

MOVADO GROUP INC  
Form 10-Q  
November 24, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended October 31, 2015

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

For the transition period from                    to

Commission File Number: 1-16497

MOVADO GROUP, INC.

(Exact Name of Registrant as Specified in its Charter)

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

650 From Road, Ste. 375

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

(201) 267-8000

(Registrant's telephone number, including area code)

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

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

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

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

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

The number of shares outstanding of the registrant’s Common Stock and Class A Common Stock as of November 19, 2015 were 16,384,852 and 6,644,105, respectively.

MOVADO GROUP, INC.

Index to Quarterly Report on Form 10-Q

October 31, 2015

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## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements

## MOVADO GROUP, INC.

## CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)

(Unaudited)

|   | October<br>31,<br>2015 | January<br>31,<br>2015 | October<br>31,<br>2014 |
|---|------------------------|------------------------|------------------------|
| <b>ASSETS</b>   |                        |                        |                        |
| Current assets:   |                        |                        |                        |
| Cash and cash equivalents   | \$ 181,180             | \$ 199,852             | \$ 157,937             |
| Trade receivables, net  | 124,438                | 74,106                 | 128,638                |
| Inventories   | 178,965                | 170,788                | 182,663                |
| Other current assets  | 35,972                 | 40,532                 | 37,927                 |
| Total current assets  | 520,555                | 485,278                | 507,165                |
| Property, plant and equipment, net  | 41,331                 | 46,673                 | 45,340                 |
| Deferred income taxes   | 13,476                 | 13,550                 | 13,899                 |
| Other non-current assets  | 37,756                 | 37,522                 | 35,365                 |
| Total assets  | \$ 613,118             | \$ 583,023             | \$ 601,769             |
| <b>LIABILITIES AND EQUITY</b>   |                        |                        |                        |
| Current liabilities:  |                        |                        |                        |
| Accounts payable  | \$ 29,514              | \$ 27,767              | \$ 29,746              |
| Accrued liabilities   | 50,661                 | 30,933                 | 49,933                 |
| Deferred and current income taxes payable                                 | 6,951                  | 7,372                  | 12,713                 |
| Total current liabilities   | 87,126                 | 66,072                 | 92,392                 |
| Loans payable to bank   | 40,000                 | —                      | —                      |
| Deferred and non-current income taxes payable                             | 3,165                  | 3,470                  | 3,578                  |
| Other non-current liabilities   | 29,918                 | 29,196                 | 28,989                 |
| Total liabilities   | 160,209                | 98,738                 | 124,959                |
| Commitments and contingencies (Note 7)                                    |                        |                        |                        |
| Equity:   |                        |                        |                        |
| Preferred Stock, \$0.01 par value, 5,000,000 shares authorized; no shares |                        |                        |                        |
| issued  | —                      | —                      | —                      |
| Common Stock, \$0.01 par value, 100,000,000 shares authorized;            |                        |                        |                        |
| 26,952,421, 26,849,080 and 26,848,894 shares issued, respectively         | 270                    | 268                    | 268                    |

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Class A Common Stock, \$0.01 par value, 30,000,000 shares authorized;

6,644,105, 6,642,184 and 6,642,184 shares issued and outstanding,

|   |           |           |           |
|---|-----------|-----------|-----------|
| respectively  | 66        | 66        | 66        |
| Capital in excess of par value  | 179,879   | 174,826   | 173,233   |
| Retained earnings   | 387,432   | 358,006   | 350,468   |
| Accumulated other comprehensive income                                    | 79,173    | 98,854    | 86,882    |
| Treasury Stock, 10,553,569, 8,784,497 and 8,295,597 shares, respectively, |           |           |           |
| at cost   | (196,379) | (149,811) | (136,579) |
| Total Movado Group, Inc. shareholders' equity                             | 450,441   | 482,209   | 474,338   |
| Noncontrolling interests  | 2,468     | 2,076     | 2,472     |
| Total equity  | 452,909   | 484,285   | 476,810   |
| Total liabilities and equity  | \$613,118 | \$583,023 | \$601,769 |

See Notes to Consolidated Financial Statements

## MOVADO GROUP, INC.

## CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

(Unaudited)

|   | Three Months Ended<br>October 31, |           | Nine Months Ended<br>October 31, |           |
|---|-----------------------------------|-----------|----------------------------------|-----------|
|   | 2015                              | 2014      | 2015                             | 2014      |
| Net sales   | \$185,629                         | \$188,557 | \$451,659                        | \$453,069 |
| Cost of sales   | 85,537                            | 88,715    | 210,080                          | 210,470   |
| Gross profit  | 100,092                           | 99,842    | 241,579                          | 242,599   |
| Selling, general, and administrative                    | 66,638                            | 66,509    | 183,016                          | 181,177   |
| Operating income  | 33,454                            | 33,333    | 58,563                           | 61,422    |
| Interest expense  | (319 )                            | (78 )     | (727 )                           | (272 )    |
| Interest income   | 17                                | 51        | 105                              | 97        |
| Income before income taxes                              | 33,152                            | 33,306    | 57,941                           | 61,247    |
| Provision for income taxes (Note 8)                     | 11,242                            | 10,889    | 20,458                           | 19,231    |
| Net income  | 21,910                            | 22,417    | 37,483                           | 42,016    |
| Less: Net income attributed to noncontrolling interests | 378                               | 208       | 277                              | 291       |
| Net income attributed to Movado Group, Inc.             | \$21,532                          | \$22,209  | \$37,206                         | \$41,725  |
| <b>Basic income per share:</b>                          |                                   |           |                                  |           |
| Weighted basic average shares outstanding               | 23,167                            | 25,326    | 23,690                           | 25,345    |
| Net income per share attributed to Movado Group, Inc.   | \$0.93                            | \$0.88    | \$1.57                           | \$1.65    |
| <b>Diluted income per share:</b>                        |                                   |           |                                  |           |
| Weighted diluted average shares outstanding             | 23,411                            | 25,616    | 23,966                           | 25,661    |
| Net income per share attributed to Movado Group, Inc.   | \$0.92                            | \$0.87    | \$1.55                           | \$1.63    |
| Dividends declared per share                            | \$0.11                            | \$0.10    | \$0.33                           | \$0.30    |

See Notes to Consolidated Financial Statements

MOVADO GROUP, INC.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

|  | Three Months<br>Ended October 31, |          | Nine Months Ended<br>October 31, |          |
|--|-----------------------------------|----------|----------------------------------|----------|
|  | 2015                              | 2014     | 2015                             | 2014     |
| Comprehensive income, net of taxes:  |                                   |          |                                  |          |
| Net income including noncontrolling interests  | \$21,910                          | \$22,417 | \$37,483                         | \$42,016 |
| Net unrealized (loss) / gain on investments, net of (tax benefit) / tax of (\$10), \$3, (\$3) and \$42, respectively | (20 )                             | (31 )    | (5 )                             | 38       |
| Gain on available-for-sale securities, net of tax benefit of \$0, \$0, \$0 and \$50, respectively                    | —                                 | —        | —                                | (81 )    |
| Net change in effective portion of hedging contracts, net of tax of \$3, \$0, \$3 and \$0, respectively              | 16                                | —        | 12                               | —        |
| Foreign currency translation adjustments   | (6,366 )                          | (16,330) | (19,573)                         | (16,963) |
| Comprehensive income including noncontrolling interests  | 15,540                            | 6,056    | 17,917                           | 25,010   |
| Less: Comprehensive income attributed to noncontrolling interests  | 379                               | 40       | 392                              | 105      |
| Total comprehensive income attributed to Movado Group, Inc.  | \$15,161                          | \$6,016  | \$17,525                         | \$24,905 |

See Notes to Consolidated Financial Statements



## MOVADO GROUP, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

|  | Nine Months Ended<br>October 31, |           |
|--|----------------------------------|-----------|
|  | 2015                             | 2014      |
| <b>Cash flows from operating activities:</b>   |                                  |           |
| Net income including noncontrolling interests  | \$37,483                         | \$42,016  |
| <b>Adjustments to reconcile net income to net cash provided by operating activities:</b> |                                  |           |
| Depreciation and amortization  | 9,438                            | 9,195     |
| Transactional (gains)  | (1,822 )                         | (137 )    |
| Write-down of inventories  | 1,811                            | 1,923     |
| Deferred income taxes  | 679                              | (211 )    |
| Stock-based compensation   | 4,496                            | 4,135     |
| Excess tax shortfall / (benefit) from stock-based compensation                           | 21                               | (1,270 )  |
| Gain on available-for-sale securities  | —                                | (131 )    |
| Operating efficiency initiatives and other items   | 2,670                            | —         |
| Loss on disposal of fixed assets   | 310                              | —         |
| <b>Changes in assets and liabilities:</b>  |                                  |           |
| Trade receivables  | (51,213 )                        | (61,355 ) |
| Inventories  | (15,183 )                        | (8,785 )  |
| Other current assets   | 1,030                            | 213       |
| Accounts payable   | 2,442                            | (3,136 )  |
| Accrued liabilities  | 18,219                           | 7,912     |
| Income taxes payable   | (866 )                           | 11,100    |
| Other non-current assets   | (89 )                            | (3,665 )  |
| Other non-current liabilities  | 814                              | 3,545     |
| Net cash provided by operating activities  | 10,240                           | 1,349     |
| <b>Cash flows from investing activities:</b>   |                                  |           |
| Capital expenditures   | (5,827 )                         | (7,485 )  |
| Proceeds from short-term investment  | —                                | 33,736    |
| Proceeds from available-for-sale securities  | —                                | 307       |
| Trademarks   | (193 )                           | (75 )     |
| Long-term investment   | —                                | (1,200 )  |
| Net cash (used in) / provided by investing activities                                    | (6,020 )                         | 25,283    |
| <b>Cash flows from financing activities:</b>   |                                  |           |
| Proceeds from bank borrowings  | 50,000                           | —         |
| Repayments of bank borrowings  | (10,000 )                        | —         |
| Stock options exercised and other changes  | (227 )                           | 291       |
| Excess tax (shortfall) / benefit from stock-based compensation                           | (21 )                            | 1,270     |
| Dividends paid   | (7,780 )                         | (7,591 )  |
| Debt issuance cost   | (339 )                           | —         |

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|  |            |            |
|--|------------|------------|
| Distribution of noncontrolling interest earnings             | —          | (319 )     |
| Stock repurchase   | (45,932 )  | (13,150 )  |
| Net cash (used in) financing activities                      | (14,299 )  | (19,499 )  |
| Effect of exchange rate changes on cash and cash equivalents | (8,593 )   | (6,855 )   |
| Net (decrease) / increase in cash and cash equivalents       | (18,672 )  | 278        |
| Cash and cash equivalents at beginning of period             | 199,852    | 157,659    |
| Cash and cash equivalents at end of period                   | \$ 181,180 | \$ 157,937 |

See Notes to Consolidated Financial Statements

MOVADO GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## BASIS OF PRESENTATION

The accompanying interim unaudited consolidated financial statements have been prepared by Movado Group, Inc. (the “Company”), in a manner consistent with that used in the preparation of the annual audited consolidated financial statements included in the Company’s Annual Report on Form 10-K for the fiscal year ended January 31, 2015 (the “2015 Annual Report on Form 10-K”). The unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, which require the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the unaudited consolidated financial statements and the reported amounts of revenues and expenses during the periods reported. Actual results could differ from those estimates. In the opinion of management, the accompanying unaudited consolidated financial statements reflect all adjustments, consisting of only normal and recurring adjustments, necessary for a fair statement of the financial position and results of operations for the periods presented. The consolidated balance sheet data at January 31, 2015 is derived from the audited annual financial statements, which are included in the Company’s 2015 Annual Report on Form 10-K and should be read in connection with these interim unaudited financial statements. Operating results for the interim periods presented are not necessarily indicative of the results that may be expected for the full year.

## NOTE 1 – FAIR VALUE MEASUREMENTS

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

- Level 1 – Quoted prices in active markets for identical assets or liabilities.
- Level 2 – Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly.
- Level 3 – Unobservable inputs based on the Company’s assumptions.

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

|                               | Balance Sheet Location   | Fair Value at October 31, 2015 |         |         |        |
|-------------------------------|--------------------------|--------------------------------|---------|---------|--------|
|                               |                          | Level 1                        | Level 2 | Level 3 | Total  |
| <b>Assets:</b>                |                          |                                |         |         |        |
| Available-for-sale securities | Other current assets     | \$300                          | \$—     | \$—     | \$300  |
| SERP assets - employer        | Other non-current assets | 1,762                          | —       | —       | 1,762  |
| SERP assets - employee        | Other non-current assets | 25,730                         | —       | —       | 25,730 |

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|                             |                               |          |         |    |          |
|-----------------------------|-------------------------------|----------|---------|----|----------|
| Hedge derivatives           | Other current assets          | —        | 71      | —  | 71       |
| Total                       |                               | \$27,792 | \$71    | \$ | \$27,863 |
| Liabilities:                |                               |          |         |    |          |
| SERP liabilities - employee | Other non-current liabilities | \$25,730 | \$—     | \$ | \$25,730 |
| Hedge derivatives           | Accrued liabilities           | —        | 1,121   | —  | 1,121    |
| Total                       |                               | \$25,730 | \$1,121 | \$ | \$26,851 |

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

|                               | Balance Sheet Location        | Fair Value at October 31, 2014 |                 |                 |                  |
|-------------------------------|-------------------------------|--------------------------------|-----------------|-----------------|------------------|
|                               |                               | Level 1                        | Level 2         | Level 3         | Total            |
| <b>Assets:</b>                |                               |                                |                 |                 |                  |
| Available-for-sale securities | Other current assets          | \$ 343                         | \$—             | \$—             | \$ 343           |
| Long-term investment          | Other non-current assets      | —                              | —               | 1,216           | 1,216            |
| SERP assets - employer        | Other non-current assets      | 1,713                          | —               | —               | 1,713            |
| SERP assets - employee        | Other non-current assets      | 24,054                         | —               | —               | 24,054           |
| Hedge derivatives             | Other current assets          | —                              | 3               | —               | 3                |
| <b>Total</b>                  |                               | <b>\$ 26,110</b>               | <b>\$ 3</b>     | <b>\$ 1,216</b> | <b>\$ 27,329</b> |
| <b>Liabilities:</b>           |                               |                                |                 |                 |                  |
| SERP liabilities - employee   | Other non-current liabilities | \$ 24,054                      | \$—             | \$—             | \$ 24,054        |
| Hedge derivatives             | Accrued liabilities           | —                              | 2,246           | —               | 2,246            |
| <b>Total</b>                  |                               | <b>\$ 24,054</b>               | <b>\$ 2,246</b> | <b>\$—</b>      | <b>\$ 26,300</b> |

The fair values of the Company's available-for-sale securities are based on quoted prices. The fair value of the long-term investment at January 31, 2015 and October 31, 2014 was based on the purchase price plus eight percent calculated annually. During the second quarter of fiscal 2016, this investment converted to common and preferred shares of a privately held company, accounted for under the cost method, with a carrying value of \$1.3 million. This investment is tested quarterly for impairment. During the three and nine months ended October 31, 2015 no impairment was recorded for this investment. The assets related to the Company's defined contribution supplemental executive retirement plan ("SERP") consist of both employer (employee unvested) and employee assets which are invested in investment funds with fair values calculated based on quoted market prices. The SERP liability represents the Company's liability to the employees in the plan for their vested balances. The hedge derivatives are entered into by the Company principally to reduce its exposure to Swiss franc and Euro currency transaction exchange rate risk. Fair values of the Company's hedge derivatives are calculated based on quoted foreign exchange rates and quoted interest rates.

## NOTE 2 – EQUITY

The components of equity for the nine months ended October 31, 2015 and 2014 are as follows (in thousands):

|                                    | Movado Group, Inc. Shareholders' Equity |                                |                                      |                      |                   | Accumulated<br>Other<br>Comprehensive<br>Income | Noncontrolling<br>Interests | Total     |
|------------------------------------|---|--------------------------------|--------------------------------------|----------------------|-------------------|---|-----------------------------|-----------|
|                                    | Common<br>Stock (\$)                    | Class A<br>Common<br>Stock (2) | Capital in<br>Excess of<br>Par Value | Retained<br>Earnings | Treasury<br>Stock |   |                             |           |
| Balance, January 31,<br>2015       | \$268                                   | \$ 66                          | \$174,826                            | \$358,006            | \$(149,811)       | \$ 98,854                                       | \$ 2,076                    | \$484,285 |
| Net income                         |   |                                |                                      | 37,206               |                   |   | 277                         | 37,483    |
| Dividends                          |   |                                |                                      | (7,780 )             |                   |   |                             | (7,780 )  |
| Stock repurchase                   |   |                                |                                      |                      | (45,932 )         |   |                             | (45,932 ) |
| Stock options exercised,<br>net of |   |                                |                                      |                      |                   |   |                             |           |
| tax of \$21                        | 2                                       |                                | 386                                  |                      | (636 )            |   |                             | (248 )    |
| Supplemental executive             |   |                                |                                      |                      |                   |   |                             |           |
| retirement plan                    |   |                                | 171                                  |                      |                   |   |                             | 171       |
| Stock-based                        |   |                                |                                      |                      |                   |   |                             |           |
| compensation                       |   |                                |                                      |                      |                   |   |                             |           |
| expense                            |   |                                | 4,496                                |                      |                   |   |                             | 4,496     |
| Net unrealized loss on             |   |                                |                                      |                      |                   |   |                             |           |
| investments, net of                |   |                                |                                      |                      |                   |   |                             |           |
| tax benefit of \$3                 |   |                                |                                      |                      |                   | (5 )  |                             | (5 )      |
| Net change in effective            |   |                                |                                      |                      |                   |   |                             |           |
| portion of hedging                 |   |                                |                                      |                      |                   |   |                             |           |
| contracts,                         |   |                                |                                      |                      |                   |   |                             |           |
| net of tax of \$3                  |   |                                |                                      |                      |                   | 12  |                             | 12        |
| Foreign currency                   |   |                                |                                      |                      |                   |   |                             |           |
| translation                        |   |                                |                                      |                      |                   |   |                             |           |
| adjustment (3)                     |   |                                |                                      |                      |                   | (19,688 )                                       | 115                         | (19,573 ) |
| Balance, October 31,<br>2015       | \$270                                   | \$ 66                          | \$179,879                            | \$387,432            | \$(196,379)       | \$ 79,173                                       | \$ 2,468                    | \$452,909 |

| Common<br>Stock (\$) | Class A<br>Common<br>Stock (2) | Capital in<br>Excess of<br>Par Value | Retained<br>Earnings | Treasury<br>Stock |
|----------------------|--------------------------------|--------------------------------------|----------------------|-------------------|
|----------------------|--------------------------------|--------------------------------------|----------------------|-------------------|