LUXOTTICA GROUP SPA
Form 20-F
June 28, 2006

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, 2005
	OR
o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
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 CANTÙ 2, MILAN 20123, ITALY
(Address of principal executive offices)

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	NEW YORK STOCK EXCHANGE

ONE ORDINARY SHARE

* 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.

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	**457,975,723**

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

Yes o No x

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 1034.

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer.

Large accelerated filer Accelerated filer X - Non-accelerated filer

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 o Item 18 x

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, fluctuations in exchange rates, economic and weather factors affecting consumer spending, the ability to successfully introduce and market new products, the availability of correction alternatives to prescription eyeglasses, the ability to successfully launch initiatives to increase sales and reduce costs, the ability to effectively integrate recently acquired businesses, including Cole National Corporation and its subsidiaries (Cole), risks that expected synergies from the acquisition of Cole will not be realized as planned and that the combination of Luxottica Group s managed vision care business with Cole will not be as successful as planned, as well as other political, economic and technological factors and other risks and uncertainties described in our filings with the 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, we, us and our, unless otherwise indicated or the context otherw requires, we are referring to Luxottica Group S.p.A. and its consolidated subsidiaries.

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.

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 financial information for and as of the years ended December 31, 2001, 2002, 2003, 2004 and 2005 is derived from our consolidated financial statements, which have been audited by Deloitte & Touche S.p.A., independent registered public accounting firm.

[TABLES APPEAR ON THE FOLLOWING PAGE]

	Year Ended December 31, 2001(9)(6)	2002(9)	2003(7)(9)	2004(8)(9)	2005(7)	2005(7) (In thousands of U.S.$) (1)(3)
	(In thousands of Euro)(3)					
STATEMENT OF INCOME DATA:						
Net Sales	3,105,498	3,201,788	2,852,194	3,255,300	4,370,744	5,175,835
Cost of Sales	(923,537)	(946,134)	(903,617)	(1,040,697)	(1,380,653)	(1,634,969)
Gross Profit	2,181,960	2,255,654	1,948,577	2,214,603	2,990,091	3,540,866
OPERATING EXPENSE						
Selling and Advertising	(1,303,397)	(1,360,339)	(1,235,757)	(1,376,546)	(1,909,747)	(2,261,522)
General and Administrative	(369,071)	(293,806)	(281,033)	(345,243)	(477,790)	(565,799)
Total	(1,672,468)	(1,654,146)	(1,516,790)	(1,721,789)	(2,387,537)	(2,827,321)
Income from Operations	509,492	601,508	431,787	492,814	602,554	713,544
OTHER INCOME (EXPENSE)						
Interest Income	15,060	5,036	5,922	6,662	5,650	6,691
Interest Expense	(91,978)	(65,935)	(47,117)	(56,115)	(66,332)	(78,550)
Other Net	8,737	(1,167)	(799)	13,792	15,697	18.588
Other Income (Expenses) Net	(68,181)	(62,066)	(41,994)	(35,661)	(44,985)	(53,271)
Income Before Provision for Income Taxes	441,311	539,442	389,793	457,153	557,569	660,273
Provision for Income Taxes	(123,450)	(162,696)	(117,328)	(161,665)	(206,022)	(243,971)
Income Before Minority Interests in Consolidated Subsidiaries	317,861	376,746	272,465	295,488	351,547	416,302
Minority Interests in Income of Consolidated Subsidiaries	(1,488)	(4,669)	(5,122)	(8,614)	(9,253)	(10,957)
Net Income	316,373	372,077	267,343	286,874	342,294	405,345
Weighted Average Shares Outstanding (thousands)						
Basic	451,037.0	453,174.0	448,664.4	448,275.0	450,179.1	
Diluted	453,965.5	455,353.5	450,202.1	450,360.9	453,303.4	
Basic Earnings per Share(2)	0.70	0.82	0.60	0.64	0.76	0.90
Diluted Earnings per Share(2)	0.70	0.82	0.59	0.64	0.76	0.89
Cash Dividends Declared per Share(4)(5)	0.14	0.17	0.21	0.21	0.23	0.27

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(1) Translated for convenience at the rate of Euro 1.00 = U.S. $1.1842, based on the Noon Buying Rate of Euro to U.S. dollar on December 31, 2005. See Exchange Rate Information below for more information regarding the Noon Buying Rate.

(2) 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.

(3) Except per Share amounts, which are in Euro and U.S. dollars, as applicable.

(4) Cash Dividends Declared per Share are expressed in gross amounts without giving effect to applicable withholding or other deductions for taxes.

(5) 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.

(6) We acquired all of the outstanding shares of Sunglass Hut International, Inc. in April 2001. Therefore, 2001 includes approximately nine months of operating results of Sunglass Hut International, Inc. and its subsidiaries (Sunglass Hut).

(7) We acquired 82.57 percent of the outstanding shares of OPSM Group Limited (OPSM) in August 2003. As such, the results for 2003 include approximately five months of operating results of OPSM and its subsidiaries. In March 2005, we acquired the remaining 17.43 percent of the outstanding shares of OPSM and, from that date, 100 percent of the operating results of OPSM and its subsidiaries are included above.

(8) We acquired all of the outstanding shares of Cole in October 2004. Therefore, 2004 includes approximately three months of operating results of Cole.

(9) Certain amounts in prior years have been reclassified to conform with the 2005 presentation.

	As of December 31,					
	2001	**2002**	**2003**	**2004**	**2005**	**2005**
	(In thousands of Euro except share data)					**(In thousands of U.S. $)(1)**
BALANCE SHEET DATA:						
Working Capital(2)	(872,107)	141,390	(56,185)	130,587	267,858	317,197
Total Assets	3,948,362	3,586,332	3,912,676	4,556,058	4,973,522	5,889,645
Long-Term Debt	132,247	855,654	862,492	1,277,495	1,420,049	1,681,622
Shareholders Equity	1,342,843	1,417,895	1,374,534	1,495,607	1,954,033	2,313,966
Capital Stock	27,172	27,256	27,269	27,312	27,479	32,541
Number of Shares Adjusted to Reflect Changes in Capital (thousands)	452,865.8	454,263.6	454,477.0	455,205.5	457,975.7	

(1) Translated for convenience at the rate of Euro 1.00 = U.S. $1.1842, based on the Noon Buying Rate of Euro to U.S. dollar on December 31, 2005. See Exchange Rate Information below for more information regarding the Noon Buying Rate.

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

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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 shareholders at the annual general meeting of shareholders. Before we may pay any dividends with respect to a fiscal year, we are required to set aside an amount equal to five percent of our statutory net income for such year in our legal reserve until the reserve, including any amounts set aside during prior years, is at least equal to one-fifth of the nominal value of our issued share capital.

At our annual general meeting of shareholders held on June 14, 2006, our shareholders approved the distribution of a cash dividend in the amount of Euro 0.29 per ordinary share. Our Board of Directors proposed, and the shareholders approved, the date of June 22, 2006 as the date for the payment of such dividend to all holders of record of our ordinary shares on June 16, 2006, 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 were traded ex-dividend on June 19, 2006, and dividends in respect of the ordinary shares represented by ADSs were paid to Deutsche Bank Trust Company Americas on June 22, 2006. Deutsche Bank Trust Company Americas converted the Euro amount of such dividend payment into U.S. dollars on June 22, 2006. The dividend amount for each ADS holder will be paid commencing on June 29, 2006 to all such holders of record on June 21, 2006. 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 shareholders 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. $)	
2001	0.140		0.120	
2002	0.170		0.165	
2003	0.210		0.242	
2004	0.210		0.254	
2005	0.230		0.276	
2006	0.290	(5)	0.364	(6)

(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.

(4) Translated at the Noon Buying Rate on the payment date to holders of ADSs. See Exchange Rate Information below for more information regarding the Noon Buying Rate.

(5) The dividend of Euro 0.29 per ordinary share was approved by our Board of Directors on April 27, 2006 and was voted upon and approved by our shareholders at the annual general meeting of shareholders held on June 14, 2006.

(6) The dividend per ordinary share was converted into U.S. dollars by Deutsche Bank Trust Company Americas on June 22, 2006.

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:

Period	**High**	**Low**	**Average(1)**	**End of Period**
Year Ended December 31, 2001	0.8384	0.9545	0.8957	0.8901
Year Ended December 31, 2002	0.8594	1.0485	0.9450	1.0485
Year Ended December 31, 2003	1.0361	1.2597	1.1307	1.2597
Year Ended December 31, 2004	1.1801	1.3625	1.2435	1.3538
Year Ended December 31, 2005	1.1667	1.3476	1.2444	1.1842

(1) The average of the Noon Buying Rates in effect on each business day during the period.

Month	**High**	**Low**
December 2005	1.1699	1.2041
January 2006	1.1980	1.2287
February 2006	1.1860	1.2100
March 2006	1.1886	1.2197
April 2006	1.2091	1.2624
May 2006	1.2607	1.2888

On June 23, 2006, the Noon Buying Rate was U.S. $1.2522 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. $, dollars or U.S. dollars are to United State dollars, references to Euro and are to the Common European Currency, the Euro, references to Rs are to Indian rupees, and references to AUD or A$ are to Australian dollars.

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Risk Factors

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

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 eyewear 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 writedowns 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.

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 an adverse impact on our business, results of operations and financial condition.

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 eyewear industry is 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 eyewear industry is also subject to rapidly changing consumer preferences. There can be no assurance that the growth of the fashion eyewear industry will continue or that consumer preferences will not change in a manner which will adversely affect the fashion eyewear industry as a whole or us in particular. 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 based on that design. 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 would 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 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 will be 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.

If we do not continue to negotiate and maintain favorable license arrangements, our sales or cost of sales 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, Dolce & Gabbana, D&G, Versace, Bulgari, Miu Miu, Salvatore Ferragamo, Donna Karan, DKNY, Genny, Byblos, Brooks Brothers, Sergio Tacchini, Anne Klein, Moschino, Versus* and *Adrienne Vittadini* and, most recently, *Burberry* and *Polo Ralph Lauren.* These license agreements typically have terms of between three and ten years (except for the license agreement for the *Moschino* line, which is terminable upon 12 months notice), 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 Business Overview Recent Developments regarding our new license agreements for the Burberry and Polo Ralph Lauren names. 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. Accordingly, if we are unable to negotiate and maintain satisfactory license arrangements with leading designers, our growth prospects and financial results could 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 business could be adversely affected.

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 40 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 would have a material adverse impact on our business, results of operations, financial condition and prospects.

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

Our principal manufacturing facilities are located in Italy, and we maintain sales and distribution facilities throughout the world. As a result, we are vulnerable to foreign exchange rate fluctuations in two principal areas:

we incur most of our manufacturing costs in Euro and receive a significant part of our revenues in other currencies, particularly the U.S. and Australian dollars. Therefore, a strengthening of the Euro 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 operating expenses 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 international sales suffer due to changing local conditions, our profitability and future growth will be affected.

We currently operate worldwide and intend to expand our operations in many countries, including certain developing countries in Asia. 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;

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 significant effect on our business, results of operations, financial condition and prospects.

If we are unable to protect our proprietary rights, the loss of sales and the costs of defending such rights will adversely affect our business and financial results.

We rely on trade secret, unfair competition, trade dress, trademark, patent and copyright laws to protect our rights to certain aspects of our products, 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 our competitive position. However, pending trademark applications may not generate registered trademarks, and any trademark registration that is granted may be ineffective in preventing competition and could be held invalid if subsequently challenged. In addition, the actions we take to protect our proprietary rights may be inadequate to prevent imitation of our products. 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 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.

We devote significant resources toward defending our proprietary rights. 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. Additionally, 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 or (iii) subject us to substantial liability. Any of these possibilities could have a material adverse effect on our business, results of operations, financial condition and prospects.

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

Our sales depend in part on our relationships with the host stores that sell Cole s Licensed Brands products, including Sears. Our leases and licenses with Sears are terminable upon short notice. If our relationship with Sears 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, then our business could be adversely affected.

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, results of operations and financial condition.

If we become subject to additional regulation by governmental authorities, our compliance with these regulations could have an adverse effect on our business, results of operations and financial condition.

Our operations are subject to regulation by governmental authorities in the United States and other jurisdictions in which we conduct business. Governmental regulations, both in the United States and other jurisdictions, have historically been subject to change. New or revised requirements imposed by governmental regulatory authorities could have an adverse effect on us, including increased costs of compliance. We may also be adversely affected by changes in the interpretation or enforcement of existing laws and regulations by governmental authorities that could affect sales or the way we currently distribute our products.

See Item 4 Information on the Company Regulatory Matters and Item 8 Financial Information Legal Proceedings.

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) the diversion of the attention of senior management from our operations; and (vi) liabilities that were not known at the time of acquisition or the need to address tax or accounting issues. Specifically, with regard to our acquisition of Cole, we may face additional risks and uncertainties following such 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) the diversion of the attention of senior management from our operations; (vi) liabilities that were not known at the time of acquisition or creation of tax or accounting issues; (vii) difficulty in the consolidation of Cole s headquarters with Luxottica Retail headquarters in Mason, Ohio; (viii) difficulty integrating Cole s human resources systems, operating systems, inventory management systems, and assorted planning systems with the Company s systems; (ix) difficulty integrating Cole s distribution center with the Company s distribution center; (x) difficulty finalizing the integration of product assortment; (xi) difficulty integrating Cole s Managed Vision Care system with the Company s Managed Vision Care system; (xii) the inability of the Company to minimize the disruptive effect of the integration on the management of the Company s retail business; (xiii) difficulty in the timely creation and effective implementation of uniform standards, controls, procedures and policies; and (xiv) the cultural differences between the Company s organization and Cole s organization. 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 not realize the intended benefits of any acquisition.

ITEM 4. INFORMATION ON THE COMPANY

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 and designer lines of mid- to premium-priced prescription frames and sunglasses. Based on sales, we are the world leader in the design, manufacture and distribution of prescription frames and sunglasses in the mid- and premium-price categories.

With respect to our manufacturing activities, we operate six production facilities in Italy. A seventh facility was closed during 2004 and such closure did not have a material effect on our 2004 statement of operations. In addition, we operate a manufacturing facility in China. In 2005, we manufactured approximately 33.9 million prescription frames and sunglasses.

Our products are marketed under a variety of well-known brand names. Our house brands include *Ray-Ban, Revo, Arnette, Killer Loop, Persol, Vogue, Luxottica* and *Sferoflex*. Our designer lines include *Chanel, Prada, Dolce & Gabbana, D&G, Versace, Bulgari, Miu Miu, Salvatore Ferragamo, Donna Karan, DKNY, Genny, Byblos, Brooks Brothers, Sergio Tacchini, Anne Klein, Moschino, Versus* and *Adrienne Vittadini* .. Commencing in October 2006, our designer lines will include *Burberry*, and commencing on January 1, 2007, they will include *Polo Ralph Lauren*.

With respect to our distribution activities, we operate our business through an extensive worldwide wholesale and retail distribution network based primarily in North America and Australia. In 2005, through our wholesale and retail networks, we distributed approximately 17.3 million prescription frames and approximately 21.8 million sunglasses in approximately 4,125 models. Our products are distributed in approximately 120 countries worldwide.

Our wholesale network is comprised of 29 wholly- or partially-owned subsidiaries operating in principal markets, over 1,300 sales representatives and approximately 100 independent distributors. Our primary wholesale customers include retailers of mid- and premium-priced eyewear such as independent opticians, optical and sunglass chains, optical superstores, sunglass specialty stores and duty-free shops. In certain countries, and especially in North America, wholesale customers also include optometrists and ophthalmologists, health maintenance organizations, or HMOs, and department stores.

Our retail network is mainly comprised of our subsidiaries: in North America, LensCrafters, Inc. (LensCrafters), Sunglass Hut and Cole, which operates Pearle and our Licensed Brands; and in Australia, New Zealand and Asia, OPSM, of which we acquired majority control in August 2003 and full control in March 2005. Luxottica s North American retail business is the largest optical retail business in North America based on total sales. Our retail network in Asia has expanded in 2006 with two acquisitions. In April 2006, we completed our acquisition of Beijing Xueliang Optical Technology Co. Ltd., a 79-store chain located in Beijing, China and, in July 2006, we expect to complete our acquisition of Ming Long Optical, a 133-store chain and the largest premium optical chain in the province of Guangdong, China.

See Products and Services below for a more detailed discussion of our business.

Company History

In 1961, Leonardo Del Vecchio and others established our original operations in Agordo, near Belluno, in northeastern Italy. Since that time, we have enjoyed significant growth in the scope and size of our operations. We have developed and grown in several phases, each of which is related to a specific business strategy. Throughout most of the 1960 s, we manufactured molds, metal-cutting machinery, frame parts and semi-finished products for the optical market. We then progressively expanded our production capabilities to enable us to produce a finished frame product.

In 1969, we launched our first line of Luxottica brand frames and began our transformation from a third-party supplier to an independent manufacturer with a line of branded products.

In the early 1970 s, we distributed our products exclusively through wholesalers. In 1974, with the acquisition of the distributor that had marketed the Luxottica product line in Italy since 1971, we took our first step towards vertical integration.

Luxottica Group S.p.A. was organized as a corporation on November 23, 1981 under the laws of the Republic of Italy. During the early 1980 s, we continued to pursue vertical integration by acquiring independent optical distributors and forming wholesale subsidiaries in strategic markets. In 1981, with our acquisition of La Meccanoptica Leonardo S.p.A., the owner of the *Sferoflex* brand and the holder of an important patent for a flexible hinge, we increased our market share in Italy and various key European markets. During the late 1980 s, we began to expand our product lines to include the design, manufacture and distribution of designer frames through license agreements with major fashion designers.

In 1990, our ADSs were listed on the New York Stock Exchange. Throughout the 1990 s, we continued to expand our distribution network by forming new wholesale subsidiaries. In 1995, we became the first frame manufacturer to enter the North American retail market through the acquisition of LensCrafters. Throughout the 1990 s, we also expanded into the sunglasses business through various acquisitions. In 1990, we acquired Florence Line S.p.A., the owner of the Vogue brand. In 1995, we acquired the medium- to high-end brand product line of Persol S.p.A.

In June 1999, we acquired the Global Eyewear Division of Bausch & Lomb Incorporated, which we refer to as our Ray-Ban business. The Ray-Ban acquisition significantly increased our presence in the sunglasses market, strengthened our house brand portfolio and provided us with sunglass crystal lens manufacturing technology, manufacturing facilities and equipment.

In December 2000, our ordinary shares were listed on the Mercato Telematico Azionario della Borsa Italiana S.p.A., which we refer to as the Italian Stock Exchange.

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In April 2001, we continued to strengthen our sunglasses business by acquiring Sunglass Hut, a leading retailer of sunglasses worldwide based on sales. In May 2001, we acquired all of the issued and outstanding common stock of First American Health Concepts, Inc., which at that time was a leading provider of managed vision care plans in the United States based on sales. In August 2003, we acquired 82.57 percent of the outstanding shares of OPSM (we acquired the remaining 17.43 percent interest in March 2005), resulting in our leadership position in the prescription business based on sales in the Australian and New Zealand markets, while at the same time presenting us with new growth opportunities in the Asia-Pacific markets. In October 2004, we strengthened and expanded our North American retail and managed vision care business with the acquisition of Cole. In 2005, we expanded our retail presence in China by entering into agreements to buy two premium retail chains, Beijing Xueliang Optical Technology Co. Ltd. and Ming Long Optical, to become a leading operator of premium optical stores in China based on the number of stores, with a total of 278 locations in two of the top premium optical markets in Mainland China, as well as Hong Kong, an important market in Asia for luxury goods. We are awaiting customary approvals by the relevant Chinese governmental authorities regarding the agreement to acquire Ming Long Optical and anticipate receiving such approvals by July 2006.

Our principal executive offices are located at Via Cantù 2, Milan, 20123, Italy, and our telephone number at that address is (011) 39-02-863341. Our agent for service for limited purposes in the United States is CT Corporation, 111 Eighth Avenue, New York, New York 10011, telephone number (212) 894-8940. We are domiciled in Milan, Italy.

Business Overview

Recent Developments

License Agreements

On October 7, 2005, we announced the signing of a 10-year license agreement for the design, production and worldwide distribution of prescription frames and sunglasses under the Burberry name. The first Burberry eyewear collections under the agreement will be presented in October 2006.

On February 27, 2006, we announced the signing of a 10-year license agreement for the design, production and worldwide distribution of prescription frames and sunglasses under the Polo Ralph Lauren name. Performance under the agreement will commence on January 1, 2007.

Retail Acquisitions

On July 7, 2005, we announced that our subsidiary, SPV Zeta S.r.l., had entered into an agreement to acquire 100 percent of the equity interest in Beijing Xueliang Optical Technology Co. Ltd. for a purchase price of Chinese Renminbi (RMB) 169 million (approximately Euro 17 million), plus RMB 40 million (approximately Euro 4 million) in assumed liabilities. Xueliang Optical had unaudited sales for the 2004 fiscal year of RMB 102 million (approximately Euro 10 million). Xueliang Optical has 79 stores in Beijing. The Company completed the acquisition in April 2006.

On October 4, 2005, we announced that our subsidiary, SPV Eta S.r.l., had entered into an agreement to acquire 100 percent of the equity interests in Ming Long Optical, the largest premium optical chain, based on number of stores, in the province of Guangdong, China, with 133 stores, for a purchase price of RMB 290 million (approximately Euro 29 million). As a result, we will become the leading operator of premium optical stores in China based on the number of stores, with a total of 278 locations in two of the top premium optical markets in Mainland China, as well as in Hong Kong, the most important market in Asia for luxury goods. Completion of the transaction remains subject to customary approvals by the relevant Chinese governmental authorities. The Company currently anticipates receiving such approvals by July 2006.

On May 18, 2006, we announced that we had entered into agreement to acquire Shoppers Optical, a 74-store Canadian-based optical chain owned by King Optical Group Inc. Once the transaction is completed, we will manage a total of 268 optical stores in Canada. Shoppers Optical operates across eight of Canada s provinces. Twenty-six of Shoppers Optical s stores are in the province of Ontario, where nearly 40 percent of the Canadian population lives. In addition, this acquisition will bring into the organization the first full-service Canada-based central lens finishing lab with anti-reflective coating capability. The closing of the transaction, which is subject to customary closing conditions, is expected to take place at the end of June 2006.

In June 2006, we announced that we plan to acquire 100 percent of the equity interest in Modern Sight Optics, a leading premium optical chain that operates a total of 28 stores in Shanghai, China, for total consideration of RMB 140 million (approximately Euro 14 million). Completion of the transaction is subject to customary approvals by the relevant Chinese governmental authorities. We expect to receive such approvals by the end of 2006.

Retail Expansion through Franchising

In June 2006, we announced a five-year franchising agreement with Azal Group that will expand our Sunglass Hut chain by up to 50 stores in the Middle East by 2008. Azal Group has operations in the Middle East and Europe and has a franchise portfolio of over 30 brands, including some of the industry s most recognizable brands.

Litigation Settlement

On August 31, 2005, we agreed with the plaintiffs in the previously disclosed action commenced in May 2001 (the Action) pending in the U.S. District Court for the Eastern District of New York relating to its acquisition of Sunglass Hut to a full and final settlement and release (the Settlement) of all claims made in the Action. In the Action, the plaintiffs principal claim was that certain payments made to the former Chairman of SGHI under a consulting, non-disclosure and non-competition agreement violated the best price rule under U.S. securities laws. The Settlement was approved by the Court, and final judgment has been entered dismissing the case with prejudice.

California Vision Health Care Service Plan Lawsuit

In March 2002, an individual commenced an action in the California Superior Court for the County of San Francisco against Luxottica Group S.p.A. and certain of our subsidiaries, including LensCrafters, Inc. and EYEXAM of California, Inc. The plaintiff, along with a second plaintiff named in an amended complaint, seeks to certify this case as a class action. The claims have been partially dismissed. The remaining claims, against LensCrafters, EYEXAM and EyeMed Vision Care, LLC, allege various statutory violations relating to the confidentiality of medical information, the operation of LensCrafters stores in California, including violations of California laws governing relationships among opticians, optical retailers, manufacturers of frames and lenses and optometrists, false advertising and other unlawful or unfair business practices. The action seeks unspecified damages, disgorgement and restitution of allegedly unjustly obtained sums, statutory damages, punitive damages and injunctive relief, including an injunction that would prohibit defendants from providing eye examinations or other optometric services at LensCrafters stores in California. In May 2004, the trial court stayed all proceedings in the case pending the California Supreme Court s decision in a case against Cole and its subsidiaries expected to address certain legal questions related to the issues presented in this case. On June 12, 2006, the California Supreme Court rendered its decision in that case, ruling that optical stores such as those operated by Cole must comply with Sections 655 and 2556 of the California Business and Professions Code. It is expected that plaintiffs will now seek to resume their prosecution of this action. Although we believe that our operational practices in California comply with California law, an adverse decision in this action or the suit against Cole might cause LensCrafters, EYEXAM and EyeMed to modify or close certain activities in California. Further, LensCrafters, EYEXAM and EyeMed might be required to pay damages and/or restitution, the amount of which might have a material adverse effect on our operating results, financial condition and cash flow.

People v. Cole

In February 2002, the State of California commenced an action in the California Superior Court for the County of San Diego against Cole and certain of its subsidiaries, including Pearle Vision, Inc. and Pearle Vision Care, Inc. The claims allege various statutory violations related to the operation of Pearle Vision Centers in California including violations of California laws governing relationships among opticians, optical retailers, manufacturers of frames and lenses and optometrists, false advertising and other unlawful or unfair business practices. The action seeks disgorgement and restitution of allegedly unjustly obtained sums, civil penalties and injunctive relief, including an injunction that would prohibit defendants from providing eye examinations or other optometric services at Pearle Vision Centers in California. In July 2002, the trial court entered a preliminary injunction to enjoin defendants from certain business and advertising practices. Both Cole and the State of California appealed that decision. On November 26, 2003, the Court of Appeal issued an opinion in which it stated that because California law prohibited Pearle Vision from providing eye examinations and other optometric services at Pearle Vision Centers, the trial court should have enjoined Pearle Vision from advertising the availability of eye examinations at Pearle Vision Centers. The appellate court also ruled in Cole s favor with respect to charging dilation fees, which ruling partially lifted the preliminary injunction with respect to these fees that had been imposed in July 2002. On March 3, 2004, the California Supreme Court granted Cole s petition for review of the portion of the appellate court s decision stating that California law prohibited defendants from providing eye examinations and other optometric services at Pearle Vision Centers. The appellate court s decision directing the trial court to enjoin Pearle Vision from advertising these activities was stayed pending the Supreme Court s resolution of the issue. On June 12, 2006, the California Supreme Court affirmed the Court of Appeal s prior decision, and held that optical stores such as those operated by Cole must comply with Sections 655 and 2556 of the California Business and Professions Code. The matter will now be remanded to the trial court for further proceedings to determine if, in fact, Cole s operations comply with those laws. In addition, the preliminary injunction previously issued to enjoin advertising of the availability of eye examinations at Pearle Vision Centers, may soon become operative. Although we believe that Cole s operational practices in California comply with California law, an adverse decision in this action may compel Cole and its subsidiaries to modify or close certain activities in California. Further, Cole and its subsidiaries might be required to pay civil penalties and/or restitution, the amount of which might have a material adverse effect on our operating results, financial condition and cash flow.

Cole SEC Investigation

Following Cole s announcement in November 2002 of the restatement of its financial statements, the SEC began an investigation into Cole s previous accounting. The SEC subpoenaed various documents from Cole and deposed numerous former officers, directors and employees of Cole. During the course of this investigation the SEC staff had indicated that it intended to recommend that a civil enforcement action be commenced against certain officers and directors of Cole but not against Cole. Cole was obligated to advance reasonable attorneys fees incurred by current and former officers and directors who were involved in the SEC investigation subject to undertakings provided by such individuals. Cole has insurance available with respect to a portion of these indemnification obligations. In March 2006, the SEC staff indicated that it had concluded its investigation and that, contrary to its earlier indication, it would not be recommending that an enforcement action be commenced against anyone in connection with the investigation.

Amended Credit Agreement

On March 10, 2006, we and our subsidiary Luxottica U.S. Holdings Corp. (U.S. Holdings) and the bank group parties to their three-Tranche credit agreement signed on June 3, 2004, agreed to amend the outstanding credit agreement. The amended agreement reduces the interest margin as defined in the agreement, extends the termination date of Tranches B and C to five years from the date the amendment was signed, gives the option at the end of the first and second anniversaries to extend the termination for additional one-year periods and increases the borrowing capacity of Tranche C to Euro 725.0 million from Euro 335.0 million.

Products and Services

Wholesale Operations

Our Brands

In our wholesale operations, we manufacture and sell our prescription frames and sunglasses as either house brands or designer lines. House brands consist of eyewear sold under brand names that we own. Designer lines are produced under designer names held by us under license agreements with third parties. Our products, for both house brands and designer lines, consist of a variety of different styles, from conventional to contemporary and fashion forward styling. Each brand is tailored for a specific market segment based on certain characteristics, such as the consumer s age, lifestyle and fashion consciousness.

House Brands: Our house brands, almost entirely designed and manufactured by us, are sold worldwide under brand names such as *Luxottica, Sferoflex, Vogue, Persol*, *Ray-Ban, Revo, Killer Loop* and *Arnette*. We currently produce approximately 1,600 distinct styles of frames within our house brands. Each style is typically produced in three sizes and at least four colors. Actual availability of product styles, colors and sizes varies among geographic markets depending upon local demand.

The following is a summary description of each of our most significant house brands:

Ray-Ban: Created in 1937, the *Ray-Ban* line is the brand leader in the eyewear market based on sales, bringing together renowned sunglass lenses and a timeless style.

Persol: Created in 1917 and acquired by Luxottica in 1995, the *Persol* brand is synonymous with design, elegance, tradition, and technical precision. Our *Persol* line, which includes a wide range of prescription frames and sunglasses, is marketed as a timeless fashion accessory due to the elegance and design of our products.

Vogue: Acquired by us in 1990, the *Vogue* brand is recognized as trendy and innovative and symbolizes a young and dynamic style that stresses attention to detail and fashion.

Arnette: Targeted to young consumers, this sports product line is characterized by a very forward-thinking design.

Revo: A product line targeted towards sport and leisure wearers, the *Revo* line is known for its high quality lenses which are treated with a specialized coating process.

Luxottica: *Luxottica* is our first product line, comprised of prescription frames and sunglasses. *Luxottica* targets a broad mix of consumers of eyewear.

Sferoflex: This product line, which in 1981 became the first brand name acquired by Luxottica Group, the *Sferoflex* line is comprised of prescription frames characterized by a classic and comfortable style, with flexible hinges that allow the frame to adapt to the unique face shape of each wearer.

Killer Loop: Created in 1989 as a sun and sports eyewear brand that combines design and quality, this brand has evolved throughout the years from exclusively sports eyewear to also include leisure eyewear.

Designer Lines: Our designer lines are produced and distributed through license agreements with major fashion houses. Currently, we produce 18 designer lines under the names *Chanel, Prada, Dolce & Gabbana, D&G, Versace, Bulgari, Miu Miu, Salvatore Ferragamo, Donna Karan, DKNY, Genny, Byblos, Brooks Brothers, Sergio Tacchini, Anne Klein,* *Moschino, Versus* and *Adrienne Vittadini.* Commencing in October 2006, our designer lines will include *Burberry*, and commencing on January 1, 2007, they will include *Polo Ralph Lauren*. The license agreements governing these designer lines are exclusive contracts and typically have terms of between three and ten years (except the license agreement for the *Moschino* line, which is terminable upon 12 months notice). See Trademarks, Trade Names and License Agreements License Agreements. Designer collections are developed through the collaborative efforts of our in-house design staff and the brand designer. Our designer lines presently feature approximately 2,500 different styles.

The following is a summary description of our main designer lines:

Chanel: In 1999, we became the first company licensed to produce *Chanel* products. The *Chanel* product line, targeting the high-end consumer, reflects the essential characteristics of the brand: style, elegance and class.

Prada: The *Prada* license agreement was signed in 2003. The *Prada* collections offer a range of glasses proposed in optical frames and sunglasses collections, and also a series of models created for leisure time, identified by the unmistakable red stripe. The *Prada* collections have always been distinctive not only for their high quality but also for their forward-thinking approach and style, enabling the brand to anticipate and often inspire trends across all sectors. Sophisticated, elegant and refined, *Prada* products are identified by their strong character and unique style.

Miu Miu: The *Miu Miu* license agreement was signed in 2003 and it comprises both optical frames and sunglasses. This brand addresses a clientele particularly attentive to the free and easy as well as to the sophisticated new trends. This collection expresses Miuccia Prada s vision of an alternative style, always characterized by a strong personality. The brand *Miu Miu* can be defined as: urban, young, sophisticated and sensual, an alternative vision, a new classic.

Versace: *Versace* is a lifestyle brand for the modern man or woman who chooses to express his/her strength, confidence and uniqueness through a bold and distinctive personal style. *Versace* represents the ideal of a sophisticated, free and highly desirable lifestyle.

Versus: While staying true to the essence of the core brand, *Versus* represents a younger, edgier take on those themes. Filled with spirit and energy, *Versus* challenges convention, always in the vanguard of modern urban style.

Bulgari: *Bulgari* eyewear is distinguished by the high quality of its material, attention to detail and elegant design. This product line is targeted towards a clientele who seek something exclusive.

Salvatore Ferragamo: The first *Salvatore Ferragamo* eyewear line debuted in late 1998, the year we executed the *Salvatore Ferragamo* license agreement. The *Salvatore Ferragamo* collections include both optical frames and sunglasses; they are characterized by the greatest attention to detail as well as by an original use of materials and choice of colors. The eyewear collection is inspired like all the other *Salvatore Ferragamo* products by the craftsmanlike tradition of this fashion house, reinterpreted according to contemporary trends.

Moschino: Original and different, with a combination of shapes, materials and colors which become provocative, amusing, innovative and at times surprisingly fascinating and seductive.

Byblos: *Byblos* presents an elegant, dynamic collection that is lively and concrete in its essentialism but which at the same time knows how to be sporty without being excessive or aggressive. The distinctive trait of the *Byblos* collections is the winning combination of sport and fashion, with an eye on trends to keep its designs always up to date.

Genny: The first *Genny* branded women s eyewear line was manufactured and distributed in 1989. Targeted at the premium-price market segment, *Genny* eyewear is designed for a classic and sophisticated woman who is feminine, self-assured, aware of fashion trends and who wants a distinctive yet not excessive style.

Sergio Tacchini: Our *Sergio Tacchini* line is a sports and leisure eyewear brand that offers a combination of dynamic and elegant design.

Brooks Brothers: . Characterized by lightweight materials and a slender line, the Brooks Brothers collections reflect the unique features of the style of this American brand. This is an affordable product line with classic style that delivers functionality, lightness and high quality.

Anne Klein: This product line targets successful professional women who place an emphasis on quality and image.

Donna Karan: This product line reflects the design sensibility and spirit of the Donna Karan Collection, offering men and women styles that are sophisticated, using modern and lightweight materials.

DKNY: DKNY is fast fashion with an urban mind-set, the New York City street-smart look. DKNY Eyewear addresses modern, urban, fashion-conscious women and men with multifaceted lifestyles: international, eclectic, fun and real.

Dolce & Gabbana: Our first Dolce & Gabbana eyewear collection draws its inspiration from the 60s and 70s. This collection brings the period s shapes up to date and highlights its materials, characterized by precious details such as logos in Swarovski crystals or elegant metal circles.

D&G: The D&G eyewear collection has a youthful, innovative and anti-conventional spirit. The new D&G models manufactured by Luxottica are characterized by vintage forms that take their inspiration from the 70s and 80s, as well as loud and colorful sporty frames reminiscent of the racing world.

Burberry: A license agreement between Burberry Group Plc and Luxottica was signed in October 2005 for the first release of the Burberry Eyewear Collection in October 2006. This collection will feature the brand s core values of form and function, innovation and the essence of classic style.

Polo Ralph Lauren: During the first quarter of 2006, a ten-year license agreement was negotiated and signed with Polo Ralph Lauren Corp. for the manufacturing and distributing the Polo Ralph Lauren brands. The first eyewear collection will be presented in the fourth quarter of 2006 for sales beginning in January 2007.

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

	Year Ended December 31,				
(as a percentage of total unit sales)	**2001**	**2002**	**2003**	**2004**	**2005**
Designer brands	40.6	39.5	33.6	32.8	35.9
House brands	59.4	60.5	66.4	67.2	64.1
Total unit sales	100.0	100.0	100.0	100.0	100.0

Prescription Frames and Sunglasses

In 2005, we produced a combined total of approximately 33.9 million prescription frames and sunglasses. In 2004 and 2003, we produced a combined total of approximately 30.5 million and 28.7 million prescription frames and sunglasses, respectively.

Since 1990, sunglasses have become an increasingly significant product line for us as we seek to capitalize on growth opportunities in the sunglasses segment. In 1990, we acquired a distributor that supplied sunglasses under the *Vogue* brand name. In 1995, we expanded our activities in the sunglasses market by acquiring Persol S.p.A., an Italian producer of high-quality, fashionable sunglasses and prescription frames in the premium-priced segment of the market. In 1999, we acquired the Ray-Ban business from Bausch & Lomb Incorporated, including the *Ray-Ban, Revo, Arnette* and *Killer Loop* brand names. As a result of our acquisition of the Ray-Ban business, the percentage of our unit sales represented by sunglasses that we manufacture has grown significantly. This trend continued with the acquisition of Sunglass Hut. However, with the acqusitions of OPSM and Cole, which tend to focus on sales of opthalmic products and accessories, we have seen a steady decrease in our percentage units of sunglass sales to total unit sales over the last few years. We believe that this percentage of sales of sunglass units will continue to slightly decline in 2006 and 2007 due to our acquisitions in China and

Canada before stabilizing in the low to mid 50 percent range. Unit sales of sunglasses manufactured by us and third parties in 2005, as a percentage of total unit sales, were 55.8 percent, as compared to 58.9 percent in 2003 and 57.3 percent in 2004.

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

	Year Ended December 31, (as a percentage of total unit sales)				
	2001	**2002**	**2003**	**2004**	**2005**
Prescription frames	42.8	40.3	41.1	42.7	44.2
Sunglasses	57.2	59.7	58.9	57.3	55.8
Total unit sales	100.0	100.0	100.0	100.0	100.0

Retail Operations

Our Retail Division is operated by our subsidiaries LensCrafters, Sunglass Hut, OPSM and the Cole group of companies. LensCrafters and Sunglass Hut are strong trade names in the North American retail market place, and OPSM owns three main trade names in the Asia-Pacific market. The Cole National group of companies operates Pearle and our Licensed Brands Sears Optical, Target Optical and BJ s Optical. In addition to ophthalmic products and sunglasses, we also sell watches and accessories under the store names Watch World and Watch Station and personalized gifts under the store name Things Remembered.

LensCrafters. Through LensCrafters, we operate a retail network of over 893 locations which offer a wide selection of prescription frames, sunglasses, lenses and other optical products in the North American market. LensCrafters is currently the largest optical retail chain in North America in terms of sales. LensCrafters stores sell not only Luxottica products, but also 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), FeatherWates Complete with Scotchgard™ (thin, light, scratch and impact resistant, anti-reflective and easy-to-clean lenses), DURALENS™ (super scratch-resistant lenses), ByeLines™ (bifocal lenses without visible lines), Invisibles™ (anti-reflective lenses) and MVP Maximum View Progressives (multi-focal lenses without visible lines). Substantially all of our LensCrafters stores are located in high-traffic commercial malls and shopping centers, have an employed optometrist or an independent, licensed optometrist on site (thereby allowing the customer to have an eye examination on site), provide a large range of prescription eyewear choices and include a laboratory, which enables us to provide the selected frame with prescription lenses to our customers in approximately one hour.

We believe that our acquisition of LensCrafters in 1995 has allowed us to:

obtain a significant competitive advantage for market share in the North American market; and

enter a complementary segment that allows for a direct distribution to, and closer relationship with, the end customer.

When we acquired LensCrafters in 1995, LensCrafters had approximately 600 stores. Between 1995 and 1998, we opened new stores and acquired other retail chains, reaching over 850 stores in North America by 1999.

From 1999 to 2004, LensCrafters expansion focused primarily on further development of those stores opened between 1996 and 1998. However, we will continue to evaluate potential retail expansion opportunities in North America through the opening of retail chains and stores in areas where we are not already heavily represented and in other prime locations. As of December 31, 2005, LensCrafters leased 893 retail stores.

Since the LensCrafters acquisition, we have improved the efficiency of LensCrafters stores by managing the inventory from our central worldwide distribution center in Italy. This has improved inventory service and allowed for a more rapid supply of styles based on daily sales and inventory data. This has also increased the percentage of our products available in LensCrafters stores. In addition, we have focused our promotional activities on those customers looking for a better purchase experience with high-quality products, rapid and efficient customer service and innovative lens and frame technology. In order to increase LensCrafters focus on sunglasses, we added a section, one-third sun, devoted only to sunglasses, in many stores. As a result of these initiatives, LensCrafters net sales have increased significantly since 1995.

During the last few years we have shifted LensCrafters to a more premium brand. During this time we have added additional elements such as a new store concept, associate training, advertising and marketing that together represent the premium brand and future direction of LensCrafters.

One of the most visible changes in LensCrafters shift toward a premium and stylish eyewear shopping experience is a new design for the stores, which will be adopted in new and remodeled store locations across North America. The store design features elegant eyewear display boxes, wood flooring, fashion graphics, sleek decorative accents and artistic lighting fixtures. Every feature of the design directs the spotlight on the shopping gallery of designer eyewear collections, while the fit and finish stations are more private and separated from the shopping and frame selection. We have begun to display the eyewear collections by designer brand to help our customers shop for the style that is right for them.

As part of the brand transformation, LensCrafters has rolled out a new style-focused magazine advertising campaign to communicate the brand s approach to eyewear style. The ads have appeared in more than two dozen premium fashion,

lifestyle, cultural and entertainment magazines for women and men. Titled Make an Appearance, they are distinguished from other LensCrafters ads, using bold, engaging visuals to emotionally appeal to the fashion and style desires within eyeglass wearers.

Sunglass Hut. With the acquisition of Sunglass Hut in 2001, we became the world s leading specialty retailer of sunglasses based on sales, and a world leader in specialty retailing of popular priced watches based on sales. Sunglass Hut has about 1,850 retail locations located throughout North America, Europe and Australia. Sunglass Hut operates in-line stores and kiosks in shopping malls, as well as stores in street centers in high-traffic streets and in airports. We have increased sales of Luxottica-manufactured products at Sunglass Hut locations from approximately 14.3 percent of total Sunglass Hut net sales in April 2001 (the first month following the acquisition) to 61.9 percent in December 2005. In addition to sunglasses that we manufacture, Sunglass Hut continues to sell a variety of frames manufactured by third-party vendors, including Oakley Inc., Maui Jim, Inc. and others. Oakley Inc. is our largest third-party supplier, accounting for approximately 8.7 percent, 6.8 percent and 4.9 percent of our total merchandise purchases from suppliers in 2003, 2004 and 2005, respectively. Although we buy products from third parties, including Oakley Inc., we do not believe that the loss of any one supplier would have a siginificant impact on our future operations as we could easily replace lost supply with other sunglasses manufactured by us or other third-party vendors. After the acquisition of Sunglass Hut, we consolidated the administrative and certain other functions of the Sunglass Hut business with our LensCrafters operations allowing us to realize significant synergies between the two optical retailing companies. As of December 31, 2005, Sunglass Hut operated an aggregate of 1,849 outlets throughout North America, Europe and Australia. Sunglass Hut outlets are located mostly in enclosed malls and airports with an average retail space of approximately 500 square feet per kiosk/store.

Cole National. With the acquisition of Cole in October 2004, we acquired a group of distribution outlets and a provider and administrator of managed vision care services under one group. Cole through its wholly owned subsidiaries operates retail vision locations under the name Pearle Vision as well as under the names Sears Optical, Target Optical and BJ s Optical, which we refer to as our Licensed Brands. It administers managed vision care programs and benefits previously sold through the Cole Managed Vision Division; renewals and new sales will be through Eyemed Visioncare. Additionally, Cole National operates a chain of personalized gift stores, e-commerce and catalogs under the name Things Remembered. The licensed brands (Sears, Target and BJ s) optical retail locations are located in the host stores that bear their names. Pearle Vision stores are mostly located in strip malls outside of the conventional malls where most LensCrafters and Sunglass Hut stores are located. In addition, we have franchised Pearle Vision locations located throughout North America. The Company believes that its combination with Cole will:

strengthen its retail operations in the United States;

strengthen its managed vision care business by increasing the number of people for whom it provides managed vision care benefits as well as by adding well established retailers to its existing family of retailers; and

provide the Company with the opportunity to increase its sales of frames manufactured by the Company in Cole retail stores.

The Company has nearly completed its strategic integration plan with respect to Cole. See Item 5 Operating and Financial Review and Prospects Overview for more information. As of December 31, 2005, Cole operated about 2,400 owned and leased department locations and over 450 franchise locations throughout North America as of December 31, 2005.

We will continue to look to expand our retail operations in North America through opening of new stores or kiosks, or strategic acquisitions when we deem them to be appropriate.

OPSM. In August 2003, we completed the acquisition of 82.57 percent of OPSM, and we completed the acquisition of the minority interest in OPSM in March 2005. This acquisition has resulted in what we believe is a leadership position in the prescription business in the Australian and New Zealand markets and provided us with new growth opportunities in the Asian market. As of December 31, 2005, OPSM had 474 stores in Australia operating under three brands, OPSM, Laubman & Pank and Budget Eyewear, each of which targets a clearly defined market segment. OPSM is the market leader in New Zealand, with 38 stores as of December 31, 2005, and has expanded into Asia, with 66 stores in Hong Kong. OPSM sold its businesses in Singapore and Malaysia during 2005.

Mainland China and Hong Kong. We signed agreements during 2005 to acquire two retailers in the Mainland China retail optical market and an agreement in 2006 to acquire a retailer in Shanghai. The acquisitions are expected to close after receiving customary approvals by the relevant Chinese governmental authorities. These agreements demonstrate our continued commitment to expand our retail presence in strategic markets throughout the world. The acquisitions will give us an additional 238 retail locations in Asia. These additional retail stores are located in premium optical markets in Mainland China. In addition, they will expand our presence in Hong Kong, which we believe to be the most important market in Asia for luxury goods.

Our Principal Markets

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

	Year Ended December 31, (In thousands of Euro)		
	2003	**2004**	**2005**
Italy Wholesale	743,327	832,813	998,420
North America Retail	1,812,322	1,937,484	2,868,746
North America Wholesale	137,370	146,076	179,595
Asia-Pacific Retail	121,276	348,300	365,867
Asia-Pacific Wholesale	155,350	116,605	150,926
Other Retail	60,565	60,898	61,165
Other Wholesale	384,894	425,732	514,031
Adjustment/Eliminations(1)	(562,910)	(612,608)	(768,006)
Total	2,852,194	3,255,300	4,370,744

(1) Adjustment/Eliminations represents the elimination of intercompany sales.

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Seasonality and Effect of 53-Week Year

We have also historically experienced sales volume fluctuations by quarter due to seasonality associated with the sale of sunglasses, which represented 55.8 percent and 57.3 percent of our units sold in 2005 and 2004, respectively. As a result, our net sales are typically higher in the second quarter, which includes wholesale sales to customers and increased sales in our Sunglass Hut retail outlets, and lower in the first quarter, as sunglass sales fall 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. A 53-week year occurs in five to six year intervals and is expected to occur again in fiscal 2008.

Production Process

Overview

We produce both metal and plastic frames. In addition to our frame manufacturing capacity, since 1999 we have also produced crystal and polycarbonate sunglass lenses exclusively for our sunglasses collections. Production is principally carried out in our six Italian manufacturing facilities. In China, we produce certain products distributed mainly by our North American retail group and certain finished products for our wholesale business. Each of our facilities is tailored to a specific production technology that we believe allows us to achieve a high level of productivity.

Design and Prototype Selection

We believe that an important aspect of our success has been our emphasis on design and the continuous development of new styles. Our in-house designers work jointly with external designers to develop new models.

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 the 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 data 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.

Once the product concepts have been selected and approved, we produce prototypes that are used to evaluate the proposed design. Our prototypes are developed using computer-aided design/computer-aided manufacturing technology, known as CAD/CAM, which is fully integrated with our manufacturing processes. CAD/CAM technology allows a designer to view and modify two- and three-dimensional images of a new frame. Because this technology is fully integrated with the manufacturing processes, the conversion from prototype to production is streamlined.

All prototypes are subject to review and approval by our licensors and our designers to ensure consistency with the distinctive image of each product line. Our collections consist of both new models and the most successful existing models. Each year, we add approximately 1,500 new models to our eyewear collections. The ability to constantly renew our product base has enabled us to meet consumer demand in each market segment in which our brands are targeted. 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.

Sourcing

The principal raw materials and parts purchased for our manufacturing process include plastic resins, metals, lenses and frame parts. We purchase a substantial majority of our raw materials in Europe and to a lesser extent in Asia and the United States. In addition, we use certain external suppliers for eyeglass cases and packaging materials. The Ray-Ban acquisition provided us with know-how and sunglass crystal lens manufacturing capabilities. We believe that our ability to produce sunglass crystal lenses is strategically important given our expanded presence in the sunglasses market.

We do not depend on any single supplier for any of our principal raw materials. Although we do not have formal, long-term contracts with our suppliers, we have not experienced any significant interruptions in our supplies. Historically, prices of the principal raw materials used in our manufacturing processes have been stable.

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Manufacturing

We have six frame manufacturing facilities in Italy. Five facilities are located in northeastern Italy, the area in which most of the country s optical industry is based, and the remaining facility is located near Turin. All of our facilities are highly automated, which has allowed us to maintain a high level of production without significant capital outlay. In certain of these facilities, we also produce sunglass crystal lenses and polycarbonate lenses. 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 for distribution primarily in North America. In 2001, we acquired the remaining 50 percent interest in this Chinese company so that it became one of our wholly-owned subsidiaries.

Over the past several years, we have consolidated our manufacturing processes by tailoring each of our manufacturing facilities in Italy to a specific production technology. This consolidation has allowed us to improve both the productivity and quality of our operations. We produce plastic frames in our facilities in Sedico, Pederobba and Turin, while metal frames are produced in our facilities in Agordo and Rovereto. Certain frame parts are produced in our facility in Cencenighe. In 2005, approximately 56 percent of the frames manufactured by us were metal-based, and the remainder were plastic.

The manufacturing process for both metal and plastic frames and sunglasses begins with the fabrication of precision tooling and molds based on prototypes developed by our in-house design and engineering staff. We believe that our in-house capacity to engineer and produce precision tooling and molds gives us a strong competitive advantage by enabling us to reduce the lead time for product development and thereby adapt quickly to market trends, contain production costs, and 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 is comprised of 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 welded together to form frames through 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, depending upon the style and color of the frame. 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 in molds. The plastic parts are then assembled, coated, finished and packaged.

Our efficient distribution network allows us to track sales and inventory data on a weekly basis. As a result, we are able to:

make and revise manufacturing plans on the basis of current sales information;

reallocate inventory within our wholesale subsidiaries, thereby reducing overall inventory levels and the risk of obsolescence; and

react quickly to changing market trends by providing rapid feedback to our in-house design team.

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, thus increasing efficiency while improving quality. Much of our manufacturing process is automated, including the production of metal and plastic frame parts and the galvanization of metal frames.

Quality Control

One of our key strategic objectives is ensuring the quality of our products. In 1997, we were among the first companies in the eyewear industry to obtain ISO 9001 certifications. Subsequently, in 2003, we obtained the Vision 2000 certification, which is the third-generation industry recognition for quality production. To ensure the high quality of our products, our quality control and process control teams regularly inspect work-in-progress at various stages of the production cycle. In addition, the majority of materials that we purchase are quality tested. We also conduct inspections of, and certify compliance with, the production processes of our main suppliers. Each of our prescription frames and sunglasses undergoes several stages of quality inspection. Due to the efficiency of our quality controls, the return rate for defective merchandise manufactured by us is approximately one percent.

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Distribution

We distribute our products through wholesale and retail channels.

Distribution by Wholesale Division

We currently distribute our products in approximately 120 countries and operate 29 wholly or partially owned wholesale distribution subsidiaries strategically located in major markets worldwide. In markets where we do not have wholesale distribution subsidiaries, we employ approximately 100 independent distributors.

Each wholesale distribution subsidiary operates its own network of sales representatives, who are normally retained on a commission basis. Our network of wholesale distribution subsidiaries represents a key element of our business. We believe that control over an extensive distribution network provides us with a competitive advantage, because it enables us to maximize our brand image, marketing efforts and customer service activities by tailoring our operations to meet the specific needs and peculiarities of local markets.

The following table sets forth certain information regarding our wholesale distribution subsidiaries and affiliates:

Subsidiary	Country of Formation	Percentage Ownership
Luxottica S.r.l.	Italy	100%
Luxottica Fashion Brillen GmbH	Germany	100%
Luxottica Portugal S.A.	Portugal	100%
Luxottica France S.A.R.L.	France	100%
Luxottica Iberica S.A.	Spain	100%
Luxottica U.K. Ltd.	United Kingdom	100%
Luxottica Belgium N.V.	Belgium	100%
Luxottica Sweden A.B.	Sweden	100%
Oy Luxottica Finland A.B.	Finland	100%
Luxottica Vertriebsgesellschaft MbH	Austria	100%
Luxottica Norge A.S.	Norway	100%
Avant-Garde Optics, LLC	U.S.A.	100%
Luxottica Canada Inc.	Canada	100%
Luxottica Do Brasil Ltda	Brazil	100%
Luxottica Mexico S.A. de C.V.	Mexico	100%
Luxottica Argentina S.r.l.	Argentina	100%
Mirari Japan Ltd.	Japan	100%
Luxottica South Africa Pty Ltd.	South Africa	100%
Luxottica Middle East FZE	United Arab Emirates	100%
Luxottica (Switzerland) A.G.	Switzerland	97%
Luxottica Australia Pty Ltd.	Australia	100%
Luxottica Optics Ltd.	Israel	74.9%
Luxottica Hellas A.E.	Greece	70%
Luxottica Nederland B.V.	The Netherlands	51%
Luxottica Gozluk Ticaret A.S.	Turkey	51%
Luxottica Poland Sp. Z.o.o.	Poland	100%
Mirarian Marketing Ltd.	Singapore	51%
Ray Ban Sun Optics India Ltd.(1)	India	44.2%
Luxottica Korea Ltd.	Korea	100%

(1) The shares of Ray Ban Sun Optics India Ltd. are publicly traded on the BSE Stock Exchange, Mumbai. Because we do not own a 50% equity interest in the entity, we account for this entity under the equity method of accounting.

We maintain close contact with our distributors in order to monitor sales and to control the quality of the points of sale that display 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 for distribution only through specifically authorized retail channels and qualified sales agents.

No single customer or group of related customers accounted for more than two 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.

Our distribution system is integrated internationally. A worldwide computerized information network links the distribution and sales systems with the production facilities in Italy. This network enables us to monitor worldwide sales trends and inventory positions on a daily basis and to allocate production resources accordingly.

We believe that one of our key competitive strengths is our ability to promptly satisfy customer demand in a timely manner, both prior to and following a sale. In order to further improve our customer service capabilities, we have centralized our distribution centers in Europe (Italy) and Asia (Japan) and are in the final stages of centralizing our distribution centers in North America (United States). We believe that centralizing our distribution centers improves the efficiency of our distribution operations while reducing the related costs.

Distribution by Retail Division

Through our Retail Division, we believe we operate the largest group of optical superstores in both the United States and Canada based on both sales and store count. We believe we are the largest specialty retailer of sunglasses in the world based on 2005 revenues and believe we have become a leading player in the Australian prescription segment. We also sell watches and accessories in certain sunglass retail locations and under the store names Watch World and Watch Station and personalized gifts under the name Things Remembered.

In our optical retail stores, customers can choose from a large selection of frames and lenses offering a high level of comfort and fit. LensCrafters customers can obtain a completed pair of prescription glasses in approximately one hour because of on-site lens grinding laboratories. In our Sunglass Hut locations, customers can choose from a large selection of Luxottica and third-party vendor manufactured sunglasses. In addition, Sunglass Hut locations can assist customers in purchasing other accessories to complement their sunglasses. As of December 31, 2005, our retail division consisted of 5,679 owned or leased department retail locations and 491 franchised locations as follows:

	North America	**Europe**	**Asia-Pacific***	**Total**
LensCrafters	893			893
Sunglass Hut	1,557	110	182	1,849
OPSM Group			549	549
Cole National Group Optical	1,724			1,724
Things Remembered	664			664
Franchised Locations	462		29	491
	5,300	110	760	6,170

* Asia-Pacific for our Retail Division consists of Australia, New Zealand, Malaysia, Singapore and Hong Kong.

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In 2005, approximately 68.4 percent, 12.5 percent, 21.2 percent and 61.9 percent of the total sales of frames based on units sold by LensCrafters, Cole, OPSM and Sunglass Hut, respectively, were produced by our manufacturing facilities. OPSM was acquired in August 2003 and at such time 3.5 percent of the total sales of frames sold were produced by our manufacturing facilities. Cole National was acquired in October 2004, and at such time less than 1 percent of the total sales of frames sold were produced by our manufacturing facilities. The Retail Division s outlets sell not only frames that we manufacture but also a wide range of frames, lenses and other ophthalmic products manufactured by other companies.

Substantially all LensCrafters, Cole National and OPSM stores have an employed or independent optometrist on site, allowing the customer to have an eye examination, select from a large range of prescription eyewear, and receive the selected frame with prescription lenses from one location. In addition, substantially all of our LensCrafters stores have a lens grinding laboratory on site, which allows our customers to receive a complete set of prescription frames or sunglasses in approximately one hour.

Competition

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 sunglasses companies in various local markets. We believe that our principal competitor in the design, manufacture and distribution of eyewear within the prescription frames market is Safilo Group S.p.A., or Safilo. We believe that our principal competitors in the sunglasses market include Safilo, De Rigo S.A. and Oakley, Inc. 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 on 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 The markets in which we compete are highly competitive, and our failure to maintain an efficient distribution network could harm our business.

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 retail chains in North America, including Wal-Mart and Eye Care Centers of America, and, in the sunglasses area, numerous sunglass outlet centers. Our optical retail operations emphasize product quality, selection, customer service and convenience. We do not compete primarily on the basis of price.

Marketing

Our marketing and advertising activities are designed primarily to enhance the image of Luxottica and our brand portfolio and to drive traffic into our retail locations. Advertising expenses amounted to approximately six percent of our net sales in each of 2003, 2004 and 2005.

Marketing Strategy for Our Wholesale Business

Our marketing strategy in the wholesale distribution segment 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 we therefore engage in extensive advertising activities, both at the point-of-sale and through various media directed at the end consumer of our products.

Our point-of-sale marketing materials consist of displays, counter cards, catalogs, posters and product literature . Many of these materials are linked to our consumer advertising campaigns.

In our media advertising, we utilize direct media, such as print, radio and television, as well as billboard advertising. The extent of our advertising activities and the selection of different media depend upon the competitive conditions in each particular market. In addition, we advertise in publications targeted to independent practitioners and other market-specific magazines.

We also benefit from brand-name advertising carried out by licensors of our designer lines intended to promote the image of the designer line. Our advertising and promotional efforts in respect of our licensed 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 advertising and promotion.

Finally, we participate in major industry trade fairs (including the MIDO fair in Milan, Vision Expo in the United States and the SILMO in Paris), where our new collections are displayed and promoted to the market.

Marketing Strategy for Our Retail Business

In addition to the marketing activities described above, we engage in promotional and advertising activities through our Retail Division with both short- and long-term objectives. Our short-term objectives are to attract customers to our stores and promote sales. Our long-term objective is to build the image and visibility of our retail brands throughout the world, such as the LensCrafters and Pearle Vision brands in North America, the Sunglass Hut brand worldwide, the OPSM, Laubman & Pank and Budget Eyewear brands in Australia and New Zealand, thereby encouraging customer loyalty and return purchases. We believe that the product quality and service provided by our Retail Division contribute to our short- and long-term marketing objectives.

A considerable amount of our Retail Division s marketing budget is dedicated to direct marketing activities, such as communications with customers (*e.g.*, mailings and catalogues). Our direct marketing activities benefit from our large database of customer information 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.

Trademarks, Trade Names and License Agreements

Trademarks and Trade Names

As of December 31, 2005, our principal trademarks or trade names included *Luxottica, Ray-Ban, Persol, Vogue, LensCrafters, Sunglass Hut, Pearle Vision* and *OPSM*. Our principal trademarks are registered in several countries. Other than *Luxottica, Ray-Ban, LensCrafters, Sunglass Hut, Pearle Vision* and *OPSM*, we do not believe that any single trademark or trade name is material to our business or results of operations. *Ray-Ban* products accounted for approximately 12.2 percent of our net sales in 2005. Management believes that our trademarks have significant value in marketing our products.

LensCrafters has introduced several trademarked lenses in recent years that contain innovative technology, such as FeatherWates™ (lightweight, thin and impact resistant lenses), FeatherWates Complete with Scotchgard™ (thin, light, scratch and impact resistant, anti-reflective and easy-to-clean lenses), DURALENS™ (super scratch-resistant lenses), Invisibles™ (anti-reflective lenses) and MVP Maximum View Progressives (multi-focal lenses without visible lines). LensCrafters 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 and Invisibles™ for multi-coated eyeglass lenses.

We do not have any patents that we believe are, individually or in the aggregate, material to our results of operations or financial condition.

See Item 3 Key Information Risk Factors If we are unable to protect our proprietary rights, the loss of sales and the costs of defending such rights will adversely affect our business and financial results.

License Agreements

We have entered into certain license agreements to manufacture and distribute prescription frames and sunglasses with numerous designers. These license agreements have terms expiring through 2022. The table below summarizes the principal terms of our most significant license agreements as of June 15, 2006.

Licensor	Licensed Marks	Territory	Expiration
Kasper ASL Ltd.	Anne Klein	U.S. exclusive license	December 31, 2006
Bulgari S.p.A.	Bulgari	Worldwide exclusive license	December 31, 2010
Byblos S.p.A.	Byblos	Worldwide exclusive license	December 31, 2006
Genny S.p.A.	Genny	Worldwide exclusive license	December 31, 2006
Moschino S.p.A.	Moschino		