company's U.S. sales are traditionally greater during the Christmas and holiday season. Internationally, major selling seasons center on significant local holidays that occur in late winter or early spring. The amount of net sales and operating income generated during these seasons depends upon the general level of retail sales at such times, as well as economic conditions and other factors beyond the Company's control. The second half of each year accounted for 49.9%, 57.0%, and 57.9% of the Company's net sales for the fiscal years ended January 31, 2009, 2008, and 2007, respectively. In fiscal 2009, the Company did not experience the usual seasonality of its business due to the downturn in the economy, which resulted in the percentage of net sales for the second half of the fiscal year not being comparable to that in previous years. If events or circumstances were to occur that negatively impact consumer spending during such holiday seasons, it could have a material adverse effect on the Company's sales, profitability and results of operations.

**Sales in the Company's retail stores are dependent upon customer foot traffic.**

In the United States, we are experiencing a significant slowdown in customer traffic. The success of the Company's retail stores is, to a certain extent, dependent upon the amount of customer foot traffic generated by the mall or outlet center in which those stores are located. The majority of the Company's Movado Boutiques are located in upscale regional shopping centers throughout the United States, while the Company's outlet stores are located primarily near vacation destinations.

Factors that can affect customer foot traffic include:

- the location of the mall;
- the location of the Company's store within the mall;
- the other tenants in the mall;
- the occupancy rate of the mall;
- the success of mall and tenant advertising to attract customers;
- increased competition in areas surrounding the mall; and
- increased competition from shopping over the internet and other alternatives such as mail-order.

Additionally, since a number of the Company's outlet stores are located near vacation destinations, factors that affect travel could decrease mall traffic. Such factors include the price and supply of fuel, travel concerns and restrictions, international instability, terrorism and inclement weather.

A reduction in foot traffic in relevant malls or shopping centers could have a material adverse effect on retail sales and profitability.

**If the Company is unable to maintain existing space or to lease new space for its retail stores in prime mall and outlet center locations or is unable to complete construction on a timely basis, the Company's ability to achieve favorable results in its retail business could be adversely affected.**

The Company's Boutiques and outlet stores are strategically located in the United States, respectively, in top malls and in outlet centers located primarily near vacation destinations. If the Company cannot maintain and secure locations in prime malls and outlet centers for both the Movado Boutiques and outlet businesses, it could jeopardize the operations of the stores and business plans for the future. Additionally, if the Company cannot complete construction in new stores within the planned timeframes, cost overruns and lost revenue could adversely affect the profitability of the retail segment.

**If the Company is unable to successfully implement its growth strategies, its future operating results could suffer.**

There are certain risks involved as the Company continues expanding its business through acquisitions, license agreements, joint ventures and new initiatives such as the Movado Boutique business. There is risk involved with each of these. Acquisitions and new license agreements require the Company to ensure that new brands will successfully complement the other brands in its portfolio. The Company assumes the risk that the new brand will not be viewed by the public as favorably as its other brands. In addition, the integration of an acquired company or licensed brand into the Company's existing business can strain the Company's current infrastructure with the additional work required and there can be no assurance that the integration of acquisitions or licensed brands will be successful or that acquisitions or licensed brands will generate sales increases. The Company needs to ensure it has the adequate human resources and systems in place to allow for successful assimilation of new businesses. The risk involved in the Movado Boutique business is that the Company will not be able to successfully implement its business model. In addition, the costs associated with leasehold improvements to current Boutiques and the costs associated with opening new Boutiques could have a material adverse effect on the Company's financial condition and results of operations. The inability to successfully implement its growth strategies could adversely affect the Company's future financial condition and results of operations.

**The loss or infringement of the Company's trademarks or other intellectual property rights could have an adverse effect on future results of operations.**

The Company believes that its trademarks and other intellectual property rights are vital to the competitiveness and success of its business and therefore it takes all appropriate actions to register and protect them. There can be no assurance, however, that such actions will be adequate to prevent imitation of the Company's products or infringement of its intellectual property rights, or that others will not challenge the Company's rights, or that such rights will be successfully defended. In addition, six of the Company's nine brands are subject to license agreements with third parties under which the Company is required to make royalty payments and perform other obligations. Default by the Company under any of these agreements could result in the licensor terminating the agreement and the Company losing its rights under the license. Moreover, the laws of some foreign countries, including some in which the Company sells its products, may not protect intellectual property rights to the same extent as do the laws of the United States, which could make it more difficult to successfully defend such challenges to them. The Company's inability to obtain or maintain rights in its trademarks, including its licensed marks, could have an adverse effect on brand image and future results of operations.

**Fluctuations in the pricing of commodities or the cost of labor could adversely affect the Company's ability to produce products at favorable prices.**

Some of the Company's higher-end watch offerings are made with materials such as diamonds, precious metals and gold. The Company's proprietary jewelry is manufactured with silver, gold and platinum, semi-precious and precious stones, and diamonds. The Company relies on independent contractors to manufacture and assemble the majority of its watch brands and its entire jewelry offering. A significant change in the prices of these commodities or the cost of third-party labor could adversely affect the Company's business by:

- reducing gross profit margins;
- forcing an increase in suggested retail prices; which could lead to
- decreasing consumer demand; which could lead to
- higher inventory levels.

Any and all of the above events could adversely affect the Company's future cash flow and results of operations.

**The Company's business is subject to foreign currency exchange rate risk.**

The majority of the Company's inventory purchases are denominated in Swiss francs. The Company operates under a hedging program which utilizes forward exchange contracts and purchased foreign currency options to mitigate foreign currency risk. If these hedge instruments are unsuccessful at minimizing the risk or are deemed ineffective, any fluctuation of the Swiss franc exchange rate could impact the future results of operations. Changes in currency exchange rates may also affect relative prices at which the Company and its foreign competitors sell products in the same market. Additionally, a portion of the Company's net sales are recorded in its foreign subsidiaries in a currency other than the local currency of that subsidiary. This predominantly occurs in the Company's Hong Kong and Swiss subsidiaries when they sell to Euro-based customers. This exposure is not hedged by the Company. Any fluctuation in the Euro exchange rate in relation to the Hong Kong dollar and Swiss franc would have an effect on these sales that are recorded in Euro. The currency effect on these Euro sales has an

equal effect on their recorded gross profit since the costs of these sales are recorded in the entities' respective local currency. Furthermore, since the Company's consolidated financial statements are presented in U.S. dollars, revenues, income and expenses, as well as assets and liabilities of foreign currency denominated subsidiaries must be translated into U.S. dollars at exchange rates in effect during or at the end of each reporting period. Fluctuations in foreign currency exchange rates could adversely affect the Company's reported revenues, earnings, financial position and the comparability of results of operations from period to period.

**The Grinberg family owns a majority of the voting power of the Company's stock.**

Each share of common stock of the Company is entitled to one vote per share while each share of Class A Common Stock of the Company is entitled to ten votes per share. While the members of the Grinberg family do not own a majority of the Company's outstanding common stock, by their significant holdings of Class A Common Stock they control a majority of the voting power represented by all outstanding shares of both classes of stock. Consequently, the Grinberg family is in a position to significantly influence any matters that are brought to a vote of the shareholders including, but not limited to, the election of the Board of Directors and any action requiring the approval of shareholders, including any amendments to the Company's certificate of incorporation, mergers or sales of all or substantially all of the Company's assets. This concentration of ownership also may delay, defer or even prevent a change in control of the Company and make some transactions more difficult or impossible without the support of the Grinberg family. These transactions might include proxy contests, tender offers, mergers or other purchases of common stock that could give stockholders the opportunity to realize a premium over the then-prevailing market price for shares of the Company's common stock.

**The Company's stock price could fluctuate and possibly decline due to changes in revenue, operating results and cash flow.**

The Company's revenue, results of operations and cash flow can be affected by several factors, some of which are not within its control. Those factors include, but are not limited to, those described as risk factors in this Item 1A and under "Forward-Looking Statements" on page 1.

Any or all of these factors could cause a decline in revenues or increased expenses, both of which could have an adverse effect on the results of operations. If the Company's earnings failed to meet the expectations of the public in any given period, the Company's stock price could fluctuate and possibly decline.

**If the Company were to lose its relationship with any of its key customers or distributors or any of such customers or distributors were to experience financial difficulties, there may be a significant loss of revenue and operating results.**

The Company's customer base covers a wide range of distribution including national jewelry store chains, department stores, independent regional jewelers, licensed partner retail stores and a network of distributors in many countries throughout the world. The Company does not have long-term purchase contracts with its customers, nor does it have a significant backlog of unfilled orders. Customer purchasing decisions could vary with each selling season. A material change in the Company's customers' purchasing decisions could have an adverse effect on its revenue and operating results.

As part of the Company's unified Movado brand strategy announced on February 25, 2008, the Company streamlined the Movado brand wholesale distribution in the United States from 4,000

wholesale customer doors to approximately 2,600 doors, representing a 35% reduction, by the close of its fiscal year ending January 31, 2009. A wholesale customer door could be either a single store within a department store chain or an independent jewelry store. The strategy contemplated that a number of wholesale customers would continue to do business with the Company through their more profitable doors. There is a risk that these customers will have a negative response to the strategy of reducing the number of their doors that can sell Movado watches. This could potentially damage current relationships and hinder future business done with these customers.

The Company extends credit to its customers based on an evaluation of each customer's financial condition usually without requiring collateral. Should any of the Company's larger customers experience financial difficulties, it could result in the Company's curtailing doing business with them or an increase in its exposure related to its accounts receivable. The inability to collect on these receivables could have an adverse effect on the Company's financial results.

**The current credit crisis could have a negative impact on the Company's customers, suppliers and business partners, which in turn could materially and adversely affect its results of operations and liquidity.**

The current credit crisis is having a significant negative impact on businesses around the world. The impact of this crisis on the Company's customers, suppliers and business partners cannot be predicted and may be quite severe. The inability of the Company's manufacturers to ship products could impair the Company's ability to meet delivery date requirements. A disruption in the ability of the Company's significant customers, distributors or licensees to access liquidity could cause serious disruptions or an overall deterioration of their businesses which could lead to a significant reduction in their future orders of the Company's products and the inability or failure on their part to meet their payment obligations to the Company, any of which could have a material adverse effect on the Company's results of operations and liquidity.

**The Company's wholesale business could be negatively affected by changes of ownership and consolidation in the retail industry.**

A large portion of the Company's U.S. wholesale business is derived from major jewelry store chains and department stores. In recent years, the retail industry has experienced changes in ownership and consolidations, none of which has had a material effect on the Company's wholesale business. Future reorganizations, changes of ownership and consolidations could reduce the number of retail doors in which the Company's products are sold and could increase the concentration of sales for any customers involved in such transactions. Future changes of ownership and structure in the retail industry may have a material adverse effect on the Company's wholesale business.

**If the Company were to lose key members of management or be unable to attract and retain the talent required for the business, operating results could suffer.**

The Company's ability to execute key operating initiatives as well as to deliver product and marketing concepts appealing to target consumers depends largely on the efforts and abilities of key executives and senior management's competencies. The unexpected loss of one or more of these individuals could have an adverse effect on the future business. The Company cannot guarantee that it will be able to attract and retain the talent and skills needed in the future.

**Recent turmoil in the financial markets could affect credit availability and increase the cost of borrowing. Additionally, as a result of its non-compliance with the interest coverage ratio in its debt agreements, the Company is in the process of securing other financing. If the Company cannot secure financing and credit on favorable terms, the Company's financial condition and results of operation may be materially adversely affected.**

The Company historically has been able to secure financing and credit facilities with very favorable terms due to the Company's financial stability and good relationships with its lending partners. In the fourth quarter of fiscal year 2009, the Company was not in compliance with the interest coverage ratio covenant under certain of its current debt agreements. As a result of the Company's non-compliance with the interest coverage ratio covenant, any amounts owed under these agreements have been reclassified to current liabilities. Additionally, the Company is prohibited from borrowing any additional funds under these agreements, and the amounts owed as of January 31, 2009 may be declared immediately due and payable by the lenders. The lenders have not taken any action in respect to this default, but they may do so in the future. Through the date of this filing, the Company is in negotiations with banking institutions for a new three year asset-based revolving credit facility for an amount up to \$110 million. Additionally, to provide for available liquidity in the event the \$110 million asset-based revolving credit facility is not consummated, the Company has received a commitment for a three year, \$50 million asset-based credit facility from Bank of America. The commitment is subject to the completion of due diligence by Bank of America and the satisfaction of a number of additional customary conditions precedent, certain of which are at the sole discretion of Bank of America. The Company expects that the fees and the interest rates under either of the above facilities will be at current market rates which are significantly higher than those historically paid by the Company, resulting in an increase in interest expense and an adverse impact on financial results. **In the event the \$110 million asset-based revolving credit facility or the \$50 million asset-based credit facility is not consummated, the Company's financial condition and results of operations may be materially adversely affected.**

U.S. and global credit and equity markets have recently undergone significant disruption, making it difficult for many businesses to obtain financing on acceptable terms. If these conditions continue or worsen, the Company's cost of borrowing may increase and it may be more difficult to obtain financing for the Company's operations or to refinance long-term obligations as they become payable. In addition, the Company's borrowing costs can be affected by independent rating agencies' short and long-term debt ratings which are based largely on the Company's performance as measured by credit metrics including interest coverage and leverage ratios. A decrease in these ratings would likely also increase the Company's cost of borrowing and make it more difficult for it to obtain financing. A significant increase in the costs the Company incurs in order to finance its operations may have a material adverse impact on its business results and financial condition.

**A significant portion of the Company's business is conducted outside of the United States. Many factors affecting business activities outside the United States could adversely impact this business.**

The Company produces all of its watches and a portion of its proprietary jewelry outside the United States and primarily in Europe and Asia. The Company also generates approximately 45% of its revenue from international sources.

Factors that could affect the business activity vary by region and market and generally include without limitation:

- instability or changes in social, political and/or economic conditions that could disrupt the trade activity in the countries where the Company's manufacturers, suppliers and customers are located;
- the imposition of additional duties, taxes and other charges on imports and exports;
- changes in foreign laws and regulations;
- the adoption or expansion of trade sanctions;
- recessions in foreign economies; and
- a significant change in currency valuation in specific countries or markets.

The occurrence or consequences of any of these risks could affect the Company's ability to operate in the affected regions. This could have an adverse effect on the Company's financial results.

**The Company has implemented a new business enterprise system. Any difficulties encountered with respect to such system could disrupt the Company's operations and data retrieval process.**

On February 1, 2009 the Company implemented SAP, which is an end-to-end business enterprise solution, as its core enterprise system. The implementation of SAP will support the Company's growth strategy and integrate its global sourcing, wholesale and retail operations, consolidating the business operating systems into a single platform. Substantially all of the Company's subsidiaries migrated from the prior systems to SAP for all areas including finance, supply chain, sales and distribution, human resources, quality control and customer service. The point-of-sale and inventory systems of the retail segment will be implemented separately. While there were no significant difficulties encountered during the migration to SAP from the prior systems, and the Company did not experience any major disruptions in its operations or its ability to retrieve data or produce and ship product, the implementation is still in its early stages and difficulties may still arise as the Company ramps up operations in SAP during fiscal year 2010.

**If the Company is unable to successfully implement its expense reduction plans, its future operating results could suffer.**

During the second half of fiscal 2009, the Company implemented expense reduction plans designed to streamline operations, reduce expenses, and improve efficiencies and effectiveness across the Company's global organization. In fiscal 2009, the Company recorded a total pre-tax charge of \$11.1 million related to the completion of these programs and a restructuring of certain benefit arrangements. The Company may not be able to fully realize its expense reductions and sustain them in subsequent periods. In addition, the Company could incur additional unforeseen expenses that may fully or partially offset these expected expense savings. Furthermore, there are risks that the Company's human resources could be strained as a result of the streamlining of operations and the reduction of its workforce. The inability to successfully implement its expense reduction plans could adversely affect the Company's future financial condition and results of operations.

*Item 1B. Unresolved Staff Comments*

None.

## Item 2. Properties

The Company leases various facilities in North America, Europe, the Middle East and Asia for its corporate, manufacturing, distribution and sales operations. As of January 31, 2009, the Company's leased facilities were as follows:

<b>Location</b>	<b>Function</b>	<b>Square Footage</b>	<b>Lease Expiration</b>
Moonachie, New Jersey	Watch assembly, distribution and repair	100,000	July 2019
Paramus, New Jersey	Executive offices	99,000	June 2013
Bienne, Switzerland	Corporate functions, watch sales, distribution, assembly and repair	53,560	January 2012
Kowloon, Hong Kong	Watch sales, distribution and repair	13,960	March 2013
Villers le Lac, France	European service and watch distribution	12,800	January 2016
Markham, Canada	Office, distribution and repair	11,200	August 2012
New York, New York	Public relations office, licensed brand showroom	9,900	August 2016
ChangAn Dongguan, China	Quality control and engineering	7,535	March 2009
Hackensack, New Jersey	Warehouse	6,600	July 2009
Munich, Germany	Watch sales	4,290	January 2012
Shanghai, China	Watch sales	3,200	August 2011
Tokyo, Japan	Watch sales	2,970	July 2010
Coral Gables, Florida	Caribbean office, watch sales	2,880	January 2012
Grenchen, Switzerland	Watch sales	2,800	February 2010
Munich, Germany	Watch repair	2,200	December 2011
Singapore	Watch sales, distribution and repair	970	June 2010
Crown House, United Kingdom	Watch sales	850	July 2009
Dubai, United Arab Emirates	Watch sales	730	July 2009

All of the foregoing facilities are used exclusively in connection with the wholesale segment of the Company's business except that a portion of the Company's executive office space in Paramus, New Jersey is used in connection with management of its retail business.

The Company owns three properties totaling approximately 40,400 square feet located in La Chaux-de-Fonds, Switzerland used for manufacturing, storage and public relations. In addition, the Company acquired an architecturally significant building in La Chaux-de-Fonds in 2004 as part of its acquisition of Ebel.

The Company also owns approximately 2,500 square feet of office space in Hanau, Germany, which it previously used for sales, distribution and watch repair functions.

The Company also leases retail space for the operation of 29 Movado Boutiques in the United States, each of which averages 2,200 square feet per store with leases expiring from February 2009 to June 2017. In addition, the Company leases retail space averaging 1,800 square feet per store with leases expiring from June 2009 to January 2019 for the operation of the Company's 32 outlet stores in the United States.

The Company believes that its existing facilities are suitable and adequate for its current operations.



### *Item 3. Legal Proceedings*

From time to time the Company is involved in routine litigation incidental to the conduct of its business as both plaintiff and defendant, including proceedings to protect its trademark rights, collection actions against customers for the non-payment of goods sold and litigation with present and former employees. Although litigation with present and former employees is routine and incidental to the conduct of the Company's business, as well as for any business employing significant numbers of U.S.-based employees, such litigation can sometimes result in large monetary awards when a civil jury is allowed to determine compensatory and/or punitive damages.

In the case of *Bertha V. Norman, et al. v. Movado Company Store, United States District Court, Central District of California, 2008-cv-6691*, plaintiffs seek unspecified damages based on alleged claims against Movado Retail Group, Inc. ("MRG") for: failure to allow meal periods and rest periods; failure to pay minimum wages and overtime wages; failure to provide itemized wage statements; violation of the California business and professions code; and failure to pay wages due at termination and seeking waiting time penalties pursuant to the California labor code. The complaint, originally filed in California state court, was served on MRG in September, 2008. MRG removed the case to Federal court in October 2008. MRG has denied plaintiff's allegations and intends to vigorously defend the case. The Company believes that the outcome of this claim, and all other pending legal proceedings in the aggregate, will not have a material adverse effect on the Company's business or consolidated financial statements.

### *Item 4. Submission of Matters to a Vote of Security Holders*

No matters were submitted to a vote of shareholders of the Company during the fourth quarter of fiscal 2009.

**PART II**

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

As of March 23, 2009, there were 52 holders of record of Class A Common Stock and, the Company estimates, 6,900 beneficial owners of the common stock represented by 514 holders of record. The common stock is traded on the New York Stock Exchange under the symbol "MOV" and on March 23, 2009, the closing price of the common stock was \$7.72. The quarterly high and low split-adjusted closing prices for the fiscal years ended January 31, 2009 and 2008 were as follows:

Quarter Ended	Fiscal Year Ended January 31, 2009		Fiscal Year Ended January 31, 2008	
	Low	High	Low	High
April 30	\$ 17.38	\$ 26.02	\$ 27.53	\$ 34.58
July 31	\$ 18.91	\$ 23.09	\$ 28.24	\$ 34.66
October 31	\$ 12.06	\$ 25.59	\$ 27.55	\$ 34.48
January 31	\$ 6.64	\$ 15.09	\$ 21.41	\$ 30.97

In connection with the October 7, 1993 public offering, each share of the then currently existing Class A Common Stock was converted into 10.46 shares of new Class A Common Stock, par value of \$0.01 per share (the "Class A Common Stock"). Each share of common stock is entitled to one vote per share and 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 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.

On March 27, 2007, the Board of Directors approved an increase in the quarterly cash dividend rate from \$0.06 to \$0.08 per share. On January 15, 2009, the Board approved a decrease in the quarterly cash dividend rate from \$0.08 to \$0.05 per share. On April 9, 2009, the Company announced that the Board has decided to discontinue the quarterly cash dividend. The declaration and payment of future dividends, if any, needs to be approved by the Board and will depend upon the Company's profitability, financial condition, capital and surplus requirements, future prospects, terms of indebtedness and other factors deemed relevant by the Board. See Notes 4 and 5 to the Consolidated Financial Statements regarding contractual restrictions on the Company's ability to pay dividends.

Cash dividends paid were \$5.9 million, \$8.3 million and \$6.2 million in fiscal years 2009, 2008 and 2007, respectively. As of January 15, 2009, the Company declared a \$1.2 million cash dividend, which was subsequently paid in February 2009.

On December 4, 2007, the Board of Directors authorized a program to repurchase up to one million shares of the Company's common stock. Shares of common stock were repurchased from time to time as market conditions warranted through open market transactions. The objective of the program was to reduce or eliminate earnings per share dilution caused by the shares of common stock issued upon the

exercise of stock options and in connection with other equity based compensation plans. As of April 14, 2008, the Company had completed the one million share repurchase during the fourth quarter of fiscal 2008 and the first quarter of fiscal 2009, at a total cost of approximately \$19.4 million, or \$19.41 per share.

On April 15, 2008, the Board of Directors announced a new authorization to repurchase up to an additional one million shares of the Company's common stock. Under this authorization, the Company has the option to repurchase shares over time, with the amount and timing of repurchases depending on market conditions and corporate needs. The Company entered into a Rule 10b5-1 plan to facilitate repurchases of its shares under this authorization. A Rule 10b5-1 plan permits a company to repurchase shares at times when it might otherwise be prevented from doing so, provided the plan is adopted when the company is not aware of material non-public information. The Company may suspend or discontinue the repurchase of stock at any time. Under this share repurchase program, as of January 31, 2009, the Company had repurchased a total of 937,360 shares of common stock in the open market during the first and second quarters of fiscal year 2009 at a total cost of approximately \$19.5 million or \$20.79 per share.

In addition to the shares repurchased pursuant to the Company's share repurchase programs, an aggregate of 102,662 shares have been repurchased during the twelve months ended January 31, 2009, as a result of the surrender of shares in connection with the vesting of certain stock awards and the exercise of certain stock options. At the election of an employee, upon the vesting of a stock award or the exercise of a stock option, shares having an aggregate value on the vesting or the exercise date as the case may be, equal to the employee's withholding tax obligation may be surrendered to the Company by netting them from the vested shares issued. Similarly, shares having an aggregate value equal to the exercise price of an option may be tendered to the Company in payment of the option exercise price and netted from the shares issued upon the option exercise.

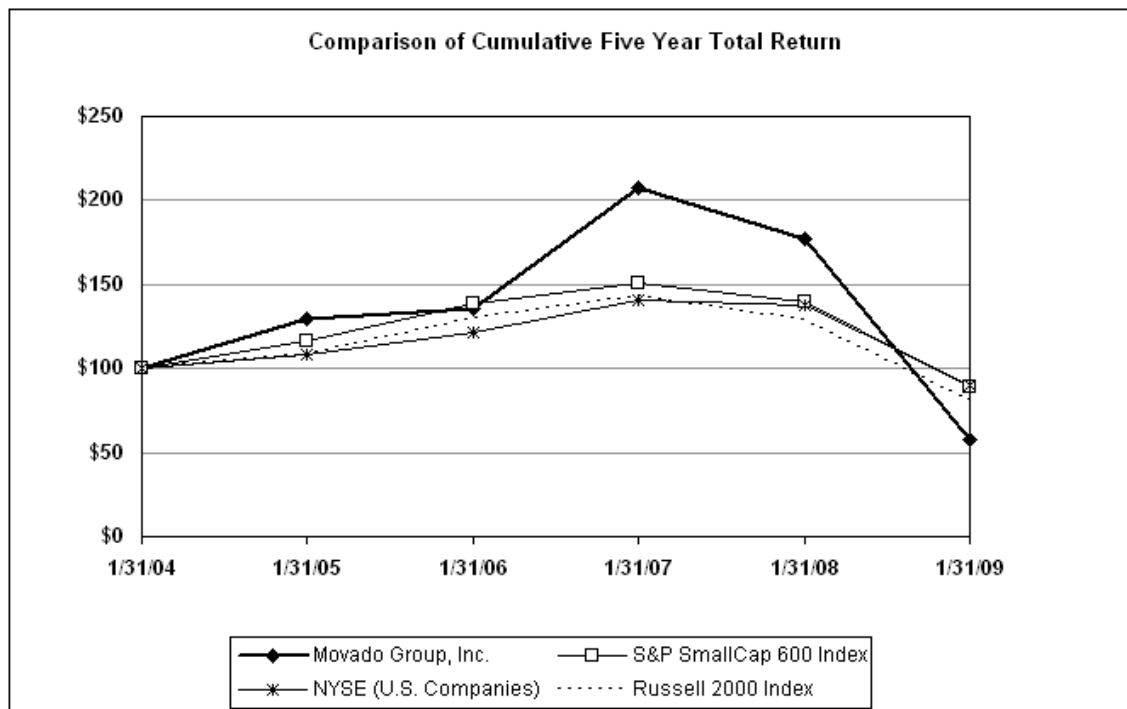
The following table summarizes information about the Company's purchases for the year ended January 31, 2009 of equity securities that are registered by the Company pursuant to Section 12 of the Securities Exchange Act of 1934:

#### Issuer Repurchase of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
February 1, 2008 - February 29, 2008	148,500	\$ 20.14	148,500	807,543
March 1, 2008 - March 31, 2008	406,750	\$ 18.60	406,750	400,793
April 1, 2008 - April 14, 2008	422,066	\$ 19.51	400,793	-
April 15, 2008 - April 30, 2008	238,491	\$ 20.30	238,115	761,885
May 1, 2008 - May 31, 2008	286,733	\$ 21.59	286,539	475,346
June 1, 2008 - June 30, 2008	396,006	\$ 20.55	396,006	79,340
July 1, 2008 - July 31, 2008	16,700	\$ 20.08	16,700	62,640
September 1, 2008 - September 30, 2008	78,884	\$ 23.22	-	62,640
January 1, 2009 - January 31, 2009	1,935	\$ 22.27	-	62,640
<b>Total</b>	<b>1,996,065</b>	<b>\$ 20.12</b>	<b>1,893,403</b>	<b>62,640</b>

## PERFORMANCE GRAPH

The performance graph set forth below compares the cumulative total shareholder return of the Company's common stock for the last five fiscal years through the fiscal year ended January 31, 2009 with that of the Broad Market (NYSE Stock Market – U.S. Companies), the S&P SmallCap 600 index and the Russell 2000 index. Each index assumes an initial investment of \$100 on January 31, 2004 and the reinvestment of dividends (where applicable).



Company Name / Index	1/31/04	1/31/05	1/31/06	1/31/07	1/31/08	1/31/09
Movado Group, Inc.	100.0	129.1	135.3	207.6	177.2	57.3
NYSE (U.S. Companies)	100.0	108.4	121.7	140.7	137.4	89.6
S&P SmallCap 600 Index	100.0	116.5	139.1	150.8	140.1	88.7
Russell 2000 Index	100.0	108.7	129.2	142.7	128.7	81.3

Item 6. Selected Financial Data

The selected financial data presented below has been derived from the Consolidated Financial Statements. This information should be read in conjunction with, and is qualified in its entirety by, the Consolidated Financial Statements and “Management’s Discussion and Analysis of Financial Condition and Results of Operation” contained in Item 7 of this report. Amounts are in thousands except per share amounts:

	<b>Fiscal Year Ended January 31,</b>				
	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
<b>Statement of income data:</b>					
Net sales (1)	\$ 460,857	\$ 559,550	\$ 532,865	\$ 470,941	\$ 418,966
Cost of sales	173,225	222,868	209,922	184,621	168,818
Gross profit (1)	287,632	336,682	322,943	286,320	250,148
Selling, general and administrative (2) (3) (4) (5)	284,242	285,905	270,624	238,283	215,072
Operating income (1) (2) (3) (4) (5)	3,390	50,777	52,319	48,037	35,076
Other income, net (6) (7) (8) (9)	681	-	1,347	1,008	1,444
Interest expense	(2,915)	(3,472)	(3,785)	(4,574)	(3,544)
Interest income	2,132	4,666	3,280	465	114
Income before taxes and minority interests	3,288	51,971	53,161	44,936	33,090
Provision / (benefit) for income taxes (10) (11) (12) (13) (14)	736	(9,471)	2,890	18,319	6,783
Minority interests	237	637	133	-	-
Net income	\$ 2,315	\$ 60,805	\$ 50,138	\$ 26,617	\$ 26,307
Net income per share-Basic (15)	\$ 0.09	\$ 2.33	\$ 1.95	\$ 1.05	\$ 1.06
Net income per share-Diluted (15)	\$ 0.09	\$ 2.23	\$ 1.87	\$ 1.02	\$ 1.03
Basic shares outstanding (15)	24,782	26,049	25,670	25,273	24,708
Diluted shares outstanding (15)	25,554	27,293	26,794	26,180	25,583
Cash dividends declared and paid per share (15)	\$ 0.29	\$ 0.32	\$ 0.24	\$ 0.20	\$ 0.16
<b>Balance sheet data (end of period):</b>					
Working capital (16)	\$ 306,168	\$ 419,632	\$ 383,422	\$ 366,530	\$ 303,225
Total assets	\$ 563,990	\$ 646,216	\$ 577,618	\$ 549,919	\$ 477,074
Total long-term debt (16)	\$ -	\$ 60,895	\$ 80,196	\$ 109,955	\$ 45,000
Shareholders’ equity	\$ 398,960	\$ 463,195	\$ 378,381	\$ 321,678	\$ 316,557

- (1) Fiscal 2008 net sales includes a non-cash charge for estimated returns in the amount of \$15.0 million and gross profit and operating income include a non-cash charge of \$11.0 million, related to the closing of certain wholesale customer doors in the U.S.
- (2) Fiscal 2009 includes a pre-tax charge of \$11.1 million associated with the Company’s expense reduction initiatives and a restructuring of certain benefit arrangements.
- (3) Fiscal 2009 includes a non-cash impairment charge of \$4.5 million recorded in accordance with SFAS No. 144, “Accounting for Impairment of Long-Lived Assets”.
- (4) Fiscal 2007 includes a one-time benefit of \$2.2 million for an out-of-period adjustment related to foreign currency.
- (5) Fiscal 2005 includes a non-cash impairment charge of \$2.0 million recorded in accordance with SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets”.
- (6) The fiscal 2009 other income consists of a pre-tax gain of \$0.7 million on the collection of life insurance proceeds from policies covering the Company’s former Chairman.
- (7) The fiscal 2007 other income consists of a pre-tax gain of \$0.8 million on the sale of artwork, a pre-tax gain of \$0.4 million on the sale of a building and a pre-tax gain of \$0.1 million on the sale of rights to a web domain name.
- (8) The fiscal 2006 other income consists of a pre-tax gain of \$2.6 million on the sale of a building offset by a pre-tax loss of \$1.6 million representing the impact of the discontinuation of foreign currency cash flow hedges because it was not probable that the forecasted transactions would occur by the end of the originally specified time period.

- (9) The fiscal 2005 other income consists of a \$1.4 million litigation settlement.
- (10) The fiscal 2009 effective tax rate of 22.4% includes tax accrued on the future repatriation of foreign earnings of \$7.4 million somewhat offset by a release of valuation allowances on foreign tax losses of \$3.0 million.
- (11) The fiscal 2008 effective tax benefit of \$9.5 million, or rate of -18.2%, reflects a result of the recognition of previously unrecognized tax benefits due to the settlement of the IRS audit for fiscal years 2004 through 2006 (\$12.5 million) and the release of valuation allowances in whole or part on Swiss and UK tax losses (\$7.6 million).
- (12) The fiscal 2007 effective tax rate of 5.4% reflects a partial release of the valuation allowance on Swiss tax losses.
- (13) The fiscal 2006 effective tax rate of 40.8% reflects a tax charge of \$7.5 million associated with repatriated foreign earnings under the American Jobs Creation Act of 2004.
- (14) The fiscal 2005 effective tax rate of 20.5% reflects the adjustments in the fourth quarter relating to refunds from a retroactive Swiss tax ruling and a favorable U.S. tax accrual adjustment.
- (15) For all periods presented, basic and diluted shares outstanding, and the related “per share” amounts reflect the effect of the fiscal 2005 two-for-one stock split.
- (16) The Company defines working capital as current assets less current liabilities. In fiscal 2009 the Company reclassified \$65.0 million of outstanding debt from non-current liabilities to current liabilities, due to the non-compliance with the interest coverage ratio covenant under certain of its current debt agreements.

## GENERAL

*Net sales.* The Company operates and manages its business in two principal business segments – Wholesale and Retail. The Company also operates in two geographic segments – United States and International. The Company divides its watch brands into three distinct categories: luxury, accessible luxury and licensed brands. The luxury category consists of the Ebel and Concord brands. The accessible luxury category consists of the Movado and ESQ brands. The licensed brands category represents brands distributed under license agreements and includes Coach, HUGO BOSS, Juicy Couture, Lacoste and Tommy Hilfiger.

The primary factors that influence annual sales are general economic conditions in the Company's U.S. and international markets, new product introductions, the level and effectiveness of advertising and marketing expenditures and product pricing decisions. Economic conditions both in the United States and around the world have deteriorated since the beginning of fiscal 2009 and over the course of the last quarter ended January 31, 2009. As the events that have caused this deterioration continue to unfold, the Company does not have significant, meaningful visibility into the future effects they could have on the U.S. and the global economy. A prolonged economic deterioration and its impact on consumer spending will likely have a negative impact on the Company's sales and financial results into fiscal 2010.

Approximately 45% of the Company's total sales are from international markets and therefore reported sales made in those markets are affected by foreign exchange rates. The Company's international sales are billed in local currencies (predominantly Euros and Swiss francs) and translated to U.S. dollars at average exchange rates for financial reporting purposes.

The Company's business is seasonal. There are two major selling seasons in the Company's markets: the spring season, which includes school graduations and several holidays and, most importantly, the Christmas and holiday season. Major selling seasons in certain international markets center on significant local holidays that occur in late winter or early spring. The Company's net sales historically have been higher during the second half of the fiscal year. The second half of each year accounted for 49.9%, 57.0%, and 57.9% of the Company's net sales for the fiscal years ended January 31, 2009, 2008, and 2007, respectively. In fiscal 2009, the Company did not experience the usual seasonality of its business due to the downturn in the economy, which resulted in the percentage of net sales for the second half of the fiscal year not being comparable to that in previous years.

The Company's retail operations consist of 29 Movado Boutiques and 32 outlet stores located throughout the United States. The Company does not have any retail operations outside of the United States.

The significant factors that influence annual sales volumes in the Company's retail operations are similar to those that influence U.S. wholesale sales. In addition, many of the Company's outlet stores are located near vacation destinations and, therefore, the seasonality of these stores is driven by the peak tourist seasons associated with these locations.

In fiscal year 2008, as part of the Company's Movado brand strategy, the Company streamlined the Movado brand wholesale distribution in the United States from 4,000 wholesale customer doors to approximately 2,600 doors, representing a 35% reduction. A wholesale customer door could be either a single store within a department store chain or an independent jewelry store. These least productive

doors represented approximately \$10.0 million of Movado brand sales during the year ended January 31, 2008, or less than 2% of the Company's consolidated revenue. The Company recorded a one-time accrual of \$15.0 million during its 2008 fiscal year related to future sales returns associated with the reduction of these wholesale customer doors. These sales returns were completed during fiscal 2009.

*Gross Margins.* The Company's overall gross margins are primarily affected by four major factors: brand and product sales mix, product pricing strategy, manufacturing costs and fluctuation in currency rates, in particular the relationship between the U.S. dollar and the Swiss franc and the Euro. Gross margins for the Company may not be comparable to those of other companies, since some companies include all the costs related to their distribution networks in cost of sales whereas the Company does not include the costs associated with its U.S. and Asia warehousing and distribution facilities nor the occupancy costs for the retail segment in the cost of sales line item.

Gross margins vary among the brands included in the Company's portfolio and also among watch models within each brand. Watches in the luxury category generally earn lower gross margin percentages than watches in the accessible luxury category. Excluding liquidation sales of excess discontinued inventory in the prior year, fiscal 2009 gross margins in the Company's wholesale segment declined as the accessible luxury category represented a smaller percentage of total sales. Gross margins in the Company's outlet business are lower than those of the wholesale business since the outlets primarily sell seconds and discontinued models that generally command lower selling prices. Gross margins in the Movado Boutiques are affected by the mix of product sold. The margins from the sale of watches are greater than those from the sale of jewelry and accessories. Gross margins from the sale of watches in the Movado Boutiques also exceed those of the wholesale business since the Company earns margins from manufacture to point of sale to the consumer. During the fourth quarter of fiscal 2009, the Movado Boutiques recorded lower gross margins when compared to the prior year resulting from more in-store promotions.

All of the Company's brands compete with a number of other brands on the basis of not only styling but also wholesale and retail price. The Company's ability to improve margins through price increases is therefore, to some extent, constrained by competitors' actions.

Costs of sales of the Company's products consist primarily of component costs, assembly costs and unit overhead costs associated with the Company's supply chain operations in Switzerland and Asia. The Company's supply chain operations consist of logistics management of assembly operations and product sourcing in Switzerland and Asia and assembly in Switzerland. Through productivity improvement efforts, the Company has controlled the level of overhead costs and maintained flexibility in its cost structure by outsourcing a significant portion of its component and assembly requirements.

Since a substantial amount of the Company's product costs are incurred in Swiss francs, fluctuations in the U.S. dollar/Swiss franc exchange rate can impact the Company's cost of goods sold and, therefore, its gross margins. The Company hedges a portion of its Swiss franc purchases using a combination of forward contracts and purchased currency options. The Company's hedging program had the effect of minimizing the exchange rate impact on product costs and gross margins for fiscal years 2009, 2008, and 2007. Additionally, a portion of the Company's net sales are recorded in its foreign subsidiaries in a currency other than the local currency of that subsidiary. This predominantly occurs in the Company's Hong Kong and Swiss subsidiaries when they sell to Euro-based customers. This exposure is not hedged by the Company. Any fluctuation in the Euro exchange rate in relation to the Hong Kong dollar and Swiss franc would have an effect on these sales that are recorded in Euro. The currency effect on



these Euro sales has an equal effect on their recorded gross profit since the costs of these sales are recorded in the entities' respective local currency.

*Selling, General and Administrative ("SG&A") Expenses.* The Company's SG&A expenses consist primarily of marketing, selling, distribution and general and administrative expenses. During the second half of fiscal 2009, the Company announced initiatives designed to streamline operations, reduce expenses, and improve efficiencies and effectiveness across the Company's global organization. In fiscal 2009, the Company recorded a total pre-tax charge of \$11.1 million related to the completion of these programs and a restructuring of certain benefit arrangements. See Note 20 to the Consolidated Financial Statements included in this report. Additionally, the Company recorded a non-cash pre-tax impairment charge of \$4.5 million consisting of property, plant and equipment, related to five Movado Boutiques.

Annual marketing expenditures are based principally on overall strategic considerations relative to maintaining or increasing market share in markets that management considers to be crucial to the Company's continued success as well as on general economic conditions in the various markets around the world in which the Company sells its products. Marketing expenses include various forms of media advertising, co-operative advertising with customers and distributors and other point-of-sale marketing and promotion spending.

Selling expenses consist primarily of salaries, sales commissions, sales force travel and related expenses, expenses associated with Baselworld, the annual watch and jewelry trade show and other industry trade shows and operating costs incurred in connection with the Company's retail business. Sales commissions vary with overall sales levels. Retail selling expenses consist primarily of payroll related and store occupancy costs.

Distribution expenses consist primarily of salaries of distribution staff, rental and other occupancy costs, security, depreciation and amortization of furniture and leasehold improvements and shipping supplies.

General and administrative expenses consist primarily of salaries and other employee compensation, employee benefit plan costs, office rent, management information systems costs, professional fees, bad debts, depreciation and amortization of furniture and leasehold improvements, patent and trademark expenses and various other general corporate expenses.

*Interest Expense.* The Company records interest expense on its private placement notes as well as on its revolving credit facilities. Through the date of this filing, the Company is in negotiations with banking institutions to establish a new asset-based credit agreement which, if consummated, would replace current facilities that have favorable interest rates when compared to rates generally available in the current market. As a result, the Company expects that future levels of interest expense will increase.

#### **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

The Company's consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States and those significant policies are more fully described in Note 1 to the Company's Consolidated Financial Statements. The preparation of these financial statements and the application of certain critical accounting policies require management to make judgments based on estimates and assumptions that affect the information reported. On an on-going basis, management evaluates its estimates and judgments, including those related to sales discounts and markdowns, product returns, bad debt, inventories, income taxes, warranty obligations, impairments and

contingencies and litigation. Management bases its estimates and judgments about the carrying values of assets and liabilities that are not readily apparent from other sources on historical experience, contractual commitments and on various other factors that are believed to be reasonable under the circumstances. Actual results could differ from these estimates. Management believes the following are the critical accounting policies requiring significant judgments and estimates used in the preparation of its consolidated financial statements.

### **Revenue Recognition**

In the wholesale segment, the Company recognizes revenue upon transfer of title and risk of loss in accordance with its FOB shipping point terms of sale and after the sales price is fixed and determinable and collectability is reasonably assured. In the retail segment, transfer of title and risk of loss occurs at the time of register receipt. The Company records estimates for sales returns, volume-based programs and sales and cash discount allowances as a reduction of revenue in the same period that the sales are recorded. These estimates are based upon historical analysis, customer agreements and/or currently known factors that arise in the normal course of business. While returns have historically been within the Company's expectations and the provisions established, future return rates may differ from those experienced in the past. In the event that returns are authorized at a rate significantly higher than the Company's historic rate, the resulting returns could have an adverse impact on its operating results for the period in which such results materialize. In the fourth quarter of fiscal 2008, the Company recorded a one-time charge of \$15.0 million related to estimated sales returns associated with the streamlining of the Movado brand wholesale distribution in the U.S. consisting of the planned reduction of approximately 1,400 wholesale customer doors. These sales returns were completed during fiscal 2009.

### **Allowance for Doubtful Accounts**

Accounts receivable are reduced by an allowance for amounts that may be uncollectible in the future. Estimates are used in determining the allowance for doubtful accounts and are based on an analysis of the aging of accounts receivable, assessments of collectability based on historic trends, the financial condition of the Company's customers and an evaluation of economic conditions. In general, while the actual bad debt losses have historically been within the Company's expectations and the allowances established, there can be no guarantee that the Company will continue to experience the same bad debt loss rates in the future. As of January 31, 2009, except for those accounts provided for in the reserve for doubtful accounts, the Company knew of no situations with any of the Company's major customers which would indicate the customer's inability to make their required payments.

### **Inventories**

The Company values its inventory at the lower of cost or market. The Company's U.S. inventory is valued using the first-in, first-out (FIFO) method. The cost of finished goods and component inventories, held by international subsidiaries, are determined using average cost. The Company's management regularly reviews its sales to customers and customers' sell-through at retail to evaluate the adequacy of inventory reserves. Inventory classified as discontinued, together with the related component parts which can be assembled into saleable finished goods, is sold primarily through the Company's outlet stores. When management determines that finished product is unsaleable or that it is impractical to build the remaining components into watches for sale, a reserve is established for the cost of those products and components to value the inventory at the lower of cost or market. During the fiscal year ended January 31, 2009, the Company went through a process of scrapping unsaleable inventory and components which were reserved for and recorded as cost of sales in previous fiscal years.

Additionally in fiscal year 2009, the Company conducted its ongoing review of unsaleable inventory and associated components resulting in no material changes to existing reserves. During the fiscal years ended January 31, 2008 and 2007, the Company conducted an in depth review of all its discontinued components and watches. In doing so, the Company made an economic decision to convert these excess quantities of discontinued inventory into cash. As a result, the Company engaged in a liquidation through an independent third party to sell the excess product for cash. In addition, where it was not deemed economically feasible to invest the time, effort and/or cost, the Company initiated efforts to cleanse the inventory and scrap the product. The Company's estimates, based on which it establishes its inventory reserves, could vary significantly, either favorably or unfavorably, from actual requirements depending on future economic conditions, customer inventory levels or competitive conditions.

### **Long-Lived Assets**

The Company periodically reviews the estimated useful lives of its depreciable assets based on factors including historical experience, the expected beneficial service period of the asset, the quality and durability of the asset and the Company's maintenance policy including periodic upgrades. Changes in useful lives are made on a prospective basis unless factors indicate the carrying amounts of the assets may not be recoverable and an impairment write-down is necessary.

The Company performs an impairment review of its long-lived assets once events or changes in circumstances indicate, in management's judgment, that the carrying value of such assets may not be recoverable in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". When such a determination has been made, management compares the carrying value of the assets with their estimated future undiscounted cash flows. If it is determined that an impairment loss has occurred, the loss is recognized during that period. The impairment loss is calculated as the difference between asset carrying values and the fair value of the long-lived assets.

During the fourth quarter of fiscal 2009, the Company determined that the carrying value of its long-lived assets with respects to five Movado Boutiques was not recoverable. The impairment review was performed pursuant to SFAS No. 144 because of the economic downturn in the U.S. that had a negative effect on the Company's fourth quarter ended January 31, 2009, the retail segment's largest quarter of the year in terms of sales and profitability. The deteriorating economy negatively affected the Boutiques' sales volumes. As a result, the Company recorded a non-cash pre-tax impairment charge of \$4.5 million consisting of property, plant and equipment. The charge was calculated as the difference between the assets' carrying values and their estimated fair value. For the purposes of this calculation, fair value was determined using a discounted cash flow calculation. The impairment charge is included in the selling, general and administrative expenses in the fiscal 2009 Consolidated Statements of Income.

### **Warranties**

All watches sold by the Company come with limited warranties covering the movement against defects in material and workmanship for periods ranging from two to three years from the date of purchase, with the exception of Tommy Hilfiger watches, for which the warranty period is ten years. In addition, the warranty period is five years for the gold plating on certain Movado watch cases and bracelets. The Company records an estimate for future warranty costs based on historical repair costs. Warranty costs have historically been within the Company's expectations and the provisions established. If such costs were to substantially exceed estimates, this could have an adverse effect on the Company's operating results.

## Stock-Based Compensation

On February 1, 2006, the Company adopted the provisions of SFAS No. 123(R), "Share-Based Payment", electing to use the modified prospective application transition method, and accordingly, prior period financial statements have not been restated. Under this method, the fair value of all stock options granted after adoption and the unvested portion of previously granted awards must be recognized in the Consolidated Statements of Income. The Company utilizes the Black-Scholes option-pricing model to calculate the fair value of each option at the grant date which requires that certain assumptions be made. The expected life of stock option grants is determined using historical data and represents the time period which the stock option is expected to be outstanding until it is exercised. The risk free interest rate is the yield on the grant date of U.S. Treasury constant maturities with a maturity date closest to the expected life of the stock option. The expected stock price volatility is derived from historical volatility and calculated based on the estimated term structure of the stock option grant. The expected dividend yield is calculated using the expected annualized dividend which remains constant during the expected term of the option.

SFAS No. 123(R) requires that compensation expense for equity instruments be accrued based on the estimated number of instruments for which the requisite service is expected to be rendered. Additionally, for performance based awards, compensation expense should be accrued only if it is probable that the performance condition will be achieved. The Company reviews the estimates of forfeitures and the probability of performance conditions being achieved at each reporting period. Any changes to compensation expense as a result of a change in these estimates are reflected in the period of change. During fiscal 2009, as a result of the deteriorating global economy, it became apparent that the performance goals for certain Long Term Incentive Plan grants would not be achieved. This resulted in the reversal of previously accrued stock-based compensation expenses of approximately \$3.2 million.

## Income Taxes

The Company follows SFAS No. 109, "Accounting for Income Taxes". Under the asset and liability method of SFAS No. 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax laws and tax rates in each jurisdiction where the Company operates, and applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities due to a change in tax rates is recognized in income in the period that includes the enactment date. In addition, the amounts of any future tax benefits are reduced by a valuation allowance to the extent such benefits are not expected to be realized on a more-likely-than-not basis. The Company calculates estimated income taxes in each of the jurisdictions in which it operates. This process involves estimating actual current tax expense along with assessing temporary differences resulting from differing treatment of items for both book and tax purposes.

The Company adopted the provisions of the FIN 48, "Accounting for Uncertainty in Income Taxes", on February 1, 2007. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109. FIN 48 also prescribes a recognition threshold and measurement standard for the financial statement recognition and measurement of an income tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosures and transitions. The Company previously recognized income tax positions based on management's estimate of whether it was reasonably possible that a liability had been incurred for

unrecognized tax benefits by applying SFAS No. 5, Accounting for Contingencies. The provisions of FIN 48 became effective for the Company on February 1, 2007. For additional information related to income taxes see Note 8 to the Consolidated Financial Statements.

## RESULTS OF OPERATIONS

The following is a discussion of the results of operations for fiscal 2009 compared to fiscal 2008 and fiscal 2008 compared to fiscal 2007 along with a discussion of the changes in financial condition during fiscal 2009.

The following are net sales by business segment (in thousands):

	<b>Fiscal Year Ended January 31,</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>
Wholesale:			
United States	\$ 165,829	\$ 235,093	\$ 279,465
International	205,520	231,338	166,209
Retail	89,508	93,119	87,191
Net sales	<u>\$ 460,857</u>	<u>\$ 559,550</u>	<u>\$ 532,865</u>

The following table presents the Company's results of operations expressed as a percentage of net sales for the fiscal years indicated:

	<b>Fiscal Year Ended January 31,</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>
	<b>% of net sales</b>	<b>% of net sales</b>	<b>% of net sales</b>
Net sales	100.0%	100.0%	100.0%
Gross margin	62.4%	60.2%	60.6%
Selling, general and administrative expenses	61.7%	51.1%	50.8%
Operating income	0.7%	9.1%	9.8%
Other income	0.2%	0.0%	0.3%
Interest expense	0.6%	0.6%	0.7%
Interest income	0.5%	0.8%	0.6%
Provision / (benefit) for income taxes	0.2%	(1.7)%	0.5%
Minority interests	0.1%	0.1%	0.1%
Net income	0.5%	10.9%	9.4%

### Fiscal 2009 Compared to Fiscal 2008

#### Net Sales

Net sales in fiscal 2009 were \$460.9 million, below prior year by \$98.7 million or 17.6%. For fiscal 2008, liquidation sales of excess discontinued inventory were \$31.1 million. In addition, net sales in fiscal 2008 included a one-time charge of \$15.0 million related to estimated future sales returns associated with the streamlining of the Movado brand wholesale distribution in the U.S. which consisted of the reduction of approximately 1,400 wholesale customer doors. Excluding the liquidation of excess

discontinued inventory and the charge for the reduction of wholesale customer doors in fiscal 2008, fiscal 2009 net sales were below prior year by \$82.6 million, or 15.2%. As a result of the weaker average U.S. dollar during fiscal 2009 when compared to the prior year, and the resulting translation of the international subsidiaries' financial results, the effect of foreign currency translation increased fiscal 2009 net sales by \$7.6 million when compared to the prior year.

#### *United States Wholesale Net Sales*

Net sales in fiscal 2009 in the U.S. wholesale segment were \$165.8 million, representing a 29.5% decrease from prior year sales of \$235.1 million. For fiscal 2008, liquidation sales of excess discontinued inventory in the U.S. wholesale segment were \$14.2 million. In addition, net sales in fiscal 2008 included a one-time charge of \$15.0 million related to estimated future sales returns associated with the streamlining of the Movado brand wholesale distribution in the U.S. which consisted of the reduction of wholesale customer doors. Excluding the liquidation of excess discontinued inventory and the charge for the reduction of the wholesale customer doors in fiscal 2008, fiscal 2009 net sales were below prior year by \$70.1 million, or 29.7%. (The remaining discussion in this paragraph excludes the impact of the liquidation sales of excess discontinued inventory and the charge for the reduction of wholesale customer doors in fiscal 2008). The decrease in U.S. wholesale net sales of \$70.1 million was primarily due to lower sales in the accessible luxury category of \$62.7 million, or 37.0% below the prior year. Additionally, lower sales were recorded in the luxury category of \$7.1 million. The lower sales recorded in both the luxury and accessible luxury categories are primarily attributable to the unfavorable impact of the deteriorating global economy. Sales in the licensed brand category were above prior year by \$1.6 million. The increase in licensed brand sales was primarily driven by market expansion and growth in the newer licensed brands.

#### *International Wholesale Net Sales*

Net sales in fiscal 2009 in the international wholesale segment were \$205.5 million, representing an 11.2% decrease from prior year sales of \$231.3 million. For fiscal 2008, liquidation sales of excess discontinued inventory in the international wholesale segment were \$16.9 million. Excluding the liquidation of excess discontinued inventory in fiscal 2008, fiscal 2009 net sales were below prior year by \$8.9 million, or 4.1%. (The remaining discussion in this paragraph excludes the impact of the liquidation sales of excess discontinued inventory in fiscal 2008). The decrease in international net sales of \$8.9 million was primarily due to lower sales in the luxury category of \$9.6 million or 15.0% below the prior year. Lower sales were also recorded in the accessible luxury category of \$8.9 million or 19.6%. The lower sales recorded in both the luxury and accessible luxury categories are primarily attributable to the unfavorable impact of the deteriorating global economy. Net sales in the licensed brand category were above prior year by \$9.3 million or 9.6%. This increase was primarily the result of international market expansion as well as growth in the newer licensed brands. As a result of the weaker average U.S. dollar during fiscal 2009 when compared to the prior year, and the resulting translation of the international subsidiaries' financial results, the effect of foreign currency translation increased net sales for fiscal 2009 by \$7.6 million when compared to the prior year.

#### *Retail Net Sales*

Net sales in fiscal 2009 in the retail segment were \$89.5 million, representing a 3.9% decrease from prior year sales of \$93.1 million. The decrease in sales was the net result of lower sales in the Movado Boutiques, partially offset by higher sales in the outlet stores. Sales in the Movado Boutiques were below prior year by 16.4%. The decrease in sales was driven by a decline in comparable store sales of

17.3%, primarily attributable to the unfavorable impact of the deteriorating U.S. economy. Sales in the outlet stores increased by 6.3%, driven by an increase in comparable store sales of 6.9%. The Company operated 32 outlet stores and 29 Movado Boutiques as of January 31, 2009, compared to 32 outlet stores and 30 Movado Boutiques as of January 31, 2008.

The Company considers comparable store sales to be sales of stores that were open as of February 1<sup>st</sup> of the last year through January 31<sup>st</sup> of the current year. The Company had 27 comparable Movado Boutiques and 29 comparable outlet stores for the year ended January 31, 2009. The sales from stores that have been relocated, renovated or refurbished are included in the calculation of comparable store sales. The method of calculating comparable store sales varies across the retail industry. As a result, the calculation of comparable store sales may not be the same as measures reported by other companies.

#### *Gross Profit*

Gross profit for the 2009 fiscal year was \$287.6 million or 62.4% of net sales as compared to \$336.7 million or 60.2% of net sales in the prior year. The decrease in gross profit of \$49.1 million was primarily the result of the decrease in sales volume. The gross margin percentage was negatively impacted in fiscal 2008 by the liquidation sales of excess discontinued inventory. Excluding the liquidation sales of excess discontinued inventory, the gross margin percentage was 64.0% for fiscal year 2008, compared to 62.4% in the current year. This decrease in gross margin percentage was primarily the result of the mix of sales by business as the high margin accessible luxury category represented a lower percentage of total sales year-over-year. The decrease in gross margin percentage can also be attributed to lower margins in the Movado Boutiques resulting from in-store promotions in effect during the fourth quarter of fiscal 2009.

#### *Selling, General and Administrative*

SG&A expenses for fiscal 2009 were \$284.2 million as compared to \$285.9 million in the prior year. The decrease of \$1.7 million or 0.6% was driven by lower performance-based compensation expense of \$11.7 million which was the result of paying no bonuses for fiscal 2009 as well as the reversal of previously accrued performance-based grants. Expense reductions were also recorded as a result of the Company's initiatives to streamline operations and reduce expenses. These included lower marketing expenses in fiscal 2009 of \$7.8 million, a reduction of discretionary spending on consulting and other outside services of \$2.5 million, lower payroll and related expenses of \$2.3 million, primarily the result of headcount reductions, and lower travel and related expenses of \$1.1 million. These expense savings in fiscal 2009 were offset by \$11.1 million of severance related costs associated with the Company's expense reduction initiatives and a restructuring of certain benefit arrangements, the unfavorable impact of foreign exchange from translating the European subsidiaries' financial results of \$5.0 million, increased expenses of \$2.1 million in the Company's growing joint venture operations in Europe and higher provisions for bad debt of \$0.9 million. In addition, the Company recorded a non-cash charge of \$4.5 million in fiscal 2009 for the impairment of long-lived assets associated with five Movado Boutique locations.

#### *Wholesale Operating Income*

Operating income in the wholesale segment decreased by \$41.5 million in fiscal 2009 to \$8.7 million. The decrease was the net result of a reduction in gross profit of \$45.5 million, partially offset by the decrease in SG&A expenses of \$4.0 million. The reduction in gross profit of \$45.5 million was primarily the result of the decrease in sales volume year-over-year. The decrease in SG&A expenses of

\$4.0 million related principally to a reduction in performance based compensation expense of \$11.7 million and expense reductions associated with the Company's initiatives to streamline operations. These included a reduction in marketing expenses of \$6.2 million, a reduction of discretionary spending on consulting and other outside services of \$2.5 million, a reduction in payroll and related expenses of \$2.3 million and a reduction in travel and related expenses of \$1.1 million. These expense savings were offset by \$11.1 million of additional severance related costs in fiscal 2009 associated with the Company's expense reduction initiatives and a restructuring of certain benefit arrangements, the unfavorable impact of foreign exchange from translating the European subsidiaries' financial results of \$5.0 million, increased expenses of \$2.1 million in the Company's growing joint ventures and higher provisions for bad debt of \$0.9 million.

#### *Retail Operating Income (Loss)*

Operating loss of \$5.3 million was recorded in the retail segment in fiscal 2009 compared to an operating income of \$0.6 million recorded for fiscal 2008. The \$5.9 million decrease in profit was the result of a reduction in gross profit of \$3.6 million and an increase in SG&A expenses of \$2.3 million. The decrease in gross profit was attributable to lower sales volume, as well as the lower gross profit percentage achieved, year-over-year. The lower sales volume was primarily the result of the deteriorating U.S. economy. The lower gross profit percentage was primarily the result of lower margins in the Movado Boutiques resulting from in-store promotions in effect during the fourth quarter of fiscal 2009. The increase in SG&A expenses was primarily the result of a non-cash charge of \$4.5 million in fiscal 2009 for the impairment of long-lived assets associated with five Movado Boutique locations, partially offset by reductions in marketing and payroll and related expenses as a result of the Company's cost savings initiatives.

#### *Interest Expense*

Interest expense for fiscal 2009 was \$2.9 million as compared to \$3.5 million in the prior year period. Interest expense declined due to lower borrowings somewhat offset by a higher average borrowing rate. Average borrowings were \$59.9 million for fiscal 2009 compared to average borrowings of \$70.9 million for fiscal 2008.

For borrowings data for the years ended January 31, 2009 and 2008, see Notes 4 and 5 to the Consolidated Financial Statements.

#### *Interest Income*

Interest income was \$2.1 million for fiscal 2009 as compared to \$4.7 million for the prior year. The lower interest income resulted from a decrease in cash balances invested and a lower average interest rate earned.

#### *Other Income*

The Company recorded other income for fiscal 2009 of \$0.7 million resulting from a pre-tax gain on the collection of life insurance proceeds from policies covering the Company's former Chairman.



### *Income Taxes*

Income taxes recorded for the twelve months ended January 31, 2009 was an expense of \$0.7 million, compared to a benefit of \$9.5 million recorded for the twelve months ended January 31, 2008. The tax recorded for fiscal 2009 resulted in a 22.4% effective tax rate which included tax accrued on the future repatriation of foreign earnings of \$7.4 million somewhat offset by a release of valuation allowances on foreign tax losses of \$3.0 million. Excluding the tax accrued on repatriated earnings and the effect of the release of the valuation allowances on foreign tax losses, the provision for taxes was a benefit of \$3.7 million. This was primarily attributed to the income and loss mix by tax jurisdiction as taxable losses were recorded in the U.S. compared to net taxable income in the Company's foreign entities. The tax rates in the U.S. generally are higher in relation to foreign jurisdictions. The tax on income for fiscal 2008 was the net result of an effective tax rate on base business operations of 20.6%, which was more than offset by the recognition of a \$12.5 million previously unrecognized tax benefit as a result of the effective settlement of the IRS audit (see Note 8 to the Consolidated Financial Statements). The tax on income was also favorably impacted by the Company's expected utilization of a greater portion of its net operating loss carryforwards.

### *Net Income*

For fiscal 2009, the Company recorded net income of \$2.3 million as compared to \$60.8 million for the prior year.

### **Fiscal 2008 Compared to Fiscal 2007**

#### *Net Sales*

Net sales in fiscal 2008 were \$559.6 million, above prior year by \$26.7 million or 5.0%. For the years ended January 31, 2008 and 2007, liquidation sales of excess discontinued inventory were \$31.1 million and \$16.6 million, respectively. In addition, net sales in fiscal 2008 include a one-time charge of \$15.0 million related to estimated future sales returns associated with the streamlining of the Movado brand wholesale distribution in the U.S. for the planned reduction of approximately 1,400 wholesale customer doors. Excluding the liquidation of excess discontinued inventory in both periods and the charge for the planned reduction of approximately 1,400 wholesale customer doors in fiscal 2008, net sales were \$543.3 million, representing an increase of \$27.0 million, or 5.2% over prior year.

#### *United States Wholesale Net Sales*

Net sales in the U.S. wholesale segment were \$235.1 million, representing a 15.9% decrease from prior year sales of \$279.5 million. The decrease of \$44.4 million was primarily due to lower sales in the accessible luxury category of \$37.7 million or 19.1% over the prior year. The lower sales is attributable to a \$20.5 million reduction in volume, which was primarily the result of lower holiday replenishment sales, a one-time charge of \$15.0 million related to estimated future sales returns and lower liquidation sales of excess discontinued inventory of \$2.2 million. Additionally, lower sales were recorded in the luxury category of \$7.1 million due to the repositioning of the Concord brand. The licensed brand category was flat year on year.

### *International Wholesale Net Sales*

Net sales in the international wholesale segment were \$231.3 million, representing a 39.2% increase over prior year sales of \$166.2 million. All categories were above prior year. The licensed brand category was above prior year by \$37.3 million or 63.1%. This increase was primarily the result of market expansion in the HUGO BOSS and Tommy Hilfiger brands, as well as the launches of the Lacoste and Juicy Couture brands. The luxury category was above prior year by \$22.3 million or 37.9%. This increase was primarily due to higher liquidation sales of excess discontinued inventory of \$17.0 million, as well as sales increases in the Ebel brand primarily due to sales of new product introductions. As a result of the weak U.S. dollar, international wholesale net sales increased by \$13.2 million.

### *Retail Net Sales*

Net sales in the retail segment were \$93.1 million, representing a 6.8% increase above prior year sales of \$87.2 million. The increase was driven by an overall 8.9% increase in outlet store sales, resulting from higher sales from non-comparable stores. Comparable outlet store sales were relatively flat year over year. Sales in the Movado Boutiques were above prior year by 4.3%, resulting from higher sales from non-comparable stores. Comparable store sales in the Movado Boutiques decreased by 2.3% when compared to prior year. The Company operated 32 outlet stores and 30 Movado Boutiques as of January 31, 2008, compared to 30 outlet stores and 31 Movado Boutiques as of January 31, 2007.

### *Gross Profit*

Gross profit for the 2008 fiscal year was \$336.7 million or 60.2% of net sales as compared to \$322.9 million or 60.6% of net sales in the prior year. The increase in gross profit of \$13.7 million was primarily the result of the increase in sales volume, in addition to a higher gross margin percentage in the base business sales. These increases were somewhat offset by the negative gross profit impact related to the one-time charge of \$15.0 million for the estimated future sales returns. The gross margin percentage was negatively impacted in both years by the liquidation sales of excess discontinued inventory. Excluding the liquidation sales of excess discontinued inventory in both periods and the margin effect of the one-time sales return reserve in fiscal 2008, the gross margin percentage was 64.0% for fiscal year 2008 compared to 62.5% in the prior year. This increase in gross margin percentage was the result of higher margins across most brands resulting from better margins on new model introductions, the favorable impact of price increases, and the favorable impact of foreign currency exchange on the growing international business.

### *Selling, General and Administrative*

SG&A expenses for fiscal 2008 were \$285.9 million as compared to \$270.6 million in the prior year. The increase of \$15.3 million or 5.7% was the result of higher marketing spending of \$6.9 million as the Company continues to invest in brands, higher spending in support of the retail business of \$6.2 million, the negative impact of foreign exchange from translating the European subsidiaries' financial results of \$2.9 million, increased third party fees of \$2.2 million primarily related to the Movado brand strategy, the non-recurrence of the fiscal 2007 out-of-period adjustment of \$2.2 million related to foreign currency and increased expenses of \$1.6 million in consolidating the Company's joint venture operations in France, Germany and the United Kingdom. These increases were somewhat offset by lower accounts receivable related expense of \$6.5 million.

### *Wholesale Operating Income*

Operating income in the wholesale segment increased by \$2.1 million to \$50.2 million. The increase was the net result of an increase in gross profit of \$11.7 million, somewhat offset by the increase in SG&A expenses of \$9.6 million. The increase in gross profit of \$11.7 million was primarily the result of an increase in sales volume over the prior year. The increase in sales volume was primarily the net result of higher sales in the international licensed brands and higher liquidation sales of excess discontinued inventory, somewhat offset by the one-time charge related to estimated future sales returns. The increase in SG&A expenses of \$9.6 million related principally to higher marketing spending of \$7.3 million as the Company continues to invest in brands, the negative impact of foreign exchange from translating the European subsidiaries' financial results of \$2.9 million, increased third party fees of \$2.2 million primarily related to the Movado brand strategy, the negative impact of the prior year out-of-period adjustment of \$2.2 million related to foreign currency and increased expenses of \$1.6 million in consolidating the Company's joint venture operations in France, Germany and the United Kingdom. These increases were somewhat offset by lower accounts receivable related expense of \$6.5 million.

### *Retail Operating Income*

Operating income of \$0.6 million and \$4.2 million was recorded in the retail segment for the fiscal years ended January 31, 2008 and 2007, respectively. The \$3.6 million decrease was the net result of an increase in gross profit of \$2.1 million, more than offset by an increase in SG&A expenses of \$5.7 million. The increased gross profit was primarily attributable to higher sales. The increase in SG&A expenses was primarily the result of increased selling and occupancy expenses due to the opening of new stores during fiscal 2008 and the full year impact of stores opened in the prior fiscal year.

### *Interest Expense*

Interest expense for fiscal 2008 was \$3.5 million as compared to \$3.8 million in the prior year period. Interest expense declined due to lower borrowings somewhat offset by a higher average borrowing rate. Average borrowings were \$70.9 million for fiscal 2008 compared to average borrowings of \$97.2 million for fiscal 2007.

### *Interest Income*

Interest income was \$4.7 million for fiscal 2008 as compared to \$3.3 million for the prior year. The higher interest income resulted from the increase in cash invested. The increase in cash was the result of the Company's favorable cash flow from operations.

### *Other Income*

The Company recorded other income for fiscal 2007 of \$1.3 million resulting from a pre-tax gain of \$0.4 million on the sale of a building acquired on March 1, 2004 in the acquisition of Ebel, a pre-tax gain of \$0.8 million on the sale of a piece of artwork acquired in 1988, and a pre-tax gain of \$0.1 million on the sale of the rights to a web domain name.

### *Income Taxes*

Income taxes for the twelve months ended January 31, 2008 was a benefit of \$9.5 million and for the twelve months ended January 31, 2007 was a provision of \$2.9 million. The tax on income for fiscal

2008 was the net result of an effective tax rate on base business operations of 20.6%, which was more than offset by the recognition of a \$12.5 million previously unrecognized tax benefit as a result of the effective settlement of the IRS audit (see Note 8 to the Consolidated Financial Statements). The tax on income was also favorably impacted by the Company's expected utilization of a greater portion of its net operating loss carryforwards. The tax expense for fiscal 2007 reflected an effective tax rate on base business operations of 23.26% which excluded the benefit from the release of the valuation allowance on the net operating loss carryforwards.

#### *Net Income*

For fiscal 2008, the Company recorded net income of \$60.8 million as compared to \$50.1 million for the prior year.

#### **LIQUIDITY AND CAPITAL RESOURCES**

At January 31, 2009, the Company had \$86.6 million of cash and cash equivalents as compared to \$169.6 million at the end of the prior year.

Cash used in operating activities was \$20.9 million for the year ended January 31, 2009, compared to cash generated by operating activities of \$83.6 million in fiscal 2008. The change from fiscal 2008 to fiscal 2009 was primarily due to a decrease in net income in fiscal 2009 of \$58.5 million and an increase in inventory of \$36.1 million, partially offset by a decrease in accounts receivable. Cash generated by operating activities in fiscal 2007 was \$67.8 million. In the fiscal years ended January 31, 2008 and 2007, the Company generated cash from operations of \$83.6 million and \$67.8 million, respectively. Historically, cash generated by operating activities has been the Company's primary source of cash to fund its growth initiatives, pay down debt and to pay dividends. Cash flow from operations for fiscal 2008 and 2007 was driven by net income of \$60.8 million and \$50.1 million, respectively.

Accounts receivable at January 31, 2009 were \$76.7 million as compared to \$94.3 million in the comparable prior year period. Foreign currency translation had the effect of decreasing the accounts receivable at January 31, 2009 by \$3.9 million. Excluding this decrease, accounts receivable was below prior year by \$13.7 million. The decrease in receivables is attributed to the effect of a lower sales volume due to the downturn in the economy. The accounts receivable days outstanding were 71 days and 60 days for the fiscal years ended January 31, 2009 and 2008, respectively. This change was the result of customers managing their cash levels closely.

Inventories at January 31, 2009 were \$228.9 million as compared to \$205.1 million in the comparable prior year period. Foreign currency translation had the effect of decreasing the value of the inventory at January 31, 2009 by \$10.0 million. Excluding this decrease, the value of the inventory was above prior year by \$33.8 million. All brands experienced an increase in overall inventory levels. Historically, the inventory levels of the Company increase during the first nine months of the fiscal year to prepare for the holiday selling season. Due to the lead times required when purchasing inventory, orders were placed well in advance of the downturn in the economy that began during the third fiscal quarter. The decrease in sales volumes that resulted from the economic downturn caused these purchased goods to remain in inventory. In particular, the luxury and accessible luxury brands inventory increased as these categories were affected the hardest by the global recession. As a result of the current economic conditions, the Company has taken actions to curtail inventory purchases and lower inventory levels.

Cash used in investing activities amounted to \$22.5 million, \$28.0 million and \$19.1 million in fiscal 2009, 2008 and 2007, respectively. Cash used in investing activities for each of these three years was

primarily related to the acquisition of computer hardware and software, renovations and expansions of the Company's retail stores and other fixed asset additions for facility related automation and improvements. During fiscal years 2009 and 2008, the acquisition of computer hardware and software included \$9.2 million and \$7.6 million, respectively, related to the development and implementation of the new enterprise resource planning system from SAP. In the fiscal year ended January 31, 2009, the use of cash was partially offset by the collection of life insurance proceeds from policies covering the Company's former Chairman. In the fiscal year ended January 31, 2007 the use of cash was partially offset by proceeds from the sale of assets, primarily buildings acquired in connection with the acquisition of Ebel.

Cash used in financing activities for the years ended January 31, 2009, 2008 and 2007 amounted to \$39.9 million, \$29.6 million and \$32.8 million respectively. For fiscal year ended January 31, 2009, the use in cash was primarily to repurchase stock and pay dividends. For fiscal years ended January 31, 2008 and 2007, the use of cash was primarily to pay down long-term debt and to pay dividends.

During fiscal 1999, the Company issued \$25.0 million of Series A Senior Notes ("Series A Senior Notes") under a Note Purchase and Private Shelf Agreement, dated November 30, 1998 (the "1998 Note Purchase Agreement"), between the Company and The Prudential Insurance Company of America ("Prudential"). These notes bear interest of 6.90% per annum, mature on October 30, 2010 and are subject to annual repayments of \$5.0 million commencing October 31, 2006. These notes contained certain financial covenants including an interest coverage ratio and maintenance of consolidated net worth and certain non-financial covenants that restricted the Company's activities regarding investments and acquisitions, mergers, certain transactions with affiliates, creation of liens, asset transfers, payment of dividends and limitation of the amount of debt outstanding. On June 5, 2008, the Company amended its Series A Senior Notes under an amendment to the 1998 Note Purchase Agreement (as amended, the "First Amended 1998 Note Purchase Agreement") with Prudential and an affiliate of Prudential. No additional senior promissory notes are issuable by the Company pursuant to the First Amended 1998 Note Purchase Agreement. Certain provisions and covenants were modified to be aligned with covenants in the Company's other credit agreements. These included the interest coverage ratio, elimination of the maintenance of consolidated net worth and the addition of a debt coverage ratio. At January 31, 2009, \$10.0 million of the Series A Senior Notes were issued and outstanding.

As of March 21, 2004, the Company amended its Note Purchase and Private Shelf Agreement, originally dated March 21, 2001 (as amended, the "First Amended 2001 Note Purchase Agreement"), among the Company, Prudential and certain affiliates of Prudential (together, the "Purchasers"). This agreement allowed for the issuance of senior promissory notes in the aggregate principal amount of up to \$40.0 million with maturities up to 12 years from their original date of issuance. On October 8, 2004, the Company issued, pursuant to the First Amended 2001 Note Purchase Agreement, 4.79% Senior Series A-2004 Notes due 2011 (the "Senior Series A-2004 Notes") in an aggregate principal amount of \$20.0 million, which will mature on October 8, 2011 and are subject to annual repayments of \$5.0 million commencing on October 8, 2008. Proceeds of the Senior Series A-2004 Notes have been used by the Company for capital expenditures, repayment of certain of its debt obligations and general corporate purposes. These notes contained certain financial covenants, including an interest coverage ratio and maintenance of consolidated net worth and certain non-financial covenants that restricted the Company's activities regarding investments and acquisitions, mergers, certain transactions with affiliates, creation of liens, asset transfers, payment of dividends and limitation of the amount of debt outstanding.

On June 5, 2008, the Company amended the First Amended 2001 Note Purchase Agreement (as amended, the "Second Amended 2001 Note Purchase Agreement"), with Prudential and the Purchasers. The Second Amended 2001 Note Purchase Agreement permits the Company to issue senior promissory notes for purchase by Prudential and the Purchasers, in an aggregate principal amount of up to \$70.0 million inclusive of the Senior Series A-2004 Notes described above, until June 5, 2011, with maturities up to 12 years from their original date of issuance. The remaining aggregate principal amount of senior promissory notes issuable by the Company that may be purchased by Prudential and the Purchasers pursuant to the Second Amended 2001 Note Purchase Agreement is \$55.0 million. Certain provisions and covenants were modified to be aligned with covenants in the Company's other credit agreements. These included the interest coverage ratio, elimination of the maintenance of consolidated net worth and addition of a debt coverage ratio. As of January 31, 2009, \$15.0 million of the Senior Series A-2004 Notes were issued and outstanding.

The credit agreement dated as of December 15, 2005, as amended, by and between the Company as parent guarantor, its Swiss subsidiaries, MGI Luxury Group S.A., Movado Watch Company SA, Concord Watch Company S.A. and Ebel Watches S.A. as borrowers, and JPMorgan Chase Bank, N.A. ("Chase"), JPMorgan Securities, Inc., Bank of America, N.A., PNC Bank and Citibank, N.A. (as amended, the "Swiss Credit Agreement"), provides for a revolving credit facility of 33.0 million Swiss francs and matures on December 15, 2010. The obligations of the Company's Swiss subsidiaries under this credit agreement are guaranteed by the Company under a Parent Guarantee, dated as of December 15, 2005, in favor of the lenders. The Swiss Credit Agreement contains financial covenants, including an interest coverage ratio, average debt coverage ratio and limitations on capital expenditures and certain non-financial covenants that restrict the Company's activities regarding investments and acquisitions, mergers, certain transactions with affiliates, creation of liens, asset transfers, payment of dividends and limitation of the amount of debt outstanding. Borrowings under the Swiss Credit Agreement bear interest at a rate equal to LIBOR (as defined in the Swiss Credit Agreement) plus a margin ranging from .50% per annum to .875% per annum (depending upon a leverage ratio). As of January 31, 2009, there were no outstanding borrowings under this revolving credit facility.

The credit agreement dated as of December 15, 2005, as amended, by and between the Company, MGI Luxury Group S.A. and Movado Watch Company SA, as borrowers, and Chase, JPMorgan Securities, Inc., Bank of America, N.A., PNC Bank, Bank Leumi and Citibank, N.A. (as amended, the "US Credit Agreement"), provides for a revolving credit facility of \$90.0 million (including a sublimit for borrowings in Swiss francs of up to an equivalent of \$25.0 million) with a provision to allow for a further increase of up to an additional \$10.0 million, subject to certain terms and conditions. The US Credit Agreement will mature on December 15, 2010. The obligations of MGI Luxury Group S.A. and Movado Watch Company SA are guaranteed by the Company under a Parent Guarantee, dated as of December 15, 2005, in favor of the lenders. The obligations of the Company are guaranteed by certain domestic subsidiaries of the Company under subsidiary guarantees, in favor of the lenders. The US Credit Agreement contains financial covenants, including an interest coverage ratio, average debt coverage ratio and limitations on capital expenditures and certain non-financial covenants that restrict the Company's activities regarding investments and acquisitions, mergers, certain transactions with affiliates, creation of liens, asset transfers, payment of dividends and limitation of the amount of debt outstanding. Borrowings under the US Credit Agreement bear interest, at the Company's option, at a rate equal to the adjusted LIBOR (as defined in the US Credit Agreement) plus a margin ranging from .50% per annum to .875% per annum (depending upon a leverage ratio), or the Alternate Base Rate (as defined in the US Credit Agreement). As of January 31, 2009, \$40.0 million was outstanding under this revolving credit facility.

On June 16, 2008, the Company renewed a line of credit letter agreement with Bank of America and an amended and restated promissory note in the principal amount of up to \$20.0 million payable to Bank of America, originally dated December 12, 2005. Pursuant to the line of credit letter agreement, Bank of America will consider requests for short-term loans and documentary letters of credit for the importation of merchandise inventory, the aggregate amount of which at any time outstanding shall not exceed \$20.0 million. The Company's obligations under the agreement are guaranteed by its subsidiaries, Movado Retail Group, Inc. and Movado LLC. Pursuant to the amended and restated promissory note, the Company promised to pay Bank of America \$20.0 million, or such lesser amount as may then be the unpaid balance of all loans made by Bank of America to the Company thereunder, in immediately available funds upon the maturity date of June 16, 2009. The Company has the right to prepay all or part of any outstanding amounts under the amended and restated promissory note without penalty at any time prior to the maturity date. The amended and restated promissory note bears interest at an annual rate equal to either (i) a floating rate equal to the prime rate or (ii) such fixed rate as may be agreed upon by the Company and Bank of America for an interest period which is also then agreed upon. The amended and restated promissory note contains various representations and warranties and events of default that are customary for instruments of that type. As of January 31, 2009, there were no outstanding borrowings against this line.

On July 31, 2008, the Company renewed a promissory note, originally dated December 13, 2005, in the principal amount of up to \$37.0 million, at a revised amount of up to \$7.0 million, payable to Chase. Pursuant to the promissory note, the Company promised to pay Chase \$7.0 million, or such lesser amount as may then be the unpaid balance of each loan made or letter of credit issued by Chase to the Company thereunder, upon the maturity date of July 31, 2009. The Company has the right to prepay all or part of any outstanding amounts under the promissory note without penalty at any time prior to the maturity date. The promissory note bears interest at an annual rate equal to (i) a floating rate equal to the prime rate, (ii) a fixed rate equal to an adjusted LIBOR plus 0.625% or (iii) a fixed rate equal to a rate of interest offered by Chase from time to time on any single commercial borrowing. The promissory note contains various events of default that are customary for instruments of that type. In addition, it is an event of default for any security interest or other encumbrance to be created or imposed on the Company's property, other than as permitted in the lien covenant of the US Credit Agreement. Chase issued 11 irrevocable standby letters of credit for retail and operating facility leases to various landlords, for the administration of the Movado Boutique private-label credit card and for Canadian payroll to the Royal Bank of Canada totaling \$1.2 million with expiration dates through March 18, 2010. As of January 31, 2009, there were no outstanding borrowings against this promissory note.

A Swiss subsidiary of the Company maintains unsecured lines of credit with an unspecified length of time with a Swiss bank. Available credit under these lines totaled 8.0 million Swiss francs, with dollar equivalents of \$6.9 million and \$7.4 million at January 31, 2009 and 2008, respectively. As of January 31, 2009, two European banks have guaranteed obligations to third parties on behalf of two of the Company's foreign subsidiaries in the amount of \$1.3 million in various foreign currencies. As of January 31, 2009, there were no outstanding borrowings against these lines.

For the fiscal year ending January 31, 2009 and 2008, the calculation of the financial covenants for the Series A Senior Notes, Senior Series A-2004 Notes, the Swiss Credit Agreement and US Credit Agreement (together the “Debt Facilities”) were as follows (dollars in thousands):

Covenant	Required	Required	Actual	Actual
	Senior Notes	Credit Facilities	January 31, 2009	January 31, 2008
Interest Coverage Ratio	Min. 3.50x	Min. 3.50x	2.45x	16.09x
Average Debt Coverage Ratio	Max. 3.25x	Max. 3.25x	2.72x	0.93x
Capital Expenditures Limit	n/a	\$ 42,608	\$ 22,681	\$ 27,392
Priority Debt Limit	\$ 79,095	n/a	\$ 40,000	\$ 25,907
Lien Limit	\$ 79,095	n/a	\$ -	\$ -

As of January 31, 2009, the Company was in compliance with all non-financial covenants under the Debt Facilities. Due to the reported financial results for fiscal 2009, the Company was in compliance with all financial covenants with the exception of the interest coverage ratio covenant under these Debt Facilities. The current results included certain charges for severance related costs associated with the Company’s expense reduction initiatives and a restructuring of certain benefit arrangements of \$11.1 million and for asset impairments of \$4.5 million. The Company believes that it would have been in compliance with all covenants if these charges, which it deems to be non-recurring in nature, were excluded from the covenant calculations. As a result of the Company’s projections in light of the global economic downturn, without an amendment or waiver, the Company believes that it will continue to be in non-compliance with the interest coverage ratio covenant, and potentially additional financial covenants under the Debt Facilities, for the upcoming reporting periods in fiscal year 2010. The Company has not requested a waiver as it is currently in negotiations for a new credit facility discussed in more detail below. Additionally, the Company has received a commitment, subject to certain limitations described more fully below, for a three year \$50 million asset-based credit facility from Bank of America to provide available liquidity if a new credit facility is not consummated.

As a result of the Company’s non-compliance with the interest coverage ratio covenant, amounts owed under the Debt Facilities have been reclassified to current liabilities. Additionally, the Company is prohibited from borrowing any additional funds under the Debt Facilities and the amounts owed as of January 31, 2009 may be declared immediately due and payable by the lenders. The lenders have not taken any action in respect to this default, but they may do so in the future. Should the debt be declared immediately due and payable by the lenders, the Company would be able to satisfy such obligations through obtaining alternative financing, cash on hand and conversion of working capital to cash.

Through the date of this filing, the Company is in negotiations with banking institutions for a new three year asset-based revolving credit facility for an amount up to \$110 million (the “New Facility”). Consummation of the New Facility is subject to (a) syndication, (b) completion of due diligence by the banking institutions, and (c) the satisfaction of a number of additional customary conditions precedent, certain of which are at the sole discretion of the banking institution. The New Facility will likely include limited financial covenants that are effective only if a minimum availability threshold is not maintained. The New Facility will be collateralized by substantially all of the assets of Movado Group, Inc. and its U.S. subsidiaries, including accounts receivable and inventory, and 65% of the capital stock of first-tier foreign subsidiaries. The New Facility will contain various restrictions including limitations on additional debt, the payment of dividends and repurchasing stock. The Company expects that the



fees and the interest rates under the New Facility, if consummated, will increase to current market rates. The Company anticipates that the New Facility will be finalized in May of 2009 and will have a term of three years, expiring in May 2012.

As previously mentioned, to provide for available liquidity in the event that the New Facility is not consummated, the Company has received a commitment for a three year \$50 million asset-based credit facility from Bank of America. The commitment is subject to the completion of due diligence by Bank of America and the satisfaction of a number of additional customary conditions precedent, certain of which are at the sole discretion of Bank of America. In the event the New Facility is consummated, this commitment will be canceled.

The Company anticipates that the New Facility or the \$50 million asset-based credit facility, if consummated, would replace the Debt Facilities. In the event the New Facility or the \$50 million asset-based credit facility is not consummated, the Company's financial condition and results of operations may be materially adversely affected.

On December 4, 2007, the Board of Directors authorized a program to repurchase up to one million shares of the Company's common stock. Shares of common stock were repurchased from time to time as market conditions warranted either through open market transactions, block purchases, private transactions or other means. The objective of the program was to reduce or eliminate earnings per share dilution caused by the shares of common stock issued upon the exercise of stock options and in connection with other equity based compensation plans. As of April 14, 2008, the Company had completed the one million share repurchase during the fourth quarter of fiscal 2008 and the first quarter of fiscal 2009, at a total cost of approximately \$19.4 million, or \$19.41 per share.

On April 15, 2008, the Board of Directors announced a new authorization to repurchase up to an additional one million shares of the Company's common stock. Under this authorization, the Company has the option to repurchase shares over time, with the amount and timing of repurchases depending on market conditions and corporate needs. The Company entered into a Rule 10b5-1 plan to facilitate repurchases of its shares under this authorization. A Rule 10b5-1 plan permits a company to repurchase shares at times when it might otherwise be prevented from doing so, provided the plan is adopted when the company is not aware of material non-public information. The Company may suspend or discontinue the repurchase of stock at any time. Under this share repurchase program, as of January 31, 2009, the Company had repurchased a total of 937,360 shares of common stock in the open market during the first and second quarters of fiscal year 2009 at a total cost of approximately \$19.5 million or \$20.79 per share.

Cash dividends paid were \$5.9 million, \$8.3 million and \$6.2 million in fiscal years 2009, 2008 and 2007, respectively. As of January 15, 2009, the Company declared a \$1.2 million cash dividend, which was subsequently paid in February 2009. On April 9, 2009, the Company announced that its Board of Directors has decided to discontinue the quarterly cash dividend. This decision was based on the Company's desire to retain capital during the current challenging economic environment. The Board will evaluate the reinstatement of a quarterly dividend once the economy has stabilized and the Company has returned to an appropriate level of profitability.

At January 31, 2009, the Company had working capital of \$306.2 million as compared to \$419.6 million in the prior year. The Company defines working capital as the difference between current assets and current liabilities. The decrease in working capital was primarily attributed to a decrease in cash, an increase in the current portion of long-term debt, partially offset by an increase in inventory. The

increase in the current portion of long-term debt was the result of classifying all outstanding debt as current, due to the non-compliance with the interest coverage ratio covenant in the Debt Facilities, permitting the lenders to declare the debt immediately due and payable.

The Company expects that annual capital expenditures in fiscal 2010 will be approximately \$10.0 million as compared to \$22.7 million in fiscal 2009. The Company plans to reduce its capital spending in fiscal 2010 resulting from the completion of the SAP implementation and current economic conditions. The Company has the ability to manage a portion of its capital expenditures on discretionary projects. Although management believes that the cash on hand and the cash from conversion of working capital will be sufficient to meet the needs of its business for the foreseeable future, obtaining the \$50 million asset-based credit facility will provide additional flexibility in meeting the Company's liquidity needs.

#### CONTRACTUAL OBLIGATIONS AND OFF-BALANCE SHEET ARRANGEMENTS

Payments due by period (in thousands):

	Total	Less than 1 year	2-3 years	4-5 years	More than 5 years
Contractual Obligations:					
Debt Obligations (1)	\$ 65,000	\$ 65,000	\$ -	\$ -	\$ -
Interest Payments on Debt (1)	2,566	2,566	-	-	-
Operating Lease Obligations (2)	85,591	15,013	28,259	20,257	22,062
Purchase Obligations (3)	35,909	35,909	-	-	-
Other Long-Term Obligations (4)	100,800	20,328	41,000	27,971	11,501
Total Contractual Obligations	<u>\$ 289,866</u>	<u>\$ 138,816</u>	<u>\$ 69,259</u>	<u>\$ 48,228</u>	<u>\$ 33,563</u>

(1) The Company has debt obligations and related interest payments of \$67.6 million related to the Debt Facilities further discussed in "Liquidity and Capital Resources".

(2) Includes store operating leases, which generally provide for payment of direct operating costs in addition to rent. These obligation amounts include future minimum lease payments and exclude direct operating costs.

(3) The Company had outstanding purchase obligations with suppliers at the end of fiscal 2009 for raw materials, finished watches, jewelry and packaging in the normal course of business. These purchase obligation amounts do not represent total anticipated purchases but represent only amounts to be paid for items required to be purchased under agreements that are enforceable, legally binding and specify minimum quantity, price and term.

(4) Other long-term obligations primarily consist of two items: 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 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.

#### Off-Balance Sheet Arrangements

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

#### RECENTLY ISSUED ACCOUNTING STANDARDS

In December 2007, the FASB issued SFAS No. 141 (revised 2007) "Business Combinations" ("SFAS No. 141(R)"). SFAS No. 141(R) states that all business combinations (whether full, partial or step acquisitions) will result in all assets and liabilities of an acquired business being recorded at their acquisition date fair values. Earn-outs and other forms of contingent consideration and certain acquired

contingencies will also be recorded at fair value at the acquisition date. SFAS No. 141(R) also states acquisition costs will generally be expensed as incurred; in-process research and development will be recorded at fair value as an indefinite-lived intangible asset at the acquisition date; changes in deferred tax asset valuation allowances and income tax uncertainties after the acquisition date generally will affect income tax expense; and restructuring costs will be expensed in periods after the acquisition date. This statement is effective for financial statements issued for fiscal years beginning after December 15, 2008. The Company will apply the provisions of this standard to any acquisitions that it completes on or after February 1, 2009.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51". This statement amends ARB No. 51 to establish accounting and reporting standards for the noncontrolling interest (minority interest) in a subsidiary and for the deconsolidation of a subsidiary. Upon its adoption, noncontrolling interests will be classified as equity in the consolidated balance sheets. This statement also provides guidance on a subsidiary deconsolidation as well as stating that entities need to provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. This statement is effective for financial statements issued for fiscal years beginning after December 15, 2008. The Company is currently evaluating the impact of SFAS No. 160 on the Company's consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133". This statement requires enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS No. 161 also requires that objectives for using derivative instruments be disclosed in terms of underlying risk and accounting designation and requires cross-referencing within the footnotes. This statement also suggests disclosing the fair values of derivative instruments and their gains and losses in a tabular format. This statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company is currently evaluating the impact of SFAS No. 161 on the Company's consolidated financial statements.

### **Foreign Currency Exchange Rate Risk**

The Company's primary market risk exposure relates to foreign currency exchange risk (see Note 6 to the Consolidated Financial Statements). The majority of the Company's purchases are denominated in Swiss francs. The Company reduces its exposure to the Swiss franc 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. The Company uses various derivative financial instruments to further reduce the net exposures to currency fluctuations, predominately forward and option contracts. These derivatives either (a) are used to hedge the Company's Swiss franc liabilities and are recorded at fair value with the changes in fair value reflected in earnings or (b) are documented as cash flow hedges, as defined in issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" with the gains and losses on this latter hedging activity first reflected in other comprehensive income, and then later classified into earnings. In both cases, the earnings impact is partially offset by the effects of currency movements on the underlying hedged transactions. If the Company did not engage in a hedging program, any change in the Swiss franc to local currency would have an equal effect on the Company's cost of sales. In addition, the Company hedges its Swiss franc payable exposure with forward contracts. As of January 31, 2009, the Company's entire net forward contracts hedging portfolio consisted of 54.0 million Swiss francs equivalent for various expiry dates ranging through July 17, 2009 compared to a portfolio of 115.0 million Swiss francs equivalent for various expiry dates ranging through November 14, 2008 as of January 31, 2008. If the Company were to settle its Swiss franc forward contracts at January 31, 2009, the net result would be a loss of \$0.7 million, net of tax benefit of \$0.4 million. The Company had no Swiss franc option contracts related to cash flow hedges as of January 31, 2009 compared to a 5.0 million Swiss franc option contract with an expiry date of April 30, 2008 as of January 31, 2008.

The Company's Board of Directors authorized the hedging of the Company's Swiss franc denominated investment in its wholly-owned Swiss subsidiaries using purchase options under certain limitations. These hedges are treated as net investment hedges under SFAS No. 133. As of January 31, 2009 and 2008, the Company did not hold a purchased option hedge portfolio related to net investment hedging.

### **Commodity Risk**

Additionally, the Company has the ability under the hedging program to reduce its exposure to fluctuations in commodity prices, primarily related to gold used in the manufacturing of the Company's watches. Under this hedging program, the Company can purchase various commodity derivative instruments, primarily future contracts. These derivatives are documented as SFAS No. 133 cash flow hedges, and 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 futures contracts in its gold hedge portfolio related to cash flow hedges as of January 31, 2009 and 2008, thus any changes in the gold price will have an equal effect on the Company's cost of sales.

**Debt and Interest Rate Risk**

In addition, the Company has certain debt obligations with variable interest rates, which are based on LIBOR plus a fixed additional interest rate. The Company does not hedge these interest rate risks. The Company also has certain debt obligations with fixed interest rates. The differences between the market based interest rates at January 31, 2009, and the fixed rates were unfavorable. The Company believes that a 1% change in interest rates would affect the Company's net income by approximately \$0.4 million. For additional information concerning potential changes to future interest obligations, see Liquidity and Capital Resources in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

	Schedule Number	Page Number
Management's Annual Report on Internal Control Over Financial Reporting		F-1
Report of Independent Registered Public Accounting Firm		F-2
Consolidated Statements of Income for the fiscal years ended January 31, 2009, 2008 and 2007		F-4
Consolidated Balance Sheets at January 31, 2009 and 2008		F-5
Consolidated Statements of Cash Flows for the fiscal years ended January 31, 2009, 2008 and 2007		F-6
Consolidated Statements of Changes in Shareholders' Equity for the fiscal years ended January 31, 2009, 2008 and 2007		F-7 to F-8
Notes to Consolidated Financial Statements		F-9 to F-39
Valuation and Qualifying Accounts and Reserves	II	S-1

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

None.

*Item 9A. Controls and Procedures*

Evaluation of Disclosure Controls and Procedures

The Company, under the supervision and with the participation of its management, including the Chief Executive Officer and the Chief Financial Officer, 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 (the "Exchange Act"). 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.

The Company's Chief Executive Officer and Chief Financial Officer have furnished the Sections 302 and 906 certifications required by the U.S. Securities and Exchange Commission in this annual report on Form 10-K. In addition, the Company's Chief Executive Officer certified to the NYSE in July 2008 that he was not aware of any violation by the Company of the NYSE's corporate governance listing standards.

Changes in Internal Control Over Financial Reporting

There has been no change in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during the quarter ended January 31, 2009, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

The Company's disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives, and the Company's Chief Executive Officer and Chief Financial Officer have concluded that such disclosure controls and procedures are effective at that reasonable assurance level. 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.

See Consolidated Financial Statements and Supplementary Data for Management's Annual Report on Internal Control Over Financial Reporting and the Report of Independent Registered Public Accounting Firm.

*Item 9B. Other Information*

None.

## PART III

### *Item 10. Directors, Executive Officers and Corporate Governance*

The information required by this item is included in the Company's Proxy Statement for the 2009 annual meeting of shareholders under the captions "Election of Directors" and "Management" and is incorporated herein by reference.

Information on the beneficial ownership reporting for the Company's directors and executive officers is contained in the Company's Proxy Statement for the 2009 annual meeting of shareholders under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" and is incorporated herein by reference.

Information on the Company's Audit Committee and Audit Committee Financial Expert is contained in the Company's Proxy Statement for the 2009 annual meeting of shareholders under the caption "Information Regarding the Board of Directors and Its Committees" and is incorporated herein by reference.

The Company has adopted and posted on its website at [www.movadogroup.com](http://www.movadogroup.com) a Code of Business Conduct and Ethics that applies to all directors, officers and employees, including the Company's Chief Executive Officer, Chief Financial Officer and principal financial and accounting officers. The Company will post any amendments to the Code of Business Conduct and Ethics, and any waivers that are required to be disclosed by SEC regulations, on the Company's website.

### *Item 11. Executive Compensation*

The information required by this item is included in the Company's Proxy Statement for the 2009 annual meeting of shareholders under the captions "Executive Compensation" and "Compensation of Directors" and is incorporated herein by reference.

### *Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*

The information required by this item is included in the Company's Proxy Statement for the 2009 annual meeting of shareholders under the caption "Security Ownership of Certain Beneficial Owners and Management" and is incorporated herein by reference.

### *Item 13. Certain Relationships and Related Transactions and Director Independence*

The information required by this item is included in the Company's Proxy Statement for the 2009 annual meeting of shareholders under the caption "Certain Relationships and Related Transactions" and is incorporated herein by reference.

### *Item 14. Principal Accounting Fees and Services*

The information required by this item is included in the Company's Proxy Statement for the 2009 annual meeting of shareholders under the caption "Fees Paid to PricewaterhouseCoopers LLP" and is incorporated herein by reference.



## PART IV

### Item 15. Exhibits and Financial Statement Schedules

(a) Documents filed as part of this report

1. Financial Statements:

See Financial Statements Index on page 53 included in Item 8 of Part II of this annual report.

2. Financial Statement Schedule:

Schedule II Valuation and Qualifying Accounts and Reserves

All other schedules are omitted because they are not applicable, or not required, or because the required information is included in the Consolidated Financial Statements or notes thereto.

3. Exhibits:

Incorporated herein by reference is a list of the Exhibits contained in the Exhibit Index on pages 59 through 67 of this annual report.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

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

Dated: April 9, 2009

By: /s/ Efraim Grinberg  
Efraim Grinberg  
Chairman of the Board of Directors,  
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

Dated: April 9, 2009

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

Dated: April 9, 2009

/s/ Richard J. Coté  
Richard J. Coté  
Executive Vice President and  
Chief Operating Officer

Dated: April 9, 2009

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

Dated: April 9, 2009

/s/ Margaret Hayes Adame  
Margaret Hayes Adame  
Director

Dated: April 9, 2009

/s/ Alan H. Howard  
Alan H. Howard  
Director

Dated: April 9, 2009

/s/ Richard D. Isserman  
Richard D. Isserman  
Director

Dated: April 9, 2009

/s/ Nathan Leventhal  
Nathan Leventhal  
Director

Dated: April 9, 2009

/s/ Donald Oresman  
Donald Oresman  
Director

Dated: April 9, 2009

/s/ Leonard L. Silverstein  
Leonard L. Silverstein  
Director

**EXHIBIT INDEX**

<b>Exhibit Number</b>	<b>Description</b>	<b>Sequentially Numbered Page</b>
3.1	Restated By-Laws of the Registrant. Incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on February 8, 2008.	
3.2	Restated Certificate of Incorporation of the Registrant as amended. Incorporated herein by reference to Exhibit 3(i) to the Registrant's Quarterly Report on Form 10-Q filed for the quarter ended July 31, 1999.	
4.1	Specimen Common Stock Certificate. Incorporated herein by reference to Exhibit 4.1 to the Registrant's Annual Report on Form 10-K for the year ended January 31, 1998.	
4.2	Note Purchase and Private Shelf Agreement dated as of November 30, 1998 between the Registrant and The Prudential Insurance Company of America. Incorporated herein by reference to Exhibit 10.31 to the Registrant's Annual Report on Form 10-K for the year ended January 31, 1999.	
4.3	Note Purchase and Private Shelf Agreement dated as of March 21, 2001 between the Registrant and The Prudential Insurance Company of America. Incorporated herein by reference to Exhibit 4.4 to the Registrant's Annual Report on Form 10-K for the year ended January 31, 2001.	
4.4	Amendment dated as of March 21, 2004 to Note Purchase and Private Shelf Agreement dated as of March 21, 2001 between the Registrant and The Prudential Insurance Company of America. Incorporated herein by reference to Exhibit 4.5 to the Registrant's Annual Report on Form 10-K for the year ended January 31, 2004.	
4.5	Omnibus Amendment entered into as of June 5, 2008 to (i) Note Purchase and Private Shelf Agreement dated as of March 21, 2001 (as amended by amendment dated as of March 21, 2004) between the Registrant and The Prudential Insurance Company of America and (ii) Note Purchase and Private Shelf Agreement dated as of November 30, 1998. Incorporated herein by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 31, 2008.	

Exhibit Number	Description	Sequentially Numbered Page
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- 10.1 Amendment Number 1 to License Agreement dated December 9, 1996 between the Registrant as Licensee and Coach, a division of Sara Lee Corporation as Licensor, dated as of February 1, 1998. Incorporated herein by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended October 31, 1998.
- 10.2 Agreement dated January 1, 1992, between The Hearst Corporation and the Registrant, as amended on January 17, 1992. Incorporated herein by reference to Exhibit 10.8 filed with the Company's Registration Statement on Form S-1 (Registration No. 33-666000).
- 10.3 Letter Agreement between the Registrant and The Hearst Corporation dated October 24, 1994 executed October 25, 1995 amending License Agreement dated as of January 1, 1992, as amended. Incorporated herein by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended October 31, 1995.
- 10.4 Registrant's 1996 Stock Incentive Plan amending and restating the 1993 Employee Stock Option Plan. Incorporated herein by reference to Exhibit 10.5 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended October 31, 1996. \*
- 10.5 Lease dated August 10, 1994 between Rockefeller Center Properties, as landlord and SwissAm, Inc., as tenant for space at 630 Fifth Avenue, New York, New York. Incorporated herein by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 31, 1994.
- 10.6 Registrant's amended and restated Deferred Compensation Plan for Executives effective June 17, 2004. Incorporated herein by reference to Exhibit 10.7 to the Registrant's Annual Report on Form 10-K for the year ended January 31, 2005. \*
- 10.7 License Agreement dated December 9, 1996 between the Registrant and Sara Lee Corporation. Incorporated herein by reference to Exhibit 10.32 to the Registrant's Annual Report on Form 10-K for the year ended January 31, 1997.

Exhibit Number	Description	Sequentially Numbered Page
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- 10.8 First Amendment to Lease dated April 8, 1998 between RCPI Trust, successor in interest to Rockefeller Center Properties (“Landlord”) and Movado Retail Group, Inc., successor in interest to SwissAm, Inc. (“Tenant”) amending lease dated August 10, 1994 between Landlord and Tenant for space at 630 Fifth Avenue, New York, New York. Incorporated herein by reference to Exhibit 10.37 to the Registrant’s Annual Report on Form 10-K for the year ended January 31, 1998.
- 10.9 Second Amendment dated as of September 1, 1999 to the December 1, 1996 License Agreement between Sara Lee Corporation and Registrant. Incorporated herein by reference to Exhibit 10.1 to the Registrant’s Quarterly Report on Form 10-Q for the quarter ended October 31, 1999.
- 10.10 License Agreement entered into as of June 3, 1999 between Tommy Hilfiger Licensing, Inc. and Registrant. Incorporated herein by reference to Exhibit 10.2 to the Registrant’s Quarterly Report on Form 10-Q for the quarter ended October 31, 1999.
- 10.11 Severance Agreement dated December 15, 1999, and entered into December 16, 1999 between the Registrant and Richard J. Coté. Incorporated herein by reference to Exhibit 10.35 to the Registrant’s Annual Report on Form 10-K for the year ended January 31, 2000.  
\*
- 10.12 Lease made December 21, 2000 between the Registrant and Mack-Cali Realty, L.P. for premises in Paramus, New Jersey together with First Amendment thereto made December 21, 2000. Incorporated herein by reference to Exhibit 10.22 to the Registrant’s Annual Report on Form 10-K for the year ended January 31, 2000.
- 10.13 Lease Agreement dated May 22, 2000 between Forsgate Industrial Complex and the Registrant for premises located at 105 State Street, Moonachie, New Jersey. Incorporated herein by reference to Exhibit 10.1 to the Registrant’s Quarterly Report on Form 10-Q filed for the quarter ended April 30, 2000.

Exhibit Number	Description	Sequentially Numbered Page
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10.14	Second Amendment of Lease dated July 26, 2001 between Mack-Cali Realty, L.P., as landlord, and Movado Group, Inc., as tenant, further amending lease dated as of December 21, 2000. Incorporated herein by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q filed for the quarter ended October 31, 2001.	
10.15	Third Amendment of Lease dated November 6, 2001 between Mack-Cali Realty, L.P., as lessor, and Movado Group, Inc., as lessee, for additional space at Mack-Cali II, One Mack Drive, Paramus, New Jersey. Incorporated herein by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q filed for the quarter ended October 31, 2001.	
10.16	Amendment Number 2 to Registrant's 1996 Stock Incentive Plan dated March 16, 2001. Incorporated herein by reference to Exhibit 10.27 to the Registrant's Annual Report on Form 10-K for the year ended January 31, 2002.*	
10.17	Amendment Number 3 to Registrant's 1996 Stock Incentive Plan approved June 19, 2001. Incorporated herein by reference to Exhibit 10.28 to the Registrant's Annual Report on Form 10-K for the year ended January 31, 2002.*	
10.18	Amendment Number 3 to License Agreement dated December 9, 1996, as previously amended, between the Registrant, Movado Watch Company S.A. and Coach, Inc. dated as of January 30, 2003. Incorporated herein by reference to Exhibit 10.29 to the Registrant's Annual Report on Form 10-K for the year ended January 31, 2002.	
10.19	First Amendment to the License Agreement dated June 3, 1999 between Tommy Hilfiger Licensing, Inc., Registrant and Movado Watch Company S.A. entered into January 16, 2002. Incorporated herein by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 31, 2002.	

Exhibit Number	Description	Sequentially Numbered Page
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10.20	Second Amendment to the License Agreement dated June 3, 1999 between Tommy Hilfiger Licensing, Inc., Registrant and Movado Watch Company S.A. entered into August 1, 2002. Incorporated herein by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 31, 2002.	
10.21	Endorsement Agreement dated as of April 4, 2003 between the Registrant and The Grinberg Family Trust. Incorporated herein by reference to Exhibit 10.28 to the Registrant's Annual Report on Form 10-K for the year ended January 31, 2003.	
10.22	Third Amendment to License Agreement dated June 3, 1999 between Tommy Hilfiger Licensing, Inc. and the Registrant entered into as of May 7, 2004. Incorporated herein by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended April 30, 2004.	
10.23	Employment Agreement dated August 27, 2004 between the Registrant and Mr. Eugene J. Karpovich. Incorporated herein by reference to Exhibit 10.2 the Registrant's Quarterly Report on Form 10-Q for the quarter ended October 31, 2004. *	
10.24	Employment Agreement dated August 27, 2004 between the Registrant and Mr. Timothy F. Michno. Incorporated herein by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended October 31, 2004. *	
10.25	Master Credit Agreement dated August 17, 2004 and August 20, 2004 between MGI Luxury Group S.A. and UBS AG. Incorporated herein by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 31, 2004.	
10.26	Fourth Amendment to License Agreement dated June 3, 1999 between Tommy Hilfiger Licensing, Inc. and the Registrant entered into as of June 25, 2004. Incorporated herein by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 31, 2004.	



Exhibit Number	Description	Sequentially Numbered Page
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10.27	Fifth Amendment of Lease dated October 20, 2003 between Mack-Cali Realty, L.P. as landlord, and the Registrant as tenant further amending the lease dated as of December 21, 2000. Incorporated herein by reference to Exhibit 10.29 to the Registrant's Annual Report on Form 10-K for the year ended January 31, 2004.	
10.28	Registrant's 1996 Stock Incentive Plan, amended and restated as of April 8, 2004. Incorporated herein by reference to Exhibit 10.37 to the Registrant's Annual Report on Form 10-K for the year ended January 31, 2005.*	
10.29	License Agreement entered into December 15, 2004 between MGI Luxury Group S.A. and HUGO BOSS Trade Mark Management GmbH & Co. Incorporated herein by reference to Exhibit 10.38 to the Registrant's Annual Report on Form 10-K for the year ended January 31, 2005.	
10.30	\$50 million Credit Agreement dated as of December 15, 2005 between the Registrant, MGI Luxury Group S.A. and Movado Watch Company S.A., as borrowers, the Lenders signatory thereto and JPMorgan Chase Bank, N.A. as Administrative Agent, Swingline Bank and Issuing Bank. Incorporated herein by reference to Exhibit 10.34 to the Registrant's Annual Report on Form 10-K for the year ended January 31, 2006.	
10.31	CHF 90 million Credit Agreement dated as of December 15, 2005 between MGI Luxury Group S.A. and Movado Watch Company S.A., as borrowers, the Registrant as Parent, each of the lenders signatory thereto and JPMorgan Chase Bank as administrative agent. Incorporated herein by reference to Exhibit 10.35 to the Registrant's Annual Report on Form 10-K for the year ended January 31, 2006.	
10.32	License Agreement dated as of November 18, 2005 by and between the Registrant, Swissam Products Limited and L.C. Licensing, Inc. Incorporated herein by reference to Exhibit 10.37 to the Registrant's Annual Report on From 10-K for the year ended January 31, 2006.	

Exhibit Number	Description	Sequentially Numbered Page
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10.33	License Agreement entered into effective March 27, 2006 between MGI Luxury Group S.A. and Lacoste S.A., Sporloisirs S.A. and Lacoste Alligator S.A. Incorporated herein by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended April 30, 2006.	
10.34	Third Amendment to License Agreement dated as of January 1, 1992 between the Registrant and Hearst Magazines, a Division of Hearst Communications, Inc., effective February 15, 2007. Incorporated herein by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended April 30, 2007.	
10.35	Fifth Amendment to License Agreement dated December 9, 1996 between the Registrant and Coach, Inc., effective March 9, 2007. Incorporated herein by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended April 30, 2007.	
10.36	Sixth Amendment to License Agreement dated June 3, 1999 between the Registrant and Tommy Hilfiger Licensing, Inc., effective April 11, 2007. Incorporated herein by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended April 30, 2007.	
10.37	Form of Long-Term Incentive Plan Award Notice under the Registrant's Executive Long-Term Incentive Plan. Incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed May 4, 2007. *	
10.38	Line of Credit Letter Agreement dated as of June 16, 2008 between the Registrant and Bank of America, N.A. and Amended and Restated Promissory Note dated as of June 16, 2008 to Bank of America, N.A. Incorporated herein by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 31, 2008.	

Exhibit Number	Description	Sequentially Numbered Page
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10.39	Promissory Note dated as of July 31, 2008 to JPMorgan Chase Bank, N.A. Incorporated herein by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 31, 2008.	
10.40	Movado Group, Inc. Long-Term Incentive Plan. Incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed June 6, 2006. *	
10.41	Movado Group, Inc. Long-Term Incentive Plan form of award agreement. Incorporated herein by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed June 6, 2006. *	
10.42	First Amendment dated as of February 27, 2009 to Lease dated May 22, 2000 between Forsgate Industrial Complex as Landlord and Movado Group, Inc. as Tenant for the premises known as 105 State Street, Moonachie, New Jersey.	
10.43	Amendment Number 1 to the April 8, 2004 Amendment and Restatement of the Movado Group, Inc. 1996 Stock Incentive Plan. Incorporated herein by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 31, 2008. *	
10.44	Movado Group, Inc. Amended and Restated Deferred Compensation Plan for Executives, Effective January 1, 2008. Incorporated herein by reference to Exhibit 10.5 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 31, 2008. *	
10.45	Letter Agreement, dated as of September 23, 2008, by and among Movado Group, Inc. as Borrower and Guarantor, Movado Watch Company SA and MGI Luxury Group S.A. , as Borrowers, Movado Retail Group, Inc. and Movado LLC, as Guarantors, JP Morgan Chase Bank, N.A. as Lender, Administrative Agent, Swingline Bank and Issuing Bank, Bank of America, N.A., PNC Bank, National Association and Citibank, N.A.. Incorporated herein by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K filed September 29, 2008.	

10.46	Transition and Retirement Agreement dated as of December 19, 2008 by and between the Registrant and Gedalio Grinberg. Incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed December 23, 2008. *
10.47	Joint Venture Agreement dated May 11, 2007 by and between Swico Limited, Movado Group, Inc. and MGS Distribution Limited. **
21.1	Subsidiaries of the Registrant.
23.2	Consent of PricewaterhouseCoopers LLP.
31.1	Certification of Chief Executive Officer.
31.2	Certification of Chief Financial Officer.
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.

\* Constitutes a compensatory plan or arrangement.

\*\* Confidential portions of Exhibit 10.47 have been omitted and filed separately with the Securities and Exchange Commission pursuant to Rule 24b-2 of the Securities Exchange Act of 1934.

## Management's Annual Report on Internal Control Over Financial Reporting

The management of the Company is responsible for establishing and maintaining internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Exchange Act, for the Company. With the participation of the Chief Executive Officer and the Chief Financial Officer, the Company's management conducted an evaluation of the effectiveness of the Company's internal control over financial reporting based on the framework and criteria established in *Internal Control – Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, the Company's management has concluded that the Company's internal control over financial reporting was effective as of January 31, 2009.

Our internal control over financial reporting as of January 31, 2009 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

## Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Movado Group, Inc.:

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Movado Group, Inc. and its subsidiaries at January 31, 2009 and 2008, and the results of their operations and their cash flows for each of the three years in the period ended January 31, 2009 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 31, 2009, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in "Management's Annual Report on Internal Control Over Financial Reporting" appearing in the accompanying index. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 1 to the consolidated financial statements, the Company changed the manner in which it accounts for uncertain income tax positions in 2008 and share-based compensation in 2007.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

PricewaterhouseCoopers LLP  
Florham Park, New Jersey  
April 9, 2009

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

	<b>Fiscal Year Ended January 31,</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>
Net sales	\$ 460,857	\$ 559,550	\$ 532,865
Cost of sales	<u>173,225</u>	<u>222,868</u>	<u>209,922</u>
Gross profit	287,632	336,682	322,943
Selling, general and administrative	<u>284,242</u>	<u>285,905</u>	<u>270,624</u>
Operating income	3,390	50,777	52,319
Other income, net (Note 18)	681	-	1,347
Interest expense	(2,915)	(3,472)	(3,785)
Interest income	<u>2,132</u>	<u>4,666</u>	<u>3,280</u>
Income before income taxes and minority interests	3,288	51,971	53,161
Provision / (benefit) for income taxes (Note 8)	736	(9,471)	2,890
Minority interests	<u>237</u>	<u>637</u>	<u>133</u>
Net income	<u>\$ 2,315</u>	<u>\$ 60,805</u>	<u>\$ 50,138</u>
Basic income per share:			
Net income per share	\$ 0.09	\$ 2.33	\$ 1.95
Weighted basic average shares outstanding	24,782	26,049	25,670
Diluted income per share:			
Net income per share	\$ 0.09	\$ 2.23	\$ 1.87
Weighted diluted average shares outstanding	25,554	27,293	26,794
Dividends declared and paid per share	\$ 0.29	\$ 0.32	\$ 0.24

See Notes to Consolidated Financial Statements



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

	January 31,	
	2009	2008
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 86,621	\$ 169,551
Trade receivables, net	76,710	94,328
Inventories, net	228,884	205,129
Other current assets	47,863	50,317
Total current assets	<u>440,078</u>	<u>519,325</u>
Property, plant and equipment, net	66,749	68,513
Other non-current assets	57,163	58,378
Total assets	<u>\$ 563,990</u>	<u>\$ 646,216</u>
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Loans payable to banks	\$ 40,000	\$ -
Current portion of long-term debt	25,000	10,000
Accounts payable	20,794	38,397
Accrued liabilities	42,754	29,591
Accrued payroll and benefits	4,932	13,179
Deferred and current income taxes payable	430	8,526
Total current liabilities	<u>133,910</u>	<u>99,693</u>
Long-term debt	-	50,895
Deferred and non-current income taxes payable	6,856	6,363
Other non-current liabilities	22,459	24,205
Total liabilities	<u>163,225</u>	<u>181,156</u>
Commitments and contingencies (Notes 10 and 11)		
Minority interests	1,805	1,865
Shareholders' 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; 24,592,682 and 24,266,873 shares issued, respectively	246	243
Class A Common Stock, \$0.01 par value, 30,000,000 shares authorized; 6,634,319 and 6,634,319 shares issued and outstanding, respectively	66	66
Capital in excess of par value	131,796	128,902
Retained earnings	320,481	325,296
Accumulated other comprehensive income	43,742	65,890
Treasury Stock, 6,826,734 and 4,830,669 shares at cost, respectively	(97,371)	(57,202)
Total shareholders' equity	<u>398,960</u>	<u>463,195</u>
Total liabilities and equity	<u>\$ 563,990</u>	<u>\$ 646,216</u>

See Notes to Consolidated Financial Statements

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

	Fiscal Year Ended January 31,		
	2009	2008	2007
<b>Cash flows from operating activities:</b>			
Net income	\$ 2,315	\$ 60,805	\$ 50,138
Adjustments to reconcile net income to net cash (used) / provided by operating activities:			
Depreciation and amortization	18,457	16,684	16,580
Utilization of NOL	-	-	210
Deferred income taxes	327	(8,717)	(10,655)
Provision for losses on accounts receivable	3,210	2,302	9,698
Provision for losses on inventory	2,282	2,809	1,953
Gain on proceeds from insurance	(681)	-	-
Stock-based compensation	226	4,911	3,227
Impairment of long-lived assets	4,525	-	-
Excess tax / (benefit) from stock-based compensation	151	(1,883)	(1,968)
Loss on disposition of property, plant and equipment	164	1,208	-
Gain on sale of assets	-	-	(1,347)
Minority interest	237	637	133
<b>Changes in assets and liabilities:</b>			
Trade receivables	10,549	18,976	(1,244)
Inventories	(36,068)	666	7,627
Other current assets	(13,073)	(1,470)	(5,990)
Accounts payable	(16,922)	3,495	(473)
Accrued liabilities	12,546	(1,914)	(3,429)
Accrued payroll and benefits	(8,247)	(1,572)	4,584
Income taxes payable	(2,925)	(12,006)	(731)
Other non-current assets	3,800	(2,408)	(4,072)
Other non-current liabilities	(1,740)	1,111	3,593
Net cash (used) / provided by operating activities	<u>(20,867)</u>	<u>83,634</u>	<u>67,834</u>
<b>Cash flows from investing activities:</b>			
Capital expenditures	(22,681)	(27,392)	(20,178)
Proceeds from sale of assets	-	-	1,791
Trademarks	(851)	(641)	(711)
Proceeds from insurance	1,006	-	-
Net cash used in investing activities	<u>(22,526)</u>	<u>(28,033)</u>	<u>(19,098)</u>
<b>Cash flows from financing activities:</b>			
Proceeds of bank borrowings	40,000	-	-
Repayments of bank borrowings	(26,175)	(18,618)	(26,512)
Repayment of Senior Notes	(10,000)	(5,000)	(5,000)
Repurchase of treasury stock	(37,871)	(1,030)	-
Stock options exercised and other changes	522	666	2,894
Investment from JV interest	-	787	-
Excess (tax) / benefit from stock-based compensation	(151)	1,883	1,968
Distribution of minority interest earnings	(298)	-	-
Dividends paid	(5,909)	(8,327)	(6,158)
Net cash used in financing activities	<u>(39,882)</u>	<u>(29,639)</u>	<u>(32,808)</u>
Effect of exchange rate changes on cash and cash equivalents	345	10,578	(6,542)
Net (decrease) / increase in cash and cash equivalents	(82,930)	36,540	9,386
Cash and cash equivalents at beginning of year	169,551	133,011	123,625
Cash and cash equivalents at end of year	<u>\$ 86,621</u>	<u>\$ 169,551</u>	<u>\$ 133,011</u>

See Notes to Consolidated Financial Statements

**MOVADO GROUP, INC.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
(in thousands, except per share amounts)

	Preferred Stock	Common Stock	Class A Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock
Balance, January 31, 2006	\$ -	\$ 232	\$ 68	\$ 107,965	\$ 236,515	\$ 27,673	\$ (50,775)
Net income					50,138		
Dividends (\$0.24 per share)					(6,158)		
Stock options exercised, net of tax of \$2,603		5		6,497			(1,762)
Supplemental executive retirement plan				122			
Stock-based compensation expense				3,227			
Conversion of Class A Stock to Common Stock		2	(2)				
Net unrealized gain on investments, net of tax of \$50						42	
Net change in effective portion of hedging contracts, net of tax of \$771						1,246	
Foreign currency translation adjustment						3,346	
Balance, January 31, 2007	-	239	66	117,811	280,495	32,307	(52,537)
Net income					60,805		
Dividends (\$0.32 per share)					(8,327)		
FIN 48 transition adjustment					(7,677)		
Stock repurchase							(1,030)
Stock options exercised, net of tax of \$2,343		4		6,051			(3,635)
Supplemental executive retirement plan				129			
Stock-based compensation expense				4,911			
Net unrealized loss on investments, net of tax benefit of \$72						(176)	
Net change in effective portion of hedging contracts, net of tax of \$2,574						3,942	
Foreign currency translation adjustment						29,817	
Balance, January 31, 2008	-	243	66	128,902	325,296	65,890	(57,202)
Net income					2,315		
Dividends (\$0.29 per share)					(7,130)		
Stock repurchase							(37,871)
Stock options exercised, net of tax benefit of \$234		3		2,524			(2,298)
Supplemental executive retirement plan				144			
Stock-based compensation expense				226			
Net unrealized loss on investments, net of tax benefit of \$128						(190)	
Net change in effective portion of hedging contracts, net of tax benefit of \$1,511						(2,266)	
Foreign currency translation adjustment						(19,692)	
Balance, January 31, 2009	\$ -	\$ 246	\$ 66	\$ 131,796	\$ 320,481	\$ 43,742	\$ (97,371)

**See Notes to Consolidated Financial Statements**

(Shares information in thousands)	Common Stock	Class A	
		Common Stock	Treasury Stock
Balance, January 31, 2006	23,216	6,767	(4,614)
Stock issued to employees exercising stock options	428	-	(48)
Conversion of Class A Common Stock	125	(125)	-
Restricted stock and other stock plans, less cancellations	103	-	(16)
Balance, January 31, 2007	23,872	6,642	(4,678)
Stock issued to employees exercising stock options	274	-	(71)
Conversion of Class A Common Stock	8	(8)	-
Stock repurchase	-	-	(44)
Restricted stock and other stock plans, less cancellations	113	-	(38)
Balance, January 31, 2008	24,267	6,634	(4,831)
Stock issued to employees exercising stock options	229	-	(79)
Stock repurchase	-	-	(1,893)
Restricted stock and other stock plans, less cancellations	97	-	(24)
Balance, January 31, 2009	24,593	6,634	(6,827)

See Notes to Consolidated Financial Statements

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

*Organization and Business*

Movado Group, Inc. (the "Company") designs, sources, markets and distributes quality watches with prominent brands in almost every price category comprising the watch industry. In fiscal 2009, the Company marketed nine distinctive brands of watches: Movado, Ebel, Concord, ESQ, Coach, HUGO BOSS, Juicy Couture, Tommy Hilfiger and Lacoste, which compete in most segments of the watch market.

Movado, Ebel and Concord watches are generally manufactured in Switzerland by independent third party assemblers with some in-house assembly in Bienne and La Chaux-de-Fonds, Switzerland. Movado, Ebel and Concord watches are manufactured using Swiss movements and other components obtained from third party suppliers. Coach, ESQ, Tommy Hilfiger, Juicy Couture, HUGO BOSS and Lacoste watches are manufactured by independent contractors. Coach and ESQ watches are manufactured using Swiss movements and other components purchased from third party suppliers. Tommy Hilfiger, Juicy Couture, HUGO BOSS and Lacoste watches are manufactured using movements and other components purchased from third party suppliers.

In addition to its sales to trade customers and independent distributors, through a wholly-owned domestic subsidiary, the Company sells select models of Movado watches, as well as proprietary Movado-branded jewelry and clocks directly to consumers in its Movado Boutiques and operates outlet stores throughout the United States, through which it sells discontinued models and factory seconds.

*Principles of Consolidation*

The consolidated financial statements include the accounts of the Company and its wholly and majority-owned subsidiaries. Intercompany transactions and balances have been eliminated.

*Use of Estimates in the Preparation of Financial Statements*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The Company uses estimates when accounting for sales discounts, rebates, allowances and incentives, warranty, income taxes, depreciation, amortization, contingencies, impairments and asset and liability valuations.

*Reclassification*

Certain reclassifications were made to prior years' financial statement amounts and related note disclosures to conform to the fiscal 2009 presentation.

### *Translation of Foreign Currency Financial Statements and Foreign Currency Transactions*

The financial statements of the Company's international subsidiaries have been translated into United States dollars by translating balance sheet accounts at year-end exchange rates and statement of operations accounts at average exchange rates for the year. Foreign currency transaction gains and losses are charged or credited to earnings as incurred. Foreign currency translation gains and losses are reflected in the equity section of the Company's consolidated balance sheet in Accumulated Other Comprehensive Income. The balance of the foreign currency translation adjustment, included in Accumulated Other Comprehensive Income, was \$42.3 million and \$62.0 million as of January 31, 2009 and 2008, respectively.

### *Cash and Cash Equivalents*

Cash equivalents are considered all highly liquid investments with original maturities at date of purchase of three months or less.

### *Trade Receivables*

Trade receivables as shown on the consolidated balance sheet are net of allowances. The allowance for doubtful accounts is determined through an analysis of the aging of accounts receivable, assessments of collectability based on historic trends, the financial condition of the Company's customers and an evaluation of economic conditions. The Company writes off uncollectible trade receivables once collection efforts have been exhausted and third parties confirm the balance is not recoverable.

The Company's trade customers include department stores, jewelry store chains and independent jewelers. All of the Company's watch brands, except ESQ, are also marketed outside the U.S. through a network of independent distributors. Accounts receivable are stated net of doubtful accounts, returns and allowances of \$19.6 million, \$36.3 million and \$26.1 million at January 31, 2009, 2008 and 2007, respectively. In the fourth quarter of fiscal 2008, the Company recorded a one-time charge of \$15.0 million related to estimated sales returns associated with the closing of certain wholesale doors in the U.S.

The Company's concentrations of credit risk arise primarily from accounts receivable related to trade customers during the peak selling seasons. The Company has significant accounts receivable balances due from major national chain and department stores. The Company's results of operations could be materially adversely affected in the event any of these customers or a group of these customers defaulted on all or a significant portion of their obligations to the Company as a result of financial difficulties. As of January 31, 2009, except for those accounts provided for in the reserve for doubtful accounts, the Company knew of no situations with any of the Company's major customers which would indicate any such customer's inability to make its required payments.

### *Inventories*

The Company values its inventory at the lower of cost or market. The Company's U.S. inventory is valued using the first-in, first-out (FIFO) method. The cost of finished goods and component inventories, held by international subsidiaries, are determined using average cost. The Company's management regularly reviews its sales to customers and customers' sell through at retail to determine excess or obsolete inventory. Inventory classified as discontinued and, together with the related

component parts which can be assembled into saleable finished goods, is sold primarily through the Company's outlet stores. When management determines that finished product is unsaleable or when it is impractical to build the remaining components into watches for sale, a reserve is established for the cost of those products and components to value the inventory at the lower of cost or market. During the fiscal year ended January 31, 2009, the Company went through a process of scrapping unsaleable inventory and components which were reserved for and recorded as cost of sales in previous fiscal years. Additionally in fiscal year 2009, the Company conducted its ongoing review of unsaleable inventory and associated components resulting in no material changes to existing reserves. During the fiscal years ended January 31, 2008 and 2007, the Company conducted an in depth review of all its discontinued components and watches. In doing so, the Company made an economic decision to convert these excess quantities of discontinued inventory into cash. As a result, the Company engaged in a liquidation through an independent third party to sell the excess product for cash. In addition, where it was not deemed economically feasible to invest the time, effort and/or cost, the Company initiated efforts to cleanse the inventory and scrap the product. The Company's estimates, based on which it establishes its inventory reserves, could vary significantly, either favorably or unfavorably, from actual requirements depending on future economic conditions, customer inventory levels, expected usage or competitive conditions.

#### *Property, Plant and Equipment*

Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation of buildings is amortized using the straight-line method based on the useful life of 40 years. Depreciation of furniture and equipment is provided using the straight-line method based on the estimated useful lives of assets, which range from four to ten years. Computer software is amortized using the straight-line method over the useful life of five to ten years. Leasehold improvements are amortized using the straight-line method over the lesser of the term of the lease or the estimated useful life of the leasehold improvement. Design fees and tooling costs are amortized using the straight-line method based on the useful life of three years. Upon the disposition of property, plant and equipment, the accumulated depreciation is deducted from the original cost and any gain or loss is reflected in current earnings.

#### *Long-Lived Assets*

The Company periodically reviews the estimated useful lives of its depreciable assets based on factors including historical experience, the expected beneficial service period of the asset, the quality and durability of the asset and the Company's maintenance policy including periodic upgrades. Changes in useful lives are made on a prospective basis unless factors indicate the carrying amounts of the assets may not be recoverable and an impairment write-down is necessary.

The Company performs an impairment review of its long-lived assets once events or changes in circumstances indicate, in management's judgment, that the carrying value of such assets may not be recoverable. When such a determination has been made, management compares the carrying value of the assets with their estimated future undiscounted cash flows. If it is determined that an impairment loss has occurred, the loss is recognized during that period. The impairment loss is calculated as the difference between asset carrying values and the fair value of the long-lived assets.

During the fourth quarter of fiscal 2009, the Company determined that the carrying value of its long-lived assets with respect to five Movado Boutique retail locations was not recoverable. The impairment review was performed pursuant to SFAS No. 144 because of the economic downturn in the U.S. that had



a negative effect on the Company's fourth quarter ended January 31, 2009, the retail segments largest quarter of the year in terms of sales and profitability. The deteriorating economy negatively affected the Boutiques' sales volumes. As a result, the Company recorded a non-cash pre-tax impairment charge of \$4.5 million consisting of property, plant and equipment. The charge was calculated as the difference between the assets' carrying values and their estimated fair value. For the purposes of this calculation, fair value was determined using a discounted cash flow calculation. The impairment charge is included in the selling, general and administrative expenses in the fiscal 2009 Consolidated Statements of Income.

#### *Deferred Rent Obligations and Contributions from Landlords*

The Company accounts for rent expense under non-cancelable operating leases with scheduled rent increases on a straight-line basis over the lease term. The excess of straight-line rent expense over scheduled payments is recorded as a deferred liability. In addition, the Company receives build out contributions from landlords primarily as an incentive for the Company to lease retail store space from the landlords. This is also recorded as a deferred liability. Such amounts are amortized as a reduction of rent expense over the life of the related lease.

#### *Capitalized Software Costs*

The Company capitalizes certain computer software costs after technological feasibility has been established. The costs are amortized utilizing the straight-line method over the economic lives of the related products ranging from five to seven years. Additionally, the Company is in the process of implementing SAP, a business enterprise solution as the core enterprise system. As of January 31, 2009 and January 31, 2008, \$19.7 million and \$10.5 million of costs related to SAP have been capitalized, respectively. When the SAP system goes live, it will begin to be amortized over a period of 10 years, utilizing the straight-line method.

#### *Intangibles*

Intangible assets consist primarily of trademarks and are recorded at cost. Trademarks are amortized over ten years. The Company periodically reviews intangible assets to evaluate whether events or changes have occurred that would suggest an impairment of carrying value. An impairment would be recognized when expected undiscounted future operating cash flows are lower than the carrying value. At January 31, 2009 and 2008, intangible assets at cost were \$10.3 million and \$11.3 million, respectively, and related accumulated amortization of intangibles was \$6.3 million and \$6.9 million, respectively. Amortization expense for fiscal 2009, 2008 and 2007 was \$1.0 million, \$0.8 million and \$0.7 million, respectively.

#### *Derivative Financial Instruments*

The Company utilizes derivative financial instruments to reduce foreign currency fluctuation risks. The Company accounts for its derivative financial instruments in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", ("SFAS No. 133") as amended and interpreted, which establishes accounting and reporting standards for derivative instruments and hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial condition and measure those instruments at fair value. Changes in the fair value of those instruments will be reported in earnings or other comprehensive income depending on the use of the

derivative and whether it qualifies for hedge accounting. The accounting for gains and losses associated with changes in the fair value of the derivative and the effect on the consolidated financial statements will depend on its hedge designation and whether the hedge is highly effective in achieving offsetting changes in the fair value of cash flows of the asset or liability hedged.

The Company's risk management policy is to enter into forward exchange contracts and purchase foreign currency options, under certain limitations, to reduce exposure to adverse fluctuations in foreign exchange rates and, to a lesser extent, in commodity prices related to its purchases of watches. 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 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. Any ineffectiveness related to the derivative financial instruments' change in fair value will be recognized in the period in which the ineffectiveness was calculated.

The Company uses forward exchange contracts to offset its exposure to certain foreign currency liabilities. These forward contracts are not designated as SFAS No. 133 hedges and, therefore, changes in the fair value of these derivatives are recognized into earnings, thereby offsetting the current earnings effect of the related foreign currency liabilities.

The Company's risk management policy includes net investment hedging of the Company's Swiss franc-denominated investment in its wholly-owned subsidiaries located in Switzerland using purchased foreign currency options under certain limitations. When entered into for this purpose, the Company designates and documents the derivative instrument as a net investment 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 net investment hedge are recorded in other comprehensive income in the same manner as the cumulative translation adjustment of the Company's Swiss franc-denominated investment. The Company formally assesses, both at the inception and at each financial quarter thereafter, the effectiveness of the derivative instrument hedging the net investment.

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.

#### *Revenue Recognition*

In the wholesale segment, the Company recognizes its revenues upon transfer of title and risk of loss in accordance with its FOB shipping point terms of sale and after the sales price is fixed and determinable and collectability is reasonably assured. In the retail segment, transfer of title and risk of loss occurs at the time of register receipt. The Company records estimates for sales returns, volume-based programs and sales and cash discount allowances as a reduction of revenue in the same period that the sales are recorded. These estimates are based upon historical analysis, customer agreements and/or currently known factors that arise in the normal course of business. In the fourth quarter of fiscal 2008, the Company recorded a one-time accrual of \$15.0 million related to estimated future sales returns associated with the streamlining of the Movado brand wholesale distribution in the U.S. for the planned

reduction of approximately 1,400 wholesale customer doors. These sales returns were completed during fiscal 2009.

#### *Cost of Sales*

Costs of sales of the Company's products consist primarily of component costs, assembly costs and unit overhead costs associated with the Company's supply chain operations in Switzerland and Asia. The Company's supply chain operations consist of logistics management of assembly operations and product sourcing in Switzerland and Asia and minor assembly in Switzerland.

#### *Selling, General and Administrative Expenses*

The Company's SG&A expenses consist primarily of marketing, selling, distribution and general and administrative expenses. During the second half of fiscal year 2009, the Company announced initiatives designed to streamline operations, reduce expenses, and improve efficiencies and effectiveness across the Company's global organization. In fiscal year 2009, the Company recorded a total pre-tax charge of \$11.1 million related to the completion of these programs and a restructuring of certain benefit arrangements. Additionally, the Company recorded a non-cash pretax impairment charge of \$4.5 million consisting of property, plant and equipment, related to five Movado Boutiques.

Annual marketing expenditures are based principally on overall strategic considerations relative to maintaining or increasing market share in markets that management considers to be crucial to the Company's continued success as well as on general economic conditions in the various markets around the world in which the Company sells its products.

Selling expenses consist primarily of salaries, sales commissions, sales force travel and related expenses, expenses associated with Baselworld, the annual watch and jewelry trade show and other industry trade shows and operating costs incurred in connection with the Company's retail business. Sales commissions vary with overall sales levels. Retail selling expenses consist primarily of payroll related and store occupancy costs.

Distribution expenses consist primarily of salaries of distribution staff, rental and other occupancy costs, security, depreciation and amortization of furniture and leasehold improvements and shipping supplies.

General and administrative expenses consist primarily of salaries and other employee compensation, employee benefit plan costs, office rent, management information systems costs, professional fees, bad debts, depreciation and amortization of furniture and leasehold improvements, patent and trademark expenses and various other general corporate expenses.

#### *Warranty Costs*

All watches sold by the Company come with limited warranties covering the movement against defects in material and workmanship for periods ranging from two to three years from the date of purchase, with the exception of Tommy Hilfiger watches, for which the warranty period is ten years. In addition, the warranty period is five years for the gold plating for Movado watch cases and bracelets. When changes in warranty costs are experienced, the Company will adjust the warranty accrual as required.

Warranty liability for the fiscal years ended January 31, 2009, 2008 and 2007 was as follows (in thousands):

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Balance, beginning of year	\$ 2,193	\$ 1,954	\$ 2,185
Provision charged to operations	1,864	2,193	1,954
Settlements made	<u>(2,193)</u>	<u>(1,954)</u>	<u>(2,185)</u>
Balance, end of year	<u>\$ 1,864</u>	<u>\$ 2,193</u>	<u>\$ 1,954</u>

#### *Pre-opening Costs*

Costs associated with the opening of new boutique and outlet stores, including pre-opening rent, are expensed in the period incurred.

#### *Marketing*

The Company expenses the production costs of an advertising campaign at the commencement date of the advertising campaign. Included in marketing expenses are costs associated with co-operative advertising, media advertising, production costs and costs of point-of-sale materials and displays. These costs are recorded as SG&A expenses. The Company participates in cooperative advertising programs on a voluntary basis and receives a "separately identifiable benefit in exchange for the consideration". Since the amount of consideration paid to the retailer does not exceed the fair value of the benefit received by the Company, these costs are recorded as SG&A expenses as opposed to being recorded as a reduction of revenue. Marketing expense for fiscal 2009, 2008 and 2007 amounted to \$80.3 million, \$86.2 million and \$79.4 million, respectively.

Included in the other current assets in the consolidated balance sheets as of January 31, 2009 and 2008 are prepaid advertising costs of \$2.0 million and \$2.6 million, respectively. These prepaid costs represent advertising costs paid to licensors in advance, pursuant to the Company's licensing agreements and sponsorships.

#### *Shipping and Handling Costs*

Amounts charged to customers and costs incurred by the Company related to shipping and handling are included in net sales and cost of goods sold, respectively. The amounts recorded for the fiscal years ended January 31, 2009, 2008 and 2007 were insignificant.

#### *Income Taxes*

The Company follows SFAS No. 109, "Accounting for Income Taxes". Under the asset and liability method of SFAS No. 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax laws and tax rates, in each jurisdiction the Company operates, and applies to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities due to a change in tax rates is recognized in income in the period that

includes the enactment date. In addition, the amounts of any future tax benefits are reduced by a valuation allowance to the extent such benefits are not expected to be realized on a more-likely-than-not basis. The Company calculates estimated income taxes in each of the jurisdictions in which it operates. This process involves estimating actual current tax expense along with assessing temporary differences resulting from differing treatment of items for both book and tax purposes.

The Company adopted the provisions of FIN 48, "Accounting for Uncertainty in Income Taxes", on February 1, 2007. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109. FIN 48 also prescribes a recognition threshold and measurement standard for the financial statement recognition and measurement of an income tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosures and transitions. The Company previously recognized income tax positions based on management's estimate of whether it was reasonably possible that a liability had been incurred for unrecognized tax benefits by applying SFAS No. 5, Accounting for Contingencies. The provisions of FIN 48 became effective for the Company on February 1, 2007.

#### *Earnings Per Share*

The Company presents net income per share on a basic and diluted basis. Basic earnings per share is computed using weighted-average shares outstanding during the period. Diluted earnings per share is 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 were 24,782,000, 26,049,000 and 25,670,000 for fiscal 2009, 2008 and 2007, respectively. For diluted earnings per share, these amounts were increased by 772,000, 1,244,000 and 1,124,000 in fiscal 2009, 2008 and 2007, respectively, due to potentially dilutive common stock equivalents issuable under the Company's stock compensation plans.

For the year ended January 31, 2009, approximately 75,000 of potentially dilutive common stock equivalents were excluded from the computation of dilutive earnings per share because their effect would have been antidilutive. There were no antidilutive shares for the year-ended January 31, 2008.

#### *Stock-Based Compensation*

On February 1, 2006, the Company adopted the provisions of SFAS No. 123(R), "Share-Based Payment" ("SFAS No. 123(R)"), electing to use the modified prospective application transition method, and accordingly, prior period financial statements have not been restated. Under this method, the fair value of all employee stock options granted after adoption and the unvested portion of previously granted awards must be recognized in the Consolidated Statements of Income. Prior to February 1, 2006, employee stock option grants were accounted for under the intrinsic value method, which measures compensation cost as the excess, if any, of the quoted market price of the stock at grant date over the amount an employee must pay to acquire the stock. Accordingly, compensation expense had not been recognized for employee stock options granted at or above fair value. Prior to February 1, 2006, compensation expense for restricted stock grants was reduced as actual forfeitures of the awards occurred. SFAS No. 123(R) requires forfeitures to be estimated at the time of grant in order to estimate the amount of share-based awards that will ultimately vest and thus, current period compensation

expense for both stock options and restricted stock have been adjusted for estimated forfeitures. See Note 12 to the Company's Consolidated Financial Statements for further information regarding stock-based compensation.

#### *Recently Issued Accounting Standards*

In December 2007, the FASB issued SFAS No. 141(R) "Business Combinations." SFAS No. 141(R) states that all business combinations (whether full, partial or step acquisitions) will result in all assets and liabilities of an acquired business being recorded at their acquisition date fair values. Earn-outs and other forms of contingent consideration and certain acquired contingencies will also be recorded at fair value at the acquisition date. SFAS No. 141(R) also states acquisition costs will generally be expensed as incurred; in-process research and development will be recorded at fair value as an indefinite-lived intangible asset at the acquisition date; changes in deferred tax asset valuation allowances and income tax uncertainties after the acquisition date generally will affect income tax expense; and restructuring costs will be expensed in periods after the acquisition date. This statement is effective for financial statements issued for fiscal years beginning after December 15, 2008. The Company will apply the provisions of this standard to any acquisitions that it completes on or after February 1, 2009.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51." This statement amends ARB No. 51 to establish accounting and reporting standards for the noncontrolling interest (minority interest) in a subsidiary and for the deconsolidation of a subsidiary. Upon its adoption, noncontrolling interests will be classified as equity in the consolidated balance sheets. This statement also provides guidance on a subsidiary deconsolidation as well as stating that entities need to provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. This statement is effective for financial statements issued for fiscal years beginning after December 15, 2008. The Company is currently evaluating the impact of SFAS No. 160 on the Company's consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133". This statement requires enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS No. 161 also requires that objectives for using derivative instruments be disclosed in terms of underlying risk and accounting designation and requires cross-referencing within the footnotes. This statement also suggests disclosing the fair values of derivative instruments and their gains and losses in a tabular format. This statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company is currently evaluating the impact of SFAS No. 161 on the Company's consolidated financial statements.

**NOTE 2 – INVENTORIES, NET**

Inventories, net at January 31, consisted of the following (in thousands):

	<b>Fiscal Year Ended</b>	
	<b>January 31,</b>	
	<b>2009</b>	<b>2008</b>
Finished goods	\$ 146,073	\$ 117,027
Component parts	81,423	76,222
Work-in-process	1,388	11,880
	<u>\$ 228,884</u>	<u>\$ 205,129</u>

**NOTE 3 – PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment at January 31, at cost, consisted of the following (in thousands):

	<b>Fiscal Year Ended</b>	
	<b>January 31,</b>	
	<b>2009</b>	<b>2008</b>
Land and buildings	\$ 3,995	\$ 4,285
Furniture and equipment	60,592	62,434
Computer software	37,953	41,529
Leasehold improvements	40,660	42,930
Design fees and tooling costs	10,010	10,690
	<u>153,210</u>	<u>161,868</u>
Less: accumulated depreciation	86,461	93,355
	<u>\$ 66,749</u>	<u>\$ 68,513</u>

Depreciation and amortization expense related to property, plant and equipment for fiscal 2009, 2008 and 2007 was \$17.2 million, \$15.8 million and \$15.7 million, respectively, which includes computer software amortization expense for fiscal 2009, 2008 and 2007 of \$1.0 million, \$2.0 million and \$3.7 million, respectively. Additionally, the Company recorded a non-cash pre-tax impairment charge of \$4.5 million consisting of property, plant and equipment, related to five Movado Boutique locations.

**NOTE 4 – SENIOR DEBT, PROPOSED AND COMMITTED LINES OF CREDIT**

During fiscal 1999, the Company issued \$25.0 million of Series A Senior Notes (“Series A Senior Notes”) under a Note Purchase and Private Shelf Agreement, dated November 30, 1998 (the “1998 Note Purchase Agreement”), between the Company and The Prudential Insurance Company of America (“Prudential”). These notes bear interest of 6.90% per annum, mature on October 30, 2010 and are subject to annual repayments of \$5.0 million commencing October 31, 2006. These notes contained certain financial covenants including an interest coverage ratio and maintenance of consolidated net worth and certain non-financial covenants that restricted the Company’s activities regarding investments and acquisitions, mergers, certain transactions with affiliates, creation of liens, asset transfers, payment of dividends and limitation of the amount of debt outstanding. On June 5, 2008, the Company amended its Series A Senior Notes under an amendment to the 1998 Note Purchase Agreement (as amended, the “First Amended 1998 Note Purchase Agreement”) with Prudential and an affiliate of Prudential. No

additional senior promissory notes are issuable by the Company pursuant to the First Amended 1998 Note Purchase Agreement. Certain provisions and covenants were modified to be aligned with covenants in the Company's other credit agreements. These included the interest coverage ratio, elimination of the maintenance of consolidated net worth and the addition of a debt coverage ratio. At January 31, 2009, \$10.0 million of the Series A Senior Notes were issued and outstanding.

As of March 21, 2004, the Company amended its Note Purchase and Private Shelf Agreement, originally dated March 21, 2001 (as amended, the "First Amended 2001 Note Purchase Agreement"), among the Company, Prudential and certain affiliates of Prudential (together, the "Purchasers"). This agreement allowed for the issuance of senior promissory notes in the aggregate principal amount of up to \$40.0 million with maturities up to 12 years from their original date of issuance. On October 8, 2004, the Company issued, pursuant to the First Amended 2001 Note Purchase Agreement, 4.79% Senior Series A-2004 Notes due 2011 (the "Senior Series A-2004 Notes") in an aggregate principal amount of \$20.0 million, which will mature on October 8, 2011 and are subject to annual repayments of \$5.0 million commencing on October 8, 2008. Proceeds of the Senior Series A-2004 Notes have been used by the Company for capital expenditures, repayment of certain of its debt obligations and general corporate purposes. These notes contained certain financial covenants, including an interest coverage ratio and maintenance of consolidated net worth and certain non-financial covenants that restricted the Company's activities regarding investments and acquisitions, mergers, certain transactions with affiliates, creation of liens, asset transfers, payment of dividends and limitation of the amount of debt outstanding.

On June 5, 2008, the Company amended the First Amended 2001 Note Purchase Agreement (as amended, the "Second Amended 2001 Note Purchase Agreement"), with Prudential and the Purchasers. The Second Amended 2001 Note Purchase Agreement permits the Company to issue senior promissory notes for purchase by Prudential and the Purchasers, in an aggregate principal amount of up to \$70.0 million inclusive of the Senior Series A-2004 Notes described above, until June 5, 2011, with maturities up to 12 years from their original date of issuance. The remaining aggregate principal amount of senior promissory notes issuable by the Company that may be purchased by Prudential and the Purchasers pursuant to the Second Amended 2001 Note Purchase Agreement is \$55.0 million. Certain provisions and covenants were modified to be aligned with covenants in the Company's other credit agreements. These included the interest coverage ratio, elimination of the maintenance of consolidated net worth and addition of a debt coverage ratio. As of January 31, 2009, \$15.0 million of the Senior Series A-2004 Notes were issued and outstanding.

The credit agreement dated as of December 15, 2005, as amended, by and between the Company as parent guarantor, its Swiss subsidiaries, MGI Luxury Group S.A., Movado Watch Company SA, Concord Watch Company S.A. and Ebel Watches S.A. as borrowers, and JPMorgan Chase Bank, N.A. ("Chase"), JPMorgan Securities, Inc., Bank of America, N.A., PNC Bank and Citibank, N.A. (as amended, the "Swiss Credit Agreement"), provides for a revolving credit facility of 33.0 million Swiss francs and matures on December 15, 2010. The obligations of the Company's Swiss subsidiaries under this credit agreement are guaranteed by the Company under a Parent Guarantee, dated as of December 15, 2005, in favor of the lenders. The Swiss Credit Agreement contains financial covenants, including an interest coverage ratio, average debt coverage ratio and limitations on capital expenditures and certain non-financial covenants that restrict the Company's activities regarding investments and acquisitions, mergers, certain transactions with affiliates, creation of liens, asset transfers, payment of dividends and limitation of the amount of debt outstanding. Borrowings under the Swiss Credit Agreement bear interest at a rate equal to LIBOR (as defined in the Swiss Credit Agreement) plus a



margin ranging from .50% per annum to .875% per annum (depending upon a leverage ratio). As of January 31, 2009, there were no outstanding borrowings under this revolving credit facility.

The credit agreement dated as of December 15, 2005, as amended, by and between the Company, MGI Luxury Group S.A. and Movado Watch Company SA, as borrowers, and JPMorgan Chase Bank, N.A., JPMorgan Securities, Inc., Bank of America, N.A., PNC Bank, Bank Leumi and Citibank, N.A. (as amended, the "US Credit Agreement"), provides for a revolving credit facility of \$90.0 million (including a sublimit for borrowings in Swiss francs of up to an equivalent of \$25.0 million) with a provision to allow for a further increase of up to an additional \$10.0 million, subject to certain terms and conditions. The US Credit Agreement will mature on December 15, 2010. The obligations of MGI Luxury Group S.A. and Movado Watch Company SA are guaranteed by the Company under a Parent Guarantee, dated as of December 15, 2005, in favor of the lenders. The obligations of the Company are guaranteed by certain domestic subsidiaries of the Company under subsidiary guarantees, in favor of the lenders. The US Credit Agreement contains financial covenants, including an interest coverage ratio, average debt coverage ratio and limitations on capital expenditures and certain non-financial covenants that restrict the Company's activities regarding investments and acquisitions, mergers, certain transactions with affiliates, creation of liens, asset transfers, payment of dividends and limitation of the amount of debt outstanding. Borrowings under the US Credit Agreement bear interest, at the Company's option, at a rate equal to the adjusted LIBOR (as defined in the US Credit Agreement) plus a margin ranging from .50% per annum to .875% per annum (depending upon a leverage ratio), or the Alternate Base Rate (as defined in the US Credit Agreement). As of January 31, 2009, \$40.0 million was outstanding under this revolving credit facility.

For the fiscal years ending January 31, 2009 and 2008, the calculation of the financial covenants for the Series A Senior Notes, Senior Series A-2004 Notes, the Swiss Credit Agreement and US Credit Agreement (together the "Debt Facilities") were as follows (dollars in thousands):

Covenant	Required	Required	Actual	Actual
	Senior Notes	Credit Facilities	January 31, 2009	January 31, 2008
Interest Coverage Ratio	Min. 3.50x	Min. 3.50x	2.45x	16.09x
Average Debt Coverage Ratio	Max. 3.25x	Max. 3.25x	2.72x	0.93x
Capital Expenditures Limit	n/a	\$ 42,608	\$ 22,681	\$ 27,392
Priority Debt Limit	\$ 79,095	n/a	\$ 40,000	\$ 25,907
Lien Limit	\$ 79,095	n/a	\$ -	\$ -

As of January 31, 2009, the Company was in compliance with all non-financial covenants under the Debt Facilities. Due to the reported financial results for fiscal 2009, the Company was in compliance with all financial covenants with the exception of the interest coverage ratio covenant under these Debt Facilities. The current results included certain charges for severance related costs associated with the Company's expense reduction initiatives and a restructuring of certain benefit arrangements of \$11.1 million and for asset impairments of \$4.5 million. The Company believes that it would have been in compliance with all covenants if these charges, which it deems to be non-recurring in nature, were excluded from the covenant calculations. As a result of the Company's projections in light of the global economic downturn, without an amendment or waiver, the Company believes that it will continue to be in non-compliance with the interest coverage ratio covenant, and potentially additional financial

covenants under the Debt Facilities, for the upcoming reporting periods in fiscal year 2010. The Company has not requested a waiver as it is currently in negotiations for a new credit facility discussed in more detail below. Additionally, the Company has received a commitment, subject to certain limitations described more fully below, for a three year \$50 million asset-based credit facility from Bank of America to provide available liquidity if a new credit facility is not consummated.

As a result of the Company's non-compliance with the interest coverage ratio covenant, amounts owed under the Debt Facilities have been reclassified to current liabilities. Additionally, the Company is prohibited from borrowing any additional funds under the Debt Facilities and the amounts owed as of January 31, 2009 may be declared immediately due and payable by the lenders. The lenders have not taken any action in respect to this default, but they may do so in the future. Should the debt be declared immediately due and payable by the lenders, the Company would be able to satisfy such obligations through obtaining alternative financing, cash on hand and conversion of working capital to cash.

The components of debt as of January 31, were as follows (in thousands):

	<b>Fiscal Year Ended</b>	
	<b>January 31,</b>	
	<b>2009</b>	<b>2008</b>
Swiss Revolving Credit Facility	\$ -	\$ 25,895
U.S. Revolving Credit Facility	40,000	-
Series A Senior Notes	10,000	15,000
Senior Series A-2004 Notes	15,000	20,000
	<u>65,000</u>	<u>60,895</u>
Less: current portion	65,000	10,000
Long-term debt	<u>\$ -</u>	<u>\$ 50,895</u>

The Company pays a facility fee on the unused portion of the committed lines of the Swiss Credit Agreement and the US Credit Agreement. The unused portion of the committed lines was \$78.5 million at January 31, 2009, however, as noted above, the Company is unable to access such amounts due to its non-compliance with the interest coverage ratio covenants under the Debt Facilities.

Aggregate maximum and average monthly outstanding borrowings against the Company's lines of credit, including uncommitted lines of credit, and related weighted-average interest rates during fiscal 2009 and 2008 were as follows (dollars in thousands):

	<b>Fiscal Year Ended</b>	
	<b>January 31,</b>	
	<b>2009</b>	<b>2008</b>
Maximum borrowings	\$ 44,800	\$ 40,900
Average monthly borrowings	\$ 27,800	\$ 32,200
Weighted-average interest rate	3.0%	2.9%

Weighted-average interest rates were computed based on average month-end outstanding borrowings and applicable average month-end interest rates. For information about the Company's uncommitted lines of credit, see Note 5 – Uncommitted Lines of Credit.

Through the date of this filing, the Company is in negotiations with banking institutions for a new three year asset-based revolving credit facility for an amount up to \$110 million (the "New Facility"). Consummation of the New Facility is subject to (a) syndication, (b) completion of due diligence by the banking institutions, and (c) the satisfaction of a number of additional customary conditions precedent, certain of which are at the sole discretion of the banking institution. The New Facility will likely include limited financial covenants that are effective only if a minimum availability threshold is not maintained. The New Facility will be collateralized by substantially all of the assets of Movado Group, Inc. and its U.S. subsidiaries, including accounts receivable and inventory, and 65% of the capital stock of first-tier foreign subsidiaries. The New Facility will contain various restrictions including limitations on additional debt, the payment of dividends and repurchasing stock. The Company expects that the fees and the interest rates under the New Facility, if consummated, will increase to current market rates. The Company anticipates that the New Facility will be finalized in May of 2009 and will have a term of three years, expiring in May 2012.

As previously mentioned, to provide for available liquidity in the event that the New Facility is not consummated, the Company has received a commitment for a three year \$50 million asset-based credit facility from Bank of America. The commitment is subject to the completion of due diligence by Bank of America and the satisfaction of a number of additional customary conditions precedent, certain of which are at the sole discretion of Bank of America. In the event the New Facility is consummated, this commitment will be canceled.

The Company anticipates that the New Facility or the \$50 million asset-based credit facility, if consummated, would replace the Debt Facilities. In the event the New Facility or the \$50 million asset-based credit facility is not consummated, the Company's financial condition and results of operations may be materially adversely affected.

#### **NOTE 5 – UNCOMMITTED LINES OF CREDIT**

On June 16, 2008, the Company renewed a line of credit letter agreement with Bank of America and an amended and restated promissory note in the principal amount of up to \$20.0 million payable to Bank of America, originally dated December 12, 2005. Pursuant to the line of credit letter agreement, Bank of America will consider requests for short-term loans and documentary letters of credit for the importation of merchandise inventory, the aggregate amount of which at any time outstanding shall not exceed \$20.0 million. The Company's obligations under the agreement are guaranteed by its subsidiaries, Movado Retail Group, Inc. and Movado LLC. Pursuant to the amended and restated promissory note, the Company promised to pay Bank of America \$20.0 million, or such lesser amount as may then be the unpaid balance of all loans made by Bank of America to the Company thereunder, in immediately available funds upon the maturity date of June 16, 2009. The Company has the right to prepay all or part of any outstanding amounts under the amended and restated promissory note without penalty at any time prior to the maturity date. The amended and restated promissory note bears interest at an annual rate equal to either (i) a floating rate equal to the prime rate or (ii) such fixed rate as may be agreed upon by the Company and Bank of America for an interest period which is also then agreed upon. The amended and restated promissory note contains various representations and warranties and events of default that

are customary for instruments of that type. As of January 31, 2009, there were no outstanding borrowings against this line.

On July 31, 2008, the Company renewed a promissory note, originally dated December 13, 2005, in the principal amount of up to \$37.0 million, at a revised amount of up to \$7.0 million, payable to Chase. Pursuant to the promissory note, the Company promised to pay Chase \$7.0 million, or such lesser amount as may then be the unpaid balance of each loan made or letter of credit issued by Chase to the Company thereunder, upon the maturity date of July 31, 2009. The Company has the right to prepay all or part of any outstanding amounts under the promissory note without penalty at any time prior to the maturity date. The promissory note bears interest at an annual rate equal to (i) a floating rate equal to the prime rate, (ii) a fixed rate equal to an adjusted LIBOR plus 0.625% or (iii) a fixed rate equal to a rate of interest offered by Chase from time to time on any single commercial borrowing. The promissory note contains various events of default that are customary for instruments of that type. In addition, it is an event of default for any security interest or other encumbrance to be created or imposed on the Company's property, other than as permitted in the lien covenant of the US Credit Agreement. Chase issued 11 irrevocable standby letters of credit for retail and operating facility leases to various landlords, for the administration of the Movado Boutique private-label credit card and for Canadian payroll to the Royal Bank of Canada totaling \$1.2 million with expiration dates through March 18, 2010. As of January 31, 2009, there were no outstanding borrowings against this promissory note.

A Swiss subsidiary of the Company maintains unsecured lines of credit with an unspecified length of time with a Swiss bank. Available credit under these lines totaled 8.0 million Swiss francs, with dollar equivalents of \$6.9 million and \$7.4 million at January 31, 2009 and 2008, respectively. As of January 31, 2009, two European banks have guaranteed obligations to third parties on behalf of two of the Company's foreign subsidiaries in the amount of \$1.3 million in various foreign currencies. As of January 31, 2009, there were no outstanding borrowings against these lines.

#### **NOTE 6 – DERIVATIVE FINANCIAL INSTRUMENTS**

As of January 31, 2009, the balance of deferred net gains on derivative financial instruments documented as cash flow hedges included in accumulated other comprehensive income ("AOCI") was \$1.5 million in net gains, net of tax of \$1.0 million, compared to \$3.8 million in net gains at January 31, 2008, net of tax of \$2.5 million and \$0.1 million in net losses at January 31, 2007, net of tax benefit of \$0.1 million. The Company estimates that a substantial portion of the deferred net gains at January 31, 2009 will be realized into earnings over the next 12 to 24 months as a result of transactions that are expected to occur over that period. The primary underlying transaction which will cause the amount in AOCI to affect cost of goods sold consists of the Company's sell through of inventory purchased in Swiss francs. The maximum length of time the Company is hedging its exposure to the fluctuation in future cash flows for forecasted transactions is 24 months. For the years ended January 31, 2009, 2008 and 2007, the Company reclassified from AOCI to earnings \$2.4 million of net gains, net of tax of \$1.6 million, \$0.6 million in net gains, net of tax of \$0.4 million, and \$0.1 million in net losses, net of tax benefit of \$0.1 million, respectively.

During fiscal 2009, 2008 and 2007, the Company recorded no charge related to its assessment of the effectiveness of its derivative hedge portfolio because of the high degree of effectiveness between the hedging instrument and the underlying exposure being hedged.

Changes in the contracts' fair value due to spot-forward differences are excluded from the designated hedge relationship. The Company records these transactions in the cost of sales of the Consolidated Statements of Income.

The balance of the net loss included in the cumulative foreign currency translation adjustment associated with derivatives documented as net investment hedges was \$1.5 million, net of a tax benefit of \$0.9 million as of January 31, 2009, 2008 and 2007. Under SFAS No. 133, changes in fair value of these instruments are recognized in currency translation adjustment, a component of AOCI, to offset the change in the value of the net investment being hedged.

The following presents fair value and maturities of the Company's foreign currency derivatives outstanding as of January 31, 2009 (in millions):

	<b>Fair Value of Liability</b>	<b>Maturities</b>
Forward exchange contracts	\$ 1.1	Fiscal 2010

The Company estimates the fair value of its foreign currency derivatives based on quoted market prices or pricing models using current market rates. These derivative financial instruments are currently reflected in accrued liabilities.

#### NOTE 7 - FAIR VALUE MEASUREMENTS

As of February 1, 2008, the Company adopted SFAS No. 157, "Fair Value Measurements", for financial assets and liabilities. FSP No. FAS 157-2, "Effective Date of FASB Statement No. 157", delays, for one year, the effective date of SFAS No. 157 for non-financial assets and liabilities, except those that are recognized or disclosed in the financial statements on at least an annual basis. SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS No. 157 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.

SFAS No. 157 requires the use of observable market data if such data is available without undue cost and effort. The Company's adoption of SFAS No. 157 did not result in any changes to the accounting for its financial assets and liabilities. Therefore, the primary impact to the Company upon its adoption of SFAS No. 157 was to expand its fair value measurement disclosures.

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

	<b>Fair Value at January 31, 2009</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Assets:</b>				
Available-for-sale securities	\$ 135	\$ -	\$ -	\$ 135
SERP assets - employer	750	-	-	750
SERP assets - employee	13,429	-	-	13,429
<b>Total</b>	<b>\$ 14,314</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 14,314</b>
<b>Liabilities:</b>				
Hedge derivatives	\$ -	\$ 1,120	\$ -	\$ 1,120
SERP liabilities - employee	13,429	-	-	13,429
<b>Total</b>	<b>\$ 13,429</b>	<b>\$ 1,120</b>	<b>\$ -</b>	<b>\$ 14,549</b>

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

#### NOTE 8 - INCOME TAXES

The provision / (benefit) for income taxes for the fiscal years ended January 31, 2009, 2008 and 2007 consists of the following components (in thousands):

	<b>2009</b>	<b>2008</b>	<b>2007</b>
<b>Current:</b>			
U.S. Federal	\$ (7,891)	\$ 3,414	\$ 8,168
U.S. State and Local	249	1,681	1,147
Non-U.S.	4,001	5,672	4,168
	<u>(3,641)</u>	<u>10,767</u>	<u>13,483</u>
<b>Noncurrent:</b>			
U.S. Federal	450	(10,635)	509
U.S. State and Local	-	-	(89)
Non-U.S.	-	(963)	-
	<u>450</u>	<u>(11,598)</u>	<u>420</u>
<b>Deferred:</b>			
U.S. Federal	4,386	(5,214)	(3,972)
U.S. State and Local	294	(1,307)	(366)
Non-U.S.	(753)	(2,119)	(6,675)
	<u>3,927</u>	<u>(8,640)</u>	<u>(11,013)</u>
<b>Provision / (benefit) for income taxes</b>	<b>\$ 736</b>	<b>\$ (9,471)</b>	<b>\$ 2,890</b>

(Loss) / income before taxes for U.S. operations was (\$29.0 million), (\$4.3 million), and \$12.9 million for periods ended January 31, 2009, 2008 and 2007, respectively. Income before taxes for non-U.S. operations was \$32.3 million, \$56.2 million, and \$39.8 million for periods ended January 31, 2009, 2008 and 2007, respectively.

Significant components of the Company's deferred income tax assets and liabilities for the fiscal year ended January 31, 2009 and 2008 consist of the following (in thousands):

	2009 Deferred Taxes		2008 Deferred Taxes	
	Assets	Liabilities	Assets	Liabilities
Net operating loss carryforwards	\$ 15,948	\$ -	\$ 17,364	\$ -
Inventory	4,829	-	5,957	-
Unprocessed returns	1,366	-	5,703	-
Receivable allowance	2,188	493	2,396	715
Deferred compensation	12,853	-	10,435	-
Unrepatriated earnings	-	7,135	-	-
Hedge derivatives	-	958	-	2,533
Depreciation/amortization	8,264	3,122	1,641	1,124
Other	2,507	30	2,392	53
	<u>47,955</u>	<u>11,738</u>	<u>45,888</u>	<u>4,425</u>
Valuation allowance	(7,641)	-	(10,689)	-
Total deferred tax assets and liabilities	<u>\$ 40,314</u>	<u>\$ 11,738</u>	<u>\$ 35,199</u>	<u>\$ 4,425</u>

As of January 31, 2009, the Company had foreign net operating loss carryforwards of approximately \$32.3 million, which are available to offset taxable income in future years. Carryforward tax losses of \$15.8 million were incurred in Switzerland, primarily in the Ebel business prior to the Company's acquisition of the Ebel business on March 1, 2004. Effective March 1, 2004, Ebel S.A. was merged into another wholly-owned Swiss subsidiary, and a Swiss tax ruling was obtained that allows the Ebel tax losses to offset taxable income in the surviving entity. As part of purchase accounting, the Company recorded net deferred tax assets for the Swiss tax losses and for the temporary differences between the Swiss tax basis and the assigned values of the net Ebel assets. The Company has established a partial valuation allowance on the deferred tax assets as a result of an evaluation of expected utilization of such tax benefits within the expiry of the tax losses through fiscal 2016. The recognition of the tax benefit had been applied to reduce the carrying value of acquired intangible assets to zero during fiscal 2007; thereafter releases of the valuation allowance have been recorded as a reduction to income tax expense. The Company recognized cash tax savings of \$10.0 million on the utilization of the Swiss tax losses during the year, and released an additional \$4.2 million valuation allowance, primarily due to the Company's decision to implement a tax planning strategy.

The remaining foreign tax losses of \$16.5 million are primarily related to the Company's operations in Japan, Germany, and the United Kingdom. A full valuation allowance has been established on the deferred tax assets resulting from the losses attributable to Japan due to the Company's assessment that it is more-likely-than-not the deferred tax assets will not be utilized within the 7 year expiry period. The Company has three subsidiaries in Germany. Two subsidiaries are inactive; as a result the Company has determined that a full valuation allowance is appropriate for the losses of these two subsidiaries, even though there is no time limitation for utilization of the losses. The third German subsidiary is currently not profitable and further, certain expected changes in the business prevent management from

concluding it is more-likely-than-not the subsidiary will return to profitability in the future. During fiscal 2009 the Company's United Kingdom operations returned to a loss position and the Company concluded it was more-likely-than-not the deferred tax assets would not be realized. As a result, the Company reinstated a full valuation allowance.

As of January 31, 2009, the Company had domestic net operating loss carryforwards of approximately \$20.2 million, of which \$2.3 million relates to excess tax deductions associated with stock option plans which have yet to reduce income taxes payable. Upon the utilization of these carryforwards, the associated tax benefits of approximately \$0.9 million will be recorded to Additional Paid-in Capital.

At January 31, 2009, the Company's net domestic deferred tax assets amounted to \$20.8 million. Management has considered the realizability of the deferred tax assets and has concluded that no valuation allowance should be recorded, as it is not-more-likely-than-not that some portion or all of the deferred tax assets will not be fully realized. In the assessment for a valuation allowance, appropriate consideration is given to all positive and negative evidence related to the realization of the deferred tax assets. This assessment considers, among other matters, the nature, frequency and severity of current and cumulative losses, forecasts of future profitability, excess of appreciated asset value over the tax basis of net assets, the duration of statutory carryforward periods, the Company's experience with operating loss and tax credit carryforwards not expiring unused, and tax planning alternatives. The Company's analysis of the need for a valuation allowance recognizes that the Company has incurred a cumulative loss for its domestic operations over its evaluation period (current year and the two previous years), including a substantial loss for fiscal 2009. A majority of the current loss was the result of the difficult market conditions, as well as restructuring and impairment charges. The Company believes it will be able to realize all of its deferred tax assets. Consideration has also been given to the period over which these net deferred tax assets can be realized, and the Company's history of not having federal tax loss carryforwards expire unused. In addition, Management has considered a tax planning strategy that is both prudent and feasible that will be implemented in a timely manner, if necessary, which will allow the Company to recognize the future tax attributes by increasing taxable income in the United States.

Management will continue to evaluate the appropriate level of allowance on all deferred tax assets, considering such factors as prior earnings history, expected future earnings, carryback and carryforward periods, and tax and business strategies that could potentially enhance the likelihood of realization of a deferred tax asset.



The provision / (benefit) for income taxes differ from the amount determined by applying the U.S. federal statutory rate as follows (in thousands):

	<b>Fiscal Year Ended January 31,</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>
Provision for income taxes at the U.S. statutory rate	\$ 1,151	\$ 18,188	\$ 18,607
Lower effective foreign income tax rate	(5,458)	(9,303)	(5,359)
Change in valuation allowance	(2,611)	(7,292)	(11,182)
Tax provided on repatriated earnings of foreign subsidiaries	165	-	-
Tax provided on unrepatriated earnings of foreign subsidiaries	7,388	-	-
Change in unrecognized tax benefits, net	450	(11,598)	-
State and local taxes, net of federal benefit	456	(214)	379
Change in investment	(785)	-	-
Other, net	(20)	748	445
Total provision / (benefit) for income taxes	<u>\$ 736</u>	<u>\$ (9,471)</u>	<u>\$ 2,890</u>

A provision of approximately \$7.4 million has been made for federal income and withholding taxes, net of foreign tax credits, on the future remittance of approximately \$30.0 million total undistributed retained earnings of two foreign subsidiaries. No provision has been made for federal income or withholding taxes which may be payable on the remittance of the remaining undistributed retained earnings of foreign subsidiaries approximating \$210.1 million at January 31, 2009, as those earnings are considered permanently reinvested. It is not practical to estimate the amount of tax, if any, that may be payable on the eventual distribution of these earnings.

During the year, the effective tax rate increased to 22.38%, primarily as a result of the tax accrued on the future repatriation of foreign earnings, and a smaller net benefit compared to prior years on the release of valuation allowances on foreign tax losses. The effective tax rate excluding the benefit from the net release of valuation allowances and the tax accrued on the future repatriation of foreign earnings was -122.89%, primarily attributable to the income (loss) mix. The effective tax rate for fiscal 2008 was -18.23%, primarily as a result of the recognition of previously unrecognized tax benefits due to the settlement of the IRS audit for fiscal years 2004 through 2006, and the release of valuation allowances in whole or in part on Swiss, German and UK tax losses. The effective tax rate excluding the benefits from release of the valuation allowances and the settlement of the IRS audit was 20.62%. The effective tax rate for fiscal 2007 was 5.44%, primarily as a result of a partial release of the valuation allowance on the Swiss tax losses. The effective tax rate excluding the benefit from release of the valuation allowance was 23.26%.

The Company adopted the provisions of FIN 48, "Accounting for Uncertainty in Income Taxes", on February 1, 2007. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. FIN 48 also prescribes a recognition threshold and measurement standard for the financial statement recognition and measurement of an income tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosures and transitions.

The Internal Revenue Service (“IRS”) commenced examinations of the Company’s consolidated U.S. federal income tax returns for fiscal years 2004 through 2006 in September 2006. The examination phase concluded in January 2008, when the Company and the IRS came to a final agreement that resulted in the effective settlement of all three years. Pursuant to the settlement, the Company agreed to a total tax assessment for the three years of \$3.3 million (\$4.8 million gross less \$1.5 million foreign tax credits). During the first quarter of fiscal 2009, the Company settled the liability with a cash payment.

A reconciliation of the beginning and ending amounts of gross unrecognized tax benefits (exclusive of interest) for January 31, 2009 and 2008 are as follows (in thousands):

	<u>2009</u>	<u>2008</u>
Beginning balance	\$ 10,089	\$ 30,052
Additions based on tax positions related to the current year	-	477
Additions for tax positions of prior years	184	1,915
Lapse of statute of limitations	(6)	(1,051)
Decreases for tax positions of prior years	(65)	(21,153)
Cash settlements	(4,761)	(186)
F/X fluctuations	(22)	35
Ending balance	<u>\$ 5,419</u>	<u>\$ 10,089</u>

Included in the balance at January 31, 2009 is \$2.8 million of unrecognized tax benefits which would impact the Company’s effective tax rate, if recognized. Interest and penalties, if any, related to unrecognized tax benefits are recorded in income tax expense. As of January 31, 2009 and January 31, 2008, the Company had \$1.0 million and \$1.3 million of accrued interest (net of tax benefit) related to unrecognized tax benefits. During fiscal years 2009 and 2008, the Company accrued \$0.3 million and \$1.0 million of interest (net of tax benefit).

The Company conducts business globally and, as a result, files income tax returns in the U.S. federal jurisdiction and various state, local and foreign jurisdictions. In the normal course of business, the Company is subject to examination by taxing authorities in many countries, including such major jurisdictions as Switzerland, Hong Kong, Canada and the United States. The Company, with few exceptions, is no longer subject to income tax examinations by tax authorities in state, local and foreign taxing jurisdictions for years before the fiscal year ended January 31, 2005.

#### **NOTE 9 - OTHER ASSETS**

In fiscal 1996, the Company entered into an agreement with a trust which owned an insurance policy issued on the lives of the Company's Chairman, Mr. Gedalio Grinberg (“Mr. G. Grinberg”), and his spouse. Under this agreement, the trust assigned the insurance policy to the Company as collateral to secure repayment by the trust of interest-free loans made by the Company to the trust in amounts equal to the premiums on said insurance policy (approximately \$0.7 million per annum). The agreement required the trust to repay the loans from the proceeds of the policy. At January 31, 2003, the Company had outstanding loans from the trust of \$5.2 million. On April 4, 2003, the agreement was amended and restated to transfer the policy from the trust to the Company in partial repayment of the loan balance. The Company is the beneficiary of the policy insofar as upon the death of Mr. G. Grinberg and his spouse, the proceeds of the policy would first be distributed to the Company to repay the premiums paid by the Company with the remaining proceeds distributed to the trust. On January 5, 2009, the Company

announced the passing of Mr. G. Grinberg. As of January 31, 2009, total premiums paid were \$10.4 million, recorded as an Other Non-Current Asset in the Company's Consolidated Balance Sheets, and the cash surrender value of the policy was \$11.6 million.

#### NOTE 10 – LEASES

The Company leases office, distribution, retail and manufacturing facilities, and office equipment under operating leases, which expire at various dates through January 2019. Certain leases include renewal options and the payment of real estate taxes and other occupancy costs. Some leases also contain rent escalation clauses (step rents) that require additional rent amounts in the later years of the term. Rent expense for leases with step rents is recognized on a straight-line basis over the minimum lease term. Likewise, capital funding and other lease concessions that are occasionally provided to the Company, are recorded as deferred rent and amortized on a straight-line basis over the minimum lease term as adjustments to rent expense. Rent expense for equipment and distribution, factory and office facilities under operating leases was approximately \$17.4 million, \$16.8 million and \$14.4 million in fiscal 2009, 2008 and 2007, respectively. Minimum annual rentals at January 31, 2009 under noncancelable operating leases, which do not include real estate taxes and operating costs, are as follows (in thousands):

<b>Fiscal Year Ended January 31,</b>		
2010	\$	15,013
2011		14,512
2012		13,747
2013		11,512
2014		8,745
Thereafter		22,062
	\$	<u>85,591</u>

#### NOTE 11 – COMMITMENTS AND CONTINGENCIES

At January 31, 2009, the Company had outstanding letters of credit totaling \$1.2 million with expiration dates through March 18, 2010 compared to \$1.2 million with expiration dates through March 18, 2009 as of January 31, 2008. One bank in the domestic bank group has issued irrevocable standby letters of credit for retail and operating facility leases to various landlords, for the administration of the Movado Boutique private-label credit card and for Canadian payroll to the Royal Bank of Canada.

As of January 31, 2009, two European banks have guaranteed obligations to third parties on behalf of two of the Company's foreign subsidiaries in the amount of \$1.3 million in various foreign currencies compared to \$2.1 million as of January 31, 2008.

Pursuant to the Company's agreements with its licensors, the Company is required to pay minimum royalties and advertising. As of January 31, 2009, the Company's minimum commitments related to its license agreements was \$93.7 million.

The Company had outstanding purchase obligations of \$35.9 million with suppliers at the end of fiscal 2009 for raw materials, finished watches and packaging in the normal course of business. These purchase obligation amounts do not represent total anticipated purchases but represent only amounts to be paid for items required to be purchased under agreements that are enforceable, legally binding and specify minimum quantity, price and term.

The Company is involved from time to time in legal claims involving trademarks and intellectual property, licensing, employee relations and other matters incidental to the Company's business. Although the outcome of such items cannot be determined with certainty, the Company's general counsel and management believe that the final outcome would not have a material effect on the Company's consolidated financial position, results of operations or cash flows.

#### **NOTE 12 – STOCK-BASED COMPENSATION**

Effective concurrently with the consummation of the Company's public offering in the fourth quarter of fiscal 1994, the Board of Directors and the shareholders of the Company approved the adoption of the Movado Group, Inc. 1993 Employee Stock Option Plan (the "Employee Stock Option Plan") for the benefit of certain officers, directors and key employees of the Company. The Employee Stock Option Plan was amended in fiscal 1997 and restated as the Movado Group, Inc. 1996 Stock Incentive Plan (the "Plan"). Under the Plan, as amended and restated as of April 8, 2004, the Compensation Committee of the Board of Directors, which consists of four of the Company's outside directors, has the authority to grant incentive stock options and nonqualified stock options to purchase, as well as stock appreciation rights and stock awards, up to 9,000,000 shares of common stock. Options granted to participants under the Plan generally become exercisable in equal installments over three or five years and remain exercisable until the tenth anniversary of the date of grant. The option price may not be less than the fair market value of the stock at the time the options are granted.

On February 1, 2006, the Company adopted the provisions of SFAS No. 123(R), "Share-Based Payment", electing to use the modified prospective application transition method, and accordingly, prior period financial statements have not been restated. Under this method, the fair value of all stock options granted after adoption and the unvested portion of previously granted awards must be recognized in the Consolidated Statements of Income. The Company utilizes the Black-Scholes option-pricing model to calculate the fair value of each option at the grant date which requires certain assumptions be made. The expected life of stock option grants is determined using historical data and represents the time period which the stock option is expected to be outstanding until it is exercised. The risk free interest rate is the yield on the grant date of U.S. Treasury constant maturities with a maturity date closest to the expected life of the stock option. The expected stock price volatility is derived from historical volatility and calculated based on the estimated term structure of the stock option grant. The expected dividend yield is calculated using the expected annualized dividend which remains constant during the expected term of the option.

The weighted-average assumptions used with the Black-Scholes option-pricing model for the calculation of the fair value of stock option grants during the fiscal years 2009 and 2008 were: expected term of 6.9 years for fiscal 2009 and 6.0 years for fiscal 2008; risk-free interest rate of 3.41% for fiscal 2009 and 4.32% for fiscal 2008; expected volatility of 37.83% for fiscal 2009 and 35.32% for fiscal 2008 and dividend yield of 1.45% for fiscal 2009 and 1.03% for fiscal 2008. The weighted-average grant date fair value of options granted during the fiscal years ended January 31, 2009 and 2008 was \$8.45 and \$12.06, respectively.

Total compensation expense for unvested stock option grants recognized during the fiscal years ended January 31, 2009 and 2008 was approximately \$0.5 million, net of a tax benefit of \$0.3 million and \$1.1 million, net of a tax benefit of \$0.7 million, respectively. Expense related to stock option compensation is recognized on a straight-line basis over the vesting term. As of January 31, 2009, there was approximately \$1.3 million of unrecognized compensation cost related to unvested stock options. These costs are expected to be recognized over a weighted-average period of 1.6 years. Total cash received for stock option exercises during the fiscal year ended January 31, 2009 amounted to approximately \$2.5 million. Windfall tax benefits realized on these exercises were approximately \$0.5 million.

Transactions for stock options under the Plan since fiscal 2006 are summarized as follows:

	<b>Outstanding Options</b>	<b>Weighted- Average Exercise Price</b>
January 31, 2006	3,169,613	\$ 12.96
Options granted	144,000	\$ 19.86
Options exercised	(430,873)	\$ 8.96
Options cancelled	(28,800)	\$ 13.85
January 31, 2007	<u>2,853,940</u>	<u>\$ 13.91</u>
Options granted	89,500	\$ 31.57
Options exercised	(269,319)	\$ 12.64
Options cancelled	(20,666)	\$ 14.18
January 31, 2008	<u>2,653,455</u>	<u>\$ 14.63</u>
Options granted	109,250	\$ 21.78
Options exercised	(229,307)	\$ 11.97
Options cancelled	(85,832)	\$ 12.45
January 31, 2009	<u><u>2,447,566</u></u>	<u><u>\$ 15.27</u></u>

The total intrinsic value of stock options exercised for the fiscal years ended January 31, 2009 and 2008 was approximately \$2.4 million and \$5.3 million, respectively. The total fair value of the stock options vested for the fiscal years ended January 31, 2009 and 2008 was approximately \$5.2 million and \$8.7 million, respectively.

The following table summarizes outstanding and exercisable stock options as of January 31, 2009:

<u>Range of Exercise Prices</u>	<u>Number Outstanding</u>	<u>Weighted-Average Contractual Life (years)</u>	<u>Weighted-Average Exercise Price</u>	<u>Number Exercisable</u>	<u>Weighted-Average Exercise Price</u>
\$ 3.02 - \$ 6.01	98,740	1.3	\$ 4.25	98,740	\$ 4.25
\$ 6.02 - \$ 9.01	78,066	2.1	\$ 7.25	78,066	\$ 7.25
\$ 9.02 - \$12.01	490,122	1.2	\$ 10.44	490,122	\$ 10.44
\$12.02 - \$15.01	301,044	4.6	\$ 13.69	224,382	\$ 13.69
\$15.02 - \$18.01	703,417	2.7	\$ 15.65	675,088	\$ 15.59
\$18.02 - \$21.01	568,427	4.3	\$ 18.47	532,096	\$ 18.45
\$21.02 - \$24.01	108,750	9.2	\$ 22.27	3,918	\$ 23.55
\$24.02 - \$27.01	25,000	7.7	\$ 25.85	16,667	\$ 25.85
\$27.02 - +	74,000	8.3	\$ 32.92	31,001	\$ 32.90
	<u>2,447,566</u>	<u>3.5</u>	<u>\$ 15.27</u>	<u>2,150,080</u>	<u>\$ 14.45</u>

The total intrinsic value of outstanding stock options for the fiscal years ended January 31, 2009 and 2008 was approximately \$0.4 million and \$25.4 million, respectively. The total intrinsic value of exercisable stock options for the fiscal years ended January 31, 2009 and 2008 was approximately \$0.4 million and \$23.2 million, respectively.

Under the Plan, the Company has the ability to grant restricted stock to certain employees. Restricted stock grants generally vest three to five years from the date of grant. Expense for these grants is recognized on a straight-line basis over the vesting period. The fair value of restricted stock grants is equal to the closing price of the Company's publicly-traded common stock on the grant date.

On May 31, 2006, the Compensation Committee of the Board of Directors adopted the Executive Long Term Incentive Plan (the "LTIP") authorized by section 9 of the Plan. The LTIP provides for the award of "Performance Share Units" that are equivalent, one for one, to shares of the Company's common stock and that vest based on the Company's achievement of its operating margin goal for a target fiscal year. The number of actual shares earned by a participant is based on the Company's actual performance at the end of the award period and can range from 0% to 150% of the participant's target award. Total target awards of 189,500, 119,375, and 176,200 Performance Share Units were granted by the Compensation Committee on May 31, 2006, April 30, 2007, and April 30, 2008, respectively, that vest over three and five year periods.

During fiscal 2009, as a result of the Company's performance, it became apparent that the performance goals for certain LTIP grants would not be achieved. This resulted in the reversal of previously accrued stock-based compensation expenses of approximately \$3.2 million. Total compensation expense for restricted stock grants and for grants of Performance Share Units under the LTIP (together "restricted stock") recognized during the fiscal year ended January 31, 2009, including the reversal of the aforementioned LTIP grants, was a benefit of approximately \$0.4 million, net of a tax of \$0.2 million. For the fiscal year ended January 31, 2008, compensation expense for restricted stock was approximately \$1.9 million, net of a tax benefit of \$1.2 million. Prior to February 1, 2006, compensation expense for restricted stock grants was reduced as actual forfeitures of the awards.

occurred. SFAS No. 123(R) requires forfeitures to be estimated at the time of grant in order to estimate the amount of share-based awards that will ultimately vest and thus, current period compensation expense has been adjusted for estimated forfeitures based on historical data. As of January 31, 2009, there was approximately \$3.4 million of unrecognized compensation cost related to unvested restricted stock. These costs are expected to be recognized over a weighted-average period of 2.8 years.

Transactions for restricted stock under the Plan since fiscal 2006 are summarized as follows:

	<b>Number of Restricted Stock Units</b>	<b>Weighted- Average Grant Date Fair Value</b>
January 31, 2006	321,090	\$ 14.39
Units granted	255,450	\$ 19.02
Units vested	(102,940)	\$ 10.01
Units forfeited	(10,255)	\$ 16.78
January 31, 2007	463,345	\$ 17.87
Units granted	164,185	\$ 32.06
Units vested	(113,410)	\$ 15.28
Units forfeited	(17,390)	\$ 18.84
January 31, 2008	496,730	\$ 23.12
Units granted	220,521	\$ 21.69
Units vested	(95,226)	\$ 18.74
Units forfeited	(55,571)	\$ 25.20
January 31, 2009	566,454	\$ 23.09

Restricted stock units are exercised simultaneously when they vest and are issued from the pool of authorized shares. The total intrinsic value of restricted stock units that vested during the fiscal years ended January 31, 2009 and 2008 was approximately \$1.7 million and \$3.5 million, respectively. The windfall tax realized on the vested restricted stock grants for fiscal year ended January 31, 2009 were \$0.2 million. The weighted-average grant date fair values for restricted stock grants for the years ended January 31, 2009 and 2008 were \$21.69 and \$32.06, respectively. Outstanding restricted stock units had a total intrinsic value of approximately \$4.4 million and \$12.0 million for fiscal years ended January 31, 2009 and 2008.

#### NOTE 13 – OTHER EMPLOYEE BENEFITS PLANS

The Company maintains an Employee Savings Plan under Section 401(k) of the Internal Revenue Code. In addition, the Company maintains defined contribution employee benefit plans for its employees located in Switzerland. Company contributions and expenses of administering the plans amounted to \$2.8 million, \$2.5 million and \$2.4 million in fiscal 2009, 2008 and 2007, respectively.

Effective June 1, 1995, the Company adopted a defined contribution SERP. The SERP provides eligible executives with supplemental pension benefits in addition to amounts received under the Company's other retirement plan. The Company makes a matching contribution which vests equally over five years. During fiscal 2009, 2008 and 2007, the Company recorded an expense related to the SERP of \$0.8 million, \$0.8 million and \$0.7 million, respectively.

During fiscal 1999, the Company adopted a Stock Bonus Plan for all employees not in the SERP. Under the terms of this Stock Bonus Plan, the Company contributes a discretionary amount to the trust established under the plan. Each plan participant vests after five years in 100% of their respective prorata portion of such contribution. Effective for fiscal 2006, in lieu of making any further contributions to the Stock Bonus Plan, the Company increased the maximum amount of its 401(k) match.

On September 23, 1994, the Company entered into a Death and Disability Benefit Plan Agreement (the "Prior Agreement") with the Company's Chairman, Mr. Gedalio Grinberg. Under the terms of the agreement, in the event of Mr. G. Grinberg's death or disability, the Company was required to make an annual benefit payment of approximately \$0.3 million to his spouse for the lesser of ten years or her remaining lifetime. Neither the agreement nor the benefits payable thereunder were assignable and no benefits were payable to the estates or heirs of Mr. G. Grinberg or his spouse. On December 19, 2008, the Company entered into a Transition and Retirement Agreement (the "Agreement") with Mr. G. Grinberg. Upon the effective date of the Agreement, the Prior Agreement was terminated. The Agreement stipulates that upon his retirement on January 31, 2009, Mr. G. Grinberg, or his spouse if he predeceases her, would receive a payment of \$0.6 million for the year ending January 31, 2010, and annual payments of \$0.5 million for each year thereafter through the life of Mr. G. Grinberg and, if he predeceases his spouse, through the life of his spouse. On January 5, 2009, the Company announced the passing of Mr. G. Grinberg. For the year ending January 31, 2009, the Company recorded an actuarially determined charge of \$2.4 million related to the Agreement. This charge was included as part of the \$11.1 million severance related charge associated with the Company's streamlining initiatives. Results of operations for fiscal 2008 and 2007 include an actuarially determined charge related to the Prior Agreement of \$0.3 million and \$0.2 million, respectively. As of January 31, 2009, a \$4.5 million liability was recorded in the Company's Consolidated Balance Sheets related to the Agreement, of which \$0.6 million was recorded in Accrued Liabilities, and \$3.9 million was recorded in Other Non-Current Liabilities. As of January 31, 2008, a \$1.8 million liability was recorded in Other Non-Current Liabilities in the Company's Consolidated Balance Sheets related to the Prior Agreement.

**NOTE 14 – COMPREHENSIVE (LOSS) / INCOME**

The components of comprehensive (loss) / income for the twelve months ended January 31, 2009, 2008 and 2007 are as follows (in thousands):

	<b>Fiscal Year Ended January 31,</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>
Net income	\$ 2,315	\$ 60,805	\$ 50,138
Net unrealized (loss) / gain on investments, net of tax	(190)	(176)	42
Net change in effective portion of hedging contracts, net of tax	(2,266)	3,942	1,246
Foreign currency translation adjustment (1)	(19,692)	29,817	3,346
Total comprehensive (loss) / income	<u>\$ (19,833)</u>	<u>\$ 94,388</u>	<u>\$ 54,772</u>

(1) The currency translation adjustment is not adjusted for income taxes as they relate to permanent investments in international subsidiaries.



The components of accumulated other comprehensive income at January 31, consisted of the following (in thousands):

	<b>Fiscal Year Ended</b>	
	<b>January 31,</b>	
	<b>2009</b>	<b>2008</b>
Net unrealized (loss) / gain on investments, net of tax	\$ (34)	\$ 156
Net unrealized gain on hedging contracts, net of tax	1,485	3,751
Cumulative foreign currency translation adjustment	42,291	61,983
Accumulated other comprehensive income	<u>\$ 43,742</u>	<u>\$ 65,890</u>

#### NOTE 15 – SEGMENT INFORMATION

The Company follows SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." The statement 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 primarily in two operating segments: Wholesale and Retail. The Company's Wholesale segment includes the designing, manufacturing and distribution of quality watches, in addition to revenue generated from after sales service activities and shipping. The Retail segment includes the Movado Boutiques and outlet stores.

The Company divides its business into two major geographic segments: United States operations, and International, which includes the results of all other Company operations. The allocation of geographic revenue is based upon the location of the customer. The Company's international operations are principally conducted in Europe, Asia, Canada, the Middle East, South America and the Caribbean. The Company's international assets are substantially located in Switzerland.

#### Operating Segment Data as of and for the Fiscal Year Ended January 31, (in thousands):

	<b>Net Sales</b>			<b>Operating Income / (Loss) (1) (2)</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Wholesale	\$ 371,349	\$ 466,431	\$ 445,674	\$ 8,702	\$ 50,210	\$ 48,132
Retail	89,508	93,119	87,191	(5,312)	567	4,187
Consolidated total	<u>\$ 460,857</u>	<u>\$ 559,550</u>	<u>\$ 532,865</u>	<u>\$ 3,390</u>	<u>\$ 50,777</u>	<u>\$ 52,319</u>

	<b>Total Assets</b>		<b>Capital Expenditures</b>		
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Wholesale	\$ 515,517	\$ 580,665	\$ 20,051	\$ 19,684	\$ 12,757
Retail	48,473	65,551	2,630	7,708	7,421
Consolidated total	<u>\$ 563,990</u>	<u>\$ 646,216</u>	<u>\$ 22,681</u>	<u>\$ 27,392</u>	<u>\$ 20,178</u>

	<b>Depreciation and Amortization</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>
Wholesale	\$ 12,047	\$ 11,466	\$ 11,617
Retail	6,410	5,218	4,963
Consolidated total	<u>\$ 18,457</u>	<u>\$ 16,684</u>	<u>\$ 16,580</u>

**Geographic Segment Data as of and for the Fiscal Year Ended January 31, (in thousands):**

	Net Sales (3)			Operating (Loss) Income (1) (2)		
	2009	2008	2007	2009	2008	2007
United States	\$ 255,337	\$ 328,212	\$ 366,656	\$ (31,264)	\$ (18,066)	\$ 7,704
International	205,520	231,338	166,209	34,654	68,843	44,615
Consolidated total	\$ 460,857	\$ 559,550	\$ 532,865	\$ 3,390	\$ 50,777	\$ 52,319

	Total Assets		Long-Lived Assets	
	2009	2008	2009	2008
United States	\$ 289,567	\$ 341,846	\$ 50,369	\$ 51,544
International	274,423	304,370	16,380	16,969
Consolidated total	\$ 563,990	\$ 646,216	\$ 66,749	\$ 68,513

- (1) Fiscal 2009 Wholesale Operating Income included an \$11.1 million charge related to the Company's cost savings initiatives and a restructuring of certain benefit arrangements, of which \$7.4 million was recorded in the United States and \$3.7 million was recorded in the International segment.
- (2) Fiscal 2009 United States and Retail Operating Loss includes a non-cash impairment charge of \$4.5 million recorded in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets".
- (3) The United States and international net sales are net of intercompany sales of \$253.3 million, \$275.2 million and \$258.3 million for the twelve months ended January 31, 2009, 2008 and 2007, respectively.

**NOTE 16 - QUARTERLY FINANCIAL DATA (UNAUDITED)**

The following table presents unaudited selected interim operating results of the Company for fiscal 2009 and 2008 (in thousands, except per share amounts):

	Quarter			
	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>	4 <sup>th</sup>
<b>Fiscal 2009</b>				
Net sales	\$ 101,353	\$ 129,689	\$ 135,846	\$ 93,969
Gross profit	\$ 65,020	\$ 83,903	\$ 86,202	\$ 52,507
Net income / (loss)	\$ 1,249	\$ 8,136	\$ 15,729	\$ (22,799)
<b>Net income / (loss) per share:</b>				
Basic	\$ 0.05	\$ 0.33	\$ 0.64	\$ (0.93)
Diluted	\$ 0.05	\$ 0.32	\$ 0.62	\$ (0.92)
<b>Fiscal 2008</b>				
Net sales	\$ 101,363	\$ 139,467	\$ 180,153	\$ 138,567
Gross profit	\$ 61,652	\$ 83,346	\$ 109,887	\$ 81,797
Net income	\$ 2,400	\$ 12,264	\$ 26,528	\$ 19,613
<b>Net income per share:</b>				
Basic	\$ 0.09	\$ 0.47	\$ 1.02	\$ 0.75
Diluted	\$ 0.09	\$ 0.45	\$ 0.97	\$ 0.72

As each quarter is calculated as a discrete period, the sum of the four quarters may not equal the calculated full year amount. This is in accordance with prescribed reporting requirements.

**NOTE 17 - SUPPLEMENTAL CASH FLOW INFORMATION**

The following is provided as supplemental information to the consolidated statements of cash flows (in thousands):

	<b>Fiscal Year Ended January 31,</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>
Cash paid during the year for:			
Interest	\$ 2,434	\$ 3,407	\$ 3,760
Income taxes	\$ 13,042	\$ 11,542	\$ 13,751

Additionally, as of January 15, 2009, the Company declared a \$1.2 million cash dividend, which was subsequently paid in February 2009.

**NOTE 18 – OTHER INCOME, NET**

The components of other income, net for fiscal 2009, 2008 and 2007 are as follows (in thousands):

	<b>Fiscal Year Ended January 31,</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>
Gain on proceeds from insurance premiums (a)	\$ 681	\$ -	\$ -
Gain on sale of building (b)	-	-	374
Sale of artwork (c)	-	-	848
Sale of rights to web domain (d)	-	-	125
Other income, net	<u>\$ 681</u>	<u>\$ -</u>	<u>\$ 1,347</u>

(a) The Company recorded a pre-tax gain for the fiscal year ended January 31, 2009 of \$0.7 million on the collection of life insurance proceeds from policies covering the Company's former Chairman.

(b) The Company recorded a pre-tax gain for the fiscal year ended January 31, 2007 of \$0.4 million on the sale of a building acquired on March 1, 2004 in the acquisition of Ebel. The Company received cash proceeds from the sale of \$0.7 million. The building was classified as an asset held for sale in other current assets.

(c) The Company recorded a pre-tax gain for the fiscal year ended January 31, 2007 of \$0.8 million on the sale of a piece of artwork acquired in February 1988. The Company received cash proceeds from the sale of \$1.0 million. The artwork was classified as a non-current asset.

(d) The Company recorded a pre-tax gain for the fiscal year ended January 31, 2007 of \$0.1 million on the sale of the rights to a web domain name. The Company received cash from the sale of \$0.1 million. There was no cost basis on the balance sheet for the domain name.

**NOTE 19 – TREASURY STOCK**

On December 4, 2007, the Board of Directors authorized a program to repurchase up to one million shares of the Company's common stock. Shares of common stock were repurchased from time to time

as market conditions warranted either through open market transactions, block purchases, private transactions or other means. The objective of the program was to reduce or eliminate earnings per share dilution caused by the shares of common stock issued upon the exercise of stock options and in connection with other equity based compensation plans. As of April 14, 2008, the Company had completed the one million share repurchase during the fourth quarter of fiscal 2008 and the first quarter of fiscal 2009, at a total cost of approximately \$19.4 million, or \$19.41 per share.

On April 15, 2008, the Board of Directors announced a new authorization to repurchase up to an additional one million shares of the Company's common stock. Under this authorization, the Company has the option to repurchase shares over time, with the amount and timing of repurchases depending on market conditions and corporate needs. The Company entered into a Rule 10b5-1 plan to facilitate repurchases of its shares under this authorization. A Rule 10b5-1 plan permits a company to repurchase shares at times when it might otherwise be prevented from doing so, provided the plan is adopted when the company is not aware of material non-public information. The Company may suspend or discontinue the repurchase of stock at any time. Under this share repurchase program, as of January 31, 2009, the Company had repurchased a total of 937,360 shares of common stock in the open market during the first and second quarters of fiscal year 2009 at a total cost of approximately \$19.5 million or \$20.79 per share.

In addition to the shares repurchased pursuant to the Company's share repurchase programs, an aggregate of 102,662 shares have been repurchased during the twelve months ended January 31, 2009 as a result of the surrender of shares in connection with the vesting of certain restricted stock awards and the exercise of certain stock options. 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.

#### NOTE 20 – STREAMLINING INITIATIVES

During the second half of fiscal 2009, the Company announced initiatives designed to streamline operations, reduce expenses, and improve efficiencies and effectiveness across the Company's global organization. Throughout fiscal 2009, the Company recorded a total pre-tax charge of \$11.1 million, of which \$8.7 million related to severance related accruals and \$2.4 million related to the "Transition and Retirement Agreement" with the Company's former Chairman (see Note 13 – Other Employee Benefits Plans). These expenses were recorded in SG&A expenses in the Consolidated Statements of Income. The Company expects that substantially all of the severance related liability will be paid during fiscal 2010.

A summary rollforward of severance related accruals is as follows (in thousands):

	<b>Severance related</b>
Balance at April 30, 2008	\$ -
Provision charged	2,192
Balance at July 31, 2008	2,192
Provision charged	3,393
Severance paid	(2,759)
Balance at October 31, 2008	2,826
Provision charged	3,094
Severance paid	(1,511)
Balance at January 31, 2009	\$ 4,409

Schedule II

MOVADO GROUP, INC.  
VALUATION AND QUALIFYING ACCOUNTS AND RESERVES  
(in thousands)

Description	Balance at beginning of year	Net provision charged to operations	Currency revaluation	Net write-offs	Balance at end of year
Year ended January 31, 2009:					
Doubtful accounts, returns and allowances (1)	\$ 36,348	\$ 35,628	\$ (456)	\$ (51,922)	\$ 19,598
Year ended January 31, 2008:					
Doubtful accounts, returns and allowances (1)	\$ 26,079	\$ 49,091	\$ 657	\$ (39,479)	\$ 36,348
Year ended January 31, 2007:					
Doubtful accounts, returns and allowances	\$ 25,693	\$ 41,184	\$ 91	\$ (40,889)	\$ 26,079

(1) The net write-offs in fiscal 2009 and net provision charged to operations in fiscal 2008 include a non-cash charge of \$11.0 million, related to the closing of certain wholesale customer doors in the U.S.

Description	Balance at beginning of year	Net provision charged to operations	Currency revaluation	Net write-offs	Balance at end of year
Year ended January 31, 2009:					
Inventory reserve	\$ 21,170	\$ 2,282	\$ (737)	\$ (6,751)	\$ 15,964
Year ended January 31, 2008:					
Inventory reserve (2)	\$ 48,575	\$ 2,809	\$ 3,754	\$ (33,968)	\$ 21,170
Year ended January 31, 2007:					
Inventory reserve	\$ 49,250	\$ 1,953	\$ 2,348	\$ (4,976)	\$ 48,575

(2) The inventory reserve net write-offs in fiscal 2008 were the result of efforts to cleanse discontinued component and watch inventory by scrapping the product, resulting in a reduction to existing reserves with no impact to the consolidated statement of income.

Description	Balance at beginning of year	Net benefit to operations	Currency revaluation	Adjustment	Balance at end of year
Year ended January 31, 2009:					
Deferred tax asset valuation (3)	\$ 10,689	\$ (2,625)	\$ (588)	\$ 165	\$ 7,641
Year ended January 31, 2008:					
Deferred tax asset valuation (4)	\$ 16,741	\$ (7,407)	\$ 2,391	\$ (1,036)	\$ 10,689
Year ended January 31, 2007:					
Deferred tax asset valuation (5)	\$ 29,555	\$ (9,544)	\$ 976	\$ (4,246)	\$ 16,741

(3) The detail of adjustments is as follows:		(5) The detail of adjustments is as follows:	
Prior year adjustments	\$ 164	Release of valuation allowance – Ebel NOL’s	\$ (273)
Statutory tax rate changes	<u>1</u>	Ebel NOL’s expired	(2,541)
	\$ <u>165</u>	Ebel Germany pre-acquisition NOL’s	(1,017)
		Prior year adjustments	<u>(415)</u>
			<u>\$ (4,246)</u>

(4) The detail of adjustments is as follows:	
Statutory tax rate changes	\$ (731)
Ebel NOL’s expired	(609)
Prior year adjustments	304
	<u>\$ (1,036)</u>



**FIRST AMENDMENT OF LEASE**

**THIS FIRST AMENDMENT OF LEASE** dated as of February 27, 2009 by and between **FORSGATE INDUSTRIAL COMPLEX**, a limited partnership with an address at 400 Hollister Road, Teterboro, New Jersey 07608 (hereinafter called "Landlord") and **MOVADO GROUP, INC.**, a New York corporation, having its principal offices at 650 From Road, Paramus, New Jersey 07652 (hereinafter called "Tenant").

**WITNESSETH:**

**WHEREAS**, Landlord and Tenant entered into a Lease dated May 22, 2000 (the "Lease"), for approximately 99,962 square feet in a building (the "Premises") located on property more commonly known as 105 State Street, Moonachie, New Jersey; and

**WHEREAS**, Tenant and Landlord desire to amend the Lease to, among other things, extend the term of the Lease.

**NOW THEREFORE**, for ten dollars and other good and valuable consideration, the parties agree as follows:

1. The term of the Lease is hereby extended. Accordingly, Paragraph 1(d) of the Lease shall be deleted and replaced with the following language:

"To commence on June 1, 2000 and to terminate on July 31, 2019."

2. Effective on April 1, 2009, Fixed Rent shall be as set forth below and, accordingly, Paragraph 1(e) of the Lease shall be amended as follows:

"Tenant shall pay to the Landlord as Fixed Rent for the demised premises commencing on March 1, 2009 to and through July 31, 2014, the sum of SEVEN HUNDRED FORTY-NINE THOUSAND SEVEN HUNDRED FIFTEEN AND NO/100 (\$749,715.00) DOLLARS per annum, payable in equal monthly installments of SIXTY-TWO THOUSAND FOUR HUNDRED SEVENTY-SIX AND 25/100 (\$62,476.25) DOLLARS, and commencing September 1, 2014 through August 31, 2019, the sum of EIGHT HUNDRED NINETY-FOUR THOUSAND SIX HUNDRED SIXTY THOUSAND AND NO/100 (\$894,660.00) DOLLARS per annum, payable in equal monthly installments of SEVENTY-FOUR THOUSAND FIVE HUNDRED FIFTY-FIVE THOUSAND AND NO/100 (\$74,555.00) DOLLARS.

Provided the Lease is in full force and effect and Tenant is not in default after any required notice and beyond any applicable cure period, Fixed Rent shall abate from March 1, 2009 to and through July 31, 2009.”

3. The second paragraph of Paragraph 4 and Exhibit Y shall be deleted. The Deferred Rent schedule shall no longer be applicable.
4. Paragraph 35 of the Lease shall be deleted and replaced with the following:

“35. NOTICES. All notices, demands and requests which may or are required to be given by either party to the other shall be in writing. All notices, demands and requests by the Landlord to the Tenant shall be sent by recognized overnight courier or by United States Certified Mail, postage prepaid, Return Receipt Requested, addressed to the Tenant, to the attention of General Counsel, with a simultaneous copy to the Senior Vice President, at the Premises, with a copy to Tenant at the address specified on the first page of the First Amendment of Lease, or at such other place as the Tenant may from time to time designate in a written notice to the Landlord. All notices, demands and requests by the Tenant to the Landlord shall be sent by recognized overnight courier or by United States Certified Mail, postage prepaid, Return Receipt Requested, addressed to the Landlord at the address shown on the first page of this Lease or at such other place as the Landlord may from time to time designate in a written notice to the Tenant. Notices, demands and requests which shall be served upon the Landlord or the Tenant in the manner aforesaid shall be deemed sufficiently served or given for all purposes hereunder at the time such notice, demand or request shall be mailed, if sent by certified mail, or on the date of the delivery, if sent by overnight courier.

5. Paragraph 46A shall be deleted in its entirety.

6. Upon the expiration of the Lease, Tenant shall surrender the Premises in the condition required under the terms of the Lease. Notwithstanding the foregoing, with respect to any alterations, additions or improvements made to the Premises, Tenant’s obligation to restore the Premises to the condition which it was originally delivered to Tenant as set forth in Paragraph 13 shall mean that Tenant is obligated to restore the Premises to the condition shown on Exhibit 1 attached hereto and Tenant shall be obligated to remove only such alterations, additions and/or improvements which are not shown on Exhibit 1. Notwithstanding the preceding sentence, upon surrender, with respect to the exterior perimeter of the Building which is shown on the attached pictures, Tenant shall not be obligated to restore any alterations, additions and/or improvements to the exterior perimeter which are shown in such pictures except that Tenant shall be obligated



to replace the loading dock doors and levelers in the rear of the Building and remove the compactor.

7. Tenant represents that its North American Industry Classification System number (“NAICS”) is 334518. If Tenant’s operations at the Premises are outside of those industrial operations covered by ISRA, and if the NJDEP is not granting letters of non-applicability for operations outside of ISRA, Tenant agrees that it shall, six (6) months prior to the termination of the Lease, (i) execute and deliver to Landlord an application for a letter of non-applicability under ISRA from the NJDEP with respect to the Premises, and certify, represent and warrant to Landlord the accuracy of such application, which certification, representation and warranty shall survive the termination of the Lease and (ii) represent to Landlord that its NAICS number is 334518 and its operations are outside of those industrial operations covered by ISRA.

8. Except as expressly modified herein, all of the provisions of the Lease shall remain unchanged and in full force and effect and Landlord and Tenant ratify and confirm the terms of the Lease.

IN WITNESS WHEREOF the parties have executed this Amendment on the day and year first above written.

WITNESS

**FORSGATE INDUSTRIAL COMPLEX,**

Landlord

/s/ Andrew L. Moss

By: /s/ Charles Klatskin  
Charles Klatskin, General Partner

/s/ Andrew L. Moss

By: /s/ Stephen Seiden  
Stephen Seiden, General Partner

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WITNESS

**MOVADO GROUP, INC.**

Tenant

/s/ Sallie A. DeMarsilis

By: /s/ Rick Cote  
Name: Rick Cote  
Title: COO

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Execution Copy

DATED

May 1, 2007

**SWICO LIMITED**

and

**MOVADO GROUP, INC.**

and

**MGS DISTRIBUTION LIMITED**

---

**JOINT VENTURE AGREEMENT**

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\*\* CONFIDENTIAL PORTIONS OF THIS EXHIBIT HAVE BEEN OMITTED FROM:

- (1) THE FOLLOWING PAGES OF THE FOUR DISTRIBUTORSHIP AGREEMENTS ANNEXED HERETO COLLECTIVELY AS ANNEX B: TOMMY HILFIGER AGREEMENT - PAGES 6 AND 18; JUICY COUTURE AGREEMENT – PAGES 6, 7 AND 19; HUGO BOSS AGREEMENT – PAGES 6 AND 18; LACOSTE AGREEMENT – PAGES 38 AND 39 AND SCHEDULE VIII;
  - (2) ANNEX B TO (WHICH IS THE LAST PAGE OF) THE SERVICE AGREEMENT ANNEXED HERETO AS ANNEX C;
  - (3) ALL OF ANNEX D
- AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION (“SEC”) PUSUANT TO RULE 24b-2 OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED (“1934 ACT”)
-

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### List of Annexes

- Annex A: The Company governing documents
  - Annex B: Distribution Agreements
  - Annex C: Service Agreement
  - Annex D: 5-year business plan
-

THIS JOINT VENTURE AGREEMENT is made on the 1st day of May, 2007

**BETWEEN:**

**SWICO LIMITED** a company incorporated under the laws of England, having its registered office at Meadway House, Meadway, Haslemere, Surrey GU27 1NN, England, registered number 469666 ("Swico") ;

and

**MOVADO GROUP, INC.** a company incorporated under the laws of New York, having its principle office at 650 From Road, Paramus, NJ 07652, U.S.A. ("MGI");

and

**MGS DISTRIBUTION LIMITED** a corporation incorporated under the laws of England, having its registered office c/o Swico, Meadway, Haslemere, Surrey GU27 1NN, England, registered number ("Company").

**WHEREAS :**

- (A) MGI wishes to develop its activities in the United Kingdom through, among other actions, the development of licensed brands and direct access to the market.
- (B) Swico is a watch distributor in the United Kingdom and is currently the distributor there of Hugo Boss watches under an agreement with MGI's Affiliate, MGI Luxury Group, S.A., dated May 1, 2005 ("Swico HB Distributorship"). In order to grow and secure the current business of its domestic markets, Swico is searching for new brands for distribution and a strong partner to develop for the long term.
- (C) In view of their satisfactory relationship and common objectives, Swico and MGI (collectively, the "Shareholders") wish to create a joint venture relationship through ownership in the Company of, respectively, a 51% interest by MGI (or an entity that is owned 100% by MGI) and a 49% interest by Swico.
- (D) The Shareholders wish to set forth herein certain matters relating to the establishment of the Company, the management and operations thereof, as well as the transfers by the Shareholders of their interests in the Company.

**NOW THEREFORE**, in consideration of the premises and the mutual covenants set forth herein, the Shareholders agree as follows:

**1. INTERPRETATION**

1.1 Definitions: Unless the context otherwise requires, the following terms shall have the following meanings for purposes of this Agreement.

"Affiliate" means, with respect to any Person, any other Person that, either directly or indirectly through one or more intermediate Persons, controls, is controlled by or is under common control with such first Person.

"Control" of a Person means (i) ownership of more than 50% of the equity share capital or voting rights of such Person or (ii) the power to direct the management or policies of a Person, whether through the ownership of more than 50% of the voting power of such Person, through the power to appoint at least half of the members of the board of directors or similar governing body of such Person, through contractual arrangements or otherwise.

"Person" means any natural person, firm, company, governmental authority, joint venture, partnership, association or other entity (whether or not having separate legal personality).

"Related Party" means (i) any shareholder, director or officer of the Company, (ii) any Relative of a shareholder, director or officer of the Company and (iii) any Person in which any shareholder, director or any officer of the Company or any Relative thereof has any interest, other than a passive shareholding of less than 5% in a company whose shares are listed on a recognized investment exchange or dealt in on the Alternative Investment Market of the London Stock Exchange.

"Relative" of a natural Person means any spouse, parent, grandparent, child, grandchild or sibling of such Person and any offspring of any of the foregoing.

"Shares" means the ordinary shares [of £1 each] in the capital of the Company.

1.2 The following terms are defined in the indicated Clause:

"Board"	4.4.1
"Business"	3.1
"Business Plan"	8.1
"Buy-Out Date"	9.1
"Buy-Out Price"	9.2
"Cash Flow Value"	9.2
"Chairman"	4.4.2
"Company"	Recitals
"Confidential Information"	13.1
"Director"	4.4.1
"Distribution Agreements"	3.2
"First Refusal Right"	6.5.2
"Lock-up Expiration Date"	6.4
"Non-Compete Covenant"	10.2.2
"Offer Period"	6.5.2
"Offer Price"	6.5.1

"Offer Price Per Share"	6.5.1
"Offered Shares"	6.5.1
"Offeree"	6.5.1
"Permitted Transferee"	6.3
"Representatives"	13.1
"Rules"	18.2
"Service Agreement"	3.3
"Shareholders"	Recitals
"Shareholders' Meeting"	4.1
"Tag-Along Right"	6.5.2
"Transfer"	6.1
"Transfer Notice"	6.5.1
"Transferee"	6.5.1
"Transferring Shareholder"	6.5.1
"Swico Change of Control"	7.2
"Swico HB Distributorship"	Recitals

## 2. ESTABLISHMENT OF THE COMPANY

- 2.1 **Contributions.** MGI shall subscribe for 51 Shares at a subscription price of £408,000, representing 51% of the total Shares to be in issue. Swico shall subscribe for 49 Shares at a subscription price of £392,000, of which £372,000 shall be satisfied by Swico procuring the transfer to the Company of its inventory of Hugo Boss watches in saleable condition and related display material and spare parts for such watches, the aggregate fair market value of which is £372,000, and the balance of the subscription price of £20,000 shall be paid by Swico in cash so that the shareholding of Swico shall represent 49% of the total Shares to be in issue. The Memorandum and Articles of Association of the Company are attached hereto as Annex A.

## 3. BUSINESS OF THE COMPANY AND INITIAL OPERATIONS

- 3.1 **Principal Business.** The business of the Company shall be to sell, market and distribute in the United Kingdom certain watch brands pursuant to the Distribution Agreements (as defined below) (the "**Business**") in accordance with the Business Plan (as defined in Clause 8.1 below) and to engage in such other businesses or activities or make such other investments as may be approved by the Shareholders from time to time in accordance with this Agreement.
- 3.2 **Distribution Agreements.** MGI shall, or shall cause its appropriate Affiliate to, enter into exclusive distribution agreements, substantially in the form attached hereto as Annex B, except as the parties may otherwise agree (the "**Distribution Agreements**"), with the Company, and the Company will enter into the Distribution Agreements, pursuant to which MGI or its appropriate Affiliate shall grant to the Company the exclusive right to distribute HUGO BOSS, TOMMY HILFIGER, LACOSTE and JUICY COUTURE watches in the United Kingdom. Swico and MGI agree that, upon the effective date of the Distribution Agreement relating to the distribution of HUGO BOSS watches, they will take all action or cause their Affiliates, as the case may be, to take all action, to terminate the Swico HB Distributorship. In addition, subject to Clause 10.2.2, MGI will, or will cause its appropriate Affiliate to, offer to the Company substantially similar watch distribution agreements in the United Kingdom for any other brands which may hereafter be licensed to MGI or any of its Affiliates, subject, in each case, to the terms, conditions and limitations set forth in each licence, and the Company shall enter into, and the Shareholders will take all action to cause the Company to enter into, such distribution agreements. All references in this Agreement to "Distribution Agreements" shall include all such additional distribution agreements as may be entered into from time to time by the Company and MGI or any of its Affiliates. Any failure by MGI or its Affiliates to offer or execute such additional distribution agreements shall be deemed to be a material breach by MGI of this Agreement, and any failure by either Shareholder to take all action to cause the Company to enter into such additional distribution agreements shall be deemed to be a material breach by such Shareholder of this Agreement.
- 3.3 **Service Agreement.** Swico shall enter into a service agreement, substantially in the form attached as Annex C, with the Company (the "Service Agreement"), and the Company shall enter into the Service Agreement with Swico pursuant to which Swico shall provide to the Company certain services relating to the day-to-day operations of the Business.
- 3.4 **Employees.**
- Swico shall arrange in consultation with MGI the hiring of adequate staff, including sales staff, by the Company. Such staff shall include sales staff derived from employees of Swico currently dedicated to the HUGO BOSS brand. Swico shall assume the costs of transferring the employment of such employees to the Company.
  - All employees shall be employed by the Company at market-standard rates of compensation with market-standard benefits. Employees transferred from Swico will benefit from the terms and conditions applicable to their employment on the date of transfer ; provided however that the Company shall in no event assume any liability or obligation (including, without limitation, pension liabilities or other accrued liabilities) owed by Swico to any such employees which arose prior to the date of their transfer. If, notwithstanding the foregoing, the Company shall be deemed to have assumed any such liability or obligation, then Swico will indemnify, defend and hold the Company harmless against and in respect of all such liabilities and obligations. Swico shall indemnify and hold harmless the Company from and against any losses and expenses arising from any claim by any employee of Swico relating to such transfers or the transactions contemplated hereby, including without limitation any tax liability or any claim by any such employee that such employee's employment should have been transferred to the Company.
  - All agreements with employees (including those relating to compensation, commissions, benefits other agreements) shall be set forth in writing and made available for review by, and, if required pursuant to Clause 4.3.1, the approval of, the Chairman (as defined below).
- 3.5 **Insurance.** Swico shall cause the Company to be covered by Swico's group umbrella insurance policies as part of the services provided pursuant to the Services Agreement, with the exception of marine insurance for goods in transit which coverage shall be provided by MGI as part of its umbrella coverage for Affiliates . The Company shall reimburse to MGI MGI's incremental costs incurred relating to such insurance coverage promptly upon receipt from MGI of an invoice therefor.

- 3.6 **Systems.** At any time after the combined sales of the Company for any fiscal year exceed £10 million, upon the request of MGI, the Company shall

implement and the Shareholders shall take all action to cause the Company to implement, and Swico shall (in connection with the services provided by it under the Service Agreement) implement, MGI's information technology systems for accounting/financial reporting.

#### 4. CORPORATE GOVERNANCE AND MANAGEMENT

4.1 General. The Shareholders shall use their respective voting powers at general meetings of the Company (each a "Shareholders Meeting"), and shall take all other actions necessary, including action that may be taken through its shareholding in the Company, to give effect to all of the provisions of this Agreement, the Distribution Agreements and the Service Agreement. In the event of any conflict between the terms of this Agreement, on the one hand, and the terms of the governing documents of the Company on the other hand, the terms of this Agreement shall prevail.

#### 4.2 Managing Director.

4.2.1 Appointment. The Company shall be managed by a Managing Director. The Shareholders expect that Swico, based on its knowledge of the watch market in the United Kingdom, will furnish a recommendation for Managing Director to the Company for consideration. The Shareholders shall cause the Company to appoint as Managing Director the person recommended by Swico, following the prior approval of MGI, which shall not be withheld without good reason. For the purposes of the preceding sentence, "good reason" shall include, without limitation, failure of the candidate to have satisfactory relations with retailers and failure of the candidate to have achieved satisfactory financial results (as compared to forecasted results). The Shareholders will cause the Company to remove the Managing Director upon request by Swico for any or no reason, or upon request by MGI, for good cause. For the purposes of the preceding sentence, "good cause" shall include, without limitation, the failure of the Managing Director to properly manage the day-to-day activities of the Company, including without limitation the failure of the Managing Director to comply with the requirements set forth in Clause 4.2.3(b) below. The Managing Director shall devote all of his or her professional time to the business and operations of the Company; provided that if Mr. Keith Sheppard becomes the Managing Director, he shall devote such of his professional time to the business and operations of the Company as reasonably necessary.

4.2.2 Remuneration. The remuneration of the Managing Director shall be determined and paid by the Company, subject to approval by the Chairman. The Managing Director shall not have a separate employment contract, except as required by law and in no event shall the Managing Director be entitled to any severance payment of any kind whatsoever in the event of the termination of his employment by or resignation from the Company.

#### 4.2.3 Duties and Powers of the Managing Director.

- (a) Subject to the rights of the Chairman, the Board or of the Shareholders to approve certain specific decisions and actions as set forth in Clauses 4.3.1, 4.3.2, 4.4.5 or [4.5.1](#) or as provided by applicable law, the Managing Director shall conduct the day-to-day activities of the Company.
- (b) The Managing Director shall:
  - (i) promote the development of the Business;
  - (ii) ensure the continuity of the sales team management;
  - (iii) promote the continuity and development of customer relationships;
  - (iv) liaise with Swico to ensure the continuity of the Swico personnel providing services to the Company pursuant to the Service Agreement;
  - (v) prepare for review and approval by the Chairman a draft annual strategic plan, business plan and budget consistent with the Business Plan, and implement the approved annual strategic plan, business plan and budget;
  - (vi) communicate regularly with the Chairman regarding the operations of the Company including meeting not less than quarterly with the Advisory Committee to discuss and review any material financial, commercial or strategic developments or issues, including, without limitation, any action taken by the Managing Director under Clause 4.2.3(c);
  - (vii) cause the Company to adhere to the MGI group ethics and control policies as communicated by MGI from time to time and to comply with all procedures relating to MGI internal control over financial reporting;
  - (viii) manage the employees of the Company; and
  - (xi) comply with the requirements of this Agreement.
- (c) Without limiting the provisions of sub-clause (a) above, the Managing Director may take the following actions without the prior approval of the Chairman or of the Board:
  - (i) hire or terminate the employment of personnel having annual compensation of less than £50,000;
  - (ii) grant individual salary increases up to 10% higher than the increase based on the general cost of living index, or equivalent index in the United Kingdom, so long as total salary increases for such annual period do not exceed the budgeted salary increases;
  - (iii) negotiate and execute on behalf of the Company any commercial agreements in the ordinary course of business, consistent with past practice, if any, involving annual expenditures not to exceed the applicable budgeted amount for such expense category, or, absent a specific budgeted amount, the amount set forth in the Business Plan, or, absent any specific amount in the Business Plan, £50,000; and
  - (iv) make payments from and deposits into the bank accounts of the Company in the ordinary course of business, consistent with



#### 4.3 Chairman.

4.3.1 Duties and Powers. The Chairman, who shall be appointed in accordance with Clause 4.4.2, shall have a role in the management of the business of the Company, as provided herein. Without limiting the foregoing, the prior approval of the Chairman is required for any of the following decisions and actions to be taken, it being understood that the failure of the Managing Director to obtain the prior approval of the Chairman, or, failing approval by the Chairman, the approval of the Board, with respect to any of the following shall be deemed to be a material breach by Swico of this Agreement referred to under Clause 15.2 of this Agreement; provided, that, in the event any annual budget has not been duly approved on or before December 31<sup>st</sup> of any year, then the Business Plan (during the first 5 years of this Agreement) or the budget of the previous year (after the fifth year of this Agreement) shall continue to apply on a temporary basis pending such approval:

- (a) hiring or termination of the employment of personnel with annual compensation in excess of £50,000 or of any Person who is a Relative of any Board member appointed by Swico or of the Managing Director;
- (b) any action or decision that would represent a deviation of more than 5% with respect to any individual budget or Business Plan line item;
- (c) acquisition of fixed assets exceeding £50,000 individually or in the aggregate during any year, except to the extent specifically provided in the approved budget;
- (d) any material change to the marketing, sales or technology policies established by the Board;
- (e) incurrence of any liability in excess of £15,000 individually or collectively in any month, except to the extent specifically provided in the approved budget;
- (f) initiation or settlement of any litigation or claim exceeding £35,000;
- (g) entering into any contract not in the ordinary course of the business of the Company;
- (h) entering into any commercial agreements involving an annual amount exceeding £50,000, except to the extent specifically provided in the approved budget;
- (i) any decision or approval required in connection with the Service Agreement; and
- (j) making payments from the bank accounts of the Company other than in the ordinary course of business, except as otherwise expressly permitted by this Agreement.

4.3.2 With respect to the foregoing decisions and actions, the Managing Director shall notify the Chairman of the Managing Director's recommendation for such decision or action. The Chairman shall use reasonable efforts to inform the Managing Director of his decision thereon within five business days after such notification. In the event the Chairman has not notified its decision to the Managing Director within such five business day period, the Managing Director may consider that the Chairman disagrees with the recommendation of the Managing Director and may submit such proposed decision or action to the Board for decision in accordance with Clause 4.3.3. If the Chairman repeatedly fails to notify the Managing Director within such five business day period of its decision on any recommendation from the Managing Director, then Swico shall have the right to request that MGI replace the Chairman, which request MGI will consider in good faith.

4.3.3 Disagreement of Managing Director and the Chairman. Should the Managing Director and the Chairman disagree with respect to any of the decisions or actions set forth in Clause 4.3.1, either the Managing Director or the Chairman may submit such proposed decision or action to the Board for decision in accordance with this Agreement.

4.3.4 Service Agreement. The Managing Director shall consult the Chairman with respect to all decisions relating to the Service Agreement. The Chairman shall have the opportunity to be present (including by telephone) or represented at all material discussions or reporting in connection with the Service Agreement, and the Managing Director shall provide the Chairman with copies of all material written communications and summaries of all material oral communications with Swico relating to the Service Agreement. It is the intention of the Shareholders that the Chairman shall have the right in its sole discretion to make any decision to terminate the Service Agreement on behalf of the Company in accordance with Clause 5(b) thereof. [Therefore, in the event the Chairman instructs the Managing Director to terminate the Service Agreement, the Managing Director shall so terminate the Service Agreement in accordance with the terms thereof.] Any failure of the Managing Director to so follow the instructions of the Chairman expressed in compliance with the Service Agreement shall be deemed to be a material breach of this Agreement by Swico.

#### 4.4 Board of Directors.

4.4.1 Number and Composition. The board of directors of the Company (the "Board") shall at all times shall be comprised of four members (each, a "Director"), two of whom shall be designated by MGI and two of whom shall be designated by Swico.

4.4.2 Chairman. The Board shall be presided by a Chairman (the "Chairman"). He shall be designated (and may be removed at any time) by MGI from among the members of the Board appointed by MGI in accordance with Clause 4.4.1, provided, that MGI shall consult in good faith with Swico prior to so appointing the Chairman. The Chairman shall not have a second or casting vote at any meeting of the Board or at any committee thereof.

4.4.3 Removal and Replacement of Directors.

Each Shareholder shall be entitled to remove and replace any Director appointed by it as provided by Clause 4.4.1. Each such Shareholder shall indemnify the Company and keep the Company fully indemnified against any loss or damage or liability (including without limitation all reasonable legal costs and expenses incurred) suffered by the Company resulting from the removal or substitution of any representative Director, or arising from any negligent act or omission of such representative Director.

4.4.4 Board Meetings.

- (a) Meetings of the Board shall take place at least once every six-month period.
- (b) A meeting of the Board may be called by the Chairman or by any Director by giving notice in writing to the Company and the other Directors specifying the date, time and agenda for such meeting. Not less than seven (7) days' notice shall be given to all Directors; provided, however, that such notice period (i) shall not apply in the case of an adjourned meeting and (ii) may be reduced with the written consent of all of the Directors.
- (c) All meetings of the Board shall require the presence in person, of both Directors appointed by MGI and both Directors appointed by Swico. Any Director may, by written notice to all Directors transmitted by mail, electronic mail or facsimile, appoint his fellow representative Director as his alternate to attend and vote for such Director at any Board meeting and in which case such Director shall have two votes.
- (d) The adoption of any resolution of the Board shall require the unanimous approval of all Directors present or represented at a duly constituted meeting of the Board. In the event the required affirmative vote is not obtained as to any proposed resolution, then the proposed resolution will not be adopted and, if it would have resulted in a modification of the Business Plan or this Agreement, the modification will not be adopted. The Board shall not at any meeting adopt any resolution covering any matter that is not specified on the agenda for such meeting unless all Directors are present at such meeting.
- (e) Meetings of the Board, subject to applicable law, may be conducted via telephone or videoconference, with such participation constituting presence for purposes of the quorum requirement. Meetings of the Board shall take place in England.
- (f) The costs of attendance of Directors at meetings of the Board shall, to the extent permitted by law, be borne by the Company.
- (g) Any action that may be taken by the Directors at a meeting of any Board may be taken by a written resolution signed by all of the Directors in lieu of a meeting.

4.4.5 Authority of Board. The Board shall make all major decisions of the Company and all decisions outside the day- to-day business of the Company, except for (i) those decisions and actions that may be taken without such prior approval by the Managing Director alone or with the approval of the Chairman, in accordance with Clauses 4.2.3(c) or 4.3.1 and (ii) those decisions and actions that require the approval of the Shareholders in accordance with Clause 4.5.2. In addition, the Board shall decide on any matter submitted to it by the Managing Director or the Chairman in case of disagreement between the Managing Director and the Chairman. Without limiting the foregoing, the following decisions and actions shall require the prior approval of the Board:

- (a) any acquisition or disposition of assets exceeding £15,000 individually or in any calendar month, other than as specifically approved by the Chairman or provided in the approved budget;
- (b) entry into any lease or sublease arrangement of real property;
- (c) any change to the agreed dividend policy set forth in Clause [10.1](#);
- (d) incurrence of indebtedness for borrowed money;
- (e) acquisition of the equity of another Person;
- (f) any participation in any joint venture or partnership; and
- (g) any material modification to the Business Plan (other than merely adopting annual budgets), including, without limitation, any such modification that results in: (i) a decrease in profitability by more than two percent (2.0%); (ii) an increase of expenses by more than five percent (5.0%) of the budgeted amount for such category of expenses; or (iii) an increase in working capital of more than five percent (5.0%);
- (h) approval of the annual budget and strategic plans and business plans proposed by the Managing Director and approved by the Chairman.

#### 4.5 Shareholder Meetings and Approval.

4.5.1 Meetings of the Shareholders. Shareholder meetings shall be promptly convened by the Chairman upon delivery to the Chairman of a written request therefor by any two Directors. Shareholder Meetings may otherwise be convened as permitted or required by law.

4.5.2 Shareholder Approval. The following actions and decisions relating shall require the approval of the Shareholders by a vote of at least 75% of all voting rights:

- (a) increase, amortization or reduction of capital;
- (b) merger, spin-off, consolidation or transfer of any portion of the business or assets of any Company;
- (c) nomination of the statutory auditor;
- (d) approval of the annual accounts and affectation of the profit;
- (e) approval of agreements with any Related Party;
- (f) transformation of the corporate form of the Company;
- (g) dissolution, liquidation or reorganization or restructuring of the Company; and

- (h) all other matters for which shareholder approval is required in accordance with applicable law.

## 5. REPORTING AND INFORMATION RIGHTS

- 5.1 **Information Rights.** Each Shareholder and its authorized representatives, the Chairman, and each Director shall have the right, upon reasonable prior notice, during normal business hours to inspect from time to time the books and accounting records of the Company, to make extracts and copies therefrom at its own expense and to have full access to all of the Company's employees, property and assets. The Managing Director shall ensure that the foregoing rights and access are provided.
- 5.2 **Books and Records.** The Company shall, and in particular the Managing Director shall cause the Company to, maintain proper, complete and accurate books of account in accordance with generally accepted accounting principles as applied by MGI and its Affiliates. The Company shall have its accounts audited annually in accordance with such standards by a reputable firm of international accountants appointed by the Shareholders. The Shareholders agree to take all action to cause the Company to appoint as statutory auditor the firm designated by MGI, with the initial firm serving as auditor to be PricewaterhouseCoopers.
- 5.3 **Reports.** The Company shall have or shall arrange to have furnished to it under the Service Agreement, or otherwise, sufficient accounting, technological and administrative personnel and infrastructure to satisfy the normal reporting requirements of the MGI group, as communicated by MGI to the Board and to the Managing Director from time to time, as well as the requirements of applicable law. Without limiting the foregoing, the Company shall, and in particular the Managing Director shall cause the Company to, provide to the Board (i) unaudited financial data for the period just ended within 3 weeks after the end of each fiscal year and within 2 weeks after the end of each quarter (ii) within 2 months after the end of each fiscal year, the annual audited financial statements of the Company for such fiscal years, (iii) within two weeks after the end of each quarter, quarterly unaudited financial statements of the Company for such quarter, (iv) within 20 days after the end of each month, a management report including without limitation key operating metrics (e.g. sales and return statistics), a comparison of operating results with the relevant operating budget and an explanation of material differences between actual results and the budgeted amounts, if any and (v) such other reports as the Board may determine. The failure of the Managing Director to comply with the foregoing reporting requirements within one week after notice of non-delivery of the report shall be deemed to be a material breach of this Agreement by Swico.
- 5.4 **Budgets and Business Plans.** The Managing Director shall prepare proposed annual operating and capital budgets and business plans for the Company, which shall be submitted to the Chairman and to the Board for approval.

## 6. RESTRICTIONS ON TRANSFER OF SHARES

- 6.1 **Limitation on Transfers.** No Shareholder shall sell, give, assign, pledge, encumber, grant a security interest in or otherwise dispose of any Shares (each, a "Transfer"), except as expressly permitted by this Clause 6. Any attempt to Transfer any Shares in violation of the preceding sentence shall be null and void, and the Company shall not register any such Transfer.
- 6.2 **Transfers.** Notwithstanding any other provision of this Agreement, no Transfer may be made unless (a) the transferee has agreed in writing to be bound by the terms and conditions of this Agreement and (b) the Transfer complies in all respects with the other applicable provisions of this Agreement and the governing documents of the Company. The non-transferring Shareholder shall cooperate with the transferring Shareholder in respect of all transfers permitted hereunder.
- 6.3 **Transfers to Affiliates.** Any Transfer by a Shareholder to an Affiliate thereof (a "Permitted Transferee") may be made on the condition that the Permitted Transferee shall be bound by and agrees to all of the provisions of this Agreement and; provided, that the transferring Shareholder shall obtain the written consent to such Transfer from the other Shareholder, which shall not be unreasonably withheld. Any Transfer made in accordance with the previous sentence may be made without compliance with the provisions of Clause 6.4 or 6.5. If a Permitted Transferee after any such Transfer ceases to be an Affiliate of the transferring Shareholder, such Permitted Transferee shall transfer such Shares back to such transferring Shareholder.
- 6.4 **Prohibited Transfers.** Notwithstanding anything in this Agreement to the contrary, no Transfers, other than Transfers permitted pursuant to Clause 6.3, shall be made prior to July 1, 2012 (the "Lock-up Expiration Date").
- 6.5 **Transfers to Third Parties.**
- 6.5.1 **Transfer Notice.** If a Shareholder (the "Transferring Shareholder") receives a bona fide offer to acquire Shares and the Transferring Shareholder proposes to accept such offer, the Transferring Shareholder shall send written notice (the "Transfer Notice") to the Company and the other Shareholder (the "Offeree"), which notice shall state (i) the name of the Transferring Shareholder, (ii) the name and address of the proposed transferee (the "Transferee"), (iii) the number of Shares to be Transferred (the "Offered Shares"), (iv) the amount and form of the proposed consideration for the Transfer, (v) the other terms and conditions of the proposed Transfer and (vi) confirmation that the Transferee is willing to purchase the Shares held by the Offeree on the same terms and conditions. In the event that the proposed consideration for the Transfer includes consideration other than cash, the Transfer Notice shall include a calculation of the fair market value of such consideration and an explanation of the basis for such calculation. The total value of the consideration for the proposed Transfer is referred to herein as the "Offer Price", and the "Offer Price Per Share" shall equal the Offer Price divided by the number of Offered Shares.
- 6.5.2 **Rights of Offeree.** For a period of 30 days after delivery of a Transfer Notice (the "Offer Period"), the Offeree shall have the right by delivering written notice to the Transferring Shareholder to such effect (the "First Refusal Right") to (i) purchase in aggregate all, but not less than all, of the Offered Shares at a purchase price equal to the Offer Price, (ii) purchase 100% of the Shares held by the Transferring Shareholder and any Permitted Transferees to which the Transferring Shareholder shall have transferred Shares at a price equal to the Buyout Price, (iii) sell all of the Shares owned by it to the Transferee at a price equal to the Offer Price Per Share multiplied by the number of shares held by the Offeree and otherwise pursuant to the terms and conditions set forth in the Transfer Notice (the "Tag Along Right") or (iv) withhold its consent to the sale by the Transferring Shareholder to the Transferee in its absolute discretion, in which event the Transferring Shareholder shall not consummate such Transfer. The notice delivered by the Offeree to the Transferring Shareholder shall state which of the foregoing alternatives (i-iv) the Offeree has elected.
- 6.5.3 **Sale to Third-Party Purchaser.** Unless the Offeree shall have elected during the Offer Period in accordance with Clause 6.5.1 to exercise its First Refusal Right, its Tag Along Right, to be bought out or to withhold its consent to the sale by the Transferring Shareholder to the Transferee, the

Transferring Shareholder may Transfer all of the Offered Shares to the Transferee identified in the Transfer Notice on the terms and conditions set forth in the Transfer Notice; provided, that the Transfer shall be completed within three months after the giving of the Transfer Notice.

## 7. SWICO CHANGE OF CONTROL

- 7.1 Change of Control of Swico. Swico shall provide to MGI at least forty five (45) days prior notice of any Swico Change of Control. MGI shall have the right to purchase all of the Shares held by Swico and all Permitted Transferees to which Swico shall have transferred Shares at the Buyout Price, by sending notice to such effect to Swico within thirty (30) days after receipt of such notice.
- 7.2 Definition of Swico Change of Control. A “Swico Change of Control” shall be deemed to occur if (i) any competitor of MGI acquires more than 5% of the shares or voting rights of Swico or any Affiliate thereof (or, in the event the shares of Swico become publicly traded on a recognized investment exchange, such competitor acquires more than 10% of the shares or voting rights of Swico or any Affiliate thereof) or (ii) Mr. Keith Sheppard ceases to spend at least 50% of his time in the active day-to-day management of Swico or its Affiliates for any reason other than death or permanent disability. For the purposes of this Clause 7.2, Fossil, Swatch Group, Callanan International, Egana, Binda, Vestal and Advance, and any of their successors in interest, shall be deemed to be competitors of MGI, and, whether any other Person shall be considered to be a competitor of MGI shall be determined using reasonable judgment after taking into consideration the price, market position and placement at point of sale of the products of such Person.

## 8. FINANCIAL PERFORMANCE

- 8.1 Business Plan. Attached hereto as Annex D is the agreed business plan for the Company setting out specific financial performance measures annually for the period ending January 31, 2012 and containing the underlying principles and assumptions on the basis of which the Shareholders agree that the Business will be run for the duration of this Agreement (such business plan, as expressly duly modified by the Shareholders in accordance with the terms of this Agreement, the “Business Plan”).
- 8.2 Poor Financial Performance Year 5. In the event that, (i) based on the audited consolidated financial statements of the Company for the years ended January 31, 2008 through January 31, 2012, the Company has a cumulative loss or (ii) based on the audited consolidated financial statements of the Company for the years ended January 31, 2011 and January 31, 2012, the Company has failed to attain an average annual return on sales of at least 3%, then either Shareholder may elect by notice to the other Shareholder on or before April 30, 2012 to dissolve the Company, and both Shareholders shall vote in favour of such dissolution at the Shareholder Meeting duly convened for such purpose and shall otherwise co-operate in respect thereof.
- 8.3 Poor Financial Performance Year 10. In the event that, based on the audited consolidated financial statements of the Company for the years ended January 31, 2015 to January 31, 2017, the Company has failed to attain an average annual return on sales of at least 5%, then either Shareholder may elect by notice to the other Shareholder on or before April 30, 2017 to dissolve the Company, and both Shareholders shall vote in favour of such dissolution at the Shareholder Meeting duly convened for such purpose and shall otherwise co-operate in respect thereof.

## 9. BUY OUT RIGHT

- 9.1 Buy-Out Right. MGI shall have the right to purchase the Shares of Swico and all Permitted Transferees to which Swico shall have transferred Shares hereunder on July 1, 2017 and each fifth anniversary thereof (each such date or, if such date is not a business day, the next following business day, a “Buy-Out Date”), by notice to Swico at least eighteen (18) months prior to any Buy-Out Date, at the Buy-Out Price (as defined below). Upon receipt of such notice, Swico and any such Permitted Transferees shall be required to so transfer their Shares to MGI on the Buy-Out Date.
- 9.2 Buy-Out Price. The “Buy-Out Price” shall equal the product of (i) the percentage of total Shares held by the transferring party(ies) and (ii) 5 multiplied by the “Cash Flow Value” (which is hereby defined as the average annual operating cash flow (EBIT) for the three fiscal years prior to the Buy-Out Date based on the audited consolidated financial statements of the Company), plus the net asset value of the Company (on a consolidated basis) on the Buy-Out Date (or minus the net liability value of Company (on a consolidated basis) on the Buy-Out Date, as the case may be).

## 10. COVENANTS

- 10.1 Dividend Policy. The Parties agree that a dividend equal to 75% of the distributable profits of the Company on a consolidated basis in any year shall be declared as a dividend to the Shareholders on or before the 15<sup>th</sup> month after the end of such year, to the extent permitted by applicable law; provided, that such policy may be modified or waived pursuant to decision of the Board.
- 10.2 Non-Competition.

10.2.1 During the term of this Agreement, neither Swico nor its Affiliates shall without the prior consent of MGI, within any country where the Company regularly conducts business and distributes products, directly or indirectly distribute, sell or market any fashion watch brand that is competitive with any licensed brand distributed by or on behalf of MGI or any of its Affiliates in such country. Whether any fashion watch brand is competitive with any of MGI's or its Affiliates' licensed brands will be determined where applicable by reference to the applicable licence agreement itself; provided however that brands marketed by or on behalf of any of the following companies or their Affiliates shall be deemed to be competitive with the MGI licensed brands: Fossil, Swatch Group, Callanan International, Egana, Binda, Vestal and Advance. Whether any other fashion brand shall be considered to be competitive with any MGI licensed brand shall be determined using reasonable judgment after taking into consideration brand message, price, market position, final consumer profile and placement at point of sale. The Shareholders will consider appropriate exemptions from this provision in the event the Company commences to distribute products in any country other than the United Kingdom, where Swico or any of its Affiliates have pre-existing business.

10.2.2 If Swico breaches any of the provisions of Clause [10.2.1](#) (the "Non-Compete Covenant"), MGI shall be released from its obligation to appoint the Company as distributor for any new MGI licensed brands.

10.2.3 Swico agrees that the Non-Compete Covenant is reasonable in geographical and temporal scope and in all other respects. If any court determines that the Non-Compete Covenant, or any part thereof, is invalid or unenforceable, the remainder thereof shall not thereby be affected and shall be given full effect without regard to the invalid portions.

10.2.4 If any court determines that the Non-Compete Covenant is unenforceable because of the duration or geographic scope of such provision, such court shall have the power to reduce the duration or scope of such provision, as the case may be, and, in its reduced form, such provision shall then be enforceable.

10.3 Non-Solicitation. During the term of this Agreement and until the second anniversary of the valid termination or expiration thereof, neither MGI and its Affiliates, on the one hand, nor Swico and its Affiliates, on the other hand, shall recruit any employee, officer or director of the other for employment or as a consultant.

## 11. REPRESENTATIONS AND WARRANTIES

11.1 Each Shareholder represents to the other Shareholder that:

11.1.1 such Shareholder has the full power and authority to enter into, execute and deliver this Agreement and to perform the transactions contemplated hereby and, if such Shareholder is not a natural Person, such Shareholder is duly incorporated or organized and existing under the laws of the jurisdiction of its incorporation or organization;

11.1.2 the execution and delivery by such Shareholder of this Agreement and the performance by such Shareholder of the transactions contemplated hereby have been duly authorized by all necessary corporate or other action of such Shareholder;

11.1.3 assuming the due authorization, execution and delivery hereof by the other Shareholder, this Agreement constitutes the legal, valid and binding obligation of such Shareholder, enforceable against such Shareholder in accordance with its terms, except as such enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditors' rights generally; and

11.1.4 the execution, delivery and performance of this Agreement by such Shareholder and the consummation of the transactions contemplated hereby will not (a) violate any provision of the organizational or governance documents of such Shareholder; (b) require such Shareholder to obtain any consent, approval or action of, or make any filing with or give any notice to, any governmental authority in such Shareholder's country of organization or any other Shareholder pursuant to any instrument, contract or other agreement to which such Shareholder is a party or by which such Shareholder is bound, or (c) conflict with or result in any breach of or default under any of the terms and conditions of any instrument, contract or other agreement by which such Shareholder is bound.

## 12. FEES AND EXPENSES

12.1 Each Shareholder shall bear its own fees and expenses in connection with the preparation, execution and performance of this Agreement and the other documents contemplated hereby.

## 13. CONFIDENTIALITY

13.1 General Obligation. Each Shareholder undertakes that it shall not reveal, and shall use its reasonable efforts to ensure that its directors, officers, managers, partners, members, employees, legal, financial and professional advisors and bankers (collectively, "Representatives") do not reveal, to any third party any Confidential Information without the prior written consent of the Company or the Shareholder concerned, as the case may be. The term "Confidential Information" as used in this Agreement means (a) any information concerning the organization, business, technology, finance, transactions or affairs of the Company and each Shareholder or any of their respective directors, officers or employees (whether conveyed in written, oral or in any other form and whether such information is furnished before, on or after the date of this Agreement) and (b) any information or materials prepared by a Shareholder or its Representatives that contains or otherwise reflects, or is generated from, Confidential Information.

13.2 Exceptions. The provisions of Clause [13.1](#) shall not apply to:

13.2.1 disclosure of Confidential Information that is or becomes generally available to the public other than as a result of disclosure by or at the direction of a Shareholder or any of its Representatives in violation of this Agreement;

13.2.2 disclosure by a Shareholder to its Representatives;

13.2.3 disclosure, after giving prior notice to the other Parties to the extent practicable under the circumstances and subject to any practicable arrangements to protect confidentiality, to the extent required under the rules of any stock exchange or by applicable laws or governmental regulations or judicial or regulatory process or in connection with any judicial process regarding any legal action, suit or proceeding arising out of or relating to this Agreement; or

13.2.4 disclosure by any Shareholder of Confidential Information concerning the Company that is reasonably necessary in the ordinary course of business or otherwise in connection with transactions or proposed transactions of the Company.

13.3 Disclosure to Third Parties. Upon any Shareholder entering into negotiations with any Person with a view to Transferring any Shares to such Person, information in respect of the Company that is reasonably necessary to permit such Person to evaluate the business of the Company may be provided to such Person, provided that such Person has executed a confidentiality agreement in such form as may be reasonably required by the Board; and provided further

that if such Person is involved in a business in competition with that of the Company, the Board may prohibit the disclosure of any such Confidential Information as the Board may determine.

## 14. PUBLICITY

- 14.1 Except as required by law or regulations of any stock exchange or by any governmental authority, no publicity release or public announcement concerning the relationship or involvement of the Parties shall be made by any Shareholder without advance approval thereof by the other Shareholder, which approval shall not be unreasonably withheld.

## 15. TERMINATION AND BREACH

- 15.1 Term. This Agreement shall become effective upon the execution hereof by the Shareholders and the Company and shall continue in effect until the earlier to occur of (a) the date on which the Company goes into liquidation or dissolution, any property or assets of the Company are placed in the hands of a receiver, trust custodian or liquidator or a winding up order in respect of the Company is issued, or (b) the date on which this Agreement is validly terminated in accordance with Clause 15.2 or (c) any date agreed upon in writing by the Shareholders or (e) where all the Shares are held by one Person.

### 15.2 Breach.

- 15.2.1 Upon the material breach of this Agreement by any Shareholder, the non-breaching Shareholder may provide to the breaching Shareholder notification of such material breach, setting forth in reasonable detail therein the nature of such material breach. The breaching Shareholder and the non-breaching Shareholder shall meet to discuss in good faith the material breach and the cure thereof. Following such discussion, formal notification (the "Notification") may be given by the non-breaching Shareholder to the breaching Shareholder of the breach and requesting that the breaching Shareholder cure the breach.
- 15.2.2 If the breaching Shareholder shall not have cured such breach within 30 days after delivery of the Notification, the non-breaching Shareholder may, without prejudice to any other legal remedies it may have, within 60 days after expiration of such 30-day period, [(i) elect to terminate this Agreement and the Distribution Agreements], and dissolve and liquidate the Company (and the breaching Shareholder shall take all actions to co-operate in respect of the implementation of such dissolution and liquidation (including voting in favour thereof at the shareholder meeting duly convened for such purpose)) or (ii) elect to purchase the interests held by the breaching Shareholder and any Permitted Transferees thereof in the Company at a price equal to the product of (a) the percentage of total Shares held by the breaching Shareholder (and any Permitted Transferees thereof) and (b) 90% of 5 multiplied by the Cash Flow Value, plus the net asset value of the Company (on a consolidated basis) on the Buy-Out Date (or minus the net liability value of the Company (on a consolidated basis) on the Buy-Out Date, as the case may be). Notwithstanding the foregoing, if the Breach occurs during the 5 first years of activity (to January 31, 2012), such price will be equal to the multiple of (a) the percentage of total Shares held by the breaching Shareholder (and any Permitted Transferees thereof) and (b) 5 multiplied by the annual operating cash flow for the last fiscal year prior to the Buy-Out Date based on the audited consolidated financial statements of the Company, plus the net asset value of the Company (on a consolidated basis) on the Buy-Out Date (or minus the net liability value of the Company (on a consolidated basis) on the Buy-Out Date, as the case may be). Alternatively the non-breaching Shareholder may offer to purchase the Shares held by the breaching Shareholder and any Permitted Transferees thereof in the Company at any other price to be negotiated by the Parties.
- 15.2.3 A "material breach" for purposes of this Clause 15.2 shall include the breach by a Shareholder of the provisions of this Agreement (including without limitation of the management rules, the decision-making process or the non-compete or non-solicitation undertakings) or a breach of the provisions of the Distribution Agreements or the Service Agreement (with any breach thereof by any Affiliate of MGI being attributed to MGI and any breach thereof by any Affiliate of Swico being attributed to Swico) resulting, in any of the foregoing events in damages to the Company in excess of £35,000. Any material breach of, or actions inconsistent with, the terms of this Agreement (i) by the Managing Director or any Director designated by Swico shall be attributed to Swico, and (ii) by the Chairman or any Director designated by MGI shall be attributed to MGI.
- 15.3 Damages. In no event shall any Shareholder be required to pay indirect or consequential damages in respect of any breach by such Shareholder of any provision of this Agreement, except in the event of fraud.

## 16. NOTICES

- 16.1 Each notice or other communication hereunder shall be in writing and delivered or sent to the relevant Shareholder at its address or fax number set out in Schedule 1 (or such other address or fax number as the addressee may specify to the other Parties). Any notice or other communication shall be deemed to have been delivered (a) if given or made by letter, when actually delivered to the relevant address; and (b) if given or made by fax, upon dispatch and the receipt of a transmission report confirming dispatch.

## 17. MISCELLANEOUS

- 17.1 No Partnership. The Shareholders expressly do not intend hereby to form a partnership, either general or limited, under any jurisdiction's partnership law. The Shareholders do not intend to be partners one to another, or partners as to any third party, or create any fiduciary relationship among themselves, solely by virtue of their status as Shareholders.

- 17.2 Discrepancies. If there is any discrepancy between any provision of this Agreement and any provision of the governing documents of the Company, the provisions of this Agreement shall prevail, and the Parties shall procure that such governing documents are promptly amended, to the extent permitted by



applicable law, in order to conform with this Agreement.

- 17.3 Amendment. This Agreement may not be amended, modified or supplemented except by a written instrument executed by each of the Parties.
- 17.4 Waiver. No waiver of any provision of this Agreement shall be effective unless set forth in a written instrument signed by the Shareholder waiving such provision. No failure or delay by a Shareholder in exercising any right, power or remedy under this Agreement shall operate as a waiver thereof, nor shall any single or partial exercise of the same preclude any further exercise thereof or the exercise of any other right, power or remedy. Without limiting the foregoing, no waiver by a Shareholder of any breach by the other Shareholder of any provision hereof shall be deemed to be a waiver of any subsequent breach of that or any other provision hereof.
- 17.5 Entire Agreement. This Agreement (together with the agreements attached as Annexes hereto) constitutes the whole agreement between the Parties relating to the subject matter hereof and supersedes any prior agreements or understandings relating to such subject matter.
- 17.6 Severability. Each and every obligation under this Agreement shall be treated as a separate obligation and shall be severally enforceable as such and in the event of any obligation or obligations being or becoming unenforceable in whole or in part. To the extent that any provision or provisions of this Agreement are unenforceable they shall be deemed to be deleted from this Agreement, and any such deletion shall not affect the enforceability of this Agreement as remain not so deleted.
- 17.7 Assignment; Binding on Transferee. The provisions of this Agreement shall be binding upon and inure to the benefit of the Parties hereto and their respective successors and Permitted Transferees and transferees under Clause 6.5 from and after the effective date hereof. Neither Party may transfer its rights and obligations under this Agreement without the prior written consent, which shall not be unreasonably withheld, of the other Party.

## 18. GOVERNING LAW AND JURISDICTION

18.1 This Agreement shall be governed by and construed in accordance with the laws of England.

### 18.2 Disputes.

- 18.2.1 Any dispute or claim arising out of or in connection with or relating to this Agreement, or the breach, termination or invalidity hereof, including any claim for injunctive relief, shall be finally settled by arbitration under the Rules of Conciliation and Arbitration of the International Chamber of Commerce (the "Rules") as are in force at the time of any such arbitration. For the purpose of such arbitration, there shall be three arbitrators appointed in accordance with the Rules. The place of arbitration shall be in London. All arbitration proceedings shall be conducted in the English language. Judgment upon any arbitral award rendered hereunder may be entered in any court having jurisdiction, or application may be made to such court for a judicial acceptance of the award and an order of enforcement, as the case may be.
- 18.2.2 Each Shareholder shall co-operate in good faith to expedite (to the maximum extent practicable) the conduct of any arbitral proceedings commenced under this Agreement.
- 18.2.3 The costs and expenses of the arbitration, including, without limitation, the fees of the arbitrators shall be borne equally by each party to the dispute or claim, and each party shall pay its own fees, disbursements and other charges of its counsel.
- 18.2.4 Any award made by the arbitrators shall be final and binding on each of the Parties that were parties to the dispute. The Shareholders expressly agree to waive the applicability of any laws and regulations that would otherwise give the right to appeal the decisions of the arbitrators or to seek specific performance in another forum so that there shall be no appeal to any court of law for the award of the arbitrators, and a Shareholder shall not challenge or resist the enforcement action taken by any other the other Shareholder in whose favour an award of the Arbitration Panel was given.

**IN WITNESS WHEREOF**, the undersigned have executed this Agreement on the date first above written.

### **SWICO LIMITED**

By: /s/ Keith R. Sheppard

Name: K.R. Sheppard

Title: C.E.O.

### **MOVADO GROUP, INC.**

By: /s/ Timothy F. Michno

Name: T.F. Michno

Title: General Counsel

### **MGS DISTRIBUTION LIMITED**

By: /s/ Keith R. Sheppard

Name: K.R. Sheppard

Title: Managing Director





Schedule 1

SHAREHOLDERS

A. Movado Group, Inc.  
Principle Office: 650 From Road, Paramus, NJ 07652  
Address for notification: same, to the attention of Jon Step, with a copy to:General Counsel, Movado Group, Inc., 650 From Road, Paramus, NJ 07652, U.S.A.

B. SWICO LIMITED  
Registered Office: Meadway House, Meadway, Haslemere, Surrey GU27 1NN England  
Address for Notification: same as Registered Office , to the attention of Keith Sheppard

SERVICE AGREEMENT

BETWEEN

SWICO LIMITED

MOVADO GROUP, INC

and

MGS DISTRIBUTION LIMITED

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Dated as of May 11, 2007

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## SERVICE AGREEMENT

SERVICE AGREEMENT, dated as of May 11, 2007 (this "Agreement"), between SWICO LIMITED a corporation incorporated under the laws of England, having its registered office at Meadway, Haslemere, Surrey GU27 1NN, England, registered number 469666 ("Swico"), MOVADO GROUP, INC., a corporation incorporated under the laws of New York, having its principle office at 650 From Road, Paramus, NJ 07652 ("MGI") and MGS DISTRIBUTION LIMITED, a corporation incorporated under the laws of England, having its registered office at c/o Swico, Meadway, Haslemere, Surrey GU27 1NN, England, registered number 6183896 ("Company").

### WITNESSETH:

WHEREAS, Swico has entered into a Joint Venture Agreement, dated as of May 11, 2007 with the Company and MGI (the "JV Agreement"), pursuant to which Swico and MGI have taken, respectively, a 51% and 49% interest in the Company and have established a joint venture relationship relating to the sale, marketing and distribution of certain watch brands in the United Kingdom; and

WHEREAS, it is contemplated in the JV Agreement that Swico will provide certain services to the Company pursuant to a services agreement to be entered into between Swico and the Company; and

WHEREAS, set forth in this Agreement are the terms and conditions of the services to be provided by Swico to the Company as contemplated by the JV Agreement.

NOW, THEREFORE, the parties hereto agree as follows:

#### **19. SERVICES GENERALLY.**

##### **19.1 Services Provided by Swico**

. During the term of this Agreement, Swico shall provide to the Company the services described on Annex "A" hereto and otherwise as set forth in this Agreement (the "Services"), in each case as requested by the Company.

##### **(b) Exclusivity**

. The Company shall obtain the Services exclusively from Swico during the term of this Agreement.

#### **Section 2. Logistics Services**

(a) Warehouse. Swico will maintain a warehouse facility and fulfillment center at the address first set forth above or at such other location as may be reasonably acceptable to the Company (the "Facility") and within such Facility will maintain a secure, contiguous dedicated area in such location as the Company shall reasonably request exclusively for the storage of watches owned, consigned to and/or to be sold by the Company ("Merchandise") sufficient for all the Merchandise on hand at any one time in the Facility to be stored in such area ("Secure Area"). Swico will employ such measures to ensure that the Secure Area is reasonably secure and that the Merchandise kept therein is reasonably protected from loss and damage. Such measures shall include (a) keeping the Facility protected by alarms at all times; (b) providing full time (twenty-four (24) hour/seven (7) day) video cameras; (c) utilizing secured rolling cages for shipping and receiving and (d) using other measures as the Company shall reasonably request. Swico at all times will keep all Merchandise on hand in the Facility in the Secure Area except those individual items in receiving (as provided in section 2(b)) and in shipping (as provided in section 2(c)).

(b) Receiving. Swico will receive all Merchandise and all related materials, including, without limitation, boxes, warranty cards, operating manuals, advertising material and the like, and all other materials shipped to it, either by MGI, any of its Affiliates or from retailers or other customers ("Accounts") returning Merchandise directly to the Facility, and, upon receipt of such Merchandise, Swico will verify that the correct quantity, stock keeping unit ("SKU") and technical reference numbers are received and will visually check each item received for defects, damage or other observable non-conforming variances. In addition to the Merchandise to be received from MGI, its Affiliates and Accounts as described above, Swico acknowledges that as of the date hereof, it is holding certain additional Merchandise of the Company consisting of TOMMY HILFIGER, LACOSTE and HUGO BOSS watches which are part of the Merchandise to be used for the fulfillment of Customer Orders as provided hereunder. Swico shall make appropriate records of and will store all Merchandise so verified and checked in the Secure Area. All non-conforming Merchandise will be segregated from conforming Merchandise and stored in a separate location within the Secure Area pending disposition in accordance with such instructions as the Company shall advise, and a record will be made thereof by the employee performing the check, identifying each non-conforming item by shipment or bill of lading number, order number, date of receipt, SKU and technical reference number, and such other information as the Company shall require. Swico will send the Company weekly "Discrepancy and Defective Reports" setting out in detail all non-conforming Merchandise and all shortages in shipments received in the prior week.

(c) Shipping. Swico will pick, pack and ship all Merchandise ordered by Accounts ("Customer Orders") in accordance with such procedures and instructions as the Company shall advise from time to time. All Merchandise shipped to Accounts will be packaged with box, operating manual, warranty card, invoices, packing slips and such other documents, packaging material, if any, as the Company shall instruct; provided that MGI or its Affiliate shall have furnished such material to Swico (except the invoices and packing slips which Swico shall print itself). Swico will ship all Merchandise in fulfillment of Customer Orders by seventy two (72) hours courier delivery, or otherwise as the Company shall instruct, at the Company's expense, within twenty-four (24) hours after Swico's receipt of each such order. The Company will obtain insurance coverage for any and all such Merchandise in transit from the Facility to any Account.

(d) Records. All bills of lading for all such shipments will be retained by Swico for at least twelve (12) months after which time, unless sooner requested, such documents shall be sent to the Company.

(e) Information Systems. Swico at all times will maintain an information system with full functionality, and adequate, as reasonably determined by MGI, for the accurate and timely reporting of all information pertaining to the Merchandise, including inventory on hand, Merchandise available to ship, open orders, sales and shipments made and such other information as required by MGI and the Company ("Information System"). Swico will perform periodic cycle counts of the Merchandise and, once yearly, will conduct a physical inventory of Merchandise on hand and furnish the Company and MGI with a written report detailing by SKU all such Merchandise and reconciling the inventory of Merchandise on hand with Customer Orders received and all shipments made in fulfillment thereof (respectively), each item of Merchandise so shipped identified by SKU and technical reference number and such other information as MGI or the Company shall require from time to time. Swico will notify MGI and the Company in advance of any annual physical inventory and each of them shall each have the right to have a representative present during such inventory.

(f) Risk of Loss. Except for any loss or damage not covered by the insurance procured pursuant to Section 2(g) hereof and resulting from Swico's breach of this Agreement or gross negligence or willful misconduct, the Company shall at all times bear all risk of loss of or damage to the Merchandise in the Facility, and, subject to Section 2(h) hereof, until delivery thereof is made to the appropriate Account in fulfillment of a Customer Order.

(g) Insurance. Swico shall procure on behalf of the Company and shall maintain in effect at all times adequate insurance coverage for the Merchandise in the Facility against all expected risks, including theft and destruction. The Company, on behalf of itself and all parties claiming by, through or under it, releases and discharges Swico from all claims and liabilities arising from or caused by any casualty or hazard covered in whole or in part by such insurance on the Merchandise and waives any right of subrogation which might otherwise exist in or accrue to any person on account thereof.

(h) Indemnity. Except as provided in Sections 2(f) or 2(g), Swico shall be liable for, and shall indemnify and hold the Company harmless against, any loss or damage arising out of any act or omission on the part of Swico or its officers, employees, agents, contractors and representatives in respect of or relating to any of the Merchandise.

(i) Physical Inventory. Each of MGI and the Company in its sole discretion, at its sole expense and upon reasonable notice to Swico, reserves the right to conduct, from time to time subsequent to the date hereof, physical inventories of Merchandise held by Swico and to audit Swico's applicable inventory and sales records and all other books and records pertaining to this Agreement. Swico agrees to fully cooperate and assist in conducting any such inventory and/or audit. Swico shall have the right to observe and participate in the conduct of the inventory by MGI or the Company. Swico shall be solely responsible for shrinkage exceeding 0.20% annually (i.e., difference between book and physical inventory) evidenced by either a physical inventory conducted by Swico or as a result of a physical inventory conducted by MGI or the Company. Swico shall prepare and submit to the Company, within ten (10) days after the completion of any physical inventory performed by or for Swico, a report reconciling the Company's outstanding Merchandise to physical inventory on hand (the "Reconciliation Report"). The Reconciliation Report shall list each item of Merchandise by SKU and by technical reference number. In the event of a discrepancy between the Reconciliation Report prepared by Swico and the results of any inventory conducted by MGI or the Company, the parties hereto shall attempt in good faith to mutually agree on the resolution of such discrepancies failing which resolution within thirty (30) days, the discrepancy will be reconciled by PricewaterhouseCoopers whose determination shall be binding. The costs for such independent accountants shall be borne equally by the parties.

(j) Title. Title to the Merchandise shall remain and be vested at all times solely in the Company, and Swico will not, and will not permit any other person to, encumber the Merchandise or assert any interest, claim, lien, or right in or in respect of the Merchandise. Swico hereby waives any security interest it may have or that it may be entitled to assert as a matter of law in the Merchandise, including, without limitation, any warehouseman's lien. Swico will not issue any warehouse receipt or any other document or instrument, negotiable or non-negotiable, in respect of any of the Merchandise to any person or entity other than the Company.

### **SECTION 3. REPORTING AND PLANNING.**

(a) SWICO shall provide to the Company before the 10th day of each month a full written quality report regarding all Services provided by Swico for the preceding month. Such report shall include relevant details regarding all such Services in order to permit the Company to monitor the quality and volume of the Services provided, including (i) shipment indicators, (ii) repairs indicators, (iii) returns indicators, (iv) bookkeeping indicators and (v) other information as reasonably requested by the Company.

(b) At least once per Quarter, the Managing Director of Swico and/or the Chairman of Swico, and the Managing Director of the Company and the Chairman of the the Company shall discuss the scope of the Services provided hereunder, the expectations of the Company for the following month with respect to Services anticipated to be required for such following month and generally any issues related to the Services provided hereunder.

### **Section 4. Prices and Billing.**

#### Prices for Services

. The prices for the Services shall be as set forth on Annex B and shall consist of the Base Fee and the Commission (as such terms are defined on Annex B). Any modification to such prices for any reason whatsoever shall require the approval in writing of the Chairman and the Managing Director of the Company, on the one hand, and Swico, on the other hand.

#### 19.2 Procedure

. Swico shall submit to the Company on or after the 15th day of each month an invoice in the amount of the monthly Base Fee due for Services rendered hereunder by Swico during the preceding month. Such invoice shall include all reasonable detail regarding the Services provided and shall be payable by the Company within 30 days after the date of delivery thereof to the Company. In addition, and together with payment of the Base Fee, the Company shall pay Swico the Commission as set forth on Annex B together with a statement of net sales on the basis of which the Commission was calculated.

### **SECTION 5. TERM AND TERMINATION.**

#### (a) Term

. Unless otherwise terminated pursuant to Section 5(b), this Agreement will terminate upon termination of the JV Agreement. Section 7 shall survive any such termination.

#### (b) Early Termination

. (a) In the event the Company shall have obtained a good-faith written proposal of a third party to provide all of the Services hereunder for a price equal to 85% (or less) of the actual amounts invoiced for such Services by Swico (based on the average of such actual amounts over the preceding six-month period), the Company may provide notice to Swico (including a copy of such proposal) of the Company's intention to terminate this Agreement with respect to all of the Services; provided, that Swico shall have the right to continue to provide the Services upon the terms and conditions set forth in such third-party proposal by notice to such effect to the Company within 60 days following delivery by the Company of its notification to Swico. Should Swico fail to so accept to provide the Services upon the terms and conditions set forth in such third-party proposal within such time period, the Company may terminate this Agreement by notice to Swico, such termination to be effective on the tenth business day after such notification of termination.

In the event of a material breach by Swico of its obligations hereunder, which shall include without limitation continuing provision of substandard Services, the Company may provide notice of such material breach of Swico. Such notification shall include reasonable details regarding the nature of the

material breach, and Swico and the Chairman and Managing Director of the Company shall meet to discuss the circumstances of such material breach and possibilities for the cure thereof. If Swico shall not have cured such material breach within 60 days after such notification, the Company may terminate this Agreement by delivery of written notice to Swico, such termination to be effective immediately upon delivery of such notification.

## SECTION 6. FORCE MAJEURE

. No party shall be responsible for failure or delay in the performance of any Services, nor shall any party be responsible for failure or delay in receiving such Service, if caused by an act of God or public enemy, war, terrorism, government acts or regulations, fire, flood, embargo, quarantine, epidemic, labor stoppages beyond its reasonable control, accident, unusually severe weather or other cause similar to the foregoing beyond their control (herein called "Force Majeure"); provided, that the party affected by Force Majeure shall have exercised all reasonable efforts to avoid or minimize the effects of such event or condition.

## SECTION 7. CONFIDENTIALITY.

### (a) Confidential Information

. Each party recognizes that in the performance of this Agreement confidential and/or proprietary information belonging to any other party regarding the Services may be disclosed or become known to any other party or its respective affiliates ("Confidential Information"). Unless otherwise expressed in writing to the other party, information that is exchanged between the parties shall be presumed to be confidential and/or proprietary. Each party agrees to take, and to cause its affiliates to take, such precautions as such party normally takes with its confidential and/or proprietary information to hold in confidence all confidential and/or proprietary information with respect to the Services that belong to the other party.

### (b) Exceptions

. This Section 7 shall not apply to:

information which, at the time of disclosure, is in the public domain;

information which, after its disclosure, becomes part of the public domain by publication or otherwise, except in breach of this Agreement;

information which Swico or the Company shall receive from a third party; provided, however, that the third party has the right to disclose the Confidential Information to Swico or the Company, as the case may be; or

information which is required by law, rule or regulation (including the rules of any stock exchange on which such party's securities are listed) to be disclosed; provided that the disclosing party provides prompt notice of such disclosure (and to the extent practicable, shall provide such notice prior to such disclosure).

## SECTION 8. MISCELLANEOUS.

### (a) Notices

. All communications provided for hereunder shall be in writing and shall be deemed to be given when delivered in person or by overnight courier with receipt, when telefaxed and received, or 5 days after being deposited with the postal service, first-class, registered or certified, return receipt requested, with postage paid and,

if to Swico:

Meadway, Haslemere, Surrey GU27 1NN, England

Attention : Keith Sheppard

Facsimile:

if to the Company

c/o Swico at the address above:

Attention: Chairman

Facsimile:

And a copy to MGI by email at: [tmichno@movadogroup.com](mailto:tmichno@movadogroup.com)

or to such other address as any such party shall designate by written notice to the other party hereto.

(b) Standard of Care Swico shall provide the Services in all material respects using substantially the same diligence and care as it uses in performing similar services in respect of its own businesses.

### (c) Non-Assignability

. This Agreement shall inure to the benefit of and be binding on the parties hereto and their respective successors and permitted assigns. This Agreement shall not be assigned by any party hereto without the express prior written consent of the other parties, and any attempted assignment, without such consent, shall be null and void. This agreement could be assigned by Swico to any of its Affiliates (as defined in the JV Agreement).

(d) Amendment; Waiver. This Agreement may be amended, supplemented or otherwise modified only by a written instrument executed by each of the parties hereto. No waiver by any party of any of the provisions hereof shall be effective unless explicitly set forth in writing and executed by the party so waiving. Except as provided in the preceding sentence, no action taken pursuant to this Agreement, including any investigation by or on behalf of any party, shall be deemed to constitute a waiver by the party taking such action of compliance with any representations, warranties, covenants, or agreements contained herein, and in any documents delivered or to be delivered pursuant to this Agreement. The waiver by any party hereto of a breach of any provision of this Agreement shall not operate or be construed as a waiver of any subsequent breach.

(e) Third Parties

. This Agreement does not create any rights, claims or benefits inuring to any Person that is not a party hereto (except, where specifically so provided, for affiliates of the parties who are entitled to receive Services) nor create or establish any third party beneficiary hereto.

(f) Governing Law

. This Agreement and the rights and duties of the parties hereunder shall be governed by, and construed in accordance with, the laws of England.

(g) Dispute Resolution

. Any dispute or claim arising out of or in connection with or relating to this Agreement, or the breach, termination or invalidity hereof, including any claim for injunctive relief, shall be finally settled by arbitration under the Rules of Conciliation and Arbitration of the International Chamber of Commerce (the "Rules") as are in force at the time of any such arbitration. For the purpose of such arbitration, there shall be three arbitrators appointed in accordance with the Rules. The place of arbitration shall be in London. All arbitration proceedings shall be conducted in the English language. Judgment upon any arbitral award rendered hereunder may be entered in any court having jurisdiction, or application may be made to such court for a judicial acceptance of the award and an order of enforcement, as the case may be. Each of Swico and the Company shall cooperate in good faith to expedite (to the maximum extent practicable) the conduct of any arbitral proceedings commenced under this Agreement. The costs and expenses of the arbitration, including, without limitation, the fees of the arbitrators, shall be borne equally by each party to the dispute or claim, and each party shall pay its own fees, disbursements and other charges of its counsel. Any award made by the arbitrators shall be final and binding on each of the Parties that were parties to the dispute. The Parties expressly agree to waive the applicability of any laws and regulations that would otherwise give the right to appeal the decisions of the arbitrators or to seek specific performance in another forum so that there shall be no appeal to any court of law for the award of the arbitrators, and a Shareholder shall not challenge or resist the enforcement action taken by the other Shareholder in whose favor an award of the Arbitration Board was given.

(h) Entire Agreement

. This Agreement and the Joint Venture Agreement contain the entire agreement and understanding between the parties hereto with respect to the subject matter hereof and supersede all prior agreements and understandings relating to such subject matter; provided that in the event any provision of this Agreement and the JV Agreement are in conflict in relation to the matters addressed by this Agreement, the provisions of this Agreement shall prevail. Any capitalized term used but not defined herein shall have the meaning given such term in the Joint Venture Agreement. Neither party shall be liable or bound to any other party in any manner by any representations, warranties or covenants relating to such subject matter except as specifically set forth herein or in the JV Agreement.

(i) Severability

. If any provision of this Agreement shall be declared by any court of competent jurisdiction to be illegal, void or unenforceable, all other provisions of this Agreement shall not be affected and shall remain in full force and effect.

(j) Employees Notwithstanding anything contained in this Agreement, (i) the individuals employed by Swico who provide Services pursuant to this Agreement shall in no respect be considered employees of the Company for purposes of this Agreement; (ii) Swico shall act as the sole employer of the individuals it employs and shall not delegate any employment functions to the Company; (iii) Swico shall have the sole responsibility for the day-to-day control and supervision of the individuals whom it employs in connection with this Agreement and (iv) Swico retain any and all liability with respect to the actions, activities and conduct of such individuals in full (including any employment-related claims, litigation or other assertions of liability or responsibility).

(k) Scope of Relationship. The parties acknowledge and agree that the relationship between them under this Agreement is that of independent contractors and nothing contained in this Agreement or otherwise shall be construed to constitute or create a partnership, agency relationship or joint venture between such parties. No party has the power or authority to act on behalf of any other party, except as expressly set forth in this Agreement or as authorized in writing by the other party.

(l) Further Assurances

. From time to time after the date hereof, as and when requested by a party hereto and at such party's expense, the other party shall, and shall cause its affiliates to, execute and deliver all documents and instruments and take all other actions as the requesting party may reasonably deem necessary or desirable to evidence or effectuate any of the transactions contemplated hereby.

[Signature page follows]

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IN WITNESS WHEREOF, the parties have executed this Services Agreement as of the date first written above.

SWICO LIMITED

By: \_\_\_\_\_

Name:

Title:

MOVADO GROUP, INC.

By: \_\_\_\_\_

Name:

Title:

MGS DISTRIBUTION LIMITED.

By: \_\_\_\_\_

Name:

Title:

**ANNEX A**

**Finance:**

Cost / Profit centers management,  
Processing sales and purchase invoices into the accounting system;  
Matching of accounting system and bank accounts;  
Invoice check and approval follow-up,  
Preparing bank disbursements for signature and approval;  
Preparation of quarterly management accounts (monthly P&L, quarterly balance-sheet);  
Preparation of monthly sales analysis;  
Preparation of monthly management reports;  
Preparation of Forecasts,  
Preparation of Treasury reporting,  
Preparation of statutory and US GAAP financial statements  
Maintenance of credit control management, processing of customer payments,  
Preparation of payroll journals for processing by outsourced payroll bureau;  
Accounting closing process;  
Maintaining cashbook records and reconciling to the accounting system and bank accounts;  
Reconciliation of accounting records to supporting schedules  
Preparation of statutory and US GAAP financial statements

**Tax :**

Tax declaration with external auditors,  
Tax control organization,  
Tax reporting,

**Insurance :**

Arrange for inclusion of the Company under Swico's umbrella coverage (except for marine insurance for goods in transit)  
Check of insurance coverage and premium follow-up,  
Management of all insurance claims,  
Contact with corporate insurance and medical care,

**IS:**

Follow-up of outsourced IS maintenance provider for network, PC and printers,  
Follow-up of upgrades or purchase for both Soft and Hardware;  
Provide basic service for Helpdesk (include trouble shooting/PC setup);  
Support various inquiries/troubles about core business application;  
Maintain the network

**Purchase :**

Negotiation with suppliers,  
Management of general purchases : phones, cars, office supplies, copiers and faxes, logistic costs,  
Follow-up of free-lancers contracts,  
Savings plan management,

**Human Resources:**

Administration of outsourced payroll bureau, income taxes and national insurance declaration;  
Follow-up and update of HR files, contracts update,  
Reporting to authorities regarding HR data,  
Trainings management,  
Part-time agency management,

**Sales Customer Service:**

Support for forecasts, and monthly reporting,  
Margin analysis,  
Processing sales orders provided by Sub. ;  
Taking telephone sales orders from retail customer and seeking approval from Sub;  
Dealing with retail consumer queries regarding product availability and pricing;  
Providing back order information to Sub on request;  
Maintaining product descriptions and pricing as approved by Sub;  
Invoicing (post shipment) sales

**After-sales Customer Service:**

Invoicing retail customers and end consumers for spare parts, after-sales services and repairs;  
Customer receivables follow-up,  
Support for forecasts, reporting.

**Logistics:**

Arrangement of import and export of the goods and POS materials;  
QC work for imported products and returns from the trade based on the QC standard;  
Physical stock taking on quarterly basis;  
Storage of goods for resale, i.e. watches, straps and bracelets (incl. branded packaging);  
Storage of marketing and promotional materials,  
Maintenance of perpetual inventory records for the above;  
Shipment of goods & invoices to retail customers in accordance with sales orders;  
Shipment of after-sales serviced watches to retail customers and end consumers;  
Shipment of after-sales spare parts to retail customers and end consumers;  
Shipment of branded displays and visuals to retail customers;  
Shipment of branded catalogues and price list to retail customers and end consumers;  
Participation to mailing actions,

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**ANNEX B**

**Prices for the Services**

Swico's total compensation for the duration of this Agreement for all Services rendered shall consist of an annual base fee, in the amount set forth below ("Base Fee"), and a commission ("Commission") equal to \* by any distributor (other than the Company) appointed as the exclusive distributor of such Products in that country ("Distributor"). For purposes of this Agreement, "Products" means watches sold under any brand (other than TOMMY HILFIGER) which is licensed to MGI or any Affiliate of MGI; provided such watches are also sold by the Company. The term "net sales" means the price for the Products invoiced by the Distributor, net of taxes, freight, duties, insurance and any discounts.

**Annual Base Fee (£)**

Year 1 : \*

Year 2 : \*

Year 3 : \*

Year 4 : \*

Year 5 : \*

Year 6 : \*

Each year after year 6 the annual Base Fee shall be three percent (3.0%) more than the Base Fee in the immediately preceding year.

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

JUCY COUTURE  
DISTRIBUTORSHIP AGREEMENT

THIS AGREEMENT is made and entered into as of May 11, 2007 (the "Effective Date") by and between SWISSAM PRODUCTS LTD. a corporation duly incorporated under the laws of Hong Kong having its principal office at 1406 World Finance Centre, North Tower, Harbour City, Tsimshatsui, Kowloon, Hong Kong (hereinafter referred to as "Supplier") and MGS DISTRIBUTION LIMITED, a corporation incorporated under the laws of England having its principle office at c/o Swico, Meadway, Surrey GU 27 1NN, England (hereinafter referred to as the "Distributor").

RECITALS

WHEREAS, Swico Limited ("Swico"), Movado Group, Inc. ("MGI") and Distributor have entered into a Joint Venture Agreement, dated May 11, 2007 (the "JV Agreement"), pursuant to which Swico and MGI have established a joint venture relationship relating to the sale, marketing and distribution of certain watch brands in the United Kingdom.

WHEREAS, this Agreement is one of the Distribution Agreements as defined in the JV Agreement.

WHEREAS Supplier is an Affiliate (as defined in the JV Agreement) of MGI and is engaged in the development, design, manufacture, distribution and sale of the Products (as hereinafter defined) and Supplier desires to appoint Distributor and Distributor desires to be appointed, as the exclusive distributor of the Products in the Territory (as hereinafter defined), in accordance with the terms and conditions set forth hereinafter;

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained, the parties hereto agree as follows:



## 1. DEFINITIONS

1.1 In this Agreement, except where the context otherwise requires, the capitalized terms listed below shall have the respective meanings assigned to them as follows:

“Affiliate” means as to either party, a person or entity which controls, is under common control with, or is controlled by such party.

“Corporate Accounts” means premium and incentive accounts and other corporate accounts which have been approved in writing by Licensor under the JC License for the purchase of Products solely for the use of the employees of such accounts.

“Products” means watches manufactured by or for Supplier and bearing one or more of the Trademarks

“Territory” means the United Kingdom (excluding Travel Retail Accounts).

“Licensor” means the licensor under the JC License, including any successors and assigns.

“JC” means Juicy Couture.

“JC License” means the license agreement between SWISSAM PRODUCTS LIMITED, MOVADO GROUP, INC. and L.C. LICENSING, INC., as the same may be amended from time to time, pursuant to which Supplier has the right to use the Trademarks in connection with the manufacture, marketing, advertising, sale and distribution of the Products.

“JC Stores” means retail and outlet stores, including flagship stores, owned or operated by Licensor or by any of its Affiliates.

“Trademarks” means all trademarks licensed to Supplier by Licensor under the JC License and used on or in connection with the Products, including, without limitation, JUICY, JUICY COUTURE or any other product that contains the name JUICY.

“Travel Retail Accounts” means any account whose retail business consists of in-flight duty free retail sales operations.

1.2 Unless otherwise defined herein, each capitalized term used herein shall have the meaning as set forth in the JC License.

## 2. APPOINTMENT

2.1 Subject to the terms and conditions contained herein, for the term of this Agreement, Supplier hereby appoints Distributor as the exclusive wholesale distributor for marketing, distribution and sales of the Products in the Territory (with the exception of sales to Corporate Accounts), and Distributor hereby accepts such appointment. Notwithstanding anything to the contrary contained herein, Supplier may permit Distributor to sell Products to certain Corporate Accounts located within the Territory on a case by case basis subject to the approval by Licensor as provided in the JC License and as Supplier may, in its sole and absolute discretion designate in writing from time to time.

2.2 Distributor shall purchase all Products directly from Supplier, or from one or more other sources nominated in writing by Supplier, subject to Distributor’s right to purchase Products (a) from other distributors with which Supplier has contracted for the distribution of the Products (“Approved Distributors”) that are located in Switzerland, the European Union, the European Economic Area or any other country with which the European Union has concluded a free trade agreement (in the aggregate, the “European Area”) and (b) from approved retailers that satisfy the conditions set forth in Section 8.2 hereof (“Approved Retailers”) located in the European Area (provided that prior to exercising such right Distributor receives written confirmation from Supplier that each such other distributor is an Approved Distributor and that each such retailer is an Approved Retailer). Such Approved Distributors and Approved Retailers, only, are included within and comprise the JC selective distribution network.

2.3 Distributor shall sell the Products only to Approved Retailers in the Territory and, within the European Area, only within the JC selective distribution network. Distributor shall refrain, outside the Territory and in relation to the Products, from actively soliciting orders, establishing any branch or maintaining any distribution depots. In no event will Distributor sell or continue selling Products to any retailer that does not satisfy the conditions in Section 8.2 of this Agreement.

2.4 Distributor shall use reasonable commercial efforts to advertise, promote, market, distribute and sell the Products in the Territory. Without limiting the generality of the foregoing, Distributor shall at all times maintain adequate stocks of Products to meet demand for the Products in the Territory by those retailers, if any, not being direct shipped by Supplier and Distributor will use reasonable efforts to avoid accumulating excess inventory not in line with its forecasts. Distributor shall maintain an adequate sales force for the effective distribution and sale of the Products in the Territory including at least one (1) full time watch division manager to supervise/manage a dedicated sales manager and sales executive for the Products, experienced in managing a watch distribution business and one (1) full time marketing manager working on the advertising and promotion of the Products.

2.5 During the term of this Agreement Distributor shall not directly or indirectly distribute any other watch brands which, in the determination of Supplier, compete with the Products in the Territory. No other brand licensed to MGI or any Affiliate of MGI shall be deemed to compete with the Products.

2.6 The parties acknowledge that under the Joint Venture Agreement each of Swico and MGI, as the only shareholders of Distributor, has the right under section 15.2 of the JV Agreement, to dissolve, or to purchase the other’s interest in, Distributor. Accordingly, if either Swico or MGI (the “Non-breaching Party”) elects under the foregoing provision of the JV Agreement to purchase the other party’s interest in, Distributor and (a) written notice from Swico and MGI confirming such election has been provided to Supplier and Distributor and (b) the Non-breaching Party also notifies Supplier that it wishes this Agreement to be assigned, then effective upon the date specified in such notice from the Non-breaching Party (or, absent the specification of any date, then as soon as reasonably practicable) Supplier shall assign all of Distributor’s right, title and interest in and under this Agreement to such Non-breaching Party or to any Affiliate of such Non-Breaching Party as specified in such notice. Distributor hereby grants Supplier a power of attorney for purposes of Supplier executing and delivering on behalf of Distributor any and all documents or other instruments necessary to effect such assignment.

## 3. ORDERING, SHIPMENT AND PRICES

3.1 From time to time Distributor shall submit purchase orders for the Products to Supplier. All purchase orders shall be subject to acceptance by Supplier, which

acceptance may, at Supplier's option, be evidenced by the issuance of written confirmations or acknowledgments. Supplier hereby reserves the absolute right to reject the whole or any part of any purchase order for any commercially valid reason, including, without limitation, Distributor's credit condition or its accumulation of excess or non-current inventory or its failure otherwise to adhere to the terms and conditions of this Agreement, notwithstanding that any such rejection may prevent Distributor from achieving its Minimum Purchase Requirements. Subject to Sections 3.2 and 11.1, all purchase orders shall be irrevocable after acceptance by Supplier; provided, however, that Distributor may reschedule or cancel that portion of any purchase order pertaining to Products which Supplier fails to deliver as confirmed within thirty (30) days after the later of the advised delivery date or shipping date. Distributor will provide Supplier with a four (4) month rolling forecast of its anticipated order volume monthly by SKU, for the four (4) month period. Supplier will use reasonable efforts to deliver the Products ordered in accordance with the forecast within three (3) months after acceptance of the purchase order by Supplier and to deliver all other Product orders within three (3) to five (5) months after acceptance of the purchase order. As soon as is reasonably practicable after acceptance of each purchase order, Supplier shall advise Distributor of the shipping dates applicable to such order. All shipping dates so advised are estimates only and Supplier shall not have any liability for failure to actually ship by such dates or to deliver by Distributor's requested delivery dates. Supplier shall notify Distributor in the event of any anticipated delay in shipping dates of thirty (30) days or more. Each order submitted by Distributor will specify a "ship to" address which shall be Distributor's address or the address for one of Distributor's customers.

3.2 The purchase prices for all Products purchased by Distributor shall be in Euros and based on Supplier's suggested retail price in effect in the European Union as of the date of shipment. Such prices shall be calculated based on the discount structure as set forth on Schedule A annexed hereto. Supplier will provide current price lists for the Products to Distributor from time to time and shall have the right to modify such prices at any time; provided, however, that no price increase shall become effective sooner than sixty (60) days after written notice thereof to Distributor. Supplier will give Distributor prior notice of all such price changes. For all orders shipped before the effective date of any price increase, the applicable price shall be the price in effect on the date of shipment. With respect to orders for the Products that have been accepted by Supplier but which have not been shipped as of the effective date of a price increase, the applicable price shall be the price in effect on the date of shipment; provided that if the price increase is more than ten percent (10%) of the last applicable price, Distributor shall have the right within ten (10) days from the effective date of the price increase to cancel all or any part of the order for the Products subject to such price increase upon notice to Supplier. All prices are ex-works Supplier's distribution facility.

3.3 Unless otherwise agreed in writing by Distributor and Supplier, all Products shall be deemed delivered to Distributor when delivered by Supplier or Supplier's freight forwarder or distribution center into the possession of a carrier designated by Supplier. Distributor shall bear all risk of loss, damage or shortage pertaining to the Products after delivery to carrier for shipment to the designated "ship to" address on the corresponding purchase order. All costs of delivery, including, without limitation, all costs for freight, import licenses, customs duties or other duties or imposts, insurance and special handling shall be paid by Distributor. All payments are to be made in Euros in accordance with Supplier's standard terms of sale which are incorporated herein by reference (except to the extent inconsistent with any of the express terms contained herein) net ninety (90) days after invoice date. A discount of two percent (2%) is granted for cash payment in advance.

3.4 No provisions contained in Distributor's orders which are different from or additional to the terms and conditions of this Agreement shall be binding on the parties hereto or applicable to the sale of the Products unless signed by a duly authorized representative of each of the parties as provided by Section 13.9 hereof. Distributor shall have sole responsibility for invoicing its customers and for the collection of all amounts due from them for Product shipped to them either by Distributor or by Supplier in accordance with the "ship to" designation made on the applicable purchase orders. In no event shall non-payment by any such customer or any claim or allegation any customer may have against Distributor constitute grounds for any off set, deduction, claim or defense on the part of Distributor against Supplier or in respect of any obligation due to Supplier and Distributor shall pay Supplier all amounts due to Supplier in accordance with the terms of this Agreement without off set or deduction for any amounts claimed to be due to Distributor by Supplier.

#### 4. MINIMUM TURNOVER REQUIREMENTS

4.1 Each contract year for the duration of this Agreement, Distributor will make minimum sales of Products in the Territory ("Minimum Turnover Requirement") equal to at least sixty percent (60%) of the amount of Product sales as budgeted in the Business Plan annexed to the JV Agreement. Notwithstanding the foregoing there shall be no Minimum Turnover Requirement for the first contract year.

4.2 Sales in excess of the Minimum Turnover Requirement in any contract year shall be neither carried over nor credited toward the Minimum Turnover Requirement of a subsequent contract year.

#### 5. ADVERTISING AND PROMOTION

5.1 As used herein "advertising" means only the publication in print or broadcast media of advertisements approved by Supplier and "promotion" means all other forms of Product promotion, other than advertising, approved by Supplier including, without limitation, point of sale material, co-op advertising, marketing, public relations, special events and the like. All advertising and promotions (including, without limitation, the methods, media selection, layouts, venue and timing thereof) shall be subject to the prior written approval of Supplier. Distributor shall submit all proposed and promotion materials for approval at least four (4) weeks prior to the first anticipated use thereof and shall not engage in any advertising or promotion or use any such materials without Supplier's prior written approval. Unless otherwise expressly approved in writing by Supplier, Distributor will use only such materials including, without limitation, point of sale material, packaging, advertising and ancillary material furnished by Supplier.

5.2 Distributor shall conduct all advertising and promotion of the Products in the Territory at its own expense, subject to matching a portion of such expenditures by Supplier as hereinafter provided. At a minimum, Distributor shall expend each contract year for approved advertising and promotion an amount equal to \* of Distributor's budgeted sales of Products for such contract year. Distributor's budgeted sales of Products for the first through the fifth contract years are set forth in Annex D to the JV Agreement and Distributor's budgeted sales each contract year thereafter shall be as contained in the annual business plan and budget as adopted in accordance with the provisions of the JV Agreement at or before the beginning of each contract year, or, at such time, if any, that the JV Agreement is no longer in effect, then as approved by Distributor in good faith consultation with Supplier, and may be adjusted in the same manner quarterly. So long as Distributor satisfies its advertising and promotion commitment as set forth in this Section 5.2,

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then Supplier will match such expenditures each contract year by spending an amount on advertising and/or promotion equal to \* of the Net Invoiced Cost of Distributor's Product purchases in such year ("Supplier's Advertising Amount"). "Net Invoiced Cost" means the invoiced price actually paid by Distributor to Supplier net of all discounts, all costs referred to in Section 3.3 hereof, all credits for returns and all uncollected amounts. There shall be deemed included as part of Supplier's Advertising Amount each year an amount equal to up to \* of the Net Invoiced Cost of Distributor's Product purchases in such year that is spent by Supplier in connection with JC's advertising and promotion campaign ("Image Program"), which final amount shall be determined in accordance with the requirements of the JC License. Distributor acknowledges that the way the funds allocated to the Image Fund will be spent by Supplier is

that Supplier will pay such amount directly to Licensor or its Affiliates under the JC License. Supplier's obligation hereunder to spend Supplier's Advertising Amount in any contract year is contingent on Supplier receiving from Distributor within thirty (30) days after the end of each quarter in such contract year, a statement setting out and showing Distributor's advertising expenditures and promotion expenditures incurred during such prior quarterly period (supported by invoices and other documents reasonably acceptable to Supplier, substantiating the expenditures for Distributor's approved advertising and promotion); and provided further that such costs are no less, on a proportionate basis, than the minimum required expenditures set forth in this Section 5.2. In the event Distributor's actual Product sales for any contract year (other than the final contract year of this Agreement) exceed the total budgeted sales for such year on which its advertising and promotion expenditures for the year were based, then Distributor shall spend an amount equal to \* of such excess in the following contract year.

5.3 Distributor will use only such materials for fixturing at the point of sale as are approved by Supplier in writing.

## 6. REPORTING

6.1 Quarterly (beginning with the quarter ending July 31, 2007 and from time to time at the reasonable request of Supplier, Distributor shall furnish Supplier with a comprehensive written report in reasonable detail regarding (i) the advertising, promotions, distribution and sales of the Products for the immediately preceding quarter or such other relevant period as Supplier may reasonably request; (ii) Distributor's market analysis; and (iii) such other matters as Supplier shall request.

6.2 Distributor will consult with Supplier, as Supplier shall reasonably request for purposes of determining a marketing plan for distribution of the Products in the Territory each year. Such plan shall be followed by Distributor.

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6.3 Distributor shall promptly notify Supplier of any significant changes in Distributor's sales forecasts and shall furnish Supplier such information related to sales, sales forecasts, warranty claims and inventories of Products as may be reasonably requested from time to time by Supplier.

## 7. SERVICE AND REPAIR

7.1 Distributor shall establish and maintain, at its expense, such number of authorized service facilities for the service and repair of the Products in the Territory (the "Service Center(s)") as Supplier may reasonably request, it being understood that initially there shall be one (1) such Service Center. Distributor shall accept all Products for service, returned by any consumer or retailer in the Territory for service whether covered by the applicable consumer warranty ("warranty repairs") or not covered by said warranty ("out-of-warranty repairs"). All costs related to out-of-warranty service, including, without limitation, costs of all Products and Product parts used in the performance thereof, shall be borne by Distributor. Distributor shall purchase such Products and parts from Supplier or from one or more parts distributors designated in writing by Supplier and maintain an adequate stock of Products, parts and materials as necessary to perform such service in a timely manner.

7.2 Within thirty (30) days after the Effective Date, Distributor will furnish Supplier with Distributor's initial price list for all out of warranty repairs. Distributor will give Supplier no less than ninety (90) days prior written notice of any change to any such prices. Distributor shall submit to Supplier each month, a statement summarizing all out of warranty repairs performed in the immediately preceding month indicating for each watch repaired the corresponding style number and the work performed. Distributor will use only those parts (excluding batteries) for out of warranty service on the Products which are supplied directly by or otherwise approved in writing by Supplier as original equipment for the Products.

7.3 On or before the fifteenth day of each month, Distributor shall send to the Supplier (Attn.: Service Department) a cumulative statement for all warranty repairs completed by Distributor in the immediately preceding calendar month. This statement must be accompanied by a copy of each repair receipt complete with:

- (a) Correct watch style
- (b) Dates repair received, completed and returned to customer. and
- (c) Complete description of work performed

7.4 Supplier shall offer a range of parts that it determines appropriate in its sole discretion. Supplier shall also establish the cost of such parts in its sole discretion. In no event shall Distributor use any parts for warranty repairs except parts furnished by Supplier. Supplier shall supply Distributor at no charge with an initial inventory of such parts to be used solely for performing warranty repairs as Supplier determines reasonable and necessary and thereafter with replenishment parts equivalent to up to one percent (1%) of the Net Invoiced Cost of the Products purchased by Distributor in the prior contract year. This allotment of such parts to be used for warranty repairs must be used in the year provided. No portion of any such allotment may be carried forward into a subsequent contract year. All shipping charges, including any duty, or Customs brokerage fees, for parts shall be paid by Supplier. Supplier shall have the right to furnish such parts to Distributor in the form of finished watches in its sole discretion.

7.5 Distributor will issue estimates for repair work within five (5) working days after receipt of a Product for repair on ninety percent (90%) of the Products submitted to Distributor for repair. Working days are defined as all days of the year except Saturdays and Sundays and legal holidays. Warranty repairs will be completed within fifteen (15) working days after receipt of a Product for repair on ninety percent (90%) of the in-warranty work performed by Distributor, unless detained because of delays in receiving necessary parts from the Supplier. Out of warranty repairs will be completed within twenty (20) working days after receipt of the customer's written authorization to proceed with repair of a Product on ninety percent (90%) of the out of warranty work performed by Distributor. On the same day any repairs are completed, the Product repaired or serviced will be returned to the customer via express mail or such other method as Supplier may reasonably request. Increases in the postage or other ground delivery rates may require requisite increases in charges to the customer by the Distributor for shipping.

## 8. TRADE PRACTICES

8.1 Distributor shall sell the Products at competitive levels, at wholesale in accordance with generally accepted customs in the trade and shall refrain from using selling methods or practices which shall be harmful to the reputation of the Products, Supplier or the Trademarks. Distributor's right to determine the prices of reselling and to employ conditions of trade at its exclusive discretion remains unaffected, provided however that Distributor shall sell the Products to JC Stores at a price which is not greater than eighty percent (80%) of the prevailing wholesale price for the same Products in the Territory.

8.2 Distributor may sell Products only to those specialty shops, department stores and retail outlets (including those that sell directly to the consumer) that satisfy Supplier's objective criteria for approved retailer status as set forth in Schedule B annexed. The satisfaction of such requirements shall be evidenced by written approval to Distributor from Supplier as provided in this Section 8.2. Upon execution of this Agreement, and prior to the opening of each selling season (and whenever Distributor wishes to sell Products to retail customers not previously approved by Supplier), Distributor must submit a list of such proposed retail customers (not including previously approved retail customers) for Supplier's written approval. Supplier has the right to withdraw any such approval on written notice to Distributor, provided, however, that Supplier will not withdraw approval of a retail customer that is then authorized to carry and is carrying JC products, unless Supplier is reasonably dissatisfied with the display, delivery or inventory model of Products of such retail customer. After such notice, Distributor may not accept additional orders for Products from such retail customer, but may fill any existing order. Once each quarter, Distributor shall provide Supplier with a list of the retailers in the Territory that purchased Products in the immediately preceding quarter containing the addresses of their sales outlets, it being understood that such list is of a confidential nature and shall be for the sole use of Supplier and, if requested, Licensor, and shall be kept confidential by Supplier and shall not be disclosed by Supplier to any person whatsoever, other than employees of Supplier and Licensor whose performance of their duties require the disclosure of such list to them.

8.3 Except as expressly permitted by Supplier in writing, Distributor may not (a) sell Products directly to the public in retail stores; (b) use Products as giveaways, prizes or premiums, except for promotional programs which have received the prior written approval of Supplier; or (c) sell Products to any Affiliate of Distributor or any of its directors, officers, employees or any person having an equity participation in or any other affiliation to Distributor, other than to Distributor's employees or other representatives for their personal use, without the prior written approval of Supplier. Supplier may, at Distributor's expense, purchase any Products found in the marketplace that Distributor has sold to unapproved customers in violation of this Section 8.3 or Section 2.3. Distributor shall include and enforce the following on all invoices to its retail customers: "Limitations on Sale by Buyer: Seller expressly reserves the right to limit the amount of merchandise delivered to only such quantities as are necessary to meet the reasonably expected demand at Buyer's store locations. This Merchandise is sold to Buyer for resale to the ultimate consumer and/or within the JC selective distribution network and only and only from such store locations as have been approved in writing by Seller. Buyer shall be expressly prohibited from selling the merchandise purchased hereunder to a retailer or other dealer in like merchandise, or to any party who Buyer knows, or has reason to know, intends to resell the merchandise and is not a member of the JC selective distribution network. The merchandise purchased hereunder may not be sold by Buyer from any store locations which Seller has advised Buyer do not qualify as an acceptable location".

## 9. PROTECTION OF INTERESTS; TRADEMARKS

9.1 Distributor shall protect and at all times seek to promote Supplier's best interests in the Territory and shall immediately notify Supplier of any fact or situation which may be or may be reasonably presumed to become detrimental to Supplier or to its good will, copyrights, patents, or to the Trademarks or other intellectual property rights of Supplier or Licensor. Distributor shall have the exclusive right to use the Trademarks in connection with distribution of the Products in the Territory for the term hereof and solely for the limited purpose of and only to the extent necessary for performing its obligations hereunder and for no other purpose. Distributor agrees that it shall have no rights with respect to the Trademarks in connection with the Products except only as expressly and specifically set forth herein and that its every use shall inure exclusively to the benefit of Licensor and that Distributor shall not, at any time, acquire any rights therein or challenge the validity thereof. Distributor further agrees at no time to use any of the Trademarks or other intellectual property rights owned by or licensed to Supplier in a manner not authorized by Supplier. Distributor shall not apply to register, nor shall Distributor use or permit the use of, any name, logo, mark or traddress which is confusingly similar to any of the Trademarks or do any act or thing, or permit any act or thing to be done, which may in any way impair, dilute, reduce the value of the Trademarks or damage the goodwill relating to the Trademarks

9.2 If requested by Supplier, in writing, the Distributor shall assist and cooperate with Supplier, its counsel and agents as so requested, in connection with any matters involving any of Supplier's intellectual property rights in the Territory including without limitation, in any legal proceedings and any out-of-pocket expenses incurred by the Distributor in connection with litigation in which the Distributor participates at the request of Supplier shall be reimbursable to the Distributor and any recoveries from any such litigation or the settlement thereof shall belong exclusively to Supplier; provided, however, that Supplier shall have the exclusive right (but not the obligation) to take such action against third parties in the respect of the Trademarks and all other intellectual property rights of Supplier.

9.3 In the event that Distributor sells any Products outside the Territory in violation of Section 2.3 hereof, then Supplier may, in addition to all other rights and remedies available to it, repurchase all or any portion of such Products. Within ten (10) days after receipt of a statement from the Supplier listing all such Products purchased, together with a list of the model numbers, and setting forth Supplier's out-of-pocket costs incurred in connection with such purchase, Distributor shall reimburse Supplier such out-of-pocket costs. Distributor acknowledges that such payment is not a penalty but fair compensation to Supplier's for breach of this Agreement and damage to Supplier goodwill and tradename.

## 10. TERM AND TERMINATION

10.1 This Agreement shall take effect upon the Effective Date and shall, unless otherwise earlier terminated as provided herein continue for the duration of the JV Agreement. It shall be automatically terminated upon the termination or expiration of the JV Agreement.

10.2 In the event (a) this Agreement is assigned to Swico, MGI or to an Affiliate of Swico or MGI in accordance with Section 2.6 hereof, or (b) either Swico or MGI purchases all of the other's interest in Distributor under Section 15.2.2 of the JV Agreement or (c) Swico, its Affiliates or Permitted Transferees (as such term is defined in the JV Agreement) otherwise acquire control of Distributor, then this Agreement shall continue from the date of such assignment, purchase and/or acquisition, as the case may be, until the third anniversary of such date at which time this Agreement shall expire and neither party shall have any further obligation to the other hereunder except as to those obligations which by their express terms survive beyond the expiration or termination of this Agreement. Following any assignment, purchase or acquisition referred to in Section 10.1, this Agreement may be terminated by either party hereto upon prior written notice to the other party:

(i) in the event such other party shall have breached any of the terms and conditions hereof and, if remediable shall have failed to remedy such breach within sixty (60) days after the notification of the breach by the non-breaching party; or

(ii) in the event that such other party becomes insolvent, has an insolvency proceeding of any kind filed by or against it, including bankruptcy or reorganization, liquidates its business or is liquidated, has a receiver appointed for its assets, or makes an assignment for the benefit of its creditors.

10.3 In addition to any other rights of termination provided hereunder, Supplier may terminate this Agreement immediately by notice to Distributor if Distributor (i) fails to satisfy the Minimum Turnover Requirement for any contract year; or (ii) fails to satisfy the minimum advertising expenditures in Section 5.2 in any contract year or (iii) fails to comply with the payment terms in Section 3.3 or (iv) breaches any of the covenants contained in Article 8 or Article 9 hereof; or (v) transfers or attempts to transfer a substantial part of its business to a third party or attempts to assign this Agreement to a third party (or relinquishes control

of any previously approved assignee under Section 13.5) or has its business merged or consolidated with a third party without the prior written consent of Supplier.

10.4 Notwithstanding anything to the contrary contained herein, this Agreement will automatically expire and be of no further effect in the event the JC License expires or is terminated for any reason. Upon such expiration or termination, neither party will have any further obligation hereunder to the other except any obligation or liability which accrued prior to the date of such expiration or termination.

## 11. EFFECTS OF TERMINATION

11.1 Upon the expiration of this Agreement or its termination by Supplier, Supplier may, at its sole discretion, reject all or part of any outstanding orders received or accepted by Supplier.

11.2 Upon expiration or termination of this Agreement for any reason:

- (i) Any sums due and owing by either party to the other shall become immediately due and payable, and such sums shall be paid forthwith.
- (ii) Supplier may immediately appoint a successor to Distributor in the Territory and announce the change of its distributorship to the public.
- (iii) Distributor shall take a physical inventory of all Products in stock and submit a report of such inventory to Supplier. Supplier shall have the right to have a representative present to verify such inventory. Supplier shall be entitled but not obliged to take over any portion of the Products remaining in stock from Distributor at the price in currency originally paid by Distributor to Supplier, plus the cost of shipping and insurance. Upon notice to Distributor of Supplier's election to buy back any or all such inventory, Distributor shall cooperate as requested by Supplier for the packing and shipping of such inventory. Distributor may sell any Products not taken over by Supplier for six (6) months after the termination of this Agreement or such shorter period as notified by Supplier subject to all the provisions hereof, including, without limitation, Article 8.
- (iv) Distributor shall immediately cease all use of the Trademarks; provided, however, that Distributor may continue to use the Trademarks solely in connection with the sale of the Products pursuant to Section 11.2 (iii) above and in such a way as not to impair, dilute, reduce the value of or damage the goodwill relating to the Trademarks.
- (v) Any advertising must be at the discretion of Supplier and must be approved by Supplier.
- (vi) Distributor, at its expense, will return to Supplier all materials belonging to Supplier and all proprietary data or confidential information furnished to Distributor by Supplier during the term hereof.

11.3 The rights of termination granted herein are absolute and each party acknowledges that it has considered and assumed as its own exclusive risk the possibility of making expenditures of money and time in preparing for the performance of this Agreement and possible loss or damage on account of the loss of prospective profits or anticipated sales or on account of expenditures, investments, leases, property improvements or commitments in connection with the good will or business of the parties or otherwise resulting from the proper termination hereof and that it is the express intent and agreement of the parties that neither party properly terminating this Agreement in accordance with the terms hereof (the "Terminating Party") shall be liable to the other for any claim, cost or damages solely by reason of such termination. In the event of such termination or expiration of this Agreement in accordance with the terms hereof, the Terminating Party shall have no obligation or liability to pay to the other, and such other party hereby expressly waives, any statutory termination fee, any other right to compensation provided by law arising solely as a consequence of such termination, and consequential damages and lost profits arising solely on account of such termination or expiration.

## 12. INDEMNIFICATION

Distributor hereby agrees to indemnify and hold the Supplier, and its Affiliates and/or agents and each of their officers, directors and employees harmless from and against any and all liabilities, damages, costs and expenses (including reasonable attorneys' fees) which arise out of or in connection with any act or omission related to this Agreement by Distributor, its successors, assigns, parents, subsidiaries, Affiliates, agents, and contractors, or the officers, directors or employees of any of them. Supplier reserves the right, without being required to do so, at its own expense and without waiver of any indemnity hereunder, to defend any claim, action or lawsuit coming within the purview of this Section 12. This section shall survive the termination or expiration of this Agreement.

## 13. GENERAL TERMS AND CONDITIONS

13.1 Supplier reserves the right to designate in writing from time to time any other Affiliate of Supplier to exercise any of the rights or perform any of the obligations of Supplier hereunder

13.2 Neither party shall have the power to represent the other party. For purposes of this Agreement, Distributor is an independent contractor and neither the agent nor the representative of Supplier or any of its affiliated companies. Distributor, its employees, contractors and Affiliates shall not act or represent themselves as agents or representatives of, or as having the right, power or authority, express or implied to assume or create any obligation or liability on behalf of Supplier or any of its affiliated companies.

13.3 Neither party hereto shall be liable for any delay or failure in fulfilling the obligations hereunder (except for the payment of money) when such delay or failure is caused by riots, war (declared or not), or hostilities between any nations; acts of God, fire, storm, flood or earthquake; strikes, labor disputes, shortage or delay of carriers, or shortage of raw materials, labor power or other utility services; any governmental restrictions; or any other unforeseeable contingencies beyond the control of the party.

13.4 Any notice to be given pursuant to this Agreement shall be written in English and shall be deemed duly given when sent by reputable overnight international courier including FedEx, UPS or DHL to the respective address first set forth above or by facsimile to the respective facsimile number set forth below confirmed by letter as aforesaid, or to such other address and/or facsimile number as a party hereto may designate by like notice.

To Supplier:  
Copy to:

To Distributor:  
Copy to:

Supplier's designated Affiliate under Section 13.1 shall be designated by notice to Distributor, which notice shall include the address and facsimile number of such Affiliate for purposes of giving notice hereunder. Notice to Supplier's designated Affiliate shall be made and deemed duly given in the same manner as for notice to Supplier.

- 13.5 In view of the fact that this Agreement has been entered into because of the confidence that Supplier has in Distributor, it is understood that the terms and conditions hereof shall be performed by Distributor only and that, except as expressly permitted in Section 2.6 hereof, this Agreement may not be assigned, whether by operation of law or otherwise, without the prior written approval of Supplier which Supplier may withhold or grant in its sole and absolute discretion and any such purported assignment by Distributor without such approval by Supplier shall be void and of no effect. Following any such assignment, Distributor shall remain obligated as a guarantor for all the payment obligations of the approved assignee hereunder and any change in control of the approved assignee without the approval of Supplier shall constitute a breach of this Section 13.5 and shall entitle Supplier to terminate this Agreement as provided under Section 10.3
- 13.6 The captions of this Agreement are inserted solely for ease of reference and are not deemed to form a part of or to modify the terms and conditions of this Agreement.
- 13.7 This Agreement shall be governed exclusively by the law of Hong Kong without reference to its conflict of laws rules. Any dispute, controversy or difference which may arise out of, in relation to, or in connection with this Agreement shall be finally settled by arbitration in Hong Kong in accordance with the under the Rules of Arbitration of the International Chamber of Commerce by three (3) Arbitrators appointed in accordance with said rules. Each party hereto shall be bound by any arbitration award so rendered and any judgment upon such award may be entered as a non-appealable final, foreign judgment in any court having jurisdiction thereon. The language of the proceedings shall be English.
- 13.8 When interpreting the terms and conditions of this Agreement, the English language shall be applied exclusively.
- 13.9 This Agreement, including the terms and conditions incorporated by reference in Section 3.3 hereof, constitutes the entire agreement of the parties with respect to the subject matter hereof and prevails over and supersedes all prior agreements, whether written or oral, relating to the subject matter hereof and may not be altered, waived, modified, or discharged except by an express writing referring to this Agreement signed on behalf of the parties hereto by their duly authorized representatives. In the event of any conflict or inconsistency between this Agreement and the JV Agreement, the latter shall control.
- 13.10 The failure of either party hereto to enforce at any time any of the provisions or terms of this Agreement, or any rights in respect thereof, or the exercise of or failure to exercise by either party any rights or any of its elections herein provided, shall in no way be considered to be a waiver of such provisions, terms, rights or elections or in any way to affect the validity of this Agreement.
- 13.11 In connection with this Agreement, the parties may from time to time exchange proprietary data or confidential information. The parties agree to keep in confidence all such proprietary data or confidential information received in accordance with this Agreement and to use the same only in connection with the performance of this Agreement. This provision shall survive the termination or expiration of this Agreement.
- 13.12 Should any provision of this contract held invalid, incomplete or unenforceable, this will not affect the validity of the remaining provisions. Supplier and Distributor undertake to replace the invalid incomplete or unenforceable provision by provision which comes closest to the commercial goal that the parties intended to achieve on the conclusion of this agreement by the invalid, uncompleted and unenforceable provision. Notwithstanding anything to the contrary contained herein, in the event of any conflict or inconsistency between any term or provision of this Agreement and the JC License, the latter shall control.
- 13.13 Supplier shall have the right to injunctive relief to enforce the covenants, agreements and obligations of Distributor hereunder in addition to any other relief to which Supplier may be entitled at law or in equity.
- 13.14 Each order deliverable under this Agreement shall be deemed sold under a separate contract. Non-delivery or default by Supplier as to any order shall not be deemed a breach of the entire Agreement and shall not relieve Distributor of its obligation to accept and pay for any prior or subsequent delivery, even though such non-delivery or default substantially impairs the value of this Agreement to Distributor.
- 13.15 Distributor shall comply with all applicable laws, rules and regulations in the Territory, including, without limitation, the provisions of Directive 2002/96/EC, which governs waste electrical and electronic equipment, including all related amendments and all laws, rules and regulations in the Territory related thereto. Distributor shall provide Supplier with evidence of any such compliance upon request.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed in multiple duplicates by their authorized representatives as of the day and year first above written.

MGS DISTRIBUTION LIMITED

SWISSAM PRODUCTS LIMITED

By: \_\_\_\_\_

By: \_\_\_\_\_

Title: \_\_\_\_\_  
Name: \_\_\_\_\_

Title: \_\_\_\_\_  
Name: \_\_\_\_\_

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**SCHEDULE A**

**DISTRIBUTOR DISCOUNT SCHEDULE**

Distributor pricing shall be \* of Supplier's recommended Euro retail price (inclusive of VAT); provided, however, that if this Agreement is assigned as provided under Section 2.6, then the pricing to the assignee shall be based on the same discount off of Supplier's recommended Euro retail price as generally offered by Supplier to its other independent distributors of the Products in the European Union.

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## SCHEDULE B

### OBJECTIVE CRITERIA FOR APPROVED RETAILER STATUS

#### 1. EXTERNAL ELEMENTS

##### A. Location/Street

- (i) Animated and attractive environment
- (ii) Centrally located neighborhood
- (iii) Shopping district with fashion and prestige branded shops

##### B. Appearance

- (i) Attractive, well-maintained, high-quality façade
- (ii) Clean, visible and prominent shop sign
- (iii) Visible and easily accessed entrance

##### C. Shop Windows

- (i) Well lit, clean and made from good quality materials
- (ii) Suitable number and size show windows
- (iii) Windows provide sufficient space to display a representative selection of JC brand products
- (iv) Professionally maintained and attractive window decoration

#### 2. INTERNAL ELEMENTS

##### A. General Outfitting

- (i) Clean and well-maintained walls, floors, ceilings and furnishings
- (ii) Sufficient and sophisticated lighting
- (iii) Equipped with adequate security devices

##### B. Presentation Showcases

- (i) Made of high-quality materials with adequate lighting
- (ii) JC products displayed on official brand POS materials
- (iii) Clearly visible and strong brand identification
- (iv) JC products are grouped together and displayed separately from other brands

#### 3. OTHER PRODUCTS

A. Premises used solely for the retail sale of quality watches, jewelry, fashion accessories and/or fashion apparel.

B. products displayed to prevent confusion with any other brands products.

C. Retailer also sells at least two (2) Swiss watch brands or any three (3) of the following fashion/designer/prestige watch brands: Emporio Armani, Diesel, DKNY, Kenneth Cole, Versace, Puma, D&G, CK, Sector, Briel, Guess, Lacoste

#### 4. PRESENTATION/PROMOTION

##### A. Visual/Collateral

- (i) Brand visuals properly presented and changed out seasonally or whenever requested by brand

##### B. Advertising

- (i) Dealer's advertising is consistent with the quality requirements of the brand
- (ii) Dealer agrees to conduct co-op advertising on the basis of an agreed and shared budget and media plan

##### C. Personnel/Customer Service

- (i) Sales staff with good knowledge of JC brand and products
- (ii) Available for regular training on brand and new products
- (iii) Well dressed, groomed and polite
- (iv) Capacity to advise customer on how to operate products correctly



(v) Able to carry out simple adjustments (e.g. sizing metal bracelets)

## 5. REPORTING

- A. Provides clear and comprehensive information
- B. Provides information on sales and stock situation
- C. Provides monthly sales reports by SKU
- D. Provides immediate information on problems with products

## 6. FINANCES

- A. Good payment record
- B. Creditworthy
- C. Sound finances

### TOMMY HILFIGER DISTRIBUTORSHIP AGREEMENT

THIS AGREEMENT is made and entered into as of May 11, 2007 (the "Effective Date") by and between MOVADO WATCH COMPANY, S.A. a corporation duly incorporated under the laws of Switzerland having its principal office at Bettlachstrasse 8, CH-2540, Grenchen, Switzerland (hereinafter referred to as "Supplier") and MGS DISTRIBUTION LIMITED a corporation incorporated under the laws of England having its principle office at c/o Swico, Meadway, Haslemere, Surrey GU27 1NN, England (hereinafter referred to as the "Distributor").

#### RECITALS

WHEREAS, Swico Limited ("Swico"), Movado Group, Inc. ("MGI") and Distributor have entered into a Joint Venture Agreement, dated May 11, 2007 (the "JV Agreement"), pursuant to which Swico and MGI have established a joint venture relationship relating to the sale, marketing and distribution of certain watch brands in the United Kingdom.

WHEREAS, this Agreement is one of the Distribution Agreements as defined in the JV Agreement.

WHEREAS Supplier is an Affiliate (as defined in the JV Agreement) of MGI and is engaged in the development, design, manufacture, distribution and sale of the Products (as hereinafter defined) and Supplier desires to appoint Distributor and Distributor desires to be appointed, as the exclusive distributor of the Products in the Territory (as hereinafter defined), in accordance with the terms and conditions set forth hereinafter;

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained, the parties hereto agree as follows:

#### 1. DEFINITIONS

1.1 In this Agreement, except where the context otherwise requires, the capitalized terms listed below shall have the respective meanings assigned to them as follows:

"Affiliate" means as to either party, a person or entity which controls, is under common control with, or is controlled by such party.

"Corporate Accounts" means premium and incentive accounts and other corporate accounts which have been approved in writing by THLI under the THLI License for the purchase of Products solely for the use of the employees of such accounts.

"Products" means watches manufactured by or for Supplier and bearing one or more of the Trademarks

"Territory" means the United Kingdom.

"THLI" means Tommy Hilfiger Licensing, Inc., a Delaware corporation, including any successors and assigns.

"THLI License" means the license agreement between Supplier and THLI, as the same may be amended from time to time, pursuant to which Supplier has the right to use the Trademarks in connection with the manufacture, marketing, advertising, sale and distribution of the Products.

"Tommy Hilfiger Stores" means retail and outlet stores, including flagship stores, owned by or affiliated with THLI that bear the name "Tommy Hilfiger" or "Hilfiger".

"Trademarks" means all trademarks licensed to Supplier by THLI under the THLI License and used on or in connection with the Products, including, without limitation, TOMMY, HILFIGER, TOMMY HILFIGER, Flag Design and Crest Design.

"Travel Retail Accounts" means any account whose retail business consists of in-flight duty free retail sales operations.

1.3 Unless otherwise defined herein, each capitalized term used herein shall have the meaning as set

forth in the THLI License.

## 2. APPOINTMENT

2.2 Subject to the terms and conditions contained herein, for the term of this Agreement, Supplier hereby appoints Distributor as the exclusive wholesale distributor for marketing, distribution and sales of the Products in the Territory (with the exception of sales to Tommy Hilfiger Stores, Corporate Accounts and Travel Retail Accounts), and Distributor hereby accepts such appointment. Notwithstanding anything to the contrary contained herein, Supplier may permit Distributor to sell to certain Tommy Hilfiger Stores and Corporate Accounts on a case by case basis as Supplier may, in its sole and absolute discretion, designate in writing from time to time.

2.2 Distributor shall purchase all Products directly from Supplier, or from one or more other sources nominated in writing by Supplier, subject to Distributor's right to purchase Products (a) from other distributors with which Supplier has contracted for the distribution of the Products ("Approved Distributors") that are located in Switzerland, the European Union, the European Economic Area or any other country with which the European Union has concluded a free trade agreement (in the aggregate, the "European Area") and (b) from approved retailers that satisfy the conditions set forth in Section 8.2 hereof ("Approved Retailers") located in the European Area (provided that prior to exercising such right Distributor receives written confirmation from Supplier that each such other distributor is an Approved Distributor and that each such retailer is an Approved Retailer). Such Approved Distributors and Approved Retailers, only, are included within and comprise the Tommy Hilfiger selective distribution network.

2.3 Distributor shall sell the Products only to Approved Retailers in the Territory and, within the European Area, only within the Tommy Hilfiger selective distribution network. Distributor shall refrain, outside the Territory and in relation to the Products, from actively soliciting orders, establishing any branch or maintaining any distribution depots. In no event will Distributor sell or continue selling Products to any retailer that does not satisfy the conditions in Section 8.2 of this Agreement.

2.4 Distributor shall use its best efforts to advertise, promote, market, distribute and sell the Products in the Territory. Without limiting the generality of the foregoing, Distributor shall at all times maintain adequate stocks of Products to meet demand for the Products in the Territory by those retailers, if any, not being direct shipped by Supplier and Distributor will use reasonable efforts to avoid accumulating excess inventory not in line with its forecasts. Distributor shall maintain an adequate sales force for the effective distribution and sale of the Products in the Territory, including at least one (1) full time, dedicated brand manager for the Products, experienced in managing a watch distribution business.

2.7 During the term of this Agreement, Distributor shall not directly or indirectly manufacture or distribute any goods, including other watch brands, which, in the determination of Supplier, compete with the Products in the Territory. No other brand licensed to MGI or any Affiliate of MGI shall be deemed to compete with the Products.

2.6 The parties acknowledge that under the Joint Venture Agreement each of Swico and MGI, as the only shareholders of Distributor, has the right under section 15.2 of the JV Agreement, to dissolve, or to purchase the other's interest in, Distributor. Accordingly, if either Swico or MGI (the "Non-breaching Party") elects under the foregoing provision of the JV Agreement to purchase the other party's interest in, Distributor and (a) written notice from Swico and MGI confirming such election has been provided to Supplier and Distributor and (b) the Non-breaching Party also notifies Supplier that it wishes this Agreement to be assigned, then effective upon the date specified in such notice from the Non-breaching Party (or, absent the specification of any date, then as soon as reasonably practicable) Supplier shall assign all of Distributor's right, title and interest in and under this Agreement to such Non-breaching Party or to any Affiliate of such Non-Breaching Party as specified in such notice. Distributor hereby grants Supplier a power of attorney for purposes of Supplier executing and delivering on behalf of Distributor any and all documents or other instruments necessary to effect such assignment.

## 3. ORDERING, SHIPMENT AND PRICES

3.2 From time to time Distributor shall submit purchase orders for the Products to Supplier. All purchase orders shall be subject to acceptance by Supplier, which acceptance may, at Supplier's option, be evidenced by the issuance of written confirmations or acknowledgments. Supplier hereby reserves the absolute right to reject the whole or any part of any purchase order for any commercially valid reason, including, without limitation, Distributor's credit condition or its accumulation of excess or non-current inventory or its failure otherwise to adhere to the terms and conditions of this Agreement, notwithstanding that any such rejection may prevent Distributor from achieving its Minimum Purchase Requirements. Subject to Sections 3.2 and 11.1, all purchase orders shall be irrevocable after acceptance by Supplier; provided, however, that Distributor may reschedule or cancel that portion of any purchase order pertaining to Products which Supplier fails to deliver as confirmed within thirty (30) days after the later of the advised delivery date or shipping date.. Distributor will provide Supplier with a four (4) month rolling forecast of its anticipated order volume monthly by SKU, for the four (4) month period. Supplier will use reasonable efforts to deliver the Products ordered in accordance with the forecast within three (3) months after acceptance of the purchase order by Supplier and to deliver all other Product orders within three (3) to five (5) months after acceptance of the purchase order. As soon as is reasonably practicable after acceptance of each purchase order, Supplier shall advise Distributor of the shipping dates applicable to such order. All shipping dates so advised are estimates only and Supplier shall not have any liability for failure to actually ship by such dates or to deliver by Distributor's requested delivery dates. Supplier shall notify Distributor in the event of any anticipated delay in shipping dates of thirty (30) days or more. Each order submitted by Distributor will specify a "ship to" address which shall be the address of Distributor's warehouseman or the address for one of Distributor's customers

3.3 The prices for all Products purchased by Distributor shall be in Euros and based on Supplier's recommended Euro retail price in effect in the European Union as of the date of shipment. Such prices are ex-works and shall be calculated based on the discount structure as set forth on Schedule A annexed hereto. Supplier will provide current price lists for the Products to Distributor from time to time and shall have the right to modify such prices at any time; provided, however, that no price increase shall become effective sooner than sixty (60) days after written notice thereof to Distributor. Supplier will give Distributor prior notice of all such price changes. For all orders shipped before the effective date of any price increase, the applicable price shall be the price in effect on the date of shipment. With respect to orders for the Products that have been accepted by Supplier but which have not been shipped as of the effective date of a price increase, the applicable price shall be the price in effect on the date of shipment; provided that if the price increase is more than ten percent (10%) of the last applicable price, Distributor shall have the right within ten (10) days from the effective date of the price increase to cancel all or any part of the order for the Products subject to such price increase upon notice to Supplier. All prices are ex-works Supplier's distribution facility in Hong Kong.

3.3 Unless otherwise agreed in writing by Distributor and Supplier, all Products shall be deemed delivered to Distributor when delivered by Supplier or Supplier's freight forwarder or distribution center into the possession of a carrier designated by Supplier. Distributor shall bear all risk of loss, damage or shortage pertaining to the Products after delivery to carrier for shipment to the designated "ship to" address on the corresponding purchase order. All costs of delivery, including, without limitation, all costs for freight, import licenses, customs duties or other duties or imposts, insurance and special handling shall be paid by Distributor. All payments are to be made in Euros in accordance with Supplier's standard terms of sale, which are incorporated herein by reference (except to the

extent inconsistent with the terms contained herein) net ninety (90) days after the invoice date. A discount of two percent (2%) is granted for cash payment in advance. .

3.4 No provisions contained in Distributor's orders which are different from or additional to the terms and conditions of this Agreement shall be binding on the parties hereto or applicable to the sale of the Products unless signed by a duly authorized representative of each of the parties as provided by Section 13.9 hereof. Distributor shall have sole responsibility for invoicing its customers and for the collection of all amounts due from them for Product shipped to them either by Distributor or by Supplier in accordance with the "ship to" designation made on the applicable purchase orders. In no event shall non-payment by any such customer or any claim or allegation any customer may have against Distributor constitute grounds for any off set, deduction, claim or defense on the part of Distributor against Supplier or in respect of any obligation due to Supplier and Distributor shall pay Supplier all amounts due to Supplier in accordance with the terms of this Agreement without off set or deduction for any amounts claimed to be due to Distributor by Supplier.

#### 5. MINIMUM TURNOVER REQUIREMENTS

4.1 Each contract year for the duration of this Agreement, Distributor will make minimum sales of Products in the Territory ("Minimum Turnover Requirement") equal to at least sixty percent (60%) of the amount of Product sales as budgeted in the Business Plan annexed to the JV Agreement. Sales in excess of the Minimum Turnover Requirement in any contract year shall be neither carried over nor credited toward the Minimum Turnover Requirement of a subsequent contract year. Notwithstanding the foregoing there shall be no Minimum Turnover Requirement for the first contract year.

#### 5. ADVERTISING AND PROMOTION

5.1 As used herein "advertising" means only the publication in print or broadcast media of advertisements approved by Supplier and "promotion" means all other forms of Product promotion, other than advertising, approved by Supplier including, without limitation, point of sale material, co-op advertising, marketing, public relations, special events and the like. All promotions (including, without limitation, the methods, media selection, layouts and timing thereof) shall be subject to the prior written approval of Supplier. Distributor shall submit all proposed promotion materials for approval at least four (4) weeks prior to the first anticipated use thereof and shall not engage in any promotion or use any such materials without Supplier's prior written approval. Unless otherwise expressly approved in writing by Supplier, Distributor will use only such materials including, without limitation, point of sale material, packaging, advertising and ancillary material furnished by Supplier.

5.2 Distributor shall conduct all advertising and promotion of the Products in the Territory at its own expense, subject to matching of a portion of such expenditures by Supplier as hereinafter provided. At a minimum, Distributor shall expend each contract year for approved advertising and promotion an amount equal to \* of Distributor's budgeted sales of Products for such contract year. Distributor's budgeted sales of Products for the first through the fifth contract years are set forth in Annex D to the JV Agreement and Distributor's budgeted sales each contract year thereafter shall be as contained in the annual business plan and budget as adopted in accordance with the provisions of the JV Agreement at or before the beginning of each contract year, or, at such time, if any, that the JV Agreement is no longer in effect, then as approved by Distributor in good faith consultation with Supplier, and may be adjusted in the same manner quarterly. So long as Distributor satisfies its advertising and promotion commitment as set forth in this Section 5.2, then Supplier will match such expenditures each contract year by an amount equal to \* of the Net Invoiced Cost of Distributor's Product purchases in such year.

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

("Supplier's Advertising Amount"). For purposes of this Agreement, "Net Invoiced Cost" means the invoiced price actually paid by Distributor to Supplier net of all discounts, all costs referred to in Section 3.3 hereof, all credits for returns and all uncollected amounts. Supplier's obligation in respect thereof shall be to spend Supplier's Advertising Amount on advertising and promotion for the Products in such contract year provided that within thirty (30) days after the end of each quarter in such contract year, Distributor shall submit a statement to Supplier setting out and showing Distributor's advertising expenditures and promotion expenditures incurred during such prior quarterly period (supported by invoices and other documents reasonably acceptable to Supplier, substantiating the expenditures for Distributor's approved advertising and promotion); and provided further that such costs are no less, on a proportionate basis, than the minimum required expenditures set forth in this Section 5.2.

5.3 Distributor will use only such materials for fixturing at the point of sale as are approved by Supplier in writing. Distributor will fixture or cause to be re- fixtured at its sole cost and expense each in-store shop or area dedicated to the sale of the Products within sixty (60) days after notice from Supplier to do so, subject to Section 5.2 hereof, which notice may be given by Supplier from time to time as Supplier shall determine in its sole and absolute discretion but not more frequently than once every six (6) months as to any particular in-store shop or retail location unless Supplier is otherwise so required by THLI.

#### 6. REPORTING

6.1 Quarterly (beginning July 31, 2007) and from time to time at the reasonable request of Supplier, Distributor shall furnish Supplier with a comprehensive written report in reasonable detail regarding (i) the advertising, promotions, distribution and sales of the Products for the immediately preceding quarter or such other relevant period as Supplier may reasonably request; (ii) Distributor's market analysis; and (iii) such other matters as Supplier shall request.

6.2 Distributor will consult with Supplier, as Supplier shall reasonably request for purposes of determining a marketing plan for distribution of the Products in the Territory each year. Such plan shall be followed by Distributor.

6.3 Distributor shall promptly notify Supplier of any significant changes in Distributor's sales forecasts and shall furnish Supplier such information related to sales, sales forecasts, warranty claims and inventories of Products as may be reasonably requested from time to time by Supplier.

#### 7. SERVICE AND REPAIR

7.1 Distributor shall establish and maintain, at its expense, such number of authorized service facilities for the service and repair of the Products in the Territory (the "Service Center(s)") as Supplier may reasonably request, it being understood that initially there shall be one (1) such Service Center. Distributor shall accept all Products for service, returned by any consumer or retailer in the Territory for service whether covered by the applicable consumer warranty ("warranty repairs") or not covered by said warranty ("out-of-warranty repairs"). All costs related to out-of-warranty service, including, without limitation, costs of all Products and Product parts used in the performance thereof, shall be borne by Distributor. Distributor shall purchase such Products and parts from Supplier or from one or more parts distributors designated in writing by Supplier and maintain an adequate stock of Products, parts and materials as necessary to perform such service in a timely manner.

7.2 Within thirty (30) days after the Effective Date, Distributor will furnish Supplier with Distributor's initial price list for all out of warranty repairs. Distributor will give Supplier no less than ninety (90) days prior written notice of any change to any such prices. Distributor shall submit to Supplier each month, a statement summarizing all out of warranty repairs performed in the immediately preceding month indicating for each watch repaired the corresponding style number and the work performed. Distributor will use only those parts (excluding batteries) for out of warranty service on the Products which are supplied directly by or otherwise approved in writing by Supplier as original equipment for the Products.

7.3 On or before the fifteenth day of each month, Distributor shall send to the Supplier (Attn.: Service Department) a cumulative statement for all warranty repairs completed by Distributor in the immediately preceding calendar month. This statement must be accompanied by a copy of each repair receipt complete with:

- (a) Correct watch style
- (b) Dates repair received, completed and returned to customer.and
- (c) Complete description of work performed

7.4 Supplier shall offer a range of parts that it determines appropriate in its sole discretion. Supplier shall also establish the cost of such parts in its sole discretion. In no event shall Distributor use any parts for warranty repairs except parts furnished by Supplier. Supplier shall supply Distributor at no charge with an initial inventory of such parts to be used solely for performing warranty repairs as Supplier determines to be reasonable and necessary and thereafter with replenishment parts equivalent to up to one percent (1%) of the Net Invoiced Cost of the Products purchased by Distributor in the prior contract year. This allotment of parts to be used for warranty repairs must be used in the year provided. No portion of any such allotment may be carried forward into a subsequent contract year. All shipping charges, including any duty, or Customs brokerage fees, for parts shall be paid by Supplier. Supplier shall have the right to furnish such parts to Distributor in the form of finished watches in its sole discretion.

7.5 Distributor will issue estimates for repair work within five (5) working days after receipt of a Product for repair on ninety percent (90%) of the Products submitted to Distributor for repair. Working days are defined as all days of the year except Saturdays and Sundays and legal holidays. Warranty repairs will be completed within fifteen (15) working days after receipt of a Product for repair on ninety percent (90%) of the in-warranty work performed by Distributor, unless detained because of delays in receiving necessary parts from the Supplier. Out of warranty repairs will be completed within twenty (20) working days after receipt of the customer's written authorization to proceed with repair of a Product on ninety percent (90%) of the out of warranty work performed by Distributor. On the same day any repairs are completed, the Product repaired or serviced will be returned to the customer via express mail or such other method as Supplier may reasonably request. Increases in the postage or other ground delivery rates may require requisite increases in charges to the customer by the Distributor for shipping.

## 8. TRADE PRACTICES

8.1 Distributor shall sell the Products at competitive levels, at wholesale in accordance with generally accepted customs in the trade and shall refrain from using selling methods or practices which shall be harmful to the reputation of the Products, Supplier or the Trademarks. Distributor's right to determine the prices of reselling and to employ conditions of trade at its exclusive discretion remains unaffected.

8.3 Distributor may sell Products only to those specialty shops, department stores and retail outlets (including those that sell directly to the consumer) that satisfy Supplier's objective criteria for approved retailer status as set forth in Schedule B annexed hereto, such satisfaction to be evidenced by written approval to Distributor from Supplier as provided in this Section 8.2. Upon execution of this Agreement, and prior to the opening of each selling season (and whenever Distributor wishes to sell Products to retail customers not previously approved by Supplier), Distributor must submit a list of such proposed retail customers (not including previously approved retail customers) for Supplier's written approval. Supplier has the right to withdraw any such approval on written notice to Distributor, provided, however, that Supplier will not withdraw approval of a retail customer that is then carrying any products of THLI's men's sportswear licensee unless Supplier is reasonably dissatisfied with the display, delivery or inventory model of Products of such retail customer. After such notice, Distributor may not accept additional orders for Products from such retail customer, but may fill any existing order. Once each quarter, Distributor shall provide Supplier with a list of the retailers in the Territory that purchased Products in the immediately preceding quarter containing the addresses of their sales outlets, it being understood that such list is of a confidential nature and shall be for the sole use of Supplier and, if requested, THLI, and shall be kept confidential by Supplier and shall not be disclosed by Supplier to any person whatsoever, other than employees of Supplier and THLI whose performance of their duties require the disclosure of such list to them.

8.3 Except as expressly permitted by Supplier in writing, Distributor may not (a) sell Products directly to the public in retail stores; (b) use Products as giveaways, prizes or premiums, except for promotional programs which have received the prior written approval of Supplier; or (c) sell Products to any Affiliate of Distributor or any of its directors, officers, employees or any person having an equity participation in or any other affiliation to Distributor, other than to Distributor's employees or other representatives for their personal use, without the prior written approval of Supplier. Supplier may, at Distributor's expense, purchase any Products found in the marketplace that Distributor has sold to unapproved customers in violation of this Section 8.3 or Section 2.3. Distributor shall include and enforce the following on all invoices to its retail customers: "Limitations on Sale by Buyer: Seller expressly reserves the right to limit the amount of merchandise delivered to only such quantities as are necessary to meet the reasonably expected demand at Buyer's store locations. This Merchandise is sold to Buyer for resale to the ultimate consumer and/or within the Tommy Hilfiger selective distribution network and only from such store locations as have been approved in writing by Seller. Buyer shall be expressly prohibited from selling the merchandise purchased hereunder to a retailer or other dealer in like merchandise, or to any party who Buyer knows, or has reason to know, intends to resell the merchandise and is not a member of the Tommy Hilfiger selective distribution network. The merchandise purchased hereunder may not be sold by Buyer from any store locations which Seller has advised Buyer do not qualify as an acceptable location".

## 9. PROTECTION OF INTERESTS; TRADEMARKS

9.3 Distributor shall protect and at all times seek to promote Supplier's best interests in the Territory and shall immediately notify Supplier of any fact or situation which may be or may be reasonably presumed to become detrimental to Supplier or to its good will, copyrights, patents, or to the Trademarks or other intellectual property rights of Supplier or THLI. Distributor shall have the exclusive right to use the Trademarks in connection with distribution of the Products in the Territory for the term hereof and solely for the limited purpose of and only to the extent necessary for performing its obligations hereunder and for no other purpose. Distributor agrees that it shall have no rights with respect to the Trademarks in connection with the Products except only as expressly and specifically set forth herein and that its every use shall inure exclusively to the benefit of THLI and that Distributor shall not, at any time, acquire any rights therein or challenge the validity thereof. Distributor further agrees at no time to use any of the Trademarks or other intellectual property rights owned by or licensed to Supplier in a manner not authorized by Supplier. Distributor shall not apply to register, nor shall Distributor use or permit the use of, any

name, logo, mark or tradename which is confusingly similar to any of the Trademarks or do any act or thing, or permit any act or thing to be done, which may in any way impair, dilute, reduce the value of the Trademarks or damage the goodwill relating to the Trademarks

9.4 If requested by Supplier, in writing, the Distributor shall assist and cooperate with Supplier, its counsel and agents as so requested, in connection with any matters involving any of Supplier's intellectual property rights in the Territory including without limitation, in any legal proceedings and any out-of-pocket expenses incurred by the Distributor in connection with litigation in which the Distributor participates at the request of Supplier shall be reimbursable to the Distributor and any recoveries from any such litigation or the settlement thereof shall belong exclusively to Supplier; provided, however, that Supplier shall have the exclusive right (but not the obligation) to take such action against third parties in the respect of the Trademarks and all other intellectual property rights of Supplier.

9.3 In the event that Distributor sells any Products outside the Territory in violation of Section 2.3 hereof, then Supplier may, in addition to all other rights and remedies available to it, repurchase all or any portion of such Products. Within ten (10) days after receipt of a statement from the Supplier listing all such Products purchased, together with a list of the model numbers, and setting forth Supplier's out-of-pocket costs incurred in connection with such purchase, Distributor shall reimburse Supplier such out-of-pocket costs. Distributor acknowledges that such payment is not a penalty but fair compensation to Supplier's for breach of this Agreement and damage to Supplier goodwill and tradename.

## 10. TERM AND TERMINATION

10.3 This Agreement shall take effect upon the Effective Date and shall, unless otherwise earlier terminated as provided herein, continue for the duration of the JV Agreement. It shall be automatically terminated upon the termination or expiration of the JV Agreement.

10.4 In the event (a) this Agreement is assigned to Swico, MGI or to an Affiliate of Swico or MGI in accordance with Section 2.6 hereof, or (b) either Swico or MGI purchases all of the other's interest in Distributor under Section 15.2.2 of the JV Agreement or (c) Swico, its Affiliates or Permitted Transferees (as such term is defined in the JV Agreement) otherwise acquire control of Distributor, then this Agreement shall continue from the date of such assignment, purchase and/or acquisition, as the case may be, until the third anniversary of such date at which time this Agreement shall expire and neither party shall have any further obligation to the other hereunder except as to those obligations which by their express terms survive beyond the expiration or termination of this Agreement. Following any assignment, purchase or acquisition referred to in Section 10.1, this Agreement may be terminated by either party hereto upon prior written notice to the other party:

(i) in the event such other party shall have breached any of the terms and conditions hereof and, if remediable shall have failed to remedy such breach within sixty (60) days after the notification of the breach by the non-breaching party; or

(ii) in the event that such other party becomes insolvent, has an insolvency proceeding of any kind filed by or against it, including bankruptcy or reorganization, liquidates its business or is liquidated, has a receiver appointed for its assets, or makes an assignment for the benefit of its creditors.

10.4 In addition to any other rights of termination provided hereunder, Supplier may terminate this Agreement immediately by notice to Distributor if Distributor (i) fails to satisfy the Minimum Turnover Requirement for any contract year; or (ii) fails to satisfy the minimum advertising expenditures in Section 5.2 in any contract year or (iii) fails to comply with the payment terms in Section 3.3 or (iv) breaches any of the covenants contained in Article 8 or Article 9 hereof; or (v) transfers or attempts to transfer a substantial part of its business to a third party or attempts to assign this Agreement to a third party (or relinquishes control of any previously approved assignee under Section 13.5) or has its business merged or consolidated with a third party without the prior written consent of Supplier.

10.4 Notwithstanding anything to the contrary contained herein, this Agreement will automatically expire and be of no further effect in the event the THLI License expires or is terminated for any reason. Upon such expiration or termination, neither party will have any further obligation hereunder to the other except any obligation or liability which accrued prior to the date of such expiration or termination.

## 11. EFFECTS OF TERMINATION

11.1 Upon the expiration of this Agreement or its termination by Supplier, Supplier may, at its sole discretion, reject all or part of any outstanding orders received or accepted by Supplier.

11.2 Upon expiration or termination of this Agreement for any reason:

(i) Any sums due and owing by either party to the other shall become immediately due and payable, and such sums shall be paid forthwith.

(ii) Supplier may immediately appoint a successor to Distributor in the Territory and announce the change of its distributorship to the public.

(iii) Distributor shall take a physical inventory of all Products in stock and submit a report of such inventory to Supplier. Supplier shall have the right to have a representative present to verify such inventory. Supplier shall be entitled but not obliged to take over any portion of the Products remaining in stock from Distributor at the price in currency originally paid by Distributor to Supplier, plus the cost of shipping and insurance. Upon notice to Distributor of Supplier's election to buy back any or all such inventory, Distributor shall cooperate as requested by Supplier for the packing and shipping of such inventory. Distributor may sell any Products not taken over by Supplier for six (6) months after the termination of this Agreement or such shorter period as notified by Supplier subject to all the provisions hereof, including, without limitation, Article 8.

(iv) Distributor shall immediately cease all use of the Trademarks; provided, however, that Distributor may continue to use the Trademarks solely in connection with the sale of the Products pursuant to Section 11.2(iii) above and in such a way as not to impair, dilute, reduce the value of or damage the goodwill relating to the Trademarks.

(v) Any advertising must be at the discretion of Supplier and must be approved by Supplier.

(vii) Distributor, at its expense, will return to Supplier all materials belonging to Supplier and all proprietary data or confidential information furnished to Distributor by Supplier during the term hereof.

11.3 The rights of termination granted herein are absolute and each party acknowledges that it has considered and assumed as its own exclusive risk the possibility of making expenditures of money and time in preparing for the performance of this Agreement and possible loss or damage on account of the loss of prospective profits or anticipated sales or on account of expenditures, investments, leases, property improvements or commitments in connection with the good

will or business of the parties or otherwise resulting from the proper termination hereof and that it is the express intent and agreement of the parties that neither party properly terminating this Agreement in accordance with the terms hereof (the "Terminating Party") shall be liable to the other for any claim, cost or damages solely by reason of such termination. In the event of such termination or expiration of this Agreement in accordance with the terms hereof, the Terminating Party shall have no obligation or liability to pay to the other, and such other party hereby expressly waives, any statutory termination fee, any other right to compensation provided by law arising solely as a consequence of such termination, and consequential damages and lost profits arising solely on account of such termination or expiration.

### 13. INDEMNIFICATION

Distributor hereby agrees to indemnify and hold the Supplier, and its Affiliates and/or agents and each of their officers, directors and employees harmless from and against any and all liabilities, damages, costs and expenses (including reasonable attorneys' fees) which arise out of or in connection with any act or omission related to this Agreement by Distributor, its successors, assigns, parents, subsidiaries, Affiliates, agents, and contractors, or the officers, directors or employees of any of them. Supplier reserves the right, without being required to do so, at its own expense and without waiver of any indemnity hereunder, to defend any claim, action or lawsuit coming within the purview of this Section 12. This section shall survive the termination or expiration of this Agreement.

### 13. GENERAL TERMS AND CONDITIONS

13.1 Supplier may, from time to time, designate in writing an Affiliate of Supplier to exercise any of the rights or perform any of the obligations of Supplier hereunder.

13.2 Neither party shall have the power to represent the other party. For purposes of this Agreement, Distributor is an independent contractor and neither the agent nor the representative of Supplier or any of its affiliated companies. Distributor, its employees, contractors and Affiliates shall not act or represent themselves as agents or representatives of, or as having the right, power or authority, express or implied to assume or create any obligation or liability on behalf of Supplier or any of its affiliated companies.

13.3 Neither party hereto shall be liable for any delay or failure in fulfilling the obligations hereunder (except for the payment of money) when such delay or failure is caused by riots, war (declared or not), or hostilities between any nations; acts of God, fire, storm, flood or earthquake; strikes, labor disputes, shortage or delay of carriers, or shortage of raw materials, labor power or other utility services; any governmental restrictions; or any other unforeseeable contingencies beyond the control of the party.

13.5 Any notice to be given pursuant to this Agreement shall be written in English and shall be deemed duly given when sent by reputable overnight international courier including FedEx, UPS or DHL to the respective address first set forth above or by facsimile to the respective facsimile number set forth below confirmed by letter as aforesaid, or to such other address and/or facsimile number as a party hereto may designate by like notice.

To Supplier: Fax: + 41 32 329 37 78  
Attn: General Manager – Tommy Hilfiger

Copy to: Fax: + 1 201 267 8050  
Attn: Brand Manager – Tommy Hilfiger

To Distributor: Fax: \_\_\_\_\_

Supplier's designated Affiliate under Section 13.1 shall be designated by notice to Distributor, which notice shall include the address and facsimile number of such Affiliate for purposes of giving notice hereunder. Notice to Supplier's designated Affiliate shall be made and deemed duly given in the same manner as for notice to Supplier.

13.6 In view of the fact that this Agreement has been entered into because of the confidence that Supplier has in Distributor, it is understood that the terms and conditions hereof shall be performed by Distributor only and that, except as expressly permitted in Section 2.6 hereof, this Agreement may not be assigned, whether by operation of law or otherwise, without the prior written approval of Supplier which Supplier may withhold or grant in its sole and absolute discretion and any such purported assignment by Distributor without such approval by Supplier shall be void and of no effect. Following any such assignment, Distributor shall remain obligated as a guarantor for all the payment obligations of the approved assignee hereunder and any change in control of the approved assignee without the approval of Supplier shall constitute a breach of this Section 13.5 and shall entitle Supplier to terminate this Agreement as provided under Section 10.3

13.6 The captions of this Agreement are inserted solely for ease of reference and are not deemed to form a part of or to modify the terms and conditions of this Agreement.

13.7 This Agreement shall be governed exclusively by the law of Switzerland without reference to its conflict of laws rules and to the exclusion of the United Nations Convention on Contracts for the International Sale of Goods. Any dispute, controversy or difference which may arise out of, in relation to, or in connection with this Agreement shall be finally settled by arbitration in Geneva, Switzerland under the Rules of Arbitration of the International Chamber of Commerce, Paris by three (3) Arbitrators appointed in accordance with said rules. Each party hereto shall be bound by any arbitration award so rendered and any judgment upon such award may be entered as a non-appealable final, foreign judgment in any court having jurisdiction thereon. The language of the proceedings shall be English.

13.8 When interpreting the terms and conditions of this Agreement, the English language shall be applied exclusively.

13.10 This Agreement, including the terms and conditions incorporated by reference in Section 3.3 hereof, constitutes the entire agreement of the parties with respect to the subject matter hereof and prevails over and supersedes all prior agreements, whether written or oral, relating to the subject matter hereof and may not be altered, waived, modified, or discharged except by an express writing referring to this Agreement signed on behalf of the parties hereto by their duly authorized representatives. In the event of any conflict or inconsistency between this Agreement and the JV Agreement, the latter shall control.

13.10 The failure of either party hereto to enforce at any time any of the provisions or terms of this Agreement, or any rights in respect thereof, or the exercise of or failure to exercise by either party any rights or any of its elections herein provided, shall in no way be considered to be a waiver of such provisions, terms, rights or elections or in any way to affect the validity of this Agreement.

13.11 In connection with this Agreement, the parties may from time to time exchange proprietary data or confidential information. The parties agree to keep in confidence all such proprietary data or confidential information received in accordance with this Agreement and to use the same only in

connection with the performance of this Agreement. This provision shall survive the termination or expiration of this Agreement.

13.12 Should any provision of this contract held invalid, incomplete or unenforceable, this will not affect the validity of the remaining provisions. Supplier and Distributor undertake to replace the invalid incomplete or unenforceable provision by provision which comes closest to the commercial goal that the parties intended to achieve on the conclusion of this agreement by the invalid, uncompleted and unenforceable provision. Notwithstanding anything to the contrary contained herein, in the event of any conflict or inconsistency between any term or provision of this Agreement and the THLI License, the latter shall control.

13.13 Supplier shall have the right to injunctive relief to enforce the covenants, agreements and obligations of Distributor hereunder in addition to any other relief to which Supplier may be entitled at law or in equity.

13.15 Each order deliverable under this Agreement shall be deemed sold under a separate contract. Non-delivery or default by Supplier as to any order shall not be deemed a breach of the entire Agreement and shall not relieve Distributor of its obligation to accept and pay for any prior or subsequent delivery, even though such non-delivery or default substantially impairs the value of this Agreement to Distributor.

13.15 Distributor shall comply with all applicable laws, rules and regulations in the Territory, including, without limitation, the provisions of Directive 2002/96/EC, which governs waste electrical and electronic equipment, including all related amendments and all laws, rules and regulations in the Territory related thereto. Distributor shall provide Supplier with evidence of any such compliance upon request.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed in multiple duplicates by their authorized representatives at Bienne, Switzerland as of the day and year first above written.

MGS DISTRIBUTION LIMITED

MOVADO WATCH COMPANY, S.A.

By: \_\_\_\_\_  
Title: \_\_\_\_\_  
Name: \_\_\_\_\_

By: \_\_\_\_\_

Title: \_\_\_\_\_  
Name: \_\_\_\_\_

**SCHEDULE A**

DISTRIBUTOR DISCOUNT SCHEDULE

Distributor pricing shall be \* of Supplier's recommended Euro retail price (inclusive of VAT); provided, however, that if this Agreement is assigned as provided under Section 2.6, then the pricing to the assignee shall be based on the same discount off of Supplier's recommended Euro retail price as generally offered by Supplier to its other independent distributors of the Products in the European Union.

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

## SCHEDULE B

### OBJECTIVE CRITERIA FOR APPROVED RETAILER STATUS

#### 7. EXTERNAL ELEMENTS

##### A. Location/Street

- (i) Animated and attractive environment
- (ii) Centrally located neighborhood
- (iii) Shopping district with fashion and prestige branded shops

##### B. Appearance

- (i) Attractive, well-maintained, high-quality façade
- (ii) Clean, visible and prominent shop sign
- (iii) Visible and easily accessed entrance

##### C. Shop Windows

- (i) Well lit, clean and made from good quality materials
- (ii) Suitable number and size show windows
- (v) Windows provide sufficient space to display a representative selection of TH brand products
- (vi) Professionally maintained and attractive window decoration

#### 8. INTERNAL ELEMENTS

##### A. General Outfitting

- (i) Clean and well-maintained walls, floors, ceilings and furnishings
- (ii) Sufficient and sophisticated lighting
- (iii) Equipped with adequate security devices

##### B. Presentation Showcases

- (i) Made of high-quality materials with adequate lighting
- (ii) TH products displayed on official brand POS materials
- (iii) Clearly visible and strong brand identification
- (iv) TH products are grouped together and displayed separately from other brands

#### 9. OTHER PRODUCTS

A. Premises used solely for the retail sale of quality watches, jewelry, fashion accessories and/or fashion apparel.

B. TH products displayed to prevent confusion with any other brands products.

C. Retailer also sells at least two (2) Swiss watch brands or any three (3) of the following fashion/designer/prestige watch brands: Emporio Armani, Diesel, DKNY, Kenneth Cole, Versace, Puma, D&G, CK, Sector, Briel, Guess, Lacoste

#### 10. PRESENTATION/PROMOTION

##### A. Visual/Collateral

- (i) Brand visuals properly presented and changed out seasonally or whenever requested by brand

##### B. Advertising

- (i) Dealer's advertising is consistent with the quality requirements of the brand
- (ii) Dealer agrees to conduct co-op advertising on the basis of an agreed and shared budget and media plan

##### C. Personnel/Customer Service

- (i) Sales staff with good knowledge of TH brand and products
- (ii) Available for regular training on brand and new products
- (iii) Well dressed, groomed and polite
- (iv) Capacity to advise customer on how to operate products correctly



(v) Able to carry out simple adjustments (e.g. sizing metal bracelets)

## 11. REPORTING

- A. Provides clear and comprehensive information
- B. Provides information on sales and stock situation
- C. Provides monthly sales reports by sku
- D. Provides immediate information on problems with products

## 12. FINANCES

- A. Good payment record
- B. Creditworthy
- C. Sound finances

### LACOSTE WATCHES EXCLUSIVE DISTRIBUTION AGREEMENT

Made and entered into as of May 1, 2007 (the "Effective Date")

By and between:

**MGI Luxury Group S.A.**, a Swiss corporation organized and existing under the laws of Switzerland whose registered office is located at 35 rue de Nidau, CH-2501, Bienne (Switzerland)

hereinafter referred to as the "**Master Licensee**",

and:

**MGS DISTRIBUTION LIMITED** an English corporation organized and existing under the laws of England whose registered office and principal place of business is located at c/o Swico, Meadway, Haslemere, Surrey GU27 1NN, England

hereinafter referred to as the "**Distributor**".

#### WITNESSETH:

WHEREAS, the **Master Licensee** entered into a license agreement dated March 27, 2006 (the "**Master Agreement**") with **Lacoste S.A.**, **Sporloisirs S.A.**, and **Lacoste Alligator S.A.** (hereinafter together referred to as the "**Licensor**"); and

WHEREAS, pursuant to the terms of the **Master Agreement**, the **Master Licensee** has been granted the exclusive right and license to use the **Licensed Trademarks** (as hereinafter defined) world-wide in relation with the creation, development, manufacture, distribution, marketing, merchandising, advertising, promotion and sale of **Lacoste Watches** (as hereinafter defined); and

WHEREAS, the **Master Licensee** has also been granted the exclusive right to use the **Licensor's** marketing, merchandising, promotion and advertising **Know-How** (as hereinafter defined) for the distribution and advertising of the **Lacoste Watches**, in the **Territory** (as hereinafter defined); and

WHEREAS, the **Master Licensee** is entitled to sub-license its distribution rights to distributors, provided that (i) a written distribution agreement is signed with the selected distributor approved by the **Licensor** which agreement shall include, in addition to the rights and obligations which the **Master Licensee** wishes to sub-license, all obligations it would otherwise have had to fulfill with respect to the rights sub-licensed to the selected distributor and (ii) a **Supplemental Agreement** is entered into between the **Licensor**, the **Master Licensee** and the said distributor defining the **Licensed Trademarks** such distributor is authorized to use in the concerned country as well as all its duties and obligations regarding the protection of the said **Licensed Trademarks**; and

WHEREAS, **SWICO LIMIED**, an English corporation ("**SWICO**"), **MOVADO GROUP, INC.**, a New York corporation ("**MGI**") and **Distributor** have entered into a Joint Venture Agreement, dated May 1, 2007 (the "**JV Agreement**") pursuant to which **SWICO** and **MGI** have established a joint venture relationship relating to the sale, marketing and distribution of certain watch brands in the United Kingdom; and

WHEREAS, this Agreement is one of the Distribution Agreements as defined in the JV Agreement; and

WHEREAS, the **Master Licensee** is an Affiliate (as defined in the **JV Agreement**) of **MGI** and has decided to appoint **Distributor** as its distributor for the distribution, sale, marketing, merchandising, advertising and promotion of the **Lacoste Watches** in the **Territory** upon the terms and conditions hereinafter contained; and

WHEREAS, the **Licensor** has created and developed over a period of many years a well known and distinctive line of articles of sports and leisure apparel for men, women, and children (hereinafter referred to as the "**Lacoste Apparel Products**") as well as other lines of products such as toiletries, sunglasses and frames for optical glasses, leisure and sports bags, leathersgoods products, shoes, terry towels, bath towels, bath robes, household linen, umbrellas, belts and other products Licensor may develop in the future (hereinafter referred to as the "**Other Lacoste Products**"), it being specified that **Other Lacoste Products** do not include either **Lacoste Apparel Products** or **Lacoste Watches**; and

WHEREAS, the **Licensor** has also contributed to the creation and the development of a line of watches and time-keeping devices (the "**Lacoste Watches**", as such term is hereinafter defined). And whereas the **Licensor** is actively researching and developing other new products; and

WHEREAS, the **Lacoste Apparel Products**, the **Other Lacoste Products**, as well as the **Lacoste Watches**, which are characterized by an emblem consisting of the pictorial representation of an alligator or a crocodile (the "**Crocodile**" as such term is hereinafter defined), are renowned and sold world-wide under the trade names of "La Chemise Lacoste", "Chemise Lacoste" or "Lacoste", the word "Lacoste" recalling the name of René Lacoste the famous tennis champion who invented the original shirt, and the **Crocodile** recalling his nickname on the tennis courts; and

WHEREAS, in order to protect its rights the **Licensor** has registered numerous trademarks among which the **Licensed Trademarks** throughout the world and more specifically in the **Territory**; and

WHEREAS, through the development of the different lines of the **Lacoste Apparel Products**, **Other Lacoste Products** and **Lacoste Watches**, the **Licensor** has acquired significant "**Marketing and Merchandising Know-How**" and "**Advertising and Promotion Know-How**" (as such terms are hereinafter defined); and

WHEREAS, in order to guarantee the authenticity of its creations and to ensure the homogeneity of their distribution at an international level, the **Licensor** has implemented selective distribution systems wherever and whenever practicable, so as to allow all its licensees and distributors to select and approve their retailers on the basis of objective criteria both with respect to quality and sales techniques; and

WHEREAS, the selective distribution systems implemented by the **Licensor** in connection with the **Lacoste Apparel Products** consist of the "**Approved Apparel Retailers**" **Selective Distribution System** (as such term is hereinafter defined) and of the "**Lacoste Boutiques and Lacoste Corners**" **Selective Distribution System** (as such term is hereinafter defined); and

WHEREAS, the selective distribution systems implemented by the **Licensor** in connection with each of the **Other Lacoste Products** incorporate, in addition to approved retailers, and for certain categories of **Other Lacoste Products**, a certain number of shops and special locations in shops dedicated to the sale of such **Other Lacoste Products**; and

WHEREAS, the selective distribution system implemented by the **Licensor** in connection with the **Lacoste Watches** incorporates, **Approved Watches Retailers** (as such term is hereinafter defined); and

WHEREAS, the **Distributor** warrants and represents that it operates in the **Territory** a sales organisation with a network set up to deal with the distribution of the **Lacoste Watches**; and

WHEREAS, the **Distributor** is prepared to fulfil all obligations and make the necessary investments in order to carry out such **Lacoste Watches Selective Distribution System** (as such term is hereinafter defined) policy as specified by the **Master Licensee** and the **Licensor**; and

WHEREAS the **Distributor** thus desires to be granted the right to distribute and sell in the **Territory** under the **Licensed Trademarks**, the **Lacoste Watches** and to use the **Know-How** in connection with such distribution; and

WHEREAS, contemporaneously with the execution hereof the **Licensor** and the **Distributor** and the **Master Licensee**, as provided for by the **Master Agreement**, are entering into a **Supplemental Agreement**; and

**NOW, THEREFORE, IN CONSIDERATION OF THE MUTUAL COVENANTS HEREIN CONTAINED, THE PARTIES AGREE AS FOLLOWS:**

## **ARTICLE 1 - DEFINITIONS**

- 1.1 "**Agreement**" shall mean the present distribution agreement including all the schedules attached hereto, as well as its future amendments and restatements.
- 1.2 "**Devanlay**" shall mean the worldwide exclusive licensee of the **Licensor** for **Lacoste Apparel Products**.
- 1.3 "**Lacoste Apparel Products Distributor**" shall mean those parties in certain countries to which the distribution of the **Lacoste Apparel Products** in such countries has been granted by **Devanlay**.
- 1.4 "**Crocodile**" shall mean the pictorial representation of an alligator or crocodile depicted in Schedule [I](#).
- 1.5 "**Lacoste Trademarks Image**" shall mean the presently existing identification in the principal markets where the **Lacoste Apparel Products**, the **Other Lacoste Products** and the **Lacoste Watches** are distributed, between the **Lacoste Trademarks** and good taste, authenticity, quality, functionality, modernity, elegance, high end sports and leisure, however at competitive quality/price ratios. The **Lacoste Trademarks Image** shall be judged in relation to all of the elements making up the perception by the consumer of the **Lacoste Watches** as to their style, quality, price, marketing and merchandising, advertising and promotion.
- 1.6 "**Licensed Trademarks**" shall mean those trademarks listed in Schedule [II](#).
- 1.7 "**Lacoste Watches**" shall mean watches for men, women and children as listed in Schedule [IV](#) bearing any **Licensed Trademark** manufactured and marketed by the **Master Licensee** itself and/or under its control and responsibility and distributed by the **Master Licensee**.
- 1.8 "**Lacoste Trademarks**" shall mean any or all trademarks relating to the name "Lacoste" and/or the **Crocodile** owned by the **Licensor** depicted in Schedule [I](#) as listed in Schedule [III](#).
- 1.9 "**Territory**" shall mean the United Kingdom.

- 1.10 "Supplemental Agreement" shall mean the agreement entered into by and between the **Licensor**, the **Master License** and the **Distributor** in execution of the terms of Article 2 of the **Master Agreement**.
- 1.11 "**Models**" shall mean any and all creations specific to the **Lacoste Watches**, or part thereof, each of which shall be assigned a specific stock keeping unit ("SKU") number or other identifier by **Master Licensee**.
- 1.12 "**Know-How**" shall mean the **Watches Know-How**, **Licensor's Marketing and Merchandising Know-How** and **Promotion and Advertising Know-How** for the distribution and advertising of the **Lacoste Watches** and the **Licensed Trademarks**.
- 1.13 "**Marketing and Merchandising Know-how**" shall mean all accumulated expertise, which is implemented world-wide by the **Licensor**, concerning the distribution of the **Lacoste Apparel Products**, the **Other Lacoste Products** and the **Lacoste Watches** according to the **Lacoste Trademarks Image** including the level of quality and the techniques of such distribution (*i.e.*, the selection, training, supervision, etc. of the retailers), all of which know-how is regularly updated and improved as a result of the **Licensor's** research, and which know-how is owned by or originated from the **Licensor** and is made available to the **Master Licensee** and to other **Licensor's** licensees through the **Licensor** and which the **Licensor** is not otherwise obliged to hold in confidence.
- 1.14 "**Promotion and Advertising Know-how**" shall mean all accumulated expertise which is implemented world-wide by the **Licensor** in maintaining a high quality promotion and advertising policy for the **Lacoste Trademarks Image**, the **Lacoste Apparel Products**, the **Other Lacoste Products** and the **Lacoste Watches** through selected and controlled channels, all of which know-how is regularly updated and improved as a result of the **Licensor's** research, and which know-how is owned by or originated from the **Licensor** and is made available to the **Master Licensee** and to other **Licensor's** licensees through the **Licensor** and which the **Licensor** is not otherwise obliged to hold in confidence.
- 1.15 "**Watches Know-how**" shall mean all accumulated world-wide expertise of the **Master Licensee** concerning the creation, development, manufacture, distribution, marketing, merchandising, advertising, promotion and sale of watches and time-keeping devices at a high quality level and according to selected and controlled techniques and fixtures designed to facilitate the distribution of watches (including, but not limited to, the design of display materials and showcases), which know-how is regularly updated and improved by the **Master Licensee** and is owned by or originated from the **Master Licensee** and is made available to the **Licensor** and to other **Licensor's** licensees through the **Licensor** and which the **Master Licensee** is not otherwise obliged to hold in confidence.
- 1.16 "**Approved Watches Retailers**" shall mean selected retailers (the categories of which are listed in Schedule [Va](#)) which have entered with the Distributor, whenever possible, into the Lacoste Watches Approved Retailer Contract, annexed hereto as Schedule [VIII](#), as the form of the same may be modified by **Master Licensee** from time to time, defining the conditions to be fulfilled and applied for the sale of the **Lacoste Watches** through the **Lacoste Watches Selective Distribution System**.
- 1.17 "**Lacoste Corners**" shall mean the locations in certain shops of high standing which are devoted exclusively to the sale of the **Lacoste Apparel Products** and, subject to the provisions of Article [11.2](#) hereinafter, of certain **Lacoste Watches** and/or **Other Lacoste Products**, using various fittings, displays, appliances, original furniture and equipment specially designed or approved by the **Licensor** and are authorized to use the name "Lacoste" and the **Crocodile** as signboards and as service marks for retail services.
- 1.18 "**Lacoste Boutiques**" shall mean the stand alone shops belonging to independent retailers or to **Devanlay** or to the **Lacoste Apparel Products Distributor** and devoted exclusively to the sale of the **Lacoste Apparel Products** and, subject to the provisions of Article 11.2 hereinafter, of certain **Lacoste Watches** and/or **Other Lacoste Products**, using various fittings, displays, appliances, original furniture and equipment specially designed or approved by the **Licensor**, and are authorized to use the name "Lacoste" and the **Crocodile** as signboards and as service marks for retail services. Among the **Lacoste Boutiques** shall be included, if the economic conditions of the markets in question so permit, certain **Lacoste Boutiques** known as "*global stores*", of a sufficient size to be organized for the sale on a large scale not only of the **Lacoste Apparel Products** but also, subject to the provisions of Article [11.2](#) hereinafter, of certain **Lacoste Watches** and/or **Other Lacoste Products**.
- 1.19 "**Commercial Surface**" shall mean the total surface of a **Lacoste Boutique** or a **Lacoste Corner**, excluding the stock premises.
- 1.20 "**Sales Surface**" shall mean, within the **Commercial Surface** of each **Lacoste Boutique** or **Lacoste Corner**, that surface of the floor used for the presentation and the sale of products on the furniture (fixed to the walls or free-standing) or displays, excluding any area used for customers traffic in the point of sale and excluding the shop-windows.
- 1.21 "**Presentation Surface**" shall mean, within the **Sales Surface** of each **Lacoste Boutique** or **Lacoste Corner**, the total surface actually dedicated to the presentation and the sale of products on the furniture (fixed to the walls or free-standing) or displays, determined according to the rules specified in Schedule [VI](#).
- 1.22 "**Lacoste Watches Selective Distribution System**" shall mean the group of **Approved Watches Retailers** organized by the **Master Licensee** in accordance with the specific guidelines of the **Licensor** to sell the **Lacoste Watches** while respecting the specific criteria in the area of client service, merchandising, presentation, advertising, promotion and respect of the **Lacoste Trademarks Image**.
- 1.23 ""**Lacoste Boutiques and Lacoste Corners**" **Selective Distribution System**" shall mean the group of **Lacoste Boutiques** and **Lacoste Corners** organized by **Devanlay** in accordance with the specific guidelines of the **Licensor** and which comply with specific criteria with respect to client service, merchandising, presentation, advertising, promotion and respect of the **Lacoste Trademarks Image**. The "**Lacoste Boutiques and Lacoste Corners**" **Selective Distribution System** is distinct from the **Lacoste Watches Selective Distribution System** and from the "**Approved Apparel Retailers**" **Selective Distribution System** (as hereinafter defined) as well as from each of the selective distribution systems existing for each of the **Other Lacoste Products**.
- 1.24 "**Approved Apparel Retailers**" **Selective Distribution System**" shall mean the group of approved retailers which has been organised by **Devanlay** in accordance with the specific guidelines of the **Licensor** with the purpose of selling the **Lacoste Apparel Products** and which comply with specific criteria with respect to client service, merchandising, presentation, advertising, promotion and respect of the **Lacoste Trademarks Image**.
- 1.25 "**Net Sales**" shall mean the actual invoiced price for sales in the **Territory** of all **Lacoste Watches** (whether sold at regular prices or at reduced prices, such as end-of-season prices) by the **Distributor** to **Approved Watches Retailers** and to members of the "**Lacoste Boutiques and Lacoste Corners**" **Selective Distribution System**, less returns, rebates, bad debts, trade discounts, shipping charges, insurance, and such sales taxes as are imposed on the **Distributor** by any governmental authority.

With regard to direct sales by the **Distributor** to consumers through its own retail outlets (should it operate any), **Net Sales**, for each reference of the **Lacoste Watches** shall be calculated on the basis of the unit volume of such reference of the **Lacoste Watches** sold through such outlets multiplied by the

appropriate arms length, average wholesale prices of such products charged by the **Distributor** to its **Approved Watches Retailers**, or to the members of the "**Lacoste Boutiques and Lacoste Corners**" **Selective Distribution System**, less returns, rebates, bad debts, trade discounts, shipping charges, shipping insurance and such sales taxes as are imposed on the **Distributor** by any governmental authority.

- 1.26 "Sales to Distributor" shall mean the actual invoiced price in the **Territory** of all **Lacoste Watches** (whether made at regular prices or at reduced prices, such as end-of-season prices) sold by the **Master Licensee** to **Distributor** to be resold to **Approved Watches Retailers** and members of the "**Lacoste Boutiques and Lacoste Corners**" **Selective Distribution System**, less returns, rebates, bad debts, trade discounts, shipping charges, shipping insurance and such sales taxes as are imposed on the **Master Licensee** by any governmental authority.
- 1.27 "**Points of Sale**" shall mean the points of sales of the retailers listed in Schedule V.
- 1.28 "**Seconds**" shall mean damaged and/or defective **Lacoste Watches**.

## ARTICLE 2 - RIGHTS GRANTED

- 2.1 Subject to the terms and conditions contained herein, the **Master Licensee** hereby grants to the **Distributor** and the **Distributor** hereby accepts the right to use, within the limits of the **Supplemental Agreement**, the **Licensed Trademarks**, the **Models** and the **Know-How** in connection with the distribution, marketing, merchandising, advertising, promotion and sale of the **Lacoste Watches** listed in Schedule IV in the **Territory** under the conditions provided for hereunder.
- 2.2 No other rights or licenses are granted by the **Master Licensee** to the **Distributor**, expressly or by implication, except as herein provided.
- 2.3 For the duration of this **Agreement**, the **Master Licensee** shall not appoint any other distributor for the **Lacoste Watches** in the **Territory** nor shall it directly supply the **Lacoste Watches** to customers within the **Territory**.
- 2.4 The **Distributor** shall not sub-license any of the rights granted to it hereunder or contract with any third party for the performance of any of Distributor's obligations hereunder, without the prior written agreement of the **Master Licensee**, which **Master Licensee** shall have the right to withhold in its sole and absolute discretion.
- 2.5 The **Master Licensee** makes no express or implied warranties to **Distributor** except as explicitly set forth in this **Agreement**.

## ARTICLE 3 - DURATION

- 3.1 This **Agreement** shall come into effect as of the Effective Date and shall, unless otherwise earlier terminated as provided herein, continue for the duration of the **JV Agreement** and automatically expire upon the expiration or termination of the **JV Agreement**.
- 3.2 In the event (a) this Agreement is assigned to **SWICO**, **MGI** or to an Affiliate of **Swico** or **MGI** in accordance with Article 18.2 hereof, or (b) either **Swico** or **MGI** purchases all of the other's interest in Distributor under Section 15.2.2 of the **JV Agreement** or (c) **Swico**, its Affiliates or Permitted Transferees (as such term is defined in the **JV Agreement**) otherwise acquire control of **Distributor**, then this Agreement shall continue from the date of such assignment, purchase and/or acquisition, as the case may be, until the third anniversary of such date at which time this Agreement shall expire and neither party shall have any further obligation to the other hereunder except as to those obligations which by their express terms survive beyond the expiration or termination of this Agreement.
- 3.3 In any event when either the **Master Agreement** or the **JV Agreement** expires or terminates this **Agreement** shall automatically terminate with no compensation payable to the **Distributor**.

## ARTICLE 4 - TERRITORY

The rights hereby granted shall be strictly limited to the **Territory**.

## ARTICLE 5 - GENERAL BUSINESS POLICY

- 5.1 The **Distributor** shall use its best efforts to establish a well managed and successful long term business as distributor of the **Lacoste Watches** and, to the extent possible given the market and legal conditions prevailing in the **Territory**, shall use the **Know-How** in order to promote the image, sales and distribution of the **Lacoste Watches** in the **Territory**, in conformity with such policies as are prescribed and co-ordinated world-wide by the **Licensor** for the **Licensed Trademarks** and the **Lacoste Trademark Image**.
- 5.2 The **Distributor** shall co-operate closely with the **Master Licensee** and with the **Licensor's** other licensees or distributors for the **Lacoste Apparel Products** and **Other Lacoste Products**, so as to give an uniform and homogeneous image of the **Licensed Trademarks** and of all the families of products bearing the **Licensed Trademarks** both in the **Territory** and worldwide and shall keep the **Master Licensee** informed of its direct contacts with said licensees or distributors.

## ARTICLE 6 - SALES AND UNFAIR COMPETITION

- 6.1 The **Distributor** shall not advertise and/or create branches or warehouses outside the **Territory** nor shall it sell actively the **Lacoste Watches** for delivery outside the **Territory** or to third parties whom it is aware may subsequently resell **Lacoste Watches** outside the **Territory** and undertakes to take all reasonable steps to prevent any third party to whom it has sold the **Lacoste Watches** from so doing; provided, however, that, considering the specific regulation prevailing in the European Union (EU) the **Distributor** may resell the **Lacoste Watches** to other **Lacoste Watches** distributors that are under contract with **Master Licensee** or to members of the **Lacoste Watches Selective Distribution System** located in any member country of the EU, whether or not within the **Territory** (other than **Lacoste Boutiques** and/or to **Lacoste Corners** as the **Lacoste Boutiques** and the **Lacoste Corners** constitute a selective distribution system which is distinct from the **Lacoste Watches Selective Distribution System**) but only in accordance with the following terms and conditions:
- it shall take all necessary measures to ensure that the **Lacoste Watches** thus delivered remain in the **Lacoste Watches Selective Distribution System** within the EU,
  - it shall in particular ensure and see to it that, in the event its **Approved Watches Retailers** sell to other retailers, such retailers are members of the **Lacoste Watches Selective Distribution System** in the EU.
- The **Master Licensee** shall be entitled, in any year, to request from the **Distributor** or its **Approved Watches Retailers** copies of the invoices related to such re-sales in order to ascertain that such have been made to a member of the **Lacoste Watches Selective Distribution System** in the EU.
- As far as is permitted by law the **Master Licensee** shall use all reasonable endeavours to ensure that its other distributors comply with the same restrictions.
- 6.2 The **Distributor** shall not either directly or indirectly distribute or sell on its own account or on the account of any third party any products having any characteristics unique to the **Lacoste Watches** or likely to create confusion with **Lacoste Watches** in the mind of the public such undertaking to remain in full force and effect for one year after the termination or non renewal of this **Agreement**.
- 6.3 The **Distributor** shall never manufacture, distribute or sell directly or indirectly any product bearing a name, trademark or emblem similar to the **Licensed Trademarks**, or likely to be confused with the **Licensed Trademarks**. This prohibition is permanent.
- 6.4 During the term of this **Agreement** **Distributor** shall notify **Master Licensee** in advance in the event it intends to become, directly or indirectly, a distributor, agent or sales representative in the Territory of or for ("represent") any other watch brand with products priced at retail within a range of Euro 150 to Euro 800. Within thirty (30) days after receipt of any such notice, if there is reasonable basis for **Master Licensee** to conclude that **Distributor's** representation of such other brand will be inconsistent or incompatible with any of **Distributor's** obligations hereunder, then **Master Licensee** shall have the right to terminate this Agreement upon one hundred eighty (180) days prior notice to **Distributor**. Notwithstanding the foregoing, **Distributor** shall have the right to nullify such termination notice from **Master Licensee** if, within thirty (30) days after such notice, **Distributor** notifies **Master Licensee** that it will not, and so long as it does not, at any time thereafter for the duration of this **Agreement** represent such brand in the **Territory**.
- 6.5 In order to preserve the identity and the specific characteristics of each of the selective distribution systems described in the **Agreement**, the **Distributor** shall respect the integrity of the **Lacoste Watches Selective Distribution System** and the "**Lacoste Boutiques and Lacoste Corners**" **Selective Distribution System** and "**Approved Apparel Retailers**" **Selective Distribution System** not only with regard to third parties but also between these systems so that:
- 6.5.1 sales of **Lacoste Watches** to final consumers be made in proportions commensurate with private use by such consumers;
  - 6.5.2 until they are sold to final consumers, through the **Lacoste Watches Selective Distribution System** or the "**Lacoste Boutiques and Lacoste Corners**" **Selective Distribution System** **Lacoste Watches** remain at all times within the custody of a member of either of these systems.
- 6.6 The **Distributor** shall take all appropriate measures so that all members of the **Lacoste Watches Selective Distribution System** with whom **Distributor** has any dealings, similarly adhere to the commitments mentioned in Article [6.5](#) above.

## **ARTICLE 7 - ORDERS AND SHIPMENTS**

- 7.1 From time to time, **Distributor** shall submit purchase orders for **Lacoste Watches** to **Master Licensee**. All purchase orders shall be subject to acceptance by **Master Licensee**, which acceptance may, at **Master Licensee's** option, be evidenced by the issuance of written confirmations or acknowledgments. **Master Licensee** hereby reserves the absolute right to reject the whole or any part of any purchase order for any commercially valid reason, including, without limitation, **Distributor's** credit condition or its accumulation of excess or non-current inventory or its failure otherwise to adhere to the terms and conditions of this Agreement, notwithstanding that any such rejection may prevent **Distributor** from achieving its **Minimum Turnover Requirements**. All purchase orders shall be irrevocable after acceptance by **Master Licensee**; provided, however, that **Distributor** may reschedule or cancel that portion of any purchase order pertaining to **Lacoste Watches** which **Master Licensee** fails to deliver within thirty (30) days after the later of the advised delivery date or shipping date. **Distributor** will provide **Master Licensee** with a four (4) month rolling forecast of its anticipated order volume monthly by SKU, for the four (4) month period. **Master Licensee** will use reasonable efforts to deliver **Lacoste Watches** ordered in accordance with the forecast within three (3) months after acceptance of the purchase order by **Master Licensee** and to deliver all other **Lacoste Watch** orders within three (3) to five (5) months after acceptance of the purchase order. As soon as is reasonably practicable after acceptance of each purchase order, **Master Licensee** shall advise **Distributor** of the shipping dates applicable to such order. All shipping dates so advised are estimates only and **Master Licensee** shall not have any liability for failure to actually ship by such dates or to deliver by **Distributor's** requested delivery dates. **Master Licensee** shall notify **Distributor** in event of any anticipated delay in shipping dates of thirty (30) days or more. Each order submitted by **Distributor** will specify a "ship to" address which shall be the address of **Distributor's** warehouseman or the address for one of **Distributor's** customers.
- 7.2 The **Distributor** shall place all orders for **Lacoste Watches** with the **Master Licensee** exclusively; provided that notwithstanding the foregoing, the **Distributor** may order the **Lacoste Watches** from another member of the **Lacoste Watches Selective Distribution System** resident in the EU.



All orders shall be subject to acceptance by the **Master Licensee**. They shall be governed exclusively by the terms and conditions of this **Agreement** and the **Master Licensee's** General Conditions of Distribution attached hereto as Schedule VII.

- 7.3 Unless otherwise agreed in writing by **Distributor** and **Master Licensee**, **Lacoste Watches** shall be deemed delivered to **Distributor** when delivered by **Master Licensee** or **Master Licensee's** freight forwarder or distribution center into the possession of a carrier designated by **Master Licensee**. **Distributor** shall bear all risk of loss, damage or shortage pertaining to **Lacoste Watches** after delivery to carrier for shipment to the designated "ship to" address on the corresponding purchase order. All costs of delivery, including, without limitation, all costs for freight, import licenses, customs duties or other duties or imposts, insurance and special handling shall be paid by **Distributor**.

#### ARTICLE 8 - PAYMENT

- 8.1 The purchase prices for all **Lacoste Watches** purchased by **Distributor** shall be in Euros and based on **Master Licensee's** suggested retail price in effect in the **Territory** as of the date of shipment. Such prices shall be calculated based on the discount structure as set forth on Schedule VIII attached hereto. **Master Licensee** will provide current price lists for the **Watches** to **Distributor** from time to time and shall have the right to modify such prices at any time; provided, however, that no price increase shall become effective sooner than sixty (60) days after written notice thereof to **Distributor**. **Master Licensee** will give **Distributor** prior notice of all such price changes. For all orders shipped before the effective date of any price increase, the applicable price shall be the price in effect on the date of shipment. With respect to orders for **Lacoste Watches** that have been accepted by **Master Licensee** but which have not been shipped as of the effective date of a price increase, the applicable price shall be the price in effect on the date of shipment; provided that if the price increase is more than ten percent (10%) of the last applicable price, **Distributor** shall have the right within ten (10) days from the effective date of the price increase to cancel all or any part of the order for **Lacoste Watches** subject to such price increase upon notice to **Master Licensee**. All prices are ex-works **Master Licensee's** affiliate's Hong Kong distribution facility or such other distribution facility as **Master Licensee** shall designate.

8.2 The invoices shall be sent directly by the **Master Licensee** to the **Distributor**. All payments shall be made in Euros in accordance with **Master Licensee's** standard terms of sale (to the extent not inconsistent with the terms contained herein) net ninety (90) days after the invoice date. A discount of two percent (2%) is granted for cash payment in advance.

- 8.3 **Distributor** shall have sole responsibility for invoicing its customers and for the collection of all amounts due from them for **Lacoste Watches** sold to them by **Distributor**. In no event shall non-payment by any such customer or any claim or allegation any customer may have against **Distributor** constitute grounds for any off set, deduction, claim or defence on the part of **Distributor** against **Master Licensee** or in respect of any obligation due to **Master Licensee** and **Distributor** shall pay **Master Licensee** all amounts due to **Master Licensee** in accordance with the terms of this **Agreement** without off set or deduction for any amounts claimed to be due to **Distributor** by **Master Licensee**.

#### ARTICLE 9 - QUALITY, WARRANTY AND AFTER SALE SERVICE

- 9.1 The **Master Licensee** shall take all reasonable steps to ensure that the **Lacoste Watches** delivered pursuant to this **Agreement** satisfy all applicable quality requirements.

- 9.2 **Lacoste Watches** delivered by the **Master Licensee** to the **Distributor** shall be covered by the **Master Licensee's** International Warranty as the same may be modified by **Master Licensee** from time to time.

- 9.3 The **Distributor** shall establish and maintain at its own cost such number of authorized service facilities for the service and repair of **Lacoste Watches** in the **Territory** (the "Service center(s)") as **Master Licensee** may reasonably request, it being understood that initially there shall be one (1) such Service Center. **Distributor** shall accept all **Lacoste Watches** for service returned by any consumer or retailer whether covered by the applicable consumer warranty ("warranty repairs") or not covered by said warranty ("out-of-warranty repairs"). **Distributor** shall purchase from **Master Licensee** and maintain an adequate stock of **Lacoste Watches** and component parts and materials and employ at each Service Center such number of qualified service technicians necessary to perform such service in a timely manner. All shipping charges, including any duty, or Customs brokerage fees, for such parts shall be paid by **Distributor**. **Master Licensee** shall have the right to furnish parts to **Distributor** in the form of finished watches. Within sixty (60) days after the end of each contract year, provided **Distributor** has complied with all its obligations hereunder, **Master Licensee** will issue a credit to **Distributor** equal to one percent (1%) of the **Sales to Distributor** in such prior contract year; provided that **Master Licensee** will review this amount annually in light of the actual average incidence of warranty repairs.

- 9.4 Within thirty (30) days after the Effective Date, **Distributor** will furnish **Master Licensee** with **Distributor's** initial price list for all out of warranty repairs. All such prices will be competitive as compared to prices charged for similar services performed for other watch brands that compete with **Lacoste Watches** in the **Territory**. **Distributor** will give **Master Licensee** no less than ninety (90) days prior written notice of any change to any such prices. **Distributor** shall submit to **Master Licensee** quarterly, a statement summarizing all out of warranty repairs and all warranty repairs performed in the immediately preceding quarter indicating for each watch repaired: the corresponding style number, the work performed and customer's name and address. **Distributor** will use only those parts (excluding batteries) for service on **Lacoste Watches** which are supplied directly by or otherwise approved in writing by **Master Licensee** as original equipment for **Lacoste Watches**.

- 9.5 **Distributor** will issue estimates for repair work within five (5) working days after receipt of a **Lacoste Watch** for repair on ninety percent (90%) of **Lacoste Watches** submitted to **Distributor** for repair. Working days are defined as all days of the year except Saturdays and Sundays and legal holidays. Warranty repairs will be completed within fifteen (15) working days after receipt of a **Lacoste Watch** for repair on ninety percent (90%) of the in-warranty work performed by **Distributor**, unless detained because of delays in receiving necessary parts from the **Master Licensee**. Out of warranty repairs will be completed within twenty (20) working days after receipt of the customer's written authorization to proceed with repair of a **Lacoste Watch** on ninety percent (90%) of the out of warranty work performed by **Distributor**. On the same day any repairs are completed, the **Lacoste Watch** repaired or serviced will be returned to the customer via express mail or such other method as **Master Licensee** may reasonably request. Increases in the postage or other ground delivery rates may require requisite increases in charges to the customer by the **Distributor** for shipping

#### ARTICLE 10 - MARKETING AND MERCHANDISING

The **Master Licensee** shall share appropriate **Know How** pertaining to the **Lacoste Watches** with **Distributor** and maintain regular contacts among their respective personnel. To this effect, the **Master Licensee** shall from time to time:

- 10.1.1 give the **Distributor** access to certain market surveys, statistics, reports and information it may have (which it is not obliged to third parties to hold in confidence) regarding the market position of the **Lacoste Watches** in the **Territory** among competitors, retail customers and consumers; and
- 10.1.2 at the **Distributor's** request, provide reasonable assistance to the **Distributor** in training a reasonable number of the **Distributor's** staff in the marketing, merchandising, promotion and advertising of the **Lacoste Watches**; and
- 10.1.3 advise the **Distributor** of its requirements with regard to marketing and merchandising, including for example specifications concerning the presentation of the **Lacoste Watches** in the shop-windows or inside shops and the point-of-sale materials, that the **Distributor** shall implement within the **Territory**; and

#### Obligations of the **Distributor**

The **Distributor** shall take all necessary measures to promote the distribution and sale of the **Lacoste Watches** within the **Territory** by conforming to such policies as are prescribed and co-ordinated world-wide by the **Licensor** for the **Licensed Trademarks** and by using the **Know-How** provided through the **Master Licensee** together with its own resources. To this effect, the **Distributor** shall:

- 10.2.1 make such investments as are reasonably required to create and/or maintain the organisation necessary for the distribution, marketing and merchandising, promotion and advertising of the **Lacoste Watches**. This organization shall operate in a manner so as to avoid any risk of confusion to the retail trade or consumers with other brands offered by the Master Licensee or by Distributor. Such organisation shall include at least one (1) full time watch division manager to supervise and manage a dedicated sales manager and sales executive for **Lacoste Watches**, experienced in managing a watch distribution business and one (1) full time marketing manager working on the advertising and promotion of **Lacoste Watches**; and
- 10.2.2 consult with the **Master Licensee** at least three (3) months before the beginning of the sale of each season's collection with respect to the **Distributor's** marketing and merchandising policy. At **Master Licensee's** request, the **Distributor** shall participate in the coordination meetings organised by the **Licensor** and/or **Master Licensee**. This consultation shall be done with the purpose of reaching an agreement on the objectives and the means to achieve the best possible sales results within the **Territory** as well as the best possible co-ordination with the marketing and merchandising policy of the **Lacoste Apparel Products** and **Other Lacoste Products**; and
- 10.2.3 provide the **Master Licensee** three (3) months after the start of the sales of each collection of **Lacoste Watches** a collection report which shall include the comments of the **Distributor** detailed by Model (SKU) within each such collection. The **Distributor** shall in particular comment on the market receptivity to the collection. Such report shall also include any requests for future collections.
- 10.2.4 provide the **Master Licensee** once a year, at the beginning of the month of October, with its estimated **Net Sales** figures in the **Territory** in units and in turnover for the following three (3) calendar years, for each of the lines of **Lacoste Watches**, by category of products (as defined in Schedule **IV** attached hereto); and shall update these estimates for the first year of this three year period, a first time six (6) months later (in April), and a second time twelve (12) months later (in October); and
- 10.2.5 provide the **Master Licensee** quarterly, beginning with the second quarter after the Effective Date with a report listing each **Approved Watches Retailer** and each **Lacoste Boutique** and **Lacoste Corner** to which **Distributor** sold any **Lacoste Watches** in the previous quarter and detailing for each by SKU the quantities and the **Net Sales**, of the **Lacoste Watches** sold during the preceding quarterly period); and
- 10.2.6 in general :
  - a) give the **Master Licensee** complete access to any and all market surveys, reports and information it may have (which it is not obliged to third parties to hold in confidence) regarding the market position of the **Lacoste Watches** among competitors, retail customers and consumers in the **Territory**; and
  - b) use reasonable efforts to reply to any request from the **Master Licensee** concerning additional details or statistics based on sales including, without limitation, monthly sell-through data for certain accounts; and
  - c) in the interests of both parties, enable the **Master Licensee's** personnel to carry out their role of assistance to and consultation with the **Distributor** and supply them with such help and information as may be reasonably available for the completion of their role and, in particular, provide all available information and necessary surveys for the analysis of the retail outlets sales activity so as to permit the **Master Licensee** to better define the conditions and the trends of the market; and
  - d) shall ensure that the **Approved Watches Retailers** implement and conform to the marketing and merchandising policy defined by the **Licensor** according to the provisions of Article [10.2.2](#) above; and
  - e) shall ensure that the **Approved Watches Retailers** conform to the specifications concerning the fittings, the decoration and architecture of the points-of-sale and use the furniture and other elements, developed by the **Licensor**, in connection with the sale of the **Lacoste Watches**.

#### **ARTICLE 11 - DISTRIBUTION AND SALE**

The **Distributor** shall carry out the distribution of the **Lacoste Watches** in the **Territory** exclusively through :

- a) the members of the **Lacoste Watches Selective Distribution System**, through **Approved Watches Retailers** selected in the **Territory** and to which, whenever possible, it shall be contractually linked; and

b) the members of the "**Lacoste Boutiques and Lacoste Corners**" **Selective Distribution System**, subject to the terms and conditions set forth in Article [11.2](#) hereinafter.

#### 11.1 **Approved Watches Retailers**

So as to provide the consumer with the best service, to ensure the homogeneity of the high quality of the distribution of the **Lacoste Watches** throughout the **Territory** and to guarantee their authenticity, the **Distributor** shall select **Approved Watches Retailers** on the basis of the following objective criteria as regards both quality and techniques, and shall use reasonable commercial efforts to enter into with them, whenever possible, an agreement in the form of *Lacoste Watches Approved Retailer Contract* as the same may be modified from time to time, the current version of which is annexed hereto as Schedule [IX](#).

##### 11.1.1 **Conditions of Approval**

The **Distributor** shall select as **Approved Watches Retailers** exclusively those which meet the standards of performance as set forth in the Lacoste Watches General Conditions of Distribution, as the same may be modified from time to time, the current version of which is annexed hereto as Schedule [VII](#) for the following criteria :

- a) the location and environment of the point-of-sale (type and category of the building, location in the town in question, type of shops in the neighborhood, sales area of the shop, quality of the frontage, length of the shop window); and
- b) its fittings (quality of the shop sign, window-dressing, quality of the furnishings and lighting); and
- c) the type, brand and nature of the products sold in the outlet; and
- d) the qualification of the personnel; and
- e) the financial capabilities and solvency guarantees.

##### 11.1.2 **Approval of the Approved Watches Retailers**

The **Master Licensee** reserves the right to verify that every point of sale selected by the **Distributor** as an **Approved Watches Retailer** conforms to the objective criteria set forth in Article [11.1.1](#) hereinabove. **Distributor** shall submit or cause to be submitted to the **Master Licensee** a copy of the completed application for every potential point of sale for approval and will follow the application procedures for each such proposed point of sale as set forth in the Lacoste Watches General Conditions of Distribution. The **Master Licensee** shall have one-hundred-twenty (120) days to approve in writing a potential point of sale based upon the objective criteria set forth under Article [11.1.1](#) hereinabove and the **Master Licensee** shall not unreasonably withhold, delay or condition its approval, and shall be deemed to have given its approval if **Master Licensee** does not notify **Distributor** that it disapproves of such proposed point of sale with one-hundred-twenty (120) days of receipt of the completed application.

##### 11.1.3 **Duties of the Approved Watches Retailers**

Whether or not the **Distributor** succeeds in entering into the **Lacoste Watches Approved Retailer Contract** with each **Approved Watches Retailer**, the **Distributor** shall ensure that each **Approved Watches Retailer** adheres to the following at all times :

- a) the standing of the point-of-sale and its environment remain at all times compatible with the **Lacoste Trademarks Image**, as established and coordinated by the **Licensor**; and
- b) the sales area in the store is always sufficient to permit the presentation of the **Lacoste Watches** in a sufficient shopping space without disproportion with the other brands offered for sale and allowing to distinguish them; and
- c) each point-of-sale always contains an adequate range of the **Lacoste Watches**; and
- d) the sales personnel of each point-of-sale is always well qualified and trained in presenting and selling the **Lacoste Watches**; and
- e) INTENTIONALLY DELETED
- f) no misleading advertising is made; and
- g) the counters, posters, demonstration and other advertising material are displayed in a prominent position in each store and set up with the **Distributor's** approval; and
- h) a notice stating "*Approved Watches Lacoste Retailer*" is displayed in a prominent position in the window or near the **Lacoste Watches** display area.

11.1.4 The **Distributor** shall ensure that all elements bearing or representing the **Licensed Trademarks** (such as awnings, pennants, etc.) used by the **Approved Watches Retailers** on the façade, in the window or inside their shops are exclusively those supplied by the **Distributor** or, exceptionally those which have received the prior and express written approval of the **Distributor**.

In this respect, a specific provision shall be included in the written confirmations issued to the **Approved Watches Retailers**.

The **Distributor** shall inform the **Master Licensee** of any new kind of material that the **Approved Watches Retailers** would like to use.

#### 11.2 Special provisions applicable to the members of the "**Lacoste Boutiques and Lacoste Corners**" **Selective Distribution System**

Nothing contained in the **Agreement** and in particular this Article [11.2](#) and Articles [1.17](#) and [1.18](#) shall be construed as meaning that **Lacoste Watches** shall be offered for sale in each and every **Lacoste Boutiques** and **Lacoste Corner** fulfilling the requirements of Article [11.2.1](#) hereunder.



- a) So as to make sure that at the same time the **Lacoste Boutiques** and **Lacoste Corners** remain principally devoted to the sale of **Lacoste Apparel Products** and only on a subordinate basis of the **Lacoste Watches** and/or of the **Other Lacoste Products** and to allow the development of the **Lacoste Watches** together with the **Other Lacoste Products**, the **Lacoste Boutiques** with a **Commercial Surface** exceeding 50m<sup>2</sup> and the **Lacoste Corners** with a **Commercial Surface** exceeding 40m<sup>2</sup> shall be authorised to sell the **Lacoste Watches** and all the categories of the **Other Lacoste Products** that they wish to sell. **Devanlay** shall reserve for the **Lacoste Watches** together with the **Other Lacoste Products** in each of these **Lacoste Boutiques** and in each of these **Lacoste Corners** at least ten percent (10%) and at most twenty percent (20%) of the **Presentation Surface** of such **Lacoste Boutique** or **Lacoste Corner**.

For the **Lacoste Boutiques** with a **Commercial Surface** exceeding 150m<sup>2</sup>, the **Presentation Surface** reserved for the **Lacoste Watches** together with the **Other Lacoste Products** shall be at least fifteen percent (15%) but at most twenty percent (20%) of the **Presentation Surface** of such **Lacoste Boutique**.

**Devanlay** or the relevant **Lacoste Apparel Products Distributor** shall decide with the owner of each **Lacoste Boutique** and of each **Lacoste Corner**, within the limits fixed above, the percentage of the **Presentation Surface** reserved for the **Lacoste Watches** and for the **Other Lacoste Products**.

**Devanlay**, or the relevant **Lacoste Apparel Products Distributor**, shall decide with the owner of each **Lacoste Boutique** and of each **Lacoste Corner** the manner in which the space reserved for the **Lacoste Watches** and for the **Other Lacoste Products** shall be allocated.

The owner of each **Lacoste Boutique** and of each **Lacoste Corner** shall comply scrupulously and in all respects with the instructions of **Devanlay**, or of the relevant **Lacoste Apparel Products Distributor**, concerning the merchandising of the **Lacoste Watches** and of the **Other Lacoste Products** in the **Lacoste Boutiques** and in the **Lacoste Corners**.

Within this framework, the owners of the **Lacoste Boutiques** and of the **Lacoste Corners** are free to decide if they want to present **Lacoste Watches** in their points of sale and to choose the categories of **Other Lacoste Products** which they wish to present in their points of sale.

- b) Provided that they have been authorised beforehand and in writing by **Devanlay**, the **Lacoste Boutiques** with a **Commercial Surface** smaller than or equal to 50m<sup>2</sup> and the **Lacoste Corners** with a **Commercial Surface** smaller than or equal to 40m<sup>2</sup> may sell certain **Lacoste Watches** and/or **Other Lacoste Products** in the same conditions. Given the size of these points of sale, the parties agree that no reservation of a minimum **Presentation Surface** shall apply to them.

## 11.2.2

**Selection of the collections of the Lacoste Watches for the "Lacoste Boutiques and Lacoste Corners" Selective Distribution System**

The presence of the **Lacoste Watches** together with the **Other Lacoste Products** alongside the **Lacoste Apparel Products** in the **Lacoste Boutiques** and in the **Lacoste Corners** is desirable in the interest of the **Lacoste Trademarks Image** and of the development of the "lifestyle" image of the Lacoste brand. The purpose is to define for each **Lacoste Boutique** and for each **Lacoste Corner** a well-balanced solution, preserving both the **Lacoste Trademarks Image** and the interests of the **Lacoste Apparel Products**, the **Other Lacoste Products** and the **Lacoste Watches**.

- a) The collections of the **Lacoste Watches** for the "**Lacoste Boutiques and Lacoste Corners**" **Selective Distribution System** shall be selected in the **Territory** among the collections approved by the **Licensor**, by mutual agreement between the **Distributor** and the **Lacoste Apparel Products Distributor** in such country.

The selection of the collections of the **Lacoste Watches** means the determination, for the **Territory**, on the one hand, of the product ranges (choice of models among those existing) of the **Lacoste Watches** collections, among which the owner of the point of sale shall be free to choose when placing his orders and, on the other hand, of the total number of references/color of **Lacoste Watches** and of **Other Lacoste Products** which may be commercialised during a season in each category of point of sale according to its size and its lay-out. The determination of the product ranges shall be such as to offer the owners of the points of sale the opportunity to exercise their choice among collections having, for the **Lacoste Watches** and for each category of **Other Lacoste Products**, a reasonable representativeness.

- b) Subject to the terms of paragraph (a) hereinabove, such selection shall be made taking into account:
- the availability of the collections of the **Lacoste Watches** in such country, and
  - the commercial interest that the **Lacoste Watches** may offer to the **Lacoste Boutiques** and the **Lacoste Corners**, and
  - the purchasing behaviour and habits of such country, and
  - the periodicity appropriate to the **Lacoste Watches**.
- c) The collections of the **Lacoste Watches** chosen for the "**Lacoste Boutiques and Lacoste Corners**" **Selective Distribution System** within the **Territory** shall be updated with the appropriate periodicity (season, year) following the rules specified in paragraphs a) and b).
- d) In the event of a disagreement between the **Distributor** and a **Lacoste Apparel Products Distributor** about the selection of collections of **Lacoste Watches** for the "**Lacoste Boutiques and Lacoste Corners**" **Selective Distribution System** in the **Territory**, the **Distributor** shall notify the **Master Licensee** who will then notify the **Licensor**. The **Licensor** and **Devanlay** shall make their best efforts to find together a well-balanced solution which preserves together the **Lacoste Trademarks Image**, the development of the "lifestyle" image of the Lacoste brand and the interests of the **Lacoste Apparel Products** and of the **Lacoste Watches**. The final decision shall rest with **Devanlay**.
- e) Once the ranges of the **Lacoste Watches** and of the **Other Lacoste Products** and the total number of references/color of the **Lacoste Watches** and/or of the **Other Lacoste Products** have been selected, the owners of the **Lacoste Boutiques** and of the **Lacoste Corners** will be free to decide, within this framework, the quantities of **Lacoste Watches** and/or of **Other Lacoste Products** to be ordered.

## 11.2.3

**Supply of the "Lacoste Boutiques and Lacoste Corners" Selective Distribution System by the Distributors of the Lacoste Watches**

- a) The **Distributor** shall present the collections directly to the **Lacoste Boutiques** and to the **Lacoste Corners**, which shall place their orders and repeat orders directly with them according to their specificities (size, location, customers). The **Distributor** shall transmit electronically to the **Lacoste Apparel Products Distributor** a copy of each order placed by the **Lacoste Boutiques** and the **Lacoste Corners** located in the **Territory**. These orders shall be sent to the **Lacoste Apparel Products Distributor** upon receipt by the **Distributor**, and shall specify the anticipated delivery dates. Upon receipt of the copies of the orders and within 10 days at most, the **Lacoste Apparel Products Distributor** may contact the **Distributor** if, after examining the orders, it appears that the selection of the collection for a specific point of sale does not comply with the terms of Article [11.2.2](#) hereinabove. In such an event, the **Lacoste Apparel Products Distributor** shall have the right to request the **Distributor** not to accept these orders insofar as they do not conform with the pre-agreed terms relating to the selection of ranges of **Lacoste Watches** set forth in Article [11.2.2](#) hereinabove. The **Distributor** undertakes to act in accordance with the request of the **Lacoste Apparel Products Distributor**. In the absence of reaction from the **Lacoste Apparel Products Distributor** within 10 days following the receipt of the copies of the orders for the beginning of the season, such orders may be implemented as such. Notwithstanding the foregoing, repeat orders may be delivered by the **Distributor** as soon as they are received.
- b) The **Lacoste Boutiques** and the **Lacoste Corners** shall be supplied and invoiced directly by the **Distributor**.
- c) The **Distributor** shall send each six months to the **Lacoste Apparel Products Distributor** a detailed recapitulative statement of the invoices of **Lacoste Watches** sent to each **Lacoste Boutiques** and **Lacoste Corner**. Copies of these statements shall be sent simultaneously to the **Licensor**, to **Devanlay** and to the **Master Licensee**.
- d) In the event of a violation by a **Lacoste Boutique** or a **Lacoste Corner** of the limits of the **Presentation Surface** established for the **Lacoste Watches** together with the **Other Lacoste Products** in the point of sale or of the selection of the collections of the **Lacoste Watches** and of the **Other Lacoste Products** intended to be commercialised in this point of sale, or of the maximum number of references/colour of **Lacoste Watches** and/or of **Other Lacoste Products** which may be commercialised in such **Lacoste Boutique** or **Lacoste Corner**, or in the event that the purchasing turnover of **Lacoste Apparel Products** during six months is less than eighty percent (80%) of the total purchasing turnover of the relevant **Lacoste Boutique** or **Lacoste Corner** during the same period, **Devanlay**, or the **Lacoste Apparel Products Distributor** concerned, shall be entitled on a first instance to issue a warning to the relevant **Lacoste Boutique** or **Lacoste Corner** and, if any of these occurrences should be repeated, to forbid such point of sale to commercialize **Lacoste Watches** and **Other Lacoste Products** during at least one season.
- The **Licensor** and the **Master Licensee** shall be informed of such measures taken by **Devanlay**. The **Master Licensee** will inform the **Distributor** of any such measures taken by **Devanlay**. The **Distributor** undertakes to comply with these measures by suspending all orders and deliveries to such point of sale.

#### 11.2.4 Selective Distribution Systems

- a) The **Distributor** acknowledges that the **Lacoste Boutiques** and the **Lacoste Corners** are **Points of Sale** with specific characteristics resulting inter alia from the fact that all the products sold in these premises bear the **Lacoste Trademarks**, as well as from the fact that these points of sale are principally devoted to the sale of **Lacoste Apparel Products** and only on a subordinate basis of **Lacoste Watches** together with **Other Lacoste Products**, contrary to the members of the "**Approved Apparel Retailers**" **Selective Distribution System** who can sell products of different brands and who are devoted to the sale of the **Lacoste Apparel Products**, unless they are selected as approved retailers for **Lacoste Watches** and/or **Other Lacoste Products**.
- Therefore, the **Lacoste Boutiques** and the **Lacoste Corners** constitute together the "**Lacoste Boutiques and Lacoste Corners**" **Selective Distribution System** organized by **Devanlay** which is distinct from the "**Approved Apparel Retailers**" **Selective Distribution System** comprising the approved retailers for the **Lacoste Apparel Products**.
- The "**Lacoste Boutiques and Lacoste Corners**" **Selective Distribution System** is also distinct from the **Lacoste Watches Selective Distribution System** organised by the **Master Licensee**.
- b) The **Distributor** therefore undertakes to take all appropriate measures to ensure the integrity of the **Lacoste Watches Selective Distribution System**, the "**Lacoste Boutiques and Lacoste Corners**" **Selective Distribution System** and the "**Approved Apparel Retailers**" **Selective Distribution System** in its **Territory**.

#### 11.2.5 Assistance of **Devanlay** and/or of the **Lacoste Apparel Products Distributor** to the "**Lacoste Boutiques and Lacoste Corners**" **Selective Distribution System** in connection with the **Lacoste Watches** and/or the **Other Lacoste Products**

In connection with the **Lacoste Watches** and/or the **Other Lacoste Products** that will be offered in the "**Lacoste Boutiques and Lacoste Corners**" **Selective Distribution System** under the terms of this Article [11.2](#), **Devanlay** and/or the **Lacoste Apparel Products Distributor** have agreed that:

- a) in the field of merchandising, they shall :
- ensure the coherence of the merchandising for the **Lacoste Apparel Products**, the **Lacoste Watches** and/or the **Other Lacoste Products**, and
  - present in a suitable fashion the **Lacoste Watches** following the rules contained in the merchandising guide (called the "Green Book") and its seasonal editions developed by **Devanlay**, which shall be updated by the **Licensor** and **Devanlay** and approved by the **Licensor**, and
  - present completely, in particular in the shop-windows, the lines of **Lacoste Apparel Products**, **Lacoste Watches** together with **Other Lacoste Products**, so as to express fully the Lacoste "way-of-life", and
  - use their best efforts to include the **Lacoste Watches** together with the **Other Lacoste Products** in their local or national advertising and promotion campaigns.
- b) in the field of reporting, they shall :

- do their best efforts to ensure that the **Lacoste Boutiques** progressively put in place IT systems allowing a detailed reporting of their sales of **Lacoste Apparel Products, Lacoste Watches and Other Lacoste Products**, and
- for those **Lacoste Boutiques** who have not yet put in place, and as long as they have not done so, continue providing the **Licensor** and the **Master Licensee** with reports similar to those available as of March 1<sup>st</sup>, 2004, and
- supply the **Lacoste Boutiques** with such elements as may be necessary for the IT treatment and the reporting of their sales of **Lacoste Watches**, subject to having received the basic data about the **Lacoste Watches** necessary to the operation of such a system from the **Licensor**, who shall have obtained it himself from the **Master Licensee**, and
- prepare and submit to the **Licensor** and to the **Master Licensee**, for the **Lacoste Boutiques** which have put in place the necessary IT systems and have received the necessary basic data about the **Lacoste Watches**:
  - (i) on a monthly basis and under the same conditions and terms as for the sales of the **Lacoste Apparel Products** by the **Lacoste Boutiques**, the information relating to the sales of the **Lacoste Watches** in each **Lacoste Boutique**. This information shall include for each **Lacoste Boutique** the detail of the sales to the consumer of the **Lacoste Watches**, and
  - (ii) on a semi-annual basis the information relating to the sales by reference of the **Lacoste Watches** in each of the **Lacoste Boutiques**.

#### 11.2.6 Contribution of the **Distributor**

- a) In consideration of the merchandising and reporting services and of the reservation of the **Presentation Surfaces** made for the **Lacoste Watches** by the **Lacoste Apparel Products Distributors**, the **Distributor** shall pay, each six months, to the **Lacoste Apparel Products Distributor**, a contribution representing a fixed percentage of five percent (5%) of the purchases of the **Lacoste Watches** made by the "**Lacoste Boutiques and Lacoste Corners**" **Selective Distribution System** in the **Territory** during such six (6) month period.
 

In view of the importance of the **Lacoste Boutiques** having a **Commercial Surface** larger than 400m<sup>2</sup> due to their role as showcases on prime locations and due to their high operations cost, the **Distributor** shall pay to **Devanlay**, or, if the distribution of the **Lacoste Apparel Products** in the **Territory** has been granted to a **Lacoste Apparel Products Distributor**, to such **Lacoste Apparel Products Distributor**, a contribution representing a fixed percentage of ten percent (10%), instead of the five percent (5%) mentioned hereinabove, of the purchases of the **Lacoste Watches** by the **Lacoste Boutiques** in the **Territory** having a **Commercial Surface** larger than 400m<sup>2</sup> during such six (6) month period.
- b) The amount of the contribution by the **Distributor** under Article [11.2.6a](#)) shall be determined on the basis of its **Net Sales** to the **Lacoste Boutiques** and the **Lacoste Corners**.
- c) These amounts shall be calculated on 30 June and 31 December of each year and the corresponding contribution shall be paid no later than 31 August and 28 February of each year, by the **Distributor**.
- d) If the contribution due by the **Distributor** has not been fully paid at the dates specified in Article [11.2.6c](#)) hereinabove to the **Lacoste Apparel Products Distributors**, the **Licensor** and the **Master Licensee** shall have the right, thirty (30) days after a notice given by registered mail with certified receipt which will not have been followed by complete payment of all and any due and unpaid contributions, to instruct forthwith the **Distributor** to stop any further deliveries of the **Lacoste Watches** to the members of the "**Lacoste Boutiques and Lacoste Corners**" **Selective Distribution System** and the **Distributor** agrees to forthwith comply with such instructions.

#### 11.2.7 Furniture and sales equipment used for the **Lacoste Watches**

The furniture and other sales equipment used for the **Lacoste Watches** in the "**Lacoste Boutiques and Lacoste Corners**" **Selective Distribution System** shall exclusively be those developed by the **Licensor** in cooperation with **Devanlay** and/or the **Master Licensee**.

**Devanlay** and the **Lacoste Apparel Products Distributor** shall be the sole entities responsible for the lay-out of the **Lacoste Boutiques** and the **Lacoste Corners**, subject to the terms of this Article [11.2](#).

#### 11.2.8 End-of-season goods

The rules applied by the **Lacoste Boutiques** and the **Lacoste Corners** for the sale of end-of-season goods shall be those applicable to the **Lacoste Apparel Products**, but, to the extent possible, shall also have to follow those applicable to the **Lacoste Watches**.

#### 11.2.9 Specific agreements:

In the event that specific agreements, departing from the provisions set forth hereinabove in paragraphs [11.2.1](#) to [11.2.8](#) are concluded either between **Devanlay** and the **Master Licensee**, or between the **Distributor** and the **Lacoste Apparel Products Distributor** in the **Territory**, the terms of such specific agreements shall prevail over the provisions set forth hereinabove in paragraphs [11.2.1](#) to [11.2.8](#). The **Distributor** shall promptly inform the **Master Licensee** of any such specific agreement.

#### 11.2.10 Breach of the obligations of the **Distributor** under the provisions set forth in paragraphs [11.2.1](#) to [11.2.9](#):

The **Distributor** acknowledges that in the event of a breach in the **Territory** by the **Distributor** of its obligations under the provisions set forth hereinabove in paragraphs [11.2.1](#) to [11.2.9](#), the **Licensor** has undertaken towards **Devanlay** and the **Lacoste Apparel Products Distributor** to use its best efforts to obtain from the **Distributor** that it remedies such breach. The **Distributor** further acknowledges that in the event such efforts remain unsuccessful, the **Licensor** has agreed that **Devanlay** and the **Lacoste Apparel Products Distributors** shall no longer be bound by any of their commitments concerning the presence or the sale of the **Lacoste Watches** in the "**Lacoste Boutiques and Lacoste Corners**" **Selective Distribution System** within the **Territory**, which the **Distributor** accepts.

**Mail Order – Internet**

The **Licensor** is desirous to protect in the **Territory** the **Lacoste Trademarks Image**, the **Models**, the **Lacoste Watches** as well as the **Lacoste Apparel Products** and the **Other Lacoste Products** sold under the **Licensed Trademarks**. The **Licensor** also desires to protect the consumer from the counterfeiting of the above and desires to offer the consumer an appropriate environment and a high quality service. For all these reasons, the **Lacoste Watches** must be exclusively sold through the **Lacoste Watches Selective Distribution System** and the "**Lacoste Boutiques and Lacoste Corners**" **Selective Distribution System**.

In consequence, the advertising and/or the sale of the **Lacoste Watches** on the Internet and by Mail Order are authorized provided that the following conditions are met :

- 11.3.1 the advertising and/or the sale of the **Lacoste Watches** on the Internet or by Mail Order may only be made by **Approved Watches Retailers** and members of the "**Lacoste Boutiques and Lacoste Corners**" **Selective Distribution System**; and
- 11.3.2 the web site or the Mail Order catalogues on which the **Lacoste Watches** shall be advertised and/or sold shall be submitted to **Master Licensee** for **Master Licensee's** written approval. Such approval shall be granted if the following conditions are met :
- a) the name, the environment, the presentation and the general standing of the web site or the Mail Order catalogues as well as (for any such web site) the way it functions shall be compatible with the **Lacoste Trademarks Image**; and
  - b) the web site or the Mail Order catalogues shall offer to consumers a high quality service for the **Lacoste Watches**; and
  - c) the manner in which the **Models** and the **Licensed Trademarks** are presented on the web site or in the Mail Order catalogues in connection with the advertising and/or the sale of the **Lacoste Watches** shall be submitted to **Master Licensee** for **Master Licensee's** written approval. The **Approved Watches Retailers** and the members of the "**Lacoste Boutiques and Lacoste Corners**" **Selective Distribution System** may not include or use any of the **Licensed Trademarks** in the workings (as they exist as of this day or in the future) of the web, and in particular no **Licensed Trademark** may be included or used in a domain name, an URL address or an e-mail address.

- 11.4 The **Distributor** shall be free to fix its wholesale price to the members of the **Lacoste Watches Selective Distribution System** and the "**Lacoste Boutiques and Lacoste Corners**" **Selective Distribution System** so as to facilitate the diffusion of the **Lacoste Watches** and the development of sales within the **Territory**. The **Distributor** shall keep the **Master Licensee** informed on a regular basis of its pricing policy. More specifically, the **Distributor** shall inform the **Master Licensee** of any modification in its price structure as soon as practicable after such modification.

Reduction of price points by the **Distributor** for the **Lacoste Watches** if not justified by normal business reasons, such as technical ones or currency exchange fluctuations, may not be implemented if such a move risks to have significant negative consequences on the **Lacoste Trademarks Image**.

**ARTICLE 12 - END-OF-SEASON GOODS**

- 12.1 **Seconds** and end-of season close-outs of **Lacoste Watches** (**Lacoste Watches** no longer included in the collection of the **Lacoste Watches**) may be sold with the **Licensed Trademarks** by the **Distributor** exclusively through the normal channels of distribution for the **Lacoste Watches**.
- 12.2 Damaged or defective **Lacoste Watches** may in no circumstances be sold in any manner whatsoever, and shall be destroyed at their expense by the **Distributor**.

**ARTICLE 13 - PROMOTION AND ADVERTISING**

The **Distributor** shall implement within the **Territory** an advertising and promotion policy for the sale of the **Lacoste Watches** in a manner compatible with the prestige of the **Licensed Trademarks**, of the **Lacoste Trademarks Image** and of the name "Lacoste" so as to achieve a satisfactory development of sales; such policy shall follow as closely as possible the **Licensor's** **Promotion and Advertising Know-How** provided to the **Distributor** by the **Master Licensee** including the advertising policy defined by the **Licensor** at an international level.

- 13.1 As used herein "advertising" means only the publication in print or broadcast media of advertisements approved by **Master Licensee** and "promotion" means all other forms of promotion, other than advertising, for **Lacoste Watches** approved by **Master Licensee** including, without limitation, point of sale material, co-op advertising, marketing, public relations, special events and the like. All advertising and promotions (including, without limitation, the methods, selection, layouts, venue and timing thereof) shall be subject to the prior written approval of **Master Licensee**. **Distributor** shall submit all proposed advertising and promotion materials for approval at least four (4) weeks prior to the first anticipated use thereof and shall not engage in any advertising or promotion or use any such materials without **Master Licensee's** prior written approval. Unless otherwise expressly approved in writing by **Master Licensee**, **Distributor** will use only such materials including, without limitation, point of sale material, packaging, advertising and ancillary material furnished or approved by **Master Licensee**.

- 13.2 **Distributor** shall conduct all advertising and promotion of **Lacoste Watches** in the **Territory** at its own expense and **Master Licensee** will contribute towards the advertising and/or the promotion of such watches in the **Territory** as hereinafter provided. At a minimum, **Distributor** shall expend each contract year for approved advertising and promotion an amount equal to (a) \* of **Distributor's** budgeted **Net Sales** of **Lacoste Watches** for such contract year plus (b) \* of **Master Licensee's** sales to **Distributor** in such year. So long as **Distributor** satisfies its obligation in respect of advertising and promotion set forth in this Article 13.2 each contract year, then **Master Licensee** will reimburse **Distributor** an amount equal to \* of **Master Licensee's** **Sales to Distributor** in such year, such reimbursement amount hereinafter referred to as **Master Licensee's** "**A/P Amount**". **Distributor's** budgeted **Net Sales** of **Lacoste Watches** for the first through the fifth contract years are set forth in Annex D to the **JV Agreement** and **Distributor's** budgeted **Net Sales** each contract year thereafter shall be as contained in the annual business plan and budget as adopted in accordance with the provisions of the **JV Agreement** at or before the beginning of each contract year, or, at such time, if any, that the **JV Agreement** is no longer in effect, then as approved by

**Distributor** in good faith consultation with **Master Licensee**, and may be adjusted in the same manner quarterly. Within thirty (30) days after the end of each such period, **Distributor** shall submit a statement

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to **Master Licensee** setting out and showing **Distributor's** advertising and promotion expenditures incurred during such period (supported by invoices and other documents reasonably acceptable to **Master Licensee**, substantiating the expenditures for **Distributor's** approved advertising and promotion) and, within thirty (30) days after its receipt of such statement accompanied by such substantiation, **Master Licensee** shall pay the appropriate **A/P Amount** to **Distributor**. Such statement shall be itemized as set forth in Schedule X. **Distributor** acknowledges that **Master Licensee's A/P Amount** represents only a portion of **Master Licensee's** total spending each year in respect of advertising and promotion of **Lacoste Watches** in the **Territory** in as much as **Master Licensee** also contributes directly to **Licensor** under the terms of the **Master Agreement** to support **Licensor's** spending on advertising and promotion. In the event **Distributor's** actual **Net Sales** for **Lacoste Watches** in any contract year (other than the final contract year of this **Agreement**) exceed the total budgeted sales for such year on which its promotion expenditures for such year were based, then **Distributor** shall spend an amount equal to \* of such excess in the following contract year.

13.3 In addition to its other obligations under this Article 13, **Distributor** shall:

13.3.1 ensure that not only the **Lacoste Trademarks Image** but also the personal reputation of Mr René LACOSTE and his family are safeguarded.

13.3.2 keep the **Master Licensee** informed, as soon as executed, of all its advertisements and promotions and provide the **Master Licensee** with copies of the same.

13.3.3 take all necessary steps to ensure that the **Approved Watches Retailers**, should they themselves elect to advertise and promote the sale of **Lacoste Watches** use only advertising and promotional material that has been approved by **Master Licensee** for use by **Distributor**.

13.3.4 only use in its advertising and promotional campaigns for **Lacoste Watches**, products or accessories bearing the **Licensed Trademarks** in so far as such products or accessories exist and are available.

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13.3.5 permit the **Master Licensee's** other distributors and the **Licensor's** other licensees and distributors to use free of charge and subject to copyright laws to the corresponding artistic property rights, such advertising material.

13.4 **Distributor** shall ensure that the advertising and promotional programmes that are to be executed locally by the **Approved Watches Retailers** are submitted to the **Distributor** for its prior written approval. The **Distributor** undertakes to give notice to the **Master Licensee** of their contents (with the exception of the price) should the **Master Licensee** so request or in the event that there exists a doubt about their conformity with the applicable requirements set forth herein.

13.5 The **Master Licensee** shall supply the **Distributor** from time to time, at cost price, with whatever advertising material used by the **Licensor** or the **Master Licensee** that the **Distributor** may wish to purchase (which is permitted for use) within the **Territory**.

#### **ARTICLE 14 - MINIMUM NET SALES REQUIREMENTS**

The **Distributor** is committed to develop the sales of **Lacoste Watches** within the **Territory**.

The **Distributor** undertakes to make minimum **Net Sales** of **Lacoste Watches** in the **Territory** each contract year for the duration of this **Agreement** ("**Minimum Sales Requirements**") equal to at least sixty percent (60%) of the amount of sales of **Lacoste Watches** as budgeted in the Business Plan annexed to the **JV Agreement**. Sales in excess of the **Minimum Sales Requirement** in any contract year shall be neither carried over nor credited toward the **Minimum Sales Requirement** of a subsequent contract year. For purposes of this **Agreement**, the first contract year shall be from the **Effective Date** until January 31, 2008 and each contract year thereafter shall be the 12 month period ending each subsequent January 31. Notwithstanding the foregoing, there shall be no **Minimum Sales Requirement** for the first contract year.

#### **ARTICLE 15 - TERMINATION**

The **Agreement** may be terminated at any time:



- 15.1 By either of the parties:
- 15.1.1 in the event that the other party fails to fulfil any of its obligations, upon sixty (60) days prior notice to the defaulting party if, before the end of such notice period, such failure has not been remedied, or the defaulting party has refused to remedy the said failure, if it can be remedied, or has failed or refused to pay reasonable compensation should it not be possible to remedy the failure and this without prejudice of any compensation or damages whatsoever; or
- 15.1.2 This **Agreement** may be terminated at any time by either of the parties, immediately upon notice, in the event that the other shall be in violation of any substantial agreement with any material creditor, or (1) be dissolved; (2) apply for or consent to the appointment of a receiver, trustee or liquidator for its properties or assets; (3) admit in writing its inability to pay its debts as they are or become due; (4) make a general assignment for the benefit of creditors; (5) file a voluntary petition or be the subject of an involuntary petition in bankruptcy or an answer seeking re-organization in arrangement with creditors, or take advantage of any bankruptcy, reorganization, insolvency or re-adjustment of debt law or statute, or file an answer admitting the material allegations of a petition filed against it in any proceedings under such a law or statute, or take any action for the purposes of effecting any of the foregoing; or (6) have any order, judgment or decree entered against it without the application, approval or consent of the party concerned, by any court of competent jurisdiction approving a petition seeking reorganization of its properties or assets or the appointment of a receiver, trustee or liquidator for it.
- 15.2 By the **Master Licensee**
- 15.2.1 Within fifteen (15) days of the sending of a registered letter, with notification of receipt, without giving rise to any damages or compensation whatsoever, in the event of a change in control of the **Distributor**, except as expressly permitted under Article 18.2 hereof, or if an individual or company directly or indirectly in competition with the activities of the **Licensor** or the **Master Licensee**, including a licensee, a sub-licensee, a distributor, a sub-distributor, an agent or a customer of the **Licensor** or the **Master Licensee** should become a shareholder, even a minority shareholder of the **Distributor**. The **Distributor** then undertakes to inform of the occurrence of any of the events hereabove described within eight (8) days thereof.
- 15.2.2 The **Master Licensee** nevertheless, shall be entitled to postpone its right to terminate this **Agreement** to assess the compatibility of such change with the **Licensor** and its own commercial conceptions and interests.
- 15.2.3 If within three months following the receipt of the **Distributor**'s notice of the occurrence of such events, the **Master Licensee** has not implemented its right to terminate this **Agreement**, it shall continue in force until its normal expiry date subject to the execution of the other provisions contained in this Article [15](#).
- 15.2.4 Within thirty (30) days following formal notice in the event of the **Distributor**'s failure to settle the invoices from the **Master Licensee** within the period of time stipulated, without prejudice to any proceedings for forced collection which could be initiated by the **Master Licensee** and notwithstanding the provisions of Article [15.1.1](#)
- 15.2.5 Immediately and without advance notice and without prejudice to damages, in the event that any **Minimum Sales Requirement** set forth in Article [14](#) above should not be reached.
- 15.2.6 Immediately and without notice in the event that the **Distributor** fails to fulfil its obligations with regard to the **Lacoste Watches Selective Distribution System**, notwithstanding Article [15.1.1](#) above.
- 15.2.7 Immediately and without notice in the event of expiry, termination or non-renewal of the **Master Agreement** and/or of the **Supplemental Agreement**.

## **ARTICLE 16 - PROVISIONS AT THE EXPIRY OF THIS AGREEMENT**

- 16.1 Upon expiry or termination of this **Agreement** for whatever reason:
- 16.1.1 all rights and licenses granted to the **Distributor** pursuant to this **Agreement** shall terminate and revert to the **Master Licensee**; and
- 16.1.2 subject to the provisions of Article [16.1.6](#) hereunder, the **Distributor** shall immediately cease to trade as a Lacoste distributor, shall cease to use the **Know-how**, the **Licensed Trademarks**, and the **Models** and shall not assist any third party to do so, and any outlet store owned by the **Distributor** shall terminate its sales and activities in connection with the Lacoste Watches within ninety (90) days of the date of termination or expiry; and
- 16.1.3 the **Distributor** shall immediately cease using all documents and items bearing or representing the **Licensed Trademarks** (catalogues, technical documents, etc.); and
- 16.1.4 the **Distributor** shall cancel at its own expense all government clearances it may have obtained with the appropriate governmental authorities; and
- 16.1.5 the **Distributor** shall deliver immediately, at its cost, to the **Master Licensee** or to any third party designated by the **Master Licensee**, all remaining advertising and promotional and display material, and in general all documents and items bearing or representing the **Licensed Trademarks** (catalogues, technical documents, etc.); and
- 16.1.6 the **Master Licensee** shall have the right, at its sole discretion, to:
- a) repurchase or have any third party it may wish to appoint repurchase, all or part of the stock of **Lacoste Watches** which the **Distributor** may have on hand at the date of termination or expiry or non renewal at the price invoiced by the **Master Licensee** to the **Distributor** minus rebates taking into consideration their age, state and condition.

- b) If the **Master Licensee** does not exercise its purchase option as aforesaid, the **Distributor** shall be free to sell on a non exclusive basis the products remaining in inventory within the **Territory** during a period of six (6) months after the expiry or termination date hereof. This **Agreement** shall govern the said sales during said period. Such sales will be exclusively made to the **Approved Watches Retailers** or to **Lacoste Boutiques** and **Lacoste Corners** in quantities not exceeding those normally sold to said **Approved Watches Retailers** or to **Lacoste Boutiques** or **Lacoste Corners** during the previous year.

In this case the **Distributor** shall strictly comply with all of its obligations hereunder during such six month period, in particular those obligations relating to the compliance with the image and reputation of the **Lacoste Watches**, the **Lacoste Trademarks** and the Lacoste name. The **Distributor** shall refrain from any action that could harm such image and reputation.

In such an event, the price invoiced to **Approved Watches Retailers** or to **Lacoste Boutiques** and **Lacoste Corners** during such period shall not be more than fifteen percent (15%) lower than those in force on the date of the sending of the letter advising the other party of the termination or non-renewal of this **Agreement**.

At the end of such six-month period, the **Distributor** may only continue to sell for an additional six (6) months period any remaining stock after having removed all markings or references to the **Licensed Trademarks** or to the name of the **Licensor** and after having eliminated and destroyed all packaging and labels bearing the name of the **Licensor** or the **Licensed Trademarks**.

At the end of this additional period the remaining stock shall have to be destroyed.

The provisions of Article [16.1.6](#) shall not apply to display materials which shall instead be governed by Article [16.1.5](#).

16.2 Furthermore it is hereby agreed that the termination, expiry or non-renewal shall automatically entail at the **Licensor's** sole option choice either:

16.2.1 the immediate termination of the commercial agreements which may have been entered into between the **Distributor** and the **Approved Watches Retailers**,

16.2.2 or the assignment of such commercial agreements to a new Lacoste distributor designated by the **Master Licensee**.

The **Master Licensee** shall not be liable to the **Distributor** for any claim said **Approved Watches Retailers** might raise against the **Distributor** due to such termination and/or assignment.

16.3 The **Distributor**, given the specific conditions prevailing in the profession, shall not object in any way whatsoever, during the period of notice preceding the termination or non-renewal of this **Agreement**, to any visits to its clients and taking of orders for the following season that may be carried out by the new distributor for **Lacoste Watches** chosen by the **Master Licensee**.

16.4 The **Distributor** acknowledges and agrees that it is entering into this **Agreement** on the express understanding that its receipt from sales of **Lacoste Watches** under this **Agreement** are intended to be sufficient to compensate it fully for all risks, costs and expenses incurred in connection with this **Agreement**, including, i.e., all costs and expenses incurred by the **Distributor** for its sales, marketing, merchandising, advertising and promotion efforts with respect to the **Lacoste Watches**.

16.5 Accordingly, upon the end, the termination or the non-renewal in whole or in part of this **Agreement** and regardless of its duration, for whatever reason, the **Distributor** shall have no right to any further payment, indemnity or compensation for loss of goodwill or for any risks, costs or expenses incurred or developed by the **Distributor** during the term of this **Agreement**.

## **ARTICLE 17 - FORCE MAJEURE**

No party shall be liable to the other for any delay in or failure to render any performance when such delay or failure is caused by governmental regulations, fire, strike, lockout, war, riot, flood, accident, epidemic, delays in manufacture or transportation or any other cause, whether of like or different nature, beyond the reasonably control of such a party, provided that the foregoing shall not excuse or delay any party's payment obligations or affect a party's right to terminate.

In the event that a cause beyond the reasonable control of the parties (including but not limited to Acts of God, casualty, war whether formally declared or not, civil disturbances, strikes, labour disputes, delays in transportation or supplies, interruption of facilities or requirements of Governments or agencies thereof, or any other reason of force majeure) should prevent the performance of an obligation of this **Agreement**, such obligation shall be suspended during the existence of said event.

However, should such event continue to exist for more than three months, both or either of the parties may demand the termination of the **Agreement** which shall then occur 15 days after the sending of a notice hereunder requesting the termination without giving right to damages or compensation of any nature whatsoever.

## **ARTICLE 18 - ASSIGNMENT**

18.1 This **Agreement** shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns.

18.2 It is expressly understood and agreed that this **Agreement** or any interest therein shall not be in part or as a whole directly or indirectly sold, assigned, pledged or otherwise encumbered by the **Distributor** without the written consent of the **Master Licensee** and any such purported assignment, sale, pledge or encumbrance shall be void ab initio and of no effect. Notwithstanding the foregoing, the parties acknowledge that under the **JV Agreement** each of **SWICO** and **MGI**, as the only shareholders of **Distributor**, has the right under section 15.2 of the **JV Agreement**, to dissolve, or to purchase the other's interest in, **Distributor**. Accordingly, if either **SWICO** or **MGI** (the "Non-breaching Party") elects under the foregoing provision of the **JV Agreement** to purchase the other party's interest in, **Distributor** and (a) written notice from **SWICO** and **MGI** confirming such election has been provided to **Master Licensee** and **Distributor** and (b) the Non-breaching Party also notifies **Master Licensee** that it wishes this **Agreement** to be assigned, then effective upon the date specified in such notice from the Non-breaching Party (or, absent the specification of any date, then as soon as reasonably practicable) **Master Licensee** shall assign all of **Distributor's** right, title and interest in and under this **Agreement** to such Non-breaching Party or to any Affiliate of such Non-

Breaching Party as specified in such notice. Distributor hereby grants **Master Licensee** a power of attorney for purposes of **Master Licensee** executing and delivering on behalf of **Distributor** any and all documents or other instruments necessary to effect such assignment.

18.3 The **Distributor** shall not delegate or sub-contract, whether in whole or in part, any of its duties arising out of or under this **Agreement** without the prior written consent of the **Master Licensee** which **Master Licensee** has the right to withhold in its sole and absolute discretion.

#### **ARTICLE 19 - INSURANCE**

19.1 The **Distributor** shall indemnify the **Master Licensee** and the **Licensor** and hold the **Master Licensee** and the **Licensor** harmless from any liability, loss or expense, including reasonable attorney's fees, with respect to the **Distributor's** breach of this **Agreement** or any claim asserted by any other person or entity against the **Distributor**, the **Master Licensee**, and/or the **Licensor** that arises out of the performance or non-performance by **Distributor** of its obligations under this **Agreement**.

19.2 The **Distributor** shall defend the **Master Licensee** and the **Licensor** against all claims, actions, suits or proceedings and shall indemnify and hold the **Master Licensee** and the **Licensor** harmless from any and all resulting losses, liabilities, costs (including any and all related legal fees and expenses incurred by the **Master Licensee** and the **Licensor**) and damages (including punitive damages) arising out of or in any way connected with its **Lacoste Watches** retail activity. Such indemnification shall include, but not be limited to, losses, liabilities, costs and/or damages

#### **ARTICLE 20 - CAPACITY OF THE PARTIES**

20.1 It is expressly agreed that, within the scope of this **Agreement**, the **Distributor** shall purchase and resell the merchandise for its own account and shall act as an independent trader both with respect to the **Master Licensee** and to the customers. Consequently, under no circumstances shall the **Distributor** make the **Master Licensee** liable vis a vis third parties and it shall take all the necessary steps to guarantee the **Master Licensee** against the financial consequences of any claims that could be made against the **Master Licensee** by such third parties as a result of commercial operations carried out by the **Distributor**.

20.2 Nothing in this **Agreement** shall be construed to render either party liable for any debts or obligations of the other party and the parties shall in no way be considered agents or representatives of each other. Neither party shall have the authority to act for or bind the other.

#### **ARTICLE 21 - CONFIDENTIALITY**

21.1 the **Master Licensee** and the **Distributor** recognise that all information or proprietary information (including all **Know-How**) so far received or to be received in the future from the other, which is related, directly or indirectly, to the conduct of affairs governed by this **Agreement** (a) shall remain the exclusive property of the party from which it will have originated, (b) shall be kept and maintained as confidential, (c) shall not be used for any purpose outside the scope of this **Agreement**, (d) shall be disclosed only to those employees or agents as may be reasonably deemed necessary to carry out the purpose of this **Agreement**, and (e) shall not be disclosed to third parties without prior written approval of the other. Information which is in its entirety already in the public realm or was received from third parties who are not under any obligation to limit disclosure of such information or which is required to be disclosed by law or any regulation body shall not be governed by this Article [21.1](#).

21.2 However, the **Master Licensee** may disclose to its other distributors anywhere in the world any confidential or proprietary information it may have received from the **Distributor**, and use such information in connection with the agreements it has with such other distributors.

21.3 The **Distributor** undertakes to obtain from all third parties which it may hire such as advertising agencies, and market research firms, a commitment to keep strictly confidential any technical, commercial, financial or marketing information they may have obtained from the **Distributor** or from the **Master Licensee**, either in connection with the services to be performed by them or otherwise, and a commitment not to re-use the creations or studies commissioned by the **Distributor** for the benefit of third parties without the prior written approval of the **Master Licensee**.

21.4 The prohibitions contained in this Article [21](#) shall permanently remain in full force and effect.

#### **ARTICLE 22 - LEGAL AND ETHICAL REQUIREMENT**

22.1 The **Distributor** shall at its own expense ensure that all local and national laws, rules, regulations and other requirements and codes of practice applicable in the **Territory** and all policies and ethical and other standards from time to time specified by the **Master Licensee** in respect of the treatment of any persons involved in the sale of any **Lacoste Watches** or otherwise in respect of any human rights or other issues are complied with in relation to all activities of the **Distributor** and/or its authorised **Suppliers** under this **Agreement**.

22.2 The **Distributor** shall observe at all times (a) all local and national laws, rules, regulations and other requirements and codes of conduct applicable in the **Territory**; (b) the relevant provisions of any applicable and enforceable treaty, law or regulation in relation to the protection of human rights and in particular childhood, salaries, duration and condition of workmanship, (c) the relevant provisions of any applicable and enforceable treaty, law or regulation in relation to the protection of the environment, and shall take all necessary measures to immediately bring to an end any violation of such provisions."

22.3 The **Distributor** shall indemnify the **Master Licensee** and its assignees and successors for any claims, known or unknown, liabilities, demands, damages, cases of action, costs expenses, dues, covenants, suits, indemnities and judgements which any third party shall make.

#### **ARTICLE 23 - AMENDMENT AND CANCELLATION OF THE AGREEMENT**



This **Agreement** cannot be amended or cancelled either orally or tacitly.

No amendment, change or modification of this **Agreement** shall be deemed as valid, unless it is based on a written document mentioning the intention of the parties to amend it, duly signed and empowered by an authorised representative of each party.

#### **ARTICLE 24 - MISCELLANEOUS**

24.1 The **Distributor** shall, at its own expense, in the **Territory** and the **Master Licensee** shall, at its own expense, in Switzerland, execute any documents required to comply with the laws and requirements of the respective countries with respect to declaring, recording or otherwise rendering this **Agreement** effective.

24.2 Any notice served by one party upon the other shall be in writing in the English language and shall be delivered personally (including by courier) or be sent by facsimile. Such notice or document shall be deemed to have been received in the case of personal delivery when delivered or, if sent by facsimile, on the day following that on which the facsimile was sent, provided that the party serving such notice shall send a copy by registered airmail within two (2) days after sending the facsimile notice.

Such notice shall be addressed as follows (or at such other place designated in writing by the relevant party);

24.2.1 If to the **Master Licensee**:  
Tel: (41) (32) 329-3400  
Fax: (41) (32) 329-3401  
Attn: Lacoste Watches Brand Manager

Copy to:  
Attn: Legal Department  
Movado Group, Inc.  
650 From Road  
Paramus, New Jersey 07652  
USA  
Tel: (201) 267-8105  
Fax: (201) 267-8050

24.2.2 If to the **Distributor**  
MGS Distribution Limited  
Tel:  
Fax:  
Attn:

Any change of address must be notified in writing to the other party.

24.3 No rights of either party arising out of this **Agreement**, or any provision hereof, shall be waived except in writing. Failure by either party to exercise or enforce, in any one or more instances, any of the terms or conditions of this **Agreement** shall not constitute or be deemed a waiver of that party's right thereafter to enforce the terms and conditions of this **Agreement**.

24.4 This **Agreement** and the Schedules hereto constitute the entire understanding of the parties with respect to the subject matter hereof, and the rights, obligations, and interests of any party as they may pertain herein may not otherwise be changed, modified or amended except by the written **Agreement** of the party to be charged.

24.5 If at any time any party hereto shall deem or be advised that any further assignments, licenses, assurances in law or other acts or instruments, including lawful oaths, are necessary or desirable to vest in it the rights provided for herein, the parties hereto agree to do all acts and execute all documents as may reasonably be necessary or proper for that purpose or otherwise to carry out the intent of this **Agreement**.

24.6 The rights and obligations of the parties hereto under this **Agreement** shall be subject to all applicable laws, orders, regulations, directions, restrictions and limitations of competent authorities having jurisdiction on the parties hereto.

24.7 In the event, however, that any such law, order, regulation, direction, restriction or limitation, or construction thereof, shall substantially alter the relationship between the parties under this **Agreement** or the advantages derived from such relationship, or shall prevent the performance of any provision of this **Agreement**, either party may request the other party hereto to modify this **Agreement**, and if within ninety (90) days subsequent to the making of such request, the parties hereto are unable to agree upon a mutually satisfactory modification hereof, such party may terminate this **Agreement** by giving thirty (30) days notice not later than thirty (30) days following the end of such ninety (90) days period.

24.8 Notwithstanding, anything contained herein to the contrary no third party other than a party hereto and the **Licensor** is intended to or shall have any legal or equitable right remedy or claim under this **Agreement** or any part thereof, as against any party to this **Agreement**, it being understood that the provisions of this **Agreement** are for the sole benefit of the parties hereto and **Licensor** and no other party shall be or be deemed a third party beneficiary of this **Agreement** (the foregoing is without prejudice to the rights of any nominee of the **Master Licensee** in respect of orders placed on it by the **Distributor** in accordance with the terms hereof).

24.9 This **Agreement** may be executed in one or more counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one and the same instrument.

24.10 Paragraphs headings of this **Agreement** are for convenience only and shall not be construed as a part of this **Agreement** or as a limitation on the scope of any terms or provisions of this **Agreement**.

24.11 When interpreting the terms and conditions of this Agreement, the English language shall be applied exclusively.

**ARTICLE 25 - GOVERNING LAW – JURISDICTION**

25.1 This **Agreement** is governed and construed in accordance with Swiss Law without reference to its conflict of law principles. *The Vienna Convention on the International Sales of Goods of April 11, 1980 shall not apply to this Agreement.*

25.2 All disputes arising out or in connection with this **Agreement** which cannot be amicably settled by consultation, shall be finally settled by arbitration in Geneva, Switzerland under the rules of the International Chamber of Commerce by one arbitrator appointed in accordance with said rules. Each party hereto shall be bound by any arbitration award so rendered and any judgment upon such award may be entered as a non-appealable, final foreign judgment in any court having jurisdiction thereon.

The proceedings and shall be carried out in the English language.

IN WITNESS WHEREOF, the parties hereto have caused this **Distribution Agreement** to be executed by their duly authorised officers as of the Effective Date.

**MGI LUXURY GROUP S.A.**

**MGS DISTRIBUTION LIMITED**

\_\_\_\_\_  
**Name:**  
**Title**

\_\_\_\_\_  
**Name:**  
**Title**

**SCHEDULE I**

***The Crocodile***

[Missing Graphic Reference]

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**20. SCHEDULE II**

21.

22.

**23. THE LICENSED TRADEMARKS**

[Missing Graphic Reference]

[Missing Graphic Reference]

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**SCHEDULE III**

***The Lacoste Trademarks***

[Missing Graphic Reference]

[Missing Graphic Reference]

[Missing Graphic Reference]

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**SCHEDULE IV**

**The Lacoste Watches**

Watches for men, women, children

Time-keeping devices

Cases for watches and time-keeping devices

Bracelets, straps and components for watches

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**SCHEDULE V**

**Points-of-sale**

**V.a - Approved Watches Retailers**

Specialized Watch Shops

Specialized Watch Corners of Department Stores

Sport Shops

Sport Corners of Department Stores

Duty-free Shops

Other retailers fulfilling the requirements of the **Lacoste Watches Selective Distribution System**

**V.b - Members of the "Lacoste Boutiques and Lacoste  
Corners" Selective Distribution System**

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## Schedule VI

### Rules for the calculation of the Presentation surfaces

#### METHODOLOGY

The **Presentation surface** represents, within the **Sales surface**, the total surface effectively used for the presentation and the sale of products on the furniture (fixed to the walls or free-standing) or displays, excluding the cash counter, the shop windows, the fitting rooms, the areas used for customers traffic, the security issues.

The **Presentation surface** is calculated by adding the surfaces of each part of the furniture (as an example: surface of a shelf of a piece of furniture fixed to the walls, free-standing furniture in whole or in part, etc.) divided by the set number of elements ("ratio") that can be placed atop of one another allowing the presentation or the sale of the Lacoste products within the **Lacoste Boutique** or the **Lacoste Corner**.

The attached schedules list the main pieces of furniture, according to the different generations of the Lacoste furniture (1999, 2000 and 2002), including the furniture specific to the **Other Lacoste Products** and the **Lacoste Watches**. This schedule gives the values in sq. m. of each piece of furniture and therefore allows the calculation of the total **Presentation surface**.

Any new piece of furniture, or any new generation of furniture, shall be included in a supplementary schedule established under the same principles.

Therefore, in a **Lacoste Boutique** or in a **Lacoste Corner**, a simple counting of the elements according to this schedule shall allow all interested persons to calculate:

- the total **Presentation surface**
  - the **Presentation surface** of the **Lacoste Apparel Products**
  - the **Presentation surface** of the **Lacoste Watches** and of the **Other Lacoste Products**
  - the percentage of the **Presentation surface** of the **Lacoste Watches** and of the **Other Lacoste Products** / the total **Presentation surface**.
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[Missing Graphic Reference]

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[Missing Graphic Reference]

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## Schedule VII

### Lacoste Watches General Conditions of Distribution

I/ The Lacoste Group (designating jointly Lacoste S.A., Sporloisirs S.A., Lacoste Alligator S.A.), wants to: (i) preserve the image of Lacoste trademarks worldwide, the models and Lacoste products sold under Lacoste trademarks (hereinafter referred to as the "**Lacoste Trademarks**"); (ii) prevent counterfeiting of the **Lacoste Trademarks** in the interest of consumers; and (iii) offer to its consumers an adequate setting and good quality service for Lacoste watches (hereinafter referred to as the "**Lacoste Watches**") (together with all other goods sold under the **Lacoste Trademarks**, hereinafter to as "**Lacoste Products**"). For these reasons, the Lacoste Group has decided that **Lacoste Watches**, as with the **Lacoste products**, shall be sold worldwide through a selective distribution system. The Lacoste Group has also appointed MGI Luxury Group S.A. as its exclusive worldwide licensee for the creation, development, manufacture, distribution, marketing, merchandising, advertising, promotion and sale of **Lacoste Watches** (hereinafter referred to as the "**Licensee**"). The Lacoste Group and **Licensee** require that **Lacoste Watches** be distributed only through selected retailers. In order to become an approved Lacoste Watches retailer (hereinafter referred to as the "**Approved Retailer**") within the Lacoste selective distribution network set up for the **Lacoste Watches**, a retailer shall meet the standards of performance as detailed below for Lacoste watches selection criteria (hereinafter referred to as the "**Selection Criteria**").

The trade name of the point of sale or of the department store, or of the space in which the point of sale or the watches department or the point of sale is located, must always reflect the prestige of the Lacoste brand. Consequently, the shop sign must be compatible with the principles which govern the distribution of the **Lacoste Watches**, which are luxury and high quality products. Thus, the Lacoste brand shall not be sold by retail outlets under trade names whose image is associated with an absence of or limited customer service, prestige or sophisticated in-store design. No signage at the point of sale may include terms or logos which reasonably might depreciate the image of the Lacoste brand or the **Lacoste Watches**.

- a) The location and environment of the point of sale (type and category of the building, location in the town in question, type of shops in the neighbourhood) shall remain at all times compatible with Lacoste brand image. The sale area shall be sufficient to permit the presentation of the **Lacoste Watches** in a sufficient shopping space without disproportion with the other brands offered for sale and allowing to distinguish them. The frontage shall be made of materials of good quality, well maintained and attractive.
- b) The shop sign shall be well maintained and attractive. The window dressing shall be of good quality and sophisticated. The lighting shall be sufficient and sophisticated.
- c) The type, brand and nature of the products sold in the outlet shall be compatible with Lacoste brand image.
- d) The sale personnel shall be well qualified.
- e) The financial capabilities and solvency guarantees shall be good.

#### II/ Application procedure to open an account

- a) Any application (hereinafter referred to as the "**Application**") to open an account to become an approved retailer for the sale of **Lacoste Watches** shall be made in writing to the authorized wholesale distributor of **Lacoste Watches** in the country where the prospective point of sale is located (hereinafter referred to as the "**Distributor**"). The **Distributor** shall promptly send the completed **Application** to **Licensee**.
- b) Within a maximum delay of four months as from the receipt of the **Application**, the **Licensee** shall evaluate the point of sale in order to determine if the point of sale, subject to the **Application**, and its sales personnel satisfy the **Selection Criteria**.
- c) Following this evaluation :
  - (i) if the point of sale and staff do not satisfy the **Selection Criteria**, the **Licensee** shall notify the **Distributor** which shall so inform the applicant in writing and shall list in writing the elements which do not satisfy the **Selection Criteria**. Consequently, the **Distributor** shall turn down the **Application**;
  - (ii) if the point of sale and staff satisfy the **Selection Criteria**, the **Licensee** shall notify the **Distributor** which shall so inform the applicant in writing and provide the applicant (which shall then be deemed an **Approved Retailer**) with a Lacoste Watches Approved Retailer contract.

#### III/ Satisfaction of Selection Criteria

The **Distributor** shall check, through an evaluation, that the **Approved Retailer** and its sales personnel continue to satisfy the **Selection Criteria**. If as a result of such evaluation the **Approved Retailer** and its sale personnel continue to satisfy the **Selection Criteria**, the **Distributor** shall inform the **Approved Retailer** and **Licensee** in writing.

If as a result of such evaluation, the **Approved Retailer** or its sales personnel no longer appear to satisfy the **Selection Criteria**, the **Distributor** shall notify **Licensee** in writing which shall review such evaluation and, after consultation with **Distributor**, determine whether the **Approved Retailer** continues to satisfy the **Selection Criteria**. If, after such review, **Licensee** determines that the **Approved Retailer** no longer satisfies the **Selection Criteria**, it shall so notify **Distributor** which:

- shall inform the **Approved Retailer** in writing and shall list the elements which do not satisfy the **Selection Criteria**;
- shall also ask the **Approved Retailer** to take the appropriate measures so that the **Selection Criteria** be satisfied, within a delay of six (6) months as from the date of receipt of the above mentioned letter.

At the end of the of six month delay, a new evaluation shall be carried out by the **Distributor** and forwarded to **Licensee** for review, and after this new evaluation and review:

- (i) either **Licensee** shall determine that the **Selection Criteria** are satisfied and so inform the **Distributor** which shall inform the **Approved Retailer** in writing accordingly;
  - (ii) or **Licensee** shall determine that the **Selection Criteria** are still not satisfied and so inform the **Distributor** which shall inform the **Approved Retailer** in writing and shall list the elements which still do not satisfy the **Selection Criteria**. In such a case the **Distributor** shall, upon instruction from **Licensee**, terminate the Lacoste watches approved retailer contract signed with the **Approved Retailer** (hereinafter referred to as the "**Contract**") within the conditions set out in article 6.1.1 of the Lacoste watches approved retailer contract. Nevertheless, if the **Approved Retailer** has started repairs or demonstrates that it decided to do so, the **Distributor** may then grant another delay of six (6) months. At the end of this delay, a new evaluation shall be carried out within the same conditions as the one described above in (i) and in the first two sentences of (ii).
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**Schedule VIII**

**Distributor Discount Schedule**

Distributor pricing shall be \* of Supplier's recommended Euro retail price (inclusive of VAT); provided, however, that if this Agreement is assigned as provided under Article 18.2, then the pricing to the assignee shall be based on the same discount off of Supplier's recommended Euro retail price as generally offered by Supplier to its other independent distributors of the Products in the European Union.

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

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SCHEDULE IX

**Lacoste Watches Approved Retailer Contract**

Between:

**(name of the company)** having its registered office at [REDACTED], duly represented by Mr [REDACTED], which is the exclusive distributor of Lacoste Watches (hereinafter referred to as the "**Lacoste Watches**") in (country concerned) (hereinafter referred to as the "**Territory**"),

hereinafter referred to as the "**Distributor**",

And:

**(name of the company)** having its registered office at [REDACTED], duly represented by Mr [REDACTED], which runs a point of sale situated at (full address) under the trade name [REDACTED] (hereinafter referred to as "the **Point of Sale**"),

hereinafter referred to as the "**Approved Retailer**".

**WITNESSETH:**

WHEREAS, MGI Luxury Group SA (hereinafter referred to as the "**Licensee**") is the exclusive worldwide licensee of the Lacoste Group for the **Lacoste Watches** and **Licensee** has appointed **Distributor** as the exclusive distributor of the **Lacoste Watches** in the **Territory** under the terms of a distributorship agreement between **Licensee** and **Distributor** (hereinafter referred to as the "**Distribution Agreement**").

WHEREAS, for the reasons stated in the general conditions of distribution of the **Distributor** (hereinafter referred to as the "**General Conditions of Distribution**") annexed to the present contract (Schedule .....), the **Lacoste Watches** are distributed through a selective distribution system, that is the **Lacoste Watches** are distributed at the points of sale which satisfy the selection criteria (hereinafter referred to as the "**Selection Criteria**") defined by the companies Lacoste S.A., Lacoste Alligator S.A. and Sporloisirs S.A. (hereinafter collectively referred to as the "**Lacoste Group**"), which are detailed in the **General Conditions of Distribution**.

WHEREAS, the **Distributor** has visited and evaluated the **Point of Sale**.

WHEREAS, further to such evaluation it appears that the **Point of Sale** and the sales staff employed by the **Approved Retailer** at the **Point of Sale** satisfy the **Selection Criteria**.

WHEREAS, consequently, the **Distributor** may enter into this contract with the **Approved Retailer** for the distribution of the **Lacoste Watches** at the aforementioned **Point of Sale**.

**THE PARTIES HEREBY AGREE AS FOLLOWS:**

**ARTICLE 1 - RIGHTS GRANTED**

The **Distributor** hereby grants, and the **Approved Retailer** hereby accepts for the duration of the present contract (hereinafter referred to as the "**Contract**"), the non exclusive right to sell the **Lacoste Watches** at the **Point of Sale** in accordance with the terms and conditions set forth herein.

The **Contract**, its Annexes and the **General Conditions of Distribution** in force determine the rights and obligations of the two parties.

**ARTICLE 2 - MATERIAL CONDITIONS OF CONTRACT**

The execution and existence of the **Contract** are subject to the **Distributor** certifying that the **Point of Sale** of the **Approved Retailer** and the sales staff of the **Point of Sale** satisfy the **Selection Criteria**.

**ARTICLE 3 – OBLIGATIONS OF THE APPROVED RETAILER**

3.1The **Approved Retailer** undertakes, for the duration of the **Contract**, that the **Point of Sale** and the sales staff of the **Point of Sale** satisfy the **Selection Criteria**.

3.2Fittings and Management of the **Point of Sale**

3.2.1The sales area of the **Point of Sale** shall always permit the presentation of the **Lacoste Watches** in a sufficient area.

The **Approved Retailer** shall display the **Lacoste Watches** separately from other brands sold at the **Point of Sale**. The counters, posters and other POS material, which shall be supplied to it by the **Distributor**, shall be well positioned.

The **Approved Retailer** shall affix prominently on the window of the **Point of Sale** or display inside the **Point of Sale**, a sign or sticker which shall be furnished by the **Distributor** confirming its quality as **Approved Retailer** for **Lacoste Watches**.

3.2.2 All items bearing any trademark owned by the **Lacoste Group** ("**Lacoste Trademarks**") used by the **Approved Retailer** on its shop front (such as awning, sign, etc...) in the shop window or inside the **Point of Sale** shall be exclusively those supplied by the **Distributor** or exceptionally those which have received the prior and express written approval of the **Distributor**.

### 3.3 Supplies

The **Approved Retailer** shall purchase the **Lacoste Watches** from the **Distributor** in accordance with the terms and conditions contained herein and in the **General Conditions of Distribution**. Nevertheless, within the European Economic Area (i.e. European Union + Iceland, Liechtenstein, and Norway) the **Approved Retailer** is also entitled to buy the **Lacoste Watches** from and sell the **Lacoste Watches** to (i) any authorized exclusive distributor appointed by and under contract with Licensee for the distribution of the **Lacoste Watches** and (ii) any other approved retailer approved by and under contract with **Licensee** or a Lacoste watch distributor for the retail sale of the **Lacoste Watches** located in any of the countries which are part of the European Economic Area, except to or from Lacoste boutiques ("**Lacoste Boutiques**") and Lacoste corners ("**Lacoste Corners**") which are principally devoted to the sale of Lacoste apparel products and only on a subordinate basis other Lacoste products including **Lacoste Watches**. Because of their strong specificity, the **Lacoste Boutiques** and the **Lacoste Corners** constitute a selective distribution system which is distinct from the selective distribution system organised for the **Lacoste Watches**. The **Approved Retailer** shall ensure before any resale that the buyer is an approved retailer of **Lacoste Watches**. The **Approved Retailer** shall keep for a minimum period of twelve (12) months as from the date of purchase and/or sale of the **Lacoste Watches**, a copy of the invoices corresponding to these purchases and sales permitted under this Article 3.3. The **Distributor** shall be entitled to inspect and copy these invoices if it reasonably determines that the **Approved Retailer** may have purchased or sold **Lacoste Watches** outside the selective distribution system set up for the **Lacoste Watches** within the European Economic Area.

### 3.4 Sales

3.4.1 The price at which the **Lacoste Watches** will be sold by the **Distributor** to the **Approved Retailer** and other sales conditions applicable to the **Lacoste Watches** will be the one applicable in the **Territory** at the date the order is received.

3.4.2 The **Approved Retailer** shall continuously offer for sale an appropriate assortment of the **Lacoste Watches**.

3.4.3 In addition, the **Approved Retailer** shall ensure that the **Lacoste Watches** are only sold in their original presentation and shall respect the recommendations made by the **Distributor** concerning the merchandising of the **Lacoste Watches**.

3.4.4 The **Approved Retailer** shall not sell at its **Point of Sale** other products in immediate proximity to the **Lacoste Watches** likely to damage or devalue the image of the **Lacoste Trademarks** and/or the **Lacoste Watches**.

3.4.5 Subject to Article 3.3, the **Approved Retailer** undertakes not to sell the **Lacoste Watches** other than at the **Point of Sale** at the address stated at the very beginning of this **Contract** exclusively to the ultimate consumer.

3.4.6 The **Approved Retailer** shall not sell **Lacoste Watches** by mail order or by internet, unless the **Approved Retailer** has received a prior written authorisation from the **Distributor** confirming that the selection objective criteria set up for these kind of sale are satisfied.

3.4.7 The **Approved Retailer** shall be free to fix its resale prices according to the laws and regulations in force. The breakdown of the recommended prices that may be communicated to the **Approved Retailer** by the **Distributor** are only indicative.

### 3.5 Advertising and promotional activities of the **Approved Retailer**

Should the **Approved Retailer** wish to carry out advertising and promotional activities of any sort itself, it shall obtain the prior written approval of the **Distributor** on the content and means of such activities with the exception of price.

In any event, the **Approved Retailer** shall in such advertising and promotional activities:

- use exclusively the visual designs, lettering, emblems and logos approved by the **Distributor**;
- ensure that the standing and image of the Lacoste trademarks but also personal reputation of Mr. René Lacoste and his family are protected.

## ARTICLE 4 - PROTECTION OF LACOSTE INTELLECTUAL PROPERTY RIGHTS

The **Approved Retailer** acknowledges that the **Lacoste Trademarks** and models of the **Lacoste Watches** are the exclusive property of the **Lacoste Group** and undertakes to strictly respect the intellectual property rights of the latter.

Consequently, it expressly undertakes not to use the **Lacoste Trademarks** other than solely for purposes of performing its obligations under this **Contract**. Under no circumstances shall the **Approved Retailer** use the Lacoste trademarks as a business name, company name, shop sign or any other use or print them on the commercial documents of its business.

In addition, the **Approved Retailer** undertakes to immediately notify the **Distributor** of any act by a third party of which it may have knowledge and which is likely to constitute a counterfeit or an imitation of the Lacoste trademarks or models of the **Lacoste Watches**.

## ARTICLE 5 - DURATION

The **Contract** shall come into force on [REDACTED] and shall end on (one year after) [REDACTED], unless sooner terminated in accordance with the conditions set out in the present **Contract** or by mutual consent of parties. It shall be automatically renewed for successive renewal periods of one (1) year each unless either party notifies the other at the latest three (3) months before the expiration of the initial period or of any subsequent renewal period(s).

## ARTICLE 6 - TERMINATION

6.1 Without prejudice of what is elsewhere provided in the **Contract**, the **Distributor** shall be entitled to terminate the **Contract** at any time without having to pay indemnity of any nature to the **Approved Retailer**:

6.1.1 If the **Point of Sale** no longer satisfies the **Selection Criteria**, in which event the **Contract** shall end six (6) months after notice thereof by the **Distributor** to the **Approved Retailer**.

6.1.2 In the event that the **Approved Retailer** fails to comply with any of its other obligations thirty (30) days after notice thereof by **Distributor** and no remedy of the breach having been effected. This delay of thirty (30) days is reduced to fifteen (15) in case of payment default.

6.1.3 Without notice, in case of termination or non-renewal of (a) the master licence agreement between **Licensee** and **Lacoste Group**, or (b) of the **Distribution Agreement**, regardless of cause.

6.1.4 Without having to give prior notice should (a) the legal form of the **Approved Retailer** be modified, (b) the business or part of the business be sold, (c) the business be leased, hired, purchased, contributed to another business or **Approved Retailer**, pledged or subject to a management contract, (d) the **Approved Retailer** be dissolved, (e) the business be discontinued or the **Point of Sale** of the **Approved Retailer** be closed during a period greater than two (2) months; or

6.1.5 Without prior notice, in the event of the **Approved Retailer**'s voluntary or compulsory liquidation, bankruptcy, legal settlement or placement of a receiving order or in any equivalent situation.

The **Approved Retailer** shall inform the **Distributor** if one of the events covered by Articles 6.1.4 and 6.1.5 occur as soon as the event occurs, the **Distributor** being the sole party to decide on its continuance of the **Contract**.

6.1.6 Notwithstanding anything to the contrary contained herein, with full and immediate effect:

- in the event the **Approved Retailer** fails to comply with Articles 3.2.2 or 3.4.5 of the **Contract**;
- within the European economic Area (i.e. European Union + Iceland, Liechtenstein, and Norway), if the **Approved Retailer** either purchases or resells **Lacoste Watches** outside from the selective distribution set up for **Lacoste Watches**;
- if the **Approved Retailer** is involved in the manufacturing and/or sale of counterfeits.

6.2 In the case of termination or non-renewal, for whatever reason, of the **Distribution Agreement** this **Contract** shall likewise terminate within the same time limits, and the **Approved Retailer** shall be informed within a reasonable period. The **Lacoste Group** may nevertheless decide at its sole option to assign the **Contract** to the new Lacoste exclusive distributor in charge of the distribution of **Lacoste Watches** in the **Territory**.

## ARTICLE 7 - SITUATION OF THE PARTIES IN THE EVENT OF TERMINATION OR NON-RENEWAL OF THE CONTRACT

In the event of non-renewal or termination of this **Contract**, the **Distributor** shall have the right, at its own discretion:

- to repurchase or to have a third party it may appoint repurchase immediately, all or part of the stock of **Lacoste Watches** of the **Approved Retailer** at the price paid by the **Approved Retailer** after deduction of depreciation of the **Lacoste Watches**, and/or,
- to grant the **Approved Retailer** a period of up to three (3) months to sell such stock. At the end of the said period of three months the **Approved Retailer** shall not be entitled to resell the stock, except with the approval of the **Distributor**.

The **Approved Retailer** shall return to the **Distributor** all elements bearing the Lacoste trademarks, if need be, furniture and the sticker "Approved Lacoste Watches Retailer" including, without limitation, all POS material. Nevertheless, it may retain the furniture provided that all references to Lacoste and to Lacoste trademarks are removed.

In addition, the termination or the non-renewal of the **Contract** shall entail the immediate cancellation of all pending orders.

It is expressly agreed between the parties that under no circumstances whatsoever will the end, termination or non-renewal of the **Contract** provide the **Approved Retailer** with the benefit of any right of indemnity of whatever nature, regardless of the cause of or reason for the end, non-renewal or termination, the revenue that the **Approved Retailer** derived from the sales of the **Lacoste Watches** during the application of the **Contract** having fully defrayed all risks, costs and expenses incurred by the **Approved Retailer** during its performance throughout the duration of the **Contract**.

## ARTICLE 8 - LIABILITY

**Approved Retailer** shall, at its own cost and expense, keep and maintain in full force and effect for the duration of this **Contract**, a policy of commercial general liability insurance insuring **Approved Retailer**'s activities with respect to the **Point of Sale** against loss, damage or liability for personal injury or death or loss or damage to property with limits not less than those customarily maintained by similar retail operations in the **Territory**. **Approved Retailer** shall inform **Distributor** of the terms of said insurance upon request from time to time. **Approved Retailer** hereby releases **Distributor**, **Licensee**, the **Lacoste Group** and each of their respective affiliates from liability, and waives all right of recovery against each of them, for any injury, loss or damage, whether due to negligence or any other cause, if such injury, loss or damage is caused by any of the perils which are covered by the foregoing insurance policy or are required to be covered by such insurance pursuant to this **Contract**.

## ARTICLE 9 - APPLICABLE LAW / JURISDICTION

The **Contract** is governed by the law of the **Territory**.

The Court of (to be completed) shall have the exclusive jurisdiction on any litigation resulting from the interpretation or execution of this **Contract**.

## ARTICLE 10 – NOTICES

Any notices required in accordance with any of the provisions hereof shall be in writing and delivered or mailed by registered mail, or by an internationally recognized overnight courier service (e.g., Federal Express), to the address of the parties set forth on the first page hereof.



**ARTICLE 11 – GENERAL TERMS AND CONDITIONS**

11.1Neither party hereto shall be liable for any delay or failure in fulfilling the obligations hereunder (except for the payment of money) when such delay or failure is caused by riots, war (declared or not), or hostilities between any nations; acts of God, fire, storm, flood or earthquake; strikes, labor disputes, shortage or delay of carriers, or shortage of raw materials, labor power or other utility services; any governmental restrictions; or any other unforeseeable contingencies beyond the control of the party.

11.2In view of the fact that this **Contract** has been entered into because of the confidence that Distributor has in **Approved Retailer**, it is understood that the terms and conditions hereof shall be performed by **Approved Retailer** from the **Point of Sale** only and that this Agreement may not be assigned, whether by operation of law or otherwise, without the prior written approval of **Distributor** which **Distributor** may withhold or grant in its sole and absolute discretion and any such purported assignment by **Approved Retailer** without such approval by **Distributor** shall be void and of no effect.

11.3When interpreting the terms and conditions of this **Contract**, the English language shall be applied exclusively.

11.4This **Contract**, including the terms and conditions incorporated by reference, constitutes the entire agreement of the parties with respect to the subject matter hereof and prevails over and supersedes all prior agreements, whether written or oral, relating to the subject matter hereof and may not be altered, waived, modified, or discharged except by an express writing referring to this **Contract** signed on behalf of the parties hereto by their duly authorized representatives.

11.5The failure of either party hereto to enforce at any time any of the provisions or terms of this **Contract**, or any rights in respect thereof, or the exercise of or failure to exercise by either party any rights or any of its elections herein provided, shall in no way be considered to be a waiver of such provisions, terms, rights or elections or in any way to affect the validity of this **Contract**.

11.6Should any provision of this **Contract** held invalid, incomplete or unenforceable, this will not affect the validity of the remaining provisions. The parties shall replace the invalid incomplete or unenforceable provision by provision which comes closest to the commercial goal that the parties intended to achieve on the conclusion of this agreement by the invalid, uncompleted and unenforceable provision. Notwithstanding anything to the contrary contained herein, in the event of any conflict or inconsistency between any term or provision of this **Contract** and the **Distribution Agreement**, the latter shall control.

Executed in two original copies at [redacted] on [redacted]

**DISTRIBUTORAPPROVED RETAILER**

\_\_\_\_\_  
Name: \_\_\_\_\_ Name: \_\_\_\_\_  
Title: \_\_\_\_\_ Title: \_\_\_\_\_



**SCHEDULE X**

**Promotion and advertising**

**X.a - Promotion**

Gift of products to and financial agreements with champions

Event sponsorship

**X.b - Advertising**

Press

Television

Cinema

Billboards

Miscellaneous (internet, radio, direct marketing, cooperative advertising, etc.)

Rights purchases and agency fees

Advertising material (PLV, catalogues, etc.)

**X.c - Press & public relations**

Gift of products to VIP's

Press relations

Public relations

Product placement

**SCHEDULE XI**

**Approved Watches Retailers as of the date hereof**

(For each of these **Approved Watches Retailers** the approved points of sale should be listed)

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HUGO BOSS

DISTRIBUTORSHIP AGREEMENT

THIS AGREEMENT is made and entered into as of May 11, 2007 (the “Effective Date”) by and between MGI LUXURY GROUP S.A. a corporation duly incorporated under the laws of Switzerland having its principal office at 35 Rue de Nidau, Bienne, CH-2501 Switzerland (hereinafter referred to as “Supplier”) and MGS DISTRIBUTION LIMITED a corporation incorporated under the laws of England having its principle office at c/o Swico, Meadway, Haslemere, Surrey GU27 1NN, England (hereinafter referred to as the “Distributor”).

### RECITALS

WHEREAS, Swico Limited (“Swico”), Movado Group, Inc. (“MGI”) and Distributor have entered into a Joint Venture Agreement, dated May 1, 2007 (the “JV Agreement”), pursuant to which Swico and MGI have established a joint venture relationship relating to the sale, marketing and distribution of certain watch brands in the United Kingdom.

WHEREAS, this Agreement is one of the Distribution Agreements as defined in the JV Agreement.

WHEREAS Supplier is an Affiliate (as defined in the JV Agreement) of MGI and is engaged in the development, design, manufacture, distribution and sale of the Products (as hereinafter defined) and Supplier desires to appoint Distributor and Distributor desires to be appointed, as the exclusive distributor of the Products in the Territory (as hereinafter defined), in accordance with the terms and conditions set forth hereinafter;

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained, the parties hereto agree as follows:

#### 1. DEFINITIONS

1.1 In this Agreement, except where the context otherwise requires, the capitalized terms listed below shall have the respective meanings assigned to them as follows:

“Affiliate”	means as to either party, a person or entity which controls, is under common control with, or is controlled by such party.
“HB”	means Hugo Boss Trademark Management GmbH & Co., a German corporation, including any successors and assigns.
“HB License”	means the license agreement between Supplier and HB, as the same may be amended from time to time, pursuant to which Supplier has the right to use the Trademarks in connection with the manufacture, marketing, advertising, sale and distribution of the Products.
“Products”	means watches manufactured by or for Supplier and bearing one or more of the Trademarks.
“Territory”	means the United Kingdom.
“Trademarks”	means all trademarks licensed to Supplier by HB under the HB

“Travel Retail Accounts” means accounts whose retail business consists of in-flight duty free retail sales operations.

1.2 Unless otherwise defined herein, each capitalized term used herein shall have the meaning as set forth in the HB License.

## 2. APPOINTMENT

2.3 Subject to the terms and conditions contained herein, for the term of this Agreement Supplier hereby appoints Distributor as the exclusive wholesale distributor for marketing, distribution and sales of the Products in the Territory (with the exception of sales to Travel Retail Accounts which shall be serviced exclusively by Supplier), and Distributor hereby accepts such appointment. Notwithstanding the foregoing, Supplier may permit Distributor to sell to certain Travel Retail Accounts on a case by case basis as Supplier may, in its sole and absolute discretion, designate in writing from time to time.

2.2 Distributor shall purchase all Products directly from Supplier, or from one or more other sources nominated in writing by Supplier, subject to Distributor's right to purchase Products (a) from other distributors with which Supplier has contracted for the distribution of the Products (“Approved Distributors”) that are located in Switzerland, the European Union, the European Economic Area or any other country with which the European Union has concluded a free trade agreement (in the aggregate, the “European Area”) and (b) from approved retailers that satisfy the conditions set forth in Section 8.2 hereof (“Approved Retailers”) located in the European Area (provided that prior to exercising such right Distributor receives written confirmation from Supplier that each such other distributor is an Approved Distributor and that each such retailer is an Approved Retailer). Such Approved Distributors and Approved Retailers, only, are included within and comprise the HB selective distribution network.

2.3 Distributor shall sell the Products only to Approved Retailers in the Territory and, within the European Area, only within the HB selective distribution network. Distributor shall refrain, outside the Territory and in relation to the Products, from actively soliciting orders, establishing any branch or maintaining any distribution depots. In no event will Distributor sell or continue selling Products to any retailer that does not satisfy the conditions in Section 8.2 of this Agreement.

2.4 Distributor shall use reasonable commercial efforts to advertise, promote, market, distribute and sell the Products in the Territory. Without limiting the generality of the foregoing, Distributor shall at all times maintain adequate stocks of Products to meet demand for the Products in the Territory by those retailers, if any, not being direct shipped by Supplier and Distributor will use reasonable efforts to avoid accumulating excess inventory not in line with its forecasts. Distributor shall maintain an adequate sales force for the effective distribution and sale of the Products in the Territory including at least one (1) full time watch division manager to supervise/manage a dedicated sales manager and sales executive for the Products, experienced in managing a watch distribution business and one (1) full time marketing manager working on the advertising and promotion of the Products.

2.8 During the term of this Agreement Distributor shall not directly or indirectly distribute any other watch brands which, in the determination of Supplier, compete with the Products in the Territory. No other brand licensed to MGI or any Affiliate of MGI shall be deemed to compete with the Products.

2.9 The parties acknowledge that under the Joint Venture Agreement each of Swico and MGI, as the only shareholders of Distributor, has the right under section 15.2 of the JV Agreement, to dissolve, or to purchase the other's interest in, Distributor. Accordingly, if either Swico or MGI (the “Non-breaching Party”) elects under the foregoing provision of the JV Agreement to purchase the other party's interest in, Distributor and (a) written notice from Swico and MGI confirming such election has been provided to Supplier and Distributor and (b) the Non-breaching Party also notifies Supplier that it wishes this Agreement to be assigned, then effective upon the date specified in such notice from the Non-breaching Party (or, absent the specification of any date, then as soon as reasonably practicable) Supplier shall assign all of Distributor's right, title and interest in and under this Agreement to such Non-breaching Party or to any Affiliate of such Non-Breaching Party as specified in such notice. Distributor hereby grants Supplier a power of attorney for purposes of Supplier executing and delivering on behalf of Distributor any and all documents or other instruments necessary to effect such assignment.

## 3. ORDERING, SHIPMENT AND PRICES

3.3 From time to time Distributor shall submit purchase orders for the Products to Supplier. All purchase orders shall be subject to acceptance by Supplier, which acceptance may, at Supplier's option, be evidenced by the issuance of written confirmations or acknowledgments. Supplier hereby reserves the absolute right to reject the whole or any part of any purchase order for any commercially valid reason, including, without limitation, Distributor's credit condition or its accumulation of excess or non-current inventory or its failure otherwise to adhere to the terms and conditions of this Agreement, notwithstanding that any such rejection may prevent Distributor from achieving its Minimum Purchase Requirements. Subject to Sections 3.2 and 11.1, all purchase orders shall be irrevocable after acceptance by Supplier; provided, however, that Distributor may reschedule or cancel that portion of any purchase order pertaining to Products which Supplier fails to deliver as confirmed within thirty (30) days after the later of the advised delivery date or shipping date. Distributor will provide Supplier with a four (4) month rolling forecast of its anticipated order volume monthly by SKU, for the four (4) month period. Supplier will use reasonable efforts to deliver the Products ordered in accordance with the forecast within three (3) months after acceptance of the purchase order by Supplier and to deliver all other Product orders within three (3) to five (5) months after acceptance of the purchase order. As soon as is reasonably practicable after acceptance of each purchase order, Supplier shall advise Distributor of the shipping dates applicable to such order. All shipping dates so advised are estimates only and Supplier shall not have any liability for failure to actually ship by such dates or to deliver by Distributor's requested delivery dates. Supplier shall notify Distributor in the event of any anticipated delay in shipping dates of thirty (30) days or more. Each order submitted by Distributor will specify a “ship to” address which shall be Distributor's address or the address for one of Distributor's customers.

3.4 The purchase prices for all Products purchased by Distributor shall be in Euros and based on Supplier's recommended retail price in effect in the European Union as of the date of shipment. Such prices shall be calculated based on the discount structure as set forth on Schedule A annexed hereto. Supplier will provide current price lists for the Products to Distributor from time to time and shall have the right to modify such prices at any time; provided, however, that no price increase shall become effective sooner than sixty (60) days after written notice thereof to Distributor. Supplier will give Distributor prior notice of all such price changes. For all orders shipped before the effective date of any price increase, the applicable price shall be the price in effect on the date of shipment. With respect to orders for the Products that have been accepted by Supplier but which have not been shipped as of the effective date of a price increase, the applicable price shall be the price in effect on the date of shipment; provided that if the price increase is more than ten percent (10%) of the last applicable price, Distributor shall have the right within ten (10) days from the effective date of the price increase to cancel all or any part of the order for the Products subject to such price increase upon notice to Supplier. All prices are ex-works Supplier's distribution facility.

3.3 Unless otherwise agreed in writing by Distributor and Supplier, all Products shall be deemed delivered to Distributor when delivered by Supplier or Supplier's freight forwarder or distribution center into the possession of a carrier designated by Supplier. Distributor shall bear all risk of loss, damage or shortage pertaining to the Products after delivery to carrier for shipment to the designated “ship to” address on the corresponding purchase order. All costs of delivery, including, without limitation, all costs for freight, import licenses, customs duties or other duties or imposts, insurance and special handling shall be paid by Distributor. All payments are to be made in Euros in accordance with Supplier's standard terms of sale which are incorporated herein by reference (except to the extent inconsistent with any of the express terms contained herein) net ninety (90) days after invoice date. A discount of two percent (2%) is granted for cash payment in advance.

3.4 No provisions contained in Distributor's orders which are different from or additional to the terms and conditions of this Agreement shall be binding on the parties hereto or applicable to the sale of the Products unless signed by a duly authorized representative of each of the parties as provided by Section 13.9 hereof. Distributor shall have sole responsibility for invoicing its customers and for the collection of all amounts due from them for Product shipped to them either by Distributor or by Supplier in accordance with the "ship to" designation made on the applicable purchase orders. In no event shall non-payment by any such customer or any claim or allegation any customer may have against Distributor constitute grounds for any off set, deduction, claim or defense on the part of Distributor against Supplier or in respect of any obligation due to Supplier and Distributor shall pay Supplier all amounts due to Supplier in accordance with the terms of this Agreement without off set or deduction for any amounts claimed to be due to Distributor by Supplier.

## 6. MINIMUM TURNOVER REQUIREMENTS

4.1 Each contract year for the duration of this Agreement, Distributor will make minimum sales of Products in the Territory ("Minimum Turnover Requirement") equal to at least sixty percent (60%) of the amount of Product sales as budgeted in the Business Plan annexed to the JV Agreement.

4.2 Sales in excess of the Minimum Turnover Requirement in any contract year shall be neither carried over nor credited toward the Minimum Turnover Requirement of a subsequent contract year.

## 5. ADVERTISING AND PROMOTION

5.1 As used herein "advertising" means only the publication in print or broadcast media of advertisements approved by Supplier and "promotion" means all other forms of Product promotion, other than advertising, approved by Supplier including, without limitation, point of sale material, co-op advertising, marketing, public relations, special events and the like. In no event may Distributor create, place, or in any manner whatsoever conduct any advertising for the Products, for which, as between the parties hereto, Supplier has sole responsibility. All promotions (including, without limitation, the methods, selection, layouts, venue and timing thereof) shall be subject to the prior written approval of Supplier. Distributor shall submit all proposed promotion materials for approval at least four (4) weeks prior to the first anticipated use thereof and shall not engage in any promotion or use any such materials without Supplier's prior written approval. Unless otherwise expressly approved in writing by Supplier, Distributor will use only such materials including, without limitation, point of sale material, packaging, advertising and ancillary material furnished or approved by Supplier.

5.2 Distributor shall conduct all promotion of the Products in the Territory at its own expense, and Supplier will contribute towards the advertising and the promotion of the Products in the Territory as hereinafter provided. At a minimum, Distributor shall expend, for approved promotion, an amount equal to (a) \* of Distributor's budgeted sales of Products for such contract year; plus (b) that portion of Supplier's A/P Amount (defined below) allocated by Supplier to promotion. Distributor's budgeted sales of Products for the first through the fifth contract years are set forth in Annex D to the JV Agreement and Distributor's budgeted sales each contract year thereafter shall be as contained in the annual business plan and budget as adopted in accordance with the provisions of the JV Agreement at or before the beginning of each contract year, or, at such time, if any, that the JV Agreement is no longer in effect, then as approved by Distributor in good faith consultation with Supplier, and may be adjusted in the same manner quarterly. So long as Distributor satisfies its obligation in respect of promotion set forth in this section 5.2 each contract year, then Supplier will spend - on advertising and/or promotion for the Products - an amount equal to \* of the Net Invoiced Cost of Distributor's Product purchases in such year ("Supplier's A/P Amount"), of which, an amount equal to at least \* of the Net Invoiced Cost of Distributor's Product purchases in

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

such year will be spent by Supplier for media advertising of the Products in the Territory ("Media Component of Supplier's A/P Amount"). Distributor acknowledges that the way the Media Component of Supplier's A/P Amount, will be spent by Supplier is that Supplier will pay such amount directly to HB or its Affiliates under the HB License; Supplier will not pay such amount as a reimbursement to Distributor. For purposes of this Agreement, "Net Invoiced Cost" means the invoiced price actually paid by Distributor to Supplier net of all discounts, all costs referred to in Section 3.3 hereof, all credits for returns and all uncollected amounts. Any portion of Supplier's A/P Amount allocated by Supplier to promotion shall be credited to Distributor's account semi-annually, provided that within thirty (30) days after the end of each such period, Distributor submits a statement to Supplier setting out and showing Distributor's promotion expenditures incurred during such period (supported by invoices and other documents reasonably acceptable to Supplier, substantiating the expenditures for Distributor's approved promotion); and provided further that such costs are no less, on a proportionate basis, than the minimum required expenditures set forth in this Section 5.2. In the event Distributor's actual Product sales for any contract year (other than the final contract year of this Agreement) exceed the total budgeted sales for such year on which its promotion expenditures for such year were based, then Distributor shall spend an amount equal to six percent (6.0%) of such excess in each contract year thereafter.

5.3 Distributor will use only such materials for fixturing at the point of sale as are approved by Supplier in writing.

## 6. MARKETING

6.1 Quarterly (beginning with the quarter ending July 31, 2007 and from time to time at the reasonable request of Supplier, Distributor shall furnish Supplier with a comprehensive written report in reasonable detail regarding (i) the advertising, promotions, distribution and sales of the Products for the immediately preceding quarter or such other relevant period as Supplier may reasonably request; (ii) Distributor's market analysis; and (iii) such other matters as Supplier shall request.

6.2 Distributor will consult with Supplier, as Supplier shall reasonably request for purposes of determining a marketing plan for distribution of the Products in the Territory each year. Such plan shall be followed by Distributor.

6.3 Distributor shall promptly notify Supplier of any significant changes in Distributor's sales forecasts and shall furnish Supplier such information related to sales, sales forecasts, warranty claims and inventories of Products as may be reasonably requested from time to time by Supplier.

## 7. SERVICE AND REPAIR

7.1 Distributor shall establish and maintain, at its expense, such number of authorized service facilities for the service and repair of the Products in the Territory (the "Service Center(s)") as Supplier may reasonably request, it being understood that initially there shall be one (1) such Service Center. Distributor shall

accept all Products for service, returned by any consumer or retailer in the Territory for service whether covered by the applicable consumer warranty ("warranty repairs") or not covered by said warranty ("out-of-warranty repairs"). Distributor shall purchase from Supplier, or from one or more parts distributors designated in writing by Supplier, and maintain an adequate stock of component parts and materials and employ at each Service Center such number of qualified service technicians necessary to perform such service in a timely manner. All shipping charges, including any duty, or Customs brokerage fees, for such parts shall be paid by Distributor. Supplier shall have the right to furnish parts to Distributor in the form of finished watches. Within sixty (60) days after the end of each contract year, provided Distributor has complied with all its obligations hereunder, Supplier will issue a credit to Distributor equal to one percent (1%) of the Net Invoiced Cost of the Products purchased by Distributor in such prior contract year; provided that Supplier will review this amount annually in light of the actual average incidence of warranty repairs.

7.2 Within thirty (30) days after the Effective Date, Distributor will furnish Supplier with Distributor's initial price list for all out of warranty repairs. Distributor will give Supplier no less than ninety (90) days prior written notice of any change to any such prices. Distributor shall submit to Supplier quarterly, a statement summarizing all out of warranty repairs and all warranty repairs performed in the immediately preceding quarter indicating for each watch repaired the:

- (b) Correct style number;
- (c) Complete description of work performed; and
- (c) Dates repair received, completed and returned to customer.

7.3 Distributor will use only those parts (excluding batteries) for service on the Products which are supplied directly by or otherwise approved in writing by Supplier as original equipment for the Products.

7.4 Distributor will issue estimates for repair work within five (5) working days after receipt of a Product for repair on ninety percent (90%) of the Products submitted to Distributor for repair. Working days are defined as all days of the year except Saturdays and Sundays and legal holidays. Warranty repairs will be completed within fifteen (15) working days after receipt of a Product for repair on ninety percent (90%) of the in-warranty work performed by Distributor, unless detained because of delays in receiving necessary parts from the Supplier. Out of warranty repairs will be completed within twenty (20) working days after receipt of the customer's written authorization to proceed with repair of a Product on ninety percent (90%) of the out of warranty work performed by Distributor. On the same day any repairs are completed, the Product repaired or serviced will be returned to the customer via express mail or such other method as Supplier may reasonably request. Increases in the postage or other ground delivery rates may require requisite increases in charges to the customer by the Distributor for shipping.

## 8. TRADE PRACTICES

8.1 Distributor shall sell the Products at competitive levels, at wholesale in accordance with generally accepted customs in the trade and shall refrain from using selling methods or practices which shall be harmful to the reputation of the Products, Supplier or the Trademarks. Distributor's right to determine the prices of reselling and to employ conditions of trade at its exclusive discretion remains unaffected.

8.4 Distributor may sell Products only to those specialty shops, department stores and retail outlets (including those that sell directly to the consumer) that satisfy Supplier's objective criteria for approved retailer status as set forth on Schedule B annexed hereto, such satisfaction to be evidenced by written approval to Distributor from Supplier as provided in this Section 8.2. Upon execution of this Agreement, and prior to the opening of each selling season (and whenever Distributor wishes to sell Products to retail customers not previously approved by Supplier), Distributor must submit a list of such proposed retail customers (not including previously approved retail customers) for Supplier's written approval. Supplier has the right to withdraw any such approval on written notice to Distributor, provided, however, that Supplier will not withdraw approval of a retail customer that is then authorized to carry and carrying any HB products unless Supplier is reasonably dissatisfied with the display, delivery or inventory model of Products of such retail customer. After such notice, Distributor may not accept additional orders for Products from such retail customer, but may fill any existing order. Once each quarter, Distributor shall provide Supplier with a list of the retailers in the Territory that purchased Products in the immediately preceding quarter containing the addresses of their sales outlets, it being understood that such list is of a confidential nature and shall be for the sole use of Supplier and, if requested, HB and shall be kept confidential by Supplier and shall not be disclosed by Supplier to any person whatsoever, other than employees of Supplier and HB whose performance of their duties require the disclosure of such list to them.

8.5 Except as expressly permitted by Supplier in writing, Distributor may not (a) sell Products directly to the public in retail stores; (b) use Products as giveaways, prizes or premiums, except for promotional programs which have received the prior written approval of Supplier; or (c) sell Products to any Affiliate of Distributor or any of its directors, officers, employees or any person having an equity participation in or any other affiliation to Distributor, other than to Distributor's employees or other representatives for their personal use, without the prior written approval of Supplier. Supplier may, at Distributor's expense, purchase any Products found in the marketplace that Distributor has sold to unapproved customers in violation of this Section 8.3 or Section 2.3. Distributor shall include and enforce the following on all invoices to its retail customers: "Limitations on Sale by Buyer: Seller expressly reserves the right to limit the amount of merchandise delivered to only such quantities as are necessary to meet the reasonably expected demand at Buyer's store locations. This Merchandise is sold to Buyer for resale to the ultimate consumer and/or within the HB selective distribution network and only from such store locations as have been approved in writing by Seller. Buyer shall be expressly prohibited from selling the merchandise purchased hereunder to a retailer or other dealer in like merchandise, or to any party who Buyer knows, or has reason to know, intends to resell the merchandise and is not a member of the HB selective distribution network. The merchandise purchased hereunder may not be sold by Buyer from any store locations which Seller has advised Buyer do not qualify as an acceptable location".

## 9. PROTECTION OF INTERESTS; TRADEMARKS

9.5 Distributor shall protect and at all times seek to promote Supplier's best interests in the Territory and shall immediately notify Supplier of any fact or situation which may be or may be reasonably presumed to become detrimental to Supplier or to its good will, copyrights, patents, or to the Trademarks or other intellectual property rights of Supplier or HB. Distributor shall have the exclusive right to use the Trademarks in connection with distribution of the Products in the Territory for the term hereof and solely for the limited purpose of and only to the extent necessary for performing its obligations hereunder and for no other purpose. Distributor agrees that it shall have no rights with respect to the Trademarks in connection with the Products except only as expressly and specifically set forth herein and that its every use shall inure exclusively to the benefit of HB and that Distributor shall not, at any time, acquire any rights therein or challenge the validity thereof. Distributor further agrees at no time to use any of the Trademarks or other intellectual property rights owned by or licensed to Supplier in a manner not authorized by Supplier. Distributor shall not apply to register, nor shall Distributor use or permit the use of, any name, logo, mark or traddress which is confusingly similar to any of the Trademarks or do any act or thing, or permit any act or thing to be done, which may in any way impair, dilute, reduce the value of the Trademarks or damage the goodwill relating to the Trademarks

9.6 If requested by Supplier, in writing, the Distributor shall assist and cooperate with Supplier, its counsel and agents as so requested, in connection with any matters involving any of Supplier's intellectual property rights in the Territory including without limitation, in any legal proceedings and any out-of-pocket expenses incurred by the Distributor in connection with litigation in which the Distributor participates at the request of Supplier shall be reimbursable to the

Distributor and any recoveries from any such litigation or the settlement thereof shall belong exclusively to Supplier; provided, however, that Supplier shall have the exclusive right (but not the obligation) to take such action against third parties in the respect of the Trademarks and all other intellectual property rights of Supplier.

9.3 In the event that Distributor sells any Products outside the Territory in violation of Section 2.3 hereof, then Supplier may, at its sole option, in addition to all other rights and remedies available to it, repurchase all or any portion of such Products. Within ten (10) days after receipt of a statement from the Supplier listing all such Products purchased, together with a list of the model numbers, and setting forth Supplier's out-of-pocket costs incurred in connection with such purchase, Distributor shall reimburse Supplier such out-of-pocket costs. Distributor acknowledges that such payment is not a penalty but fair compensation to Supplier's for breach of this Agreement and damage to Supplier goodwill and tradename.

## 10. TERM AND TERMINATION

10.1 This Agreement shall take effect upon the Effective Date and shall, unless otherwise earlier terminated as provided herein, continue for the duration of the JV Agreement. It shall be automatically terminated upon the termination or expiration of the JV Agreement.

10.2 In the event (a) this Agreement is assigned to Swico, MGI or to an Affiliate of Swico or MGI in accordance with Section 2.6 hereof, or (b) either Swico or MGI purchases all of the other's interest in Distributor under Section 15.2.2 of the JV Agreement or (c) Swico, its Affiliates or Permitted Transferees (as such term is defined in the JV Agreement) otherwise acquire control of Distributor, then this Agreement shall continue from the date of such assignment, purchase and/or acquisition, as the case may be, until the third anniversary of such date at which time this Agreement shall expire and neither party shall have any further obligation to the other hereunder except as to those obligations which by their express terms survive beyond the expiration or termination of this Agreement. Following any assignment, purchase or acquisition referred to in Section 10.1, this Agreement may be terminated by either party hereto upon prior written notice to the other party:

(i) in the event such other party shall have breached any of the terms and conditions hereof and, if remediable shall have failed to remedy such breach within sixty (60) days after the notification of the breach by the non-breaching party; or

(ii) in the event that such other party becomes insolvent, has an insolvency proceeding of any kind filed by or against it, including bankruptcy or reorganization, liquidates its business or is liquidated, has a receiver appointed for its assets, or makes an assignment for the benefit of its creditors.

10.5 In addition to any other rights of termination provided hereunder, Supplier may terminate this Agreement immediately by notice to Distributor if Distributor (i) fails to satisfy the Minimum Turnover Requirement for any contract year; (ii) fails to satisfy its minimum promotion expenditures in Section 5.2 in any contract year; (iii) fails to comply with the payment terms in Section 3.3; (iv) breaches any of the covenants contained in Article 8 or Article 9 hereof or (v) transfers or attempts to transfer a substantial part of its business to a third party or attempts to assign this Agreement to a third party (or relinquishes control of any previously approved assignee under Section 13.5) or has its business merged or consolidated with a third party without the prior written consent of Supplier.

10.4 Notwithstanding anything to the contrary contained herein, this Agreement will automatically expire and be of no further effect in the event the HB License expires or is terminated for any reason. Upon such expiration or termination, neither party will have any further obligation hereunder to the other except any obligation or liability which accrued prior to the date of such expiration or termination.

## 11. EFFECTS OF TERMINATION

11.1 Upon the expiration of this Agreement or its termination by Supplier, Supplier may, at its sole discretion, reject all or part of any outstanding orders received or accepted by Supplier.

11.2 Upon expiration or termination of this Agreement for any reason:

(i) Any sums due and owing by either party to the other shall become immediately due and payable, and such sums shall be paid forthwith.

(ii) Supplier may immediately appoint a successor to Distributor in the Territory and announce the change of its distributorship to the public.

(iii) Distributor shall take a physical inventory of all Products in stock and submit a report of such inventory to Supplier. Supplier shall have the right to have a representative present to verify such inventory. Supplier shall be entitled but not obligated to take over any portion or all Products remaining in stock from Distributor at the price in currency originally paid by Distributor to Supplier, plus the cost of shipping and insurance. Upon notice to Distributor of Supplier's election to buy back any or all such inventory, Distributor shall cooperate as requested by Supplier for the packing and shipping of such inventory. Distributor may sell any Products not taken over by Supplier for six (6) months after the termination of this Agreement or such shorter period as notified by Supplier subject to all the provisions hereof, including, without limitation, Article 8.

(iv) Distributor shall immediately cease all use of the Trademarks; provided, however, that Distributor may continue to use the Trademarks solely in connection with the sale of the Products pursuant to Section 11.2(iii) above and in such a way as not to impair, dilute, reduce the value of or damage the goodwill relating to the Trademarks.

(v) Any advertising or promotion must be at the discretion of Supplier and must be approved by Supplier.

(viii) Distributor, at its expense, will return to Supplier all materials belonging to Supplier and all proprietary data or confidential information furnished to Distributor by Supplier during the term hereof.

11.3 The rights of termination granted herein are absolute and each party acknowledges that it has considered and assumed as its own exclusive risk the possibility of making expenditures of money and time in preparing for the performance of this Agreement and possible loss or damage on account of the loss of prospective profits or anticipated sales or on account of expenditures, investments, leases, property improvements or commitments in connection with the good will or business of the parties or otherwise resulting from the proper termination hereof and that it is the express intent and agreement of the parties that neither party properly terminating this Agreement in accordance with the terms hereof (the "terminating party") shall be liable to the other for any claim, cost or damages solely by reason of such termination. In the event of such termination or expiration of this Agreement in accordance with the terms hereof, the terminating party shall have no obligation or liability to pay to the other, and such other party hereby expressly waives, any statutory termination fee, any other right to compensation provided by law arising solely as a consequence of such termination, and consequential damages and lost profits arising solely on account of such termination or expiration.



#### 14. INDEMNIFICATION

Distributor hereby agrees to indemnify, defend and hold the Supplier, and its Affiliates and/or agents and each of their officers, directors and employees harmless from and against any and all liabilities, damages, costs and expenses (including reasonable attorneys' fees) which arise out of or in connection with any act or omission by Distributor, its Affiliates, successors, assigns, parents, subsidiaries, agents, and contractors, or the officers, directors or employees of any of them. Supplier reserves the right, without being required to do so, at its own expense and without waiver of any indemnity hereunder, to defend any claim, action or lawsuit coming within the purview of this Section 12. This section shall survive the termination or expiration of this Agreement.

#### 13. GENERAL TERMS AND CONDITIONS

13.1 Supplier may, from time to time, designate in writing an Affiliate of Supplier to exercise any of the rights or perform any of the obligations of Supplier hereunder.

13.2 Neither party shall have the power to represent the other party. For purposes of this Agreement, Distributor is an independent contractor and neither the agent nor the representative of Supplier or any of its affiliated companies. Distributor, its employees, contractors and Affiliates shall not act or represent themselves as agents or representatives of, or as having the right, power or authority, express or implied to assume or create any obligation or liability on behalf of Supplier or any of its affiliated companies.

13.3 Neither party hereto shall be liable for any delay or failure in fulfilling the obligations hereunder (except for the payment of money) when such delay or failure is caused by riots, war (declared or not), or hostilities between any nations; acts of God, fire, storm, flood or earthquake; strikes, labor disputes, shortage or delay of carriers, or shortage of raw materials, labor power or other utility services; any governmental restrictions; or any other unforeseeable contingencies beyond the control of the party.

13.6 Any notice to be given pursuant to this Agreement shall be written in English and shall be deemed duly given when sent by reputable overnight international courier including FedEx, UPS or DHL to the respective address first set forth above or by facsimile to the respective facsimile number set forth below confirmed by letter as aforesaid, or to such other address and/or facsimile number as a party hereto may designate by like notice.

To Supplier: Fax: ( 41 ) 32 9 123 101  
Attn: Mr. Xavier Gauderlot, General Manager – Hugo Boss Watches

To Distributor: Fax:  
Attn.:

Supplier's designated Affiliate under Section 13.1 shall be designated by notice to Distributor, which notice shall include the address and facsimile number of such Affiliate for purposes of giving notice hereunder. Notice to Supplier's designated Affiliate shall be made and deemed duly given in the same manner as for notice to Supplier.

13.7 In view of the fact that this Agreement has been entered into because of the confidence that Supplier has in Distributor, it is understood that the terms and conditions hereof shall be performed by Distributor only and that, except as expressly permitted in Section 2.6 hereof, this Agreement may not be assigned, whether by operation of law or otherwise, without the prior written approval of Supplier which Supplier may withhold or grant in its sole and absolute discretion and any such purported assignment by Distributor without such approval by Supplier shall be void and of no effect. Following any such assignment, Distributor shall remain obligated as a guarantor for all the payment obligations of the approved assignee hereunder and any change in control of the approved assignee without the approval of Supplier shall constitute a breach of this Section 13.5 and shall entitle Supplier to terminate the Agreement as provided under Section 10.3.

13.6 The captions of this Agreement are inserted solely for ease of reference and are not deemed to form a part of or to modify the terms and conditions of this Agreement.

13.7 This Agreement shall be governed exclusively by the law of Switzerland without reference to its conflict of laws rules and to the exclusion of the United Nations Convention on Contracts for the International Sale of Goods. Any dispute, controversy or difference which may arise out of, in relation to, or in connection with this Agreement shall be finally settled by arbitration in Geneva, Switzerland under the Rules of Arbitration of the International Chamber of Commerce by three (3) Arbitrators appointed in accordance with said rules. Each party hereto shall be bound by any arbitration award so rendered and any judgment upon such award may be entered as a non-appealable final, foreign judgment in any court having jurisdiction thereon. The language of the proceedings shall be English.

13.8 When interpreting the terms and conditions of this Agreement, the English language shall be applied exclusively.

13.11 This Agreement, including the terms and conditions incorporated by reference in Section 3.3 hereof, constitutes the entire agreement of the parties with respect to the subject matter hereof and prevails over and supersedes all prior agreements, whether written or oral, relating to the subject matter hereof and may not be altered, waived, modified, or discharged except by an express writing referring to this Agreement signed on behalf of the parties hereto by their duly authorized representatives. In the event of any conflict or inconsistency between this Agreement and the JV Agreement, the latter shall control.

13.10 The failure of either party hereto to enforce at any time any of the provisions or terms of this Agreement, or any rights in respect thereof, or the exercise of or failure to exercise by either party any rights or any of its elections herein provided, shall in no way be considered to be a waiver of such provisions, terms, rights or elections or in any way to affect the validity of this Agreement.

13.11 In connection with this Agreement, the parties may from time to time exchange proprietary data or confidential information. The parties agree to keep in confidence all such proprietary data or confidential information received in accordance with this Agreement and to use the same only in connection with the performance of this Agreement. This provision shall survive the termination or expiration of this Agreement.

13.12 Should any provision of this contract held invalid, incomplete or unenforceable, this will not affect the validity of the remaining provisions. Supplier and Distributor undertake to replace the invalid incomplete or unenforceable provision by provision which comes closest to the commercial goal that the parties intended to achieve on the conclusion of this agreement by the invalid, uncompleted and unenforceable provision. Notwithstanding anything to the contrary contained herein, in the event of any conflict or inconsistency between any term or provision of this Agreement and the HB License, the latter shall control.

13.13 Supplier shall have the right to injunctive relief to enforce the covenants, agreements and obligations of Distributor hereunder in addition to any other

relief to which Supplier may be entitled at law or in equity.

13.16 Each order deliverable under this Agreement shall be deemed sold under a separate contract. Non-delivery or default by Supplier as to any order shall not be deemed a breach of the entire Agreement and shall not relieve Distributor of its obligation to accept and pay for any prior or subsequent delivery, even though such non-delivery or default substantially impairs the value of this Agreement to Distributor.

13.15 Distributor shall comply with all applicable laws, rules and regulations in the Territory, including, without limitation, the provisions of Directive 2002/96/EC, which governs waste electrical and electronic equipment, including all related amendments and all laws, rules and regulations in the Territory related thereto. Distributor shall provide Supplier with evidence of any such compliance upon request.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed in multiple duplicates by their authorized representatives at Bienne, Switzerland as of the day and year first above written.

MGS DISTRIBUTION LIMITED

MGI LUXURY GROUP S.A.

By: \_\_\_\_\_  
Title: \_\_\_\_\_  
Name: \_\_\_\_\_

By: \_\_\_\_\_  
Title: \_\_\_\_\_  
Name: \_\_\_\_\_

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## SCHEDULE A

### DISTRIBUTOR DISCOUNT SCHEDULE

Distributor pricing shall be \* of Supplier's recommended Euro retail price (inclusive of VAT); provided, however, that if this Agreement is assigned as provided under Section 2.6, then the pricing to the assignee shall be based on the same discount off of Supplier's recommended Euro retail price as generally offered by Supplier to its other independent distributors of the Products in the European Union.

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

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## SCHEDULE B

### OBJECTIVE CRITERIA FOR APPROVED RETAILER STATUS

#### 13. EXTERNAL ELEMENTS

##### A. Location/Street

- (i) Animated and attractive environment
- (ii) Centrally located neighborhood
- (iii) Shopping district with fashion and prestige branded shops

##### B. Appearance

- (i) Attractive, well-maintained, high-quality façade
- (ii) Clean, visible and prominent shop sign
- (iii) Visible and easily accessed entrance

##### C. Shop Windows

- (i) Well lit, clean and made from good quality materials
- (ii) Suitable number and size show windows
- (iii) Windows provide sufficient space to display a representative selection of HB brand products
- (iv) Professionally maintained and attractive window decoration

#### 14. INTERNAL ELEMENTS

##### A. General Outfitting

- (i) Clean and well-maintained walls, floors, ceilings and furnishings
- (ii) Sufficient and sophisticated lighting
- (iii) Equipped with adequate security devices

##### B. Presentation Showcases

- (i) Made of high-quality materials with adequate lighting
- (ii) HB products displayed on official brand POS materials
- (iii) Clearly visible and strong brand identification
- (iv) HB products are grouped together and displayed separately from other brands

#### 15. OTHER PRODUCTS

A. Premises used solely for the retail sale of quality watches, jewelry, fashion accessories and/or fashion apparel.

B. HB products displayed to prevent confusion with any other brands products.

C. Retailer also sells at least two (2) Swiss watch brands or any three (3) of the following fashion/designer/prestige watch brands: Emporio Armani, Diesel, DKNY, Kenneth Cole, Versace, Puma, D&G, CK, Sector, Briel, Guess, Lacoste

#### 16. PRESENTATION/PROMOTION

##### A. Visual/Collateral

- (i) Brand visuals properly presented and changed out seasonally or whenever requested by brand

##### B. Advertising

- (i) Dealer's advertising is consistent with the quality requirements of the brand
- (ii) Dealer agrees to conduct co-op advertising on the basis of an agreed and shared budget and media plan

##### C. Personnel/Customer Service

- (i) Sales staff with good knowledge of HB brand and products
- (ii) Available for regular training on brand and new products
- (iii) Well dressed, groomed and polite
- (iv) Capacity to advise customer on how to operate products correctly
- (v) Able to carry out simple adjustments (e.g. sizing metal bracelets)

17. REPORTING

- A. Provides clear and comprehensive information
- B. Provides information on sales and stock situation
- C. Provides monthly sales reports by sku
- D. Provides immediate information on problems with products

18. FINANCES

- A. Good payment record
- B. Creditworthy
- C. Sound finances

# ANNEX A

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[ SEAL ]

**CERTIFICATE OF INCORPORATION**

**ON CHANGE OF NAME**

Company No. 6183896

The Registrar of Companies for England and Wales hereby certifies that

COVERMAT LIMITED

having by special resolution changed its name, is now incorporated under the name of

MGS DISTRIBUTION LIMITED

Given at Companies House, Cardiff, the 9<sup>th</sup> May 2007

[ Official Seal of the Registrar of Companies ]

[ Seal – Companies House for the record ]

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**COVERMAT LIMITED**

1. The name of the Company is COVERMAT LIMITED.
2. The registered office of the Company will be situated in England and Wales.
3. The objects for which the Company is established are:-
  - (A) To carry on business as a general commercial company.
  - (B) To carry on any other business which may in the opinion of the Board of Directors be advantageously carried on by the Company.
  - (C) To purchase, sell, exchange, improve, mortgage, charge, rent, let on lease, hire, surrender, license, accept surrender of, and otherwise acquire and deal with any freehold, leasehold or other property, chattels and effects; and to erect, pull down, repair, alter, develop, or otherwise deal with any building or buildings and adapt the same for the purposes of the Company's business.
  - (D) To purchase or otherwise acquire all or any part of the business or assets of any person, firm or company, carrying on or formed to carry on any business which this Company is authorized to carry on or possessed of property suitable to the purposes of this Company, and to pay cash or to issue any shares, stocks, debentures, or debenture stock of this Company as the consideration for such purchase or acquisition and to undertake any liabilities or obligations relating to the business or property so purchased or acquired.
  - (E) To apply for, purchase, or otherwise acquire any patents, licenses or concessions which may be capable of being dealt with by the Company, or be deemed to benefit the Company and to grant rights thereout.
  - (F) To sell, let, license, develop or otherwise deal with the undertaking, or all or any part of the property or assets of the Company, upon such terms as the Company may approve, with power to accept shares, debentures or securities of, or interests in, any other company.
  - (G) To invest and deal with the moneys of the Company not immediately required for the purposes of the Company in or upon such securities and subject to such conditions as may seem expedient.
  - (H) To lend money to such persons, upon such terms and with or without security and subject to such conditions as may seem desirable.
  - (I) To give any form of financial assistance that may lawfully be given in connection with the acquisition of shares in the Company of any other company.
  - (J) To guarantee the payment of any debentures, debenture stock, bonds, mortgages, charges, obligations, interest, dividends, securities, moneys or shares or the performance of contracts or engagements of any other company or person (including but without prejudice to the generality of the foregoing) the holding company of the Company or any company which is a subsidiary of such holding company within, in each case, the meaning of Section 736 and Section 736(a) of the Companies Act 1985 (the "Act") as amended by the Companies Act 1989, and to give indemnities and guarantees of all kinds and to enter into partnership or any joint venture arrangement with any person, persons, firm or company.
  - (K) To borrow or raise money in such manner as the Company shall think fit, and in particular by the issue of debentures or debenture stock, charged upon all or any of the Company's property, both present and future, including its uncalled capital, and to re-issue any debentures at any time paid off.
  - (L) To draw, make, accept, endorse, discount, execute, and issue promissory notes, bills of exchange, debentures, warrants and other negotiable documents.
  - (M) To purchase, subscribe for, or otherwise acquire and hold shares, stocks or other interests in, or obligations of, any other company or corporation.
  - (N) To remunerate any person or company for services rendered or to be rendered in placing or assisting to place any of the shares in the Company's capital or any debentures, debenture stock or other securities of the Company or in or about the formation or promotion of the Company or the conduct of its business.
  - (O) To pay out of the funds of the Company all costs and expenses of or incidental to the formation and registration of the Company and the issue of its capital and debentures including brokerage and commission.
  - (P) To promote, or aid in the promotion of, any company or companies for the purpose of acquiring all or any of the property, rights, and liabilities of this Company, or for any other purpose which may seem directly or indirectly calculated to advance the interests of this Company.
  - (Q) To establish and support and aid in the establishment and support of funds or trusts calculated to benefit employees or ex-employees of the Company (including any Director holding a salaried office or employment in the Company) or the dependants or connections of such persons and to grant pensions and allowances to any such persons.
  - (R) To establish and implement any employee shares scheme within the meaning of section 743 of the Companies Act 1985 and any share option scheme. To grant share options and rights to Directors Employees and Members and others in connection with any share option scheme which shall entitle the holders of any such option and rights to acquire and subscribe for shares and securities of the Company in accordance with the terms of any such grant.
  - (S) To remunerate the Directors of the Company in any manner the Company may think fit and to pay or provide pensions for, or make payments to, or for the benefit of, Directors and ex-Directors of the Company or their dependants or connections.
  - (T) To distribute any property of the Company in specie among the Members.

(U) To do all such other things as are incidental or conducive to the attainment of the above objects or any of them.

It is declared that the foregoing sub-clauses shall be construed independently of each other and none of the objects therein mentioned shall be deemed to be merely subsidiary to the objects contained in any other sub-clause.

4. The liability of the Members is limited.

5. The Share Capital of the Company is £1,000 divided into 1,000 shares of £1 each with power to increase or to divide the shares in the capital for the time being, into different classes having such rights, privileges and advantages as to voting and otherwise as the Articles of Association may from time to time prescribe.

The subscriber to this Memorandum of Association wishes to be formed into a Company pursuant to this Memorandum; and agrees to take the number of Shares shown opposite the subscriber's name

NAME AND ADDRESS OF SUBSCRIBER

Number of shares taken by the subscriber

7Side Nominees Limited ONE  
14/18 City Road  
Cardiff  
CF24 3DL

DATED 26 March 2007

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**COVERMAT LIMITED**

PRELIMINARY

1. (a) The Regulations contained in Table A in the Schedule to the Companies (Tables A to F) Regulations 1985 as amended by the Companies (Tables A to F) (Amendment) Regulations 1985 and The Companies Act 1985 (Electronic Communications) Order 2000 (such Table being hereinafter called "Table A") shall apply to the Company save in so far as they are excluded or varied hereby and such Regulations (save as so excluded or varied) and the Articles hereinafter contained shall be the regulations of the Company.

(b) Any reference in these Articles to "the Act" shall mean the Companies Act 1985 as amended or extended by any other enactment or any statutory re-enactment thereof.

PRIVATE COMPANY

2. The Company is a private company within the meaning of the Companies Act 1985.

ALLOTMENT OF SHARES

3. The Directors of the Company are generally authorized for the purposes of Section 80 of the Act to allot, grant options over or otherwise deal with or dispose of the original shares in the capital of the Company at the date of the incorporation to such persons at such times and on such conditions as they think fit, subject to the provisions of that Section and Article 4 hereof and provided that no shares shall be issued at a discount. In accordance with Section 91 of the Act Sections 89(1) and 90(1) to 90(6) of the Act shall not apply to the Company. The Directors are generally authorized to exercise the power of the Company to allot shares of the Company which shall be created under any employee shares or share option scheme or arrangement.

4. The general authority conferred on the Directors by regulation 3 of these Articles shall extend to all relevant securities (as defined by Section 80 of the Act) in the capital of the Company at the date of its incorporation during the period of five years from the date upon which the Company was incorporated but the Directors may, after the authority has expired, allot any shares in pursuance of an offer or agreement so to do made by the Company before the authority expired. The authority may be renewed varied or revoked by the Company in General Meeting.

SHARES

5. The Company shall have a first and paramount lien on all shares, whether fully paid or not, standing registered in the name of any person indebted or under liability to the Company, whether he shall be the sole registered holder thereof or shall be one of two or more joint holders, for all moneys presently payable by him or his estate to the Company. Regulation 8 in Table A shall be modified accordingly.

6. The liability of any Member in default in respect of a call shall be increased by the addition at the end of the first sentence of Regulation 18 in Table A of the words "and all expense that may have incurred by the Company by reason of such non-payment."

7. Regulation 3 in Table A shall not apply to the Company and subject to the provisions of chapter VII of Part V of the Act the Company may:-

(a) with the sanction of an Ordinary Resolution issue shares which are to be redeemed or are liable to be redeemed at the option of the Company or the shareholder.

(b) purchase its own shares (including any redeemable shares).

(c) make a payment in respect of the redemption or purchase, under Sections 159, 160, or 162 of the Act and the relevant power (a) or (b) above, of any of its own shares otherwise than out of distributable profits of the Company or the proceeds of a fresh issue of shares to the extent permitted by Sections 170, 171, and 172 of the Act.

TRANSFER OF SHARES

8. (a) Subject to clause 8(b) below the Directors may, in their absolute discretion and without assigning reason therefore, decline to register the transfer of a share, whether or not it is a fully paid share, and Regulation 24 in Table A shall not apply to the Company.

(b) Regulation 8(a) of these Articles shall not apply to any transfer to a person who is already a Member of the Company.

9. In these Articles of Association the reference to the transfer of or transferring shares shall include any transfer, assignment, disposition or proposed or purported transfer, assignment or disposition:

of any share or shares of the Company; or  
of any interest of any kind in any share or shares of the Company; or  
of any right to receive or subscribe for any share or shares of the Company.

Members shall not transfer nor create nor dispose of any interest in or over any of the shares being transferred except by a transfer of the entire legal and beneficial interest in the shares. Any transfer shall be to a transferee as permitted by the Articles and not otherwise.

Subject to Regulation 8 of these Articles, a Subscriber to the Memorandum of Association of the Company may freely transfer his share to any person firm or company.

10. A Member ( other than a Subscriber to the Memorandum of Association of the Company) who desires to transfer shares to a person who is not ready a Member of the Company shall give notice of such intention to the Directors of the company giving particulars of the shares in question. Any such notice shall be irrevocable except with the approval of the Directors. The Directors as agents for the member giving such notice may dispose of such shares or any of them to Members of the Company at a price to be agreed between the transferor and the Directors, or failing agreement, at a price fixed by the Auditors of the Company as the fair value thereof. The costs of any valuation of the transfer shares shall be shared equally by the transferor and the Company unless the Company in general meeting shall decide otherwise. The Directors shall offer the shares in question to all the members (other than the member who wishes to transfer the shares). The shares offered to the individual members shall be in proportion or (at the discretion of the Directors) as nearly as may be in proportion to the numbers of shares then held by the members. Subject to clause 8 (a) above and the following exception if within twenty-eight days from the date of the said notice the Directors are unable to find a Member of Members willing to purchase all such shares, the transferor may dispose of so many of such shares shall remain undisposed of in any manner he may think fit within three months from the date of the said notice. But any such disposal shall be at the same price or more than the price for the shares which shall have been offered in accordance with this clause to the existing members. The exception referred to above is that if all the offered shares shall not be agreed to be acquired the said Member shall not be under any obligation to complete a transfer of any of the shares.

11. The instrument of transfer of any share shall be executed by or on behalf of the transferor who shall be deemed to remain a holder of the share until the name of the transferee is entered in the register of members in respect thereof.

#### GENERAL MEETINGS AND RESOLUTIONS

12. Every notice convening a General Meeting shall comply with the provisions of Section 372 of the Act as to giving information to Members in regard to their right to appoint proxies; and notices of and other communications relating to any General Meeting which any Member is entitled to receive shall be sent to the Directors and to the Auditor for the time being of the Company.

13. Regulation 40 in Table A shall be read and construed as if the words, “unless the Company has only one Member in which case one Member present in person or by proxy shall be a quorum” were added at the end.

14. Regulation 41 in Table A shall be read and construed as if the words, “ and if at the adjourned Meeting a quorum is not present within half an hour from the time appointed for the Meeting, the Meeting shall be dissolved” were added at the end.

15. In addition to the requirements of Regulation 100 of Table A, the Directors shall also insert in the minute book of the Company a memorandum of all decisions taken by a sole Member when the Company has only one Member which may have been taken by the Company in General Meeting and which have effect as if agreed in General Meeting.

#### DIRECTORS

16. (a) The first Director or Directors of the Company shall be the person or persons named as the first Director of Directors of the Company in the statement delivered under Section 10 of the Act.

(b) The number of the directors shall be determined by Ordinary Resolution of the Company but unless and until so fixed there shall be no maximum number of Directors and the minimum number of Directors shall be one. In the event of the minimum number of Directors fixed by or pursuant to these Articles or Table A being one, a sole Director shall have the authority to exercise all the powers and discretions conferred by Table A or these Articles and expressed to be vested in the Directors generally and Regulation 89 in Table A shall be modified accordingly.

(c) A Director shall not require any share qualification but shall nevertheless be entitled to attend and speak at any General Meeting of the Company or at any separate class meeting of the holders of any class of shares of the Company.

(d) Regulation 64 in Table A shall not apply to the Company.

#### ALTERNATE DIRECTORS

17. (a) An alternate Director shall not be entitled as such to receive any remuneration from the Company except only such part (if any) of the remuneration otherwise payable to his appointor as such appointor may by notice to the Company from time to time direct, but shall otherwise be subject to the provisions of these Articles with respect to Directors. An alternate Director shall during his appointment be an Officer of the Company and shall not be deemed to be an agent of his appointor. Regulation 66 in Table A shall be modified accordingly.

(b) A Director or any other person may act as an alternate Director to represent more than one Director and an alternate Director shall be entitled at meetings of the Directors, or any committee of the Directors, to one vote for every Director whom he represents in addition to his own vote (if any) as a Director.

#### BORROWING POWERS

18. The Directors may exercise all the powers of the Company to borrow money without limit as to the amount and upon such terms and in such manner as they think fit, and to grant any mortgage, charge or standard security over its undertaking, property and uncalled capital, or any part thereof, and, subject (in the case of any security convertible into shares) to Sections 80 and 380 of the Act to issue debentures, debenture stock, and other securities whether outright or as security for any debt, liability or obligation of the Company or of any third party.

#### PROCEEDINGS OF DIRECTORS

19. Subject to the provisions of Section 317 of the Act, Regulation 94 in Table A shall not apply to the Company and a Director may vote as a Director in regard to any contract or arrangement in which he is interested or upon any matter arising thereout, and if he shall so vote his vote shall be counted and he shall be reckoned in estimating a quorum present at any meeting when any such contract or arrangement is under consideration.

20. It shall not be necessary for Directors to sign their names in any book which may be kept for the purpose of recording attendance at meeting.

21. (a) Subject to the following proviso the power of the Directors to regulate their proceedings shall include (if duly approved by the Directors) participation in meetings by conference telephone or any kind of communication or electronic communication (as defined in the Electronic Communications Act 2000) – Provided :-

- 1) that proper and reasonable notice of the meeting and of the proposal to conduct it in accordance with this Clause shall have been given to all persons who are entitled to attend meetings of Directors; and

2) that written minutes of and the transcripts of all resolutions of the Directors at all meetings of Directors which shall be conducted in accordance with this Clause shall be certified in writing by all the participating Directors by electronic communication or otherwise to be correct. The reference to “resolutions” in this sub-clause b) means any proposed resolution which to be valid requires proper certification in accordance with this Clause.

(b) The date of any resolution passed at any meeting which may be held in accordance with the preceding Clause shall be when the transcript of the resolution shall be certified by the last Director to do so.

#### DISQUALIFICATION OF DIRECTORS

22. The office of a Director shall be vacated if he becomes incapable by reason of illness or injury of managing and administering his property and affairs and Regulation 81 of Table A shall be modified accordingly.

#### ROTATION OF DIRECTORS

23. The Directors shall not be required to retire by rotation nor shall the Directors or any of them be required to retire from office at the first annual general meeting and Table A shall be modified accordingly.

#### THE SEAL

24. If the Company has a seal it shall be used only with the authority of the Directors or of a committee of the Directors. The Directors may determine who shall sign any instrument to which the seal is affixed and unless otherwise so determined it shall be signed by a Director and by the Secretary or by a second Director. The obligation under Regulation 6 of Table A relating to the sealing of share certificates shall apply only if the Company has a seal. Regulation 101 in Table A shall not apply to the Company.

#### INDEMNITY

25. (a) Regulation 118 in Table A shall not apply to the Company. Every Director and other officer of the Company shall be indemnified out of the assets of the Company against all losses or liabilities which he may sustain or incur in or about the execution and discharge of the duties of his office or otherwise in relation thereto, including any liability incurred by him in defending any proceedings, whether civil or criminal, in which judgment is given in his favour or in which he is acquitted or in connection with any application under Sections 144 or 727 of the Act in which relief is granted to him by the court, and no Director or other officer shall be liable for any loss, damage or misfortune which may happen to or be incurred by the Company in the execution of the duties of his office or in relation thereto. But this Article shall only have effect in so far as its provisions are not avoided by Sections 309A and 309B of the Act.

(b) The Directors shall have power to purchase and maintain at the expense of the Company an insurance policy for any Director (including an alternate Director), Officer or Auditor of the Company against any such liability as is referred to in Section 309A(5) of the Act.

# ANNEX B

# ANNEX C

# ANNEX D



**MGS DISTRIBUTION LIMITED**

**BUDGET FOR YEAR 2007 TO 2011**

**VERSION 6 (revised May 07)**

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

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Subsidiaries of the Registrant

## Bermuda:

MGI International, Ltd.

## California:

North American Watch Service Corporation

## Canada:

Movado Group of Canada, Inc.

## China:

MGI Luxury Trading Shanghai Ltd.

## Delaware:

Movado International, Ltd.

Movado Group Delaware Holdings Corporation

Movado LLC

## England:

MGI Luxury Group UK Ltd.

MGS Distribution Ltd.

## France:

SwissWave Europe SA

MGI-TWC SAS

## Germany:

Movado Deutschland G.m.b.H.

Concord Deutschland G.m.b.H.

MGI Luxury Group G.m.b.H.

MGI-TWC GmbH

## Hong Kong:

MGI Luxury Asia Pacific Ltd.

SwissAm Products Ltd.

## Japan:

MGI Japan Co., Ltd.

## Netherlands:

MGI-TWC B.V.

## New Jersey:

EWC Marketing Corp.

Movado Retail Group, Inc.

## Singapore:

MGI Luxury Singapore Pte. Ltd.

## Switzerland:

Movado Watch Company, S.A.

MGI Luxury Group, S.A.

Concord Watch Company, S.A.

Ebel Watches S.A.

SA de l'immeuble de la Paix 101





**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We hereby consent to the incorporation by reference in the Registration Statement on Form S-3 (Nos. 333-35875 and 333-38305) and Form S-8 (Nos. 333-13927, 333-80789, 333-90004 and 333-137573) of Movado Group, Inc. of our report dated April 9, 2009 relating to the financial statements, financial statement schedule, and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

PricewaterhouseCoopers LLP  
Florham Park, New Jersey

April 9, 2009

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## CERTIFICATIONS

I, Efraim Grinberg, certify that:

- 1) I have reviewed this annual report on Form 10-K 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: April 9, 2009

/s/ Efraim Grinberg

Efraim Grinberg

Chairman of the Board of Directors,

President and Chief Executive Officer

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## CERTIFICATIONS

I, Sallie A. DeMarsilis, certify that:

- 1) I have reviewed this annual report on Form 10-K 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: April 9, 2009  
/s/ Sallie A. DeMarsilis  
Sallie A. DeMarsilis  
Senior Vice President,

Chief Financial Officer and  
Principal Accounting Officer

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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 annual report on Form 10-K of Movado Group, Inc. (the "Company") for the year ended January 31, 2009, 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: April 9, 2009

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

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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 annual report on Form 10-K of Movado Group, Inc. (the "Company") for the year ended January 31, 2009, 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: April 9, 2009

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

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