SOLA INTERNATIONAL INC
Form 10-K
June 17, 2002

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

Form 10-K

þ	**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **For the fiscal year ended March 31, 2002**
	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	**94-3189941**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. employer identification no.)*
10590 West Ocean Air Drive, Suite 300, San Diego, CA	**92130**
(Address of principal executive offices)	*(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:	**Name of Exchange on Which Registered:**
Common Stock, Par Value $0.01	New York Stock Exchange

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

None

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 þ 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

As of June 12, 2002, the aggregate market value of Common Stock held by non-affiliates was approximately $282,342,781. 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, 2002, 24,541,650 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 2002 Annual Meeting of Stockholders are incorporated by reference into Part III of this report.

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SOLA INTERNATIONAL INC.

ANNUAL REPORT ON FORM 10-K

For the Fiscal Year Ended March 31, 2002

Our trademarks, service marks and trade names include AO b Active, AO Compact, Contour Optics, Finalite 1.6, Percepta, SOLAMax, Spectralite, Visuality 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*

The Company

We commenced operations in 1960 and were incorporated in Delaware in 1993. 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 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 value-added products, including products with advanced design characteristics, lens coatings and treatments and thin and light weight materials (*e.g.,* polycarbonate). Approximately 74% of our annual net sales are represented by value-added products.

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 chain, (2) direct to retail outlets, (3) wholesale distributors (*e.g.,* independent processing laboratories), and (4) managed care organizations in the United States, a growing segment of the spectacle lens market.

Our business is organized into three primary markets: North America, Europe and Rest of World. For the fiscal year ended March 31, 2002, we generated approximately 45% of our net sales from North America, 35% from Europe and 20% from Rest of World.

North America is currently our largest market. Our net sales in North America for the fiscal year ended March 31, 2002 were $236.8 million compared to $245.4 million in the prior year, a decrease of 3.5%. Using constant exchange rates, net sales decreased by 3.6%. The sales decline in the North American region was due primarily to decreased sales to laboratory customers that are owned by and aligned with two principal competitors.

Europe is currently our second largest market. Our net sales in Europe for the fiscal year ended March 31, 2002 were $185.8 million compared to $182.9 million in the prior year, an increase of 1.6%. Using constant exchange rates, net sales increased by 4.1%. Net sales in the European region increased due primarily to the organic growth of our prescription laboratory network.

Rest of World is currently our third largest market. Our net sales in Rest of World for the year ended March 31, 2002 were $106.9 million compared to $117.1 million in the prior period, a decrease of 8.7%. Using constant exchange rates, net sales increased by 2.0%. Net sales in the Rest of World region were negatively impacted by our efforts to concentrate on higher margin value-added sales.

For more information concerning our geographic areas, see Note 20 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.

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 2002, 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. Operating expenses for fiscal 2002 have declined $30.4 million from fiscal 1999 in addition to significant unit cost decreases, and we expect to generate additional savings in fiscal 2003 as a result of the actions taken in fiscal 2001 and 2002. In fiscal 2002 and 2001, we realized cash proceeds from sales of land and buildings made redundant by these initiatives of approximately $5.5 million and $7.8 million, respectively.

In addition to special charges, we incurred transition costs associated with executing our strategic initiatives. These transition costs totaled $20.6 million and $17.5 million in fiscal 2002 and 2001, respectively, and were largely related to: (1) expenditures to execute the strategic actions (*e.g.*, certain employee and facility costs) and (2) expenses incurred that will be eliminated upon completion of the strategic actions (*e.g.*, manufacturing variances resulting from the inefficiencies encountered during the product migration and consolidation of manufacturing facilities).

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 over 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. With the completion of our strategic initiatives, our operations consist of four primary and six specialized manufacturing facilities, two primary research and development centers, 12 primary 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 the 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 value-added products, which currently represent approximately 74% of our net sales. Value-added products are products with advanced design characteristics, lens coatings and treatments and thin and light weight materials (*e.g.*, polycarbonate). 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 $13.1 million in fiscal 2002, $14.9 million in fiscal 2001, and $20.0 million in fiscal 2000. The $1.8 million, or 12.1%, decrease in our research and development expenses in fiscal 2002 was due in part to headcount reductions associated with the strategic initiatives as well as the impact of the strong U.S. dollar against non-U.S. dollar expenses. 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, Visuality, AO Compact and VIP, 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. 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 and as the only lens maker to be awarded the title Supplier of the Year for 2000. 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. European operations have generated average annual sales growth of more than 9% over the past three fiscal years on a constant dollar basis. 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. Our European market share in terms of volume of plastic eyeglass lenses sold has consistently been strong over the past five years, and we believe that we maintain the leading market share positions in France, Ireland, Italy, Portugal and the United Kingdom.

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 by more than $30.4 million since fiscal 1999, 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, cash flow generation, marketing and new product development.

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 combat 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 salespeople has increased our reach in the channel.

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. SOLAMax has enjoyed strong sales and won the Optical Laboratory Association s 2001 Best in Lens Design award.

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 growing at 3% per year, peaking in 2015. This age group is the group primarily affected by presbyopia. Our leading position in the design and manufacture of progressive lenses positions us favorably to realize the benefit of this demographic trend. We plan 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 proprietary lens designs, including Visuality and AO Compact. In fiscal year 2001, we successfully introduced additional new products including SOLAMax and AO b Active progressive lenses. In April 2001, we opened SOLA Technologies, our first prescription laboratory in the U.S., with the introduction of our initial product, Enigma, in our Contour Optics category. In April 2002, we announced a global licensing agreement with DuPont Fluoroproducts where we will market a newly developed coating for ophthalmic lenses using the Dupont Teflon® brand.

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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. We have implemented strategic initiatives aimed at streamlining and standardizing our operations globally. 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.

Products

We manufacture lenses using both plastic and glass materials, with plastic lenses currently accounting for approximately 94% of our net lens sales. Approximately 43% 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 the third party.

Most of the materials necessary to produce our products and coatings are readily available from a number of potential sources at competitive prices. 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, 2002, there were approximately 680 employees involved in our sales and marketing efforts. Our sales and marketing expenditures for fiscal 2002 were $101.7 million, representing 19.2% 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 VIP, Percepta, Visuality, 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 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 sold primarily direct to sunglass manufacturers.

Prior to the strategic initiatives, we operated numerous distribution centers worldwide. As a result of our strategic initiatives, our distribution and logistics operations will 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 2002, our ten largest customers accounted for 23.8% of net sales, and our largest customer accounted for less than 6% of net sales. During fiscal 2002, six of our ten largest customers were located in North America and accounted for 14.1% of net sales. For the year ended March 31, 2002, sales to our top 20 customers, excluding competitors, increased by 7.9% as compared to the prior year.

Manufacturing Operations

At the beginning of fiscal 2000, we operated 16 manufacturing facilities worldwide. We currently operate 10 facilities, including the Oracle operations acquired in fiscal 2001. With the completion of our strategic initiatives, we have four primary and six specialized manufacturing facilities worldwide. These 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 is facilitated by the global product standard specifications project, which commenced 18 months ago, allowing us to source products globally.

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, 2002, there were 154 employees involved in our research and development efforts. Our research and development expenditures for fiscal 2002 were $13.1 million, representing 2.5% of net sales, for fiscal 2001 were $14.9 million, representing 2.7% of net sales, and for fiscal 2000 were $20.0 million, representing 3.7% of net sales. We have our research and development centers in Petaluma, California; Southbridge, Massachusetts; and 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. Recent research and development programs include the successful development of our Finalite and Spectralite materials; Percepta, Visuality and AO Compact progressive designs; and ViZio polycarbonate lenses.

In April 2001, we launched a new single vision product, Enigma, featuring an innovative design that matches the contours of the lens to the shape of the eye, thus providing superior optical performance. This proprietary technology has created a new product category for Sola and for the spectacle lens industry. The product is being distributed through our wholly owned prescription laboratory, SOLA Technologies, located in Hebron, Kentucky.

Competition

The spectacle lens industry is highly competitive. We compete principally on the basis of customer service, quality and breadth of product offerings, innovation and price. Our largest global competitors are Essilor International SA and Hoya Corporation. The 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. Contact lenses are not, however, perfect substitutes for eyeglasses because of the difficulty of developing progressive or bifocal contact lenses. In addition, contact lens wearers also tend to own eyeglasses. A number of companies have developed, or are developing, surgical equipment or implants used to correct refractive error, including myopia, hyperopia and astigmatism. These procedures are currently ineffective at correcting 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. However, current medical procedures, or ones developed in the future, could materially impact demand for our lenses.

Patents, Trademarks & Licenses

We seek to protect our intellectual property throughout the world. As of March 31, 2002, we had filed, or applied for, patents for 109 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, 920 trademarks in various countries, representing rights to 233 discrete names. These include 80 trademarks granted in the United States. Further, there are 70 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, 2002, we had 6,983 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.

Environmental Matters

We must comply with United States and foreign environmental laws and regulations concerning emissions to the air, waste water 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.

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

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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.

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; Marketing Headquarters; Distribution Center
Petaluma, CA	Leased	Research and Development; Sales and Marketing; Administrative Offices
Hebron, KY	Leased	Distribution Center and Laboratory
Southbridge, MA	Leased	Research and Development
Portland, OR	Owned	Laboratory
Warwick, RI	Leased	Manufacturing; Sales and Administrative Offices
Tijuana, Mexico	Leased	Manufacturing and Distribution Center
Mexico City, Mexico	Leased	Laboratory, Sales office and Distribution Center
Ontario, Canada	Leased	Distribution Center
Europe		
Ghent, Belgium	Leased	Laboratory
Goetzenbruck, France	Owned	Manufacturing
Fougeres, France	Both	Laboratory; Marketing and Distribution Center
Wexford, Ireland	Owned	Manufacturing; Laboratory
Oberursel, Germany	Leased	Distribution Center
Varese, Italy	Leased	Laboratory; Manufacturing; Marketing and Distribution Center
Setubal, Portugal	Leased	Laboratory and Distribution Center
Birmingham, UK	Leased	Laboratory; Marketing and Distribution Center
London, UK	Leased	Sales and Marketing; Distribution Center; Administrative offices
Basel, Switzerland	Owned	Distribution Center
Barcelona, Spain	Leased	Sales office
South America		
Buenos Aires, Argentina	Owned	Distribution Center
Petropolis, Brazil	Owned	Manufacturing; Sales and Marketing; Distribution Center
Villa de Cura, Venezuela	Owned	Manufacturing; Distribution Center
Asia		
Hong Kong	Leased	Laboratory and Sales office
Guangzhou, China	Both(1)	China Corporate Offices and Manufacturing
Osaka, Japan	Leased	Laboratory; Marketing and Distribution Center
Singapore	Leased	Manufacturing; Marketing and Distribution Center; Laboratory
Selangor, Malaysia	Leased	Marketing and Distribution Center; Laboratory
Australia		
Lonsdale, Australia	Both	Manufacturing; Research and Development; Laboratory; Marketing and Distribution Center; Administrative offices
Auckland, New Zealand	Leased	Laboratory and Distribution Center
Africa		
Harare, Zimbabwe	Owned	Laboratory

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(1) We maintain two sites in Guangzhou; the manufacturing site is owned and the corporate offices are leased. The manufacturing site is owned by a joint venture in which we own a 76% ownership interest.

A portion of our research and development activities, 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.

For further information concerning our leased properties, see Note 17 of Notes to Consolidated Financial Statements included elsewhere herein. Our operating leases have expirations ranging from 2003 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 19 of Notes to Consolidated Financial Statements included elsewhere herein.

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 2002.

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PART II

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

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, 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
Fiscal Year Ended March 31, 2001:		
First Quarter ended June 30, 2000	$ 6.50	$ 4.00
Second Quarter ended September 30, 2000	8.00	4.88
Third Quarter ended December 31, 2000	6.19	3.63
Fourth Quarter ended March 31, 2001	9.86	4.50

On June 12, 2002, the closing price per share of our common stock on the New York Stock Exchange was $11.72. As of June 12, 2002, we had 320 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% 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.

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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, 2002 and the balance sheet data as of March 31, 2002, 2001, 2000, 1999 and 1998 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,				
	2002	**2001(1)**	**2000(2)**	**1999(3)**	**1998**
	(In thousands, except per share data)				
Statements of Operations Data					
Net sales	$529,505	$545,432	$543,445	$534,103	$552,380
Income/(loss) before extraordinary item	$ 19,118	$ (67,999)	$ 741	$ 12,521	$ 51,092
Extraordinary item, net of taxes		1,471(4)			(5,939)(5)
Net income/(loss)	$ 19,118	$ (66,528)	$ 741	$ 12,521	$ 45,153
Earnings/(Loss) Per Share Data, Basic					
Income/(loss) before extraordinary item	$ 0.79	$ (2.83)	$ 0.03	$ 0.51	$ 2.09
Extraordinary item		0.06			(0.24)
Net income/(loss)	$ 0.79	$ (2.77)	$ 0.03	$ 0.51	$ 1.85
Weighted average common shares outstanding	24,067	24,049	24,887	24,794	24,400
Earnings/(Loss) Per Share Data, Diluted					
Income/(loss) before extraordinary item	$ 0.78	$ (2.83)	$ 0.03	$ 0.49	$ 2.00
Extraordinary item		0.06			(0.23)
Net income/(loss)	$ 0.78	$ (2.77)	$ 0.03	$ 0.49	$ 1.77
Weighted average common and dilutive securities outstanding	24,583				

By:

/s/ Steven Tannenbaum

Steven Tannenbaum, President