

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended July 31, 2007

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 1-16497

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

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

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

13-2595932  
(IRS Employer  
Identification No.)

07652  
(Zip Code)

(201) 267-8000

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of "accelerated filer" or "large accelerated filer" in Rule 12b-2 of the Exchange Act. Large accelerated filer  Accelerated filer  Non-accelerated filer

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

The number of shares outstanding of the registrant's common stock and class A common stock as of August 31, 2007 were 19,414,101 and 6,634,319, respectively.

MOVADO GROUP, INC.

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July 31, 2007

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**PART I - FINANCIAL INFORMATION**  
**Item 1. Financial Statements**

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

|  | <u>July 31, 2007</u> | <u>January 31, 2007</u> | <u>July 31, 2006</u> |
|--|----------------------|-------------------------|----------------------|
| <b>ASSETS</b>  |                      |                         |                      |
| <b>Current assets:</b>   |                      |                         |                      |
| Cash   | \$ 112,456           | \$ 133,011              | \$ 78,126            |
| Trade receivables, net   | 100,611              | 111,417                 | 128,416              |
| Inventories, net   | 215,557              | 193,342                 | 215,461              |
| Other current assets   | 37,443               | 35,109                  | 34,712               |
| Total current assets   | <u>466,067</u>       | <u>472,879</u>          | <u>456,715</u>       |
| Property, plant and equipment, net   | 61,040               | 56,823                  | 51,931               |
| Deferred income taxes  | 27,863               | 12,091                  | 7,364                |
| Other non-current assets   | 37,417               | 35,825                  | 33,100               |
| Total assets   | <u>\$ 592,387</u>    | <u>\$ 577,618</u>       | <u>\$ 549,110</u>    |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>  |                      |                         |                      |
| <b>Current liabilities:</b>  |                      |                         |                      |
| Current portion of long-term debt  | \$ 5,000             | \$ 5,000                | \$ 5,000             |
| Accounts payable   | 30,708               | 32,901                  | 34,797               |
| Accrued liabilities  | 38,037               | 45,610                  | 37,459               |
| Deferred and current taxes payable   | 5,717                | 5,946                   | 2,550                |
| Total current liabilities  | <u>79,462</u>        | <u>89,457</u>           | <u>79,806</u>        |
| Long-term debt   | 62,475               | 75,196                  | 91,978               |
| Deferred and non-current income taxes  | 32,181               | 11,054                  | 13,278               |
| Other non-current liabilities  | 24,384               | 23,087                  | 20,112               |
| Total liabilities  | <u>198,502</u>       | <u>198,794</u>          | <u>205,174</u>       |
| Commitments and contingencies (Note 7)   |                      |                         |                      |
| Minority interest  | 1,467                | 443                     | 245                  |
| <b>Shareholders' equity:</b>   |                      |                         |                      |
| 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; 24,176,802, 23,872,262 and 23,661,968 shares issued, respectively                     | 242                  | 239                     | 237                  |
| Class A Common Stock, \$0.01 par value, 30,000,000 shares authorized; 6,634,319, 6,642,159 and 6,700,909 shares issued and outstanding, respectively | 66                   | 66                      | 67                   |
| Capital in excess of par value   | 124,393              | 117,811                 | 113,405              |
| Retained earnings  | 283,329              | 280,495                 | 247,656              |
| Accumulated other comprehensive income   | 40,537               | 32,307                  | 34,812               |
| Treasury Stock, 4,785,701, 4,678,244 and 4,676,117 shares, respectively, at cost   | (56,149)             | (52,537)                | (52,486)             |
| Total shareholders' equity   | <u>392,418</u>       | <u>378,381</u>          | <u>343,691</u>       |
| Total liabilities and equity   | <u>\$ 592,387</u>    | <u>\$ 577,618</u>       | <u>\$ 549,110</u>    |

See Notes to Consolidated Financial Statements

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

|  | <u>Three Months Ended July 31,</u> |                  | <u>Six Months Ended July 31,</u> |                  |
|--|------------------------------------|------------------|----------------------------------|------------------|
|  | <u>2007</u>                        | <u>2006</u>      | <u>2007</u>                      | <u>2006</u>      |
| Net sales  | \$ 139,467                         | \$ 126,588       | \$ 240,830                       | \$ 224,332       |
| Cost of sales                                    | 56,121                             | 48,076           | 95,832                           | 86,230           |
| Gross profit                                     | 83,346                             | 78,512           | 144,998                          | 138,102          |
| Selling, general and administrative              | 67,009                             | 64,438           | 125,889                          | 120,594          |
| Operating income                                 | 16,337                             | 14,074           | 19,109                           | 17,508           |
| Interest expense                                 | (872)                              | (919)            | (1,751)                          | (1,862)          |
| Interest income                                  | 1,062                              | 616              | 2,309                            | 1,507            |
| Income before income taxes and minority interest | 16,527                             | 13,771           | 19,667                           | 17,153           |
| Provision for income taxes (Note 2)              | 4,117                              | 2,407            | 4,764                            | 3,013            |
| Minority interest                                | 146                                | 15               | 239                              | (64)             |
| Net income                                       | <u>\$ 12,264</u>                   | <u>\$ 11,349</u> | <u>\$ 14,664</u>                 | <u>\$ 14,204</u> |
| Basic income per share:                          |                                    |                  |                                  |                  |
| Net income per share                             | \$ 0.47                            | \$ 0.44          | \$ 0.56                          | \$ 0.56          |
| Weighted basic average shares outstanding        | 26,016                             | 25,661           | 25,967                           | 25,550           |
| Diluted income per share:                        |                                    |                  |                                  |                  |
| Net income per share                             | \$ 0.45                            | \$ 0.43          | \$ 0.54                          | \$ 0.54          |
| Weighted diluted average shares outstanding      | 27,272                             | 26,584           | 27,259                           | 26,506           |
| Dividends paid per share                         | \$ 0.08                            | \$ 0.06          | \$ 0.16                          | \$ 0.12          |

See Notes to Consolidated Financial Statements

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

|   | <b>Six Months Ended July 31,</b> |                  |
|---|----------------------------------|------------------|
|   | <b>2007</b>                      | <b>2006</b>      |
| <b>Cash flows from operating activities:</b>  |                                  |                  |
| Net income  | \$ 14,664                        | \$ 14,204        |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: |                                  |                  |
| Depreciation and amortization   | 7,911                            | 7,736            |
| Deferred income taxes   | (2,505)                          | (1,351)          |
| Provision for losses on accounts receivable   | 754                              | 1,739            |
| Provision for losses on inventory   | 312                              | 319              |
| Loss on disposition of property, plant and equipment  | 1,075                            | -                |
| Stock-based compensation  | 2,253                            | 1,340            |
| Excess tax benefit from stock-based compensation  | (1,528)                          | (1,345)          |
| Minority interest   | 239                              | (64)             |
| Changes in assets and liabilities:  |                                  |                  |
| Trade receivables   | 12,151                           | (17,858)         |
| Inventories   | (18,100)                         | (13,146)         |
| Other current assets  | (1,290)                          | (5,575)          |
| Accounts payable  | (2,705)                          | 4,059            |
| Accrued liabilities   | (7,001)                          | (8,893)          |
| Current taxes payable   | 1,237                            | (4,704)          |
| Other non-current assets  | (1,804)                          | (1,448)          |
| Other non-current liabilities   | 1,291                            | 616              |
| Net cash provided by (used in) operating activities   | <u>6,954</u>                     | <u>(24,371)</u>  |
| <b>Cash flows from investing activities:</b>  |                                  |                  |
| Capital expenditures  | (12,612)                         | (6,811)          |
| Investments from joint venture interest   | 787                              | -                |
| Trademarks  | (132)                            | (381)            |
| Net cash used in investing activities   | <u>(11,957)</u>                  | <u>(7,192)</u>   |
| <b>Cash flows from financing activities:</b>  |                                  |                  |
| Net repayments of bank borrowings   | (13,979)                         | (15,161)         |
| Stock options exercised and other changes   | (808)                            | 1,048            |
| Excess tax benefit from stock-based compensation  | 1,528                            | 1,345            |
| Dividends paid  | (4,155)                          | (3,063)          |
| Net cash used in financing activities   | <u>(17,414)</u>                  | <u>(15,831)</u>  |
| Effect of exchange rate changes on cash   | <u>1,862</u>                     | <u>1,895</u>     |
| Net decrease in cash  | (20,555)                         | (45,499)         |
| Cash at beginning of period   | <u>133,011</u>                   | <u>123,625</u>   |
| Cash at end of period   | <u>\$ 112,456</u>                | <u>\$ 78,126</u> |

See Notes to Consolidated Financial Statements

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

**BASIS OF PRESENTATION**

The accompanying unaudited consolidated financial statements have been prepared by Movado Group, Inc. (the "Company") in a manner consistent with that used in the preparation of the consolidated financial statements included in the Company's fiscal 2007 Annual Report filed on Form 10-K. In the opinion of management, the accompanying consolidated financial statements reflect all adjustments, consisting of only normal and recurring adjustments, necessary for a fair statement of the financial position and results of operations for the periods presented. These consolidated financial statements should be read in conjunction with the aforementioned Annual Report. Operating results for the interim periods presented are not necessarily indicative of the results that may be expected for the full year.

**NOTE 1 – RECLASSIFICATIONS**

Certain reclassifications were made to prior year's financial statement amounts and related note disclosures to conform to the fiscal 2008 presentation.

**NOTE 2 - INCOME TAXES**

The Company adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, on February 1, 2007. As a result of adoption, the Company recognized a charge of approximately \$7.7 million to the February 1, 2007 retained earnings balance. As of the date of adoption, the Company had gross unrecognized tax benefits of \$30.0 million (exclusive of interest) of which \$16.1 million, if recognized, would affect the effective tax rate. Interest and penalties, if any, related to unrecognized tax benefits are recorded in income tax expense. As of the date of adoption, the Company had \$2.5 million of accrued interest (net of tax) related to unrecognized tax benefits. For the six months ended July 31, 2007, the Company accrued an additional \$0.4 million of interest (net of tax) and reduced \$0.4 million of unrecognized tax benefits as a result of a lapse of the applicable statute of limitations.

The Company conducts business globally and, as a result, files income tax returns in the U.S. federal jurisdiction and various state 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 is no longer subject to U.S. federal income tax examinations for years before the fiscal year ended January 31, 2004 and with few exceptions, is no longer subject to state and local or foreign income tax examinations by tax authorities for years before the fiscal year ended January 31, 2003.

The Internal Revenue Service commenced examinations of the Company's consolidated U.S. federal income tax returns for fiscal years 2004 through 2006 in the second quarter of fiscal 2007. It is possible that the examination phase of the audit may conclude in fiscal 2008 and it is reasonably possible a change in the unrecognized tax benefits may occur; however, quantification of an estimated range cannot be made at this time.

Tax expense for the three months ended July 31, 2007 and 2006 was \$4.1 million and \$2.4 million, respectively. Taxes were recorded at a rate of 24.9% for the three months ended July 31, 2007 as compared to 17.5% for the three months ended July 31, 2006. Tax expense for the six months ended July 31, 2007 and 2006 was \$4.8 million and \$3.0 million, respectively. Taxes were recorded at a rate of 24.2% for the six months ended July 31, 2007 as compared to 17.6% for the six months ended July 31, 2006. Taxes for both the three and six months ended July 31, 2006 included a benefit related to the adoption of tax planning strategies in Switzerland which utilized a greater portion of the Swiss net operating loss carryforward.

**NOTE 3 – COMPREHENSIVE INCOME**

The components of comprehensive income for the three months and six months ended July 31, 2007 and 2006 are as follows (in thousands):

|  | <b>Three Months Ended</b> |                  | <b>Six Months Ended</b> |                  |
|--|---------------------------|------------------|-------------------------|------------------|
|  | <b>July 31,</b>           |                  | <b>July 31,</b>         |                  |
|  | <u>2007</u>               | <u>2006</u>      | <u>2007</u>             | <u>2006</u>      |
| Net income   | \$ 12,264                 | \$ 11,349        | \$ 14,664               | \$ 14,204        |
| Net unrealized (loss) gain on investments,<br>net of tax                 | (118)                     | 13               | (100)                   | 20               |
| Effective portion of unrealized gain on<br>hedging contracts, net of tax | 211                       | 157              | 1,017                   | 2,062            |
| Foreign currency translation adjustments (1)                             | 1,469                     | (100)            | 7,313                   | 5,057            |
| <b>Total comprehensive income</b>  | <b>\$ 13,826</b>          | <b>\$ 11,419</b> | <b>\$ 22,894</b>        | <b>\$ 21,343</b> |

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

**NOTE 4 – SEGMENT INFORMATION**

The Company follows Statement of Financial Accounting Standards (“SFAS”) No. 131, "Disclosures about Segments of an Enterprise and Related Information." This 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 for the Three Months Ended July 31, 2007 and 2006 (in thousands):

|                    | Net Sales  |            | Operating Income |           |
|--------------------|------------|------------|------------------|-----------|
|                    | 2007       | 2006       | 2007             | 2006      |
| Wholesale          | \$ 116,311 | \$ 106,108 | \$ 15,970        | \$ 13,210 |
| Retail             | 23,156     | 20,480     | 367              | 864       |
| Consolidated total | \$ 139,467 | \$ 126,588 | \$ 16,337        | \$ 14,074 |

Operating Segment Data for the Six Months Ended July 31, 2007 and 2006 (in thousands):

|                    | Net Sales  |            | Operating Income (Loss) |           |
|--------------------|------------|------------|-------------------------|-----------|
|                    | 2007       | 2006       | 2007                    | 2006      |
| Wholesale          | \$ 199,458 | \$ 187,110 | \$ 20,365               | \$ 17,896 |
| Retail             | 41,372     | 37,222     | (1,256)                 | (388)     |
| Consolidated total | \$ 240,830 | \$ 224,332 | \$ 19,109               | \$ 17,508 |

|                    | Total Assets  |                  |               |
|--------------------|---------------|------------------|---------------|
|                    | July 31, 2007 | January 31, 2007 | July 31, 2006 |
| Wholesale          | \$ 525,916    | \$ 510,380       | \$ 487,413    |
| Retail             | 66,471        | 67,238           | 61,697        |
| Consolidated total | \$ 592,387    | \$ 577,618       | \$ 549,110    |

Geographic Segment Data for the Three Months Ended July 31, 2007 and 2006 (in thousands):

|                    | Net Sales  |            | Operating Income |           |
|--------------------|------------|------------|------------------|-----------|
|                    | 2007       | 2006       | 2007             | 2006      |
| United States      | \$ 81,228  | \$ 84,119  | \$ 2,003         | \$ 2,637  |
| International      | 58,239     | 42,469     | 14,334           | 11,437    |
| Consolidated total | \$ 139,467 | \$ 126,588 | \$ 16,337        | \$ 14,074 |

United States and International net sales are net of intercompany sales of \$68.5 million and \$60.5 million for the three months ended July 31, 2007 and 2006, respectively.



Geographic Segment Data for the Six Months Ended July 31, 2007 and 2006 (in thousands):

|                    | Net Sales  |            | Operating (Loss) Income |            |
|--------------------|------------|------------|-------------------------|------------|
|                    | 2007       | 2006       | 2007                    | 2006       |
| United States      | \$ 142,103 | \$ 148,495 | \$ (6,350)              | \$ (1,617) |
| International      | 98,727     | 75,837     | 25,459                  | 19,125     |
| Consolidated total | \$ 240,830 | \$ 224,332 | \$ 19,109               | \$ 17,508  |

United States and International net sales are net of intercompany sales of \$129.9 million and \$110.0 million for the six months ended July 31, 2007 and 2006, respectively.

|                    | Total Assets  |                  |               |
|--------------------|---------------|------------------|---------------|
|                    | July 31, 2007 | January 31, 2007 | July 31, 2006 |
| United States      | \$ 343,322    | \$ 357,650       | \$ 328,630    |
| International      | 249,065       | 219,968          | 220,480       |
| Consolidated total | \$ 592,387    | \$ 577,618       | \$ 549,110    |

|                    | Long-Lived Assets |                  |               |
|--------------------|-------------------|------------------|---------------|
|                    | July 31, 2007     | January 31, 2007 | July 31, 2006 |
| United States      | \$ 45,293         | \$ 42,702        | \$ 36,556     |
| International      | 15,747            | 14,121           | 15,375        |
| Consolidated total | \$ 61,040         | \$ 56,823        | \$ 51,931     |

**NOTE 5 – INVENTORIES, NET**

Inventories consist of the following (in thousands):

|                 | July 31, 2007 | January 31, 2007 | July 31, 2006 |
|-----------------|---------------|------------------|---------------|
| Finished goods  | \$ 138,777    | \$ 129,082       | \$ 142,594    |
| Component parts | 66,345        | 55,930           | 65,392        |
| Work-in-process | 10,435        | 8,330            | 7,475         |
|                 | \$ 215,557    | \$ 193,342       | \$ 215,461    |

**NOTE 6 – EARNINGS PER SHARE**

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

The weighted-average number of shares outstanding for basic earnings per share were 26,016,000 and 25,661,000 for the three months ended July 31, 2007 and 2006, respectively. For diluted earnings per share, these amounts were increased by 1,256,000 and 923,000 for the three months ended July 31, 2007 and 2006,

respectively, due to potentially dilutive common stock equivalents issuable under the Company's stock compensation plans.

The weighted-average number of shares outstanding for basic earnings per share were 25,967,000 and 25,550,000 for the six months ended July 31, 2007 and 2006, respectively. For diluted earnings per share, these amounts were increased by 1,292,000 and 956,000 for the six months ended July 31, 2007 and 2006, respectively, due to potentially dilutive common stock equivalents issuable under the Company's stock compensation plans.

#### **NOTE 7 – COMMITMENTS AND CONTINGENCIES**

At July 31, 2007, the Company had outstanding letters of credit totaling \$1.2 million with expiration dates through August 31, 2008. One bank in the domestic bank group has 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 Canadian payroll to the Royal Bank of Canada.

As of July 31, 2007, two European banks have guaranteed obligations to third parties on behalf of two of the Company's foreign subsidiaries in the amount of \$1.7 million in various foreign currencies.

The Company is involved from time to time in legal claims involving trademarks and other intellectual property, contracts, employee relations and other matters incidental to the Company's business. Although the outcome of such matters 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 8 – RECENTLY ISSUED ACCOUNTING STANDARDS**

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company is currently evaluating the impact of SFAS No. 157 on the Company's consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FAS 115." SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected will be recognized in earnings at each subsequent reporting date. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of SFAS No. 159 on the Company's consolidated financial statements.

#### FORWARD-LOOKING STATEMENTS

Statements in this Quarterly Report on Form 10-Q, including, without limitation, statements under this Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this report, as well as statements in future filings by the Company with the Securities and Exchange Commission (the "SEC"), in the Company's press releases and oral statements made by or with the approval of an authorized executive officer of the Company, which are not historical in nature, are intended to be, and are hereby identified as, "forward-looking statements" for purposes of the safe harbor provided by the Private Securities Litigation Reform Act of 1995. These statements are based on current expectations, estimates, forecasts and projections about the Company, its future performance, the industry in which the Company operates and management's assumptions. Words such as "expects", "anticipates", "targets", "goals", "projects", "intends", "plans", "believes", "seeks", "estimates", "may", "will", "should" and variations of such words and similar expressions are also intended to identify such forward-looking statements. The Company cautions readers that forward-looking statements include, without limitation, those relating to the Company's future business prospects, projected operating or financial results, revenues, working capital, liquidity, capital needs, plans for future operations, expectations regarding capital expenditures 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, 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 the Company's Annual Report on Form 10-K, should be considered in evaluating any forward-looking statements contained in this Quarterly Report on Form 10-Q or incorporated by reference herein. All forward-looking statements speak only as of the date of this report or, in the case of any document incorporated by reference, the date of that document. All subsequent written and oral forward-looking statements attributable to the Company or any person acting on its behalf are qualified by the cautionary statements in this section. The Company undertakes no obligation to update or publicly release any revisions to forward-looking statements to reflect events, circumstances or changes in expectations after the date of this report.

#### Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial

statements. These estimates and assumptions also affect the reported amounts of revenues and expenses. Estimates by their nature are based on judgments and available information. Therefore, actual results could materially differ from those estimates under different assumptions and conditions.

Critical accounting policies are those that are most important to the portrayal of the Company's financial condition and the results of operations and require management's most difficult, subjective and complex judgments as a result of the need to make estimates about the effect of matters that are inherently uncertain. The Company's most critical accounting policies have been discussed in the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2007. In applying such policies, management must use significant estimates that are based on its informed judgment. Because of the uncertainty inherent in these estimates, actual results could differ from estimates used in applying the critical accounting policies. Changes in such estimates, based on more accurate future information, may affect amounts reported in future periods.

As of July 31, 2007, except as noted below, there have been no material changes to any of the critical accounting policies as disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2007.

On February 1, 2007, the Company adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (an interpretation of FASB Statement No. 109). This interpretation clarifies the accounting for uncertainty in income taxes recognized in the financial statements by prescribing a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. As a result of adoption, the Company recognized a charge of approximately \$7.7 million to the February 1, 2007 retained earnings balance. As of the date of adoption, the Company had gross unrecognized tax benefits of \$30.0 million (exclusive of interest) of which \$16.1 million, if recognized, would affect the effective tax rate.

#### **Overview**

The Company conducts its business primarily in two operating segments: Wholesale and Retail. The Company's Wholesale segment includes the designing, manufacturing and distribution of quality watches. The Retail segment includes the Movado Boutiques and outlet stores.

The Company divides its watch business into distinct categories. 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®.

**Results of operations for the three months ended July 31, 2007 as compared to the three months ended July 31, 2006**

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

|                        | Three Months Ended July 31, |                   |
|------------------------|-----------------------------|-------------------|
|                        | 2007                        | 2006              |
| <b>Wholesale:</b>      |                             |                   |
| United States          | \$ 58,072                   | \$ 63,639         |
| International          | 58,239                      | 42,469            |
| <b>Total Wholesale</b> | <b>116,311</b>              | <b>106,108</b>    |
| <b>Retail</b>          | <b>23,156</b>               | <b>20,480</b>     |
| <b>Net Sales</b>       | <b>\$ 139,467</b>           | <b>\$ 126,588</b> |

Net sales for the three months ended July 31, 2007 were \$139.5 million, above prior year by \$12.9 million or 10.2%. The liquidation of excess discontinued inventory accounted for approximately \$8.3 million of the increase. Net sales excluding the liquidation of excess discontinued inventory were \$131.2 million, representing an increase of \$4.6 million or 3.6% over the prior year period. There were no liquidation sales in the prior year period.

Net sales in the wholesale segment increased by \$10.2 million or 9.6% to \$116.3 million. The increase was driven by the licensed brand and luxury categories. Net sales in the licensed brand category were above prior year by \$7.9 million or 35.1%. The expansion of HUGO BOSS and the introduction of the LACOSTE brand in the current fiscal year were the primary drivers of the increase. Net sales in the luxury category were above prior year by \$6.7 million or 28.7%. Excluding the liquidation sales of \$8.1 million in the fiscal 2008 second quarter, net sales in the luxury category were below prior year by \$1.4 million or 6.0%. The decrease was the result of reduced volume due to the repositioning of the Concord brand. The accessible luxury category sales were below prior year by \$4.9 million or 8.7%. The principal reason for the decrease was the shift in the retail calendar which shifted retailer purchases from the first half to the second half of fiscal 2008. The retail calendar primarily affects United States chain jewelers and department stores, which make up a larger portion of the accessible luxury brands' customer base.

Net sales in the U.S. wholesale segment were \$58.1 million for the three months ended July 31, 2007, representing an 8.7% decrease when compared to prior year sales of \$63.6 million. The decrease in net sales was primarily attributable to lower sales in the accessible luxury category of \$6.3 million. This decrease was primarily the result of the impact of the shift in the retail calendar. Net sales in the luxury category were above prior year by \$1.3 million or 19.5%. Excluding sales of excess discontinued inventory of approximately \$2.7 million, net sales in the luxury category were below prior year by 22.1% due to the repositioning of the Concord brand. Net sales in the licensed brand category were relatively flat year over year.

Net sales in the international wholesale segment were \$58.2 million for the three months ended July 31, 2007, representing an increase of \$15.7 million or 37.1% above prior year sales of \$42.5 million. The increase was driven by the licensed brand and luxury categories. Net sales in the licensed brand category were above prior year by \$8.5 million or 59.3%. The increase was primarily the result of the launches and market expansion of the newer licensed brands. The Tommy Hilfiger brand also continued to benefit from strong international

growth. Net sales in the luxury category were above prior year by \$5.5 million or 32.2%. Excluding the liquidation sales of \$5.4 million in the fiscal 2008 second quarter, net sales in the luxury category were relatively flat year over year. This was the result of a strong demand for Ebel, offset by reduced volume in Concord due to the repositioning of the brand. Net sales in the accessible luxury category were \$11.0 million or above prior year by \$1.4 million or 15.1%. The increase was primarily driven by stronger demand for the Movado brand in the Caribbean.

Net sales in the retail segment were \$23.2 million for the three months ended July 31, 2007, representing a 13.1% increase above prior year sales of \$20.5 million. The increase was driven by an overall increase in outlets store sales, resulting from an 8.3% comparable store sales increase along with sales increases from non-comparable stores. Sales by the Movado Boutiques were above prior year by 4.8%, resulting from increases in sales from non-comparable stores somewhat offset by a decrease of 2.3%, or \$0.2 million, in comparable store sales. The Company operated 31 Movado Boutiques and 31 outlet stores at July 31, 2007, compared to 28 Movado Boutiques and 29 outlet stores at July 31, 2006.

The Company considers comparable store sales to be sales from stores that were open as of February 1 of last year through January 31 of the current year. The Company had 25 comparable Movado Boutiques and 28 comparable outlet stores for the three months ended July 31, 2007. 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 Company's calculation of comparable store sales may not be the same as measures reported by other companies.

*Gross Profit.* Gross profit for the three months ended July 31, 2007 was \$83.3 million or 59.8% of net sales as compared to \$78.5 million or 62.0% of net sales for the three months ended July 31, 2006. The increase in gross profit of \$4.8 million was primarily the result of a stronger gross profit percentage in base business sales excluding liquidation, as well as the increase in sales. The gross profit percentage was negatively impacted by the liquidation sales of \$8.3 million. Excluding the liquidation sales, the gross profit percentage was 63.6%. The increase was the result of higher margins across most brands resulting from better margins on new model introductions, the favorable impact of price increases, the mix of sales by market and the favorable impact of foreign exchange on the growing international business. In addition, higher margins were recorded in the retail segment resulting from better margins on jewelry and watches, as well as favorable product mix.

*Selling, General and Administrative ("SG&A").* SG&A expenses for the three months ended July 31, 2007 were \$67.0 million as compared to \$64.4 million for the three months ended July 31, 2006. The increase of \$2.6 million includes higher spending to support retail expansion of \$2.2 million, higher payroll and related costs of \$1.1 million reflecting compensation and benefit cost increases and increased equity compensation expense of \$0.5 million. These expenses were somewhat offset by a decrease in accounts receivable related expenses of \$1.1 million and reduced advertising expense of \$0.8 million due to a shift in spending from the first to the second half of fiscal 2008 to coincide with the shift in sales between the two periods. In addition, as a result of the consolidation of the Company's majority-owned joint venture with Swico Limited ("Swico") established to distribute the licensed brands in the United Kingdom, \$0.3 million of expense was included in the consolidated results.

*Wholesale Operating Income.* Operating income in the wholesale segment increased by \$2.8 million to \$16.0 million. The increase was the net result of higher gross profit of \$3.4 million offset by an increase in SG&A expenses of \$0.6 million. The higher gross profit of \$3.4 million was primarily the result of improved gross margin percentages achieved over the prior year. The increase in SG&A expenses of \$0.6 million related principally to higher payroll and related costs of \$1.1 million and increased equity compensation expense of \$0.5 million, somewhat offset by decreases in accounts receivable related expenses of \$1.1 million and reduced advertising expense of \$0.5 million. In addition, as a result of the consolidation of the Company's majority-owned joint venture with Swico, \$0.3 million of expense was recorded in the wholesale segment's results.

**Retail Operating Income.** Operating income of \$0.4 million and \$0.9 million were recorded in the retail segment for the three months ended July 31, 2007 and 2006, respectively. The \$0.5 million decrease was the net result of higher gross profit of \$1.4 million more than offset by higher SG&A expenses of \$1.9 million. The increased gross profit was primarily attributable to higher sales as well as an increase in the gross margin percentage primarily due to higher gross profit on jewelry and watches. The increase in SG&A expenses was primarily the result of increased selling and occupancy expenses due to the increase in the number of stores.

**Interest Expense.** Interest expense for the three months ended July 31, 2007 and 2006 was \$0.9 million for both periods. Average borrowings were \$75.1 million at an average borrowing rate of 4.5% for the three months ended July 31, 2007 compared to average borrowings of \$99.3 million at an average rate of 3.7% for the three months ended July 31, 2006.

**Interest Income.** Interest income was \$1.1 million for the three months ended July 31, 2007 as compared to \$0.6 million for the three months ended July 31, 2006. The higher interest income resulted from greater cash invested as well as a higher earned rate. The cash invested generated interest income at the rate of 5.2% and 4.9% for the periods ending July 31, 2007 and 2006, respectively.

**Income Taxes.** Tax expense for the three months ended July 31, 2007 and 2006 was \$4.1 million and \$2.4 million, respectively. Taxes were recorded at a rate of 24.9% for the three months ended July 31, 2007 as compared to 17.5% for the three months ended July 31, 2006. Taxes for the prior year period included a benefit related to the adoption of tax planning strategies in Switzerland which utilized a greater portion of the Swiss net operating loss carryforward.

**Net Income.** For the three months ended July 31, 2007, the Company recorded net income of \$12.3 million as compared to \$11.3 million for the three months ended July 31, 2006.

**Results of operations for the six months ended July 31, 2007 as compared to the six months ended July 31, 2006**

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

|                        | <b>Six Months Ended July 31,</b> |                   |
|------------------------|----------------------------------|-------------------|
|                        | <b>2007</b>                      | <b>2006</b>       |
| <b>Wholesale:</b>      |                                  |                   |
| United States          | \$ 100,731                       | \$ 111,273        |
| International          | 98,727                           | 75,837            |
| <b>Total Wholesale</b> | <b>199,458</b>                   | <b>187,110</b>    |
| <b>Retail</b>          | <b>41,372</b>                    | <b>37,222</b>     |
| <b>Net Sales</b>       | <b>\$ 240,830</b>                | <b>\$ 224,332</b> |

Net sales for the six months ended July 31, 2007 were \$240.8 million, above prior year by \$16.5 million or 7.4%. The liquidation of excess discontinued inventory accounted for approximately \$11.0 million of the increase. Net sales excluding the liquidation of excess discontinued inventory were \$229.8 million, representing an increase of \$5.5 million or 2.4% over the prior year period. There were no liquidation sales in the prior year period.

Net sales in the wholesale segment increased by \$12.3 million or 6.6% to \$199.5 million. The increase was driven by the licensed brand and luxury categories. Net sales in the licensed brand category were above prior year by \$13.9 million or 36.5%. The increase was primarily the result of the launches and market expansion of the newer licensed brands. Net sales in the luxury category were above prior year by \$6.7 million or 16.1%. Excluding the liquidation sales of \$9.5 million in fiscal 2008, net sales in the luxury category were below prior year by \$2.8 million or 6.8%. The decrease was the result of reduced volume due to the repositioning of the Concord brand. Net sales in the accessible luxury category were below prior year by \$8.8 million or 8.9%. Excluding the liquidation sales of \$1.5 million, net sales in the accessible luxury category were below prior year by 10.4%. The principal reason for the decrease was the shift in the retail calendar which shifted retailer purchases from the first half to the second half of fiscal 2008.

Net sales in the U.S. wholesale segment were \$100.7 million for the six months ended July 31, 2007, representing a 9.5% decrease when compared to prior year sales of \$111.3 million. The decrease in net sales was primarily attributable to lower net sales in the accessible luxury category of \$11.4 million. This decrease was primarily the result of the impact of the shift in the retail calendar. Net sales in the luxury category were above prior year by \$1.2 million or 11.5%. Excluding sales of excess discontinued inventory of approximately \$3.0 million, net sales in the luxury category were below prior year by 18.4% due to the repositioning of the Concord brand. Net sales in the licensed brand category were relatively flat year over year.

Net sales in the international wholesale segment were \$98.7 million for the six months ended July 31, 2007, representing an increase of \$22.9 million or 30.2% above prior year sales of \$75.8 million. The increase was primarily attributable to higher net sales in the licensed brand category of \$14.5 million, primarily the result of the launches and market expansion of the newer licensed brands. Net sales in the luxury category were 17.5% above prior year. Excluding sales of excess discontinued inventory of approximately \$6.5 million, net sales in the luxury category were below prior year by 3.0%. This decrease primarily reflects the repositioning of the Concord brand. Net sales in the accessible luxury category were \$18.9 million or above prior year by \$2.6 million or 15.8%. The increase was primarily driven by stronger demand for the Movado brand in the Caribbean.

Net sales in the retail segment were \$41.4 million for the six months ended July 31, 2007, representing an 11.1% increase above prior year sales of \$37.2 million. The increase was driven by an overall 16.2% increase in outlet store sales, resulting from a 5.6% comparable store sales increase along with sales increases from non-comparable stores. Sales in the Movado Boutiques were above prior year by 5.8%, resulting from increases in sales from non-comparable stores somewhat offset by a decrease of 1.9%, or \$0.3 million, in comparable store sales. The Company operated 31 Movado Boutiques and 31 outlet stores at July 31, 2007, compared to 28 Movado Boutiques and 29 outlet stores at July 31, 2006.

*Gross Profit.* Gross profit for the six months ended July 31, 2007 was \$145.0 million or 60.2% of net sales as compared to \$138.1 million or 61.6% of net sales for the six months ended July 31, 2006. The increase in gross profit of \$6.9 million was primarily the result of a stronger gross profit percentage in the base business sales excluding liquidation as well as the increase in sales. The gross profit percentage was impacted by the liquidation sales of \$11.0 million. Excluding the liquidation sales, the gross profit percentage was 63.3%. The increase was the result of higher margins across most brands resulting from better margins on new model introductions, the favorable impact of price increases, the mix of sales by market and the favorable impact of foreign exchange on the growing international business. In addition, higher margins were recorded in the retail segment resulting from better margins on jewelry and watches.

*Selling, General and Administrative.* SG&A expenses for the six months ended July 31, 2007 were \$125.9 million as compared to \$120.6 million for the six months ended July 31, 2006. The increase of \$5.3 million



includes higher spending to support retail expansion of \$3.8 million, higher payroll and related costs of \$1.5 million reflecting compensation and benefit cost increases, increased equity compensation expense of \$0.9 million and higher costs related to the Baselworld watch and jewelry show of \$0.5 million, primarily due to the additional new brands displayed at the show. These expenses were somewhat offset by a decrease in accounts receivable related expenses of \$1.4 million and reduced advertising expense of \$1.0 million due to a shift in spending from the first to the second half of fiscal 2008 to coincide with the shift in sales between the two periods. In addition, as a result of the consolidation of the Company's majority-owned joint venture with Swico established to distribute the licensed brands in the United Kingdom, \$0.3 million of expense was included in the consolidated results.

**Wholesale Operating Income.** Operating income in the wholesale segment increased by \$2.5 million to \$20.4 million. The increase was the net result of higher gross profit of \$4.3 million, somewhat offset by the increase in SG&A expenses of \$1.8 million. The higher gross profit of \$4.3 million was primarily the result of improved gross margin percentages achieved over the prior year. The increase in SG&A expenses of \$1.8 million related principally to higher payroll and related costs of \$1.5 million, increased equity compensation expense of \$0.9 million and higher costs related to the Baselworld watch and jewelry show of \$0.5 million. These expenses were somewhat offset by a decrease in accounts receivable related expenses of \$1.4 million and reduced advertising expense of \$0.6 million. In addition, as a result of the consolidation of the Company's majority-owned joint venture with Swico, \$0.3 million of expense was recorded in the wholesale segment's results.

**Retail Operating Loss.** Operating losses of \$1.3 million and \$0.4 million were recorded in the retail segment for the six months ended July 31, 2007 and 2006, respectively. The \$0.9 million increase in the loss was the net result of higher gross profit of \$2.5 million more than offset by higher SG&A expenses of \$3.4 million. The increased gross profit was primarily attributable to the higher sales as well as an increase in the gross margin percentage primarily due to higher gross profit on jewelry and watches. The increase in SG&A expenses was primarily the result of increased selling and occupancy expenses due to the increase in the number of stores.

**Interest Expense.** Interest expense for the six months ended July 31, 2007 and 2006 was \$1.8 million and \$1.9 million, respectively. Average borrowings were \$77.8 million at an average borrowing rate of 4.4% for the six months ended July 31, 2007 compared to average borrowings of \$102.8 million at an average rate of 3.6% for the six months ended July 31, 2006.

**Interest Income.** Interest income was \$2.3 million for the six months ended July 31, 2007 as compared to \$1.5 million for the six months ended July 31, 2006. The higher interest income resulted from greater cash invested as well as a higher earned rate. The cash invested generated interest income at the rate of 5.2% and 4.7% for the periods ending July 31, 2007 and 2006, respectively.

**Income Taxes.** Tax expense for the six months ended July 31, 2007 and 2006 was \$4.8 million and \$3.0 million, respectively. Taxes were recorded at a rate of 24.2% for the six months ended July 31, 2007 as compared to 17.6% for the six months ended July 31, 2006. Taxes for the prior year period included a benefit related to the adoption of tax planning strategies in Switzerland which utilized a greater portion of the Swiss net operating loss carryforward.

**Net Income.** For the six months ended July 31, 2007, the Company recorded net income of \$14.7 million as compared to \$14.2 million for the six months ended July 31, 2006.

## **LIQUIDITY AND CAPITAL RESOURCES**

Cash provided by operating activities was \$7.0 million for the six months ended July 31, 2007 as compared to cash used of \$24.4 million for the six months ended July 31, 2006. The increase in cash provided by operating activities is primarily attributed to improvements in accounts receivable. This is principally the result of the

mix of business in the current year. The sales growth was primarily in the licensed brand category where shorter payment terms are the norm and in the retail segment which is a cash business.

Cash used in investing activities amounted to \$12.0 million and \$7.2 million for the six months ended July 31, 2007 and 2006, respectively. The cash used during both periods consisted of the capital expenditures primarily related to the expansion and renovations of retail stores, the acquisition of computer hardware and software, and construction of booths to be used at the Baselworld watch and jewelry show.

Cash used in financing activities amounted to \$17.4 million for the six months ended July 31, 2007 compared to cash used of \$15.8 million for the six months ended July 31, 2006. Cash used in financing activities for both periods was primarily used to pay down long-term debt and to pay out dividends.

During fiscal 1999, the Company issued \$25.0 million of Series A Senior Notes under a Note Purchase and Private Shelf Agreement dated November 30, 1998. 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 contain certain financial covenants including an interest coverage ratio and maintenance of consolidated net worth 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. At July 31, 2007, the Company was in compliance with all financial and non-financial covenants and \$20.0 million of these 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. This agreement, which expired on March 21, 2007, 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 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 contain certain financial covenants, including an interest coverage ratio and maintenance of consolidated net worth 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. As of July 31, 2007, the Company was in compliance with all financial and non-financial covenants and \$20.0 million of these notes were issued and outstanding.

On December 15, 2005, the Company as parent guarantor, and its Swiss subsidiaries, MGI Luxury Group S.A. and Movado Watch Company SA as borrowers, entered into a credit agreement with JPMorgan Chase Bank, N.A., JPMorgan Securities, Inc., Bank of America, N.A., PNC Bank and Citibank, N.A. (the "Swiss Credit Agreement") which provides for a revolving credit facility of 90.0 million Swiss francs and matures on December 15, 2010. The obligations of the Company's two 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 July 31, 2007, the Company was in compliance with all financial and non-financial covenants and had 33.0 million Swiss francs, with a dollar equivalent of \$27.5 million, outstanding under this revolving credit facility.

On December 15, 2005, the Company and its Swiss subsidiaries, MGI Luxury Group S.A. and Movado Watch Company SA, entered into a credit agreement with JPMorgan Chase Bank, N.A., JPMorgan Securities, Inc., Bank of America, N.A., PNC Bank and Citibank, N.A. (the "US Credit Agreement") which provides for a revolving credit facility of \$50.0 million (including a sublimit for borrowings in Swiss francs of up to an equivalent of \$25.0 million) with a provision to allow for an increase of an additional \$50.0 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 July 31, 2007, the Company was in compliance with all financial and non-financial covenants, and there were no outstanding borrowings against this line.

On June 15, 2007, 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, 2008. 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 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 July 31, 2007, there were no outstanding borrowings against this line.

On July 31, 2007, 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 JPMorgan Chase Bank, N.A. ("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, 2008. 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 Canadian payroll to the Royal Bank of Canada totaling \$1.2 million with expiration dates

through August 31, 2008. As of July 31, 2007, 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 \$6.7 million and \$6.5 million at July 31, 2007 and 2006, respectively. As of July 31, 2007, two European banks have guaranteed obligations to third parties on behalf of two of the Company's foreign subsidiaries in the amount of \$1.7 million in various foreign currencies. As of July 31, 2007, there were no outstanding borrowings against these lines.

The Company paid dividends of \$0.16 per share or approximately \$4.2 million, for the six months ended July 31, 2007 and \$0.12 per share or approximately \$3.1 million for the six months ended July 31, 2006.

Cash at July 31, 2007 amounted to \$112.5 million compared to \$78.1 million at July 31, 2006. The increase in cash is a result of strong cash flow from operations from July 31, 2006 to the end of the current period.

Management believes that the cash on hand in addition to the expected cash flow from operations and the Company's short-term borrowing capacity will be sufficient to meet its working capital needs for at least the next 12 months.

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

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

#### **RECENTLY ISSUED ACCOUNTING STANDARDS**

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company is currently evaluating the impact of SFAS No. 157 on the Company's consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FAS 115." SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected will be recognized in earnings at each subsequent reporting date. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of SFAS No. 159 on the Company's consolidated financial statements.

**Foreign Currency and Commodity Price Risk**

A significant portion 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 with the gains and losses on this latter hedging activity first reflected in other comprehensive income, and then later classified into earnings in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended by SFAS No. 137, SFAS No. 138 and SFAS No. 149. 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 July 31, 2007, the Company's entire net forward contracts hedging portfolio consisted of 141.0 million Swiss francs equivalent for various expiry dates ranging through October 30, 2008. If the Company were to settle its Swiss franc forward contracts at July 31, 2007, the net result would have been a gain of \$0.6 million, net of tax of \$0.4 million. As of July 31, 2007, the Company had 16.0 million Swiss franc option contracts related to cash flow hedges for various expiry dates ranging through April 30, 2008. If the Company were to settle its Swiss franc option contracts at July 31, 2007, the net result would have been a net gain of less than \$0.1 million.

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 July 31, 2007, the Company did not hold a purchased option hedge portfolio related to net investment hedging.

**Commodity Risk**

Additionally, the Company has a hedging program related to gold used in the manufacturing of the Company's watches. Under this hedging program, the Company purchases 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. If the Company did not engage in a gold hedging program, any changes in the gold price would have an equal effect on the Company's cost of sales. The Company did not hold any futures contracts in its gold hedge portfolio related to cash flow hedges as of July 31, 2007.

**Debt and Interest Rate Risk**

In addition, the Company has certain debt obligations with variable interest rates, which are based on Swiss 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 July 31, 2007, 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 \$0.3 million.

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, as amended. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective as of the end of the period covered by this report.

It should be noted that while the Company's Chief Executive Officer and Chief Financial Officer believe that the Company's disclosure controls and procedures provide a reasonable level of assurance that they are effective, they do not expect that the Company's disclosure controls and procedures or internal control over financial reporting will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

Changes in Internal Control Over Financial Reporting

There has been no change in the Company's internal control over financial reporting during the six months ended July 31, 2007, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

**PART II - OTHER INFORMATION**

*Item 1. Legal Proceedings*

The Company is involved in pending legal proceedings and claims in the ordinary course of business. Although the outcome of such matters 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.

*Item 1A. Risk Factors*

As of July 31, 2007, there have been no material changes to any of the risk factors previously reported in the Annual Report on Form 10-K for the fiscal year ended January 31, 2007.

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

On June 14, 2007, the Company held its annual meeting of shareholders at its New York office and showrooms in New York, New York.

The following matters were voted upon at the meeting:

- (i) Margaret Hayes Adame, Richard Coté, Efraim Grinberg, Gedalio Grinberg, Alan H. Howard, Richard Isserman, Nathan Leventhal, Donald Oresman and Leonard L. Silverstein were elected directors of the Company. The results of the vote were as follows:

| Nominee                | For        | Withheld/<br>Against |
|------------------------|------------|----------------------|
| Margaret Hayes Adame   | 60,538,082 | 302,751              |
| Richard Coté           | 60,467,377 | 373,456              |
| Efraim Grinberg        | 60,539,735 | 301,098              |
| Gedalio Grinberg       | 60,466,926 | 373,907              |
| Alan H. Howard         | 60,721,141 | 119,692              |
| Richard Isserman       | 60,709,830 | 131,003              |
| Nathan Leventhal       | 60,710,346 | 130,487              |
| Donald Oresman         | 60,537,655 | 303,178              |
| Leonard L. Silverstein | 54,677,952 | 6,162,881            |

- (ii) A proposal to ratify the selection of PricewaterhouseCoopers LLP as the Company's independent public accountants for the fiscal year ending January 31, 2008 was approved. The results of the vote were as follows:

| For        | Withheld/Against | Exception/Abstain |
|------------|------------------|-------------------|
| 60,639,554 | 197,706          | 3,573             |

- 10.1 Line of Credit Letter Agreement dated as of June 15, 2007 between the Registrant and Bank of America, N.A. and Amended and Restated Promissory Note dated as of June 15, 2007 to Bank of America, N.A.
- 10.2 Promissory Note dated as of July 31, 2007 to JPMorgan Chase Bank, N.A.
- 31.1 Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.



**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

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

Dated: September 7, 2007

By: /s/ Eugene J. Karpovich  
Eugene J. Karpovich  
Senior Vice President,  
Chief Financial Officer and  
Principal Accounting Officer



as of June 15, 2007

Movado Group, Inc.  
650 From Road,  
Paramus, NJ07652

Dear Sir or Madam:

We are pleased to advise you that Bank of America, N. A., successor by merger to Fleet National Bank (the "Bank") hereby agrees to consider requests from Movado Group, Inc. (the "Company") from time to time, for short-term loans ("Loans") and documentary letters of credit for the importation of merchandise inventory ("Letters of Credit"). Any extension of credit hereunder (whether a Loan or a Letter of Credit) shall be made available at the sole discretion of the Bank but in any event subject to the following: (a) the Bank shall have determined that money market conditions are favorable for it to acquire loan assets, (b) the Bank shall continue to be satisfied with the Borrower's business, financial condition and prospects and the condition and prospects of the industry in which the Borrower is engaged, (c) the Bank shall have received Company's most current quarterly and annual financial statements and any other financial information regarding the Company which the Bank shall reasonably request from time to time, and (d) the Company shall have maintained and be maintaining a satisfactory relationship with the Bank and:

**Loan and Letters of Credit Requests:** Each request for a Loan and/or Letter of Credit will be, at the Bank's option, reviewed by the Bank and an independent credit analysis and assessment will be made each time a request is received. In the event that the Bank agrees to lend pursuant to any such request by the Company, any such Loan shall be evidenced by the promissory note enclosed with this letter (the "Note") and be subject to the conditions therein contained and in any other documentation in form and substance satisfactory to the Bank. The Bank may respond to any request for a Loan or Letter of Credit for a stated amount with a Loan or Letter of Credit for a different amount, date or maturity, or may decline to respond entirely.

**Maximum Amount of Loans and Letters of Credit:** The aggregate amount of Loans and Letters of Credit at any time outstanding shall not exceed \$20,000,000 and the maximum amount of Letters of Credit at any time outstanding shall not exceed \$2,000,000.

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Expiration and Maturity Date: Requests for extensions of credit must be made on or before June 16, 2008. All Loans will be payable in full on **June 16, 2008**. All Letters of Credit shall expire no later than 180 days from issuance.

Interest Rate: Loans shall bear interest, at the Company's election, at a rate per annum equal to either (i) a fluctuating rate equal to the Prime Rate, or (ii) such other fixed rate as may be agreed upon between the Company and the Bank for an interest period which is also then agreed upon (a Loan bearing interest at this rate is sometimes called an "Agreed Rate Loan"). The term "Prime Rate" shall be as defined in the Note. Interest shall be payable monthly in arrears based on a 360-day year and, for Agreed Rate Loans, on the last day of the applicable Interest Period.

Letter of Credit Fees: Letters of Credit shall be issued at the Bank's standard fees and charges in effect from time to time therefor.

Additional provisions:

All obligations of the Company owing to the Bank shall continue to be unconditionally guaranteed by all active domestic subsidiaries of the Company (collectively, the "Guarantors") pursuant to the Bank's standard form of guarantee (collectively, the "Guarantees").

The Company shall continue to provide the following to the Bank:

- The consolidated and consolidating balance sheet for the Company and its subsidiaries, consolidated and consolidating statement of income and consolidated statement of cash flow: (i) audited and certified without qualification by accountants satisfactory to the Bank, within 120 days of fiscal year end and (ii) certified by the Company's chief financial officer, within 75 days of the last day of each fiscal quarter.
- Notices of defaults under any credit facilities or financial obligations of Borrower in excess of \$5,000,000.
- Such other statements and reports as shall be reasonably requested by the Bank.

This letter agreement replaces, supersedes, amends and restates in its entirety the letter agreement from the Bank to the Company dated June 16, 2006 and all previous letters on this subject matter.

If the terms of this letter are acceptable to you, please indicate your acceptance by signing and returning the enclosed copy of this letter and documentation to the Bank on or before June 15, 2007. This letter shall be unenforceable against the Bank unless so signed and returned on or before such date.

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Please contact us if you have any questions. We look forward to continuing our relationship.

Very truly yours,

**BANK OF AMERICA, N. A.**  
successor by merger to Fleet National Bank

By: /s/ Rich Williams

Name: Rich Williams  
Title: Credit Products Officer

ACCEPTED AND AGREED  
ON JUNE 15, 2007

**MOVADO GROUP, INC.**

By: /s/ Eugene Karpovich

Name: Eugene Karpovich  
Title: SVP, CFO

*Guarantor signatures on next page*

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Each of the guarantors indicated below hereby consents to this letter agreement and reaffirms its continuing liability to the Bank under its respective guarantees dated as of June 26, 2003, in respect of the above letter agreement and all the documents, instruments and agreements executed pursuant thereto or in connection therewith, without offset, defense or counterclaim (any such offset, defense or counterclaim as may exist being hereby irrevocably waived by each such guarantor).

**MOVADO RETAIL GROUP, INC.,**  
a New Jersey Corporation

By: /s/ Timothy F. Michno

Name: Timothy F. Michno  
Title: General Counsel

**MOVADO LLC,**  
a Delaware Limited Liability Company

By: /s/ Timothy F. Michno

Name: Timothy F. Michno  
Title: General Counsel

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**BANK OF AMERICA, N.A.**

**AMENDED AND RESTATED**

**PROMISSORY NOTE**

\$20,000,000.00  
of June 15, 2007

No later than **June 16, 2008** (the "Maturity Date"), for value received, **MOVADO GROUP, INC.**, having its principal office at 650 From Road, Paramus, New Jersey 07652 (the "Borrower"), promises to pay to the order of **BANK OF AMERICA, N.A., successor by merger to Fleet National Bank**, having an office at 1185 Avenue of the Americas, New York, New York, 10036 (the "Bank"), at such office of the Bank or at such other place as the holder hereof may from time to time appoint in writing, in lawful money of the United States of America in immediately available funds, the principal sum of **TWENTY MILLION and 00/100 Dollars (\$20,000,000.00)** Dollars or such lesser amount as may then be the aggregate unpaid principal balance of all loans made by the Bank to the Borrower hereunder (each a "Loan" and collectively the "Loans") as shown on the books and records of the Bank. The Borrower also promises to pay interest (computed on the basis of a 360 day year for actual days elapsed) at said office in like money on the unpaid principal amount of each Loan from time to time outstanding at a rate per annum, to be elected by the Borrower at the time each Loan is made, equal to either (i) a fluctuating rate equal to the Prime Rate, which rate will change when and as the Prime Rate changes and which such changes in the rate of interest resulting from changes in the Prime Rate shall take effect immediately without notice or demand of any kind (a Loan bearing interest at this rate is sometimes hereinafter called a "Prime Loan"), or (ii) a fixed rate as may be agreed upon between the Borrower and the Bank (an "Agreed Rate") for an Interest Period which is also then agreed upon (a Loan bearing interest at this rate is sometimes hereinafter called an "Agreed Rate Loan"); provided, however, that (a) no Interest Period with respect to an Agreed Rate Loan shall extend beyond the Maturity Date, (b) if any Interest Period would otherwise end on a day which is not a Business Day, that Interest Period shall be extended to the next succeeding Business Day and (c) if prior to the end of any such Interest Period of an Agreed Rate Loan the Borrower and the Bank fail to agree upon a new Interest Period therefor so as to maintain such Loan as an Agreed Rate Loan within the pertinent time set forth in Section 1 hereof, such Agreed Rate Loan shall automatically be converted into a Prime Loan at the end of such Interest Period and shall be maintained as such until a new Interest Period therefor is agreed upon. Interest on each Loan shall be payable monthly on the first day of each month commencing the first such day to occur after a Loan is made hereunder and, together with unpaid principal, on the Maturity Date. Interest on Agreed Rate Loans shall also be payable on the last day of each Interest Period applicable thereto. The Borrower further agrees that upon and during the continuance of an Event of Default and/or after any stated or any accelerated maturity of Loans hereunder, all Loans shall bear interest (computed daily) at, (i) with respect to Agreed Rate Loans, a rate equal to the greater of 2% per annum in excess of the rate then applicable to Agreed Rate Loans and 2% per annum in excess of the rate then applicable to Prime Loans, payable no later than the Maturity Date, and (ii) with respect to Prime Loans, a rate equal to 2% per annum in excess of the rate then applicable to Prime Loans, payable no later than the Maturity Date. Furthermore, if the entire amount of any principal and/or interest required to be paid pursuant to this Note is not paid in full within ten (10) days after the same is due, the Borrower shall further pay to the Bank a late fee equal to five percent (5%) of the required payment. In no event shall interest payable hereunder be in excess of the maximum rate of interest permitted under applicable law. If any payment to be so made hereunder becomes due and payable on a day other than a Business Day, such payment shall be extended to the next succeeding Business Day and, to the extent permitted by applicable law, interest thereon shall be payable at the then applicable rate during such extension.

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All payments made in connection with this Note shall be in lawful money of the United States in immediately available funds without counterclaim or setoff and free and clear of and without any deduction or withholding for, any taxes or other payments. All such payments shall be applied first to the payment of all fees, expenses and other amounts due to the Bank (excluding principal and interest), then to accrued interest, and the balance on account of outstanding principal; provided, however, that after the occurrence of and during the continuance of an Event of Default, payments will be applied to the obligations of the Borrower to the Bank as the Bank determines in its sole discretion. The Borrower hereby expressly authorizes the Bank to record on the attached schedule the amount and date of each Loan, the rate of interest thereon, Interest Period thereof and the date and amount of each payment of principal. All such notations shall be presumptive as to the correctness thereof; provided, however, the failure of the Bank to make any such notation shall not limit or otherwise affect the obligations of the Borrower under this Note.

In consideration of the granting of the Loans evidenced by this Note, the Borrower hereby agrees as follows:

1. **Loan Requests.** Requests for Prime Loans and Agreed Rate Loans may be made up until 1 p.m. on the date the Loan is to be made. Any request for a Loan must be written. The Bank shall have no obligation to make any Loan hereunder.
  2. **Prepayment.** The Borrower may prepay any Prime Loan at any time in whole or in part without premium or penalty. Each such prepayment shall be made together with interest accrued thereon to and including the date of prepayment. The Borrower may prepay an Agreed Rate Loan only upon at least three (3) Business Days prior written notice to the Bank (which notice shall be irrevocable) and any such prepayment shall occur only on the last day of the Interest Period for such Agreed Rate Loan.
  3. **Indemnity; Yield Protection.** The Borrower shall pay to the Bank, upon request of the Bank, such amount or amounts as shall be sufficient (in the reasonable opinion of the Bank) to compensate it for any loss, cost, or reasonable expense incurred as a result of: (i) any payment of an Agreed Rate Loan on a date other than the last day of the Interest Period for such Loan; (ii) any failure by Borrower to borrow an Agreed Rate Loan on the date specified by Borrower's written notice; (iii) any failure of Borrower to pay an Agreed Rate Loan on the date for payment specified in Borrower's written notice. Without limiting the foregoing, Borrower shall pay to Bank a "yield maintenance fee" in an amount computed as follows: The current rate for United States Treasury securities (bills on a discounted basis shall be converted to a bond equivalent) with a maturity date closest to the term chosen pursuant to the Fixed Rate Election as to which the prepayment is made, shall be subtracted from Cost of Funds in effect at the time of prepayment. If the result is zero or a negative number, there shall be no yield maintenance fee. If the result is a positive number, then the resulting percentage shall be multiplied by the amount of the principal balance being prepaid. The resulting amount shall be divided by 360 and multiplied by the number of days remaining in the term chosen pursuant to the Fixed Rate Election as to which the prepayment is made. Said amount shall be reduced to present value calculated by using the above referenced United States Treasury securities rate and the number of days remaining in the term chosen pursuant to the Fixed Rate Election as to which prepayment is made. The resulting amount shall be the yield maintenance fee due to Bank upon the payment of an Agreed Rate Loan. Each reference in this paragraph to "Fixed Rate Election" shall mean the election by Borrower of Loan to bear interest based on an Agreed Rate. If by reason of an Event of Default, the Bank elects to declare the Loans and/or the Note to be immediately due and payable, then any yield maintenance fee with respect to an Agreed Rate Loan shall become due and payable in the same manner as though the Borrower has exercised such right of prepayment.
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For the purpose of this Section 3 the determination by the Bank of such losses and reasonable expenses shall in the absence of manifest error, be conclusive if made reasonably and in good faith.

4. Increased Costs. If the Bank reasonably determines that the effect of any applicable law or government regulation, guideline or order or the interpretation thereof by any governmental authority charged with the administration thereof (such as, for example, a change in official reserve requirements which the Bank is required to maintain in respect of loans or deposits or other funds procured for funding such loans) is to increase the cost to the Bank of making or continuing Agreed Rate Loans hereunder or to reduce the amount of any payment of principal or interest receivable by the Bank thereon, then the Borrower will pay to the Bank such additional amounts as the Bank may reasonably determine to be required to compensate the Bank for such additional costs or reduction. Any additional payment under this section will be computed from the effective date at which such additional costs have to be borne by the Bank. A certificate as to any additional amounts payable pursuant to this Section 4 setting forth the basis and method of determining such amounts shall be conclusive, absent manifest error, as to the determination by the Bank set forth therein if made reasonably and in good faith. The Borrower shall pay any amounts so certified to it by the Bank within 10 days of receipt of any such certificate.

5. Warranties and Representations. The Borrower represents and warrants that: a) it is a corporation duly organized, validly existing and in good standing under the laws of the state of its incorporation and is qualified to do business and is in good standing under the laws of every state where its failure to so qualify would have a material and adverse effect on the business, operations, property or other condition of the Borrower; b) the execution, issuance and delivery of this Note by the Borrower are within its corporate powers and have been duly authorized, and the Note is valid, binding and enforceable in accordance with its terms, and is not in violation of law or of the terms of the Borrower's Certificate of Incorporation or By-Laws and does not result in the breach of or constitute a default under any indenture, agreement or undertaking to which the Borrower is a party or by which it or its property may be bound or affected; c) no authorization or approval or other action by, and no notice or filing with, any governmental authority or regulatory body is required for the due execution, delivery and performance by the Borrower of this Note, except those as have been obtained; d) the financial statements of the Borrower heretofore furnished to the Bank are complete and correct in all material respects and fairly represent the financial condition of the Borrower and its subsidiaries as at the dates thereof and for the periods covered thereby, which financial condition has not materially, adversely, changed since the date of the most recently dated balance sheet heretofore furnished to the Bank; e) no Event of Default (as hereinafter defined) has occurred and no event has occurred which with the giving of notice or the lapse of time or both would constitute an Event of Default; f) the Borrower shall not use any part of the proceeds of any Loan to purchase or carry any margin stock within the meaning of Regulation U of the Board of Governors of the Federal Reserve System or to extend credit to others for the purpose of purchasing or carrying any margin stock; g) there is no pending or, to the knowledge of the Borrower, threatened action or proceeding affecting the Borrower before any court, governmental agency or arbitrator which, if determined adversely to the Borrower would have a materially adverse effect on the financial condition or operations of the Borrower except as described in the financial statements of the Borrower heretofore furnished to the Bank; and h) on the occasion of the granting of each Loan all representations and warranties contained herein shall be true and correct and with the same force and effect as though such representations and warranties had been made on and as of the date of the making of each such Loan.

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6. **Events of Default.** Upon the occurrence of any of the following specified events of default (each an "Event of Default"): a) default in making any payment of principal, interest, or any other sum payable under this Note when due; or b) default by the Borrower or any Guarantor (i) of any other obligation hereunder or (ii) in the due payment of any other obligation owing to the Bank under this Note or c) default by Borrower or any Guarantor in the due payment of any other indebtedness for borrowed money or default in the observance or performance of any covenant or condition contained in any agreement or instrument evidencing, securing, or relating to any such indebtedness, which causes or permits the acceleration of the maturity thereof, provided that the aggregate amount of such indebtedness shall be \$5,000,000 or more; or d) any representation or warranty made by the Borrower herein or in any certificate furnished by the Borrower in connection with the Loans evidenced hereby or pursuant to the provisions hereof, proves untrue in any material respect; or e) the Borrower or any Guarantor becomes insolvent or bankrupt, is generally not paying its debts as they become due, or makes an assignment for the benefit of creditors, or a trustee or receiver is appointed for the Borrower or any Guarantor or for the greater part of the properties of the Borrower or any Guarantor with the consent of the Borrower or any such Guarantor, or if appointed without the consent of the Borrower or any such Guarantor, such trustee or receiver is not discharged within 30 days, or bankruptcy, reorganization, liquidation or similar proceedings are instituted by or against the Borrower or any Guarantor under the laws of any jurisdiction, and if instituted against the Borrower or any such Guarantor are consented to by it or remain undismissed for 30 days, or a writ or warrant of attachment or similar process shall be issued against a substantial part of the property of the Borrower or any Guarantor not in the possession of the Bank and same shall not be released or bonded within 30 days after levy; or f) any garnishment, levy, writ or warrant of attachment or similar process shall be issued and served against the Bank, which garnishment, levy, writ or warrant of attachment or similar process relates to property of the Borrower or any Guarantor in the possession of the Bank; or g) the Bank shall have determined, in its reasonable discretion, that one or more conditions exist or events have occurred which have resulted or may result in a material adverse change in the business, properties or financial condition of the Borrower or any Guarantor as determined in the reasonable discretion of the Bank or one or more other conditions exist or events have occurred with respect to the Borrower or any Guarantor which the Bank deems materially adverse; then, in any such event, and at any time thereafter, if any Event of Default shall then be continuing, the Bank may declare the principal and the accrued interest in respect of all Loans under this Note to be, whereupon the Note shall become, immediately due and payable without presentment, protest or other notice of any kind, all of which are expressly waived by the Borrower.

7. **Set off.** At any time, without demand or notice (any such notice being expressly waived by the Borrower), the Bank may setoff any and all deposits, credits, collateral and property, now or hereafter in the possession, custody, safekeeping or control of the Bank or any entity under the control of Bank of America Corporation and its successors or assigns, or in transit to any of them, or any part thereof and apply same to any of the Liabilities or obligations of the Borrower or any Guarantor even though unmatured and regardless of the adequacy of any other collateral securing the Liabilities. ANY AND ALL RIGHTS TO REQUIRE THE BANK TO EXERCISE ITS RIGHTS OR REMEDIES WITH RESPECT TO ANY OTHER COLLATERAL WHICH SECURES THE LIABILITIES, PRIOR TO EXERCISING ITS RIGHT OF SETOFF WITH RESPECT TO SUCH DEPOSITS, CREDITS OR OTHER PROPERTY OF THE BORROWER OR ANY GUARANTOR ARE HEREBY KNOWINGLY, VOLUNTARILY AND IRREVOCABLY WAIVED. The term "Liabilities" shall include this Note and obligations and liabilities of the Borrower to the Bank under this Note, now or hereafter existing, arising directly between the Borrower and the Bank or acquired by assignment, conditionally or as collateral security by the Bank, absolute or contingent, joint and/or several, secure or unsecured, due or not due, contractual or tortious, liquidated or unliquidated, arising by operation of law or otherwise, direct or indirect, including, but without limiting the generality of the foregoing, indebtedness, obligations or liabilities to the Bank of the Borrower as a member of any partnership, syndicate, association or other group, and whether incurred by the Borrower as principal, surety, endorser, guarantor, accommodation party or otherwise.

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8. Definitions. As used herein:

- (a) "Business Day" means a day other than a Saturday, Sunday or other day on which commercial banks in the State of New York are authorized or required to close under the laws of the State of New York and to the extent "Business Day" is used in the context of any other specific city it shall mean any date on which commercial banks are open for business in that city.
- (b) "Cost of Funds" means the per annum rate of interest which the Bank is required to pay, or is offering to pay, for wholesale liabilities, adjusted for reserve requirements and such other requirements as may be imposed by federal, state or local government and regulatory agencies, as reasonably determined by the Bank.
- (c) "Guarantors" shall mean all active domestic subsidiaries of the Borrower.
- (d) "Interest Period" means that period selected by the Borrower, within the limitations of the first paragraph of this Note, during which an Agreed Rate Loan may bear interest at an Agreed Rate.
- (e) "Loan Documents" means this Note, and each document, instrument or agreement executed pursuant hereto or thereto or in connection herewith or therewith.
- (f) "Prime Rate" means the variable per annum rate of interest so designated from time to time by the Bank as its prime rate. The Prime Rate is a reference rate and does not necessarily represent the lowest or best rate being charged to any customer.

9. Miscellaneous.

- (a) The Borrower shall pay on demand all reasonable expenses of the Bank in connection with the preparation, administration, default, collection, waiver or amendment of this Note or any of the other Loan Documents, and/or in connection with Bank's exercise, preservation or enforcement of any of its rights, remedies or options hereunder and/or thereunder, including, without limitation, fees of outside legal counsel, accounting, consulting, brokerage or other similar professional fees or expenses, and any fees or expenses associated with travel or other costs relating to any appraisals or examinations conducted in connection with the Liabilities or any collateral therefor, and the amount of all such expenses shall, until paid, bear interest at the rate applicable to principal hereunder (including any default rate) and be an obligation secured by any collateral.
  - (b) No modification or waiver of any provision of this Note shall be effective unless such modification or waiver shall be in writing and signed by a duly authorized officer of the Bank, and the same shall then be effective only for the period and on the conditions and for the specific instances specified in such writing. No failure or delay by the Bank in exercising any right, power or privilege hereunder shall operate as a waiver thereof; nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any rights, power or privilege.
  - (c) Borrower hereby waives presentment, notice of protest, notice of dishonor, and any and all other notices or demands except as otherwise expressly provided for herein.
  - (d) This Note and the other Loan Documents shall be construed in accordance with and governed by the laws of the State of New York (excluding the laws applicable to conflicts or choice of law). The Borrower agrees that any suit for the enforcement of this Note or any of the other Loan Documents may be brought in the courts of the State of New York or any Federal court sitting therein and consents to the nonexclusive jurisdiction of such court and service of process in any such suit being made upon the Borrower by mail at the address set forth in the first paragraph of this Note. The Borrower hereby waives any objection that it may now or hereafter have to the venue of any such suit or any such court or that such suit is brought in an inconvenient forum.
  - (e) The Bank may at any time pledge all or any portion of its rights under this Note and the other Loan Documents to any of the twelve (12) Federal Reserve Banks organized under Section 4 of the Federal Reserve Act, 12 U.S.C. Section 341. No such pledge or enforcement thereof shall release the Bank from its obligations under any of such Loan Documents.
  - (f) All agreements between the Borrower (and each Guarantor and each other party obligated for payment on this Note) and the Bank are hereby expressly limited so that in no contingency or event whatsoever, whether by reason of acceleration of maturity of the indebtedness evidenced hereby or otherwise, shall the amount paid or agreed to be paid to the Bank for the use or the forbearance of the indebtedness evidenced hereby exceed the maximum permissible under applicable law. As used herein, the term "applicable law" shall mean the law in effect as of the date hereof provided, however, that in the event there is a change in the law which results in a higher permissible rate of interest, then this Note shall be governed by such new law as of its effective date. In this regard, it is expressly agreed that it is the intent of the Borrower and the Bank in the execution, delivery and acceptance of this Note to contract in strict compliance with the laws of the State of New York from time to time in effect. If, under or from any circumstances whatsoever, fulfillment of any provision hereof or of any of the Loan Documents at the time of performance of such provision shall be due, shall involve transcending the limit of such validity prescribed by applicable law, then the obligation to be fulfilled shall automatically be reduced to the limits of such validity, and if under or from circumstances whatsoever the Bank should ever receive as interest an amount which would exceed the highest lawful rate, such amount which would be excessive interest shall be applied to the reduction of the principal balance evidenced hereby and not to the payment of interest. This provision shall control every other provision of the Loan Documents between the Borrower, each Guarantor, each other party obligated on this Note and the Bank.
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(g) ARBITRATION AND WAIVER OF JURY TRIAL

(i) THIS PARAGRAPH CONCERNS THE RESOLUTION OF ANY CONTROVERSIES OR CLAIMS BETWEEN THE PARTIES, WHETHER ARISING IN CONTRACT, TORT OR BY STATUTE, INCLUDING BUT NOT LIMITED TO CONTROVERSIES OR CLAIMS THAT ARISE OUT OF OR RELATE TO: (i) THE LOAN DOCUMENTS (INCLUDING ANY RENEWALS, EXTENSIONS OR MODIFICATIONS); OR (ii) ANY DOCUMENT RELATED TO THE NOTE ("COLLECTIVELY A "CLAIM"). FOR THE PURPOSES OF THIS ARBITRATION PROVISION ONLY, THE TERM "PARTIES" SHALL INCLUDE ANY PARENT CORPORATION, SUBSIDIARY OR AFFILIATE OF THE BANK INVOLVED IN THE SERVICING, MANAGEMENT OR ADMINISTRATION OF ANY OBLIGATION DESCRIBED OR EVIDENCED BY THE LOAN DOCUMENTS.

(ii) AT THE REQUEST OF ANY PARTY TO THE LOAN DOCUMENTS, ANY CLAIM SHALL BE RESOLVED BY BINDING ARBITRATION IN ACCORDANCE WITH THE FEDERAL ARBITRATION ACT (TITLE 9, U.S. CODE) (THE "ACT"). THE ACT WILL APPLY EVEN THOUGH THE LOAN DOCUMENTS PROVIDE THAT THEY ARE GOVERNED BY THE LAW OF A SPECIFIED STATE. THE ARBITRATION WILL TAKE PLACE ON AN INDIVIDUAL BASIS WITHOUT RESORT TO ANY FORM OF CLASS ACTION.

(iii) ARBITRATION PROCEEDINGS WILL BE DETERMINED IN ACCORDANCE WITH THE ACT, THE THEN-CURRENT RULES AND PROCEDURES FOR THE ARBITRATION OF FINANCIAL SERVICES DISPUTES OF THE AMERICAN ARBITRATION ASSOCIATION OR ANY SUCCESSOR THEREOF ("AAA"), AND THE TERMS OF THIS PARAGRAPH. IN THE EVENT OF ANY INCONSISTENCY, THE TERMS OF THIS PARAGRAPH SHALL CONTROL. IF AAA IS UNWILLING OR UNABLE TO (i) SERVE AS THE PROVIDER OF ARBITRATION OR (ii) ENFORCE ANY PROVISION OF THIS ARBITRATION CLAUSE, ANY PARTY TO THE LOAN DOCUMENTS MAY SUBSTITUTE ANOTHER ARBITRATION ORGANIZATION WITH SIMILAR PROCEDURES TO SERVE AS THE PROVIDER OF ARBITRATION.

(iv) THE ARBITRATION SHALL BE ADMINISTERED BY AAA AND CONDUCTED, UNLESS OTHERWISE REQUIRED BY LAW, in the state specified in the governing law section of the Loan Documents. All Claims shall be determined by one arbitrator; however, if Claims exceed Five Million Dollars (\$5,000,000), upon the request of any party, the Claims shall be decided by three arbitrators. All arbitration hearings shall commence within ninety (90) days of the demand for arbitration and close within ninety (90) days of commencement and the award of the arbitrator(s) shall be issued within thirty (30) days of the close of the hearing. However, the arbitrator(s), upon a showing of good cause, may extend the commencement of the hearing for up to an additional sixty (60) days. The arbitrator(s) shall provide a concise written statement of reasons for the award. The arbitration award may be submitted to any court having jurisdiction to be confirmed, judgment entered and enforced.

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(v) The arbitrator(s) will give effect to statutes of limitation in determining any Claim and may dismiss the arbitration on the basis that the Claim is barred. For purposes of the application of the statute of limitations, the service on AAA under applicable AAA rules of a notice of Claim is the equivalent of the filing of a lawsuit. Any dispute concerning this arbitration provision or whether a Claim is arbitrable shall be determined by the arbitrator(s). The arbitrator(s) shall have the power to award legal fees pursuant to the terms of the Loan Documents.

(vi) This paragraph does not limit the right of any party to: (i) exercise self-help remedies, such as but not limited to, setoff; (ii) initiate judicial or non-judicial foreclosure against any real or personal property collateral; (iii) exercise any judicial or power of sale rights, or (iv) act in a court of law to obtain an interim remedy, such as but not limited to, injunctive relief, writ of possession or appointment of a receiver, or additional or supplementary remedies.

(vii) The filing of a court action is not intended to constitute a waiver of the right of any party, including the suing party, thereafter to require submittal of the Claim to arbitration.

(viii) BY AGREEING TO BINDING ARBITRATION, THE PARTIES IRREVOCABLY AND VOLUNTARILY WAIVE ANY RIGHT THEY MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY CLAIM. FURTHERMORE, WITHOUT INTENDING IN ANY WAY TO LIMIT THE LOAN DOCUMENTS TO ARBITRATE, TO THE EXTENT ANY CLAIM IS NOT ARBITRATED, THE PARTIES IRREVOCABLY AND VOLUNTARILY WAIVE ANY RIGHT THEY MAY HAVE TO A TRIAL BY JURY IN RESPECT OF SUCH CLAIM. THIS PROVISION IS A MATERIAL INDUCEMENT FOR THE PARTIES ENTERING INTO THE LOAN DOCUMENTS.

(ix) EXCEPT AS PROHIBITED BY LAW, THE BORROWER HEREBY WAIVES ANY RIGHT IT MAY HAVE TO CLAIM OR RECOVER IN ANY LITIGATION ANY SPECIAL, EXEMPLARY, PUNITIVE OR CONSEQUENTIAL DAMAGES OR ANY DAMAGES OTHER THAN, OR IN ADDITION TO, ACTUAL DAMAGES. THE BORROWER CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF THE BANK HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT THE BANK WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER. THIS WAIVER CONSTITUTES A MATERIAL INDUCEMENT FOR THE BANK TO ACCEPT THIS NOTE AND MAKE THE LOANS.

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(h) Upon receipt of an affidavit of an officer of the Bank as to the loss, theft, destruction or mutilation of this Note or any other Loan Document which is not of public record, and, in the case of any such loss, theft, destruction or mutilation, upon surrender and cancellation of such Note or other security document, the Borrower will issue, in lieu thereof, a replacement Note or other security document in the same principal amount thereof and otherwise of like tenor.

(i) The Bank shall have the unrestricted right at any time and from time to time, and without the consent of or notice to the Borrower or any other party obligated on this Note, to grant to one or more banks or other financial institutions (each, a "Participant") participating interests in any obligation of the Bank to extend credit to the Borrower and/or any or all of the Liabilities held by the Bank. In the event of any such grant by the Bank of a participating interest to a Participant, whether or not upon notice to the Borrower, the Bank shall remain responsible for the performance of its obligations hereunder and the Borrower shall continue to deal solely and directly with the Bank in connection with the Bank's rights and obligations hereunder. The Bank may furnish any information concerning the Borrower in its possession from time to time to prospective assignees and Participants, provided that the Bank shall require any such prospective assignee or Participant to agree in writing to maintain the confidentiality of such information.

(j) This Note shall be binding upon and inure to the benefit of the Borrower, the Bank, all future holders of this Note and their respective successors and assigns, except that the Borrower may not assign or transfer any of its rights under this Note without the prior written consent of the Bank. The term "Bank" as used herein shall be deemed to include the Bank and its successors, endorsees and assigns. The Bank shall have the unrestricted right at any time or from time to time, and without the Borrower's consent, to assign all or any portion of its rights and obligations hereunder and/or under any of the other Loan Documents to one or more Banks (each, an "Assignee"), and the Borrower agrees that it shall execute, or cause to be executed, such documents, including without limitation, amendments to this Note and to any other documents, instruments and agreements executed in connection herewith as the Bank shall deem necessary to effect the foregoing. In addition, at the request of the Bank and any such Assignee, the Borrower shall issue one or more new promissory notes, as applicable, to any such Assignee and, if the Bank has retained any of its rights and obligations hereunder following such assignment, to the Bank, which new promissory notes shall be issued in replacement of, but not in discharge of, the liability evidenced by the promissory note held by the Bank prior to such assignment and shall reflect the amount of Loans held by such Assignee and the Bank after giving effect to such assignment. Upon the execution and delivery of appropriate assignment documentation, amendments and any other documentation required by the Bank in connection with such assignment, and the payment by Assignee of the purchase price agreed to by the Bank, and such Assignee, such Assignee shall be a party to this Agreement and shall have all of the rights and obligations of the Bank hereunder and under each other assigned Loan Document (and under any and all other guaranties, documents, instruments and agreements executed in connection herewith) to the extent that such rights and obligations have been assigned by the Bank pursuant to the assignment documentation between the Bank and such Assignee, and the Bank shall be released from its obligations hereunder and thereunder to a corresponding extent.

(k) This Note and the other Loan Documents are intended by the parties as the final, complete and exclusive statement of the transactions evidenced thereby. All prior or contemporaneous promises, agreements and understandings, whether oral or written, are deemed to be superceded by this Note and such other Loan Documents, and no party is relying on any promise, agreement or understanding not set forth in this Note or such other Loan Documents. Neither this Note nor any of such other Loan Documents may be amended or modified except by a written instrument describing such amendment or modification executed by the Borrower and the Bank.

(l) This Note shall replace and supersede the Amended and Restated Promissory Note made by the Borrower to the order of the Bank dated as of June 15, 2006 (the "Prior Note"); provided, however, that the execution and delivery of this Note shall not in any circumstance be deemed to have terminated, extinguished or discharged the Borrower's indebtedness under such Prior Note, all of which indebtedness shall continue under and be governed by this Note and the documents, instruments and agreements executed pursuant hereto or in connection herewith. This Note is a replacement, consolidation, amendment and restatement of the Prior Note and IS NOT A NOVATION. The Borrower shall also pay and this Note shall also evidence any and all unpaid interest on all Loans made by the Bank to the Borrower pursuant to Prior Note, and at the interest rate specified therein, for which this Note has been issued as replacement therefor.

**MOVADO GROUP, INC.**

By: /s/ Eugene Karpovich  
N a m e : E u g e n e K a r p o v i c h  
T i t l e : S V P , \_

C F O

## P R O M I S S O R Y N O T E

\$ 7,000,000  
31, 2007

For value received, the undersigned unconditionally promises to pay to the order of JPMORGAN CHASE BANK, N.A. (hereinafter the "Bank") at its offices at 277 Park Avenue, New York, New York 10172-0003, or to such other address as the Bank may notify the undersigned in writing, the principal sum of Seven Million Dollars (\$7,000,000) (the "Note Amount") or, if less, such unpaid principal amount of each loan (a "Loan") (as recorded on the grid attached hereto or on any additional pages thereof) made by the Bank to the undersigned and outstanding under this note on July 31, 2008 (the "Maturity Date").

The undersigned promises to pay interest on the unpaid balance of the principal amount of each such Loan from and including the date of such Loan to the last day of the Interest Period thereof at either (i) a floating rate per annum equal to the Prime Rate (a "Prime Loan"); (ii) a fixed rate per annum equal to the Adjusted LIBO Rate applicable to such Loan plus 0.625% (a "Eurodollar Loan"); or (iii) a fixed rate per annum equal to the Money Market Rate applicable to such Loan (a "Money Market Loan"). Any principal not paid when due shall bear interest from and including the date due until paid in full at a rate per annum equal to the Default Rate. Interest shall be payable on the relevant Interest Payment Date and shall be calculated on the basis of a year of 360 days for the actual number of days elapsed. Any extension of time for the payment of the principal of this note resulting from the due date falling on a non-Banking Day shall be included in the computation of interest.

Anything in this note to the contrary notwithstanding, no Loans shall be made hereunder, no letters of credit shall be issued by the Bank for the account of the undersigned ("Letters of Credit") and no drafts shall be drawn by the undersigned and accepted by the Bank ("Acceptances") if, as a result thereof, the aggregate unpaid principal balance of all Loans made by the Bank to the undersigned hereunder plus the aggregate undrawn face amount of all Letters of Credit, the aggregate unreimbursed amount of all drafts drawn under Letters of Credit and the aggregate outstanding face amount of Acceptances would exceed the Note Amount or Reduced Note Amount as applicable for the relevant period.

The date, amount, rate of interest and maturity date of each Loan and payment(s) (if any) of principal, the Loan(s) to which such payment(s) will be applied (which shall be at the discretion of the Bank) and the outstanding principal balance of Loans shall be recorded by the Bank on its books and records (which may be electronic in nature) and at any time and from time to time may be, and shall be prior to any transfer and delivery of this note, entered by the Bank on the schedule attached or any continuation of the schedule attached hereto by the Bank (at the discretion of the Bank, any such entries may aggregate Loans (and payments thereon) with the same interest rate and tenor and, if made on a given date, may show only the Loans outstanding on such date). Any such entries shall be conclusive in the absence of manifest error. The failure by the Bank to make any or all such entries shall not relieve the undersigned from its obligation to pay any and all amounts due hereunder.

1. DEFINITIONS. The terms listed below shall be defined as follows:

"Adjusted LIBO Rate" means the LIBO Rate for such Loan divided by one minus the Reserve Requirement.

"Banking Day" means any day on which commercial banks are not authorized or required to close in New York City and whenever such day relates to a Eurodollar Loan or notice with respect to any Eurodollar Loan, a day on which dealings in U.S. dollar deposits are also carried out in the London interbank market.

"Code" means the Uniform Commercial Code of the State of New York.

"Default Rate" means, in respect of any amount not paid when demanded, a rate per annum during the period commencing on the date of demand until such amount is paid in full equal to: (a) if a Prime Loan, a floating rate of 2% above the rate of interest thereon; (b) if a Eurodollar Loan or Money Market Loan, a fixed rate of 2% above the rate of interest in effect thereon at the time of demand until the last day of the Interest Period thereof and, thereafter, a floating rate of 2% above the rate of interest for a Prime Loan.

"Event of Default" means each of the events stated in Section 7.

"Facility Documents" means this note or any document executed by the undersigned or by any Third Party granting security or support for this note and all other agreements, instruments or other documents executed by the undersigned or a Third Party or otherwise executed in connection with this note, whether by guaranty, subordination, grant of a security interest or any other credit support, or which is contained in any certificate, document, opinion, financial or other statement furnished at the time under or in connection with any Facility Document.

"Interest Payment Date" means (a) with respect to any Prime Loan, the last day of each month, or (b) with respect to any Eurodollar Loan or Money Market Loan, the last day of the Interest Period applicable to which such Loan is a part and, in the case of a Eurodollar Loan or a Money Market Loan with an Interest Period of more than three months' duration, each day prior to the last day of such Interest Period that occurs at intervals of three months' duration after the first day of such Interest Period.

"Interest Period" means (a) with respect to any Eurodollar Loan, the period commencing on the date of such Loan and ending on the numerically corresponding day in the calendar month that is one, two, three or six months thereafter, as the undersigned may elect or (b) with respect to any Money Market Loan, the period commencing on the date of such Loan and ending on the last day of the period for which such Loan is offered, as recorded by the Bank on the grid hereto; provided, that (i) if any Interest Period would end on a day other than a Business Day, such Interest Period shall be extended to the next succeeding Business Day unless, in the case of a Eurodollar Loan only, such next succeeding Business Day would fall in the next calendar month, in which case such Interest Period shall end on the next preceding Business Day and (ii) any Interest Period pertaining to a Eurodollar Loan that commences on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the last calendar month of such Interest Period) shall end on the last Business Day of the last calendar month of such Interest Period. For purposes hereof, the date of a Loan initially shall be the date on which such Loan is made and, in the case of the continuation of a Loan, thereafter shall be the effective date of the most recent conversion or continuation of such Loan.

"Liabilities" means all obligations and liabilities of the undersigned to the Bank or its affiliates of whatever nature, including payment of this note, whether now existing or hereafter incurred or acquired, whether matured or unmatured, liquidated or unliquidated, direct or indirect, absolute or contingent, primary or secondary, sole, joint, several or joint and several, secured or unsecured.

"LIBO Rate" means, with respect to any Eurodollar Loan for any Interest Period, the rate quoted by the principal London branch of the Bank at approximately 11:00 a.m. London time two (2) Business Days' prior to the first day of such Interest Period for the offering to leading banks in the London interbank market of dollar deposits in immediately available funds, for a period and in an amount, comparable to such Interest Period and the principal amount of such Eurodollar Loan, as it appears on Page 3756 of the Moneyline Telerate Markets.

"Money Market Rate" means, if offered, a rate of interest per year as offered by the Bank from time to time on any single commercial borrowing during the period offered on such Loan. The Money Market Rate of interest available for any subsequent borrowings may differ since Money Market Rates may fluctuate on a daily basis.

"Prime Rate" means that floating rate of interest from time to time announced publicly by the Bank in New York, New York as its prime rate. The Prime Rate shall be automatically adjusted on the date of any change thereto.

"Regulation D" means Regulation D of the Board of Governors of the Federal Reserve System.

"Regulatory Change" means any change after the date of this note in United States federal, state or municipal laws or any foreign laws or regulations (including Regulation D) or the adoption or making after such date of any interpretations, directives or requests applying to a class of banks, including the Bank, of or under any United States federal, state or municipal laws or any foreign laws or regulations (whether or not having the force of law) by any court or governmental or monetary authority charged with the interpretation or administration thereof.

"Reserve Requirement" means, for any Eurodollar Loan, the average maximum rate at which reserves (including any marginal, supplemental or emergency reserves) are required to be maintained during the term of such Loan under Regulation D by member banks of the Federal Reserve System in New York City with deposits exceeding one billion U.S. dollars, or as otherwise established by the Board of Governors of the Federal Reserve System and any other banking authority to which the Bank is subject, against "Eurocurrency liabilities" (as such term is used in Regulation D). Without limiting the effect of the foregoing, the Reserve Requirement shall reflect any other reserves required to be maintained by such member banks by reason of any Regulatory Change against (x) any



category of liabilities which includes deposits by reference to which the LIBO Rate is to be determined or (y) any category of extensions of credit or other assets which include Eurodollar Loans. The Reserve Requirement shall be adjusted automatically on and as of the effective date of any change in any reserve percentage.

"Third Party" means any third party who supports or is liable with respect to this note due to the execution of any document granting support or security for this note, whether by guaranty, subordination, grant of security or any other credit support.

2. BORROWINGS AND PREPAYMENTS. The undersigned shall give the Bank notice of each borrowing request by 12:00 noon, New York City time three (3) Banking Days prior to each requested borrowing of a Eurodollar Loan and by 12:00 noon New York City time on the date of each requested borrowing of a Prime Loan or a Money Market Loan; provided that no Eurodollar Loan shall be in a minimum amount equal to less than \$100,000. The undersigned shall have the right to make prepayments of principal at any time or from time to time; provided that: (a) the undersigned shall give the Bank irrevocable notice of each prepayment by 12:00 noon New York City time three (3) Banking Days prior to prepayment of a Eurodollar Loan, one (1) Banking Day prior to prepayment of a Money Market Loan and by 12:00 noon New York City time on the date of prepayment of a Prime Loan; (b) Eurodollar Loans and Money Market Loans may be prepaid prior to the last day of the Interest Period thereof only if accompanied by payment of the additional payments calculated in accordance with paragraph 5 below; and (c) all prepayments shall be in a minimum amount equal to the lesser of \$100,000 or the unpaid principal amount of this note. If the undersigned fails to notify the Bank, in accordance with the terms hereof, prior to the maturity date of any Eurodollar Loan or Money Market Loan to continue such Loan as a Eurodollar Loan or Money Market Loan, such Loan shall be converted to a Prime Loan on its maturity date.

3. ADDITIONAL COSTS. (a) If as a result of any Regulatory Change which (i) changes the basis of taxation of any amounts payable to the Bank under this note (other than taxes imposed on the overall net income of the Bank or the lending office by the jurisdictions in which the principal office of the Bank or the lending office are located) or (ii) imposes or modifies any reserve, special deposit, deposit insurance or assessments, minimum capital, capital ratios or similar requirements relating to any extension of credit or other assets of, or any deposits with or other liabilities of the Bank, or (iii) imposes any other condition affecting this note, the Bank determines (which determination shall be conclusive absent manifest error) that the cost to it of making or maintaining a Eurodollar Loan or a Money Market Loan is increased or any amount received or receivable by the Bank under this note is reduced, then the undersigned will pay to the Bank on demand an additional amount that the Bank determines will compensate it for the increased cost or reduction in amount.

(b) Without limiting the effect of the foregoing provisions of this Section 3 (but without duplication), the undersigned shall pay to the Bank from time to time on request such amounts as the Bank may determine to be necessary to compensate the Bank for any costs which it determines are attributable to the maintenance by it or any of its affiliates pursuant to any law or regulation of any jurisdiction or any interpretation, directive or request (whether or not having the force of law and whether in effect on the date of this note or thereafter) of any court or governmental or monetary authority of capital in respect of the Loans hereunder (such compensation to include, without limitation, an amount equal to any reduction in return on assets or equity of the Bank to a level below that which it could have achieved but for such law, regulation, interpretation, directive or request).

4. UNAVAILABILITY, INADEQUACY OR ILLEGALITY OF LIBO RATE. Anything herein to the contrary notwithstanding, if the Bank reasonably determines (which determination shall be conclusive) that:

(a) quotations of interest rates for the relevant deposits referred to in the definition of LIBO Rate are not being provided in the relevant amounts or for the relevant maturities for purposes of determining the rate of interest for a Eurodollar Loan; or

(b) the definition of LIBO Rate does not adequately cover the cost to the Bank of making or maintaining a Eurodollar Loan; or

(c) as a result of any Regulatory Change (or any change in the interpretation thereof) adopted after the date hereof, the principal office of the Bank or the lending office is subject to any taxes, reserves, limitations, or other charges, requirements or restrictions on any claims of such office on non-United States residents (including, without limitation, claims on non-United States offices or affiliates of the Bank) or in respect of the excess above a specified level of such claims; or

(d) it is unlawful for the Bank or the lending office to maintain any Eurodollar Loan at the LIBO Rate;

THEN, the Bank shall give the undersigned prompt notice thereof, and so long as such condition remains in effect, any existing Eurodollar Loan shall bear interest as a Prime Loan and the Bank shall make no Eurodollar Loans.

5. BREAK FUNDING PAYMENTS. In the event of (a) the payment of any principal of any Eurodollar Loan or Money Market Loan other than on the last day of an Interest Period applicable thereto (including as a result of an Event of Default), (b) the conversion of any Eurodollar Loan or Money Market Loan other than on the last day of the Interest Period applicable thereto, or (c) the failure to borrow, convert, continue on the date specified in any notice delivered pursuant hereto, then, in any such event, the undersigned shall compensate the Bank for the loss, cost and expense attributable to such event. In the case of a Eurodollar Loan or Money Market Loan, such loss, cost or expense to the Bank shall be deemed to include an amount determined by the Bank to be the excess, if any, of (i) the amount of interest which would have accrued on the principal amount of such Eurodollar Loan or Money Market Loan had such event not occurred, at the Adjusted LIBO Rate that would have been applicable to such Eurodollar Loan or the Money Market Rate that would have been applicable to such Money Market Loan, as the case may be, for the period from the date of such event to the last day of the then current Interest Period therefor (or, in the case of a failure to borrow, convert or continue, for the period that would have been the Interest Period for such Eurodollar Loan or Money Market Loan), over (ii) the amount of interest which would accrue on such principal amount for

such period at the interest rate which the Bank would bid were it to bid, at the commencement of such period, for the dollar deposits of a comparable amount and period from other banks in the eurodollar market. A certificate of the Bank setting forth any amount or amounts that the Bank is entitled to receive pursuant to this Section shall be delivered to the Bank and shall be conclusive absent manifest error. The undersigned shall pay the Bank the amount shown as due on any such certificate within 10 days after receipt thereof.

6. BANK'S RIGHT OF SETOFF. The Bank retains all rights of setoff that it may have under applicable law or contract, including, without limitation, at its option, to setoff balances (general or special, time or demand, provisional or final) held by it for the account of the undersigned at any of Bank's offices, in dollars or in any other currency, against any amount payable under this Note which is not paid when due (regardless of whether such balances are then due to the undersigned).

7. EVENTS OF DEFAULT. If any of the following events of default shall occur with respect to any of the undersigned or any Third Party:

(a) the undersigned shall fail to pay any principal, interest or any other amount payable under this note, or any other Liability, as and when due and payable; or

(b) the undersigned or any Third Party shall fail to perform or observe any covenant or agreement contained in any Facility Document, and such failure shall continue for 30 consecutive days; or

(c) the undersigned or any Third Party shall fail to pay when due any indebtedness in excess of \$5,000,000 or more (including but not limited to indebtedness for borrowed money) or if any such indebtedness shall become due and payable, or be capable of being due and payable at the option of the holder thereof, prior to the scheduled maturity thereof; or

(d) the undersigned or any Third Party: (i) shall generally not, or be unable to, or shall admit in writing its inability to, pay its debts as such debts become due; (ii) shall make an assignment for the benefit of creditors; (iii) shall commence any proceeding or file a petition seeking relief under any bankruptcy, insolvency, reorganization, receivership, dissolution, liquidation or other similar Federal, state or foreign law or seeking the appointment of a receiver, trustee, custodian, conservator or similar official for all or a substantial part of its property or (iv) shall have any such proceeding commenced or petition filed against it and the same shall remain undismissed for a period of 30 days or shall consent or acquiesce thereto; or

(e) the undersigned or any Third Party shall merge or consolidate with or into, or convert into, any other legal entity; or

(f) any Facility Document shall at any time and for any reason cease to be in full force and effect or shall be declared null and void, or the undersigned or any relevant Third Party shall deny or contest any further liability or obligation thereunder or the validity or enforceability thereof or of any lien or security interest created thereby; or

(g) any lien, mortgage, pledge, security interest or other encumbrance of any kind shall be created or imposed upon any property or asset of the undersigned or any Third Party without the Bank's written consent thereto, except as permitted pursuant to Section 8.3 of the Credit Agreement dated as of December 15, 2005 among the undersigned (as Borrower), the Lenders signatory thereto and the Bank (as Administrative Agent, Swingline Bank and Issuing Agent); or

(h) any action or proceeding before any court or governmental agency or authority which involves forfeiture of any property or assets of the undersigned or a Third Party shall have been commenced or if any such forfeiture or other seizure or assumption of custody or control over such assets by any court or governmental agency or authority shall occur; or

(i) one or more verdicts, judgments, decrees or orders for the payment of money in excess of \$5,000,000 in the aggregate shall be rendered against the undersigned and shall continue in effect for a period of 60 consecutive days without being vacated, or stayed pending appeal (or the satisfaction or bonding of any such verdict, judgment, decree or order shall, in the Bank's reasonable judgment, constitute a material adverse change), any proceedings to execute any such verdict, judgment, decree or order shall be commenced, or if any attachment, distraint, levy or other restraint shall be placed upon any property or assets of the undersigned or any Third Party;

THEN, in any such case, the unpaid principal amount of this note, together with accrued interest and all other Liabilities, shall immediately become due and payable without any notice or other action by the Bank. The undersigned waives presentment, notice of dishonor, protest and any other notice or formality with respect to this note. All rights and remedies provided in this note or otherwise available to the Bank shall be cumulative and not exclusive and each may be exercised by the Bank from time to time and as often as may be necessary.

8. ENFORCEMENT. The Bank may, upon the occurrence and continuation of an Event of Default, proceed to enforce payment of the same and exercise any of or all the rights and remedies afforded the Bank by the Code or otherwise possessed by the Bank. Any requirement of the Code for reasonable notice to the undersigned shall be deemed to have been complied with if such notice is mailed, postage prepaid, to the undersigned and such other persons entitled to notice, at the addresses shown on the records of the Bank at least four (4) Business Days prior to the time of sale, disposition or other event requiring notice under the Code.

9. TRANSFER. Upon any transfer of this note, the undersigned hereby waiving notice of any such transfer, the Bank may deliver the Assets With Bank or any part thereof to the transferee who shall thereupon become vested with all the rights herein or under applicable law given to the Bank with respect thereto and the Bank shall thereafter forever be relieved and fully discharged from any liability or responsibility in the matter; but the Bank shall retain all rights hereby given to it with respect to any Liabilities and Assets With Bank not so transferred. No modification or waiver of any of the provisions of this note shall be effective unless in writing, signed by the Bank, and only to the extent therein set forth; nor shall any such waiver be applicable

except in the specific instance for which given. This agreement sets forth the entire understanding of the parties, and the undersigned acknowledges that no oral or other agreements, conditions, promises, understandings, representations or warranties exist in regard to the obligations hereunder, except those specifically set forth herein.

10. JURISDICTION AND WAIVER. The undersigned hereby irrevocably consents to the in personam jurisdiction of the federal and/or state courts located within the State of New York over controversies arising from or relating to this note or the Liabilities and irrevocably waives trial by jury and the right to interpose any counterclaim or offset of any nature in any such litigation. The undersigned further irrevocably waives presentment, demand, protest, notice of dishonor and all other notices or demands of any kind in connection with this note or any Liabilities.

11. MISCELLANEOUS. Each reference herein to the Bank shall be deemed to include its successors, endorsees, and assigns, in whose favor the provisions hereof shall also inure. Each reference herein to the undersigned shall be deemed to include the successors and assigns of the undersigned, all of whom shall be bound by the provisions hereof.

The undersigned agrees to pay to the Bank, as soon as incurred, all costs and reasonable and documented expenses incidental to the care, preservation, processing, sale or collection of or realization upon any of or all the Assets With Bank or incurred in connection with the enforcement or collection of this note, or in any way relating to the rights of the Bank hereunder, including reasonable outside counsel fees and expenses. Each and every right and remedy hereby granted to the Bank or allowed to it by law shall be cumulative and not exclusive and each may be exercised by the Bank from time to time and as often as may be necessary. The undersigned shall have the sole responsibility for notifying the Bank in writing that the undersigned wishes to take advantage of any redemption, conversion or other similar right with respect to any of the Assets With Bank. The Bank may release any party (including any partner of any undersigned) without notice to any of the undersigned, whether as co-makers, endorsees, guarantors, sureties, assigns or otherwise, without affecting the liability of any of the undersigned hereof or any partner of any undersigned hereof.

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12. GOVERNING LAW. This note shall be governed by and construed in accordance with the laws of the State of New York and, as to interest rates, applicable Federal law.

MOVADO GROUP, INC.

By: /s/ Eugene J. Karpovich

Name: Eugene J. Karpovich

Title: SVP, CFO

Address for notices: 650 From Road

Paramus, New Jersey 07652

Attn: Eugene J. Karpovich,

Senior Vice President

&

Chief Financial Officer

Telecopier: 201-267-8240

Telephone: 201-267-8004

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I, Efraim Grinberg, certify that:

- 1) I have reviewed this quarterly report on Form 10-Q of Movado Group, Inc.;
- 2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- 4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- 5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 7, 2007

/s/ Efraim Grinberg

Efraim Grinberg

President and Chief Executive Officer

## CERTIFICATIONS

I, Eugene J. Karpovich, certify that:

- 1) I have reviewed this quarterly report on Form 10-Q of Movado Group, Inc.;
- 2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3) Based on my knowledge, the financial statements, and 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: September 7, 2007

Eugene J. Karpovich

J. Karpovich

Vice President,

and

; Chief Financial Officer

Principal Accounting Officer



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

In connection with the quarterly report on Form 10-Q of Movado Group, Inc. (the "Company") for the quarter ended July 31, 2007, 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: September /s/ Efraim  
7, 2007 Grinberg

Efraim  
Grinberg  
President  
and  
Chief  
Executive  
Officer

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

In connection with the quarterly report on Form 10-Q of Movado Group, Inc. (the "Company") for the quarter ended July 31, 2007, 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: September  
7, 2007

/s/ Eugene  
J. Karpovich  
 Eugene J.  
 Karpovich  
 Senior Vice  
 President,  
 Chief  
 Financial  
 Officer and  
 Principal  
 Accounting  
 Officer