SOLA INTERNATIONAL INC
Form 10-K/A
June 24, 2004

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K/A

Amendment No. 1

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

For the fiscal year ended March 31, 2003

or

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

For the transition period from to

Commission File Number: 1-13606

SOLA INTERNATIONAL INC.

(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of incorporation or organization)

94-3189941
(I.R.S. employer identification no.)

10590 WEST OCEAN AIR DRIVE, SUITE 300, SAN DIEGO, CA
(Address of principal executive offices)

92130
(Zip Code)

Registrant s telephone number, including area code: **(858) 509-9899**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class:
Common Stock, Par Value $0.01

Name of exchange on which registered:
New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in a definitive proxy or information statement incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is an accelerated filer as defined in Exchange Act Rule 12b-2.

Yes x No o

As of September 30, 2002, the aggregate market value of Common Stock held by non-affiliates was approximately $246,890,049. For purposes of this computation, shares held by directors and executive officers of the registrant have been excluded. Such exclusion of shares held by directors and executive officers is not intended, nor shall it be deemed, to be an admission that such persons are affiliates of the registrant.

As of June 12, 2003, 24,728,933 shares of the registrant s common stock, par value $0.01 per share, which is the only class of common stock of the registrant, were outstanding. The registrant s stock is traded on the New York Stock Exchange under the symbol SOL.

Documents Incorporated by Reference: Portions of the registrant s proxy statement for its 2003 Annual Meeting of Stockholders are incorporated by reference into Part III of this report.

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Explanatory Note

This Amendment No. 1 to the Annual Report of SOLA International Inc. (SOLA or the Company) on Form 10-K/A for the fiscal year ended March 31, 2003 includes restated consolidated financial statements as of March 31, 2003. The restatement, as summarized in Note 2 to the consolidated financial statements, is to correct a computational error in the fiscal 2003 tax provision. As a result of the restatement, long-term deferred tax assets increased by $2.4 million and the fiscal 2003 tax provision decreased by $2.4 million, resulting in increased net income of $2.4 million and increased EPS of $0.10 (Basic and Diluted).

This report is being filed to amend and restate only the following items contained in our Annual Report on Form 10-K for the fiscal year ended March 31, 2003 originally filed with the Securities and Exchange Commission on June 13, 2003:

Item 6 (Selected Financial Data);

Item 7 (Management s Discussion and Analysis of Financial Condition and Results of Operations);

Item 8 (Financial Statements and Supplementary Data);

Item 14 (Controls and Procedures); and

Item 16 (Exhibits, Financial Statement Schedules, and Reports on Form 8-K).

This Amendment No. 1 does not reflect events occurring after the June 13, 2003 original filing date of the Company s Annual Report on Form 10-K. All information contained in this Amendment No. 1 is subject to updating and supplementing as provided in SOLA s reports filed with the Securities and Exchange Commission, as amended, for periods subsequent to the date of the original filing of the Annual Report on Form 10-K.

SOLA INTERNATIONAL INC.

ANNUAL REPORT ON FORM 10-K/A

FOR THE FISCAL YEAR ENDED MARCH 31, 2003

Our trademarks, service marks and trade names include AO b Active, AO Compact, Finalite, Percepta, SOLAMax, Spectralite and ViZio, among others. This report also contains trademarks, service marks, copyrights and trade name of other companies.

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PART I

Item 1. *Business*

Forward-Looking Information

Certain of the matters discussed in this report or in the information incorporated by reference may constitute forward-looking statements. Forward-looking statements can generally be identified by the use of forward-looking terminology such as believes, expects, may, will, should, seeks, approximately, intends, plans, esti anticipates or the negative of these terms or other comparable terminology, or by discussions of strategy, plans or intentions. Statements contained in this report that are not historical facts are forward-looking statements. Without limiting the generality of the preceding statement, all statements in this report concerning or relating to estimated and projected earnings, margins, costs, expenditures, cash flows, growth rates and financial results are forward-looking statements. In addition, we, through our senior management, from time to time make forward-looking public statements concerning our expected future operations and performance and other developments. These forward-looking statements are necessarily estimates reflecting our best judgment based upon current information and involve a number of risks and uncertainties. Other factors may affect the accuracy of these forward-looking statements and our actual results may differ materially from the results anticipated in these forward-looking statements. While it is impossible to identify all relevant factors, factors that could cause actual results to differ materially from those estimated by us include, but are not limited to, those factors or conditions described in Management s Discussion and Analysis of Financial Condition and Results of Operations Risk Factors , as well as changes in the regulation of the spectacle lens industry at either or both of the federal and state levels, competitive pressures in the spectacle lens industry and our response to these factors, and general conditions in the economy and capital markets.

All subsequent written and oral forward-looking statements attributable to SOLA and persons acting on our behalf are qualified in their entirety by the cautionary statements contained in this report.

The Company

We commenced operations in 1960 and were incorporated in Delaware in 1993. We are a leading designer, manufacturer and global distributor of a broad range of plastic and glass eyeglass lenses and hold a strong manufacturing and technology position in the growing plastic lens segment of the global spectacle lens market. We have sales offices in 28 countries worldwide and operate in most major regions of the world. We believe that we hold a top three market position in terms of volume of plastic eyeglass lenses sold in each major region where we operate North America, Europe and Rest of World (consisting primarily of Australia, Asia and South America). We focus our efforts on products with advanced design characteristics, lens coatings and treatments, and thin and light weight materials.

We market our spectacle lens products globally under the brands SOLA and American Optical (AO) and distribute them globally through four primary channels: (1) direct to national retail chains, (2) direct to retail outlets, (3) wholesale distributors (*e.g.,* independent processing laboratories), and (4) managed care organizations in the United States.

Our business is organized into three primary markets: North America, Europe and Rest of World. For the fiscal year ended March 31, 2003, we generated approximately 44% of our net sales from North America, 37% from Europe and 19% from Rest of World.

North America is currently our largest market. Our net sales in North America for the fiscal year ended March 31, 2003 were $249.2 million compared to $236.8 million in the prior year, an increase of 5.2%. Using

constant exchange rates, net sales increased by 5.5%. The sales increase in North America was due primarily to our sales and marketing initiatives, improved supply chain management, and increased prescription laboratory presence.

Europe is currently our second largest market. Our net sales in Europe for the fiscal year ended March 31, 2003 were $210.3 million compared to $185.8 million in the prior year, an increase of 13.2%. Using constant exchange rates, net sales increased by 1.5%. Net sales in the European region increased due primarily to growth from our prescription laboratory network in France, Italy and Spain that was partially offset by weaker results from our wholesale businesses in Germany and the U.K.

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Rest of World is currently our third largest market. Our net sales in Rest of World for the year ended March 31, 2003 were $103.3 million compared to $106.9 million in the prior period, a decrease of 3.4%. Using constant exchange rates, net sales increased by 0.6%. Net sales increased in the Rest of World primarily in South America. This increase was partially offset by sales declines in Asia, including Japan, and the Middle East due largely to current economic and political conditions.

For more information concerning our geographic areas, see Note 21 of Notes to Consolidated Financial Statements and Risk Factors Risk Factors Relating to SOLA and the Industry We are subject to certain risks associated with our foreign operations , We concentrate a large part of our manufacturing operations in Tijuana, Mexico and We conduct all of our foreign operations through subsidiaries and the payment of dividends by these entities may be restricted.

Competitive Strengths

We believe that our strong competitive position is attributable to a number of factors, including the following:

Global Scope

We currently sell our products to customers in approximately 50 countries worldwide and operate in most major regions of the world. Our geographically diverse customer base limits our dependence upon any particular customer or geographic region. Our operations consist of four primary and seven specialized manufacturing facilities, one primary research and development center, 31 full-service prescription laboratories and five primary distribution centers. In addition, we have sales offices in 28 countries worldwide. Our global scope, combined with our manufacturing and logistics capabilities, enables us to meet customer demand for delivery of a broad range of products efficiently, cost effectively and in a timely manner. Our primary brands, SOLA and AO, are recognized throughout the world. We believe global brand recognition is a significant advantage in the highly competitive spectacle lens market.

Leading Market Position

We believe that we hold a top three market position in terms of volume of plastic eyeglass lenses sold in most major regions of the world, including leading market positions in Australia, Brazil, France, Italy, the United Kingdom, and the U.S.

Significant Sales of Valued-Added Products

We focus our efforts on products with advanced design characteristics, lens coatings and treatments, and thin and light weight materials. We believe our value-added products enable us to strengthen relationships with existing customers and develop relationships with new customers. Many of our value-added products are sold under global brand names developed under our two primary brands, SOLA and AO.

Research and Development Expertise

We believe that we are a technological leader in the plastic lens segment of the spectacle lens industry, with particular expertise in the development of new lens materials and designs. We have devoted significant resources to the research and development of new products and technology, with expenditures of $12.2 million in fiscal 2003, $13.1 million in fiscal 2002, and $14.9 million in fiscal 2001. The $0.9 million, or 6.9%, decrease in our research and development expenses in fiscal 2003 was due in part to headcount reductions associated with the transfer of research and development activities from our Petaluma, California facilities to Lonsdale, Australia. Over the last ten years, we have successfully developed and marketed a number of innovative products. Most notable are our progressive lens designs (lenses that have a continuous gradient of corrective power), including Percepta, SOLAMax, AO Compact and AO b Active, and our proprietary thin and light weight materials, Spectralite and Finalite. These products

incorporate complex design features that differentiate them from our competitors products. Sales of new products generally have experienced a higher growth rate and generated an above average gross profit per pair compared to other plastic lenses sold by us. Our technical expertise is demonstrated by our receipt of numerous Optical Laboratory Association awards for technical design excellence.

Leading Position in the Growing Chain Retail and Managed Care Channels

We believe that we hold the leading market position in terms of volume of plastic lenses sold in the North American chain retail and managed care distribution channels. We have established our strong position in these channels by providing differentiated new products, timeliness of delivery and a commitment to product quality, technical support and product education.

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We work with most major retail chains in North America, including Wal-Mart Stores, Inc., LensCrafters and U.S. Vision, Inc. Our commitment to quality and customer service is evidenced by Wal-Mart selecting us as category manager for its optical lens business. In addition, our managed care customers include Kaiser Permanente and Vision Service Plan (VSP). Our managed care customers select us as their preferred spectacle lens supplier primarily because of our broad product portfolio and superior marketing support services.

Strong Direct to Retail Business in Europe

Although the U.S. market is the single largest spectacle market in the world, we benefit from our global diversity and, most specifically, from our strong operations in Europe. The significant growth of our direct to retail business is driven by highly experienced commercial teams across Europe that are supported by our vertically integrated network of prescription laboratories. We have five primary prescription laboratories in Europe, which allow us to directly meet the needs of the eyecare professionals in markets where an independent wholesale channel generally does not exist. Additionally, we believe that these laboratories will enable us to penetrate new markets as we introduce new products that require advanced technical processing capabilities. Main supplier status with many retail chains and independent practices alike is built on the cornerstone of a partnership approach and the successful introduction of highly differentiated products.

Experienced Management Team

Our senior management team, led by President and Chief Executive Officer Jeremy C. Bishop, has over 100 years of combined vision care industry experience. Prior to his appointment as President and Chief Executive Officer in April 2000, Mr. Bishop served as President of American Optical Lens Company, a subsidiary of ours since its acquisition in 1996. Mr. Bishop joined American Optical in 1990 as Vice President of European Operations. Under Mr. Bishop s leadership, we have reduced operating expenses, completed a number of key strategic initiatives and improved our financial performance. Mr. Bishop and his senior management team have fostered a new culture geared towards continued cost reduction, strengthened sales and marketing, new product development and cash flow generation.

Increased Emphasis on Driving Demand Through Wholesale Market

Through outright purchases of labs and restrictive distribution contracts, our competitors have made significant strides in controlling access to independent eye care professionals (ECPs). We have launched multiple initiatives to address this trend and strengthen our position in this channel. In the past year, we have significantly increased hiring of sales representatives, and created a comprehensive training program for them to increase their optical and selling skills. The addition of these sales representatives and investments in prescription laboratories, including acquired laboratories, has increased our reach in the channel.

In addition, we invested $17.3 million during fiscal 2003 for the acquisition of certain net assets and/or stock of five prescription laboratories located in the U.S. The acquisition of these businesses will play an important role in helping us to realize our objectives with independent retailers. Our operating model continues to emphasize creating profitable growth for eye care professionals by providing them with innovative products, dispensing tools and marketing programs supported by superior customer service. Our continued focus on supplying high-technology products requires that we posses a robust distribution system for their delivery. Laboratories, both wholly-owned and independent, are a vital component of that solution.

Innovative, Need-Specific Products

As the market becomes increasingly saturated with products, especially in the progressive addition lens category, it becomes necessary to do more to differentiate a new product. We have accomplished this with lens designs meeting specific needs of a significant number of lens wearers that are not ideally met by general-purpose lenses already established in the market. SOLAMax, the latest progressive lens in the SOLA line, is an excellent example of this. SOLAMax has the largest near vision area of any progressive lens. This, combined with its exceptionally high adaptation rate, makes it the ideal choice for new presbyopes, former bifocal wearers, and any presbyope who has a near vision emphasis. Presbyopia is a natural aging process that limits the eyes ability to focus on near objects and is the principal driver behind the need for multi-focal vision correction.

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Business Strategy

Our strategy is to enhance our strong market position and to increase net sales and cash flow by capitalizing on our position as a leading manufacturer and distributor of plastic eyeglass lenses.

Capitalize on Positive Demographic Trends Affecting the Vision Care Industry

We believe that we are well positioned to benefit from the positive demographic changes expected to take place in our markets. According to the U.S. Census, middle series projections, the number of people in the age group 45-60 is expected to grow approximately 3% per year, through 2005. Further, the market for progressive lenses is expected to double in size from 2003 to 2015. This age group is the group primarily affected by presbyopia. Presbyopia affects the vast majority of people above the age of 45 and is a major source of demand for our progressive and other multifocal lenses. Our leading position in the design and manufacture of progressive lenses positions us favorably to realize the benefit of this demographic trend. We will continue to focus on the further development and enhancement of our progressive lens designs.

Focus on Marketing and Sales

We develop and manage our marketing strategy on a centralized basis while employing local sales and marketing implementation and tactics. We differentiate our products from those of our competitors through lens designs, materials and coatings targeted to meet customer needs. We seek to expand our market share by developing brand recognition for our products, continuing to develop partnerships with chain retailers, expanding our direct to retail business through our prescription laboratories and through independent laboratories, focusing marketing expenditures on target markets and accounts, and marketing to customers the advantage of higher margin, value-added products. We continue to market our two primary brands, SOLA and AO, and to position them throughout the world. Our marketing efforts are intended to help us compete on the basis of quality and service rather than price.

Introduce New Products

We invest significant resources in the development of new and innovative products. Since 1998, we have successfully developed and marketed a number of proprietary lens designs, including AO Compact, SOLAMax and AO b Active progressive lenses. In April 2002, we announced a global licensing agreement with DuPont Fluoroproducts where we market a newly developed high performance coating for ophthalmic lenses using the Dupont TM Teflon ® brand.

Improve Cash Flow Performance

A primary focus of ours is executing key business fundamentals and managing our business for improved financial performance, including cash flow generation. During fiscal 2000 through 2002 we implemented strategic initiatives aimed at streamlining and standardizing our operations globally. No additional restructuring occurred in fiscal 2003. The initiatives had the following major objectives:

To shift production of high-volume, standard products from higher-cost manufacturing facilities in the United States, Australia and Ireland to low-cost manufacturing sites in Mexico, China and Brazil;

To consolidate manufacturing expertise at fewer production facilities;

To standardize product specifications globally; and

To streamline distribution and logistics operations.

We believe that these initiatives have resulted in cost reductions, lower working capital investment, a more efficient distribution network, and improved cash flow while maintaining or improving our customer service levels. Other actions to improve profitability included developing global information technologies that enable us to manage global inventories and demand and monitor manufacturing performance.

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Products

We manufacture lenses using both plastic and glass materials, with plastic lenses currently accounting for approximately 95% of our net lens sales. Approximately 53% of our sales of plastic prescription lenses are sales of conventional hard resin plastic lenses, with the balance derived from advanced lens materials with thin and light weight features. Our plastic lens materials are comprised of the following:

Conventional hard resin plastic;

Spectralite, Finalite and other non-proprietary thin and light weight plastic; and

Polycarbonate, a thin and lightweight material with greater impact resistance.

We market and produce a variety of lens coatings and treatments that significantly enhance the performance of our lens products. These coatings and treatments include the following:

Anti-scratch coatings that prolong the life of our lenses;

Anti-reflective coatings that allow more light to pass through the lens for improved vision; and

Photochromic treatments that darken the lens when exposed to direct sunlight.

The penetration of coated and treated lenses varies significantly from market to market and represents a significant growth opportunity for us. Photochromic lenses are processed by a third party using technology that is proprietary to it.

Most of the materials necessary to produce our products and coatings are readily available from a number of potential sources at competitive prices. While there are currently multiple suppliers of polycarbonate and monomer raw materials, we purchase over 50% of those materials from three suppliers. The loss of any of these suppliers, or a significant decrease in the supply of polycarbonate or monomer, would require us to obtain these raw materials elsewhere. In order to reduce materials costs, we coordinate centrally the purchasing of raw materials, including monomers. For more information regarding the availability of polycarbonate and monomer raw materials, see Risk Factors Risks Relating to SOLA and the Industry We are dependent on a small number of suppliers for raw materials.

Marketing and Sales

Our sales offices are located in 28 countries worldwide. As of March 31, 2003, there were approximately 684 employees involved in our sales and marketing efforts. Our sales and marketing expenditures for fiscal 2003 were $106.9 million, representing 19% of net sales. We differentiate our products from those of our competitors through lens designs, materials and coatings targeted to meet customer needs. We seek to expand our market share by developing brand recognition for our products, continuing to develop partnerships with chain retailers, expanding our direct to retail business through our prescription laboratories and through independent laboratories, focusing our marketing expenditures on target markets and accounts and marketing to customers the advantage of higher margin, value-added products. Our marketing efforts are intended to help us compete on the basis of product breadth, quality and service rather than price.

We continue to develop our two primary brands, SOLA and AO, and to position them throughout the world. Under each of these brands, we will continue to market a portfolio of products designed to meet the lifestyle needs of consumers worldwide. Key brands of ours recognized throughout the world include Percepta, AO Compact, SOLAMax and AO b Active.

Distribution

Most multifocal lenses and some single vision lenses require secondary processing at a laboratory before they can be dispensed to a consumer. In some cases, lens manufacturers operate their own laboratories, while in other instances they sell semi-finished lenses to independent labs that handle the final processing and distribute the products to eyecare practitioners. Many retail chains operate their own laboratories, either inside the retail location or at a separate site.

The final stage in distribution takes place in either a retail store or an independent eyecare practitioner s office. Although dispensing regulations differ from market to market, prescription lenses still require the involvement of an optician, optometrist or ophthalmologist in most instances before they can be sold to a consumer. Chain retailers have an increased presence in all regions

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of the world and are gradually replacing the medical/healthcare orientation of the industry with more consumer-oriented approaches.

The four primary channels that are used for distribution of our prescription lenses are the following:

National chain retail, super optical retail stores and retail buying groups, many of which have on-site lens processing capability. This is a growing distribution channel for us in each of our major regions;

Direct distribution to small- and medium-sized retail outlets, including distribution direct to eyecare professionals through our processing laboratories;

Wholesale distributors or independent processing laboratories that process our lenses and then resell them to retail outlets and eyecare practitioners; and

Managed care organizations in the United States, many of which have on-site lens processing capability.

Our plano lenses (lenses with no corrective power) are primarily sold direct to sunglass manufacturers.

Our distribution and logistics operations consist of five primary distribution centers. The five primary distribution centers are located in North America (2), Europe, Asia and South America. For more information regarding our North American chain retail channel, see Risk Factors Risks Relating to SOLA and the Industry We are dependent upon the North American chain retail channel.

Customers

During fiscal 2003, our ten largest customers accounted for 27.9% of net sales, and our largest customer accounted for less than 6% of net sales. During fiscal 2003, five of our ten largest customers were located in North America and accounted for 14.9% of net sales. For the year ended March 31, 2003, sales to our top 20 customers, excluding competitors, increased by 17.4% as compared to the prior year.

Manufacturing Operations

We currently operate eleven facilities, four primary and seven specialized manufacturing sites worldwide. Recent strategic initiatives included shifting production of high-volume, standard products from the U.S., Australia and Ireland to low-cost manufacturing sites in Mexico, China and Brazil while maintaining complex production at the Australian and Irish sites. This transfer of production was facilitated by a global product standard specifications project.

Research and Development

We continue to invest heavily in research and development in order to introduce new and innovative products and to improve the efficiency of our manufacturing process. As of March 31, 2003, there were 122 employees involved in our research and development efforts. Our research and development expenditures for fiscal 2003 were $12.2 million, representing 2.1% of net sales, for fiscal 2002 were $13.1 million, representing 2.5% of net sales, and for fiscal 2001 were $14.9 million, representing 2.7% of net sales. Our primary research and development center is located in Lonsdale, Australia.

Our research and development focuses on the design and development of higher margin, value-added products, on new materials with superior characteristics, on technology that will deliver products to the market more efficiently and on technologies to improve productivity in the manufacture of existing products.

In April 2002, we announced a global licensing agreement with DuPont Fluoroproducts where we market a newly developed anti-reflective coating for ophthalmic lenses using the Dupont Teflon ® brand.

Competition

The spectacle lens industry is highly competitive. We compete principally on the basis of customer service, quality, breadth of product offerings, innovation and price. Our largest global competitors are Essilor International SA and Hoya Corporation. The

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spectacle lens industry is characterized by price competition, which can be severe in certain markets, particularly for high-volume, standard products.

We attempt, to the extent possible, to counter competition on the basis of price by focusing on providing a rapid response to orders, maintaining high fill rates, developing differentiated new products and educating processing laboratories and eyecare practitioners on the benefits of our lenses and coatings. Since recently developed products comprise a substantial portion of our sales, our performance is dependent on our continuing ability to develop and market new products.

In addition to direct competition from other manufacturers of eyeglass lenses, we compete indirectly with manufacturers of contact lenses and providers of medical procedures for the correction of visual impairment.

Patents, Trademarks & Licenses

We seek to protect our intellectual property throughout the world. As of March 31, 2003, we had filed, or applied for, patents for 98 discrete inventions or technologies. Many of our patents have been filed in multiple countries, and they include 71 patents, or patent applications, filed in the United States. We have been granted, or are licensed to use, 1,055 trademarks in various countries, representing rights to 251 discrete names. These include 92 trademarks granted in the United States. Further, there are 82 trade names under application by us. We do not believe that we are dependent on any particular patent, trade secret or similar intellectual property. Because of our manufacturing, marketing and distribution strengths, we believe that the loss of any individual trademark, trade secret or patent would not have a material adverse effect on our results of operations or financial condition.

Employees

As of March 31, 2003, we had 6,791 employees throughout the world. The majority of our employees are not represented by labor unions. We consider our labor relations to be good and there have been no significant labor disputes in the past ten years.

Strategic Initiatives

Our organization has historically been managed on a decentralized basis with each operating unit having its own manufacturing facilities, distribution centers and inventory management systems. This decentralized approach resulted in excess manufacturing capacity, redundant facilities in high cost regions and excessive distribution centers. In the third quarter of fiscal 1999, we initiated a strategic operating review designed to streamline manufacturing and distribution, reduce operating costs worldwide and write-off inventory SKUs that are no longer being manufactured. In April 2000, Jeremy Bishop was appointed President and Chief Executive Officer. Following his appointment, Mr. Bishop expanded the scope of our strategic review program and accelerated the implementation of our strategic initiatives begun in 1999.

The charges recorded for these initiatives from fiscal 1999 through the end of fiscal 2001, net of gains on asset sales, totaled approximately $167.7 million, including $39.5 million of associated inventory write-offs classified in cost of sales. The non-cash charges related primarily to the write-off of equipment and other assets, as well as the impairment of goodwill. The cash charges related primarily to severance expenses and facility closures

Environmental Matters

We must comply with United States and foreign environmental laws and regulations concerning emissions to the air, wastewater discharges and the generation, handling, storage, transportation and disposal of hazardous wastes, and

with other federal, state and foreign laws and regulations. We believe that we possess all material permits and licenses necessary for the continuing operation of our business and believe that our operations are in substantial compliance with the terms of all applicable environmental laws. It is impossible to predict accurately what effect these laws and regulations will have on us in the future.

Our manufacturing processes generally use non-hazardous chemicals where feasible. Certain processes use a variety of volatile and other hazardous substances. Where practical, we have been reducing the use of these chemicals. Where the use of hazardous materials is essential, manufacturing processes are developed which minimize the use of these chemicals and which comply with relevant safety and environmental standards. We have also developed programs to eliminate use of chlorinated hydrocarbons and chlorofluorocarbons, or CFCs, in our manufacturing processes. Our current use of these substances is minimal in our operations.

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Since 1988, we have operated a ground water remediation system at our Petaluma, California manufacturing facility in accordance with a consent order issued by the U.S. EPA under the Comprehensive Environmental Response, Compensation and Liability Act of 1980. The system is designed to remediate a pre-1982 release of hazardous substances. Analytical results indicate that contamination levels have decreased significantly over the past few years. Since March 1997, we have curtailed clean-up activities, while continuing to monitor contamination levels. In 1997, we submitted to the EPA a report on contamination levels and the impact of curtailed activities that indicates no significant impact on the site from the curtailed activities. The EPA has consented to continued curtailment of clean-up activities. We expect continued reduction of clean-up activities due to relatively low levels of contamination existing at the site. In connection with the acquisition from Pilkington, Pilkington has agreed to indemnify us with respect to environmental losses relating to certain then existing facts, events, conditions, matters or issues, for (1) 50% of the losses to the extent they exceed $1 million but are less than or equal to $5 million, and (2) 100% of the losses in excess of $5 million. In March 2001, we completed the sale of the affected property and indemnified the buyer with respect to certain then-existing facts, events, conditions, matters or issues.

It is possible that we may be involved in other similar investigations and actions under state, federal or foreign laws in the future. Based on currently available information, we do not believe that our share of costs at the existing sites is likely to result in a liability that will have a material adverse effect on our results of operations, financial condition or cash flows.

Our policy is to meet or exceed all applicable environmental, health and safety laws and regulations. The complexity and continuing evolution of environmental regulation, including certain programs for which implementing regulations have not yet been finalized, preclude precise estimation of future environmental expenditures.

Regulation

To satisfy Food and Drug Administration safety requirements for sale of lenses in the U.S., all of our lenses, like those of our competitors, must comply with the drop-ball impact test. This test involves dropping a steel ball of diameter 5/8 inches onto the surface of the lens from a height of 50 inches. The lens is held in place and the steel ball must impact the lens near its center. The central region of the lens deflects as the ball strikes, and cracks may form, which could lead to the fracture of the lens. The lens passes the test if it does not break.

There is a similar European ISO/CEN test for spectacle lenses, which involves a static load, rather than an impact. In this case, force is applied to the convex side of the lens through a steel ball. The load is applied for 10 seconds and then removed. The lens passes if it does not break.

There are several factors that could contribute to whether our lenses pass these tests, including the nature of the lens material, coatings applied to the lenses and lens power and curvature. While our manufacturing processes are designed for our lenses to pass these tests, we cannot guarantee that they will continue to pass these tests.

Available Information

Our website address is www.sola.com. We make available free of charge through our internet site our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and Forms 3, 4 and 5 filed on behalf of directors and executive officers, and any amendments to these reports, filed or furnished pursuant to the Securities Exchange Act of 1934 as soon as reasonably practicable after they are electronically filed with or furnished to the Securities and Exchange Commission.

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Item 2. ***Properties***

Our principal properties are set forth in the following table:

Region and Location	Owned or Leased	Principal Operations
North America		
San Diego, CA	Leased	Corporate Offices; Distribution Center
Petaluma, CA	Leased	Sales and Marketing; Administrative Offices
Clearwater, FL	Leased	Manufacturing
Hebron, KY	Leased	Distribution Center and Laboratory
Southbridge, MA	Leased	Research and Development; Sales Office
Baltimore, MD	Leased	Laboratory
Portland, OR	Owned	Laboratory
Warwick, RI	Leased	Manufacturing; Sales and Administrative Offices
Roanoke, VA	Leased	Laboratory
Tijuana, Mexico	Leased	Manufacturing
Mexico City, Mexico	Leased	Laboratory and Sales Office
Ontario, Canada	Leased	Sales Office
Europe		
Ghent, Belgium	Leased	Laboratory
Copenhagen, Denmark	Leased	Sales Office
Goetzenbruck, France	Owned	Manufacturing
Fougeres, France	Both	Laboratory; Sales and Marketing
Wexford, Ireland	Owned	Manufacturing; Laboratory
Varese, Italy	Leased	Laboratory; Manufacturing; Sales and Marketing
Setubal, Portugal	Leased	Laboratory and Sales
Birmingham, UK	Leased	Laboratory; Sales and Marketing; Administrative Offices
London, UK	Leased	Sales and Marketing; Distribution Center;
Basel, Switzerland	Owned	Sales Office
Barcelona, Spain	Leased	Sales Office
South America		
Buenos Aires, Argentina	Owned	Sales Office
Petropolis, Brazil	Owned	Manufacturing; Sales and Marketing; Distribution Center
Villa de Cura, Venezuela	Owned	Manufacturing
Asia		
Kowloon Bay, Hong Kong	Leased	Sales Office
Guangzhou, China	Both	China Corporate Offices and Manufacturing
Osaka, Japan	Leased	Laboratory; Sales and Marketing
Singapore	Leased	Manufacturing; Sales and Marketing; Laboratory
Selangor, Malaysia	Leased	Sales and Marketing; Laboratory
Australia		
Lonsdale, Australia	Both	Manufacturing; Research and Development; Laboratory; Marketing and Distribution Center; Administrative offices
Auckland, New Zealand	Leased	Laboratory and Sales
Africa		
Harare, Zimbabwe	Owned	Laboratory

Our corporate headquarters and certain of our manufacturing and distribution operations are located near major earthquake faults. Operating results could be materially affected in the event of a major earthquake. We are predominantly self-insured for losses and interruptions caused by earthquakes.

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For further information concerning our leased properties, see Note 18 of Notes to Consolidated Financial Statements. Our operating leases have expirations ranging from 2004 to 2014. While we do not anticipate any difficulties in renewing or replacing such leases as they expire, we cannot be certain that we can do so. We believe that our manufacturing capacity is sufficient for our current needs.

Item 3. ***Legal Proceedings***

In addition to the proceedings described under Business Environmental Matters , we are involved in routine litigation incidental to our business. We believe that this routine litigation will not have a material adverse effect on our results of operations, financial condition, or cash flows. See Note 20 of Notes to Consolidated Financial Statements.

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

No matters were submitted to a vote of our security holders during the last quarter of fiscal 2003.

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PART II

Item 5. ***Market for the Registrant s Common Equity and Related Stockholder Matters***

Public Market for Common Stock

Our common stock has been listed on the New York Stock Exchange since February 23, 1995 under the symbol SOL . The following table sets forth on a per share basis the closing high and low sales prices for consolidated trading in our common stock as reported on the New York Stock Exchange Composite Tape for the fiscal quarters indicated.

	High	Low
Fiscal Year Ended March 31, 2003:		
First Quarter ended June 30, 2002	$15.07	$ 9.60
Second Quarter ended September 30, 2002	10.64	7.67
Third Quarter ended December 31, 2002	13.68	8.89
Fourth Quarter ended March 31, 2003	12.80	10.40
Fiscal Year Ended March 31, 2002:		
First Quarter ended June 30, 2001	$14.52	$ 9.01
Second Quarter ended September 30, 2001	16.65	11.75
Third Quarter ended December 31, 2001	19.89	14.20
Fourth Quarter ended March 31, 2002	20.10	10.80

On June 12, 2003, the closing price per share of our common stock on the New York Stock Exchange was $17.29. As of June 12, 2003, we had 304 holders of record of our common stock, which excludes beneficial owners of common stock held in street name.

We have not declared or paid any cash dividends on our common stock since December 1993. The Indentures governing our 6 7/8% Senior Notes and our 11% Senior Notes restrict and limit the payment of dividends on our common stock. We do not anticipate paying any cash dividends in the foreseeable future and intend to retain future earnings for the development and expansion of our business.

Recent Unregistered Issuances of Common Stock

On March 21, 2003, we acquired Siouxland Ophthalmic Labs, Inc., an Iowa corporation, and its partially owned subsidiary, Kansas City Ophthalmics, L.L.C., a Missouri limited liability company, in a cash transaction. In connection with the acquisition, we issued 4,422 shares of our common stock to a substantial customer of Kansas City Ophthalmics in consideration for a three-year Exclusive Supply Agreement between Kansas City Ophthalmics and the customer. The customer, who had been a member of Kansas City Ophthalmics, was determined to be an accredited investor under Rule 501(a) of Regulation D, as it was a corporation with assets totaling over $5,000,000. An exemption from registration is claimed pursuant to Section 4(2) of the Securities Act of 1933, as amended, and Rule 506 Regulation D promulgated thereunder.

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Item 6. ***Selected Financial Data***

We derived the following selected statement of operations data for the five fiscal years in the period ended March 31, 2003 and the balance sheet data as of March 31, 2003, 2002, 2001, 2000 and 1999 from our audited consolidated financial statements. You should read the financial data set forth below in conjunction with the consolidated financial statements and related notes and Management s Discussion and Analysis of Financial Condition and Results of Operations. We have reclassified certain prior year items to conform with the current year s presentation. The reclassifications had no impact on total assets or net income.

	Fiscal Year Ended March 31,				
	2003 Restated(6)	2002	2001(1)	2000(2)	1999(3)
	(in thousands, except per share data)				
Statements of Operations Data					
Net sales	$562,746	$529,505	$545,432	$543,445	$534,103
Income/(loss) before extraordinary item	$ 3,966	$ 19,118	$ (67,999)	$ 741	$ 12,521
Extraordinary item, net of taxes			1,471(4)		
Net income/(loss)	$ 3,966	$ 19,118	$ (66,528)	$ 741	$ 12,521
Earnings/(Loss) Per Share Data, Basic					
Income/(loss) before extraordinary item	$ 0.16	$ 0.79	$ (2.83)	$ 0.03	$ 0.51
Extraordinary item			0.06		
Net income/(loss)	$ 0.16	$ 0.79	$ (2.77)	$ 0.03	$ 0.51
Weighted average common shares outstanding	24,573	24,067	24,049	24,887	24,794
Earnings/(Loss) Per Share Data, Diluted					
Income/(loss) before extraordinary item	$ 0.16	$ 0.78	$ (2.83)	$ 0.03	$ 0.49
Extraordinary item			0.06		

Net income/(loss)	$ 0.16	$ 0.78	$ (2.77)	$ 0.03	$ 0.49
Weighted average common and dilutive securities outstanding	24,856	24,583	24,049	25,069	25,412

	As of March 31,				
	2003 Restated	**2002**	**2001**	**2000**	**1999**
Balance Sheet Data					
Total assets	$744,985(6)	$696,804	$662,375	$715,033	$699,299
Long-term debt, less current portion	324,204(5)	278,245	254,910	209,234	208,414
Total stockholders equity	264,360(6)	261,362	235,375	327,802	332,362

(1) In fiscal 2001, we recorded special charges of $91.1 million and inventory write-offs of $25.6 million, or $79.3 million net of tax. See Note 14 of Notes to Consolidated Financial Statements.

(2) In fiscal 2000, we recorded special charges of $22.3 million and inventory write-offs of $7.2 million, or $20.4 million net of tax. See Note 14 of Notes to Consolidated Financial Statements.

(3) In fiscal 1999, we recorded special charges of $14.8 million and inventory write-offs of $6.6 million, or $14.6 million net of tax. See Note 14 of Notes to Consolidated Financial Statements.

(4) Consists of a gain resulting from the repurchase of senior notes, net of tax.

(5) Increase in long-term debt is due entirely to the strengthening of the Euro versus the U.S. Dollar. Utilizing the exchange rate as of March 31, 2002, long-term debt, less current portion at March 31, 2003, would have been $279.2 million, an increase of $1.0 million from the prior year.

(6) See Note 2 to the Consolidated Financial Statements.

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Item 7. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

You should read the following discussion and analysis together with our consolidated financial statements and related notes included in this report. This discussion contains forward-looking statements that involve risks, uncertainties and assumptions. You should read the cautionary statements made in this report as applying to related forward-looking statements wherever they appear in this report. Our actual results may be materially different from the results we discuss in the forward-looking statements due to various factors, including those discussed in the Risk Factors and other sections of this report.

Overview

We are a leading global designer, manufacturer and distributor of a broad range of plastic and glass eyeglass lenses and hold a leading manufacturing and technology position in the fast growing plastic lens segment of the global spectacle lens market. We have sales offices in 28 countries worldwide and operate in most major regions of the world. We believe that we hold a top three market position in terms of volume of plastic eyeglass lenses sold in each major region where we operate- North America, Europe and Rest of World (consisting primarily of Australia, Asia and South America). We focus our efforts on products with advanced design characteristics, lens coatings and treatments and thin and light weight materials.

We market our spectacle lens products globally under the brands SOLA and American Optical (AO) and distribute them globally through four primary channels: (1) direct to national retail chains, (2) direct to retail outlets, (3) wholesale distributors (*e.g.,* independent processing laboratories), and (4) managed care organizations in the United States.

Our business is organized into three primary markets: North America, Europe and Rest of World. For the fiscal year ended March 31, 2003, we generated approximately 44% of our net sales from North America, 37% from Europe and 19% from Rest of World.

Our business is somewhat seasonal, with fiscal third quarter results generally weaker than the other three quarters. Fiscal fourth quarter results are generally the strongest.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Our estimates, judgments and assumptions are continually evaluated based on available information and experience; however, actual amounts could differ from those estimates. Our significant accounting policies are described in Note 3 of the Notes to Consolidated Financial Statements.

Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts for losses that we estimate will arise from our customers inability to make required payments. We make our estimates of the uncollectibility of our accounts receivable by analyzing historical bad debts, specific customer credit worthiness, transaction history with the customer and current economic trends. At March 31, 2003, the allowance for doubtful accounts was $9.0 million and, at March 31, 2002, it was $8.4 million. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. In fiscal 2003, our bad debt expense was $1.6 million compared to $2.3 million in fiscal 2002 and $3.0 million in fiscal 2001.

Valuation of Inventory

We write down our inventory for estimated obsolescence or unmarketablility. The amount of such writedown is equal to the difference between cost of inventory and the estimated market value based upon assumptions about future demand, selling prices and market conditions. Our inventories include components that may be subject to rapid technological obsolescence and that are sold in a highly competitive industry. If actual product demand or selling prices are less favorable than we estimate, we may be required to record additional inventory write-downs in the future. Significant unanticipated changes in demand or technological development could have a material and significant impact on the future value of our inventory and reported operating results.

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Income Tax Valuation Allowance

On a quarterly basis, management evaluates the realizability of our deferred tax assets and assesses the need for a valuation allowance as of each period end. Realization of our net deferred tax assets as of March 31, 2003 depends on our ability to generate sufficient future income. We believe that it is more likely than not that we will realize our net deferred tax assets based on forecasted income. The amount of the net deferred tax assets actually realized could vary if there are differences in the timing or amount of future reversals of existing deferred tax liabilities or changes in the actual amounts of future taxable income.

Impairment of Goodwill

We account for our goodwill under Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets.* The SFAS No. 142 goodwill impairment model is a two-step process. First, it requires a comparison of the book value of net assets to the fair value of the reporting units that have goodwill assigned to them. If the fair value is determined to be less than book value, a second step is performed to compute the amount of the impairment. In this process, a fair value for goodwill is estimated, based in part on the fair value of the reporting unit used in the first step, and is compared to its carrying value. The shortfall of the value below carrying value represents the amount of goodwill impairment. We test goodwill for impairment during the fourth quarter every year, and when an event occurs or circumstances change such that it is reasonably possible that an impairment may exist.

We estimate the fair values of the related operations using discounted cash flows and other indicators of fair value. We base the forecast of future cash flows on our best estimate of the future revenues and operating costs, which we derive primarily from existing firm orders, expected future orders, contracts with suppliers, labor agreements, and general market conditions. Changes in these forecasts could cause a particular reporting unit to either pass or fail the first step in the SFAS No. 142 goodwill impairment model, which could significantly influence whether a goodwill impairment needs to be recorded. We adjust the cash flow forecasts by an appropriate discount rate derived from our market capitalization plus a suitable control premium at the date of evaluation.

Impairment of Long-lived Assets (property and equipment and other intangible assets)

We adopted SFAS No. 144 *Accounting for the Impairment or Disposal of Long-Lived Assets* on April 1, 2002. In accordance with SFAS No. 144, we assess potential impairments to our long-lived assets, including property and equipment and other intangible assets, when there is evidence that events or changes in circumstances indicate that the carrying value may not be recoverable. We recognize an impairment loss when the undiscounted cash flows expected to be generated by an asset (or group of assets) is less than its carrying value. Any required impairment loss is measured as the amount by which the asset s carrying value exceeds its fair value, and is recorded as a reduction in the carrying value of the related asset and charged to results of operations.

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Retirement Benefits

Our employee pension benefit costs and obligations are dependent on the assumptions used in calculating such amounts. The Company s assumptions are derived by management from detailed periodic studies conducted by its pension consultants and in consultation with its actuaries. These assumptions include discount rates, inflation, salary growth, long-term return on plan assets, retirement rates, mortality rates and other factors. They base the discount rate assumptions on investment yields available at year-end on corporate long-term bond yields. Their inflation assumption is based on an evaluation of external market indicators. The salary growth assumptions reflect their long-term actual experience, the near-term outlook, and assumed inflation. Retirement and mortality rates are based either on actual plan experience or actuarial assumptions. Actual results that may differ from their assumptions are accumulated and amortized over future periods and, therefore, generally affect our recognized expense and recorded obligation in those future periods. While we believe that the assumptions used are appropriate, significant differences in actual experience or significant changes in assumptions would affect our pension benefits costs and obligations. See Note 14 of Notes to our Consolidated Financial Statements for more information regarding costs and assumptions for employee retirement benefits.

Effective March 31, 2003, we discontinued any further accruals to the participants of our U.S. pension plan and all benefit levels as of a normal retirement date were frozen for all U.S. participants.

Determining Functional Currencies for the Purpose of Consolidation

In preparing our consolidated financial statements, we are required to translate the financial statements of the foreign subsidiaries from the currency in which they keep their accounting records, generally the local currency, into United States Dollars. This process results in exchange gains and losses, which, under the relevant accounting guidance, are either included within the statement of operations or as a separate part of our net equity under the caption accumulated other comprehensive loss.

Under the relevant accounting guidance, the treatment of these translation gains or losses is dependent upon our determination of the functional currency of each subsidiary. The functional currency is determined based on management s judgment and involves consideration of all relevant economic facts and circumstances affecting the subsidiary. Generally, the currency in which the subsidiary transacts a majority of its transactions, including billings, financing, payroll and other expenditures would be considered the functional currency, but any dependency upon the parent and the nature of the subsidiary s operations must also be considered.

If any subsidiary s functional currency is deemed to be the local currency, then any gain or loss associated with the translation of that subsidiary s financial statements is included in accumulated other comprehensive loss. However, if the functional currency is deemed to be the United States Dollar or a currency other than the local currency, then any gain or loss associated with the translation of these financial statements would be included within our statement of operations. If we dispose of any of our subsidiaries, any cumulative translation gains or losses included in accumulated other comprehensive loss would be realized into our statement of operations. If we determine that there has been a change in the functional currency of a subsidiary from the local currency to the United States Dollar, any translation gains or losses arising after the date of change would be included within our statement of operations.

Based on our assessment of the factors discussed above, we generally consider the relevant subsidiary s local currency to be the functional currency for our international subsidiaries. Accordingly, we had cumulative translation losses of approximately $48.1 million and $46.3 million that were included in accumulated other comprehensive loss within our balance sheet at March 31, 2003 and 2002, respectively. During fiscal 2003, 2002 and 2001, translation adjustments of $1.7 million, $3.3 million and $17.9 million, respectively, were included in accumulated other comprehensive loss. Had we determined that the functional currency of our subsidiaries was the United States Dollar

or a currency other than the local currency, these losses would have increased our net income/(loss) for each of the years presented.

The magnitude of these gains or losses is dependent upon movements in the exchange rates of the foreign currencies in which we transact business against the United States Dollar. These currencies include the Japanese Yen, Euro, Pound Sterling and Australian and Canadian Dollars. Any future translation gains or losses could be significantly higher than those noted in each of these years. In addition, if we determine that a change in the functional currency of one of our subsidiaries has occurred, we would be required to include any translation gains or losses from the date of change in our statement of operations.

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