LUXOTTICA GROUP SPA
Form 20-F
April 29, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark One)

o	**REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**
	OR
x	**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **For the fiscal year ended December 31, 2009**
	OR
o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
	OR
o	**SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number 1-10421

LUXOTTICA GROUP S.p.A.
(Exact name of Registrant as specified in its charter)

(Translation of Registrant s name into English)

REPUBLIC OF ITALY
(Jurisdiction of incorporation or organization)

VIA C. CANTÙ 2, MILAN 20123, ITALY
(Address of principal executive offices)

Michael A. Boxer, Esq.

Senior Vice President and General Counsel

Luxottica U.S. Holdings Corp.

44 Harbor Park Drive

Port Washington, NY 11050

Tel: (516) 484-3800

Fax: (516) 484-9010
(Name, Telephone, Email and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class	Name of each exchange of which registered
ORDINARY SHARES, PAR VALUE EURO 0.06 PER SHARE*	NEW YORK STOCK EXCHANGE
AMERICAN DEPOSITARY SHARES, EACH REPRESENTING ONE ORDINARY SHARE	NEW YORK STOCK EXCHANGE

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* Not for trading, but only in connection with the registration of American Depositary Shares, pursuant to the requirements of the New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act.

None.

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Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None.

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report.

ORDINARY SHARES, PAR VALUE EURO 0.06 PER SHARE 464,386,383

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes x No o

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes o No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer.

Large accelerated filer x Accelerated filer o Non-accelerated filer o

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP x	International Financial Reporting Standards as issued by the International Accounting Standards Board o	Other o

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 o Item 18 o

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act).

Yes o No x

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FORWARD-LOOKING INFORMATION

Throughout this annual report, management has made certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 which are considered prospective. These statements are made based on management s current expectations and beliefs and are identified by the use of forward-looking words and phrases such as plans, estimates, believes or belief, expects or other similar words or phrases.

Such statements involve risks, uncertainties and other factors that could cause actual results to differ materially from those which are anticipated. Such risks and uncertainties include, but are not limited to, our ability to manage the effect of the uncertain current global economic conditions on our business, our ability to successfully acquire new businesses and integrate their operations, our ability to predict future economic conditions and changes in consumer preferences, our ability to successfully introduce and market new products, our ability to maintain an efficient distribution network, our ability to achieve and manage growth, our ability to negotiate and maintain favorable license arrangements, the availability of correction alternatives to prescription eyeglasses, fluctuations in exchange rates, changes in local conditions, our ability to protect our proprietary rights, our ability to maintain our relationships with host stores, any failure of our information technology, inventory and other asset risk, credit risk on our accounts, insurance risks, changes in tax laws, as well as other political, economic, legal and technological factors and other risks and uncertainties described in our filings with the U.S. Securities and Exchange Commission (the SEC). These forward-looking statements are made as of the date hereof and we do not assume any obligation to update them.

Throughout this annual report, when we use the terms Luxottica, Company, Group, we, us and our, unless otherwise indicated or the cont otherwise requires, we are referring to Luxottica Group S.p.A. and its consolidated subsidiaries. References to Luxottica, Company, Group, we, us and our, for periods prior to our acquisition of Oakley, Inc. (Oakley) on November 14, 2007, are to Luxottica Group S.p.A. and its consolidated subsidiaries, excluding Oakley and its subsidiaries, unless otherwise indicated or the context otherwise requires. References to Oakley for periods prior to the acquisition refer to Oakley and its consolidated subsidiaries, unless otherwise indicated or the context otherwise requires.

TRADEMARKS

Our house brands and designer line prescription frames and sunglasses that are referred to in this annual report, and certain of our other products, are sold under names that are subject to registered trademarks held by us or, in certain instances, our licensors. These trademarks may not be used by any person without our prior written consent or the consent of our licensors, as applicable.

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

The following tables set forth selected consolidated financial data for the periods indicated and are qualified by reference to, and should be read in conjunction with, our consolidated financial statements, the related notes thereto, and Item 5 Operating and Financial Review and Prospects contained elsewhere herein. We prepare our financial statements in accordance with accounting principles generally accepted in the United States of America, or U.S. GAAP. The selected consolidated income statement data for the years ended December 31, 2009, 2008 and 2007, and the selected consolidated balance sheet data as of December 31, 2009 and 2008, are derived from the audited Consolidated Financial Statements included in Item 18. The selected consolidated income statement data for the years ended December 31, 2006 and 2005, and the selected consolidated balance sheet data as of December 31, 2007, 2006 and 2005, are derived from audited consolidated financial statements which are not included in this Form 20-F.

[TABLES APPEAR ON THE FOLLOWING PAGE]

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	2009	2008(2)	2007(2)(3)	2006(2)(4)	2005(2)(4)(5)
		(In thousands of Euro except per share data)			
STATEMENT OF INCOME DATA:					
Net Sales	5,094,318	5,201,611	4,966,054	4,676,156	4,134,263
Cost of Sales	(1,768,436)	(1,751,251)	(1,575,618)	(1,487,700)	(1,373,073)
Gross Profit	3,325,882	3,450,360	3,390,436	3,188,456	2,761,190
OPERATING EXPENSE					
Selling and Advertising	(2,106,360)	(2,124,430)	(2,069,280)	(1,948,466)	(1,755,536)
General and Administrative	(636,320)	(576,717)	(487,843)	(484,002)	(424,253)
Total	(2,742,680)	(2,700,597)	(2,557,123)	(2,432,468)	(2,179,789)
Income from Operations	583,202	749,763	833,313	755,987	581,401
OTHER INCOME (EXPENSE)					
Interest Income	6,887	13,265	17,087	9,804	5,650
Interest Expense	(91,571)	(135,267)	(89,498)	(70,622)	(66,171)
Other Net	(4,235)	(37,890)	19,780	(16,992)	18,429
Other Income (Expenses) Net	(88,919)	(159,892)	(52,631)	(77,810)	(42,092)
Income Before Provision for Income Taxes	494,283	589,870	780,681	678,177	539,309
Provision for Income Taxes	(167,417)	(194,657)	(273,501)	(238,757)	(199,266)
Net Income from Continuing Operations	326,866	395,213	507,180	439,420	340,043
Discontinued Operations Net of Taxes and Gain on Sale	0	0	0	(6,419)	11,504
Net Income	326,866	395,213	507,180	433,001	351,547
Less: Net Income Attributable to Noncontrolling Interests	(12,105)	(15,492)	(14,976)	(8,715)	(9,253)
Net Income Attributable to Luxottica Group Shareholders	314,762	379,722	492,204	424,286	342,294
Weighted Average Shares Outstanding (thousands)					
Basic	457,270.5	456,563.5	455,184.8	452,898.0	450,179.1
Diluted	457,942.6	457,717.0	458,530.6	456,186.0	453,303.4
Basic Earnings per Share from Continuing Operations (1)	0.69	0.83	1.08	0.95	0.73
Basic Earnings per Share from Discontinued Operations (1)	0.00	0.00	0.00	(0.01)	0.03
Basic Earnings per Share (1)	0.69	0.83	1.08	0.94	0.76
Diluted Earnings per Share from Continuing Operations (1)	0.69	0.83	1.07	0.94	0.73
Diluted Earnings per Share from Discontinued Operations (1)	0.00	0.00	0.00	(0.01)	0.03
Diluted Earnings per Share (1)	0.69	0.83	1.07	0.93	0.76

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(1) Earnings per Share for each year have been calculated based on the weighted-average number of shares outstanding during the respective years. Each American Depositary Share, or ADS, represents one ordinary share.

(2) Prior year amounts have been reclassified to conform with the 2009 presentation. For additional detail, please refer to Note 1 Reclassifications and Recent accounting pronouncements to our Consolidated Financial Statements included in Item 18 of this annual report.

(3) We acquired Oakley in November 2007. Therefore, fiscal year 2007 includes operating results of Oakley for the period from and after November 14, 2007, which was the date of the closing of the Oakley acquisition.

(4) Results of Things Remembered, our former specialty retail business, which was sold in 2006, are classified as discontinued operations and are not included in results from continuing operations.

(5) In March 2005, we acquired the remaining 17.43 percent of the outstanding shares of OPSM Group Limited, or OPSM, and, from that date, 100 percent of the operating results of OPSM and its subsidiaries are included above.

			As of December 31,		
	2009	**2008 (1)**	**2007**	**2006(1)**	**2005**
			(In thousands of Euro except share data)		
BALANCE SHEET DATA:					
Working Capital(2)	562,556	366,454	(248,632)	68,187	368,863
Total Assets	7,136,056	7,305,225	7,157,266	4,968,878	4,973,522
Total Debt(3)	2,570,469	2,805,502	2,719,140	1,319,262	1,528,909
Shareholders Equity	2,803,343	2,506,593	2,495,158	2,215,849	1,954,033
Capital Stock	27,863	27,802	27,757	27,613	27,479
Number of Shares Adjusted to Reflect Changes in Capital (thousands)	464,386.4	463,368.2	462,623.6	460,216.2	457,975.7

(1) Prior year amounts have been reclassified to conform with the 2009 presentation. For additional detail, please refer to Note 1 Reclassifications and Recent accounting pronouncements to our Consolidated Financial Statements included in Item 18 of this annual report.

(2) Working capital is total current assets minus total current liabilities. See Item 5 Operating and Financial Review and Prospects Liquidity and Capital Resources.

(3) The current portion of long-term debt was Euro 166.3 million, Euro 286.2 million, Euro 792.6 million, Euro 359.5 million and Euro 111.0 million for the years ended December 31, 2009, 2008, 2007, 2006 and 2005, respectively.

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Dividends

We are required to pay an annual dividend on our ordinary shares if such dividend has been approved by a majority of our stockholders at the ordinary meeting of stockholders. Before we may pay any dividends with respect to any fiscal year, we are required, as necessary, to set aside an amount equal to five percent of our statutory net income for such year in our legal reserve unless and until the reserve, including amounts remaining from prior years, is at least equal to one-fifth of the nominal value of our then issued share capital. Each year thereafter, such legal reserve requirement remains fulfilled so long as the reserve equals at least one-fifth of the nominal value of our issued share capital for each such year.

At our ordinary meeting of stockholders on April 29, 2009, our stockholders voted to allocate net income for 2008 to our extraordinary reserve, thereby suspending the payment of dividends until later in 2009 in order to strengthen our equity structure. At our ordinary meeting of stockholders held on October 29, 2009, our stockholders approved the distribution of a cash dividend in the amount of Euro 0.22 per ordinary share from our extraordinary reserve. The total amount of the dividend paid to holders on December 4, 2009, was Euro 102 million.

At our ordinary meeting of stockholders held on April 29, 2010, our stockholders approved the distribution of a cash dividend in the amount of Euro 0.35 per ordinary share. The dividend will be paid on May 27, 2010, to our stockholders of record on May 26, 2010, including Deutsche Bank Trust Company Americas, as depositary on behalf of holders of our American Depositary Shares, or ADSs. Each ADS represents the right to receive one ordinary share and is evidenced by an American Depositary Receipt, or ADR. The ADSs will trade ex-dividend on May 20, 2010. Deutsche Bank Trust Company Americas will convert the Euro amount of such dividend payment into U.S. dollars on May 27, 2010. The dividend amount for each ADS holder will be paid commencing on June 3, 2010, to all such holders of record on May 26, 2010. The total amount of the dividend will be approximately Euro 163 million.

Future determinations as to dividends will depend upon, among other things, our earnings, financial position and capital requirements, applicable legal restrictions and such other factors as the Board of Directors and our stockholders may determine.

The table below sets forth the cash dividends declared and paid on each ordinary share in each year indicated.

Year	**Cash Dividends per Ordinary Share(1)(2)(3) (Euro)**	**Translated into U.S. $ per Ordinary Share(4) (U.S. $)**
2005	0.230	0.276
2006	0.290	0.363
2007	0.420	0.564
2008	0.490	0.770
2009	0.220(5)	0.327

(1) Cash dividends per ordinary share are expressed in gross amounts without giving effect to applicable withholding or other deductions for taxes.

(2) Each ADS represents one ordinary share.

(3) Our dividend policy is based upon, among other things, our consolidated net income for each fiscal year, and dividends for a fiscal year are paid in the immediately following fiscal year. The dividends reported in the table were declared and paid in the fiscal year for which they have been reported in the table.

(4) Holders of ADSs received their dividend denominated in U.S. dollars based on the conversion rate used by our paying agent, Deutsche Bank Trust Company Americas, as specified in the applicable proxy statement.

(5) The dividend of Euro 0.22 per ordinary share was approved by our Board of Directors on September 18, 2009 and was voted upon and approved by our stockholders at the ordinary meeting of stockholders held on October 29, 2009.

Exchange Rate Information

The following tables set forth, for each of the periods indicated, certain information regarding the Noon Buying Rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York, which we refer to as the Noon Buying Rate, expressed in U.S. $ per Euro 1.00:

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Period	Low	High	Average(1)	End of Period
Year Ended December 31, 2005	1.1667	1.3476	1.2400	1.1842
Year Ended December 31, 2006	1.1860	1.3327	1.2661	1.3197
Year Ended December 31, 2007	1.2904	1.4862	1.3705	1.4603
Year Ended December 31, 2008	1.2446	1.6010	1.4707	1.3919
Year Ended December 31, 2009	1.2547	1.5100	1.3946	1.4332

(1) The average of the Noon Buying Rates in effect on the last business day of each month during the period. When the Company consolidates its profit and loss statement, it translates U.S. dollar denominated amounts into Euro using an average U.S. dollar/Euro exchange rate of each business day during the applicable period.

Month	Low	High
October 2009	1.4532	1.5029
November 2009	1.4658	1.5085
December 2009	1.4243	1.5100
January 2010	1.3870	1.4536
February 2010	1.3476	1.3955
March 2010	1.3344	1.3758

On April 23, 2010, the Noon Buying Rate was U.S. $1.3360 per Euro 1.00.

Unless otherwise indicated, all convenience translations included in this annual report of amounts expressed in Euro into U.S. dollars for the relevant period or date have been made using the Noon Buying Rate in effect as of the end of such period or date, as appropriate.

In this annual report, unless otherwise stated or the context otherwise requires, references to $, U.S. $, dollars or U.S. dollars are to United State dollars, references to Euro or are to the Common European Currency, the Euro, references to GBP are to the British Pound Sterling, references to Rs are to Indian rupees, and references to AUD or A$ are to Australian dollars.

Risk Factors

Our future operating results and financial condition may be affected by various factors, including those set forth below.

Current economic conditions may adversely impact demand for our products, reduce access to credit and cause our customers and others with which we do business to suffer financial hardship, all of which could adversely impact our business, results of operations, financial condition and cash flows.

Our operations and performance depend significantly on worldwide economic conditions. Uncertainty about current global economic conditions poses a risk to our business because consumers and businesses may continue to postpone spending in response to tighter credit markets, unemployment, negative financial news and/or declines in income or asset values, which could have a material adverse effect on demand for our products and services. Discretionary spending is affected by many factors, including general business conditions, inflation, interest rates, consumer debt levels, unemployment rates, availability of consumer credit, conditions in the real estate and mortgage markets, currency exchange rates and other matters that influence consumer confidence. Many of these factors are outside our control. Our customers purchases of discretionary items could decline during periods in which disposable income is lower or prices have increased in response to rising costs or in periods of actual or perceived unfavorable economic conditions. If this occurs or if unfavorable economic conditions continue to challenge the consumer environment, our business, results of operations, financial condition and cash flows could be materially adversely affected.

In the event of renewed financial turmoil affecting the banking system and financial markets, additional consolidation of the financial services industry or significant failure of financial services institutions, there could be a new or incremental tightening of the credit markets, decreased liquidity and extreme volatility in fixed income, credit, currency and equity markets. In addition, the credit crisis could continue to have material adverse effects on our business, including the inability of customers of our wholesale distribution business to obtain credit to finance purchases of our products, restructurings, bankruptcies, liquidations and other unfavorable events for our consumers, customers, vendors, suppliers,

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logistics providers, other service providers and the financial institutions that are counterparties to our credit facilities and other derivative transactions. The likelihood that such third parties will be unable to overcome these financial difficulties may increase. If the third parties on which we rely for goods and services or our wholesale customers are unable to overcome financial difficulties resulting from the deterioration of the worldwide economic conditions or if the counterparties to our credit facilities or our derivative transactions do not perform their obligations, our business, results of operations, financial condition and cash flows could be materially adversely affected.

If we are not successful in completing and integrating strategic acquisitions to expand or complement our business, our future profitability and growth will be at risk.

As part of our growth strategy, we have made, and may continue to make, strategic business acquisitions to expand or complement our business. Our acquisition activities, however, can be disrupted by overtures from competitors for the targeted candidates, governmental regulation and rapid developments in our industry. We may face additional risks and uncertainties following an acquisition, including: (i) difficulty in integrating the newly-acquired business and operations in an efficient and effective manner; (ii) inability to achieve strategic objectives, cost savings and other benefits from the acquisition; (iii) the lack of success by the acquired business in its markets; (iv) the loss of key employees of the acquired business; (v) a decrease in the focus of senior management on our operations; (vi) difficulty integrating human resources systems, operating systems, inventory management systems and assortment planning systems of the acquired business with our systems; (vii) the cultural differences between our organization and that of the acquired business; and (viii) liabilities that were not known at the time of acquisition or the need to address tax or accounting issues.

If we fail to timely recognize or address these matters or to devote adequate resources to them, we may fail to achieve our growth strategy or otherwise realize the intended benefits of any acquisition. Even if we are able to integrate our business operations successfully, the integration may not result in the realization of the full benefits of synergies, cost savings, innovation and operational efficiencies that may be possible from the integration or in the achievement of such benefits within the forecasted period of time.

If we do not correctly predict future economic conditions and changes in consumer preferences, our sales of premium products and profitability will suffer.

The fashion and consumer products industries in which we operate are cyclical. Downturns in general economic conditions or uncertainties regarding future economic prospects, which affect consumer disposable income, have historically adversely affected consumer spending habits in our principal markets and thus made the growth in sales and profitability of premium-priced product categories difficult during such downturns. Therefore, future economic downturns or uncertainties could have a material adverse effect on our business, results of operations and financial condition, including sales of our designer and other premium brands.

The industry is also subject to rapidly changing consumer preferences and future sales may suffer if the fashion and consumer products industries do not continue to grow or if consumer preferences shift away from our products. Changes in fashion could also affect the popularity and, therefore, the value of the fashion licenses granted to us by designers. Any event or circumstance resulting in reduced market acceptance of one or more of these designers could reduce our sales and the value of our inventory of models from that designer. Unanticipated shifts in consumer preferences may also result in excess inventory and underutilized manufacturing capacity. In addition, our success depends, in large part, on our ability to anticipate and react to changing fashion trends in a timely manner. Any sustained failure to identify and respond to such trends could materially adversely affect our business, results of operations and financial condition and may result in the write-down of excess inventory and idle manufacturing facilities.

If we are unable to successfully introduce new products, our future sales and operating performance will suffer.

The mid- and premium-price categories of the prescription frame and sunglasses markets in which we compete are particularly vulnerable to changes in fashion trends and consumer preferences. Our historical success is attributable, in part, to our introduction of innovative products which are perceived to represent an improvement over products otherwise available in the market. Our future success will depend on our continued ability to develop and introduce such innovative products. If we are unable to continue to do so, our future sales could decline, inventory levels could rise, leading to additional costs for storage and potential write-downs relating to the value of excess inventory, and production costs would be negatively impacted since fixed costs would represent a larger portion of total production costs due to the decline in quantities produced, which could materially adversely affect our results of operations.

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If we fail to maintain an efficient distribution network in our highly competitive markets, our business, results of operations and financial condition could suffer.

The mid- and premium-price categories of the prescription frame and sunglasses markets in which we operate are highly competitive. We believe that, in addition to successfully introducing new products, responding to changes in the market environment and maintaining superior production capabilities, our ability to remain competitive is highly dependent on our success in maintaining an efficient distribution network. If we are unable to maintain an efficient distribution network, our sales may decline due to the inability to timely deliver products to customers and our profitability may decline due to an increase in our per unit distribution costs in the affected regions, which may have a material adverse impact on our business, results of operations and financial condition.

If we are unable to achieve and manage growth, operating margins will be reduced as a result of decreased efficiency of distribution.

In order to achieve and manage our growth effectively, we are required to increase and streamline production and implement manufacturing efficiencies where possible, while maintaining strict quality control and the ability to deliver products to our customers in a timely and efficient manner. We must also continuously develop new product designs and features, expand our information systems and operations, and train and manage an increasing number of management level and other employees. If we are unable to manage these matters effectively, our efficient distribution process could be at risk and we could lose market share in affected regions, which could materially adversely affect our business prospects.

If we do not continue to negotiate and maintain favorable license arrangements, our sales or financial results will suffer.

We have entered into license agreements that enable us to manufacture and distribute prescription frames and sunglasses under certain designer names, including *Chanel, Prada, Miu Miu, Dolce & Gabbana, D&G, Bvlgari, Tiffany & Co., Versace, Versus, Salvatore Ferragamo, Burberry*, *Polo Ralph Lauren, Donna Karan, DKNY, Paul Smith Spectacles, Brooks Brothers, Anne Klein, Stella McCartney* and, most recently, *Tory Burch.* These license agreements typically have terms of between three and ten years and may contain options for renewal for additional periods and require us to make guaranteed and contingent royalty payments to the licensor. See Item 4 Information on the Company Overview Brand Portfolio regarding our new license agreement for the *Tory Burch* name. We believe that our ability to maintain and negotiate favorable license agreements with leading designers in the fashion and luxury goods industries is essential to the branding of our products and, therefore, material to the success of our business. For the years ended December 31, 2009 and 2008, the sales realized through the *Prada* and *Miu Miu* trade names together represented approximately 4.7 percent and 5.5 percent of total sales, respectively. For the years ended December 31, 2009 and 2008, the sales realized through the *Dolce & Gabbana* and *D&G* trade names together represented approximately 4.0 percent and 5.1 percent of total sales, respectively. Accordingly, if we are unable to negotiate and maintain satisfactory license arrangements with leading designers, our growth prospects and financial results could materially suffer from a reduction in sales or an increase in advertising costs and royalty payments to designers.

If vision correction alternatives to prescription eyeglasses become more widely available, or consumer preferences for such alternatives increase, our profitability could suffer through a reduction of sales of our prescription eyewear products, including lenses and accessories.

Our business could be negatively impacted by the availability and acceptance of vision correction alternatives to prescription eyeglasses, such as contact lenses and refractive optical surgery. According to industry estimates, over 39 million people wear contact lenses in the United States, and disposable contact lenses is the fastest growing segment of the lens subsector. In addition, the use of refractive optical surgery has grown substantially since it was approved by the U.S. Food and Drug Administration in 1995.

Increased use of vision correction alternatives could result in decreased use of our prescription eyewear products, including a reduction of sales of lenses and accessories sold in our retail outlets, which could have a material adverse impact on our business, results of operations, financial condition and prospects.

If the Euro strengthens relative to certain other currencies, our profitability as a consolidated group will suffer.

Our principal manufacturing facilities are located in Italy. We also maintain manufacturing facilities in China, India and the United States as well as sales and distribution facilities throughout the world. As a result, our results of operations could be materially adversely affected by foreign exchange rate fluctuations in two principal areas:

- we incur most of our manufacturing costs in Euro and in Chinese Yuan, and receive a significant part of our revenues in other currencies such as the U.S. dollar and the Australian dollar. Therefore, a strengthening of the Euro

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or the Chinese Yuan relative to other currencies in which we receive revenues could negatively impact the demand for our products or decrease our profitability in consolidation, thus adversely affecting our business and results of operations; and

- a substantial portion of our assets, liabilities, revenues and costs are denominated in various currencies other than Euro, with most of our revenues and operating expenses being denominated in U.S. dollars. As a result, our operating results, which are reported in Euro, are affected by currency exchange rate fluctuations, particularly between the U.S. dollar and the Euro.

As our international operations grow, future changes in the exchange rate of the Euro against the U.S. dollar and other currencies may negatively impact our reported results.

See Item 11   Quantitative and Qualitative Disclosures about Market Risk.

If our business suffers due to changing local conditions, our profitability and future growth will be affected.

We currently operate worldwide and have begun to expand our operations in many countries, including certain developing countries in Asia and South America. Therefore, we are subject to various risks inherent in conducting business internationally, including the following:

- exposure to local economic and political conditions;

- export and import restrictions;

- currency exchange rate fluctuations and currency controls;

- cash repatriation restrictions;

- application of the Foreign Corrupt Practices Act;

- difficulty in enforcing intellectual property and contract rights;

- disruptions of capital and trading markets;
- accounts receivable collection and longer payment cycles;
- potential hostilities and changes in diplomatic and trade relationships;
- legal or regulatory requirements;
- withholding and other taxes on remittances and other payments by subsidiaries;
- investment restrictions or requirements; and
- local content laws requiring that certain products contain a specified minimum percentage of domestically produced components.

The likelihood of such occurrences and their potential effect on us vary from country to country and are unpredictable, but any such occurrence may result in the loss of sales or increased costs of doing business and may have a material adverse effect on our business, results of operations, financial condition and prospects.

Compliance with U.S. and foreign laws and regulations that apply to our international operations increases our costs of doing business, including cost of compliance, in certain jurisdictions, and such costs may rise in the future as a result of changes in these laws and regulations or in their interpretation or enforcement. We have implemented policies and procedures designed to facilitate our compliance with these laws and regulations, but there can be no assurance that our employees, contractors or agents will not violate such laws and regulations or our policies. Any such violations could individually, or in the aggregate, materially adversely affect our financial condition or operating results.

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Additionally, as a U.S. government contractor through our Oakley and Eye Safety Systems subsidiaries, we must comply with, and are affected by, U.S. laws and regulations related to our government business. These laws and regulations, including requirements to obtain applicable governmental approvals, clearances and certain export licenses, may impose additional costs and risks on our business. We also may become subject to audits, reviews and investigations of our compliance with these laws and regulations. See Item 4 Information on the Company Regulatory Matters and Item 8 Financial Information Legal Proceedings.

If we are unable to protect our proprietary rights, our sales might suffer, and we may incur significant costs to defend such rights.

We rely on trade secret, unfair competition, trade dress, trademark, patent and copyright laws to protect our rights to certain aspects of our products and services, including product designs, proprietary manufacturing processes and technologies, product research and concepts and recognized trademarks, all of which we believe are important to the success of our products and services and our competitive position. However, pending trademark or patent applications may not in all instances result in the issuance of a registered trademark or patent, and trademarks or patents granted may not be effective in thwarting competition or be held valid if subsequently challenged. In addition, the actions we take to protect our proprietary rights may be inadequate to prevent imitation of our products and services. Our proprietary information could become known to competitors, and we may not be able to meaningfully protect our rights to proprietary information. Furthermore, other companies may independently develop substantially equivalent or better products or services that do not infringe on our intellectual property rights or could assert rights in, and ownership of, our proprietary rights. Moreover, the laws of certain countries do not protect proprietary rights to the same extent as the laws of the United States.

Consistent with our strategy of vigorously defending our intellectual property rights, we devote substantial resources to the enforcement of patents issued and trademarks granted to us, to the protection of our trade secrets, trade dress or other intellectual property rights and to the determination of the scope or validity of the proprietary rights of others that might be asserted against us. However, if the level of potentially infringing activities by others were to increase substantially, we might have to significantly increase the resources we devote to protecting our rights. From time to time, third parties may assert patent, copyright, trademark or similar rights against intellectual property that is important to our business. The resolution or compromise of any litigation or other legal process to enforce such alleged third party rights, regardless of its merit or resolution, could be costly and divert the efforts and attention of our management. We may not prevail in any such litigation or other legal process or we may compromise or settle such claims because of the complex technical issues and inherent uncertainties in intellectual property disputes and the significant expense in defending such claims. An adverse determination in any dispute involving our proprietary rights could, among other things, (i) require us to grant licenses to, or obtain licenses from, third parties, (ii) prevent us from manufacturing or selling our products, (iii) require us to discontinue the use of a particular patent, trademark, copyright or trade secret or (iv) subject us to substantial liability. Any of these possibilities could have a material adverse effect on our business including by reducing our future sales or causing us to incur significant costs to defend our rights.

If we are unable to maintain our current operating relationship with host stores of our Licensed Brands, we could suffer a loss in sales and possible impairment of certain intangible assets.

Our sales depend in part on our relationships with the host stores that allow us to operate our Licensed Brands division, including Sears Optical and Target Optical. Our leases and licenses with Sears Optical are terminable upon short notice. If our relationship with Sears Optical or Target Optical were to end, we would suffer a loss of sales and the possible impairment of certain intangible assets. This could have a material adverse effect on our business, results of operations, financial condition and prospects.

If we become subject to adverse judgments or determinations in legal proceedings to which we are, or may become, a party, our future profitability could suffer through a reduction of sales or increased costs.

We are currently a party to certain legal proceedings as described in Item 8 Financial Information Legal Proceedings. In addition, in the ordinary course of our business, we become involved in various other claims, lawsuits, investigations and governmental and administrative proceedings, some of which are significant. Adverse judgments or determinations in one or more of these proceedings could require us to change the way we do business or use substantial resources in adhering to the settlements and could have a material adverse effect on our business, including, among other consequences, by significantly increasing our costs to operate our business.

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Leonardo Del Vecchio, our chairman and principal stockholder, controls 67.67% of our voting power and is in a position to affect our ongoing operations, corporate transactions and any matters submitted to a vote of our stockholders, including the election of directors and a change in corporate control.

As of March 1, 2010, Mr. Leonardo Del Vecchio, the Chairman of our Board of Directors, through the company Delfin S.a.r.l., has the power to vote 314,403,339 Ordinary Shares, or 67.67% of the outstanding Ordinary Shares. See Item 7 Major Shareholders and Related Party Transactions. As a result, Mr. Del Vecchio has the ability to exert significant influence over our corporate affairs and to control the outcome of virtually all matters submitted to a vote of our stockholders, including the election of our directors, the amendment of our Articles of Association or By-laws, and the approval of mergers, consolidations and other significant corporate transactions.

Mr. Del Vecchio s interests may conflict with or differ from the interests of our other stockholders. In situations involving a conflict of interest between Mr. Del Vecchio and our other stockholders, Mr. Del Vecchio may exercise his control in a manner that would benefit himself to the potential detriment of other stockholders. Mr. Del Vecchio s significant ownership interest could delay, prevent or cause a change in control of our company, any of which may be adverse to the interests of our other stockholders.

If our procedures designed to comply with Section 404 of the Sarbanes-Oxley Act of 2002 cause us to identify material weaknesses in our internal control over financial reporting, the trading price of our securities may be adversely impacted.

Our annual report on Form 20-F includes a report from our management relating to its evaluation of our internal control over financial reporting, as required under Section 404 of the U.S. Sarbanes-Oxley Act of 2002, as amended. There are inherent limitations on the effectiveness of internal controls, including collusion, management override and failure of human judgment. In addition, control procedures are designed to reduce, rather than eliminate, business risks. As a consequence of the systems and procedures we have implemented to comply with these requirements, we may uncover circumstances that we determine, with the assistance of our independent auditors, to be material weaknesses, or that otherwise result in disclosable conditions. Any identified material weaknesses in our internal control structure may involve significant effort and expense to remediate, and any disclosure of such material weaknesses or other disclosable conditions may result in a negative market reaction to our securities.

We rely on information technology in our operations, and any material failure, inadequacy, interruption or security failure of that technology could harm our ability to effectively operate our business.

We rely on information technology systems across our operations, including for management of our supply chain, point-of-sale processing in our stores and various other processes and transactions. Our ability to effectively manage our business and coordinate the production, distribution and sale of our products depends on, among other things, the reliability and capacity of these systems. The failure of these systems to operate effectively, network disruptions, problems with transitioning to upgraded or replacement systems, or a breach in data security of these systems could cause delays in product supply and sales, reduced efficiency of our operations, unintentional disclosure of customer, patient or other confidential information of the Company, or damage to our reputation, and potentially significant capital investments could be required to remediate the problem, which could have a material adverse effect on our results of operations.

If we record a write-down for inventories or other assets that are obsolete or exceed anticipated demand or net realizable value, such charges could have a material adverse effect on our results of operations.

We record a write-down for product and component inventories that have become obsolete or exceed anticipated demand or net realizable value. We review our long-lived assets for impairment whenever events or changed circumstances indicate that the carrying amount of an asset may not be recoverable, and we determine whether valuation allowances are needed against other assets, including, but not limited to, accounts receivable and deferred tax assets. If we determine that impairments or other events have occurred that lead us to believe we will not fully realize these assets, we record a write-down or a valuation allowance equal to the amount by which the carrying value of the assets exceeds its fair market value. Although we believe our inventory and other asset-related provisions are currently adequate, no assurance can be made that, given the rapid and unpredictable pace of product obsolescence for fashion eyewear, we will not incur additional inventory or asset-related charges, which charges could have a material adverse effect on our results of operations.

We are exposed to credit risk on our accounts receivable. This risk is heightened during periods when economic conditions worsen.

A substantial majority of our outstanding trade receivables are not covered by collateral or credit insurance. While we have procedures to monitor and limit exposure to credit risk on our trade and non-trade receivables, there can be no

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assurance such procedures will effectively limit our credit risk and avoid losses, which could have a material adverse effect on our results of operations.

Unforeseen or catastrophic losses not covered by insurance could materially adversely affect our results of operations and financial condition.

For certain risks, we do not maintain insurance coverage because of cost and/or availability. Because we retain some portion of our insurable risks, and in some cases self-insure completely, unforeseen or catastrophic losses in excess of insured limits could materially adversely affect our results of operations and financial condition.

Changes in our tax rates, the adoption of new U.S. tax legislation or exposure to additional tax liabilities could affect our future results.

We are subject to taxes in Italy, the United States and numerous other foreign jurisdictions. Our future effective tax rates could be affected by changes in the mix of earnings in countries with differing statutory tax rates, changes in the valuation of deferred tax assets and liabilities, or changes in tax laws or their interpretation. In addition, the current U.S. administration and Congress have recently announced proposals for new U.S. tax legislation that, if adopted, could adversely affect our tax rate. Any of these changes could have a material adverse effect on our profitability. We also are regularly subject to the examination of our income tax returns by the U.S. Internal Revenue Service as well as the governing tax authorities in other countries where we operate. We routinely assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for taxes. Currently, some of our companies are under examination by the tax authorities in the United States. There can be no assurance that the outcomes of the current ongoing examinations and possible future examinations will not materially adversely affect our business, results of operations, financial condition and prospects.

ITEM 4. INFORMATION ON THE COMPANY

OVERVIEW

We are a leader in premium, luxury and sport/performance eyewear, with net sales reaching Euro 5.1 billion in 2009, approximately 60,000 employees and a strong global presence. We operate in two industry segments: (i) manufacturing and wholesale distribution; and (ii) retail distribution. See Item 18 Financial Statements for additional disclosures about our operating segments. Through our manufacturing and wholesale distribution segment, we are engaged in the design, manufacture, wholesale distribution and marketing of house and designer lines of mid- to premium-priced prescription frames and sunglasses, and, through Oakley, of performance optics products. We operate our retail segment principally through our retail brands, which include, among others, LensCrafters, Sunglass Hut, Pearle Vision, ILORI, The Optical Shop of Aspen, OPSM, Laubman & Pank, Budget Eyewear, Bright Eyes, Oakley O Stores and Vaults, David Clulow and our Licensed Brands (Sears Optical and Target Optical).

Founded in 1961 by Leonardo Del Vecchio, we are now a vertically integrated organization. Our manufacturing of prescription and sun frames and lenses for sunglasses is backed by wide-reaching wholesale and retail distribution networks comprising over 6,200 retail locations as of December 31, 2009, mostly in North America, Asia-Pacific and China.

Product design, development and manufacturing takes place in six production facilities in Italy, two wholly owned factories in China and two sports sunglasses production facilities in the United States. Luxottica also has a small plant in India serving the local market. In 2009, we produced approximately 48.7 million units.

The design and quality of our products and our strong and well-balanced brand portfolio are known around the world. Our house brands include Ray-Ban, one of the world s best-known sun brands, Oakley, Vogue, Persol, Oliver Peoples, Arnette and REVO, and our licensed designer brands include Bvlgari, Burberry, Chanel, Dolce & Gabbana, Donna Karan, Polo Ralph Lauren, Paul Smith, Prada, Salvatore Ferragamo, Stella McCartney, Tiffany, Tory Burch and Versace.

Our wholesale distribution network, covering 130 countries across five continents, has 16 logistics centers and 43 commercial subsidiaries providing direct operations in key markets. We are currently seeking to penetrate emerging markets and are exploring new channels of distribution, such as shopping centers, airports and railway stations, in the geographic markets that we currently serve.

Our direct wholesale operations are complemented by an extensive retail network. We are a leader in the prescription business in North America with our LensCrafters and Pearle Vision brands, in Asia-Pacific with our OPSM,

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Laubman & Pank and Budget Eyewear brands, and in China with our LensCrafters brand. In our retail sun business, we operate 2,283 retail locations in North America, Asia-Pacific, South Africa, Europe and the Middle East, mainly through the Sunglass Hut brand. In 2009, we created a new global sun and luxury retail management group to support the Sunglass Hut, Ilori, The Optical Shop of Aspen and Bright Eyes brands and reinforce our global retail brands dedicated to sun and luxury eyewear. This management group focuses on redefining our customer experience to allow us to leverage the opportunities for growth into new and existing markets.

In North America, we operate our Licensed Brands points of sale, with over 1,200 stores under the Sears Optical and Target Optical brands. In addition, we are one of the largest managed vision care operators in the United States, through EyeMed, and the second biggest lens finisher, having a network of five central laboratories and over 900 on-site labs at LensCrafters stores.

In 2009, we distributed approximately 19.7 million prescription frames and approximately 35.3 million sunglasses, in approximately 6,400 different styles.

Our Oakley brand provides a powerful wholesale and retail (O Stores) presence in both the performance optics and the sport channels. In our O Store locations, we offer a variety of Oakley-branded products in addition to our Oakley sunglass styles. Our Oakley-branded products include men s and women s apparel, footwear, backpacks and accessories designed for surf, snow, golf, outdoor, motor sport, mountain bike and other athletic lifestyles.

Our capital expenditures for our continuing operations were Euro 200.4 million for the year ended December 31, 2009 and Euro 31.7 million for the three-month period ended March 31, 2010. We expect 2010 aggregate capital expenditures to be approximately Euro 210 million, excluding any additional investments for business acquisitions. The most significant investments planned are for the remodeling of existing stores for our North American retail operations and for investment in new IT infrastructure worldwide. We will fund these future capital expenditures with our current available borrowing capacity and available cash. For a description of capital expenditures for the previous three years, see Item 5 Operating and Financial Review and Prospects Liquidity and Capital Resources Cash Flows Investing Activities.

Our principal executive offices are located at Via C. Cantù 2, Milan, 20123, Italy, and our telephone number at that address is (011) 39-02-863341. We are domiciled in Milan, Italy.

HISTORY

Founding

Luxottica Group was founded by Leonardo Del Vecchio in 1961, when he set up Luxottica di Del Vecchio e C. S.a.S., which became a joint-stock company organized under the laws of Italy under the name of Luxottica S.p.A. in 1964. We started out as a small workshop and operated until the end of the 1960s as a contract producer of dyes, metal components and semi-finished goods for the optical industry. We gradually widened the range of processes that we offered until we had an integrated manufacturing structure capable of producing a finished pair of glasses. In 1971, our first collection of prescription eyewear was presented at Milan s MIDO (an international optics trade fair), marking our definitive transition from contract manufacturer to independent producer.

Expansion in Wholesale Distribution

In the early 1970s, we sold our frames exclusively through wholesalers. In 1974, after five years of sustained development of our manufacturing capacity, we started to pursue a strategy of vertical integration, with the goal of distributing frames directly to the market. Our first step was the acquisition of Scarrone S.p.A., which had marketed our products since 1971, and which brought with it vital knowledge of the Italian market.

Our international expansion began in the 1980s with the acquisition of independent distributors, the opening of branches and the forming of joint ventures in key international markets. Our international wholesale development started with the opening of the first commercial subsidiary in Germany in 1981 and continued with the acquisition of Avant-Garde Optics Inc., a wholesale distributor in the U.S. market, in the mid-1980s and the acquisition of Mirari, a distributor in Japan, in the 1990s. Our international expansion continues today as we open new distribution channels in emerging markets.

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Eyewear: A New Frontier of Fashion

Throughout our history, we have invested in our products. Our acquisition in 1981 of La Meccanoptica Leonardo, the owner of the Sferoflex brand and an important flexible hinge patent, enabled us to enhance the image and quality of our products and increase our market share.

Beginning in the late 1980s, eyeglasses, previously perceived as mere sight-correcting instruments, began to evolve into eyewear. Continual aesthetic focus on everyday objects and interest on the part of designers in the emerging accessories industry led us, in 1988, to embark on our first collaboration with the fashion industry by entering into a licensing agreement with Giorgio Armani. We followed up that initial collaboration (the Armani license was terminated in 2003) with numerous others, gradually building our current world-class brand portfolio featuring names like Bvlgari (1996), Salvatore Ferragamo (1998), Chanel (1999), Prada (2003), Versace (2003), Donna Karan (2005), Dolce & Gabbana (2006), Burberry (2006), Polo Ralph Lauren (2007), Tiffany (2008), Stella McCartney (2009) and Tory Burch (2009).

As for our house brands, we expanded in the sun business by buying Vogue (1990), Persol (1995), Ray-Ban (1999) and Oakley (2007).

Financial Markets

In 1990, we listed our American Depositary Shares (ADSs) on the New York Stock Exchange. In 2000, our stock was listed on Borsa Italiana s electronic share market and has been in Italy s Mercato Telematico Azionario (MTA) since 2003.

Entry Into Retail Distribution

In 1995, we acquired The United States Shoe Corporation, which owned LensCrafters, one of North America s largest optical retail chains. As a result, we became the world s first significant eyewear manufacturer to enter the retail market, thereby maximizing synergies with our production and wholesale distribution and increasing penetration of our products through LensCrafters stores.

Ray-Ban

In 1999, we acquired Ray-Ban, one of the world s best-known sunglass brands. Through this acquisition, we obtained crystal sunglass lens technology and the associated manufacturing capacity and upgraded our portfolio with brands like Arnette, REVO and Killer Loop.

After we acquired Ray-Ban, we engaged in extensive advertising campaigns to re-launch the brand and to restore its prestige which we believe had waned in the 1990s.

A Decade of Growth

Since 2000, we have strengthened our retail business by acquiring a number of chains, including Sunglass Hut (2001), a leading retailer of premium sunglasses, OPSM Group (2003), a leading optical retailer in the Asia-Pacific region, and Cole National (2004), which brought with it another leading optical retail chain in North America, Pearle Vision, and an extensive Licensed Brands store business. In 2005, we began our retail expansion into China, where LensCrafters has since become a leading brand in China s high-end market. In 2006, we started to expand Sunglass Hut globally in high-potential markets like the Middle East, South Africa, Thailand, India and the Philippines.

During this time, our wholesale segment has supported our new licensing agreements with an increasing commitment to research, innovation, product quality and manufacturing excellence, while we continue to focus our distribution expansion on customer differentiation and emerging sales channels, such as large department stores and travel retail.

Oakley

In 2007, we acquired California-based Oakley, a leading sports and performance brand, for U.S.$ 2.1 billion. Oakley, a brand known and appreciated worldwide, owns the Oliver Peoples brand and a license to manufacture and distribute the Paul Smith brand, as well as its own retail network of over 160 stores.

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RECENT DEVELOPMENTS

On January 5, 2010, the minority stockholders of Luxottica Gozluc Endustri ve Ticaret Anonim Sirketi, our Turkey-based subsidiary, notified us of their intention to exercise the put option to sell to us a 35.16% interest in such subsidiary. The purchase price will be approximately Euro 61.5 million. The exercise of the put option will result in this becoming a wholly-owned subsidiary. The sale is expected to close in May 2010, subject to approval by Turkish antitrust authorities.

On January 29, 2010, our subsidiary Luxottica U.S. Holdings Corp. closed a private placement of U.S. $175 million of senior unsecured guaranteed notes, issued in three series (Series D, Series E and Series F). See Item 5 Operating and Financial Review and Prospects Liquidity and Capital Resources Our Indebtedness Our Other Debt Financings.

In February 2010, Luxottica and Essilor International formed a long-term joint venture for the Australian and New Zealand markets. The joint venture will manage Eyebiz Pty Limited, Luxottica s Sydney-based optical lens finishing laboratory, which, as a result of this alliance, will be majority-controlled by Essilor. Eyebiz will continue to supply all of Luxottica s retail optical outlets in Australia and New Zealand: OPSM, Budget Eyewear and Laubman & Pank.

On March 9, 2010, our Board of Directors convened a stockholders meeting for April 29, 2010, to approve the distribution of a cash dividend. See Item 3 Key Information Dividends.

On March 31, 2010, we announced the five-year extension of our license agreement with Retail Brand Alliance, Inc. for the design, production and worldwide distribution of prescription frames and sunglasses under the Brooks Brothers brand. The terms of the license agreement were substantially unchanged from our previous agreement and we have an option for an additional five-year extension under the same terms.

On April 16, 2010, we announced that starting with the first quarter of fiscal year 2010 and for all future reporting periods we will report our financial results in accordance with the International Financial Reporting Standards as issued by the International Accounting Standards Board in all financial communications including reports to the SEC. Up to and including the 2009 fiscal year, we had been reporting our financial results under U.S. GAAP, which we used since our initial listing on the New York Stock Exchange.

DESIGN AND PRODUCT DEVELOPMENT

Our success depends on, among other things, product design and the continuous development of new styles. Each year, we add approximately 2,300 new styles to our eyewear collections.

In our design process, we seek to merge technology and creativity. Our designers strive for innovation and technology and treat eyewear as art, as objects to put on display. In designing products, they survey market trends but draw mostly on their imagination and creativity.

Our in-house designers oversee the entire concept phase of the creative process, culminating in the creation of the model. At the initial phase, the prototype makers transform designs into one-off pieces, crafted by hand with meticulous precision.

Once the prototypes or style concepts are developed in the initial phase of design, they are passed on to the product department, which uses 3D software to analyze the steps necessary to bring the prototype to mass production.

Three main manufacturing technologies are involved, metal, acetate slabs and plastic (injection molding).

At this point in the cycle, the tooling shop puts together equipment needed to make the components for the new model. The first specimens obtained are assembled and undergo a series of tests required by internal quality control procedures.

The next steps are production and quality certification of sales samples of the new models. These samples are subjected to a sequence of tests to ascertain the quality of what has been engineered so far.

The final step is the production of an initial significant batch using definitive tooling certified by an external standards organization, which is produced in a pilot facility accurately representing the Luxottica plant chosen to mass produce the new model to meet the needs of production planning.

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For our designer line products, our design team works with licensors to discuss the basic themes and fashion concepts for each product and then works closely with each licensor s designers to refine such themes. In addition, our design team works directly with our marketing and sales departments, which monitor demand for our current models as well as general style trends in eyewear. The information obtained from our marketing and sales departments is then used to refine existing product designs and market positioning in order to react to changing consumer preferences.

BRAND PORTFOLIO

Our brand portfolio is one of the largest in the industry, with our major global brands backed by leading brands both at a regional level and in particular segments and niche markets. Our portfolio is balanced between house and licensed designer brands, combining the stability and volumes of the former with the prestige and high margins of the latter.

The presence of Ray-Ban, one of the world s best-selling brands of sun and prescription eyewear, and Oakley, a leader in the sport/performance category, gives the portfolio a strong base, complemented by Persol and Oliver Peoples in the high end of the market, the Arnette and REVO brands in the sports market, and Vogue.

Alongside the house brands, which accounted for over 71% of all units sold in 2009, our portfolio has over 20 licensed designer brands, including some well-known and prestigious names in the global fashion and luxury industries. With our manufacturing know-how, capillary distribution and direct retail operations supported by targeted advertising and our experience in international markets, our goal is to be the ideal partner for fashion houses and stylists seeking to translate their style and values into successful premium quality eyewear collections. We differentiate each designer s offering as much as possible, meticulously segmenting it by type of customer and geographical market, to produce a broad range of models capable of satisfying the most diverse tastes and tendencies and to respond to the demands and characteristics of widely differing markets.

During 2009, we renewed our partnerships with Salvatore Ferragamo, one of our oldest licenses, dating back to 1998, Donna Karan, whose first eyewear collection was launched by us in 2005, and Versace, extending our licenses from 2011 to 2013, from 2014 to 2019 and from 2012 to 2022, respectively.

In addition, we signed an exclusive license agreement with Tory Burch LLC for the design, manufacture and worldwide distribution of prescription frames and sunglasses under Tory Burch and TT, two emerging American fashion and lifestyle brands. We launched the first eyewear collection under the Tory Burch name in November 2009 and it is currently distributed in the United States through Tory Burch boutiques, select department stores and independent optical locations, as well as our retail chains in North America. This collection will be extended across Europe and the rest of the world in 2011. The agreement, which runs for six years and is renewable for an additional five, is consistent with the 10-year average duration of our licenses with fashion houses and stylists, allowing for improved investment planning and greater realization of the value of collections. Finally, we also launched the first Stella McCartney sunglass collection in November 2009 in Europe and the United States.

The following table presents the respective percentages of our consolidated total unit (a unit represents an eyeglass frame or pair of sunglasses and excludes sales of other materials) sales comprised by our designer and house brands during the periods indicated:

	Year Ended December 31,				
	2009	2008	2007	2006	2005
	(as a percentage of total unit sales)				
Designer brands	28.3	33.0	42.7	41.2	35.9
House brands	71.7	67.0	57.3	58.8	64.1

The following table presents the respective percentages of our total sales comprised by our prescription frames and lenses and sunglasses for the periods indicated:

	Year Ended December 31,				
	2009	2008	2007	2006	2005
	(as a percentage of total sales of frames and lenses)				
Prescription frames and lenses	51.5	52.8	57.7	60.7	61.6
Sunglasses	48.5	47.2	42.3	39.3	38.4

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House Brands

In 2009, we developed approximately 500 distinct new styles within our house brands, of which approximately 300 are optical and 200 are sun. Each style is typically produced in two sizes and five colors.

Ray-Ban

Style, tradition and freedom of expression are the key values underpinning the philosophy of Ray-Ban, a leader in sun and prescription eyewear for generations. Debuting in 1937 with the Aviator model created for American Air Force pilots, Ray-Ban joined Luxottica s brand portfolio in 1999. Ray-Ban is recognized for the quality and authenticity of its eyewear and is worn by countless celebrities and trendsetters all over the world.

Oakley

Acquired by Luxottica in 2007, Oakley is a leading sports eyewear brand, known for its blend of technology, design and art across all its products. In addition to its sun and prescription eyewear and ski goggles, it offers branded apparel, footwear and accessories in collections addressing specific consumer categories: Sport/Active, Lifestyle and Women. Oakley is also well-known for its lens technologies and especially its High Definition Optics® (HDO®).

Arnette

Launched in California in 1992, Arnette was acquired by us in 1999, and combines the comfort and functionality demanded by extreme sports enthusiasts.

Eye Safety Systems

Acquired by us in 2007, *ESS* designs, develops and markets advanced eye protection systems for military, firefighting and law enforcement professionals and is a leading supplier of protective eyewear to the U.S. military and firefighting markets.

K&L

Created in 1989, Killer Loop joined our brand portfolio in 1999. It gradually evolved from a general sports style to embody a more urban spirit. In 2008 it took on a new name, K&L, and launched a project for collections specifically addressing the preferences of consumers in emerging markets while maintaining global distribution.

Luxottica

Launched in 1967, our original line best conveys the experience and tradition that are its essence. The brand broadened its range with Luxottica Titanium, a collection for people who prefer super-lightweight frames of elegant design.

Mosley Tribes

Launched in 2005 and part of our brand portfolio since 2007, Mosley Tribes combines design and aesthetics with a vision of the urban lifestyle and sports performance worlds. The sleek and stylish frames use titanium and injected plastic for a lightweight design, ideal for active individuals. Most frames feature advanced lens technology.

Oliver Peoples

Acquired by Luxottica in 2007, Oliver Peoples began in 1987 with the introduction of a retro-inspired eyewear collection created by designer and optician Larry Leight. All eyewear is handcrafted from the finest quality materials, in colors exclusive to Oliver Peoples. Frames are manufactured in limited quantity and with deliberate anti-logo labeling so that only people in the know will recognize them.

Persol

Persol made its debut in 1917 and was acquired by us in 1995. With its evocative name, meaning for sun , it is the proud heir to a culture of excellence and craftsmanship, a perfect alchemy of aesthetics and technology. The high quality makes the brand a favorite among celebrities.

Revo

Created in 1985 and acquired by us in 1999, REVO is characterized by an innovative lens based on a technology that NASA developed for satellite portholes, offering maximum protection against ultraviolet and infrared light.

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Sferoflex

Sferoflex, which joined our portfolio in 1981, takes its name from the patented flexible hinge enabling the temples to conform to the shape and size of the face, thus increasing the resilience of the frame itself and ensuring perfect fit.

Vogue

Launched in 1973 under the same name as the famous fashion magazine, the Vogue brand was acquired by us in 1990. Vogue models speak through their innovative designs, their variety of colors and frames and the detailing on the temples.

Licensed Designer Brands

Our designer lines are produced and distributed through license agreements with major fashion houses. The license agreements are exclusive contracts and typically have terms of between three and ten years. See License Agreements. Designer collections are developed through the collaborative efforts of our in-house design staff and the brand designers. Our designer lines presently feature approximately 1,145 different styles.

Anne Klein

This product line targets successful professional women who place an emphasis on quality and image. The license dates back to 2002.

Brooks Brothers

Characterized by lightweight materials and a slender line, the Brooks Brothers collections reflect the iconic features of the style of this American brand. This is an affordable product line with classic style that delivers functionality, lightness and high quality. We entered into the original license agreement in 1992.

Bvlgari

Under license since 1997, Bvlgari eyewear is distinguished by the high quality of its materials, attention to detail and elegant design. This product line addresses a clientele who seek a distinctive and exclusive product.

Burberry

The Burberry license agreement was signed in 2005, with the launch of the first eyewear collection in 2006. This collection features the brand s core values of form and function, innovation and the essence of classic style.

Chanel

In 1999, Luxottica was the first company licensed to produce Chanel eyewear products. The Chanel product line, targeting luxury-oriented consumers, reflects the essential characteristics of the brand: style, elegance and class.

Dolce & Gabbana

Under license since 2005, Dolce & Gabbana eyewear collections are characterized by modern, fashionable shapes, prestige materials and sumptuous detailing, such as logos in Swarovski crystals or elegant metal circles.

D&G

The D&G eyewear collection has a youthful, innovative and unconventional spirit. The eyewear collection emphasizes the spirit of the brand: innovative, provocative and cosmopolitan.

Donna Karan

This product line reflects the design sensibility and spirit of the Donna Karan collection, offering women sophisticated styling in modern and lightweight materials.

DKNY

DKNY is easy-to-wear fashion with an urban mindset, the New York City street-smart look. DKNY eyewear caters to modern, urban, fashion-conscious women and men with multifaceted lifestyles: international, eclectic, fun and real.

Fox

Fox Eyewear collections are the result of a multi-year licensing agreement with Fox Head, Inc., a leading motocross and action sport brand based in California. Fox eyewear and ski goggles have been on the market for over five years and are currently the only brand other than Oakley to use High Definition Optics® (HDO®) technology. Fox Eyewear joined Luxottica s brand portfolio at the end of 2007.

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Miu Miu

The Miu Miu brand addresses a sophisticated, free-and-easy clientele particularly attentive to new trends and expresses Miuccia Prada s vision of an alternative style, always characterized by a strong personality.

Paul Smith

The Paul Smith Spectacles brand, which launched in 1994, includes prescription and sun eyewear featuring the whimsical yet classic designs and attention to detail that are synonymous with one of Britain s leading fashion designers.

Polo Ralph Lauren: Polo Ralph Lauren is comprised of six collections:

Chaps

Chaps features easy-to-wear designs in the classic tradition of Polo Ralph Lauren. The line offers a designer name to the young consumer of competitively priced sportswear.

Club Monaco

Club Monaco offers quality eyewear of style and affordable luxury. The styling targets men and women between 20 and 40 who are urban professionals and other style enthusiasts who appreciate design at mid-level prices.

POLO

The Polo collection focuses on refined designs, inspired by the heritage of Polo Ralph Lauren apparel. This collection features emblematic models that are classic and never out of style.

RALPH

This women s line is an expression of the Ralph Lauren spirit at an accessible price point. It features the latest looks and trends, as well as some more classic looks, and vibrant colors for a feminine, flirty and fun look.

Ralph Lauren Purple Label

The exclusive Purple Label eyewear collection combines the elegance of tradition with the requirements of the modern gentleman: high quality, precious materials, details and style.

RALPH LAUREN

The Ralph Lauren eyewear collection embraces a youthful sophisticated elegance that mixes refined luxury with cinematic glamour and an air of mystery.

PRADA

The Prada license agreement was signed in 2003. Prada collections offer a range of optical frames and sunglass collections, as well as a series of models created for leisure, identified by the brand s unmistakable red stripe.

Salvatore Ferragamo

Salvatore Ferragamo collections are characterized by lavish attention to detail, original use of materials and creative choice of colors. The eyewear collection is inspired by the tradition of craftsmanship of this fashion house, reinterpreted in a contemporary mode.

Stella McCartney

Stella McCartney eyewear reflects the sense of modernity and innovation that the stylist shows in her creation of desirable fashion, combining everyday functionality with a strong fashion sensibility.

TIFFANY & CO.

For 169 years, Tiffany & Co. has designed and produced standard-setting jewelry and accessories. The first collection of Tiffany & Co. eyewear, launched exclusively by Luxottica in early 2008, remains true to the brand s highest standards.

Tory Burch

Under license since 2009, Tory Burch is an attainable luxury lifestyle brand defined by classic American sportswear with an eclectic sensibility, which embodies the personal style and spirit of its co-founder and creative director, Tory Burch.

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VERSACE

Versace, under license since 2003, is a lifestyle brand for modern men and women who choose to express strength, confidence and uniqueness through a bold and distinctive personal style.

VERSUS

While staying true to the essence of the Versace brand, Versus, under license since 2003, embodies a younger, edgier take on those themes.

MANUFACTURING

Plants and Facilities

Our primary manufacturing facilities are located in Italy, China and the United States. In 2009, 2008 and 2007, our manufacturing facilities produced a combined total of approximately 48.7 million, 50.1 million and 41.8 million prescription frames and sunglasses, respectively.

We have six manufacturing facilities in Italy: five in northeastern Italy, the area in which most of the country s optical industry is based, and one near Turin. All of these facilities are highly automated, which has made it possible for us to maintain a high level of production without significant capital outlay.

Over the years, we have consolidated our manufacturing processes by concentrating a specific production technology in each of the Italian facilities. This consolidation has enabled us to improve both the productivity and quality of our manufacturing operations. We make plastic frames in the Agordo, Sedico, Pederobba and Lauriano facilities, while we produce metal frames in Agordo and Rovereto. We produce certain metal frame parts in the Cencenighe plant. The Lauriano facility also makes crystal and polycarbonate lenses for sunglasses.

In 2006, we modernized our operations in Italy by building a new approximately 32,000 square-meter manufacturing facility to produce acetate frames and sunglasses for a total investment of approximately Euro 20.0 million. In 2007, we further expanded our manufacturing facilities in Italy by approximately 28,000 square meters in order to rationalize the product production flow, for a total investment of approximately Euro 23.4 million. We were able to re-dedicate one of our former facilities to our logistics operation for a total investment of Euro 6.2 million.

From 1998 to 2001, we operated, through our 50 percent-owned joint venture (Tristar Optical Company Ltd.) with a Japanese partner, a facility in China to manufacture prescription frames. In 2001, we acquired the remaining 50 percent interest in this Chinese manufacturer. In 2006, we increased our manufacturing capacity in China through the construction of a new approximately 26,000 square-meter manufacturing facility to produce both metal and plastic frames for a total investment of approximately Euro 20.0 million. After the construction of this new facility, our annual average daily production in China increased by approximately 80 percent compared to 2005. In 2007, we further expanded our manufacturing capacity in China by approximately 74,000 square meters, for a total investment of approximately Euro 7.2 million. The percentage of private label products produced at our facilities in China has been decreasing in favor of increased production of certain of our core, fashion and North American brands.

Our Dongguan plants, in China s Guangdong province, make both plastic and metal frames.

Our Foothill Ranch facility in California manufactures high-performance sunglasses and prescription frames and lenses and assembles most of Oakley s eyewear products, while Oakley s manufacturing center in Dayton, Nevada produces the frames used in its X Metal® (a proprietary alloy) eyewear products. We also operate a small plant in India serving the local market.

In 2009, approximately 46 percent of all frames manufactured by us were metal-based, and the remainder was plastic.

The manufacturing process for both metal and plastic frames begins with the fabrication of precision tooling and molds based on prototypes developed by in-house designers and engineering staff. We seek to use our manufacturing capacity to reduce the lead time for product development and thereby adapt quickly to market trends and to contain production costs, as well as maintain smaller and more efficient production runs so that we can better respond to the varying needs of different markets.

The manufacturing process for metal frames has approximately 70 phases, beginning with the production of basic components such as rims, temples and bridges, which are produced through a molding process. These components are then welded together to form frames over numerous stages of detailed assembly work. Once assembled, the metal frames are treated with various coatings to improve their resistance and finish, and then prepared for lens fitting and packaging.

We manufacture plastic frames using either a milling process or injection molding. In the milling process, a computer-controlled machine carves frames from colored plastic sheets. This process produces rims, temples and bridges that are then assembled, finished and packaged. In the injection molding process, plastic resins are liquefied and injected into molds. The plastic parts are then assembled, coated, finished and packaged.

We engage in research and development activities relating to our manufacturing processes on an on-going basis. As a result of such activities, we have invested and will continue to invest in automation and in innovative technologies, thus increasing efficiency while improving quality. Costs associated with research and development activities are expensed when incurred and are not significant.

We utilize third-party manufacturers to produce Oakley apparel, footwear, watches, electronically-enabled eyewear and certain goggles.

Suppliers

The principal raw materials and parts purchased for the manufacturing process include plastic resins, metals, lenses and frame parts.

We purchase a substantial majority of raw materials in Europe and, to a lesser extent, in Asia and the United States. In addition, we use certain external suppliers for frames, lenses, eyeglass/frame cases and packaging materials.

Historically, prices of the principal raw materials used in our manufacturing process have been stable.

We have built strong relationships with our major suppliers. With most suppliers, we maintain agreements that prohibit disclosure of our proprietary information or technology to third parties. Although our Oakley subsidiary relies on outside suppliers for most of the specific molded components of its glasses, goggles, watches and footwear, it generally retains ownership of the molds used in the production of the components. We believe that most of the components can be obtained from one or more alternative sources within a relatively short period of time, if necessary or desired. In addition, to further mitigate risk, we have developed an in-house injection molding capability for sunglass lenses.

Essilor S.A**.** has become one of the largest suppliers of our retail operations, accounting for 9% of our total merchandise purchases in 2009 and 12% in 2008. Although we do not have formal, long-term contracts with Essilor or any of our other suppliers, we have not experienced any significant interruptions in our supplies. We believe that the loss of Essilor S.A. or any of our other vendors would not have a significant impact on our future operations as we could replace them quickly with other third-party suppliers. For additional information, see Note 14 to our Consolidated Financial Statements included in Item 18 of this annual report.

Quality Control

The Made in Italy feature of Luxottica products represents the culture of quality that has been central to our organization.

Most of the manufacturing equipment that we use is specially designed and adapted for our manufacturing processes. This helps us to respond more quickly to customer demand and adhere to strict quality-control standards.

Quality and process control teams regularly inspect semi-finished products during the various phases of production, verifying the feasibility of prototypes in the design phase, controlling standards across the spectrum of products in the production phase, and subsequently checking for resistance to wear and tear and reviewing optical properties in relation to type of use. The manufacturing processes and materials used by primary suppliers are also controlled and certified. Through ongoing verification of precision and expertise in all phases of production, we seek to manufacture products of the highest quality.

We design products to meet or exceed relevant industry standards for safety, performance and durability. Throughout the development process, our optics products undergo extensive testing against standards established specifically for eyewear by ANSI (Z.80.3), ASTM, Standards Australia Limited (AS 1067) and EU (EN 1836 and ISO EN 12870). These

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standards relate to product safety and performance and provide quantitative measures of optical quality, UV protection, light transmission and impact resistance.

Due to the efficiency of our quality controls, the return rate for defective merchandise manufactured by us is approximately one percent**.**

DISTRIBUTION

We operate in all the world s major eyewear markets and continue to expand in emerging markets.

Direct distribution in key markets makes it possible for us to maintain close contact with clients and maximize the image and visibility of our brands. Further, our experience in direct operation of stores in certain of our more important markets has given us a unique understanding of the world s eyewear markets. All this makes it possible to achieve tight control and strategic optimization of brand diffusion, both house brands and licensed designer brands.

In emerging markets, we have made substantial investments in the last few years and intend to expand and strengthen our distribution platform.

Our Principal Markets

The following table presents our net sales by geographic market and segment for the periods indicated:

	Year Ended December 31,		
	2009	**2008**	**2007**
		(In thousands of Euro)	
European Retail	92,054	64,572	57,973
European Wholesale	980,359	1,067,893	1,006,601
North America Retail	2,591,689	2,599,003	2,744,454
North America Wholesale	474,248	497,517	297,224
Asia-Pacific Retail	442,105	435,859	453,220
Asia-Pacific Wholesale	199,552	209,980	143,004
Other Retail	13,131	9,711	6,667
Other Wholesale	301,181	317,076	256,911
Total	5,094,318	5,201,611	4,966,054

Logistics

Our distribution system is globally integrated and supplied by a centralized manufacturing programming platform. The network linking the logistics and sales centers to the production facilities in Italy and China also provides daily monitoring of global sales performance and inventory levels so that manufacturing resources can be programmed and warehouse stocks re-allocated to meet local market demand. This integrated system serves both the retail and wholesale businesses and is one of the most efficient and advanced logistics systems in the industry, with 23 distribution centers worldwide, of which 10 are in the Americas, 8 are in the Asia-Pacific region and 5 are in the rest of the world.

We have three main distribution centers (hubs) in strategic locations serving our major markets: Sedico in Europe, Atlanta in the Americas and Dongguan in the Asia-Pacific region. They operate as centralized facilities, offering customers a highly automated order management system that reduces delivery times and keeps stock levels low.

The Sedico hub was opened in 2001 and updated with a new automated system in 2006. It currently manages over 24,400 orders per day, including eyeglasses and spare parts. Sedico ships over 145,200 units daily to customers in Europe, the Middle East and Africa and to our distribution centers in the rest of the world, from which they are then shipped to local customers.

The Sedico hub enabled us to close the local warehouses throughout Europe that characterized the previous distribution system, improving the speed and efficiency of our distribution, as well as eliminating unnecessary overhead. During 2009, the information system SAP (Systems, Applications and Products in Data Processing) was implemented in the Sedico distribution center. The new system has allowed us to efficiently control and allocate our customers   orders.

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We plan to implement the SAP system in our Chinese distribution center in 2010 and to our remaining warehouses around the world in 2011.

The Atlanta facility, opened in 1996, has consolidated several North America-based facilities into a single state-of-the-art distribution center located close to one of the major airport hubs of the United States. This facility has a highly advanced cross-belt sorting system that can move up to 140,000 frames per day at a conveyor belt speed of 1.5 meters a second. In late 2009, the facility, which was originally a retail-only distribution center, started serving both our retail and wholesale businesses in the North American market.

Wholesale Distribution

Our wholesale distribution structure covers more than 130 countries, with 43 directly controlled or majority-owned operations in the major markets and approximately 100 independent distributors in other markets. Each wholesale subsidiary operates its own network of sales representatives who are normally retained on a commission basis. Relationships with large international, national and regional accounts are generally managed and serviced by employees.

Customers of our wholesale business are mostly retailers of mid- to premium-priced eyewear, such as independent opticians, optical retail chains, specialty sun retailers and duty-free shops. In North America and other areas, the main customers also include independent optometrists and ophthalmologists and premium department stores.

We also distribute certain brands, including Oakley, to sporting goods stores and specialty sports stores, including bike, surf, snow, skate, golf and motor sports stores.

We seek to provide our wholesale customers with pre- and post-sale services to enhance their business. These services are designed to provide customers with the best product and in a time frame and manner that best serve our customers needs.

We maintain close contact with our distributors in order to monitor sales and control the quality of the points of sale that display our products. We typically enter into distribution agreements with importers and distributors that establish minimum annual purchases and impose territorial limitations. In addition, to the extent permitted by law, we allow distribution only through specifically authorized retail channels and qualified sales agents. No single customer or group of related customers accounted for more than five percent of our consolidated net sales in any of the past three years. We do not believe that the loss of any single customer would have a material adverse effect on our financial condition or results of operations.

Retail Distribution

With a strong portfolio of retail brands, we are well positioned to reach different segments of the market. The retail portfolio offers a variety of differentiation points for consumers, including the latest in designer and high-performance sun frames, advanced lens options, advanced eye care, everyday value, and high-quality vision care health benefits.

As of March 31, 2010, our retail business consisted of 5,809 corporate stores and 536 franchised or licensed locations as follows:

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	North America	Asia-Pacific	China / Hong Kong	Europe	Africa and Middle East	South Africa	Central and South America	Total
LensCrafters	953		236					1,189
Pearle Vision	392							392
Sunglass Hut (1)	1,780	259	5	76		89		2,209
Ilori and The Optical Shop of Aspen	46							46
Oliver Peoples	6							6
Oakley retail locations (2)	114	15		12		2	4	147
Sears Optical	852							852
Target Optical	312							312
OPSM		347						347
Laubman & Pank		85						85
Budget Eyewear		99						99
Bright Eyes		55						55
David Clulow				70				70
Franchised or licensed locations(3)	374	113		11	34		4	536
	4,829	973	241	169	34	91	8	6,345

(1) Includes Sunglass Icon locations.

(2) Includes Oakley O Stores and Vaults.

(3) Includes primarily franchised and licensed locations for Pearle Vision (363 locations) and Bright Eyes (84 locations), with the remaining locations for Budget Eyewear, David Clulow, Sunglass Hut, Oakley O Stores and Vaults, Oliver Peoples and other Chinese brands.

Our retail stores sell not only prescription frames and sunglasses that we manufacture but also a wide range of prescription frames, lenses and other ophthalmic products manufactured by other companies. In 2009, units manufactured with our own brand names or our licensed designer brands represented approximately 77.1 percent of the total sales of frames based on units sold by the retail division (72.4% in 2008).

Our optical retail operations are anchored by leading brands such as LensCrafters and Pearle Vision in North America, and OPSM, Laubman & Pank and Budget Eyewear, which are active throughout Australia and New Zealand. We also have a major retail presence in China, where we operate in the premium eyewear market with LensCrafters. Due to the fragmented nature of the European retail market, we do not have a significant retail presence in Europe outside of the United Kingdom, where in 2008 we increased our stake in the David Clulow chain, which sells both prescription and sun products. As of March 31, 2010, our optical retail business consisted of approximately 6,300 retail locations globally.

LensCrafters

As of March 31, 2010, we operated a retail network of 1,189 LensCrafters stores, of which 953 are in North America and 236 stores are in China. LensCrafters is currently the largest optical retailer in North America in terms of sales. LensCrafters stores offer a wide selection of prescription frames and sunglasses, mostly made by Luxottica, in addition to a wide range of lenses and optical products made by other suppliers. LensCrafters products include innovative lenses, such as FeatherWates® (lightweight, thin and impact-resistant lenses), DURALENS® (super scratch-resistant lenses), Advanced View Progressive™ (free-form, digitally surfaced progressive lenses), Invisibles® (anti-reflective lenses) and MVP Maximum View Progressives® (multi-focal lenses without visible lines). Points of sale are normally in high-traffic commercial malls and shopping centers and have an on-site optometrist (sometimes a Luxottica employee) so that customers can have more immediate eye examinations. Most LensCrafters stores in North America also include a lens finishing laboratory, which improves the customer service level. During the last few years, we have invested in the premium aspects of the LensCrafters brand, adding additional elements such as an exclusive new store concept currently being implemented in store renovations across North America, associate training and advertising and marketing, which together represent the premium brand and future direction of LensCrafters. The aim of our new focus on prescription frames as fashion objects and not mere instruments is also to shorten the consumer s purchase cycle, which is typically two to three years.

In 2006, we began to expand the LensCrafters brand in China by rebranding most of our stores there, which were acquired through the acquisition of three retail chains. As of March 31, 2010, we operated 236 stores in China and Hong Kong. Hong Kong is one of China s most significant luxury markets, and launching LensCrafters as a premium brand in Hong Kong was important for increasing awareness and consumer demand for Luxottica products and services.

Pearle Vision

Pearle Vision is one of the largest optical retail chains in North America. Although LensCrafters and Pearle Vision both address the mid- to high-end customer bracket, their positioning is complementary. Pearle Vision focuses on the factors that made the brand a success: customers trust in the doctor s experience and the quality of service they receive. Pearle

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Vision stores are mostly located in strip malls instead of the conventional malls where most LensCrafters and Sunglass Hut stores are located. The successful relaunching of the Pearle Vision brand in 2004 and 2005 was centered on a return to its original values, which had made Pearle Vision the Home of Trusted Eyecare for generations of Americans. A product mix increasingly geared to high quality has sought to restore strong customer relationships, as has the emphasis on doctors in advertising campaigns.

In order to centralize services and achieve economies of scale at Pearle locations, all in-store labs were closed and their work was transferred to nearby LensCrafters labs or to one of Luxottica s six central lens finishing facilities. As of March 31, 2010, Pearle Vision operated 392 corporate stores and had 363 franchise locations throughout North America.

We also operate a network of retail locations in North America operating as Sears Optical and Target Optical, our Licensed Brands , which use the brand names of their respective host American department store. These points of sale offer consumers the convenience of taking care of their optical needs while shopping at these department stores. Both brands have a precise market positioning that we have reinforced by improving service levels while strengthening their fashion reputation by offering brands such as Ray-Ban and Vogue. As of March 31, 2010, we operated 852 Sears Optical and 312 Target Optical locations throughout North America.

OPSM

OPSM, the largest of the three optical chains we operate in Australia and New Zealand, is a leading eyewear retail brand for luxury and fashion-minded customers. In 2009, OPSM continued its Accelerated Fashion program to highlight key fashion positioning featuring bright modern stores and bold fashion walls in stores to highlight Luxottica s range of products. While it has a full range of eyewear products, OPSM continues to be identified as the leader in the luxury and fashion segments. As of March 31, 2010, we owned 305 OPSM corporate stores throughout Australia and had 1 franchise location. OPSM also has 42 corporate-owned stores in New Zealand, mainly in large urban areas.

Laubman & Pank

Laubman & Pank is well-known for its high-quality assortment and services. Laubman & Pank s target segment is the independent optical shopper looking for quality eyecare and service. During the year, we continued to enhance our market positioning to ensure that the retail brand locations are appropriate for their local demographics and markets. Through this review, 10 Laubman & Pank stores were rebranded to OPSM and 11 to Budget Eyewear. As of March 31, 2010, we owned 85 Laubman & Pank corporate stores throughout Australia.

Budget Eyewear

Budget Eyewear focuses on the price-conscious shopper and offers an easy selection process for frames and lens packages in a bright and modern store environment. As of March 31, 2010, we owned 99 Budget Eyewear corporate stores throughout Australia and had 11 franchise locations.

EyeMed Vision Care

EyeMed Vision Care is one of the largest managed vision care operators in the United States, serving over 26 million subscribers in large and medium size companies and government entities and through insurance companies. EyeMed has a network of over 22,000 points of sale, including opticians, ophthalmologists, optometrists and chains operated by Luxottica.

EyeMed Vision Care seeks to offer quality, choice, value and service excellence - all priority concerns for employers shopping for vision care programs, especially for large groups. Customers using such services benefit from the quality of the products and the wide reach of the distribution network, enjoying a broad range of choices among the numerous stores in the Group s chains and independent optical retailers.

Online Retail for Contact Lenses

In December 2009, we entered into a strategic multi-year e-commerce alliance to expand online access to contact lenses in the North American market with drugstore.com, inc., a leading online retailer of health, beauty, vision and pharmacy products.

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Under this exclusive agreement, Vision Direct, Inc., a leading online contact lens retailer and a wholly-owned subsidiary of drugstore.com, inc., will collaborate with us to develop branded contact lens e-commerce sites for our North American retail business and provide customer care and fulfillment services. The alliance will enable us, starting with our retail brands, to offer a comprehensive platform for consumers to conveniently purchase contact lenses in person, by telephone or online. In addition, the two companies will pursue synergies, such as purchasing contact lenses on behalf of the alliance, and cooperate in a number of other related areas, including our North America-based wholesale business.

Lens Laboratories

Together with LensCrafters approximately 900 in-store labs, we operate six central lens finishing labs in North America. Combining a broad presence in the market with the capacity for handling lens finishing reduces the time and cost of lens finishing work and improves quality of service. All the labs use highly advanced technologies to meet growing demand. The six central laboratories serve all the Pearle Vision stores, the Licensed Brands stores, LensCrafters and a number of franchises. The labs in LensCrafters stores have been upgraded to help Sears and Pearle Vision stores (including those under franchise) to handle peak demand.

In addition, we operate Oakley optical lens laboratories in the United States, Ireland and Japan. These labs provide Oakley prescription lenses to the North and South American, European and Asian markets, respectively, enabling us to achieve expeditious delivery, better quality control and higher optical standards.

Most of our Australian laboratory needs are provided by the Eyebiz Laboratory. In February 2010, Luxottica and Essilor International formed a long-term joint venture for the Australian and New Zealand markets. The joint venture will manage Eyebiz Pty Limited, Luxottica s Sydney-based optical lens finishing laboratory, which, as a result of this alliance, will be majority-controlled by Essilor. Eyebiz will continue to supply all of Luxottica s retail optical outlets in Australia and New Zealand: OPSM, Budget Eyewear and Laubman & Pank.

Sunglass Hut

Since the acquisition of Sunglass Hut in 2001, we have become a world leader in the specialty sunglass retail business. As of March 31, 2010, Sunglass Hut had 2,209 stores worldwide. In addition to 1,780 retail locations in North America, Sunglass Hut now has 259 corporate stores in Asia-Pacific, 76 in Europe, 89 in South Africa and 33 franchise locations in the Middle East.

Founded in the United States in 1971 to operate in department stores, Sunglass Hut gradually expanded its base of stores and kiosks in shopping malls to new retail locations on city shopping streets and in airports. Over the years, Sunglass Hut focused increasingly on selling premium sunglasses. In 2007, we developed an exclusive new store concept, which is now being extended to all prime Sunglass Hut locations around the world. This repositioning was made possible by substantial changes to the product mix allowing the chain to focus more on fashion and luxury brands, especially for women, while maintaining a varied selection of lifestyle, sport and performance sunglasses.

The chain has recently reinforced its presence in the department store channel through long-term strategic agreements with Myers in Australia, Edgards in South Africa and Macy s in the United States.

On December 4, 2009, we entered into an agreement with Macy s Inc. to open additional Sunglass Hut points of sale in approximately 430 Macy s department stores in the United States. When the rollout is complete, Sunglass Hut will be the exclusive operator of Macy s in-store sunglass departments and Macy s department stores will be the exclusive U.S. department store with Sunglass Hut locations. Together with the over 240 Sunglass Hut departments already operating in Macy s, this new agreement will bring the total number of in-store Sunglass Hut locations to approximately 670. New locations, which will operate as leased departments, will begin rolling out in spring 2010, with completion scheduled for spring 2011.

ILORI

ILORI is Luxottica s high-end fashion sunwear retail brand, with 23 stores in North America as of March 31, 2010, including flagship stores in the SoHo neighborhood of New York City and in Beverly Hills, California. ILORI caters to a different, more exclusive clientele than Sunglass Hut, offering a richer purchasing experience in prestige locations, featuring sophisticated luxury collections, exclusive niche brands and highly personalized service.

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The Optical Shop of Aspen

Founded in the 1970s, The Optical Shop of Aspen is known in the optical industry for its luxury brands for both prescription and sun and its first-class customer service. As of March 31, 2010, we operated 23 stores in some of the most upscale and exclusive locations throughout the United States.

Oliver Peoples

We operate six luxury retail stores under the Oliver Peoples brand. The Oliver Peoples brand retail stores only offer Oliver Peoples, Mosley Tribes and Paul Smith branded optical products. An additional Oliver Peoples retail location is operated under license in Tokyo.

David Clulow

In Europe, we operate David Clulow, a premium optical retailer operating in the United Kingdom and Ireland, predominantly in London and the South East of the United Kingdom. The brand emphasizes service, quality and fashion and our marketing is targeted to reinforce these brand values and build long-term relationships with our customers. In addition to operating optical stores, David Clulow operates a number of sunglass concessions in upmarket department stores, further reinforcing our position as a premium brand in the United Kingdom. As of March 31, 2010, David Clulow operated 38 corporate-owned locations (including 8 joint ventures), 5 franchise locations and 32 sun stores/concessions.

Bright Eyes

First established in 1985, Bright Eyes is one of Australia s largest and fastest-growing sunglass chains, with over 139 sunglass stores across the continent. As of March 31, 2010, Bright Eyes operated 55 corporate store locations and 84 franchise locations, mostly in tourist resorts and high-traffic areas.

Oakley Stores and Vaults

As of March 31, 2010, we operated 147 Oakley O Stores and Vaults worldwide, offering a full range of Oakley products including sunglasses, apparel, footwear and accessories. These stores are designed and merchandised to immerse consumers in the Oakley brand through innovative use of product presentation, graphics and original audio and visual elements. In the United States, Oakley O Stores are in major shopping centers. Oakley s retail operations also are located in Mexico, Europe and the Asia-Pacific region.

e-Commerce Sites

Another important sales channel is e-commerce, including the Oakley and the Ray-Ban websites (www.oakley.com, www.Ray-Ban.com), which are complementary to the retail operations and international distribution. The websites allow consumers to purchase Oakley and Ray-Ban products as efficiently as possible, increasing awareness of both brands, improving customer service and communicating the brands values and essence.

MARKETING

Our marketing and advertising activities are designed primarily to enhance our image and our brand portfolio and to drive traffic into our retail locations.

Advertising expenses amounted to approximately six percent of our net sales in 2009.

Marketing Strategy for Our Wholesale Business

Our marketing strategy for the wholesale business is focused on promoting our extensive brand portfolio, our corporate image and the value of our products. Advertising is extremely important in supporting our marketing strategy, and therefore we engage in extensive advertising activities, both through various media (print, radio and television, as well as billboard advertising and digital media) directed at the end consumer of our products and at the point-of-sale (displays, counter cards, catalogs, posters and product literature).

In addition, we advertise in publications targeted to independent practitioners and other market-specific magazines and participate in major industry trade fairs, where we promote some of our new collections.

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We also benefit from brand-name advertising carried out by licensors of our designer brands intended to promote the image of the eyewear collections. Our advertising and promotional efforts in respect of our licensed designer brands are developed in coordination with our licensors. We contribute to the designer a specified percentage of our sales of the designer line to be devoted to its advertising and promotion.

For our Oakley brand, we also use less conventional marketing methods, including sports marketing, involvement in grass-roots sporting events and targeted product allocations. The exposure generated by athletes wearing Oakley products during competition and in other media appearances serves as a more powerful endorsement of product performance and style than traditional commercial endorsements and results in strong brand recognition and authenticity on a global level.

Marketing Strategy for Our Retail Business

We engage in promotional and advertising activities through our retail business with the objectives of attracting customers to the stores, promoting sales, building our image and the visibility of our retail brands throughout the world and encouraging customer loyalty and repeat purchases.

The O Stores and Vaults are designed and merchandised to immerse the consumer in the Oakley brand through innovative use of product presentation, graphics and original audio and visual elements.

A considerable amount of our retail marketing budget is dedicated to direct marketing activities, such as communications with customers (e.g., mailings and catalogs). Our direct marketing activities benefit from our large database of customer information and investment in customer relationships, marketing technologies and skills in the United States and in Australia. Another significant portion of the marketing budget is allocated to broadcast and print media (e.g., television, radio and magazines) designed to reach the broad markets in which we operate with image-building messages about our retail business.

ANTI-COUNTERFEITING POLICY

Intellectual property is one of our most important assets. We protect it through the registration and enforcement of our trademarks and patents around the world. Our commitment to maintaining and strengthening our anti-counterfeiting program is demonstrated through the strength of our anti-counterfeiting and brand protection team, which leverages the strengths of our global organization. This allows us, among other things, to implement a global anti-counterfeiting program to combat the widespread phenomenon of counterfeit goods, sending a strong message to the infringers that we will exercise our rights against both the retailers of counterfeit eyewear, such as street vendors, and those that supply these sellers. Through our strong investigative network, especially in China, we have been able to identify key sources of counterfeit goods, organize raids on their premises in cooperation with local law enforcement and file legal actions against the counterfeiters.

Additionally, we continue to consolidate and strengthen our cooperation with customs organizations around the world, which have helped us to stop, seize and destroy hundreds of thousands of counterfeit goods each year. We dedicate considerable efforts to monitoring the trafficking of counterfeit goods through the internet, in order to remove the offers for counterfeit eyewear from certain popular on-line auction platforms and shut down the websites that violate our intellectual property rights through the sale of counterfeit products or the unauthorized use of our trademarks.

TRADEMARKS, TRADE NAMES AND PATENTS

Our principal trademarks or trade names include *Luxottica, Ray-Ban, Oliver Peoples, Oakley, Persol, Vogue, Arnette, Revo, LensCrafters, Sunglass Hut, ILORI, Pearle Vision, OPSM, Laubman & Pank, Budget Eyewear* and the Oakley ellipsoid *O* and square *O* logos. Our principal trademarks are registered worldwide. Other than *Luxottica, Ray-Ban, Oakley, LensCrafters, Sunglass Hut, Pearle Vision*, *OPSM* and the Oakley ellipsoid *O* and square *O* logos, we do not believe that any single trademark or trade name is material to our business or results of operations. The collection of *Oakley* and *Ray-Ban* products accounted for approximately 11.5 percent and 17.8 percent, respectively, of our net sales in 2009. We believe that our trademarks have significant value for the marketing of our products and that having distinctive marks that are readily identifiable is important for creating and maintaining a market for our products, identifying our brands and distinguishing our products from those of our competitors. Therefore, we utilize a combination of trademarked logos, names and other attributes on nearly all of our products.

LensCrafters has introduced several trademarked lenses that contain innovative technology, such as AVP® and AVP Advanced View Progressives® (multi-focal lenses with a wider view of vision), FEATHERWATES® (lightweight, thin and impact resistant lenses), DURALENS® (super scratch-resistant lenses), INVISIBLES® (anti-reflective lenses), MVP® and MVP Maximum View Progressives® (multi-focal lenses without visible lines) and SUPERVIEW® (advanced A/R lenses). LensCrafters

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purchases these lenses under non-exclusive arrangements with third parties. The names of the lenses used by LensCrafters are typically trademarked, and the trademarks are typically owned by us. OPSM has trademarked several lenses in recent years that it uses in its advertising. They include Activise for contact lenses, Active for polycarbonate eyeglass lenses.

We utilize patented and proprietary technologies and precision manufacturing processes in the production of our products. As of March 31, 2010, we held a portfolio of over 600 Oakley-related patents worldwide that protect our designs and innovations. Some of the most important of these patents relate to the following categories: innovations in lens technology and the associated optical advances; electronically enabled eyewear; innovations in frame design and functionality; biased, articulating and dimensionally stable eyewear; and interchangeable lenses.

See Item 3 Key Information Risk Factors If we are unable to protect our proprietary rights, our sales might suffer, and we may incur significant costs to defend such rights.

LICENSE AGREEMENTS

We have entered into license agreements to manufacture and distribute prescription frames and sunglasses with numerous designers. These license agreements typically have terms ranging from three to ten years, but may be terminated early by either party for a variety of reasons, including non-payment of royalties, failure to meet minimum sales thresholds, product alteration and, under certain agreements, a change in control of Luxottica Group S.p.A.

Under these license agreements, we are required to pay a royalty which generally ranges from five percent to 14 percent of the net sales of the relevant collection, which may be offset by any guaranteed minimum royalty payments. The license agreements also provide for a mandatory marketing contribution that generally amounts to between five and ten percent of net sales.

We believe that early termination of one or a small number of the current license agreements would not have a material adverse effect on our results of operations or financial condition. Upon any early termination of an existing license agreement, we expect that we would seek to enter into alternative arrangements with other designers to reduce any negative impact of such a termination.

The table below summarizes the principal terms of our most significant license agreements.

Licensor	Licensed Marks	Territory	Expiration
Burberry Limited	Burberry Burberry Black Label**	Worldwide exclusive license	December 31, 2015
Bvlgari S.p.A.	Bvlgari	Worldwide exclusive license	December 31, 2010
Chanel Group	Chanel	Worldwide exclusive license	March 31, 2011 (renewable until March 31, 2014)
Club Monaco Corp.	Club Monaco	U.S. and Canada exclusive license	March 31, 2012 (renewable until March 31, 2017)

Dolce & Gabbana S.r.l.	Dolce & Gabbana D&G	Worldwide exclusive license	December 31, 2010 (renewable until December 31, 2015)
Donna Karan Studio LLC	Donna Karan DKNY	Worldwide exclusive license	December 31, 2014 (renewable until December 31, 2019)
Gianni Versace S.p.A.	Gianni Versace Versace Versace Sport Versus	Worldwide exclusive license	December 31, 2022
Jones Investment Co. Inc.	Anne Klein New York Lion Head Design AK Anne Klein	Worldwide exclusive licenses	December 31, 2012
Paul Smith Limited	Paul Smith PS Paul Smith	Worldwide exclusive license	December 31, 2013
Prada S.A.	Prada	Worldwide exclusive license	December 31, 2013

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	Miu Miu		(renewable until December 31, 2018)
PRL USA Inc. The Polo/Lauren Company LP	Polo by Ralph Lauren Ralph Lauren Ralph (Polo Player Design) Lauren RLX RL Ralph Ralph/Ralph Lauren Lauren by Ralph Lauren Polo Jeans Company The Representation of the Polo Player Chaps***	Worldwide exclusive license	March 31, 2017
Retail Brand Alliance, Inc.*	Brooks Brothers	Worldwide exclusive license	December 31, 2014
Salvatore Ferragamo Italia S.p.A.	Salvatore Ferragamo Ferragamo	Worldwide exclusive license	December 31, 2011 (renewable until December 31, 2013)
Stella McCartney	Stella McCartney	Worldwide exclusive license	December 31, 2014 (renewable until December 31, 2019)
Tiffany and Company	TIFFANY & CO. Tiffany	U.S., Canada, Mexico, the United Arab Emirates, Saudi Arabia, South Korea, Hong Kong, Japan, Australia, the United Kingdom, China, Taiwan, France, Germany, Italy, South America exclusive license	December 31, 2017
Tory Burch LLC	Tory Burch TT	Worldwide exclusive license	December 31, 2014 (renewable until December 31, 2018)

* Retail Brand Alliance, Inc. is indirectly owned and controlled by one of our directors.

** Japan only.

*** United States, Canada, Mexico and Japan only.

REGULATORY MATTERS

Our products are subject to governmental health and safety regulations in most of the countries where they are sold, including the United States. We regularly inspect our production techniques and standards to ensure compliance with applicable requirements. Historically, compliance with such requirements has not had a material effect on our operations.

In addition, governments throughout the world impose import duties and tariffs on products being imported into their countries. Although in the past we have not experienced situations in which the duties or tariffs imposed materially impacted our operations, we can provide no assurances that this will be true in the future.

Our past and present operations, including owned and leased real property, are subject to extensive and changing environmental laws and regulations pertaining to the discharge of materials into the environment, the handling and disposition of waste or otherwise relating to the protection of the environment. We believe that we are in substantial compliance with the applicable environmental laws and regulations. However, we cannot predict with any certainty that we will not in the future incur liability under environmental statutes and regulations with respect to contamination of sites formerly or currently owned or operated by us (including contamination caused by prior owners and operators of such sites) and the off-site disposal of hazardous substances.

Our retail operations are also subject to various legal requirements in the United States, Australia, Canada, New Zealand, Hong Kong, Singapore and Malaysia that regulate the permitted relationships between licensed optometrists or ophthalmologists, who primarily perform eye examinations and prescribe corrective lenses, and opticians, who fill such prescriptions and sell eyeglass frames.

Through our acquisition of Oakley, we produce and sell to the U.S. government, including the U.S. military, and to international governments, certain Oakley and Eye Safety Systems protective eyewear products. As a result, our operations are subject to various regulatory requirements, including the necessity of obtaining government approvals for certain products, country-of-origin restrictions on materials in certain products, U.S.-imposed restrictions on sales to specific countries, foreign import controls, expropriation of assets and various decrees, laws, taxes, regulations, interpretations and court decisions that are not always fully developed and that may be retroactively or arbitrarily applied. Additionally, we could be subject to periodic audits by U.S. government personnel for contract and other regulatory compliance.

COMPETITION

We believe that our integrated business model, innovative technology and design, integrated sunglass manufacturing capabilities, effective brand and product marketing efforts and vigorous protection of our intellectual property rights are important aspects of competition and are among our primary competitive advantages.

The prescription frame and sunglasses industry is highly competitive and fragmented. As we market our products throughout the world, we compete with many prescription frame and sunglass companies in various local markets. The major competitive factors include fashion trends, brand recognition, marketing strategies, distribution channels and the number and range of products offered. We believe that some of our largest competitors in the design, manufacturing and wholesale distribution of prescription frames and sunglasses are Charmant Group, De Rigo S.p.A., Marchon Eyewear, Inc., Marcolin S.p.A., Safilo Group S.p.A., Silhouette International Schmied AG and Viva International Group.

Several of our most significant competitors in the manufacture and distribution of eyewear are significant vendors to our retail division. Our success in these markets will depend on, among other things, our ability to manage an efficient distribution network and to market our products effectively as well as the popularity and market acceptance of our brands. See Item 3 Key Information Risk Factors If we are unable to successfully introduce new products, our future sales and operating performance will suffer and If we fail to maintain an efficient distribution network in our highly competitive markets, our business, results of operations and financial condition could suffer.

The highly competitive optical retail market in North America includes a large number of small independent competitors and several national and regional chains of optical superstores. In recent years, a number of factors, including consolidation among retail chains and the emergence of optical departments in discount retailers, have resulted in significant competition within the optical retailing industry. We compete against several large optical retailers in North America, including Wal-Mart and Eye Care Centers of America, and, in the sunglasses area, department stores and numerous sunglass retail chains and outlet centers. Our optical retail operations emphasize product quality, selection, customer service and convenience. We do not compete primarily on the basis of price.

We believe that Oakley and our other sports brands are leaders in non-prescription sports eyewear, where they mostly compete with smaller sunglass and goggle companies in various niches, and a number of large eyewear and sports products companies that market eyewear.

The managed vision care market is highly competitive. EyeMed has a number of competitors, including Vision Service Plan (VSP), Davis Vision and Spectera. While VSP was founded almost 55 years ago and is the current market leader, EyeMed s consistent year-over-year growth has enabled us to become the second-largest market competitor in terms of funded lives. EyeMed competes based on its ability to offer a network and plan design with the goal of delivering overall value based on the price, accessibility and administrative services provided to clients and their members.

SEASONALITY

We have also historically experienced sales volume fluctuations by quarter due to seasonality associated with the sale of sunglasses, which represented 64.2 percent and 59.6 percent of our units sold in 2009 and 2008, respectively. As a result, our net sales are typically higher in the second quarter, which includes increased sales to wholesale customers and increased sales in our Sunglass Hut stores, and lower in the first quarter, as sunglass sales are lower in the cooler climates of North America, Europe and Northern Asia. These seasonal variations could affect the comparability of our results from period to period. Our retail fiscal year is either a 53-week year or a 52-week year, which also can affect the comparability of our results from period to period. When a 53-week year occurs, we generally add the extra week to the fourth quarter. In 2008, the fiscal year for the Retail Division in North America and the United Kingdom included 53 weeks; in 2009, the fiscal

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year for the Retail Division in Asia-Pacific, Greater China (mainland China and Hong Kong) and South Africa included 53 weeks. A 53-week year occurs in five- to six-year intervals and will occur again in fiscal 2014 in North America and the United Kingdom and in fiscal 2015 in Asia-Pacific, Greater China and South Africa.

ORGANIZATIONAL STRUCTURE

We are a holding company, and the majority of our operations are conducted through our wholly-owned subsidiaries. We operate in two industry segments: (i) manufacturing and wholesale distribution; and (ii) retail distribution. In the retail segment, we primarily conduct our operations through LensCrafters, Sunglass Hut, Pearle Vision, Cole Licensed Brands and OPSM. In the manufacturing and wholesale distribution segment, we operate through 11 manufacturing plants and 43 geographically-oriented wholesale distribution subsidiaries. See Distribution for a breakdown of the geographic regions.

The significant subsidiaries controlled by Luxottica Group S.p.A., including holding companies, are:

Subsidiary	Country of Incorporation	Percentage of Ownership
Manufacturing		
Luxottica S.r.l.	Italy	100%
Luxottica Tristar (Dongguan) Optical Co.	China	100%
Distribution		
Avant-Garde Optics, LLC	United States	100%
Luxottica Retail North America Inc. (1)	United States	100%
Sunglass Hut Trading, LLC	United States	100%
OPSM Group Limited	Australia	100%
Luxottica Trading and Finance Ltd.	Ireland	100%
Holding companies		
Luxottica U.S. Holdings Corp.	United States	100%
Luxottica South Pacific Holdings Pty Ltd.	Australia	100%
Luxottica (China) Investment Co. Ltd.	China	100%
Oakley, Inc.(2)	United States	100%
Arnette Optic Illusions, Inc.	United States	100%
The United States Shoe Corporation	United States	100%

(1) Successor by merger to our LensCrafters, Cole and Pearle subsidiaries.

(2) In addition to being a holding company, Oakley, Inc. is also a manufacturer and a distributor.

PROPERTY, PLANT AND EQUIPMENT

Our corporate headquarters is located at Via C. Cantù 2, Milan 20123, Italy. Information regarding the location, use and approximate size of our principal offices and facilities as of March 31, 2010 is set forth below:

Location	**Use**	**Owned/Leased**	**Approximate Area in Square Feet**
Milan, Italy	Corporate headquarters	Owned	70,863
Agordo, Italy(1)	Administrative offices and manufacturing facility	Owned	926,200
Mason (Ohio), United States	North American retail division headquarters	Owned	415,776
Atlanta (Georgia), United States	North American distribution center	Owned	183,521
Port Washington (NY), United States	U.S. corporate and wholesale headquarters and wholesale division	Owned	140,700
Foothill Ranch/Lake Forest (CA), United States (2)	Oakley headquarters, manufacturing facility and ophthalmic laboratory	Owned	641,626
Ontario (CA), United States	Oakley eyewear, apparel and footwear distribution centers	Leased	408,000
Dayton (NV), United States	Oakley manufacturing facility	Owned	63,000

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Macquarie Park, Australia	Offices	Leased	61,496
Chipping Norton, Australia	Ophthalmic laboratory	Leased	60,172
Revesby, Australia	Distribution center	Leased	61,054
Cincinnati (Ohio), United States	Ophthalmic laboratory, warehouse, distribution center	Leased	132,000
Dallas (Texas), United States	Ophthalmic laboratory, distribution center, office	Leased	128,869
Memphis (Tennessee), United States	Ophthalmic laboratory	Leased	59,350
Columbus (Ohio), United States	Ophthalmic laboratory, distribution center	Leased	121,036
Knoxville (Tennessee), United States	Ophthalmic laboratory	Leased	38,500
London (Hammersmith), UK	Offices	Leased	7,400
Dongguan, China (1)(3)	Office, manufacturing facility, land and dormitories	Leased	3,031,502
Shanghai, China	Offices, fitting laboratory	Leased	23,180
Tokyo, Japan (4)	Japan corporate headquarters	Leased	13,149
Bhiwadi, India (5)	Manufacturing facility, administrative offices	Leased	343,474
Rovereto, Italy	Frame manufacturing facility	Owned	228,902
Sedico, Italy(1)	Distribution center	Owned	392,312
Cencenighe, Italy	Semi-finished product manufacturing facility	Owned	59,892
Lauriano, Italy	Frame and crystal lenses manufacturing facility	Owned	292,078
Pederobba, Italy(1)(6)	Frame manufacturing facility	Owned	191,722
Sedico, Italy(1)	Frame manufacturing facility	Owned	342,830
Izmir, Turkey	Turkish headquarters, offices, warehouse and frame manufacturing facility	Leased	92,750
Dublin, Ireland	Offices	Leased	6,650
Winnipeg, Canada	Ophthalmic laboratory, warehouse, distribution center	Leased	21,687

(1) Such facility is comprised of several different premises located within the same municipality.

(2) Such facility is comprised of several different premises located in Foothill Ranch and Lake Forest, California, United States. The premises in Lake Forest (116,626 square feet) are leased.

(3) Such facility consists of 578,180 square feet dedicated to offices and manufacturing and the rest consists of dormitories, related facilities and undeveloped land. We have leased this facility for 50 years.

(4) On April 20, 2010, the corporate headquarters in Japan will be reduced to 8,766 square feet.

(5) We have leased such facility for 99 years.

(6) 25,963 square feet of this facility are leased.

Substantially all of our retail stores are leased. See Distribution Retail Distribution above for more information about our retail locations and a breakdown of the geographic regions. All of our leases expire between 2010 and 2025 and have terms that we believe are generally reasonable and reflective of market conditions.

We believe that our current facilities (including our manufacturing facilities) are adequate to meet our present and reasonably foreseeable needs. There are no encumbrances on any of our principal owned properties.

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

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ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

Overview

We operate in two industry segments: (i) manufacturing and wholesale distribution; and (ii) retail distribution. Through our manufacturing and wholesale distribution segment, we are engaged in the design, manufacture, wholesale distribution and marketing of house brand and designer lines of mid- to premium-priced prescription frames and sunglasses and, through Oakley, of performance optics products. We operate in our retail segment principally through our retail brands, which include, among others, LensCrafters, Sunglass Hut, Pearle Vision, ILORI, The Optical Shop of Aspen, OPSM, Laubman & Pank, Budget Eyewear, Bright Eyes, Oakley O Stores and Vaults, David Clulow, and our Licensed Brands (Sears Optical and Target Optical). As of December 31, 2009, the retail segment consisted of 5,682 corporate-owned retail locations and 535 franchised or licensed locations as follows:

	North America	Asia-Pacific	China / Hong Kong	Europe	Africa and Middle East	South Africa	Central and South America	Total
LensCrafters	955		242					1,197
Pearle Vision	401							401
Sunglass Hut (1)	1,624	260	6	66		78		2,034
Ilori and The Optical Shop of Aspen	48							48
Oliver Peoples	6							6
Oakley retail locations (2)	112	15		14		2	4	147
Sears Optical	866							866
Target Optical	337							337
OPSM		332						332
Laubman & Pank		104						104
Budget Eyewear		87						87
Bright Eyes		55						55
David Clulow				68				68
Franchised or licensed locations(3)	374	110		11	34		6	535
	4,723	963	248	159	34	80	10	6,217

(1) Includes Sunglass Icon locations.

(2) Includes Oakley O Stores and Vaults.

(3) Includes primarily franchised and licensed locations for Pearle Vision (363 locations) and Bright Eyes (84 locations), with the remaining locations for Budget Eyewear, David Clulow, Sunglass Hut, Oakley O Stores and Vaults, Oliver Peoples and other Chinese brands.

LensCrafters, ILORI, Pearle Vision, our Licensed Brands (Sears Optical and Target Optical), Oakley (Oakley O Stores and Vaults), Sunglass Icon, The Optical Shop of Aspen and Oliver Peoples have retail distribution operations located throughout the United States, Canada and Puerto Rico, while OPSM, Laubman & Pank, Budget Eyewear and Bright Eyes operate retail outlets located in Australia and New Zealand. Sunglass

Hut is a leading retailer of sunglasses worldwide based on sales. In 2006, we began operating retail locations in mainland China and currently we have rebranded 164 locations to our premium LensCrafters brand in mainland China and Hong Kong. In 2008, we acquired David Clulow, a premium optical retailer operating in the United Kingdom and Ireland. Our net sales consist of direct sales of finished products manufactured with our own brand names or our licensed designer brands to opticians and other independent retailers through our wholesale distribution channel and sales directly to consumers through our retail division.

Demand for our products, particularly our higher-end designer lines, is largely dependent on the discretionary spending power of the consumers in the markets in which we operate. See Item 3 Key Information Risk Factors If we do not correctly predict future economic conditions and changes in consumer preferences, our sales of premium products and profitability will suffer. We have also historically experienced sales volume fluctuations by quarter due to seasonality associated with the sale of sunglasses. As a result, our net sales are typically higher in the second quarter and lower in the first quarter.

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As a result of our numerous acquisitions and the subsequent expansion of our business activities in the United States through these acquisitions, our results of operations, which are reported in Euro, are susceptible to currency rate fluctuations between the Euro and the U.S. dollar. The Euro/U.S. dollar exchange rate has fluctuated from an average exchange rate of Euro 1.00 = U.S. $1.3705 in 2007 to Euro 1.00 = U.S. $1.4707 in 2008 to Euro 1.00 = U.S. $1.3947 in 2009. Additionally, with the acquisition of OPSM and Bright Eyes (acquired through Oakley), our results of operations have been rendered susceptible to currency fluctuations between the Euro and the Australian dollar. Although we engage in certain foreign currency hedging activities to mitigate the impact of these fluctuations, they have impacted our reported revenues and expenses during the periods discussed herein. See Item 11 Quantitative and Qualitative Disclosures About Market Risk Foreign Exchange Sensitivity and Item 3 Key Information Risk Factors If the Euro strengthens relative to certain other currencies, our profitability as a consolidated group will suffer.

The Oakley Merger

On November 14, 2007, we completed the merger with Oakley, for a total purchase price of approximately U.S. $2.1 billion. In accordance with the terms of the merger agreement, Oakley s outstanding shares of common stock were converted into the right to receive U.S. $29.30 per share in cash and Oakley became an indirect wholly-owned subsidiary of Luxottica. The merger was accounted for as a business combination for accounting purposes.

In connection with the acquisition, we increased our outstanding debt by approximately U.S. $2.2 billion.

Since the consummation of the acquisition, we have implemented our strategic integration plan with respect to Oakley. We immediately launched a full portfolio of project tasks, with specific objectives, dedicated joint teams and designated accountabilities to address key integration and synergy areas, with direct significant involvement of our top management.

Our integration with Oakley has resulted in synergies in the following areas:

- international wholesale development;
- developments related to specific brands (especially *Revo* and *Arnette*);
- sourcing retail operations synergies in the key markets of North America and Asia-Pacific; and
- general and administrative expenses.

Currently, all integration projects are substantially complete according to the plan. In particular, we have completed the integration of the retail operations in North America, the integration of the Oakley dedicated sales force and marketing within the Luxottica commercial infrastructure in selected European countries and joint sourcing initiatives.

We have realized our initial estimate of efficiencies except for certain operating efficiencies driven by revenue, which were lower than anticipated due to the worldwide financial crisis.

Critical Accounting Policies and Estimates

We prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States, which require management to make estimates, judgments and assumptions that affect the amounts reported in the consolidated financial statements and the accompanying notes. We believe that our most critical accounting policies and estimates relate to the following:

- Revenue Recognition;
- Income Taxes;
- Inventories; and
- Goodwill and Other Intangible Assets and Impairment of Long-Lived Assets.

Revenue Recognition

Revenues include sales of merchandise (both wholesale and retail), insurance and administrative fees associated with the Company s managed vision care business, eye exams and related professional services and sales of merchandise to franchisees, along with other revenues from franchisees such as royalties based on sales and initial franchise fee revenues.

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Revenue is recognized when it is realized or realizable and earned. Revenue is considered to be realized or realizable and earned when there is persuasive evidence of an arrangement, delivery has occurred, the sales price is fixed or determinable and collectability is reasonably assured.

In some countries, the wholesale and retail divisions offer the customer the right to return products for a limited period of time after the sale. However, such right of return does not impact the timing of revenue recognition as all conditions of Accounting Standards Codification (ASC) No. 605 (formerly SFAS No. 48), *Revenue Recognition*, are satisfied at the date of sale. We have estimated and accrued for the amounts to be returned in the subsequent period. This estimate is based on our right of return policies and practices along with historical data, sales trends and the timing of returns from the original transaction date when applicable. Changes to these policies and practices or a change in the trend of returns could lead to actual returns being different from the amounts estimated and accrued.

Also included in retail division revenues are managed vision care revenues consisting of (i) insurance revenues which are recognized when earned over the terms of the respective contractual relationships and (ii) administrative services revenues which are recognized when services are provided during the contract period. Accruals are established for amounts due under these relationships based on an estimate of uncollectible amounts. Our insurance contracts require us to estimate the potential costs and exposures over the life of the agreement such that the amount charged to the customers will cover these costs. To mitigate the exposure risk, these contracts are usually short-term in nature. However, if we do not accurately estimate the future exposure and risks associated with these contracts, we may suffer losses as we would not be able to cover our costs incurred with revenues from the customer.

Income Taxes

Income taxes are recorded in accordance with ASC No. 740 (formerly SFAS No. 109), *Income Taxes*, which requires recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in our consolidated financial statements or tax returns. Under this method, deferred tax liabilities and assets are determined based on the difference between the consolidated financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. A valuation allowance is recorded for deferred tax assets if it is determined that it is more likely than not that the asset will not be realized. These estimated tax rates and the deferred tax assets, including valuation allowances placed upon those deferred tax assets, and liabilities recorded are based on information available at the time of calculation. This information is subject to change due to subsequent tax audits performed by different taxing jurisdictions and changes in corporate structure not contemplated at the time of calculation, as well as various other factors.

As of January 1, 2007, we adopted ASC No. 740. ASC No. 740 provides that a tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. In addition, it provides additional requirements regarding measurement, de-recognition, disclosure, interest and penalties and classification. ASC No. 740 must be applied to all existing tax positions for all open tax periods as of the date of adoption (see Note 8 to our Consolidated Financial Statements included in Item 18 of this annual report for a tabular reconciliation of uncertain tax positions). The cumulative effect of adoption of ASC No. 740 of Euro 8.1 million was recorded as a reduction to retained earnings on the date of adoption.

Inventories

Our manufactured inventories were approximately 58.2 percent and 66.1 percent of total frame inventory for 2009 and 2008, respectively. All inventories at December 31, 2009 were valued using the lower of cost, as determined under a weighted-average method, or market. Inventories are recorded net of allowances for possible losses. These reserves are calculated using various factors including sales volume, historical shrink results, changes in market conditions and current trends. In addition, production schedules are made on similar factors which, if not estimated correctly, could lead to the production of potentially obsolete inventory. As such, actual results could differ significantly from the estimated amounts.

Goodwill and Other Intangible Assets and Impairment of Long-Lived Assets

In connection with various acquisitions, we have recorded as intangible assets certain goodwill, trade names and certain other identifiable intangibles. At December 31, 2009, the aggregate carrying value of intangibles, including goodwill, was approximately Euro 3.9 billion or approximately 54 percent of total assets.

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As acquisitions are an important element of our growth strategy, valuations of the assets acquired and liabilities assumed on the acquisition dates could have a significant impact on our future results of operations. Fair values of those assets and liabilities on the date of the acquisition could be based on estimates of future cash flows and operating conditions for which the actual results may vary significantly. This may lead to, among other items, impairment charges and payment of liabilities different than amounts originally recorded, which could have a material impact on future operations. In addition, in December 2007, the FASB issued ASC No. 850 (formerly SFAS No. 141(R)), *Business Combinations*, which requires us to determine the value of assets and liabilities based on a full fair value measurement approach. In addition, acquisition related expenses are to be expensed as incurred and not included in the purchase price allocation, and contingent liabilities are to be separated into two categories, contractual and non-contractual, and accounted for based on which category the contingency falls into. Since we participate in business combinations, we believe this statement could have a significant effect on future results of operations.

ASC No. 350 (formerly SFAS No. 142), *Intangibles - Goodwill and Other*, sets forth requirements relating to accounting for ongoing intangibles. Under ASC No. 350, goodwill and intangible assets deemed to have an indefinite life are no longer amortized in the same manner as under the previous standards, but rather are tested for impairment annually and, under certain circumstances, between annual periods. An impairment charge will be recorded if the fair value of goodwill and other intangible assets is less than the carrying value. The calculation of fair value may be based on, among other items, estimated future cash flows if quoted market prices in active markets are not available. We test our goodwill for impairment annually as of December 31 of each year and any other time a condition arises that may cause us to believe that an impairment has occurred. Since impairment tests use estimates of the impact of future events, actual results may differ and we may be required to record an impairment in future years.

Intangibles subject to amortization based on a finite useful life continue to be amortized on a straight-line basis over their useful lives. Our long-lived assets, other than goodwill, are tested for impairment whenever events or changes in circumstances indicate that the net carrying amount may not be recoverable. When such events occur, we measure impairment by comparing the carrying value of the long-lived asset to the estimated undiscounted future cash flows expected to result from the use of the assets and their eventual disposition. If the sum of the expected undiscounted future cash flows were less than the carrying amount of the assets, we would recognize an impairment loss, if determined to be necessary. Actual results may differ from our current estimates.

Recent Accounting Pronouncements

See Note 1 to our Consolidated Financial Statements included in Item 18 of this annual report for a discussion of the impact of recent accounting pronouncements on our financial condition and results of operations, including the expected dates of adoption and estimated effects on our financial position, statement of cash flows and results of operations.

Overview of 2009 Results of Operations

Our business is subject to global economic cycles and retail industry conditions. In 2009, the declining values in real estate, reduced credit lending by banks, solvency concerns of major financial institutions, increases in unemployment levels and recent significant declines and volatility in the global financial markets negatively impacted the level of consumer spending, which negatively affected consumer demand for our products.

Because of our worldwide operations, our results of operations are affected by foreign exchange rate fluctuations. In 2009, the strengthening of the U.S. dollar against the Euro, which is our reporting currency, increased net sales by Euro 129.3 million, primarily in the retail distribution segment.

Notwithstanding the economic environment in 2009, we achieved sales of Euro 5.1 billion.

In 2008 and 2009, we had the following non-recurring items which affected our financial results:

- A 53-week year for the retail division in North America in 2008 and a 53-week year for the retail division in Asia Pacific, Greater China and South Africa in 2009
- Capital loss of Euro 22.8 million (Euro 15 million net of tax) in the fourth quarter of 2008 due to the sale of a note related to the sale of Things Remembered in September 2006
- Restructuring costs of Euro 7.4 million in the fourth quarter of 2009 mainly associated with severance for employees in the retail distribution segment
- Non-recurring income in 2008 of approximately Euro 8 million related to the collection of an insurance claim.

This discussion should be read in conjunction with Item 3 Key Information Risk Factors and the consolidated financial statements and the related notes attached thereto included in Item 18.

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Results of Operations

The following table sets forth, for the periods indicated, the percentage of net sales represented by certain items included in our statements of consolidated income:

	2009	2008(1)	2007(1)
Net Sales	100.0%	100.0%	100.0%
Cost of Sales	34.7	33.7	31.7
Gross Profit	65.3	66.3	68.3
Operating Expenses:			
Selling and Advertising	41.3	40.8	41.7
General and Administrative	12.5	11.1	9.8
Total	53.8	51.9	51.5
Income from Operations	11.4	14.4	16.8
Other Income (Expense)-Net	(1.7)	(3.1)	(1.1)
Provision for Income Taxes	(3.3)	(3.7)	(5.5)
Net Income	6.4	7.6	10.2
Net Income Attributable to Non-Controlling Interest	(0.2)	(0.3)	(0.3)
Net Income Attributable to Luxottica Group Stockholders	6.2	7.3	9.9

(1) Prior year amounts have been reclassified to conform with the 2009 presentation. For additional detail, please refer to Note 1 Reclassifications and Recent accounting pronouncements to our Consolidated Financial Statements included in Item 18 of this annual report.

For additional financial information by operating segment and geographic region, see Note 13 to our Consolidated Financial Statements included in Item 18 of this annual report. This includes a reclassification of prior year amounts as described in Note 13.

Comparison of the fiscal year ended December 31, 2009 to the fiscal year ended December 31, 2008

Net Sales. Net sales decreased by Euro 107.3 million, or 2.1 percent, to Euro 5,094.3 million in 2009 from Euro 5,201.6 million in 2008. Euro 137.2 million of such decrease is attributable to the decreased sales of the manufacturing and wholesale distribution segment in 2009 as compared to the same period in 2008, which was partially offset by the increase in the retail distribution segment of Euro 29.9 million. The decrease in sales in the manufacturing and wholesale distribution segment was mainly attributable to decreased sales of most of our designer brands, which was partially offset by increased sales of our Ray-Ban and Oakley brands. The increase in sales in the retail distribution segment includes positive effects from currency fluctuations between the Euro, which is our reporting currency, and other currencies in which we conduct business, in particular due to a stronger U.S. dollar compared to the Euro. The favorable exchange rate fluctuations increased net sales by Euro 124.3 million, primarily in the retail distribution segment.

In 2008, the fiscal year for the retail distribution segment in North America included 53 weeks; in 2009, the fiscal year for the retail distribution segments in Asia Pacific, China and South Africa included 53 weeks. On a comparable basis, i.e. adjusted for the additional week of sales in 2008 and 2009, net sales in 2009 decreased by Euro 68.9 million or 1.3 percent, to Euro 5,086.7 million in 2009 as compared to Euro 5,155.6

million in 2008. The table below sets forth the impact on our net sales of the additional week of sales in 2008 and 2009:

	2009	2008	Difference
Net Sales - Total Group			
Amount in Euro/millions			
Net Sales - as reported	5,094.3	5,201.6	(2.1)%
Additional week of sales	(7.6)	(46.0)	
Net Sales as adjusted	**5,086.7**	**5,155.6**	**(1.3)%**

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Net sales for the retail distribution segment increased by Euro 29.9 million, or 1.0 percent, to Euro 3,139.0 million in 2009 from Euro 3,109.1 million in 2008. The increase in net sales for the period is attributable to the strengthening of the U.S. dollar against the Euro, which increased net sales for the period by Euro 124.3 million. This increase was partially offset by a 4.8 percent decrease in comparable store sales for the North American retail operations, which reflects the change in sales from one period to another that, for comparison purposes, includes in the calculation only stores open in the more recent period that also were open during the comparable prior period in the same geographic area, and applies to both periods the average exchange rate for the prior period.

On a comparable basis, i.e. adjusted for the additional week of sales, net sales in 2009 in the retail distribution segment increased by Euro 68.1 million, or 2.2 percent, to Euro 3,131.3 million in 2009, as compared to Euro 3,063.2 million in 2008. The table below sets forth the impact on our net sales of the additional week of sales in 2008 and 2009:

	2009	**2008**	**Difference**
Net sales Retail			
Amount in Euro/millions			
Net Sales - as reported	3,139.0	3,109.1	1.0%
Additional week of sales	(7.6)	(46.0)	
Net sales as adjusted	**3,131.3**	**3,063.2**	**2.2%**

Net sales to third parties in the manufacturing and wholesale distribution segment decreased by Euro 137.2 million, or 6.6 percent, to Euro 1,955.3 million in 2009 from Euro 2.092.5 million in 2008. This decrease is mainly attributable to decreased sales of most of our designer brands, which was partially offset by increased sales of our Ray-Ban and Oakley brands. These sales volume decreases occurred in almost all of our key markets, with the exception of France and Brazil. These negative effects were partially offset by positive currency fluctuations, in particular due to a stronger U.S. dollar compared to the Euro, which caused an increase in net sales to third parties in the manufacturing and wholesale distribution segment of Euro 5.0 million.

In 2009, net sales in the retail distribution segment accounted for approximately 61.6 percent of total net sales, as compared to approximately 59.8 percent of total net sales for 2008. This increase in sales as a percentage of total net sales for the retail distribution segment is primarily attributable to: (i) a 6.6 percent decrease in net sales to third parties in our manufacturing and wholesale distribution segment compared to 2008; and (ii) positive currency exchange rate effects, which more heavily impacted net sales for the retail distribution segment because of the heavy concentration of our retail business in North America, where the Euro is not the functional currency.

In 2009, net sales to third parties in our manufacturing and wholesale distribution segment in Europe was Euro 980.4 million, comprising 50.1 percent of our total net sales in this segment, compared to Euro 1,067.9 million during 2008, or 51.0 percent of total net sales. The decrease of Euro 87.5 million in 2009 compared to 2008 constituted an 8.2 percent decrease in net sales to third parties in Europe, due to reductions in orders by wholesale customers responding to reduced consumer demand in this market as a result of the global financial crisis. Net sales to third parties in our manufacturing and wholesale distribution segment in the United States and Canada were U.S. $661.4 million and comprised 24.3 percent of our total net sales in this segment in 2009, compared to U.S. $731.7 million in 2008, or 23.8 percent of total net sales. The decrease of U.S. $70.3 million in 2009 compared to 2008 constituted a decrease, in U.S. dollars, of 9.6 percent in net sales in this segment in the United States and Canada, due to the global financial crisis that caused reductions in orders by wholesale customers referred to above. In Euro, net sales in the United States and Canada decreased by 4.7 percent due to the strengthening of the U.S. dollar as compared to the Euro. In 2009, net sales to third parties in our manufacturing and wholesale distribution segment in the rest of the world were Euro 500.7 million, comprising 25.6 percent of our total net sales in this segment, compared to Euro 527.1 million in 2008, or 25.2 percent of our net sales. The decrease of Euro 26.4

million in 2009 compared to 2008 constituted a 5.0 percent decrease in this segment in the rest of the world due to the reductions in orders by wholesale customers referred to above.

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In 2009, net sales in our retail distribution segment in the United States and Canada comprised 82.6 percent of our total net sales in this segment as compared to 83.6 percent of our total net sales in 2008. In U.S. dollars, retail net sales in the United States and Canada decreased by 5.4 percent to U.S. $3,614.5 million in 2009 from U.S. $3,822.3 million for 2008. In Euro, retail net sales in the United States and Canada decreased by only 0.3 percent to Euro 2,591.7 million in 2009 from Euro 2,599.0 million in 2008, mainly due to the strengthening of the U.S. dollar compared to the Euro and the significant portion of the retail business that was generated in U.S. dollars. During 2009, net sales in the retail segment in the rest of the world (excluding the United States and Canada) comprised 17.4 percent of our total net sales in the retail distribution segment and constituted an increase of 7.3 percent to Euro 547.3 million in 2009 from Euro 510.1 million for 2008.

Cost of Sales. Cost of sales increased by Euro 17.2 million, or 1.0 percent, to Euro 1,768.4 million in 2009 from Euro 1,751.3 million in 2008. As a percentage of net sales, cost of sales increased to 34.7 percent in 2009, as compared to 33.7 percent in 2008, mainly due to the impact of fixed costs on declining volumes. In 2009, the average number of frames produced daily in our facilities decreased to approximately 207,700, as compared to 213,100 in 2008, which was attributable to decreased production in the Italian manufacturing facilities in response to the overall decrease in demand.

Gross Profit. Our gross profit decreased by Euro 124.5 million, or 3.6 percent, to Euro 3,325.9 million in 2009 from Euro 3,450.4 million in 2008. As a percentage of net sales, gross profit decreased to 65.3 percent in 2009 from 66.3 percent in 2008, due to the factors noted above for cost of sales.

Operating Expenses. Total operating expenses increased by Euro 42.1 million, or 1.6 percent, to Euro 2,742.7 million in 2009 from Euro 2,700.6 million in 2008. As a percentage of net sales, operating expenses increased to 53.8 percent in 2009 from 51.9 percent in 2008 primarily due to the increase in general and administrative expenses.

Selling and advertising expenses (including royalty expenses) decreased by Euro 18.1 million, or 0.9 percent, to Euro 2,106.4 million in 2009 from Euro 2,124.4 million in 2008, due to the decreases in advertising expenses of Euro 27.1 million and in royalty expenses of Euro 15.0 million, partially offset by an increase in selling expenses of Euro 24.1 million. As a percentage of net sales, selling and advertising expenses increased to 41.3 percent in 2009 compared to 40.8 percent for 2008.

General and administrative expenses, including intangible asset amortization, increased by Euro 60.2 million, or 10.4 percent, to Euro 636.3 million in 2009 from Euro 576.2 million in 2008. The increase is mainly due to (i) the negative impact of foreign currency fluctuations, (ii) non-recurring income in 2008 of approximately Euro 8.0 million for the collection of an insurance claim, (iii) non-recurring expenses in 2009 in the amount of Euro 7.4 million resulting from the personnel restructuring of the retail distribution segment and (iv) increase in depreciation expense by approximately Euro 10.0 million in 2009. As a percentage of net sales, general and administrative expenses increased to 12.5 percent in 2009 compared to 11.1 percent for 2008.

Income from Operations. For the reasons described above, income from operations decreased by Euro 166.6 million, or 22.2 percent, to Euro 583.2 million in 2009 from Euro 749.8 million in 2008. As a percentage of net sales, income from operations decreased to 11.4 percent in 2009 from 14.4 percent in 2008.

On a comparable basis, i.e. adjusted for the additional week of sales in 2008 and 2009, for the non-recurring costs in the retail distribution segment resulting from the 2009 personnel restructuring of Euro 7.4 million in 2009 and for the non-recurring income in 2008 of approximately Euro 8.0 million related to the collection of an insurance claim, income from operations in 2009 decreased by Euro 143.6 million, or 20.5 percent, to Euro 588.0 million in 2009 as compared to Euro 731.7 million in 2008. The table below sets forth the impact on our income from operations of the items described above:

	2009	**% on Net Sales**	**2008**	**%on Net Sales**	**Difference in basis points**
Income from Operations - Total Group					
Amount in Euro/millions					
Income from Operations - as reported	583.2	11.4%	749.8	14.4%	(300)
Additional week of sales	(2.6)		(10.1)		
Non-recurring costs	7.4				
Insurance reimbursement			(8.0)		
Income from Operations as adjusted	**588.0**	**11.6%**	**731.7**	**14.2%**	**(260)**

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Other Income (Expense) Net. Other income (expense) - net was Euro (88.9) million in 2009 compared to Euro (159.9) million in 2008. Net interest expense decreased to Euro 84.7 million in 2009 compared to Euro 122.0 million in 2008, mainly attributable to a decrease in interest rates on our outstanding floating interest rate indebtedness. Other - net was an expense of Euro 4.2 million in 2009 and Euro 37.9 million in 2008. The change was due to a one-time loss of approximately Euro 22.8 million related to the sale in 2008 of a note we received in 2006 as part of the sale of the Things Remembered business.

Net Income. Income before taxes decreased by Euro 95.6 million, or 16.2 percent, to Euro 494.3 million in 2009 from Euro 589.9 million in 2008 for the reasons described above. As a percentage of net sales, income before taxes decreased to 9.7 percent in 2009 from 11.3 percent in 2008. Net income attributable to non-controlling interests decreased to Euro 12.1 million in 2009 from Euro 15.5 million in 2008. Our effective tax rate was 33.9 percent in 2009, compared to 33.0 percent in 2008.

Net income attributable to Luxottica Group stockholders decreased by Euro 65.0 million, or 17.1 percent, to Euro 314.8 million in 2009 from Euro 379.7 million in 2008 for the reasons described above. Net income attributable to Luxottica Group stockholders as a percentage of net sales decreased to 6.2 percent in 2009 from 7.3 percent in 2008.

Basic earnings per share were Euro 0.69 in 2009 as compared to Euro 0.83 in 2008. Diluted earnings per share were Euro 0.69 in 2009 compared to Euro 0.83 in 2008.

Comparison of the fiscal year ended December 31, 2008 to the fiscal year ended December 31, 2007

Net Sales. Net sales increased by Euro 235.5 million, or 4.7 percent, to Euro 5,201.6 million during 2008 from Euro 4,966.1 million in 2007. Euro 638.4 million of such increase is attributable to the inclusion of net sales generated by Oakley for a full year in 2008 as compared to 2007, when Oakley net sales were only included from and after the acquisition date on November 14, 2007. This positive effect was partially offset by (i) negative currency fluctuation effects, in particular due to a weaker U.S. dollar compared to the Euro, which reduced net sales by Euro 294.2 million, primarily in the retail distribution segment, (ii) a soft performance of the retail distribution segment (excluding Oakley retail-related sales), which caused a reduction in net sales of Euro 95.9 million, and (iii) a soft performance of the manufacturing and wholesale distribution segment (excluding Oakley wholesale-related sales), which caused a reduction in net sales of Euro 12.7 million. The table below sets forth the effect on our net sales of (i) the Oakley acquisition as if Oakley had been acquired on January 1, 2007, and (ii) exchange rate fluctuations:

	2008	**2007**	**Difference**
Net Sales - Total Group			
Amounts in millions of Euro			
Net Sales - as reported	5,201.6	4,966.1	4.7%
Oakley s Sales - January 1 through November 13, 2007		572.9	
Exchange rate effect(1)	294.2		
Pro Forma Net Sales at constant exchange rates(2)	**5,495.8**	**5,539.0**	**(0.8)%**

(1) Calculated using the average exchange rates between the Euro and the relevant currencies of the various markets in which we operated for the twelve-month period ended December 31, 2007.

(2) Pro forma data reflects the inclusion of the consolidated results of Oakley, Inc., a subsidiary that was acquired in November 2007, as if it was acquired on January 1, 2007.

The financial information included in the preceding table and the following three tables is for informational purposes only and is not intended to represent the sales or operating margin that we would have reported had the Oakley acquisition

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been completed as of January 1, 2007, and should not be taken as representative of our future sales or operating margin. The financial information included in these tables should be read in conjunction with the information contained in the consolidated financial statements and related notes included in this annual report.

Net sales for the retail distribution segment decreased by Euro 153.2 million, or 4.7 percent, to Euro 3,109.1 million in 2008 from Euro 3,262.3 million in 2007. The decrease in net sales for the period is primarily attributable to the strengthening of the Euro, mainly against the U.S. dollar, which negatively impacted net sales for the period by Euro 228.3 million and to a 6.8 percent decrease in comparable store sales of the North American retail operations, which reflects the change in sales from one period to another that, for comparison purposes, includes in the calculation only stores open in the more recent period that also were open during the comparable period in the same geographic area, and applies to both periods the average exchange rate for the prior period. This decrease in net sales was partially offset by a Euro 170.9 million growth in net sales attributable to the inclusion of Oakley s retail business. The table below sets forth the effect on our net sales of (i) the Oakley acquisition as if Oakley had been acquired on January 1, 2007, and (ii) the exchange rate fluctuations:

	2008	2007	Difference
Net Sales Retail			
Amounts in millions of Euro			
Net Sales - as reported	3,109.1	3,262.3	(4.7)%
Oakley s Sales - January 1 through November 13, 2007		145.6	
Exchange rate effect(1)	228.3		
Pro Forma Net Sales at constant exchange rates (2)	**3,337.4**	**3,407.9**	**(2.1)%**

(1) Calculated using the average exchange rates between the Euro and the relevant currencies of the various markets in which we operated for the twelve-month period ended December 31, 2007.

(2) Pro forma data reflects the inclusion of the consolidated results of Oakley, Inc., a subsidiary that was acquired in November 2007, as if it was acquired on January 1, 2007.

Net sales to third parties in the manufacturing and wholesale distribution segment increased by Euro 388.7 million, or 22.8 percent, to Euro 2,092.5 million in 2008 from Euro 1,703.8 million in 2007. This increase was due to the inclusion of Euro 467.4 million of net sales generated by Oakley s manufacturing and wholesale business for 2008, as well as increased sales of our house brands, such as *Ray-Ban*. These volume increases occurred primarily in the European and North American markets, which together accounted for approximately 74.8 percent and 76.5 percent of the net sales to third parties in our manufacturing and wholesale distribution segment in 2008 and 2007, respectively. This increase was partially offset by the decrease in the net sales of the designer brands in the manufacturing and wholesale distribution segment and by negative currency fluctuations, in particular a weaker U.S. dollar compared to the Euro, which caused a