

LUXOTTICA GROUP SPA
Form SC TO-I
May 15, 2009

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

SCHEDULE TO

**TENDER OFFER STATEMENT UNDER
SECTION 14(d)(1) or 13(e)(1) OF THE SECURITIES EXCHANGE ACT OF 1934**

LUXOTTICA GROUP S.p.A.

(Name of Subject Company (Issuer) and Filing Person (Offeror))

Options to Purchase Ordinary Shares, 0.06 Par Value Per Share,

Granted Pursuant to the Luxottica Group S.p.A. 2001 Stock Option Plan

and the Luxottica Group S.p.A. 2006 Stock Option Plan

(Title of Class of Securities)

55068R202

(CUSIP Number of Class of Securities)

Michael A. Boxer, Esq.

Senior Vice President & General Counsel

Edgar Filing: LUXOTTICA GROUP SPA - Form SC TO-I

Luxottica U.S. Holdings Corp.

44 Harbor Park Drive

Port Washington, New York 11050

(516) 484-3800

(Name, Address and Telephone Number of Person Authorized
to Receive Notices and Communications on Behalf of Filing Person)

Copies to:

Deutsche Bank Trust Company Americas

60 Wall Street

New York, New York 10005

(212) 250-9100

David A. Sakowitz, Esq.

Winston & Strawn LLP

200 Park Avenue

New York, New York 10166

(212) 294-6700

CALCULATION OF FILING FEE

Transaction valuation*
\$77,231,000

Amount of filing fee
\$4,309.49

* Calculated solely for purposes of determining the filing fee. This amount assumes that eligible options to purchase 3,740,000 ordinary shares will be tendered for cancellation pursuant to this offer. The aggregate value of such options was calculated based on the average of the high and low prices reported for the Company's American Depositary Shares (ADSs) on the New York Stock Exchange Composite Tape on May 13, 2009. Each ADS represents one ordinary share, par value 0.06 per share, of Luxottica Group S.p.A. The amount of the filing fee, calculated in accordance with Rule 0-11(b) of the Securities Exchange Act of 1934, as amended, equals \$55.80 per \$1,000,000 (prorated for amounts less than US\$1 million) of the transaction value. Accordingly, the filing fee is calculated by multiplying the aggregate transaction valuation by 0.00005580.

o Check the box if any part of the fee is offset as provided by Rule 0-11(a)(2) and identify the filing with which the offsetting fee was previously paid. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

Amount Previously Paid: Not applicable.
Form or Registration No.: Not applicable.

Filing party: Not applicable.
Date filed: Not applicable.

o Check the box if the filing relates solely to preliminary communications made before the commencement of a tender offer.

Check the appropriate boxes below to designate any transactions to which the statement relates:

- third party tender offer subject to Rule 14d-1.
- issuer tender offer subject to Rule 13e-4.
- going-private transaction subject to Rule 13e-3.
- amendment to Schedule 13D under Rule 13d-2.

Check the following box if the filing is a final amendment reporting the results of the tender offer:

ITEM 1. Summary Term Sheet.

The information set forth under Summary Term Sheet in the document entitled Offer to Reassign Share Options, dated May 15, 2009 (as amended from time to time, the Offer to Reassign), attached hereto as Exhibit (a)(1), is incorporated herein by reference.

ITEM 2. Subject Company Information.

(a) *Name and Address.*

The name of the issuer is Luxottica Group S.p.A., an Italian corporation (together with its subsidiaries, the Company or Luxottica), and the address and telephone number of its principal executive offices is Via C. Cantù 2, 20123 Milan, Italy, +39 02 863341. The information set forth in the Offer to Reassign under Section 9 (Information About Luxottica; Summary Financial Information) is incorporated herein by reference.

(b) *Securities.*

This Tender Offer Statement on Schedule TO relates to the solicitation by the Company of elections to have canceled outstanding options (the Options) to purchase the Company s ordinary shares that were granted to employees of the Company who are resident in the United States (U.S. employees): either (a)(1) in February 2006 (such options, the 2006 Options) pursuant to the Luxottica Group S.p.A. 2001 Stock Option Plan (the 2001 Option Plan) or (2) in March 2007 (such options, the 2007 Options) pursuant to the Luxottica Group S.p.A. 2006 Stock Option Plan (the 2006 Option Plan), in order to receive new options that will be granted under and subject to the 2001 Option Plan (the New Options); or (b) in July 2006 under performance grants pursuant to the 2006 Option Plan (such options, the 2006 Performance Options), in order to receive new options that will be granted under and subject to the 2006 Option Plan (the New Performance Options), with the New Options and New Performance Options to be granted upon the terms and subject to the conditions described in the Offer to Reassign. This solicitation (the Offer) excludes options held by option holders who are not employees of the Company on the date the Offer expires and the new options are granted. In the aggregate, there are 3,740,000 ordinary shares underlying the Options that are subject to this Offer, of which there are 395,000 underlying the 2006 Options, 445,000 underlying the 2007 Options and 2,900,000 underlying the 2006 Performance Options. In the case of the 2006 Options and the 2007 Options, the Company will reassign to the option holder New Options to purchase the same number of ordinary shares underlying the eligible options surrendered, subject to the terms and conditions of the Offer to Reassign. In the case of the 2006 Performance Options, the Company will reassign to the holder New Performance Options to purchase 0.5 ordinary shares for each one ordinary share underlying the eligible options surrendered, subject to the terms and conditions of the Offer to Reassign. The information set forth in the Offer to Reassign under Summary Term Sheet, Section 1 (Number of Options; Expiration Date), Section 5 (Acceptance of Options for Cancellation and Grant of New Options) and Section 8 (Source and Amount of Consideration; Terms of New Options) is incorporated herein by reference.

(c) *Trading Market and Price.*

The information set forth in the Offer to Reassign under Section 7 (Price Range of Ordinary Shares) is incorporated herein by reference.

ITEM 3. Identity and Background of Filing Person.

(a) *Name and Address.*

The information set forth under Item 2(a) above and in Section 10 of the Offer to Reassign (Interests of Directors and Officers; Transactions and Arrangements Concerning the Options) is incorporated herein by reference. The Company is both the filing person and the subject company.

ITEM 4. Terms of the Transaction.

(a) *Material Terms.*

The information set forth in the Offer to Reassign under Summary Term Sheet, Section 1 (Number of Options; Expiration Date), Section 3 (Procedures for Tendering Options), Section 4 (Change in Election), Section 5 (Acceptance of Options for Cancellation and Grant of New Options), Section 6 (Conditions of This Offer), Section 8 (Source and Amount of Consideration; Terms of New Options), Section 9 (Information About Luxottica; Summary Financial Information), Section 11 (Status of Options Acquired by Us in This Offer; Accounting

Consequences of This Offer), Section 12 (Legal Matters; Regulatory Approvals), Section 13 (Material U.S. Federal Income Tax Consequences) and Section 14 (Extension of This Offer; Termination; Amendment) is incorporated herein by reference.

(b) ***Purchases.***

The information set forth in the Offer to Reassign under Section 10 (Interests of Directors and Officers; Transactions and Arrangements Concerning the Options) is incorporated herein by reference.

ITEM 5. Past Contacts, Transactions, Negotiations and Agreements.

(e) ***Agreements Involving the Subject Company's Securities.***

The information set forth in the Offer to Reassign under Section 10 (Interests of Directors and Officers; Transactions and Arrangements Concerning the Options) is incorporated herein by reference.

ITEM 6. Purposes of the Transaction and Plans or Proposals.

(a) ***Purposes.***

The Offer is being conducted for compensatory purposes as described in the Offer to Reassign. The information set forth in the Offer to Reassign under Section 2 (Purpose of This Offer) is incorporated herein by reference.

(b) ***Use of Securities Acquired.***

The information set forth in the Offer to Reassign under Section 5 (Acceptance of Options for Cancellation and Grant of New Options) and Section 11 (Status of Options Acquired by Us in This Offer; Accounting Consequences of This Offer) is incorporated herein by reference.

(c) ***Plans.***

Edgar Filing: LUXOTTICA GROUP SPA - Form SC TO-I

The information set forth in the Offer to Reassign under Section 2 (Purpose of This Offer) is incorporated herein by reference.

ITEM 7. Source and Amount of Funds or Other Consideration.

(a) *Source of Funds.*

The information set forth in the Offer to Reassign under Section 8 (Source and Amount of Consideration; Terms of New Options) and Section 15 (Fees and Expenses) is incorporated herein by reference.

(b) *Conditions.*

The information set forth in the Offer to Reassign under Section 6 (Conditions of This Offer) and Section 8 (Source and Amount of Consideration; Terms of New Options) is incorporated herein by reference.

(d) *Borrowed Funds.*

Not applicable.

ITEM 8. Interest In Securities of the Subject Company.

(a) *Securities Ownership.*

The information set forth in the Offer to Reassign under Section 10 (Interests of Directors and Officers; Transactions and Arrangements Concerning the Options) is incorporated herein by reference.

(b) *Securities Transactions.*

The information set forth in the Offer to Reassign under Section 10 (Interests of Directors and Officers; Transactions and Arrangements Concerning the Options) is incorporated herein by reference.

ITEM 9. Person/Assets, Retained, Employed, Compensated or Used.

(a) *Solicitations or Recommendations.*

Not applicable.

ITEM 10. Financial Statements.

(a) *Financial Information.*

(1) Set forth below are audited financial statements for the two fiscal years ended December 31, 2007 and 2006, as contained in the Company's most recent Annual Report on Form 20-F for its fiscal year ended December 31, 2007, filed with the Securities and Exchange Commission on June 26, 2008:

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

LUXOTTICA GROUP S.p.A.

We have audited the accompanying consolidated balance sheets of Luxottica Group S.p.A. (an Italian corporation) and subsidiaries (the Company") as of December 31, 2007 and 2006, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2007. Our audits also included the financial statement schedule listed in the Index at Item 18. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Luxottica Group S.p.A. and subsidiaries as of December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Notes 2 and 8 to the consolidated financial statements, effective January 1, 2007, the Company changed its method of accounting for uncertainty in income taxes to conform to Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 .

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2007, based on the criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated June 24, 2008 expressed an unqualified opinion on the Company's internal control over financial reporting.

Milan, Italy

June 24, 2008

Ancona Bari Bergamo Bologna Brescia Cagliari Firenze Genova Milano Napoli Padova Parma
Roma Torino Treviso Verona Vicenza

A Member of
Deloitte Touche Tohmatsu

Sede Legale: Via Tortona 25 - 20144 Milano - Capitale Sociale: Euro 10.328.220,00 i.v.
Partita IVA/Codice Fiscale/Registro delle Imprese Milano n. 03049560166 - R.E.A. Milano n. 1720239

Deloitte & Touche S.p.A.
Via Tortona 25
20144 Milano
Italia

Tel: +39 02 833.22111
Fax: +39 02 833.22112
www.deloitte.it

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

LUXOTTICA GROUP S.p.A.

We have audited the internal control over financial reporting of Luxottica Group S.p.A and subsidiaries (the Company) as of December 31, 2007, based on the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. As described in Management's Report on Internal Control over Financial Reporting, management excluded from its assessment the internal control over financial reporting at Oakley Inc., D.O.C. Optics Corporation, and the 26 percent stake in RayBan Sun Optics India Ltd. (the Acquired Entities), which were acquired in November, February, and June 2007, respectively, and whose financial statements constitute approximately 29% of total assets, 3% of net sales and 1% of operating income of the consolidated financial statement amounts, as of and for the year ended December 31, 2007. Accordingly, our audit did not include the internal control over financial reporting at the Acquired Entities. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of

Edgar Filing: LUXOTTICA GROUP SPA - Form SC TO-I

financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized

Ancona Bari Bergamo Bologna Brescia Cagliari Firenze Genova Milano Napoli Padova Parma
Roma Torino Treviso Verona Vicenza

A Member of
Deloitte Touche Tohmatsu

Sede Legale: Via Tortona 25 - 20144 Milano - Capitale Sociale: Euro 10.328.220,00 i.v.
Partita IVA/Codice Fiscale/Registro delle Imprese Milano n. 03049560166 - R.E.A. Milano n. 1720239

acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended December 31, 2007 of the Company and our report dated June 24, 2008 expressed an unqualified opinion on those financial statements and financial statements schedule, and included an explanatory paragraph relating to the Company's adoption of Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109 effective January 1, 2007.

Milan, Italy

June 24, 2008

LUXOTTICA GROUP S.p.A. and Subsidiaries

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2007 AND 2006 (*)

	2007 (US \$/000) (1)	2007 (Euro/000)	2006
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	\$ 442,317	302,894	339,122
Marketable securities	31,170	21,345	
Accounts receivable - net (Less allowance for doubtful accounts: 25.5 million in 2007 (US \$ 37.3 million) and 22.7 million in 2006)	971,368	665,184	533,772
Sales and income taxes receivable	129,967	89,000	24,924
Inventories - net	839,696	575,016	400,895
Prepaid expenses and other	203,426	139,305	98,156
Deferred tax assets - net	172,101	117,853	96,595
Total current assets	2,790,045	1,910,597	1,493,464
PROPERTY, PLANT AND EQUIPMENT - net	1,544,679	1,057,782	787,201
OTHER ASSETS:			
Goodwill	3,799,467	2,601,840	1,694,614
Intangible assets - net	1,907,323	1,306,117	830,362
Investments	25,801	17,668	23,531
Other assets	285,298	195,370	94,501
Deferred tax assets	99,142	67,891	45,205
Total other assets	6,117,031	4,188,887	2,688,213
TOTAL ASSETS	\$ 10,451,755	7,157,266	4,968,878

(1) Translated for convenience at the New York City Noon Buying Rate as determined in Note 1

(*) In accordance with US GAAP

See notes to the consolidated financial statements

Edgar Filing: LUXOTTICA GROUP SPA - Form SC TO-I

	2007 (US \$/000) (1)	2007 (Euro/000)	2006
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Bank overdrafts	\$ 665,295	455,588	168,358
Current portion of long-term debt	1,157,459	792,617	359,527
Accounts payable	618,338	423,432	349,598
Accrued expenses			
Payroll and related	194,194	132,983	145,005
Customers' right of return	38,781	26,557	17,881
Other	450,850	308,738	229,713
Income taxes payable	28,205	19,314	155,195
Total current liabilities	3,153,123	2,159,229	1,425,277
LONG-TERM DEBT	2,813,301	1,926,523	959,735
LIABILITY FOR TERMINATION INDEMNITIES	83,107	56,911	60,635
DEFERRED TAX LIABILITIES - NET	362,704	248,377	95,124
OTHER LONG-TERM LIABILITIES	335,828	229,972	181,888
COMMITMENTS AND CONTINGENCIES			
MINORITY INTERESTS IN CONSOLIDATED SUBSIDIARIES	60,013	41,097	30,371
SHAREHOLDERS' EQUITY:			
Capital stock par value 0.06 - 462,623,620 and 460,216,248 ordinary shares authorized and issued at December 31, 2007 and 2006, respectively; 456,188,834 and 453,781,462 shares outstanding at December 31, 2007 and 2006, respectively	40,534	27,757	27,613
Additional paid-in capital	405,887	277,947	203,016
Retained earnings	3,850,618	2,636,868	2,343,800
Accumulated other comprehensive loss, net of tax	(551,158)	(377,428)	(288,593)
Total	3,745,881	2,565,145	2,285,836
Less treasury shares at cost; 6,434,786 and 6,434,786 shares at December 31, 2007 and 2006, respectively	102,201	69,987	69,987
Total shareholders' equity	3,643,680	2,495,158	2,215,849
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 10,451,755	7,157,266	4,968,878

(1) Translated for convenience at the New York City Noon Buying Rate as determined in Note 1

(*) In accordance with US GAAP

See notes to the consolidated financial statements

LUXOTTICA GROUP S.p.A. and Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005 (*)

	2007 (US \$/000) (1)	2007	2006 (Euro/000)	2005
NET SALES	\$ 7,251,929	4,966,054	4,676,156	4,134,263
COST OF SALES	(2,300,876)	(1,575,618)	(1,487,700)	(1,373,073)
GROSS PROFIT	4,951,053	3,390,436	3,188,456	2,761,190
OPERATING EXPENSES:				
Selling and advertising	(3,021,770)	(2,069,280)	(1,948,466)	(1,755,536)
General and administrative	(712,397)	(487,843)	(484,002)	(424,253)
Total	(3,734,167)	(2,557,123)	(2,432,468)	(2,179,789)
INCOME FROM OPERATIONS	1,216,886	833,313	755,987	581,401
OTHER INCOME (EXPENSE):				
Interest income	24,952	17,087	9,804	5,650
Interest expense	(130,694)	(89,498)	(70,622)	(66,171)
Other - net	28,885	19,780	(16,992)	18,429
Other income (expense) - net	(76,857)	(52,631)	(77,810)	(42,092)
INCOME BEFORE PROVISION FOR INCOME TAXES	1,140,029	780,681	678,177	539,309
PROVISION FOR INCOME TAXES	(399,393)	(273,501)	(238,757)	(199,266)
INCOME BEFORE MINORITY INTERESTS IN CONSOLIDATED SUBSIDIARIES	740,636	507,180	439,420	340,043
MINORITY INTERESTS IN INCOME OF CONSOLIDATED SUBSIDIARIES	(21,870)	(14,976)	(8,715)	(9,253)
NET INCOME FROM CONTINUING OPERATIONS	718,766	492,204	430,705	330,790
DISCONTINUED OPERATIONS, NET OF TAXES			(6,419)	11,504
NET INCOME	\$ 718,766	492,204	424,286	342,294
EARNINGS PER SHARE: BASIC				
Continuing Operations	1.58	1.08	0.95	0.73
Discontinued operations			(0.01)	0.03
Net Income	1.58	1.08	0.94	0.76
EARNINGS PER SHARE: DILUTED				
Continuing Operations	1.57	1.07	0.94	0.73
Discontinued operations			(0.01)	0.03
Net Income	1.57	1.07	0.93	0.76

Edgar Filing: LUXOTTICA GROUP SPA - Form SC TO-I

WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING

(thousands)

Basic	455,185	455,185	452,898	450,179
Diluted	458,531	458,531	456,186	453,303

(1) Translated for convenience at the New York City Noon Buying Rate as determined in Note 1

(*) In accordance with US GAAP

See notes to the consolidated financial statements

LUXOTTICA GROUP S.p.A. and Subsidiaries

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY FOR THE YEARS ENDED DECEMBER 31, 2005, 2006 AND 2007 (*)

	Common Stock		Additional	Retained Earnings	Unearned Stock-based Compensation	Other Comprehensive	Accumulated Other Comprehensive	Treasury Shares Amount, at Cost	Total Shareholders' Equity
	Shares	Amount	Paid-in Capital			Income (Loss) Net of Tax	Income (Loss) Net of Tax		
BALANCES, JANUARY 1, 2005	455,205,473	27,312	47,167	1,812,073			(320,958)	(69,987)	1,495,607
Exercise of stock options	2,770,250	167	28,062						28,229
Translation adjustment						157,776	157,776		157,776
Aggregate stock based compensation			70,273		(70,273)				
Realized stock based compensation					21,706				21,706
Minimum pension, liability, net of taxes of Euro 1.6 million						2,534	2,534		2,534
Tax benefit on stock options			4,677						4,677
Change in fair value of derivative instruments, net of taxes of Euro 2.3 million						4,694	4,694		4,694
Dividends declared (Euro 0.23 per share)				(103,484)					(103,484)
Net Income (continuing operations)				330,790		330,790			330,790
Income from discontinued operations				11,504		11,504			11,504
Comprehensive income						507,298			
BALANCES, DECEMBER 31, 2005	457,975,723	27,479	150,179	2,050,883	(48,567)		(155,954)	(69,987)	1,954,033
Exercise of stock options	2,240,525	134	24,308						24,443
Translation adjustment						(126,853)	(126,853)		(126,853)
Effect of adoption of SFAS 123 R			(48,567)		48,567				0
Realized stock based compensation			47,969						47,969
Minimum pension, liability, net of taxes of Euro 0.4 million						(624)	(624)		(624)
Effect of adoption SFAS 158, net of taxes of Euro 5.5 million						(8,409)	(8,409)		(8,409)
Unrealized gain on available-for-sale securities, net of taxes of Euro 0.5 million						1,244	1,244		1,244
Diluted gain on business combinations, SAB 5-H gain			21,847						21,847
			7,279						7,279

Edgar Filing: LUXOTTICA GROUP SPA - Form SC TO-I

Excess tax benefit on stock options								
Change in fair value of derivative instruments, net of taxes of Euro 1.8 million					2,003	2,003		2,003
Dividends declared (Euro 0.29 per share)			(131,369)					(131,369)
Net Income (continuing operations)			430,705		430,705			430,705
Loss from discontinued operations			(6,419)		(6,419)			(6,419)
Comprehensive income					291,647			
BALANCES,								
DECEMBER 31, 2006	460,216,248	27,613	203,016	2,343,800		(288,593)	(69,987)	2,215,849
Exercise of stock options	2,407,372	144	26,498					26,642
Translation adjustment					(90,881)	(90,881)		(90,881)
Effect of adoption of FIN 48			(8,060)					(8,060)
Realized stock based compensation			42,121					42,121
Adjustment to pension liability, net of taxes of Euro 3.9 million					9,688	9,688		9,688
Unrealized gain on available-for-sale securities, net of taxes of Euro 0.9 million					(1,579)	(1,579)		(1,579)
Excess tax benefit on stock options			6,313					6,313
Change in fair value of derivative instruments, net of taxes of Euro 4.6 million					(6,062)	(6,062)		(6,062)
Dividends declared (Euro 0.42 per share)			(191,077)					(191,077)
Net Income			492,204		492,204			492,204
Comprehensive income					403,369			
BALANCES,								
DECEMBER 31, 2007	462,623,620	27,757	277,947	2,636,868		(377,428)	(69,987)	2,495,158
Comprehensive income (1)					\$	589,040		
BALANCES,								
DECEMBER 31, 2007 (1)	462,623,620	\$	40,534	\$	405,887	\$	3,850,618	\$
(US \$/000) (1)						(551,158)	(102,201)	3,643,680

(1) Translated for convenience at the New York City Noon Buying Rate as determined in Note 1

(*) In accordance with US GAAP

See notes to the consolidated financial statements

LUXOTTICA GROUP S.p.A. and Subsidiaries

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005 (*)

	2007 (US \$/000)(1)	2007	2006 (Euro/000)	2005
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income from continuing operations	\$ 718,766	492,204	430,705	330,790
Adjustments to reconcile net income to net cash provided by operating activities:				
Minority interest in income of consolidated subsidiaries	21,870	14,976	8,715	9,253
Non cash stock-based compensation	61,510	42,121	47,969	21,706
Excess tax benefits from stock-based compensation	(9,218)	(6,313)	(7,279)	
Depreciation and amortization	339,977	232,813	220,797	184,652
Benefit for deferred income taxes	(65,768)	(45,037)	(72,509)	(91,297)
Loss (Gain) on disposals of fixed assets - net	(28,238)	(19,337)	4,930	6,559
Termination indemnities matured during the year - net	(5,249)	(3,595)	4,369	3,723
Changes in operating assets and liabilities, net of acquisition of businesses:				
Accounts receivable	(81,349)	(55,707)	(83,107)	(33,634)
Prepaid expenses and other	(322,327)	(220,727)	8,568	(56,767)
Inventories	(61,209)	(41,916)	(27,658)	66,491
Accounts payable	65,695	44,988	76,021	49,615
Accrued expenses and other	(13,776)	(9,433)	(25,243)	(17,544)
Accrual for customers' right of return	14,391	9,855	11,121	5,448
Income taxes payable	(134,556)	(92,142)	5,875	126,708
Total adjustments	(218,247)	(149,454)	172,569	274,914
Cash provided by operating activities from continuing operations	\$ 500,519	342,750	603,274	605,704

Edgar Filing: LUXOTTICA GROUP SPA - Form SC TO-I

	2007 (US \$/000) (1)	2007	2006 (Euro/000)	2005
CASH FLOWS FROM INVESTING ACTIVITIES:				
Property, plant and equipment:				
Additions	(488,863)	(334,769)	(272,180)	(220,016)
Disposals	43,371	29,700	21,563	1,022
Increase in investments			(5,872)	
Purchases of businesses net of cash acquired	(2,177,433)	(1,491,086)	(134,114)	(86,966)
Sale of investment in Pearle Europe				144,000
Sale of Things Remembered			128,007	
Additions of intangible assets	(5,671)	(3,883)	(1,140)	(4,479)
Cash used in investing activities of continuing operations	(2,628,596)	(1,800,038)	(263,737)	(166,439)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Long-term debt:				
Proceeds	3,132,968	2,145,428	84,100	373,462
Repayments	(986,920)	(675,834)	(233,378)	(623,338)
Swap termination fees				(7,062)
Repayment of acquired lines of credit	(243,253)	(166,577)		
Increase (decrease) in overdraft balances	412,214	282,280	(101,008)	(17,813)
Exercise of stock options	38,905	26,642	24,443	28,229
Excess tax benefit from stock-based compensation	9,218	6,313	7,279	
Dividends	(279,030)	(191,077)	(131,369)	(103,484)
Cash provided for (used in) financing activities of continuing operations	2,084,102	1,427,174	(349,933)	(350,006)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(43,975)	(30,114)	(10,395)	89,260
CASH AND EQUIVALENTS, BEGINNING OF YEAR	495,220	339,122	367,461	253,246
Effect of exchange rate changes on cash and cash equivalents	(8,928)	(6,114)	(17,944)	24,955
CASH AND EQUIVALENTS, END OF YEAR	\$ 442,317	302,894	339,122	367,461
Cash provided by (used in) operating activities of discontinued operations				
			(5,688)	17,756
Cash provided by (used in) investing activities of discontinued operations				
			(9,186)	(9,340)
Cash provided by (used in) financing activities of discontinued operations				
			16,209	(8,318)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS OF DISCONTINUED OPERATIONS			1,334	99
CASH RECLASSIFIED AS ASSETS OF DISCONTINUED OPERATION AT BEGINNING OF YEAR				
			4,795	4,103
EFFECT OF TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS OF DISCONTINUED OPERATIONS				
			(557)	593
CASH RETAINED BY DISCONTINUED OPERATIONS UPON SALE				
			(5,572)	
<u>CASH INCLUDED IN ASSETS OF DISCONTINUED OPERATIONS AT END OF PERIOD</u>				4,795

SUPPLEMENTAL DISCLOSURE OF CASH FLOWS
INFORMATION:

Cash paid during the year for interest	106,897	73,202	67,496	61,770
Cash paid during the year for income taxes	663,067	454,062	242,628	153,287
Acquisition of businesses:				
Fair value of assets acquired	796,052	545,129	10,863	3,702

(1) Translated for convenience at the New York City Noon Buying Rate as determined in Note 1

(*) In accordance with US GAAP

See notes to the consolidated financial statements

LUXOTTICA GROUP S.p.A. and Subsidiaries**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES**

Organization - Luxottica Group S.p.A. and its subsidiaries (collectively **Luxottica Group** or the **Company**) operate in two industry segments: (1) manufacturing and wholesale distribution and (2) retail distribution.

Through its manufacturing and wholesale distribution operations, Luxottica Group is engaged in the design, manufacturing, wholesale distribution and marketing of house brand and designer lines of mid to premium-priced prescription frames and sunglasses, and, with the acquisition of Oakley Inc. (**Oakley**) in November 2007, the Company, through various Oakley subsidiaries, is a designer, manufacturer, and worldwide distributor of performance optics products.

Through its retail operations, as of December 31, 2007, the Company owned and operated 5,885 retail locations worldwide (5,280 locations at December 31, 2006) and franchised an additional 522 locations (439 locations at December 31, 2006) principally through LensCrafters, Inc., Sunglass Hut International Inc., OPSM Group Limited, Cole National Corporation (**Cole**) and Oakley. The retail division of Oakley (**O** retail) consists of owned retail locations operating under various names including **O** stores which sell apparel and other Oakley branded merchandise in addition to performance sunglasses. At December 31, 2007, our retail operations by geographic region and significant trade names were as follows:

	North America	Europe/Middle East	Australia/New Zealand/ South Africa	China/Hong Kong	Other	Total
LensCrafters	951			165		1,116
Sunglass Hut	1,738	110	287	6		2,141
Pearle and Licensed Brands	1,815					1,815
OPSM Group			551			551
Oakley	107				39	146
Other			32	84		116
Franchisee locations	414		108			522
Total	5,025	110	978	255	39	6,407

Luxottica Group's net sales consist of direct sales of finished products manufactured under its own brand names or licensed brands to opticians and other independent retailers through its wholesale distribution channels and direct sales to consumers through its retail segment.

Demand for the Company's products, particularly the higher-end designer lines, is largely dependent on the discretionary spending power of the consumers in the markets in which the Company operates.

The North America retail division's fiscal year is a 52- or 53-week period ending on the Saturday nearest December 31. The accompanying consolidated financial statements include the operations of the North America retail division for the 52-week periods ended January 1, 2006, December 30, 2006, and December 29, 2007.

Principles of consolidation and basis of presentation - The consolidated financial statements of Luxottica Group include the financial statements of the parent company and all wholly or majority-owned subsidiaries. During 2007 a subsidiary of the Company located in the United States acquired an additional 26 percent interest in an affiliated manufacturing and wholesale distributor, located and publicly traded in India, in which it previously held an approximate 44 percent. Until the time that the Company became the majority shareholder, this investment was accounted for under the equity method. The Company owns a 50 percent interest in an affiliated company located in Great Britain which is accounted for under the equity method. Investments in other companies in which the Company has less than a 20 percent interest with no ability to exercise significant influence are carried at cost. All intercompany accounts and transactions are eliminated in consolidation. Luxottica Group prepares its consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

In accordance with Financial Accounting Standard Board (FASB) Statement of Financial Accounting Standard (SFAS) No. 141, *Business Combinations*, we account for all business combinations under the purchase method. Furthermore, we recognize intangible assets apart from goodwill if they arise from contractual or legal rights or if they are separable from goodwill.

Use of Estimates - The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant judgment and estimates are required in the determination of the valuation allowances against receivables, inventory and deferred tax assets, calculation of pension and other long-term employee benefit accruals, legal and other accruals for contingent liabilities and the determination of impairment considerations for long-lived assets, among other items. Actual results could differ from those estimates.

Foreign Currency Translation and Transactions Luxottica Group accounts for its foreign currency denominated transactions and foreign operations in accordance with SFAS No. 52, *Foreign Currency Translation*. The financial statements of foreign subsidiaries are translated into Euro, which is the functional currency of the parent company and the reporting currency of the Company. Assets and liabilities of foreign subsidiaries, which use the local currency as their functional currency, are translated at year-end exchange rates. Results of operations are translated using the average exchange rates prevailing throughout the year. The resulting cumulative translation adjustments are recorded as a separate component of Accumulated other comprehensive income (loss).

Transactions in foreign currencies are recorded at the exchange rate in effect at the transaction date. Gains or losses from foreign currency transactions, such as those resulting from the settlement of foreign receivables or payables during the year, are recognized in the consolidated statement of income in such year. Aggregate foreign exchange transaction gain/(loss) for the fiscal years 2007, 2006 and 2005 were Euro 15.2 million, Euro (19.9) million and Euro 9.5 million, respectively.

Cash and Cash Equivalents Cash and cash equivalents includes cash on hand, demand deposits, and highly liquid investments with an original maturity of three months or less, and amounts in-transit from banks for customer credit card and debit card transactions. Substantially all amounts in transit from the banks are converted to cash within four business days from the time of sale. Credit card and debit card transactions in transit were approximately Euro 25.5

million and Euro 23.4 million at December 31, 2007 and 2006, respectively.

Bank Overdrafts Bank overdrafts represent negative cash balances held in banks and amounts borrowed under various unsecured short-term lines of credit (see Credit Facilities included in Note 14 for further discussion of the short-term lines of credit) that the Company has obtained through local financial institutions. These facilities are usually short-term in nature or may contain provisions that allow them to renew automatically with a cancellation notice period. Certain subsidiaries' agreements require a guarantee from Luxottica Group. Interest rates on these lines of credit vary and can be used to obtain various letters of credit when needed.

Inventories Luxottica Group's manufactured inventories, approximately 66.2 percent and 66.7 percent of total frame inventory for 2007 and 2006, respectively, are stated at the lower of cost, as determined under the weighted-average method, or market value. Retail inventories not manufactured by the Company or its subsidiaries are stated at the lower of cost as determined by the weighted-average cost, or market value. Inventories are recorded net of allowances for estimated losses. This reserve is calculated using various factors including sales volume, historical shrink results and current trends.

Property, Plant and Equipment - Property, plant and equipment are stated at historical cost. Depreciation is computed on the straight-line method over the estimated useful lives of the related assets as follows:

	Estimated Useful Life
Buildings and building improvements	19 to 40 years
Machinery and equipment	3 to 12 years
Aircraft	25 years
Other equipment	5 to 8 years
Leasehold improvements	Lesser of 15 years or the remaining life of the lease

Maintenance and repair expenses are expensed as incurred. Upon the sale or disposition of property and equipment, the cost of the asset and the related accumulated depreciation and leasehold amortization are removed from the accounts and any resulting gain or loss is included in the consolidated statement of income.

Capitalized Leased Property Capitalized leased assets are amortized using the straight-line method over the term of the lease, or in accordance with practices established for similar owned assets if ownership transfers to the Company at the end of the lease term.

Goodwill Goodwill represents the excess of the purchase price (including acquisition-related expenses) over the value assigned to the net tangible and identifiable intangible assets acquired. The Company's goodwill is tested annually for impairment as of December 31 of each year in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS 142). Additional impairment tests are performed if, for any reason, the Company believes that an event has occurred that may impair goodwill. Such tests are performed at the reporting unit level which consists of four units, Wholesale, Retail North America, Retail Asia Pacific and Retail Other, as required by the provisions of SFAS 142. For the fiscal years 2007, 2006 and 2005 the Company has not recorded a goodwill impairment charge.

Trade Names and Other Intangibles In connection with various acquisitions, Luxottica Group has recorded as intangible assets certain trade names and other intangibles which the Company believes have a finite life. Trade names are amortized on a straight-line basis over periods ranging from 20 to 25 years (see Note 7). Other intangibles include, among other items, distributor networks, customer lists and contracts, franchise agreements and license agreements, and are amortized over the respective useful lives. All intangibles are subject to test for impairment in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS 144). Aggregate amortization expense of trade names and other intangibles for the fiscal years 2007, 2006 and 2005 was Euro 69.5 million, Euro 68.8 million and 61.9 million, respectively.

Impairment of Long-Lived Assets Luxottica Group's long-lived assets, other than goodwill, are tested for impairment whenever events or changes in circumstances indicate that the net carrying amount may not be recoverable. When such events occur, the Company measures impairment by comparing the carrying value of the long-lived asset to the estimated undiscounted future cash flows expected to result from the use of the long-lived assets and their eventual disposition. If the sum of the expected undiscounted future cash flows is less than the carrying amount of the

long-lived assets, the Company records an impairment loss, if determined to be necessary. Such impairment loss is measured as the amount by which the carrying amount of the long-lived asset exceeds the fair value in accordance with SFAS 144. The aggregate impairment loss on certain non-performing long-lived assets charged to the consolidated statements of income during fiscal years 2007, 2006 and 2005 was not material.

Store Opening and Closing Costs - Store opening costs are charged to operations as incurred in accordance with Statement of Position No. 98-5, *Accounting for the Cost of Start-up Activities*. The costs associated with closing stores or facilities are recorded at fair value as such costs are incurred. Store closing costs charged to the consolidated statements of income during fiscal years 2007, 2006 and 2005 were not material.

Self Insurance - The Company is self insured for certain losses relating to workers' compensation, general liability, auto liability, and employee medical benefits for claims filed and for claims incurred but not reported. The Company's liability is estimated on an undiscounted basis using historical claims experience and industry averages; however, the final cost of the claims may not be known for over five years. As of December 31, 2007 and 2006, self insurance accruals were Euro 40.9 million and 37.4 million, respectively.

Income Taxes - Income taxes are recorded in accordance with SFAS No. 109, *Accounting for Income Taxes*, which requires recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the Company's consolidated financial statements or tax returns. Under this method, deferred tax liabilities and assets are determined based on the difference between the consolidated financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. A valuation allowance is recorded for deferred tax assets if it is determined that it is more likely than not that the asset will not be realized. Changes in valuation allowances from period to period are included in the tax provisions in the relevant period of change.

As of January 1, 2007, the Company adopted Financial Accounting Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109*. FIN 48 provides that a tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. In addition, it provides additional requirements regarding measurement, de-recognition, disclosure, interest and penalties and classification. FIN 48 must be applied to all existing tax positions for all open tax periods as of the date of adoption (see Note 8 for a tabular reconciliation of uncertain tax positions). The cumulative effect of adoption of FIN 48 of Euro 8.1 million was recorded as a reduction to retained earnings on the date of adoption.

The Company recognizes interest and penalties related to unrecognized tax benefits within the income tax expense line in the accompanying consolidated statements of income. Accrued interest and penalties are included within the related tax liability in the consolidated balance sheet.

Liability for Termination Indemnities - The reserve for employee termination indemnities of Italian companies was considered a defined benefit plan through December 31, 2006 and was accounted for accordingly. Effective January 1, 2007, the Italian employee termination indemnity system was reformed, and such indemnities are subsequently accounted for as a defined contribution plan. Termination indemnities in other countries are provided through payroll tax and other social contributions in accordance with local statutory requirements (see Note 10).

Revenue Recognition - Revenues include sales of merchandise (both wholesale and retail), insurance and administrative fees associated with the Company's managed vision care business, eye exams and related professional services, and sales of merchandise to franchisees along with other revenues from franchisees such as royalties based on sales and initial franchise fee revenues. Excluded from revenues and recorded net in expenses when applicable are amounts collected from customers and remitted to governmental authorities for taxes directly related to the revenue-producing transaction.

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

Wholesale Division revenues are recognized from sales of products at the time of shipment, as title and the risks and rewards of ownership of the goods are assumed by the customer at such time. The products are not subject to formal customer acceptance provisions. In some countries, the customer has the right to return products for a limited period of time after the sale. However, such right of return does not impact the timing of revenue recognition as all conditions of SFAS No. 48, *Revenue Recognition When Right of Return Exists*, are satisfied at the date of sale. Accordingly, the Company has recorded an accrual for the estimated amounts to be returned. This estimate is based on the Company's right of return policies and practices along with historical data and sales trends. There are no other post-shipment obligations. Revenues received for the

Edgar Filing: LUXOTTICA GROUP SPA - Form SC TO-I

shipping and handling of goods are included in sales and the costs associated with shipments to customers are included in operating expenses. Total shipping costs in fiscal years 2007, 2006 and 2005 associated with the sale of goods in the Wholesale Division were Euro 8.3 million, Euro 7.3 million and Euro 6.0 million, respectively.

Retail Division revenues, including internet and catalogue sales, are recognized upon receipt by the customer at the retail location, or when goods are shipped directly to the customer for internet and catalog sales. In some countries, the Company allows retail customers to return goods for a period of time and, as such, the Company has recorded an accrual for the estimated amounts to be returned. This accrual is based on the historical return rate as a percentage of net sales and the timing of the returns from the original transaction date. There are no other post-shipment obligations. As such, the right of return does not impact the timing of revenue recognition as all conditions of Statement of Financial Accounting Standards (SFAS) No. 48, Revenue Recognition When Right of Return Exists, are satisfied at the date of sale. Additionally, the Retail Division enters into discount programs and similar relationships with third parties that have terms of twelve or more months. Revenues under these arrangements are likewise recognized as transactions occur in the

Company's retail locations and customers take receipt of products and services. Advance payments and deposits from customers are not recorded as revenues until the product is delivered. At December 31, 2007 and 2006 customer advances included in the consolidated balance sheet in Accrued Expenses and Other were Euro 22.9 million and Euro 21.8 million, respectively. Also included in Retail Division revenues are managed vision care revenues consisting of (i) insurance revenues, which are recognized when earned over the terms of the respective contractual relationships, and (ii) administrative services revenues, which are recognized when services are provided during the contract period. Accruals are established for amounts due under these relationships determined to be uncollectible.

Oakley licenses to third parties the rights to certain intellectual property and other proprietary information and recognizes royalty revenues when earned.

The Retail Division previously sold separately priced extended warranty contracts with terms of coverage of 12 months. Revenues from the sale of these warranty contracts are deferred and amortized over the lives of the contracts, while costs to service the warranty claims are expensed as incurred.

A reconciliation of the changes in deferred revenue from the sale of warranty contracts and other deferred items for the years ended December 31, 2007 and 2006, is as follows:

(thousands of Euro)	2007	2006
Beginning balance	15,798	41,099
Translation difference	(586)	(3,643)
Warranty contracts sold		30,151
Other deferred revenues		70
Amortization of deferred revenues	(15,212)	(51,879)
	Total	15,798
	Current	15,798
	Non-current	

The Company earns and accrues franchise revenues based on sales by franchisees which are accrued as earned. Initial franchise fees are recorded as revenue when all material services or conditions relating to the sale of the franchise have been substantially performed or satisfied by the Company and when the related store begins operations. These initial franchise fees were immaterial for the fiscal years 2007, 2006 and 2005. Accruals are established for amounts due under these relationships when they are determined to be uncollectible.

The Wholesale and Retail Divisions may offer certain promotions during the year. Free frames given to customers as part of a promotional offer are recorded in cost of sales at the time they are delivered to the customer. Discounts and coupons tendered by customers are recorded as a reduction of revenue at the date of sale.

Managed Vision Care Underwriting and Expenses - The Company sells vision insurance plans which generally have a duration of up to five years. Based on its experience, the Company believes it can predict utilization and claims experience under these plans, including claims incurred but not yet reported, with a high degree of confidence. Claims are recorded as they are incurred and certain other membership costs are amortized over the covered period.

Advertising and Direct Response Marketing Costs to develop and create newspaper, radio and other media advertising are expensed as incurred. Costs to develop and create television advertising are expensed the first time the airtime is used. The costs to communicate the advertising are expensed the first time the airtime or advertising space is used with the exception of certain direct response advertising programs. Costs for certain direct response advertising programs are capitalized if such direct response advertising costs are expected to result in future economic benefit and the primary purpose of the advertising is to elicit sales to customers who could be shown to have responded specifically to the advertising. Such costs related to the direct response advertising are amortized over the period during which the revenues are recognized, not to exceed 90 days. Generally, other direct response program costs that do not meet the capitalization criteria are expensed the first time the advertising occurs. Advertising expenses incurred during fiscal years 2007, 2006 and 2005 were Euro 348.2 million, Euro 318.1 million and Euro 267.8 million, respectively, and no significant amounts have been reported as assets.

The Company receives a reimbursement from its acquired franchisees for certain marketing costs. Operating expenses in the Consolidated Statements of Income are net of amounts reimbursed by the franchisees calculated based on a percentage of their sales. The amounts received in fiscal years 2007, 2006 and 2005 for such reimbursement were Euro 16.8 million, Euro 19.2 million and Euro 15.5 million, respectively.

Earnings Per Share Luxottica Group calculates basic and diluted earnings per share in accordance with SFAS No. 128, *Earnings per Share*. Net income available to shareholders is the same for the basic and diluted earnings per share calculations for the years ended December 31, 2007, 2006 and 2005. Basic earnings per share are based on the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share are based on the weighted average number of shares of common stock and common stock equivalents (options) outstanding during the period, except when the common stock equivalents are anti-dilutive. The following is a reconciliation from basic to diluted shares outstanding used in the calculation of earnings per share:

	2007	2006	2005
Weighted average shares outstanding basic	455,184,797	452,897,854	450,179,073
Effect of dilutive stock options	3,345,812	3,287,796	3,124,353
Weighted average shares outstanding dilutive	458,530,609	456,185,650	453,303,426
Options not included in calculation of dilutive shares as the exercise price was greater than the average price during the respective period	4,947,775	6,885,893	569,124

Stock-Based Compensation - Stock-based compensation represents the cost related to stock-based awards granted to employees. Stock-based compensation cost is measured at grant date based on the estimated fair value of the award and recognizes the cost on a straight-line basis (net of estimated forfeitures) over the employee requisite service period. The fair value of stock options is estimated using a binomial lattice valuation technique. Deferred tax assets are recorded for awards that result in deductions on income tax returns, based on the amount of compensation cost recognized and the statutory tax rate in the jurisdiction in which the deduction will be received. Differences between the deferred tax assets recognized for financial reporting purposes and the actual tax deduction reported on the income tax return are recorded in Additional Paid-In Capital (if the tax deduction exceeds the deferred tax asset) or in the consolidated statements of income (if the deferred tax asset exceeds the tax deduction and no additional paid-in capital exists from previous awards).

Fair Value of Financial Instruments - Financial instruments consist primarily of cash and cash equivalents, marketable securities, debt obligations, and derivative financial instruments which are either accounted for as fair value or cash flow hedges, and starting in 2006, financial instruments also include a note receivable from a third party for the sale of Things Remembered Inc. (TR Note). Luxottica Group estimates the fair value of cash and cash equivalents and marketable securities based on interest rates available to the Company and by comparison to quoted market prices and its debt obligations, as there are no quoted market prices, based on interest rates available to the Company. The fair value associated with financial guarantees has been accrued for when applicable and is disclosed in Note 15. The fair values of letters of credit are not disclosed as it is not practicable for the Company to do so and substantially all of these instruments are in place for operational purposes such as security on leases and health benefits. The fair value of the TR Note was based on discounted projected cash flows utilizing an expected yield.

At December 31, 2007 and 2006, the fair value of the Company's financial instruments approximated the carrying value except as otherwise disclosed.

Derivative Financial Instruments Derivative financial instruments are accounted for in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133), as amended and interpreted.

SFAS 133 requires that all derivatives, whether or not designed in hedging relationships, be recorded on the balance sheet at fair value regardless of the purpose or intent for holding them. If a derivative is designated as a fair-value hedge, changes in the fair value of the derivative and the related change in the hedge item are recognized in operations. If a derivative is designated as a cash-flow hedge, changes in the fair value of the derivative are recorded in other comprehensive income/(loss) (OCI) in the Statements of Consolidated Shareholders' Equity and are recognized in the consolidated statements of income when the hedged item

affects operations. The effect of these derivatives in the consolidated statements of income depends on the item hedged (for example, interest rate hedges are recorded in interest expense). For a derivative that does not qualify as a hedge, changes in fair value are recognized in the consolidated statements of income, under the caption "Other net".

Designated hedging instruments and hedged items qualify for hedge accounting only if there is a formal documentation of the hedging relationship at the inception of the hedge, hedging relationship is expected to be highly effective and effectiveness is tested at the inception date and at least every three months.

Certain transactions and other future events, such as (i) the derivative no longer effectively offsetting changes to the cash flow of the hedged instrument, (ii) the expiration, termination or sale of the derivative, or (iii) any other reason of which the Company becomes aware that the derivative no longer qualifies as a cash flow hedge, would cause the balance remaining in other comprehensive income to be realized immediately as earnings. Based on current interest rates and market conditions, the estimated aggregate amount to be recognized as earnings from other comprehensive income relating to these cash flow hedges in fiscal 2008 is approximately Euro (1.2) million, net of taxes.

Luxottica Group uses derivative financial instruments, principally interest rate and currency swap agreements, as part of its risk management policy to reduce its exposure to market risks from changes in interest and foreign exchange rates. Although it has not done so in the past, the Company may enter into other derivative financial instruments when it assesses that the risk can be hedged effectively.

Defined Benefit Pensions - The funded status of the Company's defined benefit pension plans is recognized in the consolidated statement of income. The funded status is measured as the difference between the fair value of plan assets and the benefit obligation at September 30, the measurement date. For defined benefit pension plans, the benefit obligation is the projected benefit obligation (PBO), which represents the actuarial present value of benefits expected to be paid upon retirement based on estimated future compensation levels. The fair value of plan assets represents the current market value of cumulative company and participant contributions made to an irrevocable trust fund, held for the sole benefit of participants, which are invested by the trust fund. Overfunded plans, with the fair value of plan assets exceeding the benefit obligation, are aggregated and recorded as a prepaid pension asset equal to this excess. Underfunded plans, with the benefit obligation exceeding the fair value of plan assets, are aggregated and recorded as a retirement benefit obligation equal to this excess. The current portion of the retirement benefit obligations represents the actuarial present value of benefits payable in the next 12 months exceeding the fair value of plan assets, measured on a plan-by-plan basis.

Net periodic pension benefit cost/(income) is recorded in the consolidated statements of income and includes service cost, interest cost, expected return on plan assets, amortization of prior service costs/(credits) and (gains)/losses previously recognized as a component of gains and (losses) not affecting retained earnings and amortization of the net transition asset remaining in accumulated gains and (losses) not affecting retained earnings. Service cost represents the actuarial present value of participant benefits earned in the current year. Interest cost represents the time value of money cost associated with the passage of time. Certain events, such as changes in employee base, plan amendments and changes in actuarial assumptions, result in a change in the benefit obligation and the corresponding change in the gains and (losses) not affecting retained earnings. The result of these events is amortized as a component of net periodic cost/(income) over the service lives of the participants.

Information Expressed in US Dollars - The Company's consolidated financial statements are stated in Euro, the currency of the country in which the parent company is incorporated and operates. The translation of Euro amounts into US Dollar amounts is included solely for the

Edgar Filing: LUXOTTICA GROUP SPA - Form SC TO-I

convenience of international readers and has been made at the rate of Euro 1 to US Dollar 1.4603. Such rate was determined by using the noon buying rate of the Euro to US Dollar as certified for customs purposes by the Federal Reserve Bank of New York as of December 31, 2007. Such translations should not be construed as representations that Euro amounts could be converted into US Dollars at that or any other rate.

Reclassifications - The presentation of certain prior year information has been reclassified to conform to the current year presentation.

Recent Accounting Pronouncements

In March 2008, the Financial Accounting Standards Board (FASB) issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities - an amendment of FASB Statement No. 133* (SFAS 161). SFAS 161 changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS 133 and

its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. The guidance in SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. This Statement encourages, but does not require, comparative disclosures for earlier periods at initial adoption. The Company is currently assessing the impact of SFAS 161.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements – an amendment to ARB No. 51*, establishing new accounting and reporting standards for noncontrolling interests (formally known as minority interests) in a subsidiary and, when applicable, how to account for the deconsolidation of such subsidiary. The key differences include that non-controlling interests will be recorded as a component of equity, the consolidated income statements and statements of comprehensive income will be adjusted to include the non controlling interest and certain disclosures have been updated. The statement is effective for the fiscal years and interim periods within those years beginning on or after December 15, 2008. Earlier adoption is prohibited. The Company has minority interests in certain subsidiaries and as such is currently evaluating the effect of adoption.

In December 2007, FASB issued SFAS No. 141(R), *Business Combinations Revised* (SFAS 141(R)), which revises the current SFAS 141. The significant changes include a change from the cost allocation process to determine the value of assets and liabilities to a full fair value measurement approach. In addition, acquisition related expenses will be expensed as incurred and not included in the purchase price allocation and contingent liabilities will be separated into two categories, contractual and non-contractual, and accounted for based on which category the contingency falls into. This statement applies prospectively and is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning after December 15, 2008. Since it will be applied prospectively it will not have an effect on the current financial statements, however, since the Company participates in business combinations, in the future the Company believes this statement after the adoption date could have a significant effect on future operations.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB No. 115*, which allows the Company to elect to record at fair value financial assets and liabilities, on an instrument by instrument basis, with the change being recorded in earnings. Such election is irrevocable after elected for that instrument and must be applied to the entire instrument. The adoption of such standard is for fiscal years beginning after November 15, 2007. The adoption is not expected to have a material effect on the consolidated financial statements.

In September 2006, FASB issued SFAS No. 157, *Fair Value Measurements*, which establishes a definition of fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 does not require new fair value measurements but clarifies the definition, method and disclosure requirements of previously issued standards that address fair value measurements. The adoption of such standard is for fiscal years beginning after November 15, 2007. The Company is currently evaluating the accounting and disclosure requirements and their effect on the consolidated financial statements.

In September 2006, FASB issued SFAS No. 158, *Employer's Accounting for Defined Benefit Pension Other Post Retirement Plans*, which requires the Company to recognize an asset or liability for the funded status (difference between fair value of plan assets and benefit obligation, which for defined benefit pension plans is deemed to be the Projected Benefit Obligation) of its retirement plans and recognize changes in the funded status annually through other comprehensive income (O.C.I.). Additionally, the statement changes the date as of which the funded status can be measured (eliminates the 90 day window) with limited exceptions. The effective date of the recognition of the funded status is for years ending after December 15, 2006, and as such, refer to Note 10 for the effect on adoption. The effective date for the change in acceptable measurement date is for fiscal years ending after December 15, 2008. The Company is currently evaluating the impact on the consolidated financial statements of changing its measurement date.

2. RELATED PARTY TRANSACTIONS

Fixed Assets - In 2002, a subsidiary of the Company entered into an agreement with the Company's Chairman to lease to him a portion of a building for Euro 0.5 million annually. The expiration date of this lease is 2010.

As of December 31, 2007 the receivable from the Company's Chairman amounts to Euro 0.3 million (Euro 0.2 million as of December 31, 2006).

License Agreement - The Company has a worldwide exclusive license agreement to manufacture and distribute ophthalmic products under the name of Brooks Brothers. The Brooks Brothers trade name is owned by Retail Brand Alliance, Inc. (RBA), which is owned and controlled by a Director of the Company. The license agreement expires in 2009. Royalties paid to RBA for such agreement were Euro 0.9 million, Euro 1.3 million and Euro 0.5 million in fiscal years 2007, 2006 and 2005 respectively.

In July 2004, the Company signed a worldwide exclusive license agreement to manufacture and distribute ophthalmic products under the name of Adrienne Vittadini. The Adrienne Vittadini trade name was owned by RBA until November 2006 when the license was sold by RBA to a party unrelated to the Company. For fiscal years 2006 and 2005 royalties paid to RBA for such agreement were Euro 1.0 million and Euro 0.9 million.

As of December 31, 2007 the balance of accounts receivable and payable related to RBA (including service revenues described in the next paragraph) amount to Euro 0.0 million and Euro 0.4 million, respectively (Euro 0.1 million and Euro 0.7 million, as of December 31, 2006).

Service Revenues - During fiscal years 2007, 2006 and 2005, subsidiaries of Luxottica U.S. Holdings Corp. (US Holdings) performed certain services for RBA. Amounts received for the services provided were Euro 0.2 million, Euro 0.7 million and Euro 0.6 million, in fiscal 2007, 2006 and 2005, respectively.

Stock Incentive Plan - On September 14, 2004, the Company announced that its majority shareholder, Mr. Leonardo Del Vecchio, had allocated shares held through La Leonardo Finanziaria S.r.l. (subsequently merged into Delfin S.a.r.l.), a holding company of the Del Vecchio family, representing at that time 2.11 percent (or 9.6 million shares) of the Company's authorized and issued share capital, to a stock option plan for top management of the Company. The stock options to be issued under the stock option plan vested upon the meeting of certain economic objectives as of June 30, 2006 and, as such, the holders of these options became entitled to exercise such options beginning on that date until their termination in 2014. In 2007, 400,000 options from this grant were exercised.

Transactions with Former Chairman of Oakley - Certain of the Company's Oakley associates perform services for a company owned by the former chairman of Oakley. Total billings for services rendered by Oakley were Euro 0.4 million since the acquisition date. The agreement governing the provision of these services can be terminated at any time with a 30 day written notice. In addition, Oakley may incur other costs

Edgar Filing: LUXOTTICA GROUP SPA - Form SC TO-I

on behalf of the former chairman and such company that are reimbursed after such amounts are paid by Oakley or with a prepaid deposit. As of December 31, 2007, the aggregate amount due from the former chairman and such company was approximately Euro 0.1 million.

Oakley leases an aircraft from a different corporation owned by the former chairman of Oakley which expires January 31, 2009, subject to automatic annual extensions unless Oakley, in its discretion, terminates the agreement as of such date or any subsequent expiration date. The annual lease payment is approximately Euro 0.1 million and the Company bears all costs and expenses of operating and maintaining the aircraft. Oakley entered into time sharing agreements with the former chairman and various other entities controlled by him whereby the Company is reimbursed for costs of the aircraft when utilized by the former chairman or such other entities.

As of December 31, 2007 total receivables and payables from/to other related parties not considered in the above reported paragraphs amount to Euro 0.9 million and Euro 0.7 million, respectively (Euro 1.3 million and Euro 0.2 million as of December 31, 2006). These amounts mainly refer to commercial transactions with the companies Type 20 S.r.l. and Optica Limited.

3. INVENTORIES - NET

Inventories net consisted of the following (thousands of Euro):

	2007	2006
Raw materials and packaging	117,191	76,352
Work in process	52,132	49,650
Finished goods	492,839	320,146
Less: Inventory obsolescence reserves	(87,146)	(45,253)
Total	575,016	400,895

4. SALE OF THINGS REMEMBERED

On September 29, 2006, the Company sold its Things Remembered (TR) specialty gifts retail business to a private equity consortium for net cash consideration of Euro 128.0 million (US\$ 162.1 including costs of US\$ 5.3 million) and a promissory note with a principal amount of Euro 20.6 million (US\$26.1 million). The TR business operated solely in the United States and was included in the retail segment of the Company's operations as of December 31, 2004 and 2005. In the consolidated statements of income, for 2005 and 2006, the Company has reclassified sales, cost of sales and other expenses associated with the discontinued operations as a single line item after income from continuing operations but before net income. Revenues, income from operations, income before provision for income taxes and income tax provision reclassified under discontinued operations for the twelve-month periods ended December 31, 2005 and 2006, are as follows (thousands of Euro):

	2006 (1)	2005
Revenues	157,110	236,478
Income from operations	3,250	21,153
Income before provision for income taxes	761	18,260
Income tax provision	(45)	(6,756)
Gain/loss on sale	13,278	N/A
Income taxes on sale	(20,413)	N/A
(Loss)/Gain on discontinued operations	(6,419)	11,504

(1) From January 1, 2006 through September 29, 2006

The promissory note has a stated interest rate of 15.0%. Interest is paid-in-kind annually in the form of an additional principal amount added to the outstanding principal balance. All unpaid interest and outstanding principal is due in March 2013. The promissory note is subordinated to certain other outstanding senior debt of the acquirer as defined in the promissory note. The promissory note has been classified as an available-for-sale security and as such changes in its fair value will be included in accumulated other comprehensive income and reclassified to earnings when realized. For fiscal 2006 and 2007 there were no amounts reclassified from other comprehensive income into earnings.

5. ACQUISITIONS AND INVESTMENTS

a) Oakley

On June 20, 2007, the Company and Oakley entered into a definitive merger agreement with the unanimous approval of the Boards of Directors of both companies. On November 14, 2007, the merger was consummated, the Company acquired all the outstanding common stock of Oakley which became a wholly owned subsidiary of the Company and its results of operations began to be included in the consolidated statements of income of the Company. The aggregate consideration paid by the Company to the former shareholders, option holders, and holders of other equity rights of Oakley was approximately Euro 1,425.6 million (US \$2,091 million) in cash. In connection with the merger, the Company assumed approximately Euro 166.6 million (US \$244.4 million) of outstanding indebtedness. The purchase price of 1,438.7 million (US \$2,110.5 million) including approximately Euro 13.1 million (US \$19.2 million) of direct acquisition related expenses was allocated to the assets acquired and liabilities assumed based on their fair value at the date of the acquisition. The Company used various methods to calculate the fair value of the assets acquired and the liabilities assumed. Although all valuations are not yet completed, the Company believes that the preliminary allocation of the purchase price is reasonable, but is subject to revisions upon completion of the final valuation of certain assets and liabilities, which is expected to occur during 2008. As such, the final allocation of the purchase price among the assets and liabilities acquired may change in 2008 to reflect the final amounts. The excess of purchase price over net assets acquired (goodwill) has been recorded in the accompanying consolidated balance sheet. No portion of this goodwill is deductible for tax purposes. The acquisition of Oakley was made as a result of the Company's strategy to strengthen its performance sunglass wholesale and retail businesses worldwide.

The purchase price (including acquisition-related expenses) has been allocated based upon the fair value of the assets acquired and liabilities assumed as follows (thousands of Euro):

<u>Assets acquired:</u>	
Cash and cash equivalents	62,396
Inventories	132,267
Property, plant and equipment	142,483
Deferred tax assets	29,714
Prepaid expenses and other current assets	11,326
Accounts receivable	104,569
Trade names and other intangible	544,578
Other assets	3,978
<u>Liabilities assumed:</u>	
Accounts payable	(36,285)
Accrued expenses and other current liabilities	(82,434)
Deferred tax liabilities	(183,046)
Outstanding borrowings on credit facilities	(166,577)
Other long term liabilities	(22,891)
Bank overdrafts	(5,575)
Fair value of net assets	534,502
Goodwill	904,148
Total purchase price	1,438,650

The following table sets forth the Company's unaudited pro forma consolidated results of operations assuming that the acquisition of Oakley was completed as of January 1 of each of the fiscal years shown below (in thousands of Euro except for earnings per share data):

	2007	2006
Net Sales	5,539,000	5,243,055
Net Income	470,363	385,896
Earnings per share		
Basic	1.04	0.85
Diluted	1.04	0.85

Pro forma data may not be indicative of the results that would have been obtained had these events actually occurred at the beginning of the periods presented, nor does it intend to be a projection of future results.

b) Other acquisitions and investments:

The following is a description of other acquisitions and investments. No pro forma financial information is presented, as these acquisitions were not material, individually or in aggregate, to the Company's consolidated financial statements.

In February 2007, the Company completed the acquisition of certain assets and assumed certain liabilities of D.O.C Optics Corporation and its affiliates, an optical retail business with approximately 100 stores located primarily in the Midwest United States of America for approximately Euro 83.7 million (U.S. \$110.2 million) in cash. The Company expects to convert the stores acquired to the current operating names, LensCrafters and Pearle. The purchase price, including direct acquisition-related expenses, was allocated to the assets acquired and liabilities assumed based on their fair value at the date of the acquisition. The goodwill recorded in the consolidated financial statements as of December 31, 2007 totals Euro 70.4 million, of which Euro 64.9 million is deductible for tax purposes. The Company used various methods to calculate the fair value of the assets acquired and liabilities assumed and all valuations are not yet completed. The final allocation of the purchase price among the assets and liabilities acquired and the amount of the goodwill has been completed in 2008 resulting in no material differences from the purchase price allocation done in 2007. The acquisition was made as a result of the Company's strategy to continue expansion of its retail business in the United States of America.

During 2007, in compliance with the 2006 decision of the Supreme Court of India, the Company launched a public offering to acquire an additional 31 percent of the outstanding equity share capital of RayBan Sun Optics India LTD (RBSO). Effective upon the entry of the shares tendered in the offer into the share register on June 26, 2007 the Company increased its ownership interest in RBSO to 70.5 percent. As of such date, RBSO was consolidated into the financial statements. The operations of RBSO for the short period in 2007 and prior to our obtaining majority control were immaterial to the consolidated financial statements presented. The total cost of the shares acquired was approximately Euro 13 million (US \$17.2 million). The Company recorded the acquisition as a step-acquisition and allocated the purchase price paid over the newly acquired proportional share of the fair value of RBSO assets and liabilities acquired. There were no substantial unrecognized intangibles, and as such, goodwill was recorded for the excess price paid over the net fair values of assets and liabilities of approximately Euro 9.1 million (US \$ 12.3 million).

On July 1, 2006, the Company acquired certain assets and assumed certain liabilities from King Optical Group Inc. consisting of its 74 Canadian optical store chain known as Shoppers Optical (SO). The aggregate consideration paid by the Company to the former owners of SO was approximately Canadian dollar (CDN\$) 68.8 million (Euro 48.3 million) in cash. In connection with the acquisition, the Company assumed no indebtedness. The purchase price of CDN\$ 69.3 million (Euro 48.7 million), including approximately CDN\$ 0.1 million (Euro 0.4 million) of direct acquisition-related expenses, was allocated to the assets acquired and liabilities assumed based on their fair value at the date of the acquisition. All valuations of net assets including but not limited to fixed assets and inventory have been completed during 2007 resulting in no

Edgar Filing: LUXOTTICA GROUP SPA - Form SC TO-I

material differences from the purchase price allocation done in 2006. The acquisition was made as a result of the Company's strategy to continue expansion of its retail business in Canada.

In July 2005, the Company announced that SPV Zeta S.r.l., a new wholly owned Italian subsidiary, would acquire 100 percent of the equity interest in Beijing Xueliang Optical Technology Co. Ltd. (Xueliang Optical) 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 has 79 stores in Beijing. The transaction was completed in April 2006 after the customary approvals by the relevant Chinese governmental authorities. The acquisition was accounted for in accordance with SFAS 141 and, accordingly, the total consideration of Euro 22.6 million has been allocated to the fair market value of the assets and

Edgar Filing: LUXOTTICA GROUP SPA - Form SC TO-I

liabilities of the company at the acquisition date. All valuations of net assets including but not limited to fixed assets and inventory have been completed during 2007 with no material differences from the purchase price allocation performed in 2006, which resulted in the recognition of goodwill of Euro 21.3 million as of the date of acquisition. The acquisition was made as a result of the Company's strategy to enter the retail business in The People's Republic of China.

In October 2005, the Company announced that its new wholly owned Italian subsidiary, SPV Eta S.r.l., would acquire 100 percent of the equity interests in Ming Long Optical, the largest premium optical chain in the province of Guangdong, China, for a purchase price of RMB 290 million (approximately Euro 29 million). In July 2006 the Company completed the transaction after receiving the customary approvals by the relevant Chinese governmental authorities. Ming Long Optical operates a total of 278 locations in two of the top premium optical markets in mainland China, as well as in Hong Kong. The acquisition was accounted for in accordance with SFAS 141 and, accordingly, the total consideration of Euro 30.3 million has been allocated to the fair market value of the assets and liabilities of the company at the acquisition date. All valuations of net assets including but not limited to fixed assets and inventory have been completed during 2007 with no material differences from the purchase price allocation performed in 2006, which resulted in the recognition of goodwill of Euro 15.8 million as of the date of acquisition. The acquisition was made as a result of the Company's strategy to continue expansion of its retail business in The People's Republic of China.

In May 2006, the Company completed the purchase of the remaining 49% stake of the Turkish-based distributor Luxottica Gozluk Ticaret A.S. (Luxottica Turchia) for an amount of Euro 15 million. Goodwill of Euro 7.0 million representing the excess of the net assets acquired has been recorded in the accompanying Consolidated Balance Sheets. In November 2006 Standard Gozluk Industri Ve Tircaret A.S. (Standard), a Turkish wholesaler fully owned by the former minority shareholders of Luxottica Turchia, merged with Luxottica Turchia. As a result of the merger the former shareholders of Standard received a minority stake of Luxottica Turchia of 35.16% and a put option to sell the shares to the Company, while the Company was granted a call option on the minority stake. The acquisition was accounted for in accordance with SFAS 141 and, accordingly, the total consideration of Euro 46.7 million has been allocated to the fair market value of the assets and liabilities of the company at the acquisition date. All valuations of net assets including but not limited to fixed assets and inventory have been completed during 2007 resulting in the recognition of intangible assets of approximately Euro 19.6 million and related deferred tax liabilities for approximately Euro 3.9 million and in the reduction of the goodwill recognized in 2006 by approximately Euro 15.7 million. The acquisition was made as a result of the Company's strategy to continue expansion of its wholesale business in Turkey, in particular in the prescription frames market.

In November 2006, the Company completed the acquisition, which was announced in June 2006, of Modern Sight Optics, a leading premium optical chain that operates a total of 28 stores in Shanghai, China. These stores are located in premium and high-end commercial centers and shopping malls situated primarily in Shanghai's downtown area and affluent residential areas. The Company acquired 100 percent of the equity interest in Modern Sight Optics for total consideration of RMB 140 million (approximately Euro 14 million). The acquisition was accounted for in accordance with SFAS 141 and, accordingly, the total consideration of Euro 16.3 million, including direct acquisition-related expenses, has been allocated to the fair market value of the assets and liabilities of the company as of the acquisition date. All valuations of net assets including but not limited to fixed assets and inventory have been completed during 2007 with no material differences from the purchase price allocation done in 2006 which resulted in the recognition of goodwill of Euro 15.9 million as of the date of acquisition. The acquisition was made as a result of the Company's strategy to continue expansion of its retail business in The People's Republic of China.

In March 2007 the Company announced that it had acquired two prominent specialty sun chains in South Africa, with a total of 65 stores. The two acquisitions represent an important step in the expansion of the Company's sun retail presence worldwide. Luxottica Group's total investment in the two transactions was approximately Euro 10 million. The Company used various methods to calculate the fair value of the assets acquired and liabilities assumed and all valuations are not yet completed. The excess of the purchase price over net assets acquired (goodwill) has been recorded in the accompanying consolidated balance sheet. The estimated preliminary goodwill totals Euro 8.3 million.

6. PROPERTY, PLANT AND EQUIPMENT NET

Property, plant and equipment-net consisted of the following (thousands of Euro):

	2007	2006
Land and buildings, including leasehold improvements	687,428	568,584
Machinery and equipment	697,776	629,362
Aircraft	40,222	40,385
Other equipment	439,696	363,417
	1,865,122	1,601,748
Less: accumulated depreciation and amortization	807,340	814,547
Total	1,057,782	787,201

Depreciation and amortization expense relating to property, plant and equipment for the years ended December 31, 2007, 2006 and 2005 was Euro 163.3 million, Euro 151.9 million and 122.8 million, respectively. Included in other equipment is approximately Euro 71.6 million and Euro 32.3 million of construction in progress as of December 31, 2007 and 2006, respectively. Construction in-progress consists mainly of the opening, remodeling and relocation of stores and the expansion of manufacturing facilities in Italy.

Certain tangible assets are maintained in currencies other than Euro (the reporting currency) and, as such, balances may fluctuate due to changes in exchange rates.

7. GOODWILL AND INTANGIBLE ASSETS - NET

The changes in the carrying amount of goodwill for the years ended December 31, 2006 and 2007, are as follows (thousands of Euro):

	Retail Segment	Wholesale Segment	Oakley	Total
Balance as of January 1, 2006	1,350,776	295,897		1,646,673
Acquisitions (a)	111,186	44,738		155,924
Adjustments on previous acquisitions (a)	(3,249)			(3,249)
Change in exchange rates (b)	(104,714)	(20)		(104,734)
Balance as of December 31, 2006	1,353,999	340,615		1,694,614

Edgar Filing: LUXOTTICA GROUP SPA - Form SC TO-I

Acquisitions (a)	86,021	9,611	904,148	999,780
Adjustments on previous acquisitions (a)		(15,678)		(15,678)
Change in exchange rates (b)	(84,323)	4,393	3,054	(76,876)
Balance as of December 31, 2007	1,355,697	338,941	907,202	2,601,840

(a) Goodwill acquired in 2006 consisted primarily of the acquisition in Turkey in the Wholesale segment, and of minor acquisitions in Retail segment. Goodwill acquired in 2007 mainly consists of the acquisition of Oakley, of the acquisition of the additional 26% of the net equity of the Indian subsidiary and of minor acquisitions in the Retail segment.

Edgar Filing: LUXOTTICA GROUP SPA - Form SC TO-I

(b) Certain goodwill balances are denominated in currencies other than Euro (the reporting currency) and, as such, balances may fluctuate due to changes in exchange rates.

Intangible assets-net consist of the following (thousands of Euro),

	2007	2006
LensCrafters trade name, net of accumulated amortization of Euro 76,080 thousand and Euro 77,518 thousand as of December 31, 2007 and 2006, respectively (a)	74,574	89,187
Ray-Ban acquired trade names, net of accumulated amortization of Euro 118,749 thousand and Euro 104,776 thousand as of December 31, 2007 and 2006, respectively (a)	160,747	174,424
Sunglass Hut International trade name, net of accumulated amortization of Euro 55,838 thousand and Euro 52,633 thousand as of December 31, 2007 and 2006, respectively (a)	150,969	176,207
OPSM acquired trade names, net of accumulated amortization of Euro 34,576 thousand and Euro 24,466 thousand as of December 31, 2007 and 2006, respectively (a)	112,467	123,158
Various trade names of Cole, net of accumulated amortization of Euro 5,313 thousand and Euro 8,617 thousand as of December 31, 2007 and 2006, respectively (a)	35,550	41,151
Cole distributor network, net of accumulated amortization of Euro 12,120 thousand and Euro 5,500 thousand as of December 31, 2007 and 2006, respectively (b)	66,716	79,054
Cole customer list and contracts, net of accumulated amortization of Euro 7,011 thousand and Euro 4,163 thousand as of December 31, 2007 and 2006, respectively (b)	39,066	45,969
Cole franchise agreements, net of accumulated amortization of Euro 2,515 thousand and Euro 1,927 thousand of December 31, 2007 and 2006, respectively (b)	12,961	15,199
Oakley acquired trade names, net of accumulated amortization of Euro 1,972 thousand at December 31, 2007 (see Note 5) (a)	376,937	
Oakley Customer list, net of accumulated amortization of Euro 1,016 thousand at December 31, 2007 (see Note 5) (b)	143,548	
Oakley other intangibles, net of accumulated amortization of Euro 1,099 thousand at December 31, 2007 (See note 5) (c)	22,475	
Other intangibles, net of accumulated amortization of Euro 54,428 thousand and Euro 52,635 thousand as of December 31, 2007 and 2006, respectively (c)	110,107	86,013
Total	1,306,117	830,362

(a) The LensCrafters, Sunglass Hut International, OPSM, Cole and Oakley trade names are amortized on a straight-line basis over a period of 25 years and the Ray-Ban trade names over a period of 20 years, as the Company believes these trade names to be finite-lived assets.

(b) Distributor network, customer contracts and lists, and franchise agreements were identifiable intangibles recorded in connection with the acquisition of Cole in 2004 and of Oakley in 2007. These assets have finite lives and are amortized on a straight-line basis over periods ranging between 20 and 25 years. The weighted average amortization period is 22.2 years.

(c) Other identifiable intangibles have finite lives ranging between 3 and 17 years and are amortized on a straight line basis. The weighted average amortization period is 11.3 years. Most of these useful lives were determined based on the terms of the license agreements and non-compete agreements. During 2006, approximately Euro 11.4 million of intangibles related to a non compete agreement of Sunglass Hut International became fully amortized and were written off. During 2007, approximately Euro 5.8 million of intangibles became fully amortized and were written off.

Certain intangible assets are maintained in currencies other than Euro (the reporting currency) and, as such, balances may fluctuate due to changes in exchange rates.

Estimated annual amortization expense relating to identifiable assets, including the identifiable intangibles attributable to recent acquisitions for which the purchase price allocation is not final, is shown below (thousands of Euro):

Years ending December 31,	
2008	81,618
2009	78,526
2010	78,253
2011	78,823
2012	76,826

8. INCOME TAXES

Income before provision for income taxes and the provision for income taxes consisted of the following (thousands of Euro):

	2007	2006	2005
Income before provision for income taxes			
Italian Companies	317,637	251,343	216,438
USA Companies	319,154	331,035	244,050
Other foreign Companies	143,890	95,799	78,821
Total income before provision for income taxes	780,681	678,177	539,309
Provision for income taxes			

Edgar Filing: LUXOTTICA GROUP SPA - Form SC TO-I

Current			
Italian Companies	156,198	157,342	127,730
USA Companies	116,785	120,681	120,784
Other foreign Companies	61,742	33,206	40,855
Total provision for current income taxes	334,725	311,229	289,369
Deferred			
Italian Companies	(47,736)	(23,016)	(74,874)
USA Companies	(10,592)	(3,392)	(14,295)
Other foreign Companies	(2,896)	(46,065)	(934)
Total provision for deferred income taxes	(61,224)	(72,473)	(90,103)
Total taxes	273,501	238,757	199,266

The Italian statutory tax rate is the result of two components: national (IRES) and regional (IRAP) tax. IRAP could have a substantially different base for its computation than IRES.

Reconciliation between the Italian statutory tax rate and the effective tax rate is as follows,

	2007	Year ended December 31, 2006	2005
Italian statutory tax rate	37.3%	37.3%	37.3%
Aggregate effect of different rates in foreign jurisdictions	(1.7)%	(1.5)%	1.7%
Aggregate Italian tax benefit - net			(4.1)%
Aggregate effect of asset revaluation in Australia		(6.8)%	
Aggregate effect of Italian restructuring	(5.3)%		
Aggregate effect of change in tax law in Italy	2.1%		
Effect of non-deductible stock-based compensation	1.1%	5.5%	3.0%
Aggregate other effects	1.5%	0.7%	(0.9)%
Effective rate	35.0%	35.2%	37.0%

In 2005, the Company elected, under newly established tax regulations in Italy, to step-up the tax basis of certain assets, net of certain tax amounts the Company paid in that period.

In 2006, the Australian subsidiaries of the Company elected to apply a new tax consolidation regime, which was introduced by the Australian government. By electing such new consolidation regime for tax purposes, certain intangible and fixed assets were revalued for tax purposes increasing their tax basis. The increase in the tax basis became effective in 2006 upon filing the final 2005 tax return in December 2006.

The 2007 tax benefit of 5.3%, relates to the business reorganization of certain Italian companies which results in the release of deferred tax liabilities and is partially offset by the increase by 2.1% in the 2007 tax charge due to the change in the Italian statutory tax rates which results in the reduction of deferred tax assets.

The deferred tax assets and liabilities as of December 31, 2007 and 2006, respectively, were comprised of (thousands of Euro):

Amounts in thousands of Euro

	2007	2006
Deferred Income Tax Assets		
Inventory	73,062	65,192
Insurance and other reserves	10,238	14,947
Loss on investments		1,094
Right of return reserve	13,464	8,934
Deferred revenue extended warranty contracts	824	7,192
Net operating loss carryforwards	45,224	44,449
Recorded reserves	1,381	4,318
Occupancy reserves	14,681	11,616
Employee-related reserves (including pension liability)	48,977	39,374
Trade name	72,686	84,013
Other	26,693	1,900
Fixed assets	24,472	28,211
Total Deferred Tax assets	331,702	311,240
Valuation Allowance	(27,088)	(29,781)
Net Deferred tax assets	304,614	281,458
Deferred Income Tax Liabilities		
Trade name	(216,997)	(113,448)
Equity revaluation step-up		(40,950)
Other intangibles	(117,975)	(65,412)
Dividends	(11,933)	(13,308)
Other	(20,342)	(1,663)
Total Deferred Income Tax Liabilities	(367,247)	(234,782)
Net Deferred Income Tax Assets/(Liabilities)	(62,633)	46,676

Deferred income tax assets have been classified in the consolidated financial statements as follows:

Deferred Income Tax Assets - current	117,853	96,595
Deferred Income Tax Assets - non current	67,891	45,205
Deferred Income Tax Liabilities - non current	(248,377)	(95,124)
	(62,633)	46,676

On December 24, 2007, the Italian Government issued the Italian Finance bill of 2008 (the 2008 Bill). The 2008 Bill decreases the national tax rate (referred to as IRES) from 33% to 27.5%, and the regional tax rate (referred to as IRAP) from 4.25% to 3.9%. The effect of this change created an additional Euro 8 million of deferred tax expense in 2007.

The Company does not provide for an accrual for income taxes on undistributed earnings of its non Italian operations to the related Italian parent company that are intended to be permanently invested. It is not practicable to determine the amount of income tax liability that would result had such earnings actually been distributed. In connection with the 2007 earnings of certain subsidiaries, the Company has provided for an accrual for income taxes related to declared dividends of earnings.

At December 31, 2007, a US subsidiary of the Company had Federal net operating loss carry-forwards (NOLs) of approximately Euro 93.5 million which may be used against income generated by restricted subgroups. Substantially all of the NOLs begin expiring in 2019. Approximately Euro 231.1 thousands of these NOLs were used in 2007 and 2006, respectively. The use of the NOL is limited due to restrictions imposed by U.S. tax rules governing utilization of loss carry-forwards following changes in ownership. None of the net operating losses expired in 2007 or 2006. As of December 31, 2007, a US subsidiary of the Company had various state net operating loss carry-forwards, associated with individual states within the United States of America (SNOLs) totalling approximately Euro 3.4 million. These SNOLs begin expiring in 2008. Due to the Company's US subsidiaries foreign operations, as of December 31, 2007, a US subsidiary of the Company has approximately Euro 3.9 million and Euro 5.1 million of non US net operating losses and foreign tax credit carry-forwards, respectively. These foreign NOLs and foreign tax credits will begin to expire in 2012 and 2013, respectively.

Edgar Filing: LUXOTTICA GROUP SPA - Form SC TO-I

As of December 31, 2007 and 2006, the Company has recorded an aggregate valuation allowance of Euro 27.1 million and Euro 29.8 million, respectively, against deferred tax assets as it is more likely than not that the above deferred income tax assets will not be fully utilized in future periods.

A reconciliation of the amount of unrecognized tax benefits is as follows (amounts in thousands of Euro):

Balance	January 1, 2007	54,089
Gross increase	acquisition of Oakley	14,176
Gross increase	tax positions in prior period	5,018
Gross decrease	tax positions in prior period	(7,473)
Gross increase	tax positions in current period	5,796
Settlements		(2,799)
Lapse of statute of limitations		(8,851)
Change in exchange rates		(3,365)
Balance	December 31, 2007	56,591

Included in the balance of unrecognized tax benefits at December 31, 2007, are Euro 39.9 million of tax benefits that, if recognized, would affect the effective tax rate.

The Group does not anticipate the unrecognized tax benefits to change significantly during 2008.

The Group recognizes interest accrued related to unrecognized tax benefits and penalties as income tax expense. Related to the uncertain tax benefits noted above, the Company's accrual for penalties and interest during 2007 is immaterial and in total, as of December 31, 2007, the Company has recognized a liability for penalties of approximately Euro 5.9 million and interest of approximately Euro 9.6 million.

The Group is subject to taxation in Italy and foreign jurisdictions of which only the U.S. federal is significant.

Italian companies' taxes are subject to review pursuant to Italian law. As of December 31, 2007, tax years from 2002 through the most recent year were open for such review. Certain Luxottica Group subsidiaries are subject to tax reviews for previous years and, during 2005 a wholly owned Italian subsidiary was subjected to a tax inspection. As a result of this, some insignificant recorded losses were reversed and an immaterial amount was accrued for as a liability. Management believes no significant unaccrued liabilities will arise from the related tax reviews.

The Group's U.S. federal tax years for 2004, 2005 and 2006 are subject to examination by the tax authorities.

9. LONG-TERM DEBT

Long-term debt consists of the following (thousands of Euro):

	2007	2006
Credit agreement with various Italian financial institutions (a)	185,000	245,000
Senior unsecured guaranteed notes (b)	97,880	165,022
Credit agreement with various financial institutions (c)	1,059,918	895,240
Credit agreement with various financial institutions for Oakley Acquisition (e)	1,369,582	
Capital lease obligations, payable in installments through 2007	1,866	3,626
Other loans with banks and other third parties, interest at various rates payable in installments through 2014. Certain subsidiaries' fixed assets are pledged as collateral for such loans (d)	4,894	10,374
Total	2,719,140	1,319,262
Current maturities	792,617	359,527

(a) In September 2003, the Company acquired its ownership interest of OPSM and more than 90 percent of the performance rights and options of OPSM for an aggregate of AUD 442.7 million (Euro 253.7 million), including acquisition expenses. The purchase price was paid for with the proceeds of a credit facility with Banca Intesa S.p.A. of Euro 200 million, in addition to other short-term lines available. The credit facility includes a Euro 150 million term loan, which requires repayment of equal semi-annual instalments of principal of Euro 30 million starting on September 30, 2006 until the final maturity date. Interest accrues on the term loan at Euribor (as defined in the agreement) plus 0.55 percent (5.315 percent on December 31, 2007). The revolving loan provides borrowing availability of up to Euro 50 million; amounts borrowed under the revolving portion can be borrowed and repaid until final maturity. At December 31, 2007, Euro 25 million had been drawn from the revolving portion. Interest accrues on the revolving loan at Euribor (as defined in the agreement) plus 0.55 percent (4.988 percent on December 31, 2007). The final maturity of the credit facility is September 30, 2008. The Company can select interest periods of one, two or three months. The credit facility contains certain financial and operating covenants. The Company was in compliance with those covenants as of December 31, 2007. Under this credit facility Euro 85 million and Euro 145 million were borrowed as of December 31, 2007 and 2006, respectively.

In June 2005, the Company entered into four interest rate swap transactions with various banks with an aggregate initial notional amount of Euro 120 million which will decrease by Euro 30 million every six months starting on March 30, 2007 (Intesa OPSM Swaps). These swaps will expire on September 30, 2008. The Intesa OPSM Swaps were entered into as a cash flow hedge on a portion of the Banca Intesa Euro 200 million unsecured credit facility discussed above. The Intesa OPSM Swaps exchange the floating rate of Euribor for an average fixed rate of 2.45 percent per annum. The ineffectiveness of cash flow hedges was tested at the inception date and throughout the year. The results of the tests indicated that the cash flow hedges are highly effective. As a consequence approximately Euro 0.44 million, net of taxes, is included in other comprehensive income as of December 31, 2007. Based on current interest rates and market conditions, the estimated aggregate amount to be recognized as earnings from other comprehensive income for these cash flow hedges in fiscal 2008 is approximately Euro 0.41 million, net of taxes.

In December 2005, the Company entered into an unsecured credit facility with Banco Popolare di Verona e Novara. The 18-month credit facility consists of a revolving loan that provides borrowing availability of up to Euro 100 million; amounts borrowed under the revolving portion can be borrowed and repaid until final maturity. At December 31, 2007, Euro 100 million had been drawn from the revolving portion. Interest accrues on the revolving loan at Euribor (as defined in the agreement) plus 0.25 percent (4.98 percent on December 31, 2007). In 2007 the credit facility was renewed and therefore its final maturity is December 3, 2008. The Company can select interest periods of one, three or six months.

(b) On September 3, 2003, US Holdings closed a private placement of US \$300 million (Euro 205.4 million at the exchange rate of December 31, 2007) of senior unsecured guaranteed notes (the Notes), issued in three series (Series A, Series B and Series C). Interest on the Series A Notes accrues at 3.94 percent per annum and interest on Series B and Series C Notes accrues at 4.45 percent per annum. The Series A and Series B Notes mature on September 3, 2008 and the Series C Notes mature on September 3, 2010. The Series A and Series C Notes require annual prepayments beginning on September 3, 2006 through the applicable dates of maturity. The Notes are guaranteed on a senior unsecured basis by the Company and Luxottica S.r.l., a wholly owned subsidiary. The notes contain certain financial and operating covenants. US Holdings was in compliance with those covenants as of December 31, 2007. In December 2005, US Holdings terminated the fair value interest rate swap agreement described below, and as such, US Holdings will amortize the final adjustment to the carrying amount of the hedged interest-bearing financial instruments as an adjustment to the fixed-rate debt yield over the remaining life of the debt. The effective interest rates on the Series A, B, and C Notes for their remaining lives are 5.64 percent, 5.99 percent, and 5.44 percent, respectively. Under this credit facility Euro 97.9 million and Euro 165.0 million were borrowed as of December 31, 2007 and 2006, respectively.

In connection with the issuance of the Notes, US Holdings entered into three interest rate swap agreements with Deutsche Bank AG (the DB Swaps). The three separate agreements' notional amounts and interest payment dates coincided with the Notes. The DB Swaps exchanged the fixed rate of the Notes for a floating rate of the six-month LIBOR rate plus 0.6575 percent for the Series A Notes and the six-month LIBOR rate plus 0.73 percent for the Series B and Series C Notes. These swaps were treated as fair value hedges of the related debt and qualified for the shortcut method of hedge accounting (assuming no ineffectiveness in a hedge in an interest rate swap). Thus the interest income/expense on the swaps was recorded as an adjustment to the interest expense on the debt, effectively changing the debt from a fixed rate of interest to the swap rate. In December 2005, the Company terminated the DB Swaps. The Company paid the bank an aggregate of Euro 7.0 million (US \$8.4 million), excluding accrued interest, for the final settlement of the DB Swaps.

(c) On June 3, 2004, as amended on March 10, 2006, the Company and US Holdings entered into a credit facility with a group of banks providing for loans in the aggregate principal amount of Euro 1,130 million and US \$325 million. The five-year facility consists of three Tranches (Tranche A, Tranche B, Tranche C). The March 2006 amendment increased the available borrowings, decreased the interest margin and defined a new maturity date of five years from the date of the amendment for Tranche B and Tranche C. On February 2007, the Company exercised an option included in the amendment to the term and revolving facility to extend the maturity date of Tranches B and C to March 2012. Tranche A is a Euro 405 million amortizing term loan requiring repayment of nine equal quarterly instalments of principal of Euro 45 million beginning in June 2007, which is to be used for general corporate purposes, including the refinancing of existing Luxottica Group S.p.A. debt as it matures. Tranche B is a term loan of US \$325 million which was drawn upon on October 1, 2004 by US Holdings to finance the purchase price of the acquisition of Cole. Amounts borrowed under Tranche B will mature in March 2012. Tranche C is a Revolving Credit Facility of Euro 725 million-equivalent multi-currency (Euro/US Dollar). Amounts borrowed under Tranche C may be repaid and reborrowed with all outstanding balances maturing in March 2012. The Company can select interest periods of one, two, three or six months with interest accruing on Euro-denominated loans based on the corresponding Euribor rate and US Dollar denominated loans based on the corresponding LIBOR rate, both plus a margin between 0.20 percent and 0.40 percent based on the Net Debt/EBITDA ratio, as defined in the agreement. The interest rate on December 31, 2007 was 4.976 percent for Tranche A, 5.449 percent for Tranche B, 5.239 percent on Tranche C amounts borrowed in US Dollars. The credit facility contains certain financial and operating covenants. The Company was in compliance with those covenants as of December 31, 2006 and 2007. Under this credit facility, Euro 1,059.9 million and Euro 895.2 million was borrowed as of December 31, 2007 and 2006, respectively.

In June 2005, the Company entered into nine interest rate swap transactions with an aggregate initial notional amount of Euro 405 million with various banks which will decrease by Euro 45 million every three months starting on June 3, 2007 (the Club Deal Swaps). These swaps will expire on June 3, 2009. The Club Deal Swaps were entered into as a cash flow hedge on Tranche A of the credit facility discussed above. The Club Deal Swaps exchange the floating rate of Euribor for an average fixed rate of 2.48 percent per annum. The ineffectiveness of cash flow hedges was tested at the inception date and throughout the year. The results of the tests indicated that the cash flow hedges are highly effective. As a consequence approximately Euro 2.9 million, net of taxes, is included in other comprehensive income as of December 31, 2007. Based on current interest rates and market conditions, the estimated aggregate amount to be recognized as earnings from other comprehensive income for these cash flow hedges in fiscal 2008 is approximately Euro 2.2 million, net of taxes.

During the third quarter of 2007 the Group entered into 13 interest rate swap transactions with an aggregate initial notional amount of US \$325.0 million with various banks (Tranche B Swaps). These swaps will expire on March 10, 2012. The Tranche B Swaps were entered into as a cash flow hedge on Tranche B of the credit facility discussed above. The Tranche B Swaps exchange the floating rate of Libor for an average fixed rate of 4.67 percent per annum. The ineffectiveness of cash flow hedges was tested at the inception date and throughout the year. The results of the tests indicated that the cash flow hedges are highly effective. As a consequence approximately US \$ (4.5) million, net of taxes, is included in other comprehensive income as of December 31, 2007. Based on current interest rates and market conditions, the estimated aggregate amount to be recognized as earnings from other comprehensive income for these cash flow hedges in fiscal 2008 is approximately US \$ (3.0) million, net of taxes.

(d) Other loans consist of several small credit agreements.

(e) On November 14, 2007, the Group completed the merger with Oakley for a total purchase price of approximately U.S. \$2.1 billion. In order to finance the acquisition of Oakley, on October 12, 2007 the Company and its subsidiary U.S. Holdings entered into two credit facilities with a group of banks providing for certain term loans and a bridge loan for an aggregate principal amount of U.S. \$2.0 billion. The term loan facility is a term loan of U.S. \$1.5 billion, with a five-year term, with options to extend the maturity on two occasions for one year each time. The term loan facility is divided into two facilities, Facility D and Facility E. Facility D consists of an amortizing term loan in an aggregate amount of U.S. \$1.0 billion, made available to U.S. Holdings, and Facility E consists of a bullet term loan in an aggregate amount of U.S. \$500 million, made available to the Company. Each facility has a five-year term, with options to extend the maturity on two occasions for one year each time. Interest accrues on the term loan at LIBOR plus 20 to 40 basis points based on Net Debt to EBITDA ratio, as defined in the agreement (5.503 percent for Facility D and 5.458 percent for Facility E on December 31, 2007). The final maturity of the credit facility is October 12, 2012. These credit facilities contain certain financial and operating covenants. The Company was in compliance with those covenants as of December 31, 2007. US \$1,500.0 million was borrowed under this credit facility as of December 31, 2007.

During the third quarter of 2007 the Group entered into ten interest rate swap transactions with an aggregate initial notional amount of US \$500.0 million with various banks (Tranche E Swaps). These swaps will expire on October 12, 2012. The Tranche E Swaps were entered into as a cash flow hedge on Facility E of the credit facility discussed above. The Tranche E Swaps exchange the floating rate of Libor for an average fixed rate of 4.26 percent per annum. The ineffectiveness of cash flow hedges was tested at the inception date and throughout the year. The results of the tests indicated that the cash flow hedges are highly effective. As a consequence approximately US \$ (1.4) million, net of taxes, is included in other comprehensive income as of December 31, 2007. Based on current interest rates and market conditions, the estimated aggregate amount to be recognized in earnings from other comprehensive income for these cash flow hedges in fiscal 2008 is approximately US \$ (3.6) million, net of taxes.

The short term bridge loan facility is for an aggregate principal amount of U.S. \$500 million. Interest accrues on the short term bridge loan at LIBOR (as defined in the agreement) plus 0.15 percent (5.208 percent on December 31, 2007). The final maturity of the credit facility is eight months from the first utilization date.

Long-term debt, including capital lease obligations, matures in the years subsequent to December 31, 2007 as follows (thousands of Euro):

Year ended December 31,	
2008	792,617
2009	133,876
2010	145,265
2011	185,170

Edgar Filing: LUXOTTICA GROUP SPA - Form SC TO-I

2012	1,461,700
Following years	512
Total	2,719,140

10. EMPLOYEE BENEFITS

Liability for Termination Indemnities -

With regards to staff leaving indemnities (TFR), Italian law provides for severance payments to employees upon dismissal, resignation, retirement or other termination of employment. TFR, through December 31, 2006, was considered an unfunded defined benefit plan. Therefore, through December 31, 2006, the Company accounted for the defined benefit plan in accordance with

EITF 88-1, *Determination of Vested Benefit Obligation for a Defined Benefit Pension Plan*, using the option to record the vested benefit obligation, which is the actuarial present value of the vested benefits to which the employee would be entitled if the employee retired, resigned or were terminated as of the date of the financial statements..

Effective January 1, 2007, the TFR system was reformed, and under the new law, employees are given the ability to choose where the TFR compensation is invested, whereas such compensation otherwise would be directed to the National Social Security Institute or Pension Funds. As a result, contributions under the reformed TFR system are accounted for as a defined contribution plan. The liability accrued until December 31, 2006 continues to be considered a defined benefit plan, therefore each year, the Company adjusts its accrual based upon headcount and inflation and excluding the changes in compensation level.

There are also some termination indemnities in other countries which are provided through payroll tax and other social contributions in accordance with local statutory requirements. The related charge to earnings for the years ended December 31, 2007, 2006 and 2005 aggregated, Euro 15.4 million, Euro 12.9 million and Euro 12.0 million respectively.

Qualified Pension Plans During fiscal years 2007 and 2006, the Company continued to sponsor a qualified noncontributory defined benefit pension plan, which provides for the payment of benefits to eligible past and present employees of certain U.S. subsidiaries of the Company (U.S. Associates) upon retirement. Pension benefits are accrued based on length of service and annual compensation under a cash balance formula.

This pension plan was amended effective January 1, 2006 granting eligibility to U.S. Associates who work in the Cole Vision stores, field management, and the related labs and distribution centers. Additionally, the Company amended the pension accrual formula for the Cole associates, as well as all new hires for the Company. The new formula has a more gradual benefit accrual pattern. However, the Pension Protection Act of 2006 will require a change to the Plan's vesting schedule effective January 1, 2008.

As of the effective date of the Cole acquisition, the Company assumed sponsorship of the Cole National Group, Inc. Retirement Plan (Cole Plan). This is a qualified noncontributory defined benefit pension plan that covers Cole employees who have met eligibility service requirements and are not members of certain collective bargaining units. The pension plan provides for benefits to be paid to eligible past and present employees at retirement based primarily upon years of service and the employees' compensation levels near retirement. In January 2002, the Cole Plan was frozen for all participants. The average pay for all participants was frozen as of March 31, 2002, except for those who were aged 50 with 10 years of benefit service as of that same date, whose service will continue to increase as long as they remain employed by the Company.

As of December 31, 2007, the Cole Plan was merged into the existing U.S. Associates Pension Plan. The projected benefit obligation and the fair value of net assets transferred on such date were Euro 34.2 million (US \$49.9 million) and Euro 37.6 million (US \$54.9 million), respectively. Upon the merger, there were no changes to the provisions or benefit formulas of the plan.

Nonqualified Pension Plans and Agreements The Company also maintains a nonqualified, unfunded supplemental executive retirement plan (SERP) for participants of its U.S. Associates qualified pension plan to provide benefits in excess of amounts permitted under the provisions of prevailing U.S. tax law. The pension liability and expense associated with this plan are accrued using the same actuarial methods and assumptions as those used for the qualified pension plan.

Starting January 1, 2006, this plan s benefit provisions were amended to mirror the changes made to the Company s qualified pension plan.

A subsidiary of the Company sponsors the Cole National Group, Inc. Supplemental Pension Plan. This plan is a nonqualified unfunded supplemental executive retirement plan for certain participants of the Cole pension plan who were designated by the Board of Directors of Cole on the recommendation of Cole s Chief Executive Officer at such time. This plan provides benefits in excess of amounts permitted under the provisions of the prevailing tax law. The pension liability and expense associated with this plan are accrued using the same actuarial methods and assumptions as those used for the qualified pension plan.

The following tables provide key information pertaining to the Company's U.S. pension plans and SERP. The Company uses a September 30 measurement date for these plans.

Obligations and Funded Status (thousands of Euro):

Edgar Filing: LUXOTTICA GROUP SPA - Form SC TO-I

	Pension Plans		SERP	
	2007	2006	2007	2006
Change in benefit obligations:				
Benefit obligation beginning of period	272,248	278,947	8,320	6,530
Service cost	16,449	13,326	504	335
Interest cost	15,606	15,090	589	442
Actuarial (gain)/loss	(1,690)	3,195	1,871	1,832
Plan amendments		297		
Benefits paid	(8,573)	(9,373)	(219)	(23)
Translation difference	(27,254)	(29,234)	(970)	(796)
Benefit obligation end of period	266,786	272,248	10,095	8,320

	Pension Plans		SERP	
	2007	2006	2007	2006
Change in plan assets:				
Fair value of plan assets beginning of period	216,792	206,316		
Actual return on plan assets	24,203	14,514		
Employer contribution	16,717	27,610	219	23
Benefits paid	(8,573)	(9,373)	(219)	(23)
Translation difference	(22,564)	(22,275)		
Fair value of plan assets end of period	226,575	216,792	0	0
Funded status	(40,211)	(55,456)	(10,095)	(8,320)

Amounts recognized in the consolidated balance sheets as of December 31, 2007 and 2006, consist of the following (thousands of Euro):

	Pension Plans		SERP	
	2007	2006	2007	2006
Liabilities:				
Current liabilities			770	232
Noncurrent liabilities	40,211	55,456	9,325	8,088
Total accrued pension liabilities	40,211	55,456	10,095	8,320
Other comprehensive income:				
Net loss	28,380	43,690	3,898	2,799
Prior service cost	283	881	17	29
Contributions after measurement date			5	3
Accumulated other comprehensive income	28,663	44,571	3,920	2,831

The accumulated benefit obligations for the pension plans and SERP as of September 30, 2007 and 2006, were as follows (thousands of Euro):

	Pension Plans		SERP	
	2007	2006	2007	2006
Accumulated benefit obligations	245,829	255,239	7,989	6,542
Components of Net Periodic Benefit Cost and Other Amounts Recognized in Other Comprehensive Income				
Net Periodic Benefit Cost:				
Service cost	16,449	13,326	504	335
Interest cost	15,606	15,090	589	442
Expected return on plan assets	(16,703)	(15,837)		
Amortization of actuarial loss	2,640	3,277	413	299
Amortization of prior service cost	547	561	9	10
Net periodic benefit cost	18,539	16,417	1,515	1,086
Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income:				
Net loss (gain)	(9,191)	4,518	1,871	1,831
Prior service cost		297		
Amortization of actuarial loss	(2,640)	(3,277)	(413)	(299)
Amortization of prior service cost	(547)	(561)	(9)	(10)
Total recognized in other comprehensive income	(12,378)	977	1,449	1,522
TOTAL	6,161	17,394	2,964	2,608

The estimated net loss and prior service cost for the U.S. defined benefit pension plans that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year are Euro 0.7 million and Euro 0.1 million, respectively. The estimated net loss and prior service cost for the SERP plans that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year are Euro 0.3 million and 0.0, respectively.

Assumptions

Edgar Filing: LUXOTTICA GROUP SPA - Form SC TO-I

	Pension Plans		SERP	
	2007	2006	2007	2006
Weighted-average assumption used to determine benefit obligations:				
Discount Rate	6.50%	6.00%	6.50%	6.00%
Rate of compensation increase	6%/5%/4%	4.50%	6%/5%/4%	4.50%
Weighted-average assumption used to determine net periodic benefit cost for years ended December 31, 2007 and 2006:				
Discount rate	6.00%	5.75%	6.00%	5.75%
Expected long-term return on plan assets	8.25%	8.25%	N/A	N/A
Rate of compensation increase	4.50%	4.25%	4.50%	4.25%
Mortality table	RP-2000	RP-2000	RP-2000	RP-2000

In the past, the Company has used a flat rate assumption for its rate of compensation increases. Based on a study of historical experience performed by the Company's actuary, the Company has moved to an assumption for salary increases based on a graduated approach as opposed to the flat rate assumption used in the past. This study reviewed plan experience for the three years preceding the January 1, 2006 actuarial valuation. The Company's experience shows salary increases that typically vary by age. Therefore, the 2007 assumption related to salary increases was changed to better match historical experience and reflects an increase of 4%, 5% or 6% depending on the age of the participant.

For 2007, the Company's long-term rate of return assumption on the pension plans' assets was 8.25%. In developing this assumption, the Company considered input from its third-party pension asset managers, investment consultants and plan actuaries, including their review of asset class return expectations and long-term inflation assumptions. The Company also considered the pension plans' historical average return over various periods of time (through December 31, 2006). The resulting assumption was also benchmarked against the assumptions used by other U.S. corporations as reflected in several surveys to determine consensus thinking at that time on this assumption.

Plan Assets The Pension Plan's target and actual asset allocations at September 30, 2007 and 2006, by asset category are as follows:

Asset Category	Asset Allocation Target	Plan Assets at September 30, 2007		Plan Assets at September 30, 2006	
		U.S. Associates Plan	Cole Plan	U.S. Associates Plan	Cole Plan
Equity securities	65%	63%	72%	64%	67%
Debt securities	35%	35%	27%	34%	29%
Other	%	2%	1%	2%	4%
Total	100%	100%	100%	100%	100%

The actual allocation percentages at any given time may vary from the targeted amounts due to changes in stock and bond valuations as well as timing of contributions to and benefit payments from the pension plan trusts.

With the merger of the Cole Plan into the U.S. Associates Plan as of December 31, 2007, the assets of the Cole Plan were liquidated and transferred to the Luxottica Plan portfolio. This cash was then re-invested to achieve the targeted asset allocation percentages. Plan assets are invested in diversified portfolios consisting of an array of asset classes within the above target allocations and using a combination of active and, in the case of the Cole plan, passive investment strategies. Active strategies employ multiple investment management firms. Risk is controlled through diversification among asset classes, managers, styles, market capitalization (equity investments) and individual securities. Certain transactions and securities are not authorized to be conducted or held in the pension trusts, such as ownership of real estate other than real estate investment trusts, commodity contracts, and American Depositary Receipts (ADRs) or common stock of the Company. Risk is further controlled both at the asset class and manager level by assigning benchmarks and excess return targets. The investment managers are monitored on an ongoing basis to evaluate performance against the established market benchmarks and return targets.

Each of the defined benefit pension plans has an investment policy that was developed to serve as a management tool to provide the framework within which the fiduciary's investment decisions are made; establish standards to measure investment manager's performance; outline the roles and responsibilities of the various parties involved; and describe the ongoing review process.

Benefit Payments The following estimated future benefit payments, which reflect expected future service, are expected to be paid in the years indicated for both the U.S. Associates Pension Plan reflecting the Cole Plan merger and the Holdings and Cole Supplemental Plans (thousands of Euro):

	Pension Plans	Serp Plans
2008	9,500	770
2009	9,850	528
2010	10,574	529
2011	11,777	531
2012	12,901	1,176
2013 - 2017	83,792	5,213

Contributions The Company expects to contribute Euro 13.7 million to its pension plan and Euro 0.8 million to the SERP in 2008.

Other Benefits The Company provides certain postemployment medical, disability, and life insurance benefits to its U.S. Associates. The Company's accrued liability related to this obligation as of December 31, 2007 and 2006 was Euro 1.4 million and Euro 1.3 million, respectively, and is included in other long term liabilities on the consolidated balance sheets.

The Company sponsors a tax incentive savings plan covering all full-time employees. The Company makes quarterly contributions in cash to the plan based on a percentage of employees' contributions. Additionally, the Company may make an annual discretionary contribution to the plan, which may be made in the Parent's ADR's or cash. Aggregate contributions made to the tax incentive savings plan by the Company were Euro 8.1 million and Euro 9.2 million for fiscal years 2007 and 2006, respectively. For fiscal years 2007 and 2006 these contributions do not include an accrual for a discretionary match.

Effective upon the acquisition of Oakley on November 14, 2007, the Company also sponsors a tax incentive savings plan for all United States Oakley associates with at least six months of service. This plan is funded by employee contributions with the Company matching a portion of the employee contribution. Company contributions to the plan for the period November 14, 2007 through December 31, 2007 were Euro 0.1 million.

The Company sponsors the following additional other benefit plans, which cover certain present and past employees of the Cole companies acquired:

- Cole provides, under individual agreements, postemployment benefits for continuation of health care benefits and life insurance coverage to former employees after employment. As of December 31, 2007 and 2006, the accrued liability related to these benefits was Euro 1.0 million and Euro 1.2 million, respectively, and is included in the other long term liabilities on the consolidated balance sheet.

- Cole also maintains a defined contribution plan covering all full-time employees in Puerto Rico. The employees in Puerto Rico who have in the past participated in the Company's tax incentive savings plan were transferred into the Cole plan effective January 1, 2006. Additionally, effective January 1, 2006, the plan was amended to provide for a match of 100 percent of the first three percent of employee contributions. In 2007 and 2006,

the Company made quarterly contributions in cash to the plan based on a percentage of employees' contributions. The matching contributions to such plan for the fiscal years 2007 and 2006 were immaterial.

- Cole established and maintains the Cole National Group, Inc. Supplemental Retirement Benefit Plan, which provides supplemental retirement benefits for certain highly compensated and management employees who were previously designated by the former Board of Directors of Cole as participants. This is an unfunded non-contributory defined contribution plan. Each participant's account is credited with interest earned on the average balance during the year. This plan was frozen as to future salary credits on the effective date of the Cole acquisition in 2004. The plan liability of Euro 1.0 million and Euro 1.3 million at December 31, 2007 and 2006, respectively, is included in other long term liabilities on the consolidated balance sheets.

Other Defined Contribution Plan The Company continues to participate in superannuation plans in Australia and Hong Kong. The plans provide benefits on a defined contribution basis for employees on retirement, resignation, disablement or death. Contributions to defined contribution superannuation plans are recognized as an expense as the contributions are paid or become payable to the fund. Contributions are accrued based on legislated rates and annual compensation.

Certain employees of the Company located outside the United States are covered by state sponsored post-employment benefit plans. These plans are generally funded in conformity with the applicable local government regulations and amounts are expensed as contributions accrue. The aggregate liability to the Company for these foreign post-employment benefit plans as of December 31, 2007 and 2006, was immaterial.

Health Benefit Plans - The Company partially subsidizes health care benefits for eligible retirees. Employees generally become eligible for retiree health care benefits when they retire from active service between the ages of 55 and 65. Benefits are discontinued at age 65.

As of the Cole acquisition, the Company has a liability for a postretirement benefit plan maintained by Cole in connection with its acquisition of Pearle in 1996. This plan was closed to new participants at the time of Cole's acquisition of Pearle. Under this plan, the eligible former employees are provided life insurance and certain health care benefits which are partially subsidized by Cole. Medical benefits under this plan can be maintained past the age of 65.

Amounts recognized in the consolidated balance sheets as of December 31, 2007 and 2006, consist of the following (thousands of Euro):

	2007	2006
Liabilities:		
Current liabilities	173	185
Noncurrent liabilities	3,260	3,650
Total accrued postretirement liabilities	3,433	3,835

Amounts recognized in accumulated other comprehensive income are not material.

Benefit Payments The following estimated future benefit payments for the health benefit plans, which reflect expected future service, are estimated to be paid in the years indicated for both the Holdings and Cole plans (thousands of Euro),

2008	173
2009	200
2010	214
2011	234
2012	258
2013-2017	1,637

Contributions The expected contributions for 2008 are Euro 0.2 million for the Company and Euro 0.1 million for the employee participants.

For 2007, a 11.5% (12% for 2006) increase in the cost of covered health care benefits was assumed. This rate was assumed to decrease gradually to 5% for 2020 and remain at that level thereafter. The health care cost trend rate assumption could have a significant effect on the

Edgar Filing: LUXOTTICA GROUP SPA - Form SC TO-I

amounts reported. A 1% increase or decrease in the health care trend rate would not have a material impact on the consolidated financial statements. The weighted-average discount rate used in determining the accumulated postretirement benefit obligation was 6.5% at September 30, 2007 and 6.0% at September 30, 2006.

The weighted average discount rate used in determining the net periodic benefit cost was 6.0% for 2007 and 5.75% for 2006.

Implementation of SFAS No. 158

Edgar Filing: LUXOTTICA GROUP SPA - Form SC TO-I

In the fourth quarter of 2006, the Company adopted Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)* (SFAS No. 158) which requires employers to recognize on the balance sheet the projected benefit obligation of pension plans and the accumulated postretirement benefit obligation for any other postretirement plan. This requirement replaces the requirement of SFAS No. 87 to report a minimum pension liability measured as the excess of the accumulated benefit obligation over the fair value of plan assets and any recorded pension accrual. SFAS No. 158 also requires employers to recognize in other comprehensive income gains or losses and prior service costs or credits that occur during the period but would not be recognized as net periodic benefit cost as required by SFAS No. 87, 88, and 106. There is no change in the requirements related to the income statement recognition of net periodic benefit costs. The incremental effect of applying SFAS No. 158 on the consolidated balance sheet at December 31, 2006 is as follows (thousands of Euro):

	Before Application of SFAS No.158	Adjustments	After Application of SFAS No.158
Prepaid pension (intangible asset)	(304)	2,254	1,950
Total assets	4,966,624	2,254	4,968,878
Current liability SFAS No.106		185	185
Current liability pension benefits		232	232
Total current liabilities	1,424,860	417	1,425,277
Long-term SFAS No.106	4,055	(405)	3,650
Long-term pension benefits	45,961	17,583	63,544
Non-current deferred income taxes	48,202	(6,932)	41,270
Total long-term liabilities	1,317,507	10,246	1,327,753
Accumulated other comprehensive loss	(280,184)	(8,409)	(288,593)
Total stockholders equity	2,224,258	(8,409)	2,215,849

11. STOCK OPTION AND INCENTIVE PLANS

Stock Option Plan

Beginning in April 1998, certain officers and other key employees of the Company and its subsidiaries were granted stock options of Luxottica Group S.p.A. under the Company's stock option plans (the "plans"). The aggregate number of shares permitted to be granted under these plans to the employees is 23,044,300. The Company believes that the granting of options to these key employees better aligns the interest of such employees with those of the shareholders. Prior to 2006, under the older plans the stock options were granted at a price that was equal to or greater than market value of the shares at the date of grant. Under the 2005 and 2006 plans, options were granted at the greater of (i) either the previous 30 day average stock price immediately before the date of grant or (ii) the price on the grant date depending on certain regulatory requirements of the country where the employee receiving the option is located. These options become exercisable in either three equal annual installments, two equal annual installments in the second and third years of the three-year vesting period or 100 percent vesting on the third anniversary of the date of grant. Certain options may contain accelerated vesting terms if there is a change in ownership (as defined in the plans).

Prior to the adoption of SFAS 123 (R) on January 1, 2006, the Company applied APB 25, and as such no compensation expense was recognized because the exercise price of the options was equal to the fair market value on the date of grant. However, as some of those individuals were U.S. citizens/taxpayers and as the exercise of such options created taxable income, the Company was afforded a tax benefit in its US Federal tax return equal to the income declared by the individuals. U.S. GAAP does not permit the aforementioned tax benefit to be recorded in the statement of income. Therefore, such amount is recorded as a reduction of taxes payable and an increase to additional paid-in capital. For the year ended December 31, 2005, the benefit recorded approximated Euro 4.7 million.

The Company adopted SFAS 123(R) as of January 1, 2006, and at such point began expensing stock options over their requisite service period based on their fair value as of the date of grant. For the years ended December 31, 2007 and 2006, Euro 7.8 million and Euro 7.0 million, respectively, of compensation expense has been recorded for these plans.

A summary of option activity under the Plans as of December 31, 2007, and changes during the year then ended is as follows:

	Number of Options Outstanding	Weighted Average Exercise Price (Denominated in Euro)	Weighted Average Remaining Contractual Terms	Aggregate Intrinsic Value (Euro 000s)
Outstanding as of December 31, 2006	9,300,685	14.15		
Granted	1,745,000	24.03		
Forfeitures	(54,400)	14.45		
Exercised	(1,877,372)	10.09		
Outstanding as of December 31, 2007	9,113,913	16.61	5.39	50,952
Exercisable at December 31, 2007	4,996,413	12.11	3.78	47,638

The weighted-average fair value of grant-date fair value options granted during the years 2007, 2006, and 2005 was Euro 6.03, Euro 5.72 and Euro 4.27, respectively.

The fair value of the stock options granted was estimated at the date of grant using a binomial lattice model. The following table presents the weighted average assumptions used in the valuation and the resulting weighted average fair value per option granted:

	2007	2006	2005
Dividend yield	1.43%	1.33%	1.54%
Risk-free interest rate	3.91%	3.11%	3.17%
Expected option life (years)	5.7	5.8	5.84
Expected volatility	23.70%	25.91%	25.92%
Weighted average fair value (Euro)	6.03	5.72	4.27

Expected volatilities are based on implied volatilities from traded share options on the Company's stock, historical volatility of the Company's share price, and other factors. The expected option life is based on the historical exercise experience for the Company based upon the date of grant and represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods within the contractual life of the option is based on the U.S. Federal Treasury or European government bond yield curve, as appropriate, in effect at the time of grant.

As of December 31, 2007 there was Euro 8.6 million of total unrecognized compensation cost related to non-vested share-based compensation arrangements; that cost is expected to be recognized over a period of 1.9 years.

Stock Performance Plans

In October 2004, under a Company performance plan, the Company granted options to acquire an aggregate of 1,000,000 shares of the Company to certain employees of North American Luxottica Retail Division which vested and became exercisable on January 31, 2007 as certain financial performance measures were met over the period ending December 2006. At December 31, 2005, there were options to acquire 1,000,000 shares (the closing ADR price at December 31, 2005 on the New York Stock Exchange was US Dollar 25.31 per share) at an exercise price of US Dollar 18.59 per share. Prior to the adoption of SFAS 123-R compensation expense was recorded in accordance with variable accounting under APB 25 for the options issued under the incentive plan based on the market value of the underlying ordinary shares when the number of shares to be issued is known (intrinsic value method). During fiscal 2005, it became probable that the incentive targets would be met and as such the Company has recorded approximately Euro 1.8 million (or US Dollar 2.2 million) of compensation expense net of taxes during fiscal 2005 and recorded future unearned compensation expense in equity of approximately Euro 2.7 million (US Dollar 3.2 million) with an offsetting increase in additional paid-in capital for such amounts. For the years ended December 31, 2007 and 2006 Euro 0.2 million and Euro 1.9 million, respectively, of compensation expense has been recorded for this plan.

In September 2004, the Company's Chairman and majority shareholder, Mr. Leonardo Del Vecchio, allocated shares held through La Leonardo Finanziaria S.r.l., an Italian holding company of the Del Vecchio family, representing, at that time, 2.11 percent (or 9.6 million shares) of the Company's currently authorized and issued share capital, to a stock option plan for top management of the Company at an exercise price of Euro 13.67 per share (the closing stock price at December 31, 2005 on the Milan Stock Exchange was Euro 21.43 per share). The stock options to be issued under the stock option plan vested upon meeting certain economic objectives in June 2006. As such, compensation expense is recorded in accordance with variable accounting under APB 25 for the options issued to management under the incentive plan based on the market value of the underlying ordinary shares only when the number of shares to be vested and issued is known. During 2005, it became probable that the incentive targets would be met and, as such, the Company has recorded compensation expense of approximately Euro 19.9 million, net of taxes and recorded future unearned compensation expense in equity of approximately Euro 45.8 million, net of taxes, with an offsetting increase in additional paid-in capital for such amounts. For the years ended December 31, 2007 and 2006 Euro 0.0 million and Euro 21.4 million, respectively, of compensation expense has been recorded for this plan.

Edgar Filing: LUXOTTICA GROUP SPA - Form SC TO-I

In July 2006, under a Company performance plan, the Company granted options to acquire an aggregate of 13,000,000 shares of the Company to certain top management positions throughout the Company which vest and become exercisable as certain financial performance measures will be met. Upon vesting the associate will be able to exercise such options until they expire in 2016. Currently it is expected that these performance conditions will be met. If these performance measures are not expected to be met no additional compensation costs will be recognized and previous compensation costs recognized will be reversed. For the years ended December 31, 2007 and 2006, Euro 34.1 million and Euro 17.6 million, respectively, of compensation expense has been recorded for these plans.

Edgar Filing: LUXOTTICA GROUP SPA - Form SC TO-I

A summary of option activity under the performance plans as of December 31, 2007, and changes during the year then ended are as follows:

Performance Plans	Number of Options Outstanding	Weighted Average Exercise Price (Denominated in Euro)	Weighted Average Remaining Contractual Terms	Aggregate Intrinsic Value (Euro 000s)
Outstanding as of December 31, 2006	23,600,000	17.91		
Granted				
Forfeitures				
Exercised	(930,000)	16.47		
Outstanding as of December 31, 2007	22,670,000	18.01	7.71	83,877
Exercisable at December 31, 2007	9,670,000	13.62	6.54	77,512

The weighted-average fair value of grant-date fair value options granted during the year 2006 was Euro 5.13. There were no performance grants issued in 2005 or 2007.

The fair value of the stock options granted was estimated at the date of grant using a binomial lattice model. The following table presents the weighted average assumptions used in the valuation and the resulting weighted average fair value per option granted,

	2007	2006	2005
	Plan I (a)	Plan II (b)	
Dividend yield	1.33%	1.33%	
Risk-free interest rate	3.88%	3.89%	
Expected option life (years)	5.36	5.53	
Expected volatility	26.63%	26.63%	
Weighted average fair value (Euro)	6.15	5.8	

(a) Stock Performance Plan issued in July 2006 for a total of 9,500,000 options granted

(b) Stock Performance Plan issued in July 2006 for a total of 3,500,000 options granted

As of December 31, 2007 there was Euro 27.1 million of total unrecognized compensation cost related to non-vested share-based compensation arrangements; that cost is expected to be recognized over a period of 0.7 years.

Cash received from option exercises under all share-based arrangements and actual tax benefits realized for the tax deductions from option exercises are disclosed in the consolidated statements of shareholders' Equity.

Adoption of SFAS 123 (R)

Effective January 1, 2006 the Company adopted the provisions of SFAS No. 123(R), *Share-Based Payment* (SFAS 123(R)) which requires the Company to measure and record compensation expense for stock options and other share-based payments based on the fair value of the instruments. The adoption was made utilizing the modified prospective application method as defined in SFAS 123(R) and as such applies to awards modified, repurchased or cancelled after such date and to any portion of awards for which the requisite service has not been rendered and to every new granted award issued after December 31, 2005. The following table illustrates the effect on net income and earnings per share had the compensation costs of the plans been determined under a fair-value based method as stated in SFAS 123 for 2005. The estimated fair value for each option was calculated using a binomial model:

	Year ended December 31, 2005
(In thousands of Euro, except share data):	
Net income as reported	342,294
Add: Stock-Based compensation cost included in the reported net income, net of taxes	21,706
Deduct: Stock-based compensation expense determined under fair-value based method for all awards, net of taxes	(23,203)
Pro forma	340,797
Basic earnings per share:	
As reported	0.76
Pro forma	0.76
Diluted earnings per share:	
As reported	0.76
Pro forma	0.75

12. SHAREHOLDERS EQUITY

In June 2007 and May 2006, the Company's Annual Shareholders Meetings approved cash dividends of Euro 191.1 million and Euro 131.4 million, respectively. These amounts became payable in June 2007 and May 2006, respectively. Italian law requires that five percent of net income be retained as a legal reserve until this reserve is equal to one-fifth of the issued share capital. As such, this legal reserve is not available for dividends to the shareholders. Legal reserves of the Italian entities included in retained earnings were Euro 5.5 million at December 31, 2007 and 2006, respectively.

Luxottica Group's legal reserve roll-forward for fiscal period 2005-2007 is detailed as follows (thousands of Euro):

January 1, 2005	5,454
Increase in fiscal year 2005	23
December 31, 2005	5,477
Increase in fiscal year 2006	36
December 31, 2006	5,513
Increase in fiscal year 2007	23
December 31, 2007	5,536

Previously the Board of Directors authorized US Holdings to repurchase through the open market up to 21,500,000 ADRs of Luxottica Group S.p.A., representing at that time approximately 4.7 percent of the authorized and issued share capital. As of December 31, 2004, both repurchase programs expired and US Holdings purchased 6,434,786 (1,911,700 in 2002 and 4,523,786 in 2003) ADRs at an aggregate purchase price of Euro 70.0 million (U.S. \$73.8 million translated at the exchange rate at the time of the transactions). In connection with the repurchase, an amount of Euro 70.0 million is classified as treasury shares in the Company's consolidated financial statements. The market value of the stock based on the share price as listed on the Milan Stock Exchange at December 31, 2007, is approximately Euro 139.9 million (US \$203.9 million).

13. SEGMENTS AND RELATED INFORMATION

In accordance with SFAS No. 131, *Disclosures About Segments of an Enterprise and Related Information*, the Company operates in two industry segments: (1) manufacturing and wholesale distribution and (2) retail distribution. Through its manufacturing and wholesale distribution operations, the Company is engaged in the design, manufacture, wholesale distribution and marketing of house brand and designer lines of mid- to premium-priced prescription frames and sunglasses. The Company operates in the retail segment through its Retail Division, consisting of LensCrafters, Sunglass Hut International, OPSM Group Limited and Cole National Corporation. For 2007 Oakley is viewed as a stand alone segment since it has not yet been integrated into the wholesale and retail segments.

The following tables summarize the segment and geographic information deemed essential by the Company's management for the purpose of evaluating the Company's performance and for making decisions about future allocations of resources.

The Inter-segment transactions and corporate adjustments column includes the elimination of inter-segment activities which consist primarily of sales of product from the manufacturing and wholesale segment to the retail segment and corporate related expenses not allocated to reportable segments. This has the effect of increasing reportable operating profit for the manufacturing and wholesale and retail segments. Identifiable assets are those tangible and intangible assets used in operations in each segment. Corporate identifiable assets are principally cash, goodwill and trade names.

(thousands of Euro)	Manufacturing and Wholesale	Retail	Oakley	Inter-Segments Transactions and Corporate Adjustments	Consolidated
<u>Year ended December 31, 2005</u>					
Net Sales	1,310,273	3,061,690		(237,700)(1)	4,134,263
Income from operations	304,333	355,238		(78,170)(2)	581,401
Capital Expenditure	81,070	138,946			220,016
Depreciation & Amortization	48,720	103,596		32,336(3)	184,652
Total Assets	1,590,091	1,308,174		2,075,257(4)	4,973,522
<u>Year ended December 31, 2006</u>					
Net Sales	1,715,369	3,294,161		(333,374)(1)	4,676,156
Income from operations	445,843	431,547		(121,403)(2)	755,987
Capital Expenditure	108,117	164,063			272,180
Depreciation & Amortization	57,331	122,403		41,063(3)	220,797
Total Assets	1,853,144	1,343,482		1,772,252(4)	4,968,878
<u>Year ended December 31, 2007</u>					
Net Sales	1,992,740	3,233,802	86,964	(347,452)(1)	4,966,054
Income from operations	527,991	361,809	3,717	(60,204)(2)	833,313
Capital Expenditure	112,973	213,293	8,503		334,769
Depreciation & Amortization	68,981	118,100	7,682	38,050(3)	232,813
Total Assets	2,321,204	1,405,299	1,937,292	1,493,471(4)	7,157,266

Edgar Filing: LUXOTTICA GROUP SPA - Form SC TO-I

- (1) Inter-segment elimination of net revenues relates to intercompany sales from the manufacturing and wholesale segment to the retail segment.

- (2) Inter-segment elimination of operating income mainly relates to depreciation and amortization of corporate identifiable assets and profit-in-stock elimination for frames manufactured by the wholesale business and included in the retail segment inventory.

- (3) Corporate adjustments of depreciation and amortization relate to depreciation and amortization of corporate assets.

Edgar Filing: LUXOTTICA GROUP SPA - Form SC TO-I

(4) Corporate adjustments of total assets include mainly the net value of goodwill and trade names of acquired retail businesses.

The geographic segments include Italy, the main manufacturing and distribution base, United States and Canada (which includes the United States of America, Canada and Caribbean islands), Asia Pacific (which includes Australia, New Zealand, China, Hong Kong, Japan) and Other (which includes all other geographic locations including Europe (excluding Italy), South and Central America and the Middle East). Sales are attributed to geographic segments based on the legal entity domicile where the sale is originated. Intercompany sales included in inter-segment elimination are accounted for on a cost plus mark-up basis.

(Thousands of Euro) Year Ended December 31,	Italy (6)	United States and Canada (6)	Asia Pacific (6)	Other (6)	Adjustments and Eliminations	Consolidated
2005						
Net sales (5)	998,420	2,811,860	516,793	575,196	(768,006)	4,134,263
Income from operations	258,391	291,438	46,993	51,200	(66,621)	581,401
Long lived assets, net	228,841	375,776	92,335	8,214		705,166
Total assets	1,294,955	2,932,483	662,926	270,169	(187,011)	4,973,522
2006						
Net sales (5)	1,321,887	3,076,503	603,640	761,955	(1,087,828)	4,676,156
Income from operations	389,275	331,002	33,841	79,397	(77,528)	755,987
Long lived assets, net	280,692	387,861	110,099	8,549		787,201
Total assets	1,331,719	2,675,833	748,305	388,825	(175,804)	4,968,878
2007						
Net sales (5)	1,506,077	3,073,086	685,561	1,114,429	(1,413,099)	4,966,054
Income from operations	377,799	324,167	57,191	127,761	(53,605)	833,313
Long lived assets, net	326,978	575,566	134,435	20,803		1,057,782
Total assets	1,894,546	4,839,680	804,786	752,818	(1,134,565)	7,157,266

(5) No single customer represents five percent or more of sales in any year presented.

(6) Sales, income from operations and identifiable assets are the result of combination of legal entities located in the same geographic area.

14. FINANCIAL INSTRUMENTS

Concentration of Credit Risk -

Financial instruments which potentially expose the Company to concentration of credit risk consist primarily of cash investments, accounts receivable and a Euro 17.9 million Pay In Kind (PIK) note received in connection with the sale of its Things Remembered specialty gift business (See Note 4). The increase in the principal balance of the PIK note as a result of unpaid interest on this note receivable was Euro 2.8 million and Euro 0.8 million as of December 31, 2007 and 2006, respectively. The Company attempts to limit its credit risk associated with cash equivalents by placing the Company's investments with highly rated banks and financial institutions. With respect to accounts receivable, the Company limits its credit risk by performing ongoing credit evaluations. As of December 31, 2006 and 2007, no single customer balances comprised 10 percent or more of the overall accounts receivable balance. However, included in accounts receivable as of December 31, 2007 and 2006, was approximately Euro 12.3 million and Euro 13.9 million, respectively, due from the host stores of our license brands retail division. These receivables represent cash proceeds from sales deposited into the host stores bank accounts, which are subsequently forwarded to the Company on a weekly or monthly basis depending on the contract. These receivables are based on contractual arrangements that are short term in length. The Company believes no significant concentration of credit risk exists with respect to these cash investments and accounts receivable.

Concentration of Supplier Risk -

As a result of the OPSM and Cole acquisitions, Essilor S.A. has become one of the largest suppliers to the Company's Retail Division. For the 2007, 2006 and 2005 fiscal years, Essilor S.A. accounted for approximately 15.0 percent, 15.0 percent and 10.0 percent of the Company's total merchandise purchases, respectively. The Company has not signed any specific purchase contract with Essilor. Management believes that the loss of this vendor would not have a significant impact on the future operations of the Company as it could replace this vendor quickly with other third-party suppliers.

15. COMMITMENTS AND CONTINGENCIES

Royalty Agreements -

The Company is obligated under non-cancellable distribution agreements with designers, which expire at various dates through 2013. In accordance with the provisions of such agreements, the Company is required to pay royalties and advertising fees based on a percentage of sales (as defined) with, in certain agreements, minimum guaranteed payments in each year of the agreements.

On October 7, 2005, the Company 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 agreement began on January 1, 2006.

On February 27, 2006, the Company announced that it entered into a 10-year license agreement for the design, production and worldwide distribution of prescription frames and sunglasses under the Polo Ralph Lauren name. The agreement commenced on January 1, 2007. Based on

Edgar Filing: LUXOTTICA GROUP SPA - Form SC TO-I

the agreement, Luxottica Group provided for an advance payment on royalties to Ralph Lauren in January 2007 for a total amount of Euro 150.2 million (US \$199 million).

In December 2006, the Company announced the signing of a 10-year license agreement for the design, manufacturing and worldwide distribution of exclusive ophthalmic and sun collections under the Tiffany & Co. name. The Company launched the first collection in 2008. The distribution of Tiffany's collections started with Tiffany's own stores as well as in North America, Japan, Hong Kong, South Korea, key Middle East markets and Mexico and will extend over time to additional markets and through new distribution channels.

Minimum payments required in each of the years subsequent to December 31, 2007 are detailed as follows (thousands of Euro):

Year Ending December 31,	
2008	85,462
2009	81,683
2010	72,989
2011	52,319
2012	37,081
Thereafter	128,549
Total	458,083

Total royalties and related advertising expenses for the fiscal years 2007, 2006 and 2005 aggregated Euro 181.6 million, Euro 184.1 million and 121.2 million, respectively.

Total payments for royalties and related advertising expenses for the fiscal years 2007, 2006 and 2005 aggregated Euro 278.2 million, Euro 225.1 million and Euro 119.8 million, respectively.

Leases

The Company leases through its worldwide subsidiaries various retail store, plant, warehouse and office facilities, as well as certain of its data processing and automotive equipment under operating lease arrangements expiring between 2007 and 2025, with options to renew at varying terms. The lease arrangements for the Company's U.S. retail locations often include escalation clauses and provisions requiring the payment of incremental rentals, in addition to any established minimums contingent upon the achievement of specified levels of sales volume. In addition, with the acquisition of Cole, the Company operates departments in various host stores paying occupancy costs solely as a percentage of sales. Certain agreements which provide for operations of departments in a major retail chain in the United States contain short-term cancellation clauses.

Total rental expense under operating leases for each year ended December 31 is as follows (thousands of Euro):

	2007	2006	2005
Minimum rent	264,496	236,546	224,913
Contingent rent	60,177	64,091	57,776
Sublease income	(38,806)	(35,955)	(27,645)
	285,867	264,682	255,044

Future minimum annual rental commitments for operating leases are as follows (thousands of Euro):

Years Ending December 31,	
2008	240,946
2009	217,460
2010	178,189
2011	144,829

Edgar Filing: LUXOTTICA GROUP SPA - Form SC TO-I

2012	115,214
Thereafter	328,050
Total	1,224,688

Other Commitments The Company, with its acquisition of Oakley, is committed to pay amounts in future periods for endorsement contracts and supplier purchase commitments. Endorsement contracts are entered into with selected athletes and others who endorse Oakley products. Oakley is often required to pay specified minimal annual commitments and, in certain cases, additional amounts based on performance goals. Certain contracts provide additional incentives based on the achievement of specified goals. Purchase commitments have been entered into with various suppliers in the normal course of business. Oakley has a five-year agreement with a supplier that is Oakley's sole source of the uncoated lens blanks from which the majority of its sunglass lenses are cut. This agreement gives Oakley the right to purchase lens blanks from the supplier in return for Oakley's agreement to fulfill the majority of the requirements of the supplier, subject to certain conditions. Amounts expensed in 2007 for the endorsement contracts and supplier purchase commitments were immaterial to the financial statements.

Future minimum amounts to be paid for endorsement contracts and supplier purchase commitments at December 31, 2007, are as follows (thousands of Euro):

Year ending December 31,	Endorsement contracts	Supplier commitments
2008	5,912	4,575
2009	2,433	6,034
2010	780	5,999
2011	253	1,507
Total	9,378	18,115

Guarantees -

The United States Shoe Corporation, a wholly owned subsidiary of the Company, remains contingently liable on seven store leases in the United Kingdom. These leases were previously transferred to third parties. The third parties have assumed all future obligations of the leases from the date each agreement was signed. However, under the common law of the United Kingdom, the lessor still has the right to seek payment of certain amounts from the Company if unpaid by the new obligor. If the Company is required to pay under these guarantees, it has the right to recover amounts from the new obligor. These leases will expire during various years until December 31, 2015. At December 31, 2007, the maximum amount for which the Company's subsidiary is contingently liable is Euro 7.8 million.

Cole has guaranteed future minimum lease payments for certain store locations leased directly by franchisees. These guarantees aggregated approximately Euro 4.0 million at December 31, 2007. Performance under a guarantee by the Company is triggered by default of a franchisee on its lease commitment. Generally, these guarantees also extend to payments of taxes and other expenses payable under the leases, the amounts of which are not readily quantifiable. The terms of these guarantees range from one to ten years. Many are limited to periods less than the full term of the lease involved. Under the terms of the guarantees, Cole has the right to assume the primary obligation and begin operating the store. In addition, as part of the franchise agreements, Cole may recover any amounts paid under the guarantee from the defaulting franchisee. The Company has accrued a liability at December 31, 2005 for the estimates of the fair value of the Company's obligations from guarantees entered into or modified after December 31, 2002, using an expected present value calculation. Such amount is immaterial to the consolidated financial statements as of December 31, 2007 and 2006.

Credit Facilities -

As of December 31, 2007 and 2006, Luxottica Group had unused short-term lines of credit of approximately Euro 291.4 million and Euro 581.1 million, respectively.

The Company and its wholly-owned Italian subsidiary Luxottica S.r.l. maintain unsecured lines of credit with primary banks for an aggregate maximum credit of Euro 467.4 million (Euro 543.2 million at December 31, 2006). These lines of credit are renewable annually, can be cancelled at short notice and have no commitment fees. At December 31, 2007 and 2006, these credit lines were utilized for Euro 312.0 million and Euro 68.0 million, respectively.

US Holdings maintains four unsecured lines of credit with four separate banks for an aggregate maximum credit of Euro 89.0 million (US Dollar 130.0 million). These lines of credit are renewable annually, can be cancelled at short notice and have no commitment fees. At December 31, 2007, there were Euro 22.0 million (US \$32.1 million) of borrowings outstanding and there were Euro 23.6 million in aggregate face amount of standby letters of credit outstanding under these lines of credit (see below).

The blended average interest rate on these lines of credit is approximately LIBOR plus 0.25 percent.

Outstanding Standby Letters of Credit -

A U.S. subsidiary has obtained various standby and trade letters of credit from banks that aggregated Euro 31.0 million and Euro 36.1 million as of December 31, 2007 and 2006, respectively. Most of these letters of credit are used for security in risk management contracts, purchases from foreign vendors or as security on store leases. Most standby letters of credit contain evergreen clauses under which the letter is automatically renewed unless the bank is notified not to renew. Trade letters of credit are for purchases from foreign vendors and are generally outstanding for a period that is less than six months. Substantially all the fees associated with maintaining the letters of credit fall within the range of 50 to 100 basis points annually.

Litigation -

California Vision Health Care Service Plan Lawsuit

In March 2002, in *Snow v. LensCrafters, Inc. et al.*, 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 its 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 and EYEXAM, allege various statutory violations relating to the confidentiality of medical information and 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, and other unlawful or unfair business practices. The action seeks unspecified damages, statutory damages of U.S.\$1,000 per class member, disgorgement, restitution of allegedly unjustly obtained sums, 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.

The parties have reached a settlement which offers a range of benefits, including store vouchers and a cash back option, along with certain enhancements to LensCrafters business practices. On February 4, 2008, the Court gave preliminary approval to a class action settlement. A hearing to address final approval will take place in July 2008. If the settlement is given final approval, and no appeals are taken, this matter will be resolved.

Although the Company believes that its operational practices and advertising in California comply with California law, if the settlement does not receive final approval and an adverse decision in *Snow* results, LensCrafters and EYEXAM may have to modify or cease their activities in California. In addition, LensCrafters and EYEXAM might be required to pay damages and/or restitution, the amount of which might have a material adverse effect on the Company's consolidated financial statements. Costs associated with the *Snow* litigation incurred for the years ended December 31, 2007 and 2006, were approximately Euro 1.1 million and Euro 0.7 million, respectively. For the year ended December 31, 2007, the Company recorded an accrual of Euro 0.9 million as an estimate of the minimum amount it believes it will pay as costs of settlement as it has become probable that such amount will be paid in 2008. Currently, the maximum amount which may need to be paid under the settlement conditions cannot be quantified.

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 alleged 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 unspecified damages, disgorgement, restitution of allegedly unjustly obtained sums, civil penalties and injunctive relief, including an injunction that would have prohibited defendants from providing eye examinations or other optometric services at Pearle Vision Centers in California.

On July 18, 2007, the trial court entered a final judgment and permanent injunction, pursuant to a stipulation of the parties, dismissing the case. The judgment required modification to Pearle Vision's advertising, and the payment by the Company of \$2.5 million for attorneys' fees and costs of investigation. The payment was made in August 2007. The judgment does not bar Pearle Vision from advertising the availability of eye exams and other optometric services provided by Pearle VisionCare at Pearle Vision optical stores. Costs associated with the *People v. Cole* litigation incurred for the years ended December 31, 2007 and 2006, were approximately Euro 0.1 million and Euro 0.5 million, respectively.

Cole Consumer Class Action Lawsuit

In June 2006, in Seiken v. Pearle Vision, Inc. et al, Cole and its subsidiaries were sued by a consumer in a purported class action which alleges various statutory violations related to the operation of Pearle Vision and its affiliated HMO, Pearle VisionCare in California. The claims and remedies sought are similar to those asserted in the LensCrafters and EYEXAM case. In December 2006, the court granted defendants' motion to dismiss the complaint but allowed plaintiff an opportunity to replead. Defendants moved to dismiss the amended complaint in February 2007, and a hearing on the motion was held in March 2007. Such motion to dismiss was denied. Plaintiff has moved for class certification and the oral arguments relating to that petition,

originally scheduled for April 4, 2008, have been postponed. Recently, the parties reached an agreement in principle to settle this case, subject to documentation and Court approval. The proposed settlement provides a store voucher at Pearle or Lenscrafters to each class member and the payment of attorneys' fees and costs. A hearing to address approval of the settlement has not yet been scheduled. Although we believe that our operational practices in California comply with California law, if the settlement does not receive final approval and an adverse decision results, Pearle Vision or Pearle VisionCare may have to modify or cease their activities in California. In addition, the Cole subsidiaries might be required to pay damages and/or restitution, the amount of which might have a material adverse effect on the Company's consolidated financial statements. Costs associated with this Cole class action litigation incurred for the years ended December 31, 2007 and 2006 were approximately Euro 0.7 million and Euro 0.1 million, respectively. Management believes, based in part on advice from counsel, that no estimate of the range of possible losses, if any, can be made at this time.

Oakley Shareholder Lawsuit

On June 26, 2007, Pipefitters Local No. 636 Defined Benefit Plan filed a purported class action complaint in the Superior Court of California, County of Orange, on behalf of itself and all other shareholders of Oakley Inc. against Oakley Inc. and each of its directors. The complaint alleged, among other things, that the defendants violated their fiduciary duties to shareholders by approving Oakley's merger with Luxottica and claimed that the price per share fixed by the merger agreement is inadequate and unfair. The defendants filed demurrers to the complaint, which the Court granted without prejudice. On September 14, 2007, the plaintiff filed an amended complaint containing the same allegations as the initial complaint and adding purported claims for breach of the duty of candor. Because it believed the allegations were without merit, on October 9, 2007 the Company demurred to the amended complaint. Rather than respond to that demurrer, the plaintiff admitted that its claims were moot and on January 4, 2008 filed a motion for attorneys' fees and expenses. The hearing for this motion, originally scheduled for March 27, 2008, took place on April 17, 2008. The parties are currently awaiting the Court's ruling on that motion. The Court did not rule on defendants' demurrer to the amended complaint and it is unlikely there will be further proceedings with respect to the action other than on plaintiff's motion for fees as both sides have informed the Court that the underlying case is now moot and should be dismissed once the Court rules on the fee motion.

Costs associated with this litigation incurred for the year ended December 31, 2007 were immaterial. Management believes, based in part on the advice from counsel, that no estimate of the range of possible losses, if any, can be made at this time.

Fair Credit Reporting Act Litigation

In January 2007, a complaint was filed against Oakley, Inc. in the United States District Court for the Central District of California alleging willful violations of the Fair and Accurate Credit Transactions Act, 15 U.S.C. §1681c(g) (FACTA), related to the inclusion of credit card expiration dates on sales receipts. Plaintiff later filed an amended complaint adding two of Oakley's wholly-owned subsidiaries as additional defendants. Plaintiff purports to sue on behalf of a putative class of Oakley's customers, but no motion seeking class action status has yet been filed. The Oakley defendants have denied any liability.

Recently, the Oakley defendants entered into a Memorandum of Understanding with Plaintiff which, if approved by the Court, would result in the settlement of this action, with a complete release in favor of the Oakley defendants, with no cash payment to the purported class members, but rather an agreement by Oakley to issue vouchers for the purchase of products at Oakley retail stores during a limited period of time. The aggregate retail value of the vouchers would depend on how many purported class members submit valid claims. The settlement contemplated by the Memorandum of Understanding also provides for the payment of attorneys' fees and claim administration costs by the Oakley defendants. A motion seeking court approval of the foregoing settlement will be filed shortly.

Edgar Filing: LUXOTTICA GROUP SPA - Form SC TO-I

Costs associated with this litigation incurred for the year ended December 31, 2007 were immaterial. Management believes, based in part on the advice from counsel, that no estimate of the range of possible losses, if any, can be made at this time.

The Company is a defendant in various other lawsuits arising in the ordinary course of business. It is the opinion of the management of the Company that it has meritorious defenses against all such outstanding claims, which the Company will vigorously pursue, and that the outcome of such claims, individually or in the aggregate, will not have a material adverse effect on the Company's consolidated financial position or results of operations.

16. SUBSEQUENT EVENTS

On January 31, 2008, the Company announced the signing of the renewal of the partnership agreement for eyewear collections under the CHANEL brand.

In February 2008, the Company exercised an option included in the amendment to the term and revolving credit facility disclosed in Note 8 (d) to extend the maturity date of Tranches B and C to March 2013.

On April 17, 2008, the Company announced the signing of a new long-term exclusive license agreement with Stella McCartney Limited, a joint venture between Ms. Stella McCartney and Gucci Group N.V., for the design, production and worldwide distribution of sunglasses under the luxury lifestyle brand Stella McCartney. The agreement, which will begin on January 1, 2009, is for an initial term of six years, automatically renewable for an additional five-year term. The first collection will be launched in the summer of 2009.

* * * * *

Luxottica Group S.p.A. and Subsidiaries

VALUATION AND QUALIFYING ACCOUNTS

ALLOWANCE FOR DOUBTFUL ACCOUNTS

(Amounts expressed in thousands of Euro)

	Balance at beginning of period	Charged to costs and expenses	Other (1)	Deductions	Balance at end of period
2005	23,407	7,027	2,215	(5,095)	27,554
2006	27,554	2,198	99	(7,160)	22,691
2007	22,691	2,157	8,499	(7,804)	25,543

ALLOWANCE FOR INVENTORY RESERVE ACCOUNTS

(Amounts expressed in thousands of Euro)

	Balance at beginning of period	Charged to costs and expenses	Other (1)	Deductions	Balance at end of period
2005	43,775	40,000	2,500	(27,170)	59,105
2006	59,105	24,357	4,228	(42,437)	45,253
2007	45,253	58,057	26,837	(43,002)	87,146

VALUATION ALLOWANCE ON DEFERRED TAX ASSETS

(Amounts expressed in thousands of Euro)

	Balance at beginning of period	Charged to costs and expenses	Other (2)	Deductions	Balance at end of period
2005	22,837	697	1,844	(10,340)	15,038
2006	15,038	22,291	(1,206)	(6,342)	29,781
2007	29,781	9,391	(1,051)	(11,033)	27,088

-
- (1) Other includes the beginning amount relating to the acquired balances of Oakley in 2007 as well as translation differences of the period.
- (2) Other includes translation differences of the period.

Edgar Filing: LUXOTTICA GROUP SPA - Form SC TO-I

(2) Set forth below are audited financial statements for the two years ended December 31, 2008 and 2007, as contained in the Company's most recent annual report distributed to shareholders for the fiscal year ended December 31, 2008, furnished to the Securities and Exchange Commission on Form 6-K on May 12, 2009:

CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006 (*)

	2008 (US\$ 000)(1)	2008	2007 (Euro 000)	2006
NET SALES	\$7,240,123	5,201,611	4,966,054	4,676,156
COST OF SALES	(2,428,735)	(1,744,907)	(1,575,618)	(1,487,700)
GROSS PROFIT	4,811,387	3,456,705	3,390,436	3,188,456
OPERATING EXPENSES:				
Selling and advertising	(3,008,412)	(2,161,371)	(2,069,280)	(1,948,466)
General and administrative	(759,380)	(545,571)	(487,843)	(484,002)
Total	(3,767,793)	(2,706,942)	(2,557,123)	(2,432,468)
INCOME FROM OPERATIONS	1,043,595	749,763	833,313	755,987
OTHER INCOME (EXPENSE):				
Interest income	18,464	13,265	17,087	9,804
Interest expense	(188,278)	(135,267)	(89,498)	(70,622)
Other - net	(52,739)	(37,890)	19,780	(16,992)
Other expense - net	(222,554)	(159,892)	(52,631)	(77,810)
INCOME BEFORE PROVISION FOR INCOME TAXES	821,041	589,870	780,681	678,177
PROVISION FOR INCOME TAXES	(270,943)	(194,657)	(273,501)	(238,757)
INCOME BEFORE MINORITY INTERESTS IN CONSOLIDATED SUBSIDIARIES	550,097	395,213	507,180	439,420
MINORITY INTERESTS IN INCOME OF CONSOLIDATED SUBSIDIARIES	(21,563)	(15,492)	(14,976)	(8,715)
NET INCOME FROM CONTINUING OPERATIONS	528,535	379,722	492,204	430,705
DISCONTINUED OPERATIONS, NET OF TAXES				(6,419)
NET INCOME	\$528,535	379,722	492,204	424,286
EARNINGS PER SHARE: BASIC				
Continuing operations	1.16	0.83	1.08	0.95
Discontinued operations				(0.01)
Net income	1.16	0.83	1.08	0.94
EARNINGS PER SHARE: DILUTED				
Continuing operations	1.15	0.83	1.07	0.94
Discontinued operations				(0.01)
Net income	1.15	0.83	1.07	0.93
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING				

Edgar Filing: LUXOTTICA GROUP SPA - Form SC TO-I

Basic	456,563,502	456,563,502	455,184,797	452,897,854
Diluted	457,717,044	457,717,044	458,530,609	456,185,650

(1) Translated for convenience at the New York City Noon Buying Rate as determined in Note 1

(*) In accordance with US GAAP

See notes to the consolidated financial statements

CONSOLIDATED BALANCE SHEETS AT DECEMBER 31, 2008 AND 2007 (*)