OAKLEY
WAR ROOM NEWS

WWW.OAKLEY.COM

TWO THOUSAND AND TWO - ANNUAL REPORT

OAKLEY EYEWEAR RATED BEST BY INDEPENDENT ANALYSIS

FOOTHILL RANCH, Calif. — The January 2002 issue of *Private Pilot* magazine reported the results of an independent study comparing the optical quality of sunglass brands. Thirty-two different brands of sunglasses were analyzed by ICS, Inc. Laboratories in Brunswick, Ohio. Eyewear was analyzed in three separate categories: standard sunglasses, polarized and single-lens shields. Oakley achieved the highest ranking in every category, beating all competition by substantial margins.

"For ordinary nonprescription sunglasses, you'll be lucky to find one or two manufacturers who even mention the idea of optical performance," noted *Private Pilot* magazine. "The emphasis is on fashion, not function, as if the way you look is more important than how you see. Do optics really make a difference? For the average person they certainly do; for pilots, they're an imperative. Anyone who drives a car or flies a plane should be aware of how ordinary sunglasses can corrupt their view of the world. What you see isn't necessarily what you get, and at 200 knots, that's not a good thing."

Oakley has been awarded more than 600 patents worldwide, and many of the company's proprietary breakthroughs are in performance optics. Oakley's patented XYZ Optics® maintain precise clarity at all angles of view, minimizing the peripheral distortion common to conventional dual-lens eyewear. For single-lens sport shields, Oakley's POLARIC ELLIPSOID™ geometry maintains unsurpassed clarity.

In addition to achieving the superior optical performance that professional athletes demand, Oakley eyewear is renowned for durability and protection. The company's Plutonite® lenses inherently block 100% of all UVA, UVB, UVC and harmful blue light. Oakley produces lens/frame combinations that surpass ANSI Industrial Standards for high-mass and high-velocity impact protection while maintaining optimal comfort. "Had there been tests for protection, durability and comfort, I have no doubt we would have won those too," commented Oakley Chairman and Chief Executive Officer Jim Jannard.

GLOBAL RENOWN: OAKLEY EARNS RANK IN TOP 30 LUXURY BRANDS

FOOTHILL RANCH, Calif. — In the July 22, 2002 edition of *Forbes Global* magazine, *FutureBrand* rated Oakley in the top 30 luxury brands. Oakley shared this honor with companies ranging from Harley Davidson to Tiffany, and ranked ahead of both Lexus and Coach.

"The world recognizes that each product we've created conveys more sculpture and technology than any other brand in our business," commented Oakley Chairman and Chief Executive Officer Jim Jannard.

Brands were rated in four separate categories: the degree of control of the distribution channel, the effectiveness of the brand's marketing, media visibility, and the influence of the brand in purchase decision. Jannard noted that these criteria have been embraced by Oakley over its entire 27-year history.

"As for 'controlling the distribution channel,' Oakley has always been highly selective about its distribution," said Jannard. "We focus on retailers who provide outstanding service that helps customers understand the advanced sculpture and technologies which make our products unique. As a result, Oakley products are not over-saturated in the marketplace and the brand has maintained a high degree of discoverability."

Jannard continued, "For 'effectiveness of marketing,' Oakley sponsors more than 1,500 professional athletes around the world in sports ranging from snowboarding to golf. These professionals use Oakley products because they understand that the technology will help them excel in their particular field. In the past two years, this story of authenticity has been reinforced through a comprehensive targeted print ad campaign."

"Media visibility is also critical to Oakley," said Jannard. "Sports are pervasive in our culture, and a great deal of Oakley's visibility comes from the many athletes who wear our products in competition. The visibility garnered when Lance Armstrong captured his fourth Tour de France victory is an excellent example of the global exposure our brand receives. In the last Winter Olympics, 150 Oakley athletes earned 54 medals, resulting in media exposure worldwide that included the cover of *Time* magazine."

"As for the fourth criterion, 'influence of brand in purchase decision,' it's well known that our icon stands for quality," said Jannard. "The Oakley brand conveys more science, sculpture and innovation than any other brand. More than 600 patents worldwide protect its products. The best athletes around the world wear the brand in competition. Consumers embrace it, time and time again."

Among the public companies on the *FutureBrand* list, Oakley has one of the lowest levels of market capitalization. It is one of the youngest brands and appeals to the youngest demographic. "As this core customer group continues to embrace the Oakley brand, there is tremendous room for growth," Jannard concluded.

2002 IN THE WAR ROOM

PRESS RELEASE REPRINTS AND OTHER COMMUNICATIONS

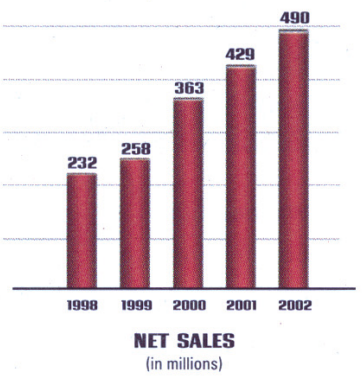
2002 NET SALES FIGURES REACH NEW ALL-TIME HIGH FOR OAKLEY

FOOTHILL RANCH, Calif. — Oakley's total 2002 net sales increased 14.0 percent from 2001, reaching an all-time company record of $489.6 million. This was fueled by a 19.2 percent increase in U.S. net sales to $254.0 million, including a 267.1 percent increase in Oakley's retail store sales to $32.6 million. International net sales increased 9.0 percent to $235.5 million. Global net sales to Sunglass Hut increased 15.8 percent to $59.7 million.

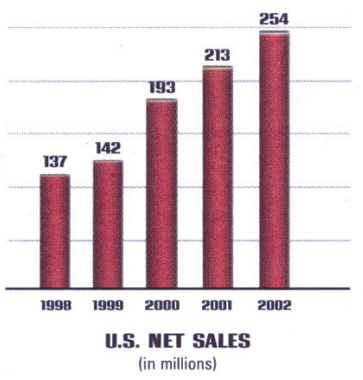
"...OUR NEWER CATEGORIES— APPAREL, PRESCRIPTION EYEWEAR, FOOTWEAR AND WATCHES — GREW TO REPRESENT MORE THAN 25 PERCENT OF GROSS SALES FOR THE FULL YEAR..."

Oakley's Chief Operating Officer Link Newcomb commented, "2002 marked the first year in Oakley's history in which our net sales exceeded $100 million in each quarter. Our newer categories— apparel, prescription eyewear, footwear and watches — grew to represent more than 25 percent of gross sales for the full year."

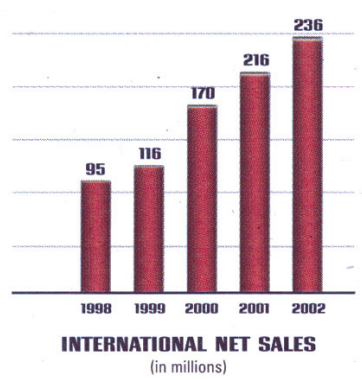
"Oakley's portfolio of inventions has never been broader or stronger," commented Jim Jannard, Chairman and Chief Executive Officer. "In Oakley's 27 year history, I've learned that the best way to manage a company through difficult economic periods is to focus on the things we do best and position ourselves for the eventual recovery. That's what we're doing today at Oakley."



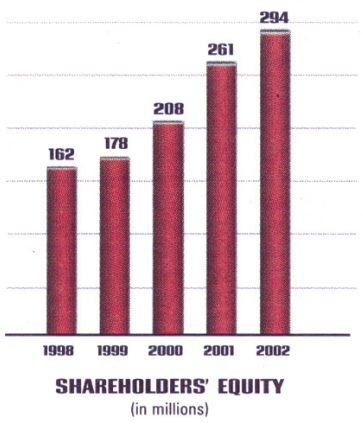
NET SALES
(in millions)



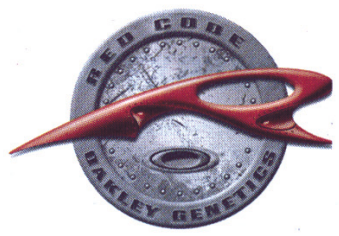
U.S. NET SALES
(in millions)



INTERNATIONAL NET SALES
(in millions)



SHAREHOLDERS' EQUITY
(in millions)



RED CODE: NEW OAKLEY FOOTWEAR TECHNOLOGY

FOOTHILL RANCH, Calif. — A pioneering advance called Red Code™ outperforms conventional footwear technologies of gel pads and air bladders. The Red Code™ midsole uses interior structures to give each area beneath the foot its own precisely tuned level of shock absorption and stability. By changing shape as the foot moves, these interior structures improve energy return and increase the speed of movement by directing the energy of ground forces along a controlled path. Other systems that use air bladders or gel pads can't accommodate for the changing impact stresses on the foot and leg, or for the stability needed to move rapidly in any direction with optimal efficiency.

Oakley Red Code™ offers multiple performance benefits. It improves speed and agility by minimizing the recovery time between ground impact and push-off. It also improves stability and control, reducing the threat of injury by precisely directing the energy of ground forces. By directing these forces along a defined path, Red Code™ minimizes the stress on bones and joints while returning energy that is critical for reducing fatigue and optimizing agility. The new technology offers premium shock absorption and comfort.

March 25, 2003

TO OUR SHAREHOLDERS

For as much as I'd like to think I've learned since birthing Oakley over 27 years ago, every new year has another lesson to teach. 2002 was no exception.

As I write, the world is riveted on hourly volleys of rhetoric between world leaders debating Iraq and North Korea. The hunt goes on for Osama bin Laden and the heart of his terrorist network. The DJIA and the Nasdaq Index are limping along at 5-year lows. The retail environment for luxury consumer products isn't just soft; it stinks. And the price of Oakley stock is at its lowest level since 1999.

The political dramas playing out on the global stage have turned some businesses and otherwise focused, driven individuals into hesitant, unsure observers — one eye constantly tuned to the media in order to catch the latest development as soon as it lights up the pixels.

But at Oakley, we've chosen a different response. We know we can't control any of those situations.

But we refuse to be spectators.

The main lesson for 2002 was the importance of focusing on what we do best and on the things we can control. While the rest of the world has only recently gone crazy, we've already been that way for a long time. So we chose to direct our insane brand of mad science at initiatives that are changing the profile of Oakley's business in positive ways, blending science with art to create products that no one else has ever dreamed of.

What started 27 years ago with a revolutionary motorcycle handgrip is now a portfolio of products across 6 major product categories – sunglasses, goggles, prescription frames and lenses, footwear, apparel and watches – along with all the various accessories that accompany them. From one person in a garage in South Pasadena, CA, Oakley is now 2,295 people responsible for our products in over 70 countries around the world.

We have such great things happening here that it's frustrating to watch months of stale retail pass by. Our products are better than ever. Our management is as finely tuned as it has ever been. We are carefully balancing working in a tough business environment with being prepared for an upswing — controlling expenses and carefully measuring marketing value: paying attention to every detail.

These may be uncertain times, but by investing in these strategies we'll be positioned to make the most out of whatever business there is for us to take when the retail environments in our key markets around the world improve.

Product Diversification: Five years ago we chose to forge ahead into several new complementary product categories to give us access to larger markets than sunglasses. In 2002, these newer categories – apparel, prescription eyewear, footwear and watches – contributed over 25 percent of our total revenues. And we're only scratching the surface in each.

Distribution Diversification: Offering more products in more categories gives us access to more distribution partners and the ability to open our own group of Oakley-only stores – "O-Stores". In addition, in late 2001 we acquired one of the top independent sunglass chains, Iacon, Inc.

You'll read more about each of these strategies in the following pages.

All our product and distribution efforts are bound together by an unwavering commitment to Oakley brand strategies. The July 22, 2002 issue of *Forbes International FutureBrand* identified Oakley as one of the top 30 luxury brands. Oakley shared this honor with brands ranging from Harley Davidson to Tiffany, and ranked ahead of Coach and Lexus. The criteria used by *FutureBrand* are the same brand strategies that provide the life-giving plasma to all we do at Oakley:

Degree of control of distribution channel: Oakley has always been very selective about its distribution channel and strategy. The distribution is not over-saturated and has always maintained a certain amount of discoverability. These channels protect the integrity of the brand.

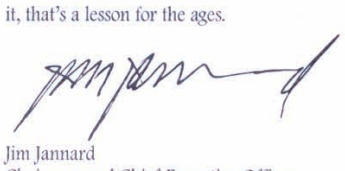
Effectiveness of marketing: Oakley sponsors more than 1,500 professional athletes around the world in sports ranging from snowboarding to golf. These professionals use our products because they understand that the technology will help them excel in their particular field. This story has only recently begun being relayed to consumers through a comprehensive marketing campaign.

Media Visibility: This again is largely attributable to the efforts of Oakley's sports marketing department. Lance Armstrong capturing his 4th Tour de France victory is an excellent example of the global exposure the brand receives. In last year's Winter Olympics, Oakley athletes won over 150 medals resulting in an incredible amount of media exposure worldwide, including the cover of *Time* magazine.

Influence of brand in purchase decision: The Oakley brand stands for quality. It features more design, sculpture and technology than any other brand. More than 600 patents worldwide protect it. The best athletes around the world wear it in competition. Consumers embrace it, time and time again.

In a world that's gone a bit crazy, we remain insanely committed to these principles that have served us so well for 27 years.

That's the lesson for 2002. Come to think of it, that's a lesson for the ages.



Jim Jannard
Chairman and Chief Executive Officer

OAKLEY LAUNCHES NEW RETAIL PARTNERSHIP WITH MACY'S WEST

FOOTHILL RANCH, Calif.— Oakley, Inc. announced a new retail partnership with Macy's West, a subsidiary of Federated Department Stores, Inc. (NYSE: FD). The partnership represents an important avenue of growth as well as channel diversification for Oakley.

Terms of the agreement call for Macy's to deploy Oakley in-store concept shops in five prime locations by May 2002. Each shop will feature a complete selection of Oakley's innovative, high-performance products including eyewear, footwear, apparel and watches.

"Our new partnership with Macy's West is another step in our strategic plan designed to elevate the retail presence of the Oakley brand," commented Oakley Chief Executive Officer Jim Jannard. "Our own retailing experience has proven that our new product categories sell best when they are merchandised in a cohesive branded presentation."

"Macy's is excited to be aligned with an exciting company like Oakley," commented Jeff Gennette, General Merchandise Manager and Senior Vice President of Macy's West. "Our new partnership and in-store concept shops are an innovative approach to offering Oakley's high-quality products to our customers."

Each of the five Macy's stores will be outfitted with Oakley-branded doublewide eyewear towers and branded footwear and apparel rocket displays to powerfully communicate synergies of the Oakley brand across all product categories. Each location will have an Oakley staff specialist trained specifically on the latest technologies employed throughout the company's entire product range.

Terms of the agreement call for Macy's to deploy Oakley in-store concept shops in five prime locations. The locations will qualify for the exclusive "Oakley Premium Dealer" program, established in August 2001, to help consumers find the best retailers with the newest Oakley products and highest levels of customer service. The five locations will be in Union Square, San Francisco; Valley Fair, Santa Clara; South Coast Plaza, Costa Mesa; Beverly Center, Los Angeles; and Ala Moana, Honolulu.

OAKLEY CORPORATE INFORMATION

BOARD OF DIRECTORS

JIM JANNARD
Chairman,
Chief Executive Officer

LINK NEWCOMB
Chief Operating Officer

IRENE MILLER
Chief Executive Officer, Akim, Inc.,
Advisory Director, Intralinks, Inc.
Former Vice Chairman and
Chief Financial Officer,
Barnes & Noble, Inc.

ORIN SMITH
Director,
Chief Executive Officer,
Starbucks Corporation

ABBOTT BROWN
Chairman and
Chief Executive Officer,
Ridgestone Corporation

LEE CLOW
Chairman and
Worldwide Creative Director,
TBWA\Chiat\Day

CORPORATE OFFICERS

JIM JANNARD
Chairman, Chief Executive Officer

LINK NEWCOMB
Chief Operating Officer, Director

COLIN BADEN
President

TOMMY RIOS
Executive Vice President

THOMAS GEORGE
Chief Financial Officer

DONNA GORDON
Vice President of Finance,
Secretary

KENT LANE
Vice President of Manufacturing

CARLOS REYES
Vice President of Development

SCOTT BOWERS
Vice President of Sports Marketing

JON KRAUSE
Vice President of Operations

BILL DAILY
Vice President of Consumer Marketing

CLIFF NEILL
Vice President of U.S. Sales

CORPORATE OFFICES

Oakley, Inc.
One Icon
Foothill Ranch California 92610
USA
1 800 403 7449

Oakley Africa
PO Box 5550, Walmer 6065
Port Elizabeth South Africa
+27 41 501 0200

Oakley Canada
2660 Diab St-Laurent
Quebec H4S 1E8
1 800 448 9714

Oakley Europe
Immeuble Cap West
15 allée de l'Europe
92588 Clichy Cedex
Tel: +33 1 41 27 81 81

Oakley Japan
MT2 Bldg., 1-12-23 Mita
Meguro-ku, Tokyo 153-0062
+81 3 3716 9300

Oakley Mexico
Camino Cuajimalpa Palo Solo #7
Col. Hacienda de las Palmas
Huixquilucan Edo. De Mexico
c.p. 52765
+52 5 247 0310

Oakley South Pacific
Level 4, 49-51 Malop Street
Geelong Victoria 3220
Australia
+61 3 5225 4100

Oakley U.K. Ltd.
Icon House Icknield Way
Letchworth Garden City
Herts SG6 1GD
United Kingdom
+44 1462 475 400

Oakley GMBH
Carl-Zeiss-Ring 7A
D-85737 Ismaning Germany
+49 89 99 65 4100

Oakley Brasil LTDA.
Avenida Tajuras 09
Cidade Jardim
São Paulo - São Paulo
05670-000 Brasil

SECURITIES LISTING

Oakley, Inc. common stock is listed on the New York Stock Exchange under the trading symbol "OO".

ANNUAL MEETING

Shareholders are cordially invited to attend Oakley's 2003 Annual Meeting to be held at Oakley Corporate Headquarters, One Icon, Foothill Ranch, CA 92610, June 6, 2003 at 10:00am.

TRANSFER AGENT & REGISTRAR

American Stock Transfer & Trust Company
59 Maiden Lane
New York, NY 10038
212 936 5100

AUDITORS

Deloitte & Touche LLP
Costa Mesa, CA

LEGAL COUNSEL

Skadden, Arps, Slate, Meagher & Flom
Los Angeles, CA

Weeks, Kaufman, Nelson & Johnson
Solana Beach, CA

INVESTOR RELATIONS

PondelWilkinson MS&L
Los Angeles, CA

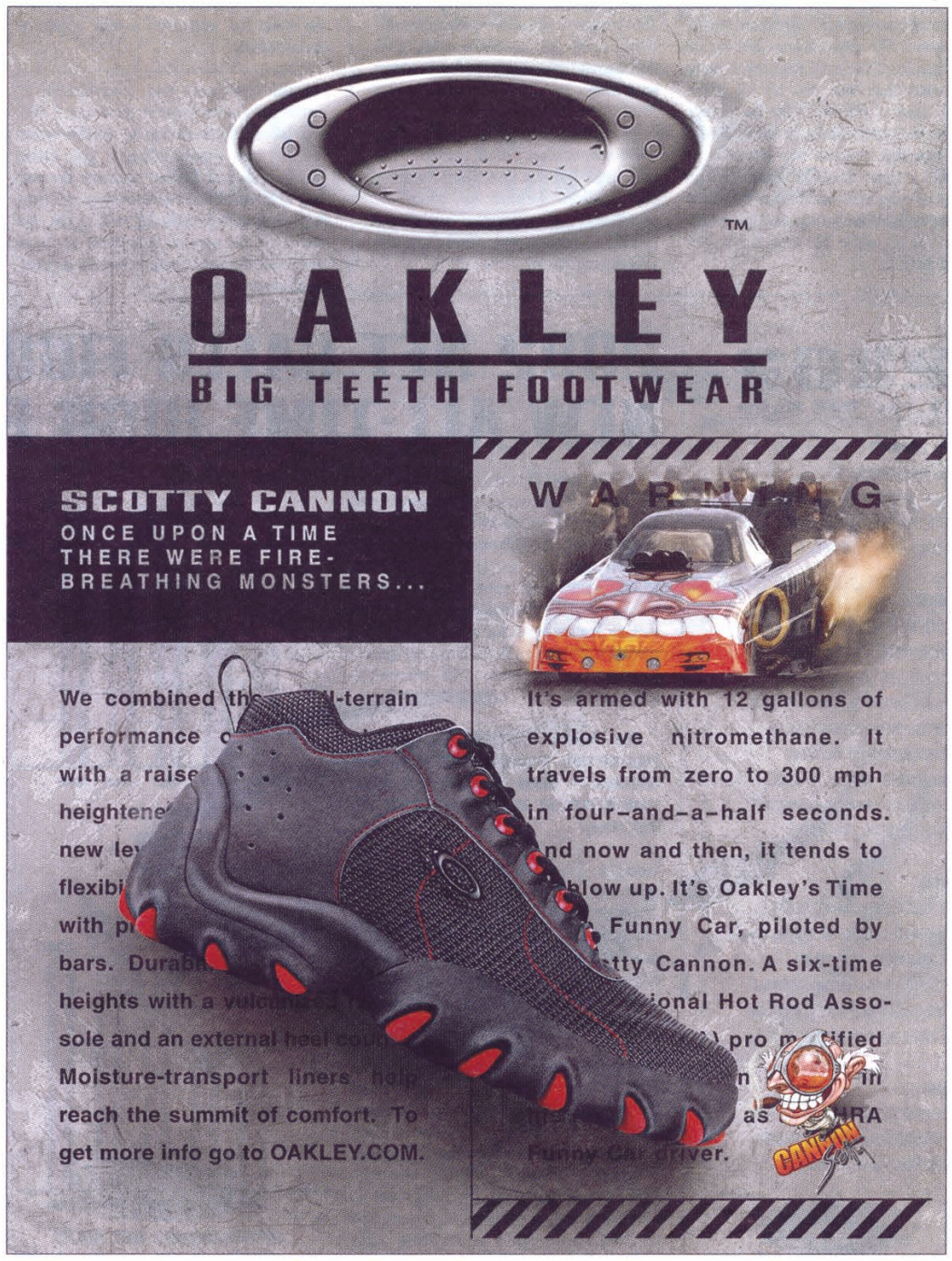
SHAREHOLDER INQUIRIES

Inquiries from shareholders and investors regarding the Company are always welcome.

Copies of the Company's 10-K (Annual Report), 10-Q (Quarterly Reports) and other Securities and Exchange Commission (SEC) filings are available to shareholders by written request to:

Oakley, Inc.
Investor Relations
One Icon
Foothill Ranch, CA 92610 USA
1.800.403.7449

or by visiting the Company's website: www.oakley.com



AGGRESSIVE EXPANSION PLANS FOR SUNGLASS RETAILER IACON

FOOTHILL RANCH, Calif. — Iacon, Inc., a wholly owned subsidiary of Oakley, announced at Vision EXPO East in March 2002 that it plans to expand its sunglass specialty store locations by approximately 40 percent.

Iacon's growing chain of sunglass specialty stores are located throughout the United States, primarily in the Sunbelt regions. The company generated revenues of more than $15.9 million over the twelve months ending December 31, 2001 through its 43 retail locations.

"2002 marks a year of aggressive expansion for Iacon," said President Jeff Obstfeld. "We intend to open 18-20 new locations throughout the United States. Iacon has always prided itself on selecting the best locations in the best malls throughout the country. Our methods have proven successful over our 20-year history and we intend to maintain the same high standards as we expand with in-line stores and well-placed kiosks at premier malls," Obstfeld concluded.

Oakley Chairman and Chief Executive Officer Jim Jannard added, "We consider the sunglass specialty channel to be one of the most important distribution vehicles for our sunglass products. For years, Iacon has done an excellent job of educating consumers about the features and benefits of our products, and the company exemplifies the best of the sunglass specialty retailers across the country."

"...IACON GIVES OAKLEY EXCELLENT EXPOSURE AND IMMEDIATE MALL-BASED RETAIL PRESENCE..."

"Iacon has been a successful independent sunglass retailer for decades," commented Oakley Chief Operating Officer Link Newcomb. "Iacon gives Oakley excellent exposure and an immediate mall-based retail presence. We are pleased also with the additional retail experience that Iacon's management team brings to Oakley's developing retail business, especially in the small kiosk format with which Iacon has proven so successful."

Prominent new locations in the Iacon 2002 expansion plan include Horton Plaza in San Diego, California; Valley Fair in Santa Clara, California; Water Tower Place in Chicago, Illinois; and other premier locations to be announced.

Iacon operates unique retail concepts under the names Sunglass Designs, Sporting Eyes and Occhiali Da Sole. In addition to its mall-based retail locations, Iacon has entered into a master licensing agreement with HMSHost — the world's leading concessions operator — under which HMSHost has licensed Iacon's sunglass retailing branded concepts for airport and toll road locations operated by HMSHost.

OAKLEY ESTABLISHES 11TH INTERNATIONAL OFFICE

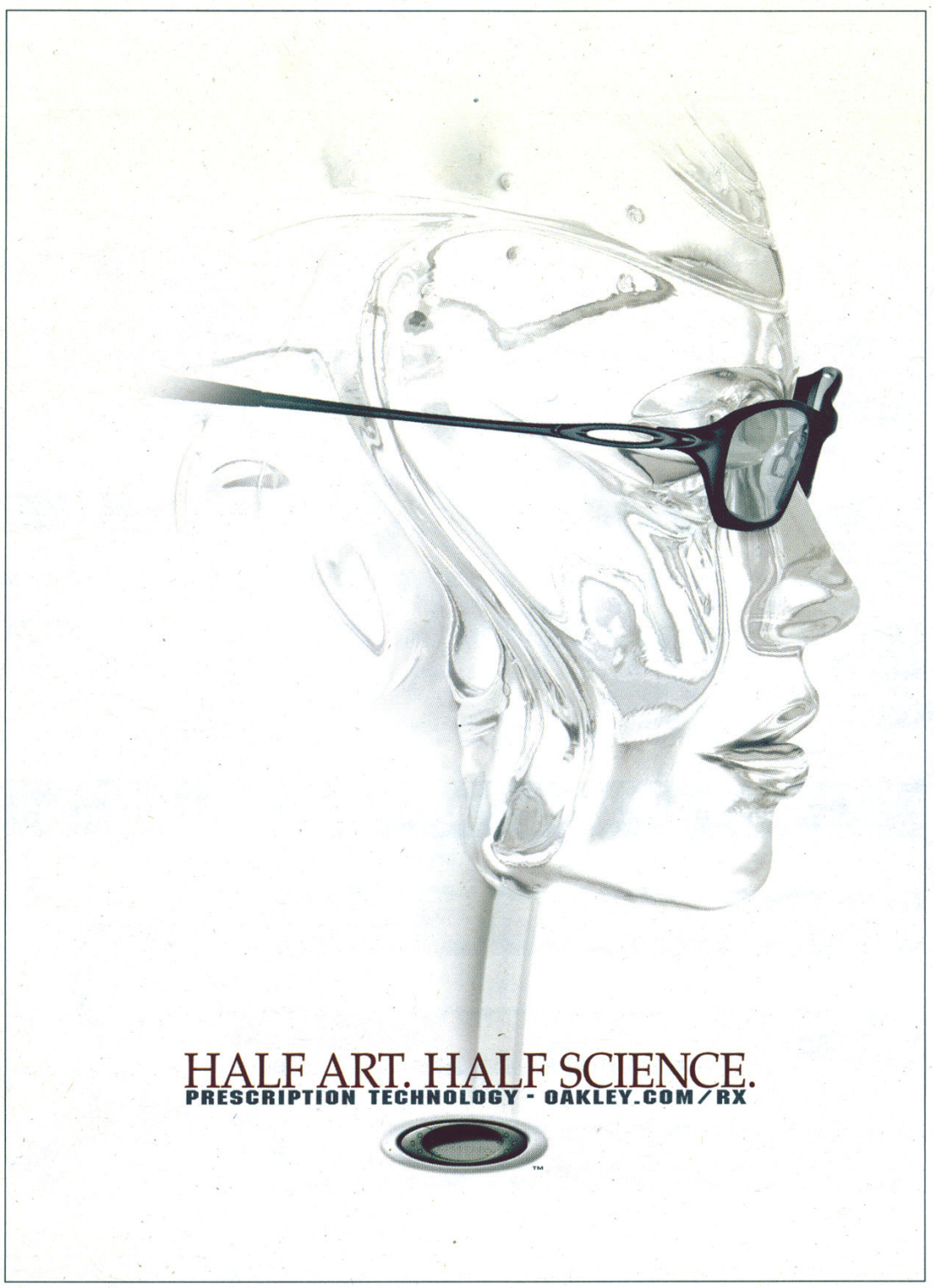
FOOTHILL RANCH, Calif. — In February of 2002, Oakley announced the opening of Oakley Brazil, the company's eleventh international location. The Brazil office is the company's first in South America.

"...CONTROLLING OUR OWN INTERNATIONAL DISTRIBUTION HAS BECOME INCREASINGLY IMPORTANT NOW THAT THE OAKLEY LINE CONSISTS OF A FULL RANGE OF PRODUCTS IN ADDITION TO EYEWEAR..."

"Establishing Oakley Brazil gives us a foothold in one of the largest and most important surf-centric countries in South America," commented Oakley Chief Operating Officer Link Newcomb. "With a population in excess of 170 million and more than 4,600 miles of coastline, this new direct market should enable us to further cultivate demand, deliver customized and targeted service, and focus specific sales and marketing efforts in all our product categories. Controlling our own international distribution has become increasingly important now that the Oakley line consists of a full range of products in addition to eyewear," Newcomb concluded.

Since 1996, the primary product category distributed by Oakley in Brazil has been eyewear, and this has been fulfilled through a local distributor. Oakley revenue from this distributor was approximately $4.0 million in 2001, up 43 percent from $2.8 million in 2000. The estimated wholesale value of the distributor's 2001 sales to Brazilian retailers was $6.0 million, based on applicable exchange rates.

Over the past several years, Oakley has strengthened its position as a world brand by establishing direct offices in Japan, Canada, South Africa, Mexico, New Zealand, Australia, and throughout Europe. Combined, Oakley's direct international operations accounted for approximately 82 percent of its non-U.S. net sales in 2001. In other parts of the world, Oakley products are sold through selected distributors who offer local expertise.



NEW PRESCRIPTION EYEWEAR FACILITY OPENING IN IRELAND

FOOTHILL RANCH, Calif. — With the support of IDA Ireland, Oakley has established a new 10,000 square-foot prescription eyewear facility at the Clonmore Industrial Estate in Westmeath, Ireland.

The new facility reflects Oakley's strategy of localizing the manufacture of prescription eyewear products destined for European markets. In 2001, the company established a similar prescription capability at its U.S. headquarters in California to serve the needs of North American markets. Previously, these products were outsourced to specialty lens manufacturers in the United States and Europe.

"The technological complexity of Oakley lenses and frames requires intense attention to detail and quality," said Becky Wilkinson, Program Manager of Oakley Prescription Eyewear. "Establishing these capabilities in-house allows us to better control the complex manufacturing processes and helps improve the operating margins of our prescription business. We chose the new location because of its skilled workforce and the favorable business climate of Ireland."

Oakley's prescription eyewear revenues doubled in each of the three years prior to 2002. In 2002, revenues grew to $34.3 million, a 38.5% increase over 2001.

OAKLEY APPOINTS LEE CLOW TO BOARD

FOOTHILL RANCH, Calif. — Lee Clow, Chairman and Worldwide Creative Director of TBWA and TBWA\Chiat\Day, was appointed to the Oakley Board of Directors in December of 2002. Clow brings with him more than 30 years of advertising agency experience. He is a member of the One Club Hall of Fame, the Art Directors Hall of Fame and the Museum of Modern Art's Advertising Hall of Fame.

Clow joined Chiat\Day in 1972 and helped fuel its growth into one of the 10 largest agencies in the world, with more than 220 offices in 72 countries. TBWA\Chiat\Day was voted 1997 Agency of the Year by *USA Today, Adweek, Advertising Age, Shoot Magazine* and *Advertising Age Creativity*. The agency has won numerous industry awards for its outstanding, often groundbreaking advertising campaigns.

Notable campaigns directed by Clow include Apple Computer's breakthrough spot "1984" as well as its most recent campaign "Think Different"; Nike's original introduction of "Air Jordan"; Energizer's omnipotent Energizer Bunny; and Taco Bell's memorable Chihuahua campaign.

"I have great respect for the work of Lee and TBWA\Chiat\Day," commented Oakley Chairman and Chief Executive Officer Jim Jannard. "Lee's creativity and appreciation for the art of design and the magic of brands make him a perfect fit for Oakley's board."

"I look forward to working with Oakley's distinguished board members," said Clow. "Oakley has created a vast arsenal of brand assets. I pledge to help ensure that the value of those assets are fully realized for the benefit of Oakley's shareholders."

OAKLEY WAGES WAR ON COUNTERFEITERS

The Oakley Legal Department had an exceptional year in its battle against counterfeiting. The tragedy of 9/11 left trade holders with a seemingly impossible challenge: how to persevere in the global war against product piracy while faced with a 75% cutback by law enforcement on trademark issues. Even with this massive redirection of governmental forces, Oakley was able to seize 825,256 counterfeit products, leading to 362 arrests domestically. On the international front, nearly a quarter million products were seized and 99 arrests were made.

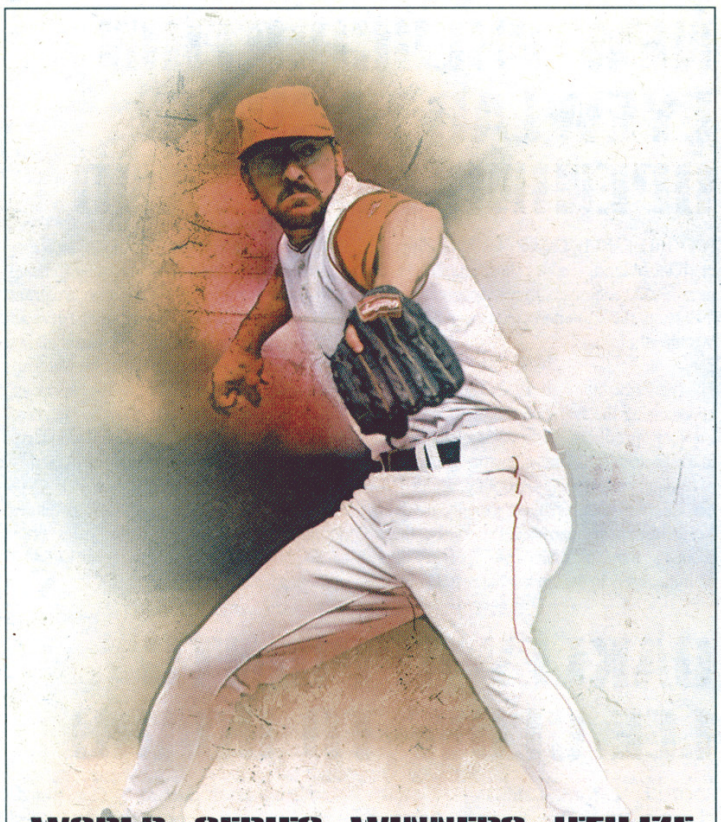
"I could not be more proud of the hard work done by the Oakley Legal Department in 2002," commented Vance Lommen, Director of Oakley Legal Affairs/Security. "With the challenge of law enforcement reallocation due to 9/11, we redoubled our efforts in convincing agencies to take our cases. We mounted an information campaign with increased travel to deliver our message first-hand — that the counterfeiters of Oakley product will be found, prosecuted and punished."

OAKLEY DIRECT RETAIL EXPANDING

ABOVE : THE LATEST OAKLEY STORE IN ORLANDO, FLORIDA.

Continuing to expand its retail network, Oakley opened its fourteenth company store in December of 2002, creating a means of bringing the full array of Oakley innovations directly to retail customers. "Through these stores, we are able to showcase the entire brand," commented Oakley Chief Operating Officer Link Newcomb. "As a result, the majority of sales are actually from categories beyond eyewear. Customers who still see Oakley as only a sunglass company can be educated in the science and art of all our inventions, which serves to support all retail channels."

Armed with the widest, most comprehensive selection of Oakley innovations, the Oakley O Store combines highly trained sales associates with unique visual presentations of the company's passion for technology. Oakley's market-leading sunglasses are offered, along with expanding lines of premium performance footwear, apparel, accessories, watches, golf products and prescription eyewear.



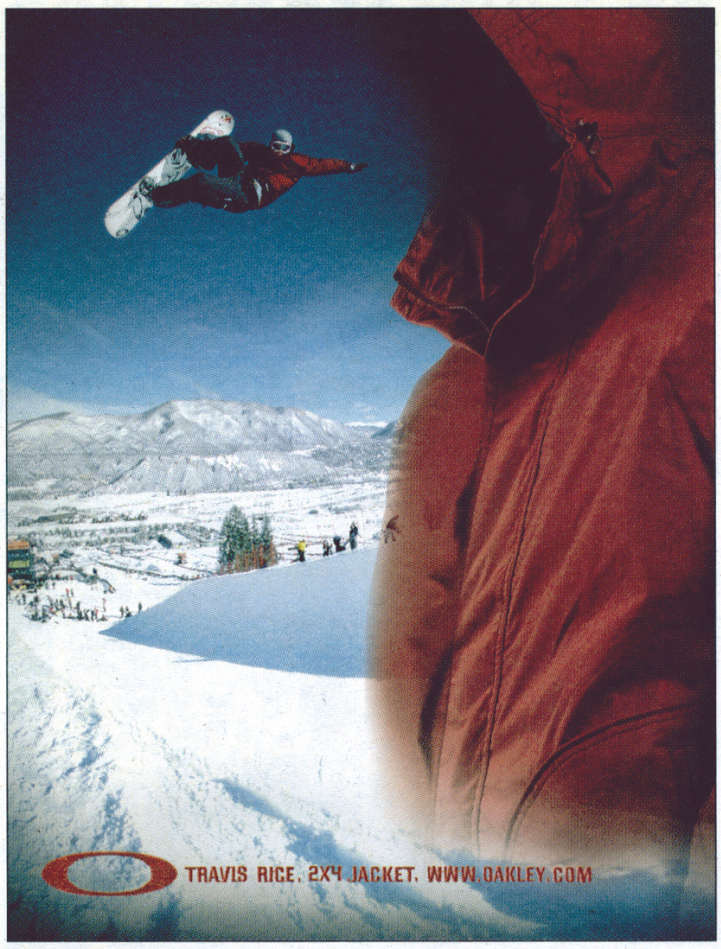
WORLD SERIES WINNERS UTILIZE OAKLEY RX EYEWEAR TECHNOLOGY

During the first World Series win in the franchise's 42 years, the Angels' star pitching closers stayed focused on the mound with Oakley prescription eyewear. Ben Weber and Brendan Donnelly relied on the precision of Oakley corrective optics, taking advantage of the company's custom-ground corrective lenses and durable, lightweight ophthalmic frames.

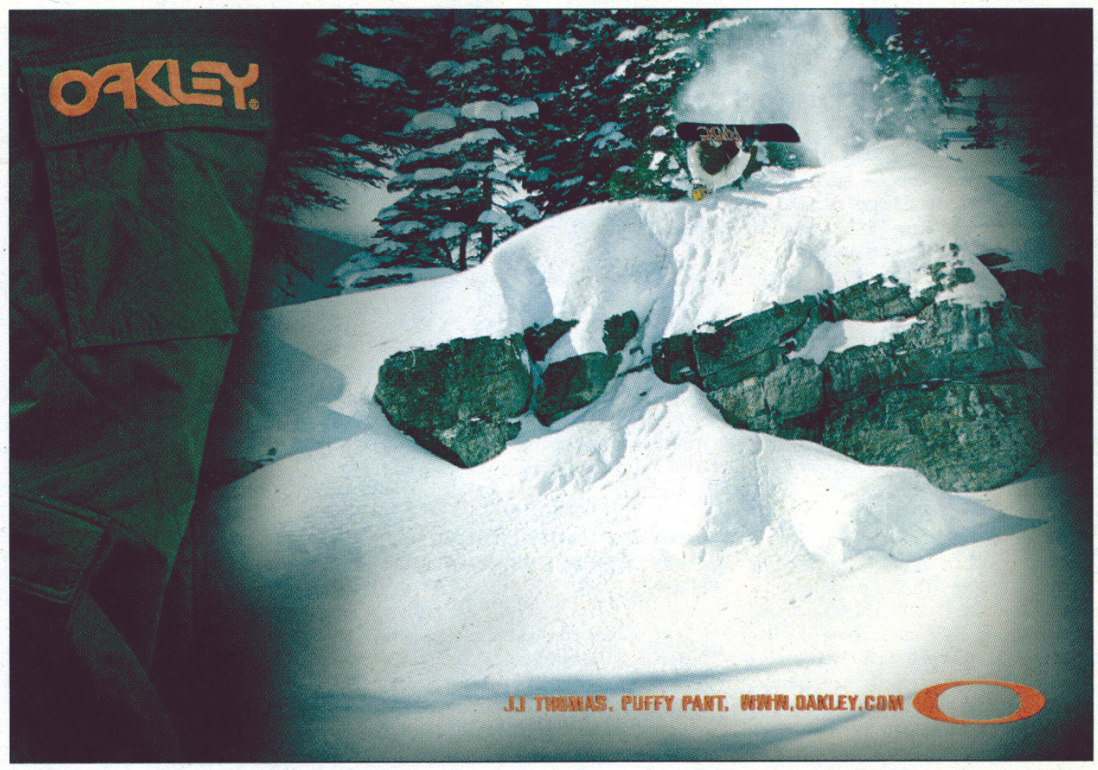
"Sports professionals are discovering the performance advantages of Oakley prescription eyewear technology," commented Oakley President Colin Baden. "Our Rx lens system maps light rays in a 3-D grid to achieve precise coordination between the human eye and the entire lens surface. Match that with the comfort, durability and proprietary geometries of our ophthalmic frames, and you have a competitive edge in any sports arena. As with all our technologies, these critical breakthroughs are now transcending to the general public."

Brendan Donnelly tied and set several rookie reliever records with the Angels. Based on 40-or-more games, Donnelly ranked with fewest hits allowed (32), fewest earned runs allowed (12), and fewest bases on balls (19). The Angels were 46-17 in games where Ben Weber pitched. He finished the year winning six straight decisions, equaling the club record for a relief pitcher.

OAKLEY CHAMPIONS AT X GAMES



EVENT	MEDAL	ATHLETE	PRODUCT WORN AT X GAMES
SKI SLOPESTYLE	Gold	Tanner Hall	O Frame® 2x4 Jacket, Puffy Pant
	Bronze	Jon Olsson	A Frame® Flak Jacket, Puffy Pant
SKI SUPERPIPE	Gold	Jon Olsson	A Frame® Flak Jacket, Puffy Pant
	Bronze	Philippe Poirier	A Frame® Hotplate Jacket, Puffy Pant
SNOWBOARD SLOPESTYLE	Gold	Travis Rice	A Frame® 2x4 Jacket, Flak Pant
	Silver	Shaun White	A Frame®
SNOWBOARD SUPERPIPE	Gold	J.J. Thomas	A Frame® 2x4 Jacket, Puffy Pant
	Silver	Shaun White	A Frame®
SNOWMOBILING SNOCROSS	Gold	Blair Morgan	Snowcross Goggle

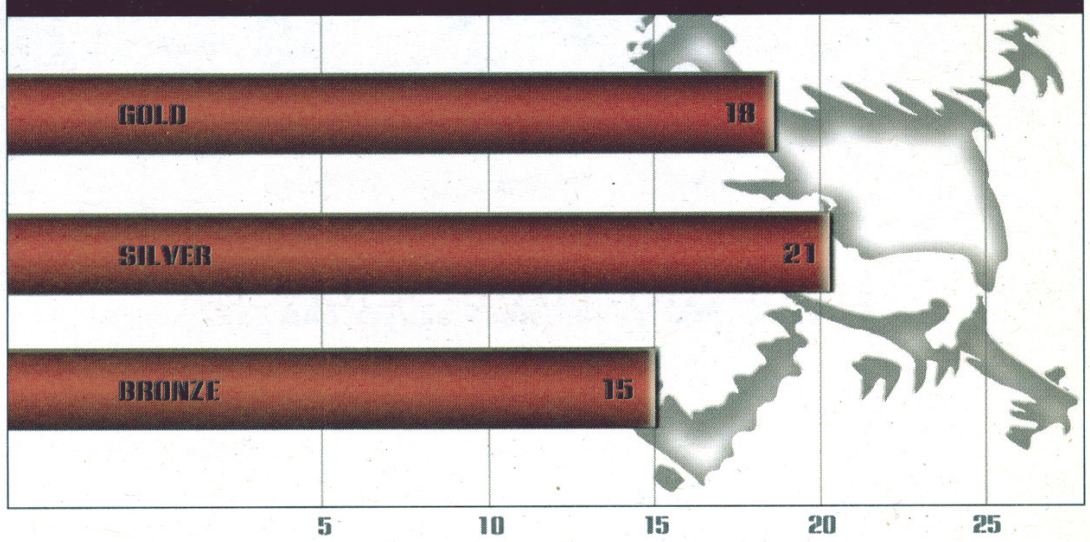


2002 WINTER GAMES DOMINATED BY OAKLEY OLYMPIC ATHLETES

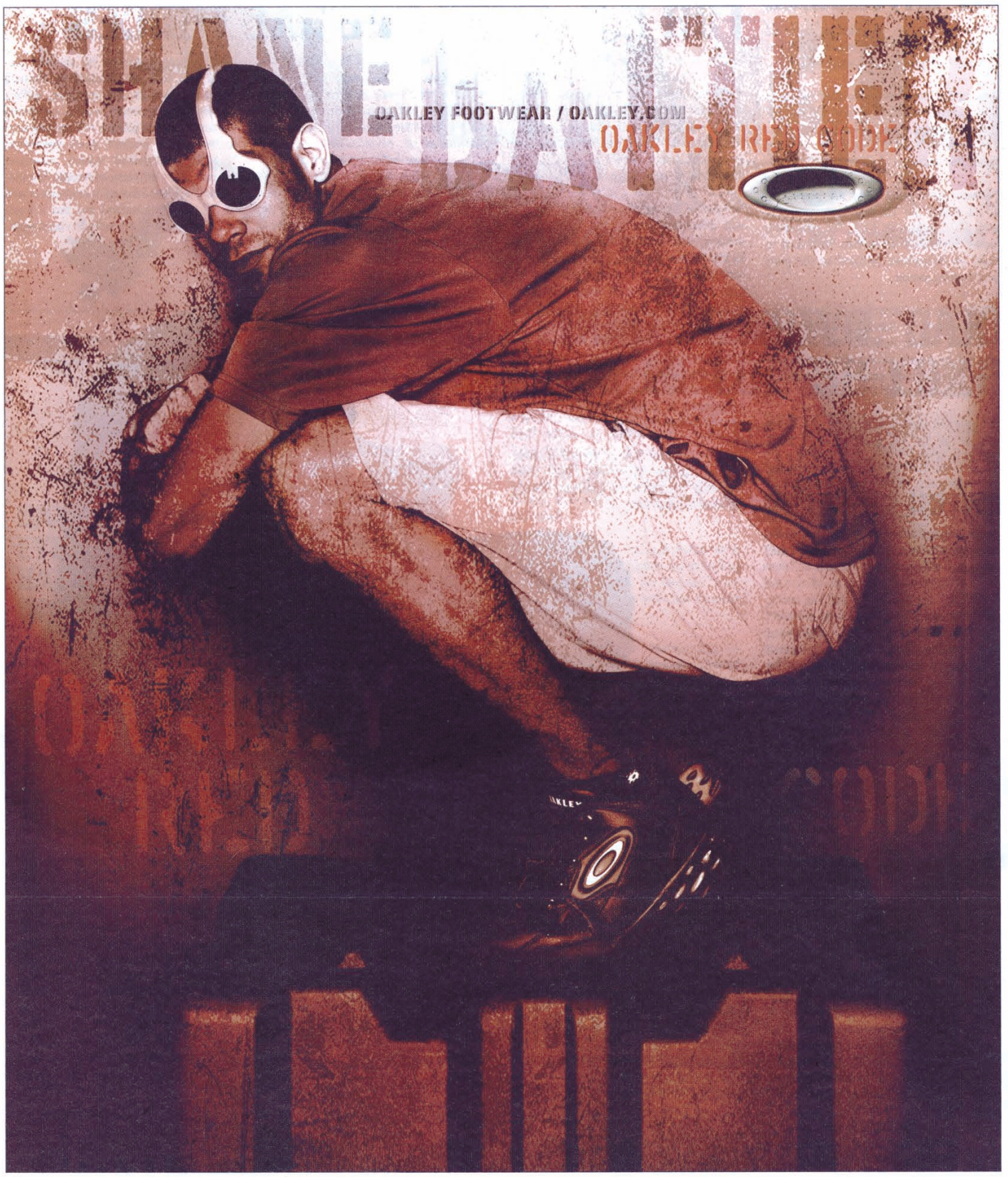
IN THE WINTER OLYMPIC GAMES, 150 ATHLETES TOOK ADVANTAGE OF OAKLEY PERFORMANCE TOOLS IN 54 MEDAL WINNING PERFORMANCES.

EVENT	MEDAL	ATHLETE	COUNTRY	PRODUCT WORN AT OLYMPICS
SPEEDSKATING				
Mens 500	Gold	Casey Fitzrandolph	USA	Pro M Frame®/Clear
	Silver	Hiroyasu Shimizu	Japan	Pro M Frame®/Clear
Mens 1000	Gold	Gerard van Velde	Netherlands	Pro M Frame® FMJ Blue/Clear
	Silver	Jan Bos	Netherlands	Pro M Frame® Black Chrome/Clear Sweep
	Bronze	Joey Cheek	USA	Pearl Racing Jacket®/light blue lenses
Mens 1500	Silver	Jochem Uytdehaage	Netherlands	Pro M Frame® Orange
	Bronze	Adne Sondral	Norway	Pro M Frame® FMJ Blue/Blue Iridium®
Mens 5000	Gold	Jochem Uytdehaage	Netherlands	Pro M Frame® Orange
Mens 10000	Gold	Jochem Uytdehaage	Netherlands	Pro M Frame® Orange
	Silver	Gianne Romme	Netherlands	Pro M Frame®/Persimmon Sweep
	Bronze	Lasse Saetre	Norway	Pro M Frame® Blue/Clear Sweep
Womens 500	Gold	Catriona LeMay Doan	Canada	Pro M Frame® Black Chrome/VR28®
	Silver	Monique Garbrecht-Enfeldt	Germany	Pro M Frame® Red/Clear
Womens 1000	Gold	Chris Witty	USA	Pro M Frame® FMJ Blue/RX VR28®
Womens 1500	Gold	Anni Friesinger	Germany	Pro M Frame® Pearl/Clear Sweep
	Silver	Sabine Voelker	Germany	Pro M Frame®/Clear Sweep
Womens 3000	Gold	Claudia Pechstein	Germany	Pro M Frame® FMJ Red/Small Hyb Blue
	Silver	Renate Groenewald	Netherlands	Pro M Frame®/Clear Sweep
	Bronze	Cindy Klassen	Canada	Pro M Frame® FMJ Red/Ice D 0.5
Womens 5000	Gold	Claudia Pechstein	Germany	Pro M Frame® FMJ Red/Small Hyb Blue
	Bronze	Clara Hughes	Canada	Pro M Frame® FMJ Red/Small Hyb Blue
SHORT TRACK SPEEDSKATING				
Mens 500	Bronze	Rusty Smith	USA	Pro M Frame® FMJ Red/Sweep Clear
Mens 1000	Bronze	Mathieu Turcotte	Canada	Pro M Frame® FMJ 5.56/Clear
Mens 5000 Relay	Gold	Mathieu Turcotte	Canada	Pro M Frame® FMJ 5.56/Clear
	Silver	Fabio Carta	Italy	Pro M Frame®/Clear Sweep
	Bronze	Feng Kai	China	Pro M Frame®/Clear Sweep
Womens 500	Gold	Yang Yang-A	China	Pro M Frame®/Clear
	Silver	Evgenia Radanova	Bulgaria	Pro M Frame®/Clear Sweep
Womens 1000	Gold	Yang Yang-A	China	Pro M Frame®/Clear Sweep
	Silver	Ko Gi-hyun	S. Korea	Pro M Frame® Aluminum/HIB
Womens 1500	Gold	Ko Gi-hyun	S. Korea	Pro M Frame®/Clear Sweep
	Silver	Choi Eun-kyung	S. Korea	Pro M Frame® Silver/HIB
	Bronze	Evgenia Radanova	Bulgaria	Pro M Frame®/Clear Sweep
Womens 3000 Relay	Gold	Choi Eun-kyung	S. Korea	Pro M Frame® Silver/HIB
	Silver	Yang Yang-A	China	Pro M Frame®/Clear Sweep
	Bronze	Isabelle Charest	Canada	Pro M Frame®/HIB Blue Small
SNOWBOARDING				
Mens Halfpipe	Bronze	J. J Thomas	USA	A Frame® Lime/Fire lens
Womens Halfpipe	Gold	Kelly Clark	USA	A Frame® Orange/Fire lens
	Silver	Dorian Vidal	France	A Frame® Clear/Fire lens
FREESTYLE SKIING				
Mens Aerials	Silver	Joe Pack	USA	Pro M Frame®/Clear
	Bronze	Alexei Grichin	Belarus	Pro M Frame®/Clear
Ice Hockey	Gold		Canada 9	Assortment of all Oakley NHL Pro Visors
	Silver		USA 4	Assortment of all Oakley NHL Pro Visors
	Bronze		Russia 5	Assortment of all Oakley NHL Pro Visors
ALPINE SKIING				
Mens Downhill	Silver	Lasse Kjus	Norway	A Frame® Orange/VR28® lens; Penny®
Mens Giant Slalom	Bronze	Lasse Kjus	Norway	A Frame® Orange/VR28® lens; Penny®
BIATHLON				
Mens 12.5km Pursuit	Silver	Ralpael Poiree	France	Pro M Frame®/Hybrid Blue
Mens 4x7.5km Relay	Gold	Frode Andresen	Norway	Pro M Frame®
	Bronze	Raphael Poiree	France	Pro M Frame®
Womens 15km	Silver	Liv Grete Poiree	Norway	Pro M Frame® Sweep/G30™ lens
Womens 4x7.5km Relay	Silver	Liv Grete Poiree	Norway	Pro M Frame® Sweep/G30™ lens
CROSS-COUNTRY SKIING				
Mens 10km Pursuit	Silver	Thomas Alsgaard	Norway	Pro M Frame®/G30™ lens
Mens 4x10km Relay	Gold	Thomas Alsgaard Anders Aukland	Norway	Pro M Frame®/G30™ lens Racing Jacket® FMJ Red/Gold
Womens 4x5km Relay	Silver	Hilde G Pedersen	Norway	Pro M Frame®/G30™ Sweep

OAKLEY OLYMPIC ATHLETE MEDAL COUNT



SHANE BATTIER SIGNS B-BALL SHOE CONTRACT WITH OAKLEY



Rookie Shane Battier has signed an exclusive three-year contract with Oakley for the development of performance basketball shoes. The agreement with Battier is part of Oakley's initiative to further penetrate the athletic footwear market. Sixth pick in the NBA draft, Battier plans to play his rookie season in Oakley prototype footwear.

"With a U.S. market of approximately $2 billion, basketball is one of the largest categories in the athletic footwear industry," commented Oakley President Colin Baden. "It represents a new area of opportunity for Oakley to demonstrate its performance innovations. Shane's entry into the NBA has been highly anticipated because he is recognized as one of the most talented new players in the league. We'll use his expertise as a research tool to balance the equation of our development program."

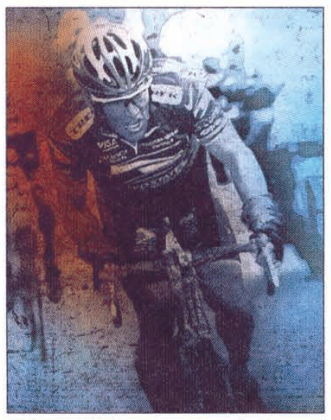
"Sports marketing has always played a key role in the way we develop products for professional athletes," commented Oakley Vice President of Sports Marketing Scott Bowers. "It all began in 1980 with our first motocross riders. As we moved into the sunglass business, Greg LeMond and Lance Armstrong used our products for cycling. Their multiple Tour de France wins further authenticated the Oakley brand. When we expanded into golf, we used the expertise of David Duval. When we pioneered our baseball-specific eyewear, we had the help of baseball greats Tony Gwynn and Cal Ripken, and we continue to work with several MLB players including Alex Rodriguez, Barry Larkin, Jason Giambi, and Ichiro Suzuki. As we focus our technologies to create performance footwear for basketball, our affiliation with Shane underscores our shared passion for the sport and validates our drive to achieve genuine innovation."

Battier won both the Naismith and John Wooden awards in 2001 and was named MVP of the 2001 National Championship Game. A three-time national defensive player of the year, Battier was the first player in ACC history and fourth in college history to finish with at least 1,500 points, 500 rebounds, 200 blocks, 200 assists and 200 steals. He is Duke's all-time leader for career steals (266), second in career blocked shots (254), third in three-point field goals (246), third in three-point percentage (.416) and tied for eighth in points scored (1,984).

"...WE'LL USE HIS EXPERTISE AS A RESEARCH TOOL TO BALANCE THE EQUATION OF OUR DEVELOPMENT PROGRAM..."

Oakley plans to launch its performance basketball shoe through its growing network of footwear accounts. The company plans also to introduce a new technology called Red Code.™ (See page 1 story.) Oakley's growing array of product offerings in the footwear category are sold through approximately 4,700 locations around the world.

4TH CONSECUTIVE VICTORY FOR ARMSTRONG AND PRO M FRAME



It's considered to be the most physically demanding sports event on earth. A race of more than 2000 miles, the Tour de France is the ultimate measure of human endurance. One man has just completed his fourth consecutive win: the pride of Texas, Lance Armstrong.

Armstrong's fourth win is even more astounding after his victory over cancer. Forced off his bike in October 1996 by excruciating pain, he was diagnosed with advanced testicular cancer that had spread to his brain and lungs. He faced the challenge and conquered it with resolute determination.

"Lance has the vision that defeats impossibility," commented Oakley President Colin Baden. "He's a passionate and fearless competitor with a will to win that exemplifies the Oakley ethos, 'Dedicated to Purpose Beyond Reason.' We're proud that he chose our Pro M Frame® to wear in competition, and to cross the finish line of yet another Tour de France victory."

In honor of the athlete, Oakley created the Lance Armstrong Pro M Frame® as part of its signature series. This performance eyewear combines the peripheral clarity of POLARIC ELLIPSOID™ geometry with Ice Iridium® lens coating for tuned contrast and reduced glare. The frame is embellished with blue Unobtainium® earsocks and the home pride of a Texas flag icon. For the hingeless O Matter® backbone, Oakley chose a metallic finish as a salute to the athlete's iron will. A laser-etched signature authenticates this special edition.

If Armstrong wins the Tour de France another year, he will be one of only three riders in history to garner five victories. Being reminded of his own mortality by the diagnosis of 1996 has only strengthened his resolve. "When I die," said Armstrong, "it'll be when I'm a hundred years old, after screaming down an Alpine descent on a bicycle at 75 miles per hour."

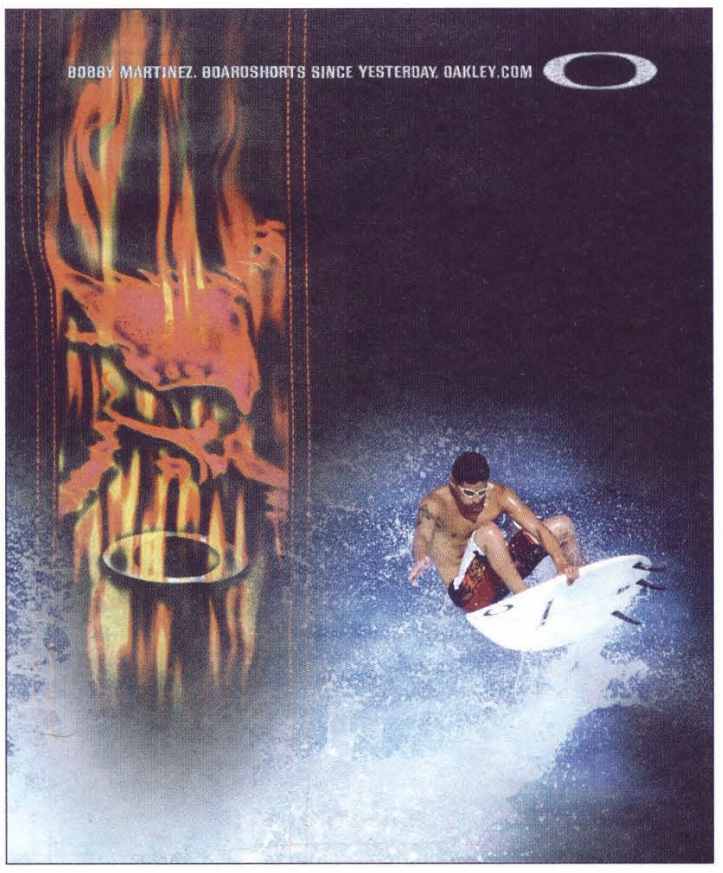
WATER EXPOSURE: OAKLEY IS TOP SURF BRAND

FOOTHILL RANCH, Calif. — Oakley was named "top surf brand" in Transworld Media's annual tally of brand exposure in leading surf magazines.

Oakley's surf team earned points each time one of its surfers received exposure either through editorial coverage or advertising imagery. After 7,915 photos were analyzed and tallied by Transworld, Oakley came out on top, beating the closest competitor with an astonishing 23% margin of victory.

Oakley's team members leading the pack were C.J. Hobgood, Taj Burrow and Damien Hobgood. In total there were 58 Oakley team members who received exposure in the surf magazines used for the study. These members received 53% of their points through editorial exposure with the remaining 47% coming from Oakley's advertising campaign.

"This is awesome, especially when you consider that our surf line is only in its second season," commented Scott Bowers, Vice President of Sports Marketing. "We are very proud of our surf team and as you can see, these guys get us the editorial exposure that is so important for our brand. Being named 'The Most Dominant Brand in Surfing' by Transworld validates our sports marketing efforts in this category. Oakley technology continues to advance, and we look forward to creating great products for these guys in the years to come," Bowers concluded.



RAPID GROWTH WITHIN OAKLEY'S EXTENDED PRODUCT CATEGORIES

Oakley continues to demonstrate substantial growth in product categories other than sunglasses. Combined full-year gross sales of the company's apparel, prescription eyewear, footwear and watch categories grew 32.7 percent in 2002, reaching $133.7 million. This accounted for 25.3 percent of full-year gross sales, compared with 22.4 percent of full-year gross sales in 2001.

"The science and art that earned us a leading market share in our primary category continue to bring new ideas to new markets," said Oakley President Colin Baden. "Our strength is our ability to transcend product categories by leveraging the tools, the talent, and most of all, the passion to create an expanding scope of inventions that perform beyond the limits of possibility."

Apparel gross sales increased 49.3 percent to $56.6 million for the full year, compared with $37.9 million in 2001. Stronger initial penetration into the golf, surf and biking markets contributed to the increase. In addition, the rollout of 39 Oakley concept shops with several key department store retail partners in the U.S. provided an expanded distribution channel for apparel, as well as increased visibility for the Oakley brand.

Prescription eyewear gross sales increased 38.5 percent to $34.2 million for the full year, compared with $24.7 million in 2001. The company's 2002 prescription eyewear frame line consisted of 11 styles (40 SKUs).

Footwear gross sales grew 4.0 percent to $31.2 million for the full year, compared with $30.0 million in 2001. The company's spring assortment of sandals continued to build on momentum initiated by the prior year's spring season.

Watch gross sales increased 41.5 percent to $11.6 million for the full year, compared with $8.2 million in 2001. Watch growth was led by strong second-half launches of the extended Crush™ product line including the Detonator,™ Crush™ 2.0 and Crush™ 2.5.

Goggle gross sales grew 8.2 percent to $27.8 million for the full year, up from $25.7 million in 2001.

OAKLEY EXPANDS WATCH PROGRAM

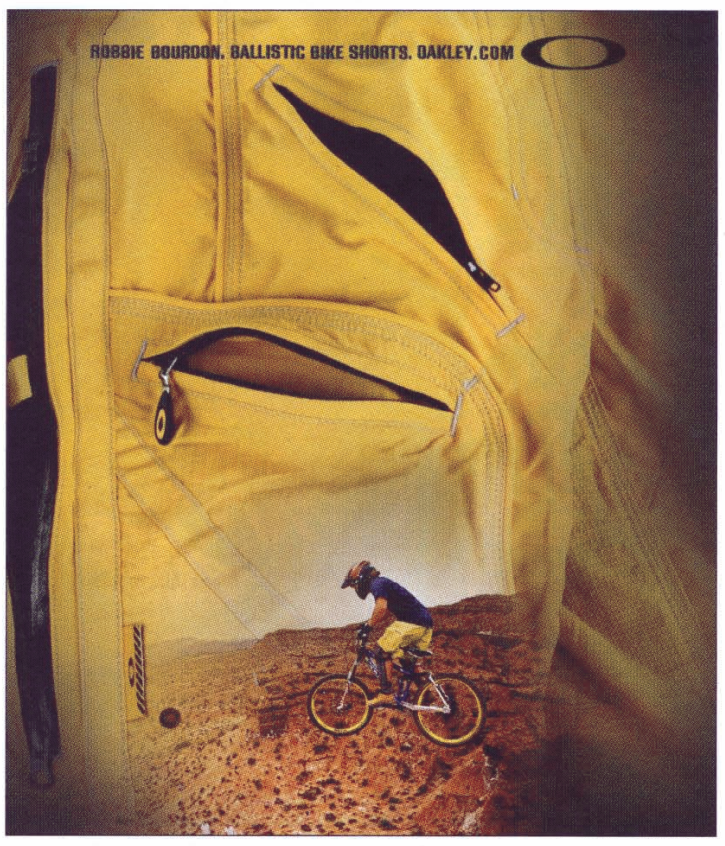
FOOTHILL RANCH, Calif. — Oakley continues to extend its line of premium timepieces. May 2002 releases featured instruments that equip professional athletes with digital training tools. Matching the precision of the original D1® and D.5™ wristwatches, Oakley's new D2™ and D3™ feature unique geometries of durable and lightweight O Matter® material. Their scratch-resistant crystals protect the biggest, brightest displays in digital timekeeping. Readouts for both instruments have the adaptability of 10 user-adjustable contrast levels and electroluminescent backlighting for low light conditions. Two separate time zones can be displayed simultaneously.

Oakley's D2™ wristwatch includes three programmable alarms and three multifunction countdown timers. It can log 50 separate runs and store 100 lap times, including split times and the fastest lap time. D3™ includes one programmable alarm and one multifunction countdown timer. Its software engine can log 45 separate runs and store 90 lap times, including split times and the fastest lap time. Both D2™ and D3™ use Oakley Unobtainium™ for a flexible, comfortable band.

October of 2002 saw the addition of three more products to the premium line. The first two, Oakley Crush™ 2.0 and Crush™ 2.5, utilize impact-forged stainless steel that is shaped by high-precision CNC machining. The finished monolithic design fits anatomy, thanks to the internal frame structure of Oakley 4-D™ design language which seamlessly matches the case with the contours of a comfortable band, engineered with advanced Unobtainium™.

Crush™ 2.0 and Crush™ 2.5 are true analog quartz timepieces. In both designs, one-jewel high precision movement is augmented with a mechanical date display and powered by a five-year battery. Anti-reflective coating keeps glare off the mineral glass crystal while a dual-sealed crown protects the case from the water pressure of 100-meter depth (330 feet). A smaller rendition of Crush™ 2.0, Crush™ 2.5 uses reduced geometry to offer the same precision technologies in a more compact architecture.

Released in October 2002, Detonator™ is Oakley's first analog chronograph. Its seven-hand display is driven by high-precision quartz movement. Shielded by an impact-forged stainless steel case, the timepiece measures 1/5-second intervals and shows elapsed time, split time, accumulated time and dual competitor time. Comfort and fit are maximized by a band of advanced Unobtainium™ that blends seamlessly into a durable case, thanks to the high-strength 3-D internal frame structure of Oakley 4-D™ design language. Built for human logic, Detonator™ refines the tedious and complicated procedure of alarm setting to a simple, intuitive operation. The instrument includes a mineral glass crystal with anti-reflective coating, a date display and a three-year battery.



OAKLEY PRODUCES ASSAULT BOOT FOR U.S. ELITE SPECIAL FORCES

FOOTHILL RANCH, Calif. — The latest benefit of Oakley's fifteen-year alliance with the United States military is a boot designed specifically for the U.S. Elite Special Forces. Oakley will soon offer its Elite Special Forces Standard-Issue Assault Boot for civilian use, along with a shoe variant of the innovative new design.

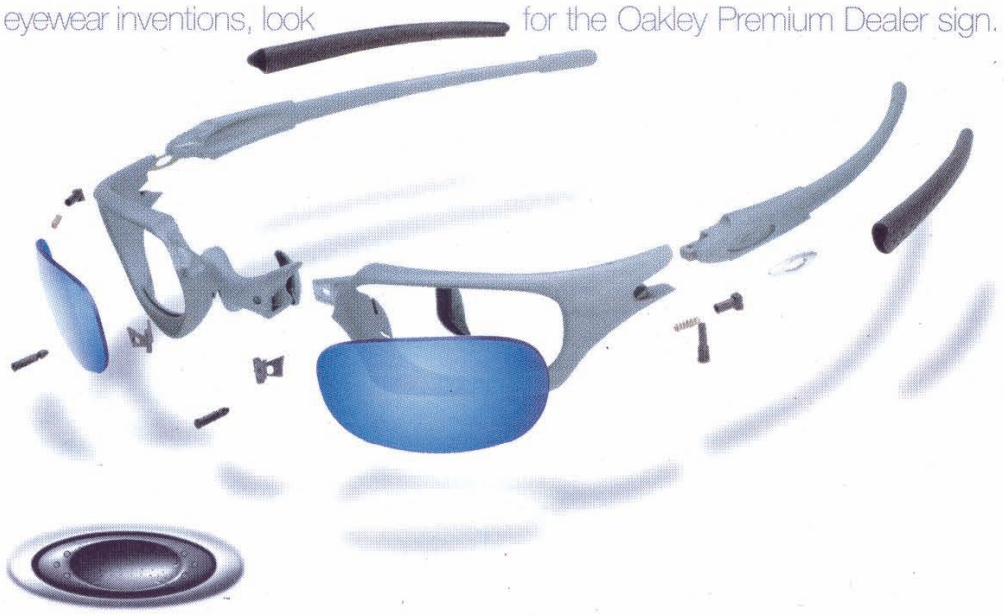
"It's part of our ongoing research and development with the U.S. military," said Oakley President Colin Baden. "When the Elite Special Forces needed footwear for assault missions, they came to us." Baden noted Oakley's well-established reputation for products that offer performance advantages for professional athletes. "The military saw Oakley innovation as a means to outperform their opponents. Their lives depend on their gear, and there can be no greater compliment to a company's dedication to performance technology."

The Elite Special Forces needed a more athletic design than any boot ever conceived. To attack the problem, Oakley engineers teamed with specialists from various branches of the U.S. military. Multiple iterations of the new invention were tested in urban, mountain, desert, snow and jungle environments. The military put Oakley's prototypes through the punishment of extended marches, fast rope helicopter insertions, HALO (High Altitude / Low Opening) and HAHO (High Altitude / High Opening) parachute jumps. The end result exceeded the combat performance profile for durability, comfort and protection, and was deemed worthy of the Elite Special Forces.

Engineered with a lightweight athletic design, the Oakley Elite Special Forces Standard-Issue Assault Boot is braced by an over-the-ankle boot shaft and shielded by abrasion resistant panels on soft top-grain leather. Comprehensive moisture control maximizes comfort. Advanced polymer EVA and premium urethane offer resilient shock absorption. High-NBS vulcanized rubber maintains traction over a full range of terrain. The shoe variant of this technology is engineered with all the same innovations but has a lower ankle cut and does not include a boot shaft.

SOLVING THIS PUZZLE REQUIRED 200 TONS OF FORCE.

Nobody on the planet knew how to make metal frames with contours in three dimensions. An impossible problem demands an impossibly innovative solution, so we found a way to combine 200 tons of pressure and high-energy microplasmic oxidation. The result is Oakley® Switch,™ the first performance eyewear on earth made of ultra light-weight magnesium alloy. It's not the first 3-D sculpted metal frame to set new benchmarks in comfort and durability. That began with Oakley X Metal®, but only after we invented a way to bombard titanium alloy with 425,000 watts of power at 3,600 degrees Fahrenheit. The real puzzle is why anybody would be so obsessed with achieving the impossible. Because mad science is dedicated to purpose beyond reason. To find a dealer near you, log on to oakley.com or call us at 1-800-501-5835. For the largest selection of Oakley eyewear inventions, look for the Oakley Premium Dealer sign.



Form 10-K

OAKLEY INC - OO

Filed: March 31, 2003 (period: December 31, 2002)

Annual report which provides a comprehensive overview of the company for the past year

Table of Contents

QuickLinks -- Click here to rapidly navigate through this document

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

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

For the fiscal year ended December 31, 2002
Commission File Number: 1-13848

Oakley, Inc.

(Exact name of registrant as specified in its charter)

Washington	**95-3194947**
(State or other jurisdiction of incorporation or organization)	(IRS Employer ID No.)
One Icon **Foothill Ranch, California**	**92610**
(Address of principal executive offices)	(ZIP Code)

Registrant's telephone number, including area code (949) 951-0991

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

Title of each class	**Name of each exchange on which registered**
Common Stock, par value $.01 per share	**New York Stock Exchange**

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 90 days. Yes ☒ No ☐

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 definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes ☒ No ☐

Aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity, as of the close of business on June 30, 2002: $509,425,438

Number of shares of common stock, $.01 par value, outstanding as of the close of business on March 24, 2003: 68,068,463 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the proxy statement for the registrant's 2003 Annual Shareholders Meeting are incorporated by reference into Part II and Part III herein.

Oakley, Inc.
TABLE OF CONTENTS

Part I

BUSINESS

General

Oakley, Inc. (referenced here as the "Company" or "Oakley") is a Washington corporation formed in March 1994 to succeed to the assets and liabilities of Oakley, Inc., a California corporation that commenced operations in 1977 and began to sell sunglasses in 1984. The Company is an innovation-driven designer, manufacturer and distributor of consumer products that include high-performance eyewear, footwear, watches, apparel and accessories. The Company believes its principal strength is its ability to develop products that demonstrate superior performance and aesthetics through proprietary technology and styling. Approximately 600 patents and 900 trademarks worldwide protect the Company's designs and innovations.

Forward-Looking Statements

When used in this document, the words "believes," "anticipates," "expects," "estimates," "intends," "may," "plans," "predicts," "will" or the negative thereof and similar expressions are intended to identify, in certain circumstances, forward-looking statements. Such statements are subject to a number of risks and uncertainties that could cause actual results to differ materially from those projected, including: risks related to the Company's ability to manage rapid growth; the ability to identify qualified manufacturing partners; the ability to coordinate product development and production processes with those partners; the ability of those manufacturing partners and the Company's internal production operations to increase production volumes on raw materials and finished goods in a timely fashion in response to increasing demand and enable the Company to achieve timely delivery of finished goods to its retail customers; the ability to provide adequate fixturing to existing and future retail customers to meet anticipated needs and schedules; the dependence on eyewear sales to Sunglass Hut which is owned by a major competitor and, accordingly, could materially alter or terminate its relationship with the Company; the Company's ability to expand distribution channels and its own retail operations in a timely manner; unanticipated changes in general market conditions or other factors, which may result in cancellations of advance orders or a reduction in the rate of reorders placed by retailers; continued weakness of economic conditions, which could continue to reduce or further reduce demand for products sold by the Company and could adversely affect profitability, especially of the Company's retail operations; further terrorist acts, or the threat thereof, which could continue to adversely affect consumer confidence and spending, could interrupt production and distribution of product and raw materials and could, as a result, adversely affect the Company's operations and financial performance; the ability of the Company to integrate acquisitions without adversely affecting operations; the ability to continue to develop and produce innovative new products and introduce them in a timely manner; the acceptance in the marketplace of the Company's new products and changes in consumer preferences; reductions in sales of products, either as the result of economic or other conditions or reduced consumer acceptance of a product, which could result in a buildup of inventory; the ability to source raw materials and finished products at favorable prices to the Company; the potential effect of periodic power crises on the Company's operations, including temporary blackouts at the Company's facilities; foreign currency exchange rate fluctuations; earthquakes or other natural disasters concentrated in Southern California where substantially all of the companies operations are based; theactual cost of the restructuring of the Company's European operations, which may vary significantly from management's estimates of those costs; and the Company's ability to identify and execute successfully cost control initiatives. Because of these uncertainties, prospective investors are cautioned not to place undue reliance on such statements. The Company undertakes no obligation to update these forward-looking statements.

The company makes available through its corporate website, free of charge, its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports as soon as reasonably practicable after such reports are filed or furnished to the Securities and Exchange Commission.

Product Design and Development

At its core, Oakley is a technology company, in business to seek out problems with existing consumer products and solve them in ways that redefine product categories. The foundation of the Company is built on three fundamental precepts: Find opportunity. Solve with technology. Wrap in art.

To date, the Company has designed its eyewear, footwear, watch, apparel and other accessories using its own resources in order to preserve brand image, which the Company believes will bring greater respect and demand for Oakley's products over the long term.

State-of-the-art technology maintains efficiency, precision and speed in the Company's product development cycle. Stereolithographic computer modeling is combined with CAD/CAM liquid-laser prototyping to create fully detailed prototypes of eyewear, footwear and accessories. Rapid iteration of working models allows for extensive design testing before final production. After the development stage is complete, the finalized sculpture can be used directly in preparation of production tooling. Utilizing these processes, the Company is capable of introducing new eyewear product lines within four months of initial concept.

The Company's products undergo extensive testing throughout development. The American National Standards Institute (ANSI) and the American Society for Testing and Materials (ASTM) have established specific testing criteria for eyewear. These tests analyze product safety and provide quantitative measure of optical quality, UV protection, light transmission and impact resistance. In addition, the Company performs a broad range of eyewear coatings durability testing and mechanical integrity testing that includes extremes of UV, heat, condensation and humidity. With strict guidelines from the ASTM and other industry authorities, Oakley footwear and apparel are tested to ensure quality, performance and durability that meet or exceed these standards. Research and development expenses during the years ended December 31, 2002, 2001 and 2000 were $16,016,000, $11,318,000 and $7,894,000, respectively.

Eyewear Technology

Among the Company's most important patents are those which guard its achievements in toroidal single-lens geometry and the associated manufacturing techniques, dual-spherical lens technology and the associated optical advances, and innovations in frame design and functionality. The proprietary technologies employed in lens cutting, etching and coating, as well as the Company's significant investment in specialized equipment, are matched with exclusive formulations of production materials to achieve the superior optical quality, safety and performance of Oakley eyewear.

Oakley's patented*XYZ Optics*® represents a major breakthrough in lens technology. Precise geometric orientation provides optical correction on three axes, not just two. The resulting lens allows light to be received over essentially the full angular range of vision while minimizing distortion caused by disparate refraction along that range—an advance that increases clarity for all angles of view. This allows for wrapped, raked-back lens configurations that enhance peripheral vision and protection against sun, wind and side impact.

High-performance sports application eyewear featuring Oakley's patented*POLARIC ELLIPSOID*™ lens geometry*(M Frame*®,*Pro M Frame*® and*Zeros*®) have demonstrated superior optical clarity when compared to similar products of principal competitors. Developed specifically for toroidal lenses (which use different measurements for top-to-bottom vs. side-to-side curvature), this proprietary geometry allows the Company to produce single-lens sports shields that provide enhanced coverage and protection while reducing distortion at all angles of vision.

Plutonite® lens material and*Iridium*® lens coatings are among the Company's most prominent advances in eyewear.*Plutonite*® is a proprietary material used to produce lenses of exceptional optical clarity. The material inherently blocks 100% of all UVA, UVB, UVC and harmful blue light. Rendered as lenses of extremely high durability and low weight, it offers superior impact protection when

matched with the Company's eyewear frames.*Iridium*® is a metallic oxide that improves contrast and thereby enhances perception of detail. A full spectrum of available*Iridium*® lens coatings allows the wearer to tune transmission for any given light condition. The coating has become very popular for eyewear used in demanding sports such as skiing and cycling, and in high altitude use.

The distinctive hues of the Company's lenses add to their popularity in the recreational sunglass market. By offering interchangeable lenses for certain frames, as well as other changeable components in various colors and shapes, the Company has created a market for replacement parts. Depending on the sunglass, an Oakley customer may have several lenses for differing light conditions and several nosepieces and earpieces in a range of colors for variety, adaptability and personalized styling.

The Company continues to raise the bar of performance with innovative engineering in frame design. A proprietary three-point fit serves to retain optical alignment while eliminating the discomfort of ordinary frames that mount with unbalanced pressure points. The*Wire*® frames are rendered from*C-5*—a durable, lightweight alloy of five metallic compounds.*O Matter*® frames are composed of a lightweight synthetic that retains durability while allowing critical flex. As the only 3-D sculptured, hypoallergenic, all-metal frames on earth,*X Metal*® is a family of eyewear named for a proprietary metal blend that exhibits an extraordinary strength-to-weight ratio.*X Metal*® frames are produced with a unique metallurgical process and are designed to utilize breakthroughs in architectural mechanics that allow the customer to tailor the fit. The*Switch*™ frames, introduced in late 2001, are believed to be the world's first optical frames designed to incorporate ultra-lightweight magnesium metal within a ceramic mantle.

In March 2001, the Company released its first line of ophthalmic-specific frames and currently has a comprehensive prescription program encompassing both ophthalmic frames and corrective lenses. The ophthalmic specific frame collection is a combination of sculpture, fit and function. There are several shapes and sizes for the consumer to choose from and a variety of materials used—*Magnesium*™, *C-5*,*X Metal*® and Rx*O Matter*®. As part of the Company's*Plutonite*® prescription lens offering, the Company sells a single lens product that is ideally suited for the sports enthusiast. The Rx*M Frame*® utilizes a proprietary technology that enables the wearer to have the ultimate protection and widest range of visual acuity. To complement the single lens product, the Company also offers a dual lens program that is an ideal choice for the consumer who is interested in a more traditional eyewear frame or one of Oakley's many high-wrap sunglass frames. Oakley*Plutonite*® prescription lenses are surfaced and finished at one of the Company's prescription lens processing labs in the United States or Ireland. This control over the lens processing operation allows the Company to control the quality of the lens and process it to have tolerances that exceed industry standards. The Company's prescription lenses can be ordered to fit any brand of ophthalmic frame, regardless of model or manufacturer. There are 15 single lens and 8 dual lens options that include*Iridium*® lens coatings, polarization and clear lenses with an anti-reflective coating which offer customers added incentive to select*Oakley Rx* prescription lenses. The Company intends to introduce five progressive lens color options with new lens partner Varilux beginning in the second quarter 2003.

Eyewear Products

Several new eyewear products were introduced during the year 2002.

New members to the*Jacket*® family include,*Half Jacket* ™, the first dual lens*O Matter*® semi-rimless frame using an interchangeable lens system.*Splice*™, the first*O Matter*® piece that fuses contrasting*O Matter*® orbitals to an*O Matter*® chassis using stainless steel metal injection molded (MIM) inserts.*Halfpint*™, Oakley's first*O Matter*® frame targeted the youth population and equipped with an*Unobtanium*® restraining device; and*Eye Jacket*® *3.0*, a continuation of the*O Matter*® *Eye Jacket*® legacy with updated styling.

The latest addition to the*Frogskin*® family,*Fate*®, is ideally designed for the female anatomy where soft angles sweep the lenses with six-base curvature to enhance peripheral vision while*XYZ Optics*®

extends clarity to the far edge. Lightweight and stress resistant, the comfortable*O Matter*® frame is accented with true metal icons, sculptural hinges and dimensional aesthetics.

The Company also introduced two new*Wire*® offerings including*Wiretap*™, a radical new entry level C-5 wire design using true metal icon accents and*Half Wire*®, a C-5 offering using a semi-rimless frame with custom engineered spring hinge mechanisms and true metal icon accents.

The*Magnesium*™ eyewear collection saw the introduction of three new models.*Mag M Frame*®, is composed of ultra lightweight magnesium in the proven sports specific*M Frame*® geometry, with interchangeable lenses and a custom spring hinge mechanism for a balanced fit.*Mag Four*® uses ultra lightweight magnesium in a 4 base frame, stainless steel metal injection molded (MIM) orbital closures and custom spring hinge mechanism.*Mag Four® S*, similar to the Oakley*Mag Four*®, but with smaller, softer orbitals, also utilizes a custom spring hinge mechanism.

The Company's eyewear products as of December 31, 2002 are listed below:

Frogskins®	Date Introduced	U.S. Suggested Retail Price
Frogskins®	April 1985*(updated December 1996)*	$65-125
Twenty-XX™	March 2000	$90-145
Oakley Four®S	April 2001	$75-90
Fives®2.0	November 2001	$65-125
Fate™	May 2002	$75-110

Jackets™	Date Introduced	U.S. Suggested Retail Price
Minute®	May 1998	$95-155
Eye Jacket®	Late 1994*(updated August 1999)*	$85-155
Eye Jacket®2.0	July 2000	$105
Eye Jacket®3.0	June 2002	$85-145
Racing Jacket®	January 1998	$130
Straight Jacket®	May 1996*(updated November 1999)*	$90-195
Water Jacket®	July 2000	$190
Scar®	June 2001	$150-175
Half Jacket®	March 2002	$100-145
Splice™	April 2002	$125-150
Half-Pint™	March 2002	$70-85

M Frame®	Date Introduced	U.S. Suggested Retail Price
M Frame®	March 1990*(updated May 1999)*	$105-175
Pro M Frame®	November 1996	$105-200

Zeros®	Date Introduced	U.S. Suggested Retail Price
Zeros®	Late 1993*(updated May 1999)*	$100-130

Wire™	Date Introduced	U.S. Suggested Retail Price
E Wire®2.1	May 2001	$145-200
T Wire®	August 1994*(updated May 2000)*	$225
Square Wire®2.0	May 2000	$140-215
A Wire®	May 1998*(updated May 2000)*	$130-195
C Wire™	April 2000	$155-200
Why 3®	March 2001	$265-275
Wiretap™	March 2002	$120-125
Half Wire®	March 2002	$155

X Metal®	Date Introduced	U.S. Suggested Retail Price
Romeo®	February 1997	$275-285
Mars®	March 1998	$275-315
Juliet®	February 1999	$275-400
XX®	December 1999	$275-325
Penny®	June 2001	$290

OVERTHETOP™	Date Introduced	U.S.Suggested Retail Price
OVERTHETOP®	November 2000	$180-185

MAGNESIUM™	Date Introduced	U.S. Suggested Retail Price
Switch™	September 2001	$225-230
Mag 4	April 2002	$215-220
Mag 4 S	April 2002	$215-220
Mag M Frame®	April 2002	$225-230

Goggle Technology and Products

The culmination of more than 20 years in the goggle business has resulted in what the Company believes to be the world's most optically correct goggles for motocross, mountain bike, snow and water recreation. Available in a number of styles, the Company's goggles include features such as scratch-resistant Lexan® lenses, conical frames and multi-layered face foams. Updated in 2000, the Company's*MX O Frame*® continues to improve upon its championship legacy in motocross. The*A Frame*® is the world's first optically correct dual-lens snow goggle and is engineered to optimize protection, as well as the clarity and range of peripheral and downward vision. A triple layer of face foam insulates and cushions the contact surface for the ultimate in thermal shielding and comfort. In 2002, the Company introduced the*Wisdom*™ goggle, featuring increased lens sizing for greater visual range and interchangeable strap connections to accommodate helmets. The Company's goggle products as of December 31, 2002 are listed below:

Goggles	Date Introduced	U.S. Suggested Retail Price
Motocross	1980*(updated March 2000)*	$35-60
Snow	1983	$30-135
H_20	1990	$37-65

Face Shields and Hockey Gloves

In June 1997, Oakley acquired One Xcel, Inc., a company that designs, markets and distributes what the Company believes to be the only optically correct protective face shield available for use with hockey and football helmets. In 2001, the Company discontinued the One Xcel brand name for football shields and began marketing those products under the Oakley name. The Company transitioned its hockey shield products to the Oakley name in 2002 and also began marketing hockey gloves featuring the Oakley logo. Oakley continues to maintain a licensing relationship with the National Hockey League (NHL) for both of these product lines.

Footwear Technology

With continued advancement in the design and manufacture of footwear, the Company is utilizing proprietary*Net Shape*™ technology to create shoes with superior fit throughout the full range of motion. Instead of creating parts separately and forcing their consolidation, true unibody construction is achieved with CAD/CAM engineering, allowing components to form an integrated system. A design change in any part of the shoe is seamlessly integrated into other components, and finalized data is passed directly to production equipment. This translates to improved functionality and comfort, as well as enhanced durability by preventing weaknesses that could result from misaligned or mismatched components.

Additional innovations in design and manufacture result in superior performance, comfort and durability in the Company's footwear offerings. Premium materials and proprietary structural designs are used to achieve cushioning properties that exceed industry standards. Usage life is maximized by minimal compression set, which allows components to resist permanent deformation. Comprehensive moisture control systems are matched with structural designs and materials that offer high levels of

vapor transport to help alleviate the buildup of perspiration. Raised outsole designs enhance lateral protection and encapsulate midsoles rather than leaving them exposed. Engineered for specific performance applications, an array of shoe lasts allows the Company to tune performance in each footwear line.

Oakley Red Code™ is a midsole system that achieves the highest level of performance for each sports application. It customizes and optimizes energy return, shock attenuation and stability. As the DNA of Oakley footwear, Red Code™ calibrates performance with a high degree of precision. It does this by designating unique functional zones beneath the foot. With data that serves as genetic markers for specific performance requirements, Red Code™ defines the size, shape, density and composition of internal structures within each zone. These structures dissipate ground forces at progressive rates, unlike the inflexible rates of common midsoles. This surpasses current technologies of dual-density foams, air bladders, gels and composite plates that fail to address the complexity of 26 bones and 33 joints that make up the human foot. By calibrating the kinetic and stability signatures of footwear, Red Code™ adapts and optimizes performance for each targeted sports application.

Footwear Products

The first model of the Company's footwear was introduced in June 1998. With the goal of reinventing the concept of performance footwear, the Company utilized materials that had never before been applied in the industry. Vulcanized rubber was discarded for a unique synthetic, a composite of Kevlar® and Oakley*Unobtainium*® that parallels the traction technology of racing tires. A breathable lattice of high-tenacity*O Matter*® was interwoven with Kevlar® for the shoe upper, and breakthroughs such as three-point triangulated sole geometry and independent torsion response were added to enhance performance.

Kevlar® is a registered trademark of DuPont.

Seventeen new footwear styles were released in the year 2002. They include*Smoke® Ring, Split Crater™, Box Crater™, Crater™ Rim, Impact Crater™, Factory Pilot™ Low-Top / Mid-Top, Anti-Sole™ Low-Top / Mid-Top, Snake Belly™ Low-Top / Mid-Top, Pickled Bobbie, Teeth™, Teeth™ Low, Big Teeth™, Nail™ 2.0 Low-Top / Mid-Top / Mid-Top Waterproof*

Smoke™ Ring: For the best traction in and out of the water, the Company formulated a wet/dry, vulcanized rubber sole. The sole maintains superior surface grip in both environments without sacrificing performance in either. The comfortable fit matches the support of synthetic nubuc with the breathability of Aeroprene lining. Low water retention and fast-drying properties allow for rapid adaptation.

Split Crater™: The Company elevated comfort and durability, took the profile down to low altitude and shielded it for sea level competition. The dual-density footbed of this sandal is anatomically contoured, jacketed in brushed suede and treated with an anti-microbial agent. Waterproof materials and quick-drying components provide rapid adaptation in aquatic zones.

Box Crater™: Digital mastering turns high NBS vulcanized rubber into dual contact zones then tops them with supple, natural leather. The Company's premium top-grain nubuc is waterproofed, shielded against saltwater corrosion and paired with 3-D mesh for breathable comfort. This sandal is engineered with quick drying materials, this tool of liquid recreation is enhanced with anatomical contouring for a secure, supportive fit.

Crater™ Rim: For supreme comfort, the Company extended our breathable 3-D mesh around the Achilles and added 4mm of soft, resilient padding. The footbed follows nature's contours and optimizes comfort with the shock absorption of advanced polymer EVA, sheathed in waterproof brushed suede. Climate control and wet/dry adaptability make this sandal a native in any environment.

Impact Crater™: A fast-drying amphibian, its rubber skin is bonded to a mantle of waterproof synthetic nubuc. For wet traction, the vulcanized outsole utilizes high NBS rubber and water-channeling tread geometry. The anatomically contoured footbed is sheathed to minimize sliding and the adjustable quick-release buckle achieves a comfortable, precise fit.

Factory Pilot™ *Low-Top / Mid-Top:* Only premium top-grain leathers are worthy of such a highly engineered tool of performance. For flexibility and support with minimal weight, the Company utilized strobel stitch construction. This new court shoe last offers aggressive toe spring and solid footing with high tactile response. Superior durability, comfort and fit are benefits of proprietary Net Shape™ Technology.

Anti Sole™ *Low-Top / Mid-Top:* The ultimate court shoe demanded the equivalent of genetic engineering, so Oakley invented*Red Code*™, the DNA of Oakley footwear. It's a midsole substructure designed to compress at progressive rates in specific zones beneath the entire foot. For precise calibration, Real-Time Digital Design was used to dynamically synchronize 3-D components. Oakley even added a*3-D Shank*™ to the mid-top, achieving flexible 3-axis stability with torsion bars. The end result offers absolutely unbeatable comfort, energy return and dynamic shock absorption for court performance that separates those who play from those who pose.

Snake Belly™ *Low-Top / Mid-Top:* Real-Time Digital Design and*Red Code*™ technology allow the Company to dynamically synchronize 3-D components to create a court shoe with unmatched stability, shock absorption and energy return. Premium materials are digitally tooled for performance traction, anatomical fit, underfoot sensitivity and response. Moisture control and premium recoil systems offer superior comfort.

Pickled Bobbie: Tuned for the narrower bone structure and higher arch of a woman's foot, this open-back design offers long-lasting comfort with unparalleled shock absorption. Flexible sidewalls and a nonslip footbed keep it in place. The stable platform features a relaxed metatarsal spread for improved balance and a raised outsole for durability and abrasion resistance.

Teeth™*:* Proprietary geometry combines two specially formulated tread materials to achieve the widest possible range of traction. The tread perimeter is studded with incisors for biting loose terrain while inlaid molars gnash smooth surfaces. Performance is optimized with premium shock absorption and a polyurethane*3-D Shank*™ with torsion bars for controlled flex.

Teeth™ *Low:* No single tread could maintain traction over the full range of environments—until now. This low-top lace-up style features engineered teeth to bite smooth surfaces and gnaw loose ground. The raised outsole extends to an exterior heel counter for durability and protection. Resilient cushioning absorbs bone-pounding impact while hydrophilic liners control moisture and heel retention.

Big Teeth™*:* We combined the all-terrain performance of*Teeth*™ tread with a raised collar for heightened shielding. Achieving new levels of support and flexibility required a*3-D Shank*™ with precisely tuned torsion bars. Durability climbs to new heights with a vulcanized rubber sole and an external heel counter. Moisture-transport liners help reach the summit of comfort.

Nail™ *2.0 Low-Top / Mid-Top / Mid-Top Waterproof:* This premium line redefines comfort and durability, from moisture control and shock absorption to triple-cord seaming that's 50% stronger than industry standards. The raised outsole is engineered with specialized zones for skid stopping and traction climbing.*Nail*™ *Mid-Top* is also available in a waterproof design with membrane technology that maintains comfortable breathability.

The Company's footwear products as of December 31, 2002 are listed below:

Footwear	Date Introduced	U.S. Suggested Retail Price
Overdrive™	Fall 2001	$150-175
Crank™	Fall 2001	$85
Smoke™*Ring*	Spring 2002	$65
Split Crater™	Spring 2002	$50
Box Crater™	Spring 2002	$65
Crater™*Rim*	Spring 2002	$70
Impact Crater™	Spring 2002	$95
Factory Pilot™	Holiday 2002	$70-75
Anti-Sole™	Fall 2002	$95-100
Snake Belly™	Fall 2002	$75-85
Pickled Bobbie	Spring 2002	$85
Teeth™	Spring 2002	$95
Teeth™*Low*	Spring 2002	$115
Big Teeth™	Spring 2002	$125
Nail 2.0	Spring 2002	$85-115

Wristwatch Technology

The Company offers a comprehensive line of premium wristwatches. These products are rendered by the digital precision of such design and production technologies as CAD/CAM engineering, Computer Numeric Control (CNC) machining and SLA Liquid Laser Prototyping. The range of performance accuracy extends to the level of six-jewel high precision Swiss movement. Variant component geometries and materials are blended seamlessly in products that utilize the design language of*Oakley 4-D*™. The Company currently produces self-powering wristwatches, digital timepieces with proprietary software engines, true analog quartz systems and a precision analog chronograph.

Oakley's premier wristwatch releases feature*World Movement*®, the culmination of advances in gearing, bearings and microcircuitry from around the globe. Each timepiece combines digital quartz accuracy with an intuitive analog design. Also featured is a unique Oakley invention, a precision flywheel mechanism called the*O Engine*® that drives an*Inertial Generator*®. With the means to convert motion into electricity, the Company has created a self-powering timepiece that never needs winding or batteries. Precision crafting is extended to the full-metal band, with unique positional geometry applied to each segment for enhanced flexibility, fit and comfort.

In September 2000, the Company introduced a line of digital watches to meet the training requirements of professional athletes. These releases feature a proprietary software engine and a durable casing of aramid fiber. In May 2002, the Company followed up its digital offering with the*D2*™ and*D3*™ timepieces.

During the fourth quarter of 2001, the Company released a sport luxury collection including three new watch styles called*Crush*™,*Bullet*®, and*Torpedo*™. October of 2002 saw the addition of three more products to this group.*Crush*™*2.0* and*Crush*™*2.5* are true analog quartz timepieces. In both designs, one-jewel high precision movement is augmented with a mechanical date display and powered by a five-year battery. Anti-reflective coating keeps glare off the mineral glass crystal while a dual-sealed crown protects the case against the water pressure of 100-meter depth (330 feet). A smaller rendition of*Crush*™*2.0*,*Crush*™*2.5* uses reduced geometry to offer the same precision technologies in a more compact architecture.

The third release in October 2002, Oakley*Detonator*™ is the Company's first analog chronograph. Its seven-hand display is driven by high precision quartz movement. Shielded by an impact-forged stainless steel case, the timepiece measures $^{1}/_{5}$-second intervals and shows elapsed time, split time, accumulated time and dual competitor time. Comfort and fit are maximized by a band of advanced*Unobtainium*™ that blends seamlessly into the durable case, thanks to the high strength 3-D internal frame structure of*Oakley 4-D*™ design language. Built for human logic,*Detonator*™ refines the tedious and complicated procedure of alarm setting to a simple, intuitive operation. The instrument includes a mineral glass crystal with anti-reflective coating, a date display and a three-year battery.

Wristwatch Products

The Company's timepiece products as of December 31, 2002 are listed below.

Watch	Date Introduced	U.S. Suggested Retail Price
Time Bomb®	December 1998	$1,300 - $1,500
Icon™	November 1999	$1,300
Icon™Small	November 1999	$1,200
D1®	September 2000	$180
D.5™	May 2001	$160
Crush™	October 2001	$250 - $300
Bullet®	October 2001	$750
Torpedo™	November 2001	$475
D2™	May 2002	$120
D3™	May 2002	$120
Crush™2.0	October 2002	$275 - $325
Crush™2.5	October 2002	$275 - $325
Detonator™	October 2002	$395 - $450

Apparel Technology

Addressing the apparel needs of men and women, the Company has invested in a world-class lab that allows 100% in-house testing, research and development of garment products. Digital technologies allow the Company to design and create in three dimensions. All pieces are engineered to fit the body as contoured spatial forms, not flat cutouts, so articulation and fit can be optimized. The Company utilizes core technologies to build technical apparel for professional competition, and thereby achieve crossover into technical lifestyle. Innovations that enhance product durability, performance and comfort for professional athletes are transcended to the general public.

Engineered to provide superior climate resistance and unparalleled comfort, the Company's apparel achieves full performance benefits without added bulk or excess weight. Articulation provides ergonomic flexibility while triple-needle stitching and thermal seam seal taping maintain rugged durability. Textiles are enhanced with performance features that may include shielding from ultraviolet light, stretch resistance to maintain resilience, and fast-drying properties and water-wicking capabilities for comprehensive moisture control. Laminated membranes and unique coating formulations shield the Company's technical apparel from environmental moisture with no loss in garment breathability. This provides optimal comfort by minimizing perspiration buildup. The Company's membrane technology achieves 20,000mm water resistance, equivalent to supporting an 82-foot column of fluid without leaking. Additional enhancements maximize performance in the Company's apparel offerings. To maintain comfort, adjustable venting is engineered into specific anatomical zones that are prone to heat buildup. The rapid dissipation of heat and moisture is augmented by performance textiles that maintain the breathability of vapor transport. When weather conditions change, the adaptable architecture of the Company's apparel allows instant acclimation.

Innovations recently integrated into select items of the Company's apparel line include adaptable insulation and textiles with laminated membranes for waterproof protection that maintains the breathability of direct venting. Adaptable insulation is achieved by fusing layers of lightweight, flexible fabric to create interior chambers that can be filled via inflation valves. This creates a fully adjustable thermal barrier without relying on the excess weight and bulk of traditional insulation. In membrane technology, fabrics are laminated to expanded polytetrafluoroethylene to create barriers against environmental water while allowing interior moisture to escape in vapor form. For optimal comfort, hydrophobic properties prevent absorption of excess moisture within the textiles. The membrane

technology is exceptionally beneficial during highly aerobic activities that demand superior levels of weather protection.

Apparel Products

The Company released 413 apparel styles during 2002. Spring apparel releases for 2002 included 119 new styles. For the first time the Company introduced a summer and a holiday line of apparel. The summer line included 38 styles of which 32 percent were intended for the surf lifestyle market.

Fall apparel releases for 2002 featured an increased range of offerings in both technical apparel and lifestyle apparel. Thirty styles of men's technical outerwear and twenty styles of women's technical outerwear were introduced in addition to increased styles of golf, mountain bike and lifestyle products.

Product Line and Brand Extension

Oakley intends to introduce product line extensions and new product lines in the future and develop innovations targeted to attract additional consumers, and will support efforts to further diversify the Company as a global brand. To take advantage of unique opportunities, the Company may, from time to time, manufacture private-label or other sunglasses for other companies. The Company may also market and sell sunglasses under brand names other than "Oakley." In addition, the Company has licensed, and may determine to further license, its intellectual property rights to others in optical or other industries.

To date, the Company has designed its footwear, watch, apparel and other accessories using its own resources in order to preserve brand image, which the Company believes will bring greater respect and demand for Oakley's products over the long term.

Manufacturing

The Company's headquarters and principal manufacturing facility is located in Foothill Ranch, Orange County, California, where it assembles and produces most of its eyewear products. The Company uses state of the art manufacturing practices, such as cellular eyewear production, that allows for quick response to customer demand. The Company owns, operates and maintains most of the equipment used in manufacturing its eyewear products. In-house production can contribute significantly to gross profit margins and offers protection against piracy. It further enables the Company to produce products in accordance with its strict quality-control standards. Components and processes that are unlikely to add significant value are contracted to outside vendors. The Company utilizes third party manufacturers to produce its internally designed footwear, apparel, timepieces and beginning in 2003, certain goggles.

Much of the equipment used in the manufacture of Oakley products has been specially designed and adapted for the processes used by the Company. By manufacturing its own products, the Company has the opportunity to experiment with new materials and technologies which can lead to important discoveries, such as its patented*Iridium*® coating technology (which the Company believes is one of the most sophisticated coating processes in the industry). Proprietary manufacturing equipment and methodologies are protected by special security measures employed at the Company's manufacturing facilities.

The Company has a second manufacturing facility with 126 employees located in Dayton, Nevada, where it produces all of its eyewear products made of*X-Metal*®.

In January 2001, the Company began surfacing prescription lenses at the Foothill Ranch, California facility with a prescription lens lab designed to achieve quick turnarounds, better quality control, and higher optical standards. In June 2002, a third manufacturing facility was opened in Ireland, which provides prescription lenses to Europe.

The Company has built strong relationships with its major suppliers. With most suppliers, it maintains agreements that prohibit disclosure of any of the Company's proprietary information or technology to third parties. Although the Company relies on outside suppliers for the specific molded components of its glasses, goggles, timepieces and footwear, the Company retains substantial ownership of all molds used in the production of the components. The Company believes that most components can be obtained from one or more alternative sources within a relatively short period of time. In addition, to further mitigate risk, the Company has developed an in-house injection molding capability for sunglass frames.

The Company relies on a single source for the supply of several components, including the uncoated lens blanks from which virtually all of the Company's lenses are cut. In the event of the loss of the source for lens blanks, the Company has identified an alternate source that may be available. The effect of the loss of any of these sources (including any possible disruption in business) will depend primarily upon the length of time necessary to find a suitable alternative source and could have a material adverse effect on the Company's business. There can be no assurance that, if necessary, an additional source of supply for lens blanks can be located or developed in a timely manner.

In March 1997, the Company entered into a reciprocal exclusive dealing agreement with Gentex, its lens blank supplier, under which Oakley has the exclusive right to purchase, from such supplier, decentered sunglass lenses and a scratch-resistant coating developed for use with such lenses. In return, Oakley has agreed to purchase all of its decentered lens requirements, subject to certain exceptions, from such supplier. This agreement has been renewed and remains in force. The Company's business interruption policy reimburses the Company for certain losses incurred by the Company as a result of an interruption in the supply of raw materials, including uncoated lens blanks, resulting from direct physical loss or damage to a supplier's premises. Subject to certain exceptions, the amount of coverage available for each affected supplier ranges from $2 million to $20 million. However, there can be no assurance that such policy will be sufficient to compensate the Company for all losses resulting from an interruption in the supply of raw materials.

Distribution

The Company sells Oakley eyewear in the United States through a carefully selected base of approximately 9,200 active accounts as of December 31, 2002, with approximately 15,600 locations comprised of optical stores, sunglass retailers and specialty sports stores, including bike, surf, ski and golf shops, and motorcycle, athletic footwear and sporting goods stores and department stores. Unlike many of its competitors, the Company has elected not to sell its current season products through discount stores, drug stores or traditional mail-order companies.

The Company's products are currently sold in over 70 countries outside the United States. In most of continental Europe, marketing and distribution are handled directly by the Company's subsidiary Oakley Europe, located near Paris, France, which is staffed by approximately 210 employees who perform sports marketing, advertising, customer service, shipping and accounting functions. Since 1995, the Company has been selling Oakley products to Mexico and Central America on a direct basis through its subsidiary Oakley Mexico. In 1996, the Company acquired its exclusive distributor in the United Kingdom ("Oakley UK") and established an office in South Africa ("Oakley Africa") and began selling to those markets on a direct basis in the fourth quarter of 1996. In May 1997, the Company began selling to Japan ("Oakley Japan") on a direct basis through its own operation. In April 1998, the Company acquired the Oakley division of its exclusive Canadian distributor, enabling the Company to market and sell its products on a direct basis in Canada. In November 1999, the Company acquired its exclusive Australian distributor and thereby assumed direct responsibility for distribution of Oakley products in that market and in New Zealand. In June 2000, the Company assumed direct responsibility for distribution of Oakley products in the Austrian market and opened a new office known as Oakley GmbH in Munich, Germany to serve the German marketplace. In

February 2002, the Company established an office in Brazil and began shipping products to retailers there in the third quarter of 2002.

In those parts of the world not serviced by the Company or its subsidiaries, Oakley products are sold through distributors who possess local expertise. These distributors sell the Company's products either exclusively or with complementary, non-competing products. They agree to respect the marketing philosophy and practices of the Company and to receive extensive training regarding such philosophies and practices. For information regarding the Company's operations by geographic region, see Notes 12 and 13 in*Notes to Consolidated Financial Statements*.

The Company requires its retailers and distributors to agree not to resell or divert Oakley products through unauthorized channels of distribution. Products shipped from Oakley's headquarters are marked with a tracking code that allows the Company to determine the source of diverted products sold by unauthorized retailers or distributors. When Oakley products are found at undesirable locations or unauthorized retailers, the Company purchases samples and, using the tracking device, determines the source of the diversion. The Company then estimates the potential damage to the Company's retail franchise and image and may require that the offending account repurchase the diverted product. In certain instances, the Company may terminate the account. When an existing account has been terminated, the Company may repurchase its own products from the retailer to protect the Oakley image and the exclusivity enjoyed by the Company's retail account base. The Company employs similar anti-diversion techniques in overseas markets.

In August 2001, the Company established the*Oakley Premium Dealer* program to identify and reward retailers that demonstrate superior support of the Oakley brand by, among other things, consistently maintaining a broad assortment of products and quickly embracing the Company's latest innovations. Retailers earning the*Oakley Premium Dealer* designation will be eligible for cooperative marketing and advertising support, exclusive products, dealer locator prioritization on Oakley's website and favorable tagging in Oakley's annual print and outdoor advertising campaigns.

In February 2002, the Company announced an agreement with Macy's and a separate agreement with Parisians, a division of Saks Department Store Group, to deploy Oakley in-store concept shops in a limited number of Macy and Parisians locations. Each shop features a broad selection of Oakley's innovative, high-performance products including eyewear, footwear, apparel and watches. This agreement was expanded in July 2002 to include additional Macy's and Parisian locations. As of December 31, 2002, the Company had opened 39 such concept shops. For spring 2003, the Company anticipates opening 30 concept shops with Dillards and five concept shops with Marshall Field's department stores. In addition to these locations, the Company expects to continue to expand with Macy's and the Saks Department Store Group.

Customer Service

Oakley strives to support its products with the best customer service in the industry. With a staff of approximately 114 employees, the Customer Service group promptly and courteously responds to customer inquiries, concerns and warranty claims.

The Company provides a one-year limited warranty against manufacturer's defects in its eyewear. All authentic Oakley watches are warranted for one year against manufacturer's defects when purchased from an authorized Oakley watch dealer. Footwear is warranted for 90 days against manufacturer's defects, and apparel is warranted for 30 days against manufacturer's defects.

Advertising and Promotion

Oakley retains significant control over its promotional programs and believes it is able to deliver a consistent, well-recognized advertising message at substantial cost savings compared to complete reliance on outside agencies.

While the Company uses traditional marketing methods in some instances, it attributes much of its success to the use of less conventional methods, including sports marketing, targeted product allocation and in-store display aids. The Company has used sports marketing extensively to achieve consistent, authentic exposure that equates to strong brand recognition on a global level. Oakley utilizes the exposure generated by its athletes as an "editorial" endorsement of product performance and style, as opposed to a commercial endorsement.

The sports marketing division consists of 25 sports marketing managers domestically, with an additional 27 managers positioned in direct offices and with distributors internationally. These experts specialize in multiple sport and entertainment market segments and niches. The mission of the Company's sports marketing experts is to identify and develop relationships with top athletes and opinion leaders in the sports and entertainment industry, negotiate their endorsement agreements and help them serve as ambassadors by educating them on the performance functions and benefits of Oakley products. This strategy has proven to gain editorial exposure that ultimately brings awareness and authenticity to the brand. The diverse knowledge of Oakley's sports marketing experts earns the respect of pro athletes even in alternative sports such as surf and snowboard, yet continues to successfully expand the Company's reach in more mainstream sports such as golf.

The Company has developed a secondary level of promotion with its*Factory Pilot Program*. Through demonstration and lecture, trained technicians educate consumers on the health and performance benefits of Oakley products by imparting technical information in layman's terms. Venues for these presentations include key retail stores, trade shows, high-traffic locations and regional sporting events.

The third level of marketing is brand marketing. The Company will continue to support its products through targeted consumer efforts. Advertising will be leveraged to drive eyewear, footwear, apparel and watch sales and will be used to introduce consumers to the Company's other product categories. The 2003 campaign will include an integration of print media, outdoor media, in-mall billboards and point-of-sale displays.

Direct marketing programs will focus on*O Store*®, Iacon and Oakley Premium Dealers (OPD) and will overlay the base advertising plans used to engage consumers during key selling periods. These efforts are complemented by multiple brand catalogs, enhancements to the Company's website and Internet tie-ins. Public relations programs are designed to complement advertising campaigns and are centered on securing editorial exposure for new product inventions and technologies.

In the first quarter of 2003 the Company terminated its relationship with VitroRobertson, originally retained in May of 2000 to plan and place all domestic print and out-of-home media under the direction of the Company's marketing department. These domestic services are now performed by the Company's marketing department. Internationally the Company retained BJK&E Media in London, England in 2001 to perform similar services for the Company's United Kingdom subsidiary. In 2002 the Company extended this relationship to include its German subsidiary. For the remainder of the Company's foreign offices, media services are retained in-house.

Retail Operations

The Company operates nine Oakley retail stores under the*O Store*® name that offer the full range of Oakley products and feature marketing enhancements, such as displays of the proprietary technologies that are the hallmark of the brand. In addition to these full priced retail venues, the

Company operates five*Oakley Vaults*, the Company's outlet store concept, featuring discontinued and excess seasonal merchandise in addition to newer products priced at full retail. The Company's retail stores comprise high profile locations positioned in some of the top malls throughout the country. The current roster includes stores located in the states of Florida, Texas, Colorado and California. The average size of each store is approximately 2,700 square feet. The Company prides itself on educating the retail staff with extensive product and sales knowledge that marries the quality of its inventions. Over 50% of the Company's retail sales come from Oakley's expanding categories other than eyewear, further indicating that when merchandized together, the Company's products attract additional consumer attention.

On October 31, 2001, the Company completed the acquisition of Iacon, Inc. ("Iacon"), a sunglass retailing chain headquartered in Scottsdale, Arizona. Iacon operates a chain of mall-based sunglass specialty stores, using four separate retail concepts, under the names*Sunglass Designs*,*Sporting Eyes*, *Occhiali da Sole* and*Oakley Icon* located throughout the United States, with a concentration primarily in the sunbelt regions. Oakley is the leading brand sold in these multi-brand specialty sunglass boutiques. As of December 31, 2002, Iacon had 64 retail stores. The Company intends to expand these retail concepts across the United States.

Internet Strategy and Systems

The Company continues to execute a comprehensive Internet channel strategy designed to allow more consumers to purchase Oakley products as efficiently as possible. The program utilizes the World Wide Web as a complementary channel to retail and international distributors. Ultimate goals include increased consumer awareness of the Oakley brand, improved customer service and increased sales through retail and E-commerce channels by harnessing the unique interactive capabilities of the Internet.

The Company's corporate Web site, (*www.oakley.com*), was extensively redesigned in September 2001. Fully E-commerce capable, the site features a broad selection of Oakley eyewear, footwear, apparel, accessories and wristwatches for delivery to U.S. customers, and in November 2000, expanded its selling capabilities to Canadian customers. The site also features a prominent dealer-locator function, including mapping, that directs consumers to local retailers and highlights*Oakley Premium Dealers* that showcase the widest selection of Oakley products. With improvements in place, the Company is capitalizing on the diverse opportunities offered by Internet commerce.

The Company's fully integrated technology platform and operational capabilities place it in a strong position as a manufacturer equipped for in-house order processing and timely fulfillment. The Internet strategy is enabled by a front-end technology platform featuring servers and hardware from Dell, content management tools from AxKit, and hosting services by Exodus Communications. These tools allow the Company to utilize the power of the Internet without relying on outsourced fulfillment operations or building a fulfillment and customer service center from scratch.

Front-end technologies have been integrated with its Enterprise Resource Planning (ERP) systems provided by SAP AG. The Company has implemented SAP's order processing, manufacturing, inventory management, distribution and finance modules in its key worldwide locations in the United States and most major international offices. This has created an efficient, streamlined supply-chain process capable of providing same-day or next-day shipping of in-stock orders.

The Company is also utilizing three additional storefronts for commerce. The first involves "click-and-mortar" partners who currently offer a select assortment of Oakley products on their Web sites and in their retail stores. These notable sites currently include Sunglass Hut, Foot Locker, Finish Line, Recreational Equipment Inc. (REI), Sports Chalet and Chaparral Racing. The next virtual storefront consists of select pure E-tailers that sell exclusively over the Internet. Fogdog Sports

(www.fogdog.com) was the first partnership created in December 1999, with Swell Inc. (www.Swell.com) added in November 2000.

Oakley regularly evaluates additional E-tail partners for inclusion in this program. The final storefront includes carefully chosen affiliates. Under this program, qualifying partners will be authorized to place on their Web site a hyperlink which will take a visitor directly to Oakley's corporate Web site. The Company generated approximately $9.6 million of direct internet gross sales and associated telesales in 2002.

Principal Customers

During 2002, net sales to the Company's ten largest customers, which included five international distributors, accounted for approximately 20.5% of the Company's total net sales. Net sales to one customer, Luxottica Group S.p.A. ("Luxottica")—owner of Sunglass Hut International, the largest sunglass specialty retailer in the world—and its affiliates (referred to herein as "Sunglass Hut" or "Watch Station"), accounted for 12.2% of the Company's 2002 net sales.

In April 2001, Luxottica, also one of the Company's largest competitors, acquired Sunglass Hut. In connection with its acquisition of Sunglass Hut, Luxottica implemented changes to the Sunglass Hut operation that have affected its relationship with the Company. On August 2, 2001, the Company announced that it had reduced its sales and earnings guidance for the remainder of 2001 due to a significant change at the end of July in the order pattern of Sunglass Hut. In December 2001, the Company and Luxottica entered into a new three-year commercial agreement for the distribution of Oakley products through Sunglass Hut retail stores. The agreement applies to Sunglass Hut locations in the United States, Canada, the United Kingdom and Ireland, and marked the resumption of the business relationship between the two companies, which had been substantially reduced since August 2, 2001. Oakley and Luxottica also have resumed their business together on mutually agreed terms for the markets not specifically covered by this new agreement. The arrangements between the companies do not obligate Luxottica to order product from the Company, and there can be no assurances as to the future of the relationship between the Company and Luxottica.

Intellectual Property

The Company aggressively asserts its rights under patent, trade secret, unfair competition, trademark and copyright laws to protect its intellectual property, including product designs, proprietary manufacturing processes and technologies, product research and concepts and recognized trademarks. These rights are protected through patents and trademark registrations, the maintenance of trade secrets, the development of trade dress, and where appropriate, litigation against those who are, in the Company's opinion, infringing these rights. The Company has filed suit against a number of its competitors to enforce certain of the Company's patents and trademarks. While there can be no assurance that the Company's patents or trademarks fully protect the Company's proprietary information and technologies, the Company intends to continue asserting its intellectual property rights against infringers. The Company has developed a reputation in the sunglass industry as a vigorous defender of its intellectual property rights; this reputation acts as a deterrent against the introduction of potentially infringing products by its competitors and others.

The following table reflects data as of December 31, 2002 concerning the Company's intellectual property:

	Number of Utility/Design Patents		Number of Trademarks	
	Issued	Pending	Issued	Pending
United States	162	20	123	50
International	444	149	793	197

As evidenced above, Oakley is the owner of numerous utility and design patents, both domestically and internationally. None of the patents the Company is currently using to enforce its property rights has an expiration date before 2004.

The Company dissuades counterfeiting through the active monitoring of the marketplace by its anti-counterfeiting personnel and other employees and through the services provided by outside firms that specialize in anti-counterfeiting measures. The Company's sales representatives, distributors and retailers have also proved to be effective watchdogs against infringing products, frequently notifying the Company of any suspicious products and assisting law enforcement agencies. The Company's sales representatives are educated on Oakley's patents and trade dress, and assist in preventing infringers from obtaining retail shelf space.

Competition

The Company is a leading designer, manufacturer and distributor of eyewear in the sports segment of the nonprescription eyewear market. Within this segment, the Company competes with mostly smaller sunglass and goggle companies in various niches of the sports market and a limited number of larger competitors, some of whom have greater financial and other resources than the Company. Some of these niche markets are susceptible to rapid changes in consumer preferences, which could affect acceptance of the Company's products. Oakley believes the vigorous protection of its intellectual property rights has limited the ability of others to compete in this segment. Accordingly, the Company believes that it is the established leader in this segment of the market, although several companies, including Luxottica, Marchon, Safilo and various smaller niche brands compete for the Company's shelf space.

The Company also competes in the broader non-sports, or recreational, segment of the sunglass market, which is fragmented and highly competitive. The major competitive factors include fashion trends, brand recognition, marketing strategies, distribution channels and the number and range of products offered. A number of established companies, including Luxottica, compete in this wider market. In order to retain its market share, the Company must continue to be competitive in quality and performance, technology, method of distribution, style, brand image, intellectual property protection and customer service. In April 2001, Luxottica acquired Sunglass Hut, the Company's largest customer. See "Principal Customers."

The Company-owned Iacon chain of specialty sunglass stores competes primarily with mall-based sunglass specialty retailers, the largest being Sunglass Hut, which is owned by competitor Luxottica.

Within the athletic footwear market, the Company competes with large, established brands such as Nike, Reebok, Adidas and Timberland, which have greater financial and other resources than the Company. In addition to these dominant brands, the Company also competes with smaller niche brands, such as Vans, Reef and Teva. The Company's technical apparel outerwear competes primarily with Columbia Sportswear and Patagonia. The Company's sports apparel competes primarily with Nike, Reebok and Adidas.

The Company's luxury timepiece products compete in the upper-middle and luxury segments of the watch market (respectively categorized by the price points $300-$900 and $1,000 plus) which is dominated by established Swiss brands, including Rolex, Breitling, Omega, TAG-Heuer, Movado, Rado and Hamilton. The Company's performance watches compete in the middle segment of the watch market which is characterized by sports watches from Nike, Adidas, Timex and Casio. In addition, the Company's performance watches compete with other fashion brands from the Swatch Group, Swiss Army and Fossil with price points $50-$299.

Domestic and Foreign Operations

See Notes 12 and 13 in*Notes to the Consolidated Financial Statements* for discussion regarding domestic and foreign operations.

Employees

The Company believes that its employees are among its most valuable resources and have been a key factor in the success of Oakley's products. As of December 31, 2002, the total count of worldwide full-time regular employees was 2,295. In addition, the Company may utilize as many as 500 temporary personnel from time to time, especially during peak summer months.

The Company is not a party to any labor agreements and none of its employees is represented by a labor union. The Company considers its relationship with its employees to be good and has never experienced a work stoppage.

ITEM 2. PROPERTIES

The Company's principal corporate and manufacturing facility is located in Foothill Ranch, Orange County, California. The facility, which is owned by the Company, is approximately 500,000 square feet, with potential to expand into an additional 100,000 square feet. In June 1996, the Company purchased a facility in Nevada of approximately 63,000 square feet for the production of its*X Metal*® eyewear. In addition, the Company leases office and warehouse space as necessary to support its operations worldwide, including offices in the United Kingdom, Germany, France, Italy, Australia, South Africa, Japan, Canada, New Zealand, Brazil and the state of Washington. The Company owns a business office and warehouse of approximately 18,000 square feet in Mexico City for its operations in Mexico and Central America. The facility was first occupied in late 1998. Since late 2000, the Company has leased approximately 150,000 square feet of space in Ontario, California to support the expanding distribution needs of its footwear and apparel lines. The new facility began shipping the Company's spring footwear and apparel lines to retailers in early 2001. In June 2002, a third manufacturing facility was opened in Ireland, which provides prescription lenses to Europe. The Company believes its current and planned facilities are adequate to carry on its business as currently contemplated.

The Company is subject to federal, state and local environmental laws, regulations and ordinances that (i) govern activities or operations that may have adverse environmental effects (such as emissions to air, discharges to water, and the generation, handling, storage and disposal of solid and hazardous wastes) or (ii) impose liability for the cost of cleanup or other remediation of contaminated property, including damages from spills, disposals or other releases of hazardous substances or wastes, in certain circumstances without regard to fault. The Company's manufacturing operations routinely involve the handling of chemicals and wastes, some of which are or may become regulated as hazardous substances. The Company has not incurred, and does not expect to incur, any significant expenditures or liabilities for environmental matters. As a result, the Company believes that its environmental obligations will not have a material adverse effect on its operations or financial position.

ITEM 3. LEGAL PROCEEDINGS

The Company is a party to various claims, complaints and other legal actions that have arisen in the normal course of business from time to time. The Company believes the outcome of these pending legal proceedings, in the aggregate, is not likely to have a material adverse effect on the operations or financial position of the Company.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

Part II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED SHAREHOLDER MATTERS

The Company's common stock, par value $.01 per share ("Common Stock"), began trading on the New York Stock Exchange on August 10, 1995 upon completion of the Company's initial public offering (trading symbol "OO"). As of March 24, 2003, the closing sales price for the Common Stock was $8.23. The following table sets forth the high and low sales prices for the Common Stock for each quarter of 2002 and 2001 on the New York Stock Exchange Composite Tape:

	High	Low
2002		
First Quarter	$ 18.95	$ 14.32
Second Quarter	$ 19.99	$ 17.10
Third Quarter	$ 16.57	$ 9.70
Fourth Quarter	$ 13.93	$ 9.13
2001		
First Quarter	$ 21.00	$ 14.00
Second Quarter	$ 26.47	$ 16.80
Third Quarter	$ 21.97	$ 10.70
Fourth Quarter	$ 17.25	$ 10.30

The number of shareholders of record for Common Stock on March 24, 2003 was 487.

Dividend Policy

The Company currently does not pay any dividends on its Common Stock. Any future determination as to the payment of dividends will be at the discretion of the Company's Board of Directors and will depend upon the Company's results of operations, financial condition, contractual restrictions and other factors deemed relevant by the Board of Directors.

Securities Authorized for Issuance Under Equity Compensation Plans

The information required regarding securities authorized for issuance under the Company's equity compensation plans will be contained in the Company's Proxy Statement for its Annual Shareholders Meeting to be held on June 6, 2003, to be filed with the Securities and Exchange Commission within 120 days after December 31, 2002, and is incorporated herein by reference.

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth certain selected financial data regarding the Company which is qualified by reference to, and should be read in conjunction with, the Consolidated Financial Statements and Notes thereto. See*Index to Consolidated Financial Statements* and*Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.* The income statement data, income statement excluding restructure charges and balance sheet data presented below have been derived from the Company's consolidated financial statements. The Company's consolidated income statement for the fiscal years ended December 31, 2002, 2001 and 2000 and consolidated balance sheet as of December 31, 2002 and 2001 included herein have been audited by Deloitte & Touche LLP, the Company's independent auditors, as indicated in their report included elsewhere herein. The selected

income statement data set forth herein are for informational purposes only and may not necessarily be indicative of the Company's future results of operations.

	Year Ended December 31,				
	2002	2001	2000	1999	1998
	(dollars in thousands, except share and per share data)				
Income Statement Data:					
Net sales	$ 489,552	$ 429,267	$ 363,474	$ 257,872	$ 231,934
Cost of goods sold	211,962	174,332	138,408	109,338	86,134
Gross profit	277,590	254,935	225,066	148,534	145,800
Operating expenses:					
Research and development	16,016	11,318	7,894	6,304	5,231
Selling	126,995	108,948	90,291	72,184	66,188
Shipping and warehousing	18,083	16,997	10,005	6,592	6,777
General and administrative	52,335	43,606	35,612	30,977	26,299
Total operating expenses	213,429	180,869	143,802	116,057	104,495
Operating income	64,161	74,066	81,264	32,477	41,305
Interest expense, net	1,643	3,108	2,723	1,951	2,109
Income before provision for income taxes	62,518	70,958	78,541	30,526	39,196
Provision for income taxes	21,881	20,587	27,489	10,684	15,051
Net income	$ 40,637	$ 50,371	$ 51,052	$ 19,842	$ 24,145
Basic net income per share	$ 0.59	$ 0.73	$ 0.74	$ 0.28	$ 0.34
Basic weighted average common shares	68,732,000	68,856,000	69,041,000	70,660,000	70,678,000
Diluted net income per share	$ 0.59	$ 0.72	$ 0.73	$ 0.28	$ 0.34
Diluted weighted average common shares	69,333,000	69,751,000	69,709,000	70,662,000	70,851,000

	At December 31,				
	2002	2001	2000	1999	1998
Balance Sheet Data:					
Working capital	$ 129,008	$ 106,318	$ 84,176	$ 59,247	$ 45,602
Total assets	383,950	362,780	302,986	239,350	225,815
Total debt	30,757	59,042	35,746	25,060	34,182
Shareholders' equity	293,831	260,710	208,173	177,837	161,976

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion includes the operations of Oakley, Inc. and its subsidiaries for each of the periods discussed.

Overview

Oakley is an innovation-driven designer, manufacturer and distributor of consumer products that include high-performance eyewear, footwear, watches, apparel and accessories. The Company's products are sold in the United States through a carefully selected base of approximately 9,200 active accounts with approximately 15,600 locations comprised of optical stores, sunglass retailers and specialty sports stores, including bike, surf, ski and golf shops, and motorcycle, athletic footwear and sporting goods stores and limited department store distribution. The Company also operates 14 Oakley retail stores in the United States that offer the full range of Oakley products. In November 2001, the Company acquired Iacon, Inc., a sunglass retailing chain headquartered in Scottsdale, Arizona, with 64 sunglass specialty retail stores at December 31, 2002.

Internationally, the Company sells its products in over 70 countries outside the United States, with direct offices in France, Germany, United Kingdom, Italy, Japan, Mexico, South Africa, Canada, Australia, New Zealand and Brazil. In those parts of the world not serviced by the Company or its subsidiaries, Oakley products are sold through distributors who possess local expertise. These distributors sell the Company's products either exclusively or with complementary, non-competing products and agree to respect the marketing philosophy and practices of the Company. Sales to the Company's distributors are denominated in U.S. dollars. The Company is exposed to gains and losses resulting from fluctuations in foreign currency exchange rates relating to transactions of its international subsidiaries. The Company and its subsidiaries use foreign exchange contracts in the form of forward contracts to manage the level of exposure to the risk of fluctuations in foreign currency exchange rates.

Significant Accounting Policies and Certain Risks and Uncertainties

The Company's historical success is attributable, in part, to its introduction of products which are perceived to represent an improvement in performance over products available in the market. The Company's future success will depend, in part, upon its continued ability to develop and introduce such innovative products, although there can be no assurance of the Company's ability to do so. The consumer products industry, including the eyewear, apparel, footwear and watch categories, is fragmented and highly competitive. In order to retain its market share, the Company must continue to be competitive in the areas of quality, technology, method of distribution, style, brand image, intellectual property protection and customer service. These industries are subject to changing consumer preferences and shifts in consumer preferences may adversely affect companies that misjudge such preferences.

The Company's consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. As such, the Company is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the balance sheet dates and the reported amounts of revenue and expense during the reporting periods. Actual results could significantly differ from such estimates. The Company believes that the following discussion addresses the Company's most significant accounting policies, which are the most critical to aid in fully understanding and evaluating the Company's reported financial results.

Revenue Recognition

The Company recognizes revenue when merchandise is shipped to a customer. Generally, the Company extends credit to its customers and does not require collateral. The Company performs ongoing credit evaluations of its customers and historic credit losses have been within management's expectations. The Company's shipping terms with all customers are FOB shipping point. Sales agreements with dealers and distributors normally provide general payment terms of 30 to 120 days,

depending on the product category. Although none of the Company's sales agreements with any of its customers provides for any rights of return by the customer, except for product warranty related issues, the Company occasionally accepts returns at its sole discretion. The Company records a provision for sales returns and claims based upon historical experience. Actual returns and claims in any future period may differ from the Company's estimates. In addition, although the Company, at its sole discretion, may repurchase its own products to protect the Company image, this practice is infrequent and, historically, the value of these repurchases has not been significant.

Accounts Receivable

The Company performs ongoing credit evaluations of its customers and adjusts credit limits based upon payment history and the customer's current creditworthiness, as determined by the Company's review of their current credit information. The Company continuously monitors its customer collections and payments and maintains a provision for estimated credit losses based upon the Company's historical experience and any specific customer collection issues that have been identified. While such credit losses have historically been within the expectations and the provisions established by the Company, there can be no assurances that the Company will continue to experience the same credit loss rates that have been experienced in the past.

Inventories

Inventories are stated at the lower of cost to purchase and/or manufacture the inventory or the current estimated market value of the inventory. The Company regularly reviews its inventory quantities on hand and records a provision for excess and obsolete inventory based primarily on the Company's estimated forecast of product demand and production requirements. As experienced in 2002, demand for the Company's products can fluctuate significantly. Factors which could affect demand for the Company's products include unanticipated changes in general market conditions or other factors, which may result in cancellations of advance orders or a reduction in the rate of reorders placed by retailers; continued weakening of economic conditions, which could reduce demand for products sold by the Company and which could adversely affect profitability; and future terrorist acts or war, or the threat thereof, which could adversely affect consumer confidence and spending, interrupt production and distribution of product and raw materials and, as a result, adversely affect the Company's operations and financial performance. Additionally, management's estimates of future product demand may be inaccurate, which could result in an understated or overstated provision required for excess and obsolete inventory.

Long-Lived Assets

In the normal course of business, the Company acquires tangible and intangible assets. The Company periodically evaluates the recoverability of the carrying amount of its long-lived assets (including property, plant and equipment, and other intangible assets) whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment is assessed when the undiscounted expected future cash flows derived from an asset are less than its carrying amount. Impairments are recognized in operating earnings. The Company uses its best judgment based on the most current facts and circumstances surrounding its business when applying these impairment rules to determine the timing of the impairment test, the undiscounted cash flows used to assess impairments, and the fair value of a potentially impaired asset. Changes in assumptions used could have a significant impact on the Company's assessment of recoverability. Numerous factors, including changes in the Company's business, industry segment, and global economy, could significantly impact management's decision to retain, dispose of, or idle certain of its long-lived assets.

Goodwill

The Company evaluates the recoverability of goodwill at least annually based on a two-step impairment test. The first step compares the fair value of each reporting unit with its carrying amount, including goodwill. If the carrying amount exceeds fair value, then the second step of the impairment test is performed to measure the amount of any impairment loss. Fair value is determined based on estimated future cash flows, discounted at a rate that approximates the Company's cost of capital. Such estimates are subject to change and the Company may be required to recognize impairments losses in the future.

Warranties

The Company provides a one-year limited warranty against manufacturer's defects in its eyewear. All authentic Oakley watches are warranted for one year against manufacturer's defects when purchased from an authorized Oakley watch dealer. Footwear is warranted for 90 days against manufacturer's defects, and apparel is warranted for 30 days against manufacturer's defects. The Company's standard warranties require the Company to repair or replace defective product returned to the Company during such warranty period. While warranty costs have historically been within the Company's expectations, there can be no assurance that the Company will continue to experience the same warranty return rates or repair costs as in the prior years. A significant increase in product return rates, or a significant increase in the costs to repair product, could have a material adverse impact on the Company's operating results.

Income Taxes

Current income tax expense is the amount of income taxes expected to be payable for the current year. A deferred income tax asset or liability is established for the expected future consequences of temporary differences in the financial reporting and tax bases of assets and liabilities. The Company considers future taxable income and ongoing prudent and feasible tax planning strategies in assessing the value of its deferred tax assets. If the Company determines that it is more likely than not that these assets will not be realized, the Company would reduce the value of these assets to their expected realizable value, thereby decreasing net income. Evaluating the value of these assets is necessarily based on the Company's judgment. If the Company subsequently determined that the deferred tax assets, which had been written down, would be realized in the future, the value of the deferred tax assets would be increased, thereby increasing net income in the period when that determination was made. See Note 7 in*Notes to Consolidated Financial Statements.*

Foreign Currency Translation

The Company has direct operations in Continental Europe, United Kingdom, Japan, Canada, Mexico, South Africa, Australia, New Zealand and Brazil which collect at future dates in the customers' local currencies and purchase finished goods in U.S. dollars. Accordingly, the Company is exposed to transaction gains and losses that could result from changes in foreign currency. Assets and liabilities of the Company denominated in foreign currencies are translated at the rate of exchange on the balance sheet date. Revenues and expenses are translated using the average exchange rate for the period. Gains and losses from translation of foreign subsidiary financial statements are included in accumulated other comprehensive income. Gains and losses on short-term intercompany foreign currency transactions are recognized as incurred. As part of the Company's overall strategy to manage its level of exposure to the risk of fluctuations in foreign currency exchange rates, the Company and its subsidiaries have entered into various foreign exchange contracts in the form of forward contracts. See Note 10 in*Notes to Consolidated Financial Statements.*

Vulnerability Due to Supplier Concentrations

The Company relies on a single source for the supply of several components, including the uncoated lens blanks from which substantially all of its sunglass lenses are cut. In the event of the loss of its source for lens blanks, the Company has identified an alternate source which may be available. The effect of the loss of any of these sources (including any possible disruption in business) will depend primarily upon the length of time necessary to find a suitable alternative source and could have a material adverse effect on the Company's business. There can be no assurance that, if necessary, an additional source of supply for lens blanks or other critical materials can be located or developed in a timely manner.

Vulnerability Due to Customer Concentrations

Net sales to Sunglass Hut accounted for approximately 12.2%, 12.0% and 21.0% of the Company's net sales for the years ended December 31, 2002, 2001 and 2000, respectively. In April 2001, Luxottica, one of the Company's largest competitors, acquired Sunglass Hut and implemented changes which adversely affected the Company's net sales to Sunglass Hut in 2001. In December 2001, the Company and Luxottica entered into a new three-year commercial agreement for the distribution of Oakley products through Sunglass Hut retail stores. The agreement applies to Sunglass Hut locations in the United States, Canada, the United Kingdom and Ireland, and marked the resumption of the business relationship between the two companies, which had been substantially reduced since August 2, 2001. Oakley and Luxottica also have resumed their business together on mutually agreed terms for the markets not specifically covered by this new agreement. The arrangements between the companies do not obligate Luxottica to order product from the Company, and there can be no assurances as to the future of the relationship between the Company and Luxottica.

Commitments and Contingencies

The Company has entered into operating leases, primarily for facilities and retail stores, and has commitments under endorsement contracts with selected athletes and others who endorse the Company's products. Minimum future payments under these leases and endorsement contracts are identified in Note 9 in*Notes to Consolidated Financial Statements*.

Restructure Charge

In December 2002, the Company's Board of Directors approved a plan to restructure (the "Restructuring Plan") the Company's European operations with significant changes to the regional sales and distribution organization. As part of this plan, relationships with several outside sales agents have been modified or terminated, and changes are being implemented to rationalize other warehousing and distribution functions within the European markets. Management believes these actions to modify the Company's sales and distribution organization in the region will provide the infrastructure necessary to support future growth and position the Company to better capitalize on opportunities in footwear and apparel.

Related to this Restructuring Plan, the Company recorded a charge of $2.8 million ($1.8 million, or $0.02 per diluted share, on an after-tax basis) during the fourth quarter of the fiscal year ended December 31, 2002. This charge is included in selling and shipping and warehousing expenses and is comprised of the following components:

	(in thousands)
Termination and modification of sales agent contracts and employee contracts	$ 2,249
Rationalization of warehousing and distribution	539
	$ 2,788

The Company believes the restructuring of the Company's European operations will be complete by December 2003. See Note 14 in*Notes to Consolidated Financial Statements*.

Results of Operations

The following tables set forth operating results in dollars and as a percentage of net sales for the periods indicated.

OAKLEY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(dollars in thousands)

	Year Ended December 31,		
	2002	2001	2000
Net sales	$ 489,552	$ 429,267	$ 363,474
Cost of goods sold	211,962	174,332	138,408
Gross profit	277,590	254,935	225,066
Operating expenses:			
Research and development	16,016	11,318	7,894
Selling	126,995	108,948	90,291
Shipping and warehousing	18,083	16,997	10,005
General and administrative	52,335	43,606	35,612
Total operating expenses	213,429	180,869	143,802
Operating income	64,161	74,066	81,264
Interest expense, net	1,643	3,108	2,723
Income before provision for income taxes	62,518	70,958	78,541
Provision for income taxes	21,881	20,587	27,489
Net income	$ 40,637	$ 50,371	$ 51,052

	Year Ended December 31,		
	2002	2001	2000
Net sales	100.0%	100.0%	100.0%
Cost of goods sold	43.3	40.6	38.1
Gross profit	56.7	59.4	61.9
Operating expenses:			
Research and development	3.3	2.5	2.2
Selling	25.9	25.4	24.8
Shipping and warehousing	3.7	4.0	2.8
General and administrative	10.7	10.2	9.7
Total operating expenses	43.6	42.1	39.5
Operating income	13.1	17.3	22.4
Interest expense, net	0.3	0.8	0.8
Income before provision for income taxes	12.8	16.5	21.6
Provision for income taxes	4.5	4.8	7.6
Net income	8.3%	11.7%	14.0%

The Company's sunglass sales before discounts and defective returns were $330.2 million, $301.6 million and $283.8 million for the years ended December 31, 2002, 2001 and 2000, respectively. Sunglass unit sales were 4,707,822; 4,721,387; and 4,892,163 for the years ended December 31, 2002, 2001 and 2000, respectively.

Year Ended December 31, 2002 Compared to Year Ended December 31, 2001

Net sales

Net sales increased to $489.6 million for the year ended December 31, 2002 from $429.3 million for the year ended December 31, 2001, an increase of $60.3 million, or 14.0%. One factor contributing to the growth in net sales was a 9.5% increase in gross sunglass sales. Gross sunglass sales were $330.2 million for the year ended December 31, 2002 compared to $301.6 million for the year ended December 31, 2001. The growth in gross sunglass sales is composed of a 9.8% increase in average selling price slightly offset by a 0.3% decrease in sunglass unit volume. The increase in average selling price is attributable to the continued shift in product mix to more technical and premium-priced items, the weakening of the U.S. dollar, increasing contribution from the Company's retail stores and the impact of a $5 retail price increase in North America on most sunglasses in July 2001. Several factors contributed to the unit decline including soft consumer spending and reduced demand attributable to the weak retail environment, especially in the latter half of the year. In addition, delayed deliveries of 2002 summer sunglass introductions to retailers resulted in fewer inventory turns during the summer selling season and a reduction of the level of reorders during the holiday season. The delayed deliveries were a result of key raw material shortages caused in part by greater increases in summer demand than originally anticipated. In addition, Sunglass Hut's return as a customer negatively impacted demand from the Company's other retailers in the fourth quarter, compared to the prior year period when Sunglass Hut was not purchasing Oakley products. The increase in gross sunglass sales was driven by strong sunglass sales of the Company's newer sunglasses such as the*Half Jacket, Splice, Wire Tap,* and*Half Wire,* introduced in 2002, the*Switch* and*E-Wire 2.1,* introduced in 2001, and the*Square Wire 2.0* introduced in 2000, offsetting declines in sales of more mature products. Sales of the Company's polarized styles for the year ended December 31, 2002 also contributed to the increase in gross sales with a 32.2%, or $5.8 million, increase over the year ended December 31, 2001. Gross sales from the Company's newer product categories, comprised of footwear, apparel, watches and prescription eyewear, represented 25.3% of the Company's total gross sales for 2002, compared to 22.4% in 2001. Sales from these newer product categories increased 32.7%, or $32.9 million, to $133.7 million for the year ended December 31, 2002 from $100.8 million for the year ended December 31, 2001. Apparel gross sales increased 49.3% to $56.6 million in 2002, compared with $37.9 million in 2001. Prescription eyewear revenue doubled in each of the three years prior to 2002. In 2002, prescription eyewear gross sales grew 38.5% to $34.3 million in 2002, compared to $24.7 million in 2001. Footweargross sales grew 4.0% to $31.2 million in 2002 over $30.0 million in 2001. The growth rate for the Company's footwear business was more modest when compared to the other newer categories due to reduced orders and limited distribution for the Company's fall footwear line. Watch gross sales increased 41.5% to $11.6 million in 2002, compared to $8.2 million in 2001. Management believes these increases are a result of its expanded product lines, expanded distribution and retail initiatives, including its greater dealer base, and increasing consumer acceptance of the Company's newer categories.

The Company's total U.S. net sales increased 19.2% for the year ended December 31, 2002 to $254.0 million from $213.2 million in 2001. Excluding the Company's retail store operations, U.S. net sales increased 8.4% to $221.4 million in the year ended December 31, 2002 from $204.3 million in 2001, as a result of a 15.4% increase in sales to the Company's largest U.S. customer, Sunglass Hut, coupled with a 6.5% increase in net sales to the Company's broad specialty store account base and other domestic sales. Sales to Sunglass Hut increased $6.7 million to $50.3 million for the year ended December 31, 2002 from $43.6 million for the year ended December 31, 2001. In April 2001, Luxottica, one of the Company's largest competitors, acquired Sunglass Hut, and implemented changes which adversely affected the Company's net sales to Sunglass Hut in the latter half of 2001. In December 2001, the Company and Luxottica entered into a new three-year commercial agreement for the distribution of Oakley products through Sunglass Hut retail stores which marked the resumption of the business relationship between the two companies.

Net sales from the Company's retail store operations, including Iacon acquired on October 31, 2001, were $32.6 million for the year ended December 31, 2002, up from $8.9 million for the year ended December 31, 2001, an increase of $23.7 million. During the year ended December 31, 2002, the Company added 21 new Iacon stores, bringing the total stores to 64 at December 31, 2002, and eight new Oakley stores, bringing the total to 14. Retail sales represented 6.7% of total net sales for 2002 and are expected to represent an increasing percentage of sales in the future when compared to prior periods.

During the year ended December 31, 2002, the Company's international net sales increased 9.0%, or $19.4 million, to $235.5 million from $216.1 million during the year ended December 31, 2001. On a constant dollar basis, international sales grew 7.5% for the year ended December 31, 2002 when compared to the year ended December 31, 2001. Although the Company's international sales during the year have been impacted by weak retail environments, especially in Europe and Japan, all major markets other than Latin America experienced growth during the year. During the second quarter of 2002, international net sales were more adversely affected than U.S. net sales by the sunglass delivery issues discussed above due to the longer lead times required for delivery outside the United States. In addition, the Company's 2002 European sunglass sales were impacted by competitive pressures from strong fashion brands. Latin America experienced a large decrease in net sales in the 2002 period due to delays in the transition to direct distribution in Brazil from the previous independent distributor and overall weak economic conditions in the region. Sales from the Company's direct international offices represented 84.9% of total international sales for 2002, compared to 82.0% for 2001.

Gross profit

Gross profit increased to $277.6 million, or 56.7% of net sales, for the year ended December 31, 2002 from $254.9 million, or 59.4% of net sales, for the year ended December 31, 2001, an increase of $22.7 million, or 8.9%. The decrease in gross profit as a percentage of net sales reflects higher overall sales discounts, coupled with a lower concentration of sunglass and prescription eyewear products relative to sales of lower gross margin product categories. Iacon sales of sunglass brands other than Oakley, as well as the associated occupancy costs, have also had a negative impact on the Company's year over year gross margin comparison due to Iacon being included for only two months of the comparable 2001 period. Foreign exchange had a favorable impact on gross margin relative to the comparable period. The Company's footwear margins were lower in 2002 when compared to 2001 due to successful efforts to reduce inventory levels of prior season close-out products at reduced margins, increased tooling costs per unit and provisions for slow-moving inventory.

Operating expenses

In December 2002, the Company announced plans to restructure its European operations with significant changes to the regional sales and distribution organization. As part of this plan, relationships with several outside sales agents have been modified or terminated, and changes are being implemented to rationalize other warehousing and distribution functions within the European markets which resulted in a $2.8 million pre-tax charge to selling and shipping and warehousing expenses. See Note 14 in*Notes to Consolidated Financial Statements*. Operating expenses for the year ended December 31, 2002 increased to $213.4 million from $180.9 million for the year ended December 31, 2001, an increase of $32.5 million, or 18.0%. As a percentage of net sales, operating expenses increased to 43.6% of net sales for the year ended December 31, 2002 compared to 42.1% of net sales for 2001. Excluding the $2.8 million European restructuring charge, operating expenses increased to $210.6 million, or 43.0% of net sales, for the year ended December 31, 2002 from $180.9 million, or 42.1%, for the year ended December 31, 2001, an increase of $29.7 million, or 16.4%. Operating expenses included $12.3 million of expenses for the Company's retail store operations, an increase of $8.9 million from $3.4 million for the year ended December 31, 2001. Research and development

expenses increased $4.7 million to $16.0 million, or 3.3% of net sales, for the year ended December 31, 2002, from $11.3 million, or 2.6% of net sales, for the year ended December 31, 2001, primarily as a result of greater new product development efforts in all product categories. Selling expenses increased $18.1 million to $127.0 million, or 25.9% of net sales, for the year ended December 31, 2002 from $108.9 million, or 25.4% of net sales, for the year ended December 31, 2001. Excluding $2.5 million relating to the European restructuring charge, selling expenses were $124.5 million for the year ended December 31, 2002, compared to $108.9 million for the year ended December 31, 2001, an increase of $15.6 million. This increase was a result of (i) increased sales salaries primarily due to the increased retail operations, (ii) increased sports marketing expenses primarily for footwear and apparel and (iii) displays and display depreciation to support the new distribution initiatives, partially offset by reduced commissions due to a realigned commission structure. As a percentage of net sales, selling expenses excluding the restructure charge remained at 25.4% of net sales for the year ended December 31, 2002. Shipping and warehousing expenses as a percentage of net sales decreased to 3.7% of net sales for the year ended December 31, 2002 from 4.0% of net sales for the year ended December 31, 2001. Excluding $0.3 million related to the European restructuring charge, shipping and warehousing expenses as a percentage of sales decreased to 3.6% of net sales for the year ended December 31, 2002 from 4.0% of net sales for the year ended December 31, 2001 as the Company leveraged its shipping expenses over higher sales. This leverage resulted from labor and freight cost efficiencies offsetting increased international third party distribution costs. General and administrative expenses increased $8.7 million to $52.3 million, or 10.7% of net sales, for the year ended December 31, 2002, from $43.6 million, or 10.2% of net sales, for the year ended December 31, 2001. The increase in general and administrative expenses was principally a result of greater personnel-related and administrative costs and information technology costs necessary to support and manage the Company's growth, as well as increased retail store expenses. These increases were partially offset by the reduction of amortization expense for the year ended December 31, 2002 of approximately $1.2 million primarily due to the adoption of SFAS No. 142. See Note 5 in*Notes to Consolidated Financial Statements*.

Operating income

The Company's operating income decreased to $64.2 million, or 13.1% of net sales, for the year ended December 31, 2002 from $74.1 million, or 17.3% of net sales, a decrease of $9.9 million. Excluding the European restructuring charge of $2.8 million, the Company's operating income decreased $7.2 million to $66.9 million for the year ended December 31, 2002 from $74.1 million for the year ended December 31, 2001. As a percentage of net sales, operating income, prior to the restructure charge, decreased to 13.7% for the year ended December 31, 2002 from 17.3% for the year ended December 31, 2001.

Interest expense, net

The Company had net interest expense of $1.6 million for the year ended December 31, 2002, as compared with net interest expense of $3.1 million for the year ended December 31, 2001. The decrease in interest expense is due to lower interest rates during 2002, reduced short-term borrowing balances resulting from the improved balance sheet trends and a nonrecurring credit to interest expense of approximately $350,000 resulting from the favorable settlement of a treasury hedge entered into by the Company in connection with the previously announced long-term debt financing, which the Company elected not to pursue in the quarter ended June 30, 2002.

Income taxes

The Company recorded a provision for income taxes of $21.9 million for the year ended December 31, 2002 compared to $20.6 million for the year ended December 31, 2001. Excluding the

tax effect of the restructuring charge, the Company's provision for income taxes was $22.9 million in 2002 compared to $20.6 million for 2001. The Company's effective tax rate for the year ended December 31, 2002 was 35%, compared to 29% for the comparable period in 2001 which resulted from a one-time tax benefit associated with the Company's foreign operations in 2001. The Company expects the 35% tax rate to continue for the full year 2003.

Net income

The Company's net income decreased to $40.6 million for the year ended December 31, 2002 from $50.4 million for the year ended December 31, 2001, a decrease of $9.8 million or 19.4%. Excluding the European restructuring after-tax charge of $1.8 million, net income decreased to $42.4 million for the year ended December 31, 2002 from $50.4 million for the year ended December 31, 2001, a decrease of $8.0 million, or 15.9%.

Year Ended December 31, 2001 Compared to Year Ended December 31, 2000

Net sales

Net sales increased to $429.3 million for the year ended December 31, 2001 from $363.5 million for the year ended December 31, 2000, an increase of $65.8 million, or 18.1%. The increase in net sales was attributable to several factors, including a 6.3%, or $17.8 million, increase in gross sunglass sales. Gross sunglass sales were $301.6 million for the year ended December 31, 2001 compared to $283.8 million for the year ended December 31, 2000. For 2001, the Company experienced a 3.5% decrease in sunglass unit volume and a 10.1% increase in average selling prices. The increase in gross sunglass sales was driven by strong sunglass sales of the Company's*Wire*™ products (including the*Square Wire*®,*C Wire*™, and*A Wire*®),*Straight Jacket*®,*Twenty-XX*™,*Minute*®,*X-Metal*® line, and the Company's polarized styles, as well as strong sales of new products offsetting declines in sales of more mature products. New sunglass introductions in 2001, which include the*Why 3*™, introduced in March 2001, the*Four S*™, introduced in April 2001,*E-Wire®2.1,* introduced in May 2001, *Scar*™ and*X-Metal Penny*™, introduced in June 2001,*Switch*™, introduced in September 2001, and*Fives®2.0,* introduced in November 2001, contributed to the increase in sales, and as a group, represented 7.7% of the Company's gross sunglass sales. However, the content of new sunglass sales as a percent of total sunglass sales was below the Company's historical levels. The Company believes new sunglass product sales were negatively affected by the temporary disruption in its relationship with Luxottica's Sunglass Hut retail chain and the impact of the tragic events of September 11th on consumer travel and spending patterns. Sales from the Company's newer product categories, comprised of footwear, apparel, watches and prescription eyewear, continued to grow with gross sales increasing 79.7%, or $44.7 million, to $100.8 million, or 22.4% of gross sales, for the year ended December 31, 2001 compared to $56.1 million, or 14.6% of gross sales, for the year ended December 31, 2000. Footwear gross sales grew to $30.0 million in 2001 compared to $10.4 million in 2000. Apparel sales increased to $37.9 million in 2001 from $28.4 million in 2000. Watch sales increased $2.5 million, to $8.2 million for 2001 over $5.7 million for 2000. Sales of the Company's prescription products more than doubled to $24.7 million in 2001 from $11.6 million in 2000. Management believes these increases were a result of its expanded product lines, and expanded distribution and retail initiatives, including its greater dealer base.

The Company's U.S. net sales increased 10.3% to $213.2 million in 2001 from $193.2 million in 2000, principally as a result of a 26.2% increase in net sales to the Company's broad specialty store account base and other U.S. sales, while sales to the Company's largest U.S. customer, Sunglass Hut, decreased 30.4% to $43.6 million in 2001 from $62.6 million in 2000. See discussion regarding Sunglass Hut in "Principal Customers" above. The Company's retail store sales also contributed to the increase in U.S. net sales by increasing 172.8% to $8.9 million in 2001 from $3.3 million in 2000. During 2001, international net sales surpassed U.S. net sales for the first time in the Company's history with an

increase of 26.9% to $216.1 million in 2001 from $170.3 million in 2000. The increase was driven by continued strength in almost all regions of the world in which the Company sells its products, with the strongest growth in Europe, Japan, Latin America, Asia and Canada. The only region that showed a decline in net sales was Australia/New Zealand. Additionally, in 2000, sales in this region benefited from the 2000 Sydney Olympics. Sales from the Company's direct international offices represented 82.0% of total international sales for 2001, compared to 83.3% for 2000. On a constant dollar basis, international sales increased approximately 33.9% for 2001 over 2000. During the fourth quarter of 2001, the Company experienced a year over year decline in international sales due to weak consumer environment in major markets, especially those highly dependent on leisure travel activity. In addition, sales in Australia and New Zealand, one of the Company's largest international markets, were negatively impacted by the disruption in Sunglass Hut shipments, magnifying the difficult comparisons to the prior year's fourth quarter sales, which benefited from the 2000 Sydney Olympics.

Gross profit

Gross profit increased to $254.9 million, or 59.4% of net sales, for the year ended December 31, 2001, from $225.1 million, or 61.9% of net sales, for the year ended December 31, 2000, an increase of $29.8 million, or 13.2%. The decrease in gross profit as a percentage of net sales is attributable in part to product mix changes as the Company experienced an increased sales contribution from the lower gross margin categories of footwear, apparel and goggles and higher sunglass production costs per unit due to the reduced production volumes associated with the Sunglass Hut disruption and increased material and labor costs due to the production of more complex multi-layered lens products, as well as a higher percentage of polarized lens products. In addition, the gross margin for 2000 reflected higher foreign exchange gains as compared to 2001 resulting from greater strengthening of the U.S. dollar over the life of the Company's hedge contracts in 2000 compared to the amount of U.S. dollar strengthening experienced over the lives of the Company's 2001 contracts.

Operating expenses

Operating expenses increased to $180.9 million for the year ended December 31, 2001 from $143.8 million for the year ended December 31, 2000, an increase of $37.1 million, or 25.8%. During 2001, the Company continued to develop the infrastructure, both personnel and systems, to grow its new product categories, prudently grow its retail initiatives, expand distribution, including further expanding the Company's national specialty footwear and apparel accounts and premium dealer programs, and manage the growth of the business. Operating expenses include $3.4 million for the Company's retail operations, which includes two months, or $1.2 million, of operating expenses for Iacon. Research and development expenses increased $3.4 million to $11.3 million, or 2.6% of net sales in 2001, from $7.9 million, or 2.2% of net sales, in 2000, primarily as a result of additional personnel and design expenses for prototyping and molds necessary to facilitate the growth in the new product categories, as well as continuing efforts in sunglass design. Selling expenses increased $18.6 million to $108.9 million, or 25.4% of net sales, in 2001, from $90.3 million, or 24.8% of net sales, in 2000, as a result of higher advertising and direct marketing expenditures, increased display costs to support sales and the premium dealer programs launched in the second half of 2001, additional intellectual property protection costs and the additional sales management necessary to expand the new product categories. Shipping and warehousing expenses increased to $17.0 million, or 4.0% of net sales, in 2001 from $10.0 million, or 2.8% of net sales, for 2000. This increase is principally due to the increased mix of new product category sales with higher average shipping costs in addition to set-up costs for the U.S. apparel and footwear distribution center in Ontario, California and the costs of the Company's third party warehouses in Japan and Europe. General and administrative expenses increased $8.0 million to $43.6 million, or 10.2% of net sales, in 2001 from $35.6 million, or 9.7% of net sales, in 2000. This increase in general and administrative expenses was principally a result of increased personnel-related costs and infrastructure and information technology costs necessary to manage the Company's growth.

Operating income

The Company's operating income decreased to $74.1 million for the year ended December 31, 2001 from $81.3 million for the year ended December 31, 2000, a decrease of $7.2 million. As a percentage of net sales, operating income decreased to 17.3% in 2001 from 22.4%, in 2000 as a result of the factors discussed above.

Interest expense, net

The Company had net interest expense of $3.1 million in 2001, as compared with net interest expense of $2.7 million in 2000. The increase in interest expense is due to greater average balances on the Company's line of credit which was used to finance the Company's growth as well as the Company's share repurchase programs in 2001, partially offset by lower average interest rates.

Income taxes

The Company recorded a provision for income taxes of $20.6 million for the year ended December 31, 2001, compared with $27.5 million for the year ended December 31, 2000. The Company's effective tax rate for 2001 was 29% as result of a one-time, fixed-amount tax benefit associated with the Company's foreign operations compared to 35% for 2000.

Net income

The Company's net income decreased to $50.4 million for the year ended December 31, 2001 from $51.1 million for the year ended December 31, 2000, a decrease of $0.7 million, or 1.3%.

Liquidity and Capital Resources

The Company historically has financed its operations almost entirely with cash flow generated from operations and borrowings from its credit facilities. Cash provided by operating activities totaled $88.8 million for the year ended December 31, 2002 compared to $30.4 million for the year ended December 31, 2001. At December 31, 2002, working capital was $129.0 million compared to $106.3 million at December 31, 2001, a 21.4% increase. Working capital may vary from time to time as a result of seasonality, new product category introductions, and changes in accounts receivable and inventory levels. Accounts receivable balances, less allowance for doubtful accounts, totaled $68.1 million at December 31, 2002, compared to $74.8 million at December 31, 2001, with accounts receivable days outstanding for the year ended December 31, 2002 of 53, compared to 59 for the year ended December 31, 2001. Inventories increased to $87.0 million at December 31, 2002, compared to $77.3 million at December 31, 2001. This inventory reflects a 12.5% increase from December 31, 2001, compared to a revenue increase of 14.0% from December 31, 2001. Inventory turns were 2.6 at December 31, 2002, compared to 2.5 at December 31, 2001.

In January 2001, the Company amended its unsecured line of credit with a bank syndicate which allows for borrowings up to $75 million and matures in August 2004. The amended line of credit bears interest at either LIBOR or IBOR plus 0.75% (2.12% at December 31, 2002) or the bank's prime lending rate minus 0.25% (4.00% at December 31, 2002). At December 31, 2002, the Company did not have any balance outstanding under such facility. The credit agreement contains various restrictive covenants including the maintenance of certain financial ratios. At December 31, 2002, the Company was in compliance with all restrictive covenants and financial ratios. Certain of the Company's foreign subsidiaries have negotiated local lines of credit to provide working capital financing. The aggregate U.S. dollar borrowing limit on the foreign lines of credit is approximately $23.3 million, of which $14.2 million was outstanding at December 31, 2002. The Company also has a ten-year real estate term loan, which is collateralized by the Company's corporate headquarters and requires quarterly principal payments of approximately $380,000 plus interest based on LIBOR plus 1.00% (2.43% at December 31,

2002). At December 31, 2002, the outstanding balance on the term loan was $14.8 million. The term loan is due in September 2007. In January 1999, the Company entered into an interest rate swap agreement that results in fixing the interest rate over the term of the loan at 6.31%.

The Company also has a note in the amount of $1.8 million, net of discounts, as of December 31, 2002, payable as a result of an acquisition. Payments under the note are due in annual installments of $500,000 commencing in 2002 and ending in 2006, with a portion of such payments contingent upon certain conditions.

Capital expenditures, net of retirements, for the year ended December 31, 2002 were $31.5 million, which included $7.2 million for retail store operations. Included in capital expenditures for 2002 were $9.7 million for production equipment and new product tooling, $6.7 million for information technology infrastructure, including software, computers and related equipment, $7.6 million for in-store displays and $10.9 million for retail store and facility building improvements, furniture and fixtures and autos. For 2003, the Company expects capital expenditures to be approximately $35 million, including approximately $8 million for expansion of both Oakley and Iacon retail operations. As of December 31, 2002, the Company had commitments of approximately $0.4 million for future capital purchases.

In December 2000, the Company's Board of Directors authorized a repurchase by the Company of up to $20 million of the Company's common stock from time to time as market conditions warrant. The Company completed this repurchase program during the third quarter of 2002 resulting in aggregate repurchases of 1,400,500 shares of its common stock at a cost of approximately $20.0 million, or an average cost of $14.24 per share. In September 2002, the Company's Board of Directors authorized the repurchase of an additional $20 million of the Company's common stock to occur from time to time as market conditions warrant. Under this program, as of December 31, 2002, the Company had purchased 394,000 shares of its common stock at an aggregate cost of approximately $4.1 million, or an average cost of $10.50 per share.

The following table gives additional guidance related to the Company's future obligations and commitments as of December 31, 2002:

	2003	2004	2005	2006	2007	Thereafter
Lines of credit	$ 14,162,000	$ —	$ —	$ —	$ —	$ —
Long-term debt	1,519,000	1,519,000	1,519,000	1,519,000	8,731,000	—
Note payable	500,000	500,000	500,000	500,000	—	—
Letters of credit	4,800,000	—	—	—	—	—
Operating leases						
Related party	90,000	90,000	90,000	90,000	90,000	—
Other	9,835,000	9,501,000	8,524,000	7,435,000	6,609,000	16,405,000
Endorsement contracts	5,866,000	3,634,000	1,470,000	—	—	—
	$ 36,772,000	$ 15,244,000	$ 12,103,000	$ 9,544,000	$ 15,430,000	$ 16,405,000

The Company provides warranties against manufacturer's defects for all of its products and maintains a reserve for its product warranty liability based on estimates calculated using historical warranty experience. Warranty liability activity for the years ended December 31, was as follows:

	2002	2001	2000
Balance as of January 1,	$ 3,503,000	$ 3,992,000	$ 4,483,000
Warranty claims and expenses	(4,224,000)	(3,444,000)	(4,145,000)
Provisions for warranty expense	4,224,000	2,962,000	3,654,000
Changes due to foreign currency translation	34,000	(7,000)	—
Balance as of December 31,	$ 3,537,000	$ 3,503,000	$ 3,992,000

The Company believes that existing capital, anticipated cash flow from operations, and current and anticipated borrowings under its credit facility will be sufficient to meet operating needs and capital expenditures for the foreseeable future. The Company's short-term funding comes from its current revolving line of credit which contains various restrictive covenants including the maintenance of certain financial ratios. At December 31, 2002, the Company was in compliance with all restrictive covenants and financial ratios.

Seasonality

The following table sets forth certain unaudited quarterly data for the periods shown:

	2002				2001			
	Mar. 31	June 30	Sept. 30	Dec. 31	Mar. 31	June 30	Sept. 30	Dec. 31
	(in thousands)							
Net sales	$ 109,572	$ 145,144	$ 131,913	$ 102,923	$ 93,831	$ 131,212	$ 113,997	$ 90,227
Gross profit	57,683	91,067	74,284	54,556	54,411	84,186	66,785	49,553

Historically, the Company's aggregate sales have been highest in the period from March to September, the period during which sunglass use is typically highest in the northern hemisphere. As a result, operating margins are typically lower in the first and fourth quarters, as fixed operating costs are spread over lower sales volume. In anticipation of seasonal increases in demand, the Company typically builds sunglass inventories in the fourth quarter and first quarter when net sales have historically been lower. In addition, sales of goggles, footwear and apparel, which generate gross profits at lower levels than sunglasses, represent a smaller portion of the Company's net sales in the second quarter. This seasonal trend contributes to the Company's gross profit in the second quarter, which historically has been the highest of the year. Although the Company's business generally follows this seasonal trend, new product category introductions, such as apparel, footwear and watches, and the Company's international expansion have partially mitigated the impact of seasonality.

Backlog

Historically, the Company has generally shipped most eyewear orders within one day of receipt, with longer lead times for its other pre-booked product categories. At December 31, 2002, the Company had a backlog of $42.7 million, including backorders (merchandise remaining unshipped beyond its scheduled shipping date) of $5.7 million, compared to a backlog of $36.7 million, including backorders of $4.8 million, at December 31, 2001. Prebook orders from retailers for the Company's spring footwear and apparel lines totaled $34.0 million at December 31, 2002, up 18.9% compared with $28.6 million at December 31, 2001.

Inflation

The Company does not believe inflation has had a material impact on the Company in the past, although there can be no assurance that this will be the case in the future.

New Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 142 (SFAS 142), "*Goodwill and Other Intangible Assets*," which revised the accounting for purchased goodwill and intangible assets. Under SFAS 142, goodwill and intangible assets with indefinite lives will no longer be amortized, but will be tested for impairment annually and also reviewed in the event of an impairment indicator. The Company adopted SFAS 142 as of January 1, 2002 and recognized a reduction of amortization expense for the year ended December 31, 2002 of approximately $1.2 million primarily due to the adoption of SFAS No. 142. See Note 5 in*Notes to the Consolidated Financial Statements*.

In August 2001, The FASB issued Statement of Financial Accounting Standards No. 144 (SFAS 144), "*Accounting for the Impairment or Disposal of Long-Lived Assets*," which supersedes previous guidance on financial accounting and reporting for the impairment or disposal of long-lived assets and for segments of a business to be disposed of. The Company adopted SFAS 144 effective January 1, 2002 and such adoption did not have a material impact on the Company's financial position or results of operations.

In July 2002, the FASB issued SFAS No. 146, "*Accounting for Costs Associated with Exit or Disposal Activities*," which addresses financial accounting and reporting for costs associated with exit or disposal activities and supersedes Emerging Issues Task Force (EITF) Issue 94-3,*"Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)."*SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Under Issue 94-3, a liability for an exit cost as defined in EITF Issue 94-3 is recognized at the date of an entity's commitment to an exit plan. SFAS No. 146 also establishes that the liability should initially be measured and recorded at fair value. The Company will adopt the provisions of SFAS No. 146 for exit or disposal activities that are initiated after December 31, 2002.

In November 2002, the FASB issued FASB Interpretation No. 45 (FIN 45), "*Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees and Indebtedness of Others."* FIN 45 elaborates on the disclosures to be made by the guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also requires that a guarantor recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The initial recognition and measurement provisions of this interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002; while the provisions of the disclosure requirements are effective for financial statements of interim or annual reports ending after December 15, 2002. The Company adopted the disclosure provisions of FIN 45 during the fourth quarter of fiscal 2002. The Company is currently evaluating the recognition provisions of FIN 45 but expects that they will not have a material adverse impact on the Company's financial position or results of operations upon adoption.

In December 2002, the FASB issued Statement of Financial Accounting Standards No. 148 (SFAS 148), "*Accounting for Stock-Based Compensation—Transition and Disclosure*." SFAS 148 amends Statement No. 123 (SFAS 123),*Accounting for Stock-Based Compensation*, to provide alternative methods for voluntary transition to SFAS 123's fair value method of accounting for stock-based employee compensation ("the fair value method"). SFAS 148 also requires disclosure of the effects of an entity's accounting policy with respect to stock-based employee compensation on reported net income (loss) and earnings (loss) per share in annual and interim financials statements. The provisions of SFAS 148 are effective in fiscal years ending after December 15, 2002. The Company is required to follow the prescribed disclosure format and has provided the additional disclosures required by SFAS No. 148 for the year ended December 31, 2002 (see Notes 1 and 11) and must also provide the disclosures in its quarterly reports containing condensed financial statements for interim periods beginning with the quarterly period ending March 31, 2003.

In January 2003, the FASB issued FASB Interpretation No. 46 (FIN 46), "*Consolidation of Variable Interest Entities*." In general, a variable interest entity is a corporation, partnership, trust, or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The consolidation requirements of FIN 46 apply immediately to variable interest entities created after January 31, 2003. The consolidation requirements

apply to older entities in the first fiscal year or interim period beginning after June 15, 2003. Certain of the disclosure requirements apply in all financial statements issued after January 31, 2003, regardless of when the variable interest entity was established. Since the Company does not currently have any variable interest entities, the Company expects that the adoption of the provisions of FIN 46 will not have a material impact on the Company's financial position or results of operations.

Forward-Looking Statements

This document contains certain statements of a forward-looking nature. Such statements are made pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. The accuracy of such statements may be impacted by a number of business risks and uncertainties that could cause actual results to differ materially from those projected or anticipated, including: risks related to the Company's ability to manage rapid growth; the ability to identify qualified manufacturing partners; the ability to coordinate product development and production processes with those partners; the ability of those manufacturing partners and the Company's internal production operations to increase production volumes on raw materials and finished goods in a timely fashion in response to increasing demand and enable the Company to achieve timely delivery of finished goods to its retail customers; the ability to provide adequate fixturing to existing and future retail customers to meet anticipated needs and schedules; the dependence on eyewear sales to Sunglass Hut which is owned by a major competitor and, accordingly, could materially alter or terminate its relationship with the company; the Company's ability to expand distribution channels and its own retail operations in a timely manner; unanticipated changes in general market conditions or other factors, which may result in cancellations of advance orders or a reduction in the rate of reorders placed by retailers; continued weakness of economic conditions could continue to reduce or further reduce demand for products sold by the Company and could adversely affect profitability, especially of the Company's retail operations; further terrorist acts, or the threat thereof, could continue to adversely affect consumer confidence and spending, could interrupt production and distribution of product and raw materials and could, as a result, adversely affect the Company's operations and financial performance; the ability of the Company to integrate acquisitions without adversely affecting operations; the ability to continue to develop and produce innovative new products and introduce them in a timely manner; the acceptance in the marketplace of the Company's new products and changes in consumer preferences; reductions in sales of products, either as the result of economic or other conditions or reduced consumer acceptance of a product, could result in a buildup of inventory; the ability to source raw materials and finished products at favorable prices to the company; the potential effect of periodic power crises on the Company's operations including temporary blackouts at the Company's facilities; foreign currency exchange rate fluctuations; earthquakes or other natural disasters concentrated in Southern California where substantially all of the companies operations are based; the European restructuring charge is based on management'sestimates of expected costs, and actual results may vary; the Company's ability to identify and execute successfully cost control initiatives. Because of these uncertainties, prospective investors are cautioned not to place undue reliance on such statements. The Company undertakes no obligation to update this forward-looking information.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to a variety of risks, including foreign currency fluctuations and changes in interest rates affecting the cost of its debt.

Foreign currency

The Company has direct operations in Continental Europe, United Kingdom, Japan, Canada, Mexico, South Africa, Australia, New Zealand and Brazil which collect at future dates in the customers' local currencies and purchase finished goods in U.S. dollars. Accordingly, the Company is exposed to transaction gains and losses that could result from changes in foreign currency exchange rates.

As more fully described in Note 10 of the Company's*Notes to Consolidated Financial Statements*, the Company is exposed to gains and losses resulting from fluctuations in foreign currency exchange rates relating to foreign currency transactions. As part of its overall strategy to manage the level of exposure to the risk of fluctuations in foreign currency exchange rates, the Company and its subsidiaries use foreign exchange contracts in the form of forward contracts. All of the Company's derivatives were designated and qualified as cash flow hedges at December 31, 2002.

On the date the Company enters into a derivative contract, management designates the derivative as a hedge of the identified exposure. The Company only enters into derivative instruments that qualify as cash flow hedges as described in SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." For all instruments qualifying as highly effective cash flow hedges, the changes in the fair value of the derivative are recorded in other comprehensive income. The following is a summary of the Company's foreign exchange contracts by currency at December 31, 2002:

Forward Contracts:	U.S. Dollar Equivalent	Maturity	Fair Value
Australian dollar	$ 12,710,250	Jan. 2003 - Dec. 2003	$ (160,272)
British pound	19,768,056	Feb. 2003 - Dec. 2003	(766,126)
Canadian dollar	11,348,507	Jan. 2003 - Sep. 2003	(72,867)
Euro	33,461,964	Jan. 2003 - Dec. 2003	(2,048,683)
Japanese yen	12,659,296	Mar. 2003 - Dec. 2003	(149,652)
South African rand	2,426,764	Mar. 2003 - Jun. 2003	(556,786)
	$ 92,374,837		$ (3,754,386)

The Company is exposed to credit losses in the event of nonperformance by counterparties to its forward exchange contracts but has no off-balance sheet credit risk of accounting loss. The Company anticipates, however, that the counterparties will be able to fully satisfy their obligations under the contracts. The Company does not obtain collateral or other security to support the forward exchange contracts subject to credit risk but monitors the credit standing of the counterparties. As of December 31, 2002, outstanding contracts were recorded at fair value and the resulting gains and losses were recorded in the consolidated financial statements pursuant to the policy set forth above.

The Company sells direct and through its subsidiaries to various customers in the European Union which adopted the Euro as a legal currency effective January 1, 1999. The Euro began its circulation after a three-year transition period on January 1, 2002. The Company has upgraded certain of its information systems to enhance its capability to process transactions and keep records in Euros. As of December 31, 2002, costs in connection with the Euro conversion have been immaterial and have not had a material adverse effect on the Company.

Interest rates

The Company's principal line of credit, with no balance outstanding at December 31, 2002, bears interest at either LIBOR or IBOR plus 0.75% (2.12% at December 31, 2002) or the bank's prime lending rate minus 0.25% (4.00% at December 31, 2002). Based on the weighted average interest rate of 3.2% on the line of credit during the year ended December 31, 2002, if interest rates on the line of credit were to increase by 10%, and to the extent that borrowings were outstanding, for every $1.0 million outstanding on the Company's line of credit, net income would be reduced by approximately $2,000 per year.

The Company's ten-year real estate term loan, with a balance of $14.8 million outstanding at December 31, 2002, bears interest at LIBOR plus 1.0% (2.43% at December 31, 2002) and is due in September 2007. In January 1999, the Company entered into an interest rate swap agreement that eliminates the Company's risk of fluctuations in the variable rate of its long-term loan by fixing the rate at 6.31%. As of December 31, 2002, the fair value of the Company's interest rate swap agreement was a loss of approximately $1.3 million.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See*Index to Consolidated Financial Statements* for a listing of the consolidated financial statements submitted as part of this report.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

Part III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this item will be contained in the Company's Proxy Statement for its Annual Shareholders Meeting to be held on June 6, 2003, to be filed with the Securities and Exchange Commission within 120 days after December 31, 2002, and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item will be contained in the Company's Proxy Statement for its Annual Shareholders Meeting to be held on June 6, 2003, to be filed with the Securities and Exchange Commission within 120 days after December 31, 2002, and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this item will be contained in the Company's Proxy Statement for its Annual Shareholders Meeting to be held on June 6, 2003, to be filed with the Securities and Exchange Commission within 120 days after December 31, 2002, and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item will be contained in the Company's Proxy Statement for its Annual Shareholders Meeting to be held on June 6, 2003, to be filed with the Securities and Exchange Commission within 120 days after December 31, 2002, and is incorporated herein by reference.

ITEM 14. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"). Based on such evaluation, such officers have concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures are effective in alerting them on a timely basis to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company's reports filed or submitted under the Exchange Act.

Changes in Internal Controls

Since the Evaluation Date, there have not been any significant changes in the Company's internal controls or in other factors that could significantly affect such controls.

Part IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a)(1) See page 47 for a listing of financial statements submitted as part of this report.

(a)(2) Schedule II—Valuation and Qualifying Accounts

All other schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

(a)(3) The following exhibits are included in this report.

3.1 (1)	Articles of Incorporation of the Company
3.2 (8)	Amended and Restated Bylaws of the Company
3.3 (3)	Amendment No. 1 to the Articles of Incorporation as filed with the Secretary of State of the State of Washington on September 26, 1996
3.4 (8)	Amendment No. 1 to Section 1 and Sections 3a through 3f of Article IV of the Amended and Restated Bylaws of Oakley, Inc.
10.1 (2)	Agreement, dated July 17, 1995, between Oakley, Inc. and Michael Jordan
10.2 (4)	Reciprocal Exclusive Dealing Agreement dated March 11, 1997 among Oakley, Inc., Gentex Optics, Inc. and Essilor International Compagnie Generale D'Optique, S.A. (portions of this document have been omitted pursuant to a request for confidential treatment)
10.3 (4)	Promissory Note, dated March 20, 1997, between Oakley, Inc. and Bank of America National Trust and Savings Association
10.4 (5)	Promissory Note, dated August 7, 1997, between Oakley, Inc. and Bank of America National Trust and Savings Association
10.5 (5)	Amendment No. 1 to Promissory Note, dated August 14, 1997, between Oakley, Inc. and Bank of America National Trust and Savings Association
10.6 (5)	Amendment No. 2 to Promissory Note, dated August 14, 1997, between Oakley, Inc. and Bank of America National Trust and Savings Association
10.7 (5)	Deed of Trust with Assignment of Rents, Security Agreement and Fixture Filing, dated August 7, 1997, between Oakley, Inc. and Bank of America National Trust and Savings Association
10.8 (6)	Amended and Restated Consultant Agreement, dated May 12, 1998, between Jim Jannard and Oakley, Inc.
10.9 (7)	Second Amended and Restated Credit Agreement, dated August 25, 1998, among Oakley, Inc. and Bank of America National Trust and Savings Association, as agent, and the Lenders named therein
10.10 (7)	Modification Agreement (Short Form), dated August 10, 1998, between Oakley, Inc. and Bank of America National Trust and Savings Association
10.11 (7)	Modification Agreement (Long Form), dated August 10, 1998, between Oakley, Inc. and Bank of America National Trust and Savings Association
10.12 (9)	Amended and Restated Employment Agreement, dated May 1, 1999, between Link Newcomb and Oakley, Inc.
10.13 (9)	Oakley, Inc. Amended and Restated 1995 Stock Incentive Plan
10.14 (9)	Oakley, Inc. Amended and Restated Executive Officers Performance Bonus Plan
10.15 (10)	Amendment No. 1 to Amended and Restated Employment Agreement, dated December 31, 1999, between Link Newcomb and Oakley, Inc.
10.16 (10)	Second Amended and Restated Employment Agreement, dated January 1, 2000, between Thomas George and Oakley, Inc.

10.17 (11)	First Amendment to Second Amended and Restated Credit Agreement, dated as of March 6, 2000, among Oakley, Inc. and Bank of America National Trust and Savings Association, as agent, and the Lenders named therein
10.18 (12)	Employment Agreement, dated October 1, 2000, between Tomas Rios and Oakley, Inc.
10.19 (13)	Second Amendment to Second Amended and Restated Credit Agreement, dated October 16, 2000, among Oakley, Inc. and Bank of America National Trust and Savings Association, as agent, and the Lenders named therein
10.20 (13)	Third Amendment to Second Amended and Restated Credit Agreement, dated January 18, 2001, among Oakley, Inc. and Bank of America National Trust and Savings Association, as agent, and the Lenders named therein
10.21 (13)	Lease Agreement, dated November 10, 2000, between Haven Gateway LLC and Oakley, Inc.
10.22 (13)	Trademark License Agreement and Assignment of Rights, dated March 31, 2000, between Y, LLC and Oakley, Inc.
10.23 (14)	Aircraft Lease Agreement, dated March 28, 2002, between Oakley, Inc. and X, Inc.
10.24 (15)	Aircraft Lease Agreement, dated May 6, 2002, between Oakley, Inc. and N2T, Inc.
10.25 (15)	Amendment to Trademark License Agreement, dated June 1, 2002, between Y, LLC and Oakley, Inc.
10.26 (16)	Indemnification Agreement, dated February 7, 2003, between Oakley, Inc. and Jim Jannard.
10.27 (16)	Indemnification Agreement, dated February 7, 2003, between Oakley, Inc. and Link Newcomb.
10.28 (16)	Indemnification Agreement, dated February 7, 2003, between Oakley, Inc. and Colin Baden.
10.29 (16)	Indemnification Agreement, dated February 14, 2003, between Oakley, Inc. and Tommy Rios.
10.30 (16)	Indemnification Agreement, dated February 7, 2003, between Oakley, Inc. and Tom George.
10.31 (16)	Indemnification Agreement, dated February 7, 2003, between Oakley, Inc. and Donna Gordon.
10.32 (16)	Indemnification Agreement, dated February 7, 2003, between Oakley, Inc. and Scott Bowers.
10.33 (16)	Indemnification Agreement, dated February 7, 2003, between Oakley, Inc. and Bill Daily.
10.34 (16)	Indemnification Agreement, dated February 7, 2003, between Oakley, Inc. and Jon Krause.
10.35 (16)	Indemnification Agreement, dated February 7, 2003, between Oakley, Inc. and Kent Lane.
10.36 (16)	Indemnification Agreement, dated February 13, 2003, between Oakley, Inc. and Cliff Neill.
10.37 (16)	Indemnification Agreement, dated February 14, 2003, between Oakley, Inc. and Carlos Reyes.
21.1 (16)	List of Material Subsidiaries
23.1 (16)	Consent of Deloitte & Touche LLP, independent auditors
99.1 (16)	Certification of CEO and CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

---

(1)

Previously filed with the Registration Statement on Form S-1 of Oakley, Inc. (Registration No. 33-93080)

(2)

Previously filed with the Form 10-Q of Oakley, Inc. for the quarter ended September 30, 1995.

(3) Previously filed with the Form 10-K of Oakley, Inc. for the year ended December 31, 1996.

(4) Previously filed with the Form 10-Q of Oakley, Inc. for the quarter ended March 31, 1997.

(5) Previously filed with the Form 10-Q of Oakley, Inc. for the quarter ended September 30, 1997.

(6) Previously filed with the Form 10-Q of Oakley, Inc. for the quarter ended June 30, 1998.

(7) Previously filed with the Form 10-Q of Oakley, Inc. for the quarter ended September 30, 1998.

(8) Previously filed with the Form 10-K of Oakley, Inc. for the year ended December 31, 1998.

(9) Previously filed with the Form 10-Q of Oakley, Inc. for the quarter ended June 30, 1999.

(10) Previously filed with the Form 10-K of Oakley, Inc. for the year ended December 31, 1999.

(11) Previously filed with the Form 10-Q of Oakley, Inc. for the quarter ended March 30, 2000.

(12) Previously filed with the Form 10-Q of Oakley, Inc. for the quarter ended September 30, 2000.

(13) Previously filed with the Form 10-K of Oakley, Inc. for the year ended December 31, 2000.

(14) Previously filed with the Form 10-Q of Oakley, Inc. for the quarter ended March 31, 2002.

(15) Previously filed with the Form 10-Q of Oakley, Inc. for the quarter ended June 30, 2002.

(16) Filed herewith.

(b) Reports on Form 8-K

The Company did not file any reports on Form 8-K during the quarter ended December 31, 2002.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

anagement, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Oakley, Inc. and subsidiaries as of December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for goodwill and other intangible assets during 2002 in accordance with Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets".

/s/ DELOITTE & TOUCHE LLP
Costa Mesa, California
February 14, 2003

OAKLEY, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share data)

	December 31,	
	2002	2001
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 22,248	$ 5,612
Accounts receivable, less allowance for doubtful accounts of $2,606 (2002) and $1,844 (2001)	68,116	74,775
Inventories, net (Note 3)	87,007	77,270
Other receivables	5,008	3,097
Deferred and prepaid income taxes (Note 7)	10,686	8,734
Income tax receivable (Note 7)	—	6,449
Prepaid expenses and other assets	6,271	10,754
Total current assets	199,336	186,691
Property and equipment, net (Note 4)	152,454	146,591
Deposits	2,684	1,378
Deferred income taxes (Note 7)	470	—
Goodwill (Note 5)	21,470	20,682
Other assets (Note 5)	7,536	7,438
TOTAL ASSETS	$ 383,950	$ 362,780
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Line of credit (Note 8)	$ 14,162	$ 40,533
Accounts payable	25,912	19,025
Accrued expenses and other current liabilities (Note 6)	24,337	15,293
Accrued warranty	3,537	3,503
Income taxes payable (Note 7)	361	—
Current portion of long-term debt (Note 8)	2,019	2,019
Total current liabilities	70,328	80,373
Deferred income taxes (Note 7)	5,215	5,207
Long-term debt, net of current portion (Note 8)	14,576	16,490
COMMITMENTS AND CONTINGENCIES (Note 9)		
SHAREHOLDERS' EQUITY (Note 11):		
Preferred stock, par value $.01 per share; 20,000,000 shares authorized; no shares issued	—	—
Common stock, par value $.01 per share; 200,000,000 shares authorized; 68,332,000 (2002) and 68,821,000 (2001) issued and outstanding	683	688
Additional paid-in capital	35,097	40,805
Retained earnings	268,285	227,648
Accumulated other comprehensive (loss) income	(10,234)	(8,431)
Total shareholders' equity	293,831	260,710
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 383,950	$ 362,780

See accompanying*Notes to Consolidated Financial Statements*

OAKLEY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except share and per share data)

	Year Ended December 31,		
	2002	2001	2000
Net sales (Note 12)	$ 489,552	$ 429,267	$ 363,474
Cost of goods sold	211,962	174,332	138,408
Gross profit	277,590	254,935	225,066
Operating expenses:			
Research and development	16,016	11,318	7,894
Selling (Note 14)	126,995	108,948	90,291
Shipping and warehousing (Note 14)	18,083	16,997	10,005
General and administrative	52,335	43,606	35,612
Total operating expenses	213,429	180,869	143,802
Operating income	64,161	74,066	81,264
Interest expense, net	1,643	3,108	2,723
Income before provision for income taxes	62,518	70,958	78,541
Provision for income taxes (Note 7)	21,881	20,587	27,489
Net income	$ 40,637	$ 50,371	$ 51,052
Basic net income per common share	$ 0.59	$ 0.73	$ 0.74
Basic weighted average common shares	68,732,000	68,856,000	69,041,000
Diluted net income per common share	$ 0.59	$ 0.72	$ 0.73
Diluted weighted average common shares	69,333,000	69,751,000	69,709,000

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

	Year Ended December 31,		
	2002	2001	2000
Net income	$ 40,637	$ 50,371	$ 51,052
Other comprehensive (loss) income:			
Net unrealized gain (loss) on derivative instruments	(4,181)	1,795	(2,759)
Foreign currency translation adjustment	2,378	(3,952)	(2,576)
Other comprehensive (loss) income, net of tax	(1,803)	(2,157)	(5,335)
Comprehensive income	$ 38,834	$ 48,214	$ 45,717

See accompanying *Notes to Consolidated Financial Statements*

OAKLEY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(in thousands, except share data)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (loss)	Total
	Shares	Amount				
Balance as of January 1, 2000	70,037,000	$ 700	$ 51,851	$ 126,225	$ (939)	$ 177,837
Repurchase of common shares (Note 11)	(2,411,000)	(24)	(27,550)	—	—	(27,574)
Exercise of stock options (Note 11)	986,000	10	10,353	—	—	10,363
Compensatory stock options	—	—	141	—	—	141
Tax benefit related to exercise of stock options	—	—	1,689	—	—	1,689
Net income	—	—	—	51,052	—	51,052
Other comprehensive loss	—	—	—	—	(5,335)	(5,335)
Balance as of December 31, 2000	68,612,000	686	36,484	177,277	(6,274)	208,173
Repurchase of common shares (Note 11)	(350,000)	(3)	(4,474)	—	—	(4,477)
Exercise of stock options (Note 11)	559,000	5	5,481	—	—	5,486
Compensatory stock options	—	—	98	—	—	98
Tax benefit related to exercise of stock options	—	—	3,216	—	—	3,216
Net income	—	—	—	50,371	—	50,371
Other comprehensive loss	—	—	—	—	(2,157)	(2,157)
Balance as of December 31, 2001	68,821,000	688	40,805	227,648	(8,431)	260,710
Repurchase of common shares (Note 11)	(666,000)	(7)	(7,986)	—	—	(7,993)
Exercise of stock options (Note 11)	177,000	2	1,827	—	—	1,829
Compensatory stock options	—	—	3	—	—	3
Tax benefit related to exercise of stock options	—	—	448	—	—	448
Net income	—	—	—	40,637	—	40,637
Other comprehensive loss	—	—	—	—	(1,803)	(1,803)
Balance as of December 31, 2002	68,332,000	$ 683	$ 35,097	$ 268,285	$ (10,234)	$ 293,831

See accompanying*Notes to Consolidated Financial Statements*

OAKLEY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Year Ended December 31,		
	2002	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 40,637	$ 50,371	$ 51,052
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	28,578	23,545	20,377
Provision for bad debt expense	1,877	894	1,607
Compensatory stock options and capital contributions	3	98	141
Loss on disposition of equipment	1,353	130	94
Deferred and prepaid income taxes, net	(85)	15,728	(10,602)
Changes in assets and liabilities, net of effects of business acquisitions:			
Accounts receivable	5,672	(13,663)	(29,585)
Inventories	(5,925)	(14,398)	(28,121)
Other receivables	(2,192)	(1,376)	23
Income taxes receivable	6,449	(6,449)	—
Prepaid expenses and other	3,243	(6,369)	215
Accounts payable	6,034	(5,413)	6,344
Accrued expenses	2,838	2,691	2,783
Accrued warranty	34	(489)	(491)
Income taxes payable	319	(14,912)	14,296
Net cash provided by operating activities	88,835	30,388	28,133
CASH FLOWS FROM INVESTING ACTIVITIES:			
Deposits	(1,218)	(125)	958
Acquisitions of property and equipment	(32,992)	(44,702)	(26,999)
Proceeds from sale of property and equipment	162	164	37
Acquisitions of businesses (Note 2)	—	(8,699)	—
Other assets	(288)	(1,432)	1,806
Net cash used in investing activities	(34,336)	(54,794)	(24,198)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from bank borrowings	77,852	156,047	138,149
Repayments of bank borrowings	(107,714)	(134,719)	(126,819)
Net proceeds from issuance of common shares	2,277	8,702	12,052
Repurchase of common shares and contributions of capital	(7,993)	(4,477)	(27,574)
Net cash (used in) provided by financing activities	(35,578)	25,553	(4,192)
Effect of exchange rate changes on cash	(2,285)	(390)	(387)
Net increase (decrease) in cash and cash equivalents	16,636	757	(644)
Cash and cash equivalents, beginning of period	5,612	4,855	5,499
Cash and cash equivalents, end of period	$ 22,248	$ 5,612	$ 4,855
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	$ 2,700	$ 4,882	$ 3,363
Income taxes (net of refunds received)	$ 14,582	$ 22,130	$ 22,146
Supplemental disclosure of non-cash transactions:			
During the year ended December 31, 2002, the Company acquired certain assets through the settlement of accounts receivable	$ (2,687)	—	—

See accompanying *Notes to Consolidated Financial Statements*

OAKLEY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2002, 2001, 2000

Note 1—Significant Accounting Policies and Description of Business

Description of Business—The Company is an innovation-driven designer, manufacturer and distributor of consumer products that include high-performance eyewear, footwear, watches, apparel and accessories. The Company believes its principal strength is its ability to develop products that demonstrate superior performance and aesthetics through proprietary technology and styling. Its designs and innovations are protected by approximately 600 legal patents and 900 trademarks worldwide.

Basis of Presentation—The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America.

Principles of Consolidation—The consolidated financial statements include the accounts of Oakley, Inc. (a Washington corporation, which succeeded to all the assets and liabilities of Oakley, Inc., a California corporation) and its subsidiaries (collectively, the "Company"). All significant intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates—The preparation of the Company's consolidated financial statements in conformity with generally accepted accounting principles necessarily requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities as of the balance sheet dates and the reported amounts of revenue and expense during the reporting periods. Actual results could significantly differ from such estimates.

Cash and Cash Equivalents—For purposes of the consolidated financial statements, investments purchased with an original maturity of three months or less are considered cash equivalents.

Inventories—Inventories are stated at the lower of cost to purchase and/or manufacture the inventory or the current estimated market value of the inventory. The Company regularly reviews its inventory quantities on hand and records a provision for excess and obsolete inventory based primarily on the Company's estimated forecast of product demand and production requirements.

Property and Equipment—Property and equipment are stated at cost, net of accumulated depreciation and amortization. Depreciation and amortization are provided for using the straight-line method over the estimated useful lives (generally two to seven years for property and equipment and 39 years for buildings) of the respective assets or, as to leasehold improvements, the term of the related lease if less than the estimated useful service life.

Goodwill and Intangible Assets—Effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Intangible Assets", which revises the accounting for purchased goodwill and intangible assets. Under SFAS No. 142, goodwill and intangible assets with indefinite lives are no longer amortized but are tested for impairment annually and also in the event of an impairment indicator. The Company completed the required transitional impairment test and the annual test and determined that no impairment loss was necessary. Any subsequent impairment losses will be reflected in operating income. With the adoption of SFAS No. 142, the Company discontinued amortization of goodwill in 2002.

Revenue Recognition—The Company recognizes revenue when merchandise is shipped to a customer. Generally, the Company extends credit to its customers and does not require collateral. The Company performs ongoing credit evaluations of its customers and historic credit losses have been within management's expectations. The Company's shipping terms with all customers are FOB shipping point. Sales agreements with dealers and distributors normally provide general payment terms of 30 to

120 days, depending on the product category. Although none of the Company's sales agreements with any of its customers provides for any rights of return by the customer, except for product warranty related issues, the Company occasionally accepts returns at its sole discretion. The Company records a provision for sales returns and claims based upon historical experience. Actual returns and claims in any future period may differ from the Company's estimates. In addition, although the Company, at its sole discretion, may repurchase its own products to protect the Company image, this practice is infrequent and, historically, the value of these repurchases has not been significant.

Financial Instruments—The carrying amounts of financial instruments, consisting of cash and cash equivalents, trade accounts receivable and accounts payable, approximate fair value due to the short period of time between origination of the instruments and their expected realization. Management also believes the carrying amount of balances outstanding under the credit agreements approximates fair value as the underlying interest rates reflect market rates.

Accounts Receivable—The Company performs ongoing credit evaluations of its customers and adjusts credit limits based upon payment history and the customer's current creditworthiness, as determined by the Company's review of their current credit information. The Company continuously monitors its customer collections and payments and maintains a provision for estimated credit losses based upon the Company's historical experience and any specific customer collection issues that have been identified. While such credit losses have historically been within the expectations and the provisions established by the Company, there can be no assurances that the Company will continue to experience the same credit loss rates that have been experienced in the past.

Warranties—The Company provides a one-year limited warranty against manufacturer's defects in its eyewear. All authentic Oakley watches are warranted for one year against manufacturer's defects when purchased from an authorized Oakley watch dealer. Footwear is warranted for 90 days against manufacturer's defects, and apparel is warranted for 30 days against manufacturer's defects. The Company's standard warranties require the Company to repair or replace defective product returned to the Company during such warranty period. While warranty costs have historically been within the Company's expectations, there can be no assurance that the Company will continue to experience the same warranty return rates or repair costs as in the prior years. A significant increase in product return rates, or a significant increase in the costs to repair product, could have a material adverse impact on the Company's operating results.

Warranty liability activity for the years ended December 31, was as follows:

	2002	2001	2000
Balance as of January 1,	$ 3,503,000	$ 3,992,000	$ 4,483,000
Warranty claims and expenses	(4,224,000)	(3,444,000)	(4,145,000)
Provisions for warranty expense	4,224,000	2,962,000	3,654,000
Changes due to foreign currency translation	34,000	(7,000)	—
Balance as of December 31,	$ 3,537,000	$ 3,503,000	$ 3,992,000

Income Taxes—The Company accounts for income taxes under the provisions of SFAS No. 109, "Accounting for Income Taxes." Current income tax expense is the amount of income taxes expected to be payable for the current year. A deferred income tax asset or liability is established for the expected future consequences of temporary differences in the financial reporting and tax bases of assets and

liabilities. The Company considers future taxable income and ongoing prudent and feasible tax planning strategies in assessing the value of its deferred tax assets. If the Company determines that it is more likely than not that these assets will not be realized, the Company will provide a valuation allowance on such assets. (Note 7).

Foreign Currency Translation—The Company's primary functional currency is the U.S. dollar, while the functional currency of each of the Company's subsidiaries is the local currency of the subsidiary. The Company has direct operations in Continental Europe, United Kingdom, Japan, Canada, Mexico, South Africa, Australia, New Zealand and Brazil which collect at future dates in the customers' local currencies and purchase finished goods in U.S. dollars. Accordingly, the Company is exposed to transaction gains and losses that could result from changes in foreign currency. Assets and liabilities of the Company denominated in foreign currencies are translated at the rate of exchange on the balance sheet date. Revenues and expenses of foreign subsidiaries are translated using the average exchange rate for the period. Gains and losses from translation of foreign subsidiary financial statements are included in accumulated other comprehensive income. Gains and losses on short-term intercompany foreign currency transactions are recognized as incurred. As part of the Company's overall strategy to manage its level of exposure to the risk of fluctuations in foreign currency exchange rates, the Company and its subsidiaries have entered into various foreign exchange contracts in the form of forward contracts (Note 10).

Comprehensive Income—The Company has adopted SFAS No. 130, "Reporting Comprehensive Income." Comprehensive income represents the results of operations adjusted to reflect all items recognized under accounting standards as components of comprehensive earnings.

The components of comprehensive income for the Company include net income, unrealized gains or losses on foreign currency cash flow hedges, unrealized gains or losses on an interest rate swap, and foreign currency translation adjustments. The components of accumulated other comprehensive income, net of tax, are as follows:

	Years ended December 31,	
	2002	2001
	(in thousands)	
Unrealized (loss) gain on foreign currency cash flow hedges	$ (3,205)	$ 321
Unrealized (loss) gain on interest rate swap	(922)	(268)
Equity adjustment from foreign currency translation	(6,107)	(8,484)
	$ (10,234)	$ (8,431)

Stock-Based Compensation—The Company accounts for stock-based awards to employees using the intrinsic value method in accordance with Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," under which no compensation expense is recognized for stock option awards granted at fair market value. Stock based awards to non-employees are accounted for using the fair value method in accordance with Statement of Financial Accounting Standards No. 123, "Accounting for Stock Based Compensation."

SFAS No. 123 requires the disclosure of pro forma net income and earnings per share had the Company adopted the fair value method in accounting for stock-based awards as of the beginning of fiscal 1995. Under SFAS No. 123, the fair value of stock-based awards to employees is calculated through the use of option-pricing models, even though such models were developed to estimate the fair value of freely tradable, fully transferable options without vesting restrictions, which significantly differ from the Company's stock option awards. These models also require subjective assumptions, including future stock price volatility and expected time to exercise, which greatly affect the calculated values. The Company's calculations were made using the Black-Scholes option-pricing model with the following weighted average assumptions:

	2002	2001	2000
Stock volatility	44.1% - 81.1%	58.1% - 83.7%	44.3% - 58.7%
Risk-free interest rate	2.8%	3.8%	5.5%
Expected dividend yield	0%	0%	0%
Expected life of option	1 - 4 years	1 - 4 years	1 - 4 years

If the computed fair value of the 2002, 2001 and 2000 awards has been amortized to expense over the vesting period of the awards, net income would have been as follows:

	2002	2001	2000
Net income:			
As reported	$ 40,637,000	$ 50,371,000	$ 51,052,000
Deduct: Total stock based employee compensation expense determined under fair value based method for all awards, net of tax effects	(3,639,000)	(2,964,000)	(2,724,000)
Pro forma	$ 36,998,000	$ 47,407,000	$ 48,328,000
Basic net income per share:			
As reported	$ 0.59	$ 0.73	$ 0.74
Pro forma	$ 0.54	$ 0.69	$ 0.70
Diluted net income per share:			
As reported	$ 0.59	$ 0.72	$ 0.73
Pro forma	$ 0.54	$ 0.68	$ 0.69

Earnings Per Share—Basic earnings per share is computed using the weighted average number of common shares outstanding during the reporting period. Earnings per share assuming dilution is computed using the weighted average number of common shares outstanding and the dilutive effect of potential common shares outstanding. For the years ended December 31, 2002, 2001, and 2000, the diluted weighted average common shares outstanding includes diluted shares for stock options totaling 601,000, 895,000, and 668,000, respectively.

Advertising Costs—The Company advertises primarily through print media, catalogs and in-house mailers. The Company's policy is to expense advertising costs associated with print media on the date the print media is released to the public. Costs associated with catalogs and direct mailers are expensed as they are shipped to the Company's customers. Advertising costs also includes posters and other point-of-purchase materials which are expensed as incurred. Advertising expenses for 2002, 2001 and 2000 were $18,432,000, $17,922,000, and $11,991,000, respectively.

Changes in Accounting Principle—Effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 142 (SFAS 142), "*Goodwill and Other Intangible Assets*," which revised the accounting for purchased goodwill and intangible assets. Under SFAS 142, goodwill and intangible assets with indefinite lives will no longer be amortized, but will be tested for impairment annually and also reviewed in the event of an impairment indicator. (Note 5)

In August 2001, the FASB issued Statement of Financial Accounting Standards No. 144 (SFAS 144), "*Accounting for the Impairment or Disposal of Long-Lived Assets*," which supersedes previous guidance on financial accounting and reporting for the impairment or disposal of long-lived assets and for segments of a business to be disposed of. The Company adopted SFAS 144 effective January 1, 2002 and such adoption did not have a material impact on the Company's financial position or results of operations.

New Accounting Pronouncements—In July 2002, the FASB issued SFAS No. 146, "*Accounting for Costs Associated with Exit or Disposal Activities*," which addresses financial accounting and reporting for costs associated with exit or disposal activities and supersedes Emerging Issues Task Force (EITF) Issue 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Under Issue 94-3, a liability for an exit cost as defined in EITF 94-3 is recognized at the date of an entity's commitment to an exit plan. SFAS No. 146 also establishes that the liability should initially be measured and recorded at fair value. The Company will adopt the provisions of SFAS No. 146 for exit or disposal activities that are initiated after December 31, 2002.

In November 2002, the FASB issued FASB Interpretation No. 45 (FIN 45), "*Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees and Indebtedness of Others."* FIN 45 elaborates on the disclosures to be made by the guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also requires that a guarantor recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The initial recognition and measurement provisions of this interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002; while the provisions of the disclosure requirements are effective for financial statements of interim or annual reports ending after December 15, 2002. The Company adopted the disclosure provisions of FIN 45 during the fourth quarter of fiscal 2002. The Company is currently evaluating the recognition provisions of FIN 45 but expects that they will not have a material adverse impact on the Company's financial position or results of operations upon adoption.

In December 2002, the FASB issued Statement of Financial Accounting Standards No. 148 (SFAS 148), "*Accounting for Stock-Based Compensation—Transition and Disclosure*." SFAS 148 amends Statement No. 123 (SFAS 123),*Accounting for Stock-Based Compensation*,to provide alternative methods for voluntary transition to SFAS 123's fair value method of accounting for stock-based employee compensation ("the fair value method"). SFAS 148 also requires disclosure of the effects of an entity's accounting policy with respect to stock-based employee compensation on reported net income (loss) and earnings (loss) per share in annual and interim financials statements. The provisions of SFAS 148 are effective in fiscal years ending after December 15, 2002. The Company is required to follow the prescribed disclosure format and has provided the additional disclosures required by SFAS No. 148 for the year ended December 31, 2002 and must also provide the disclosures in its quarterly

reports containing condensed financial statements for interim periods beginning with the quarterly period ending March 31, 2003.

In January 2003, the FASB issued FASB Interpretation No. 46 (FIN 46), "*Consolidation of Variable Interest Entities*." In general, a variable interest entity is a corporation, partnership, trust, or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The consolidation requirements of FIN 46 apply immediately to variable interest entities created after January 31, 2003. The consolidation requirements apply to older entities in the first fiscal year or interim period beginning after June 15, 2003. Certain of the disclosure requirements apply in all financial statements issued after January 31, 2003, regardless of when the variable interest entity was established. Since the Company does not currently have any variable interest entities, the Company expects that the adoption of the provisions of FIN 46 will not have a material impact on the Company's financial position or results of operations.

Reclassifications—Certain reclassifications have been made to prior period financial statements to conform to the presentation for the financial statements for the period ended December 31, 2002.

Certain Significant Risks and Uncertainties

General Business—The Company's historical success is attributable, in part, to its introduction of products which are perceived to represent an improvement in performance over products available in the market. The Company's future success will depend, in part, upon its continued ability to develop and introduce such innovative products, and there can be no assurance of the Company's ability to do so. The consumer products industry, including the eyewear, apparel, footwear and watch categories, is fragmented and highly competitive. In order to retain its market share, the Company must continue to be competitive in the areas of quality, technology, method of distribution, style, brand image, intellectual property protection and customer service. These industries are subject to changing consumer preferences and shifts in consumer preferences may adversely affect companies that misjudge such preferences.

In addition, the Company has experienced significant growth under several measurements which has placed, and could continue to place, a significant strain on its employees and operations. If management is unable to anticipate or manage growth effectively, the Company's operating results could be materially adversely affected.

Inventories—As experienced in 2002, demand for the Company's products can fluctuate significantly. Factors which could affect demand for the Company's products include unanticipated changes in general market conditions or other factors, which may result in cancellations of advance orders or a reduction in the rate of reorders placed by retailers; continued weakening of economic conditions, which could reduce demand for products sold by the Company and which could adversely affect profitability; and future terrorist acts or war, or the threat thereof, which could adversely affect consumer confidence and spending, interrupt production and distribution of product and raw materials and, as a result, adversely affect the Company's operations and financial performance. Additionally,

management's estimates of future product demand may be inaccurate, which could result in an understated or overstated provision required for excess and obsolete inventory.

Vulnerability Due to Supplier Concentrations—The Company relies on a single source for the supply of several components, including the uncoated lens blanks from which substantially all of its sunglass lenses are cut. In the event of the loss of its source for lens blanks, the Company has identified an alternate source which may be available. The effect of the loss of any of these sources (including any possible disruption in business) will depend primarily upon the length of time necessary to find a suitable alternative source and could have a material adverse effect on the Company's business. There can be no assurance that, if necessary, an additional source of supply for lens blanks or other critical materials can be located or developed in a timely manner.

Vulnerability Due to Customer Concentrations—Net sales to Sunglass Hut accounted for approximately 12.2%, 12.0% and 21.0% of the Company's net sales for the years ended December 31, 2002, 2001 and 2000, respectively. In April 2001, Luxottica, one of the Company's largest competitors, acquired Sunglass Hut and implemented changes which adversely affected the Company's net sales to Sunglass Hut in 2001. In December 2001, the Company and Luxottica entered into a new three-year commercial agreement for the distribution of Oakley products through Sunglass Hut retail stores. The agreement applies to Sunglass Hut locations in the United States, Canada, the United Kingdom and Ireland, and marked the resumption of the business relationship between the two companies, which had been substantially reduced since August 2, 2001. Oakley and Luxottica also resumed their business together on mutually agreed terms for the markets not specifically covered by the 2001 agreement. The arrangements between the companies do not obligate Luxottica to order product from the Company, and there can be no assurances as to the future of the relationship between the Company and Luxottica.

Note 2—Acquisitions

On October 31, 2001, the Company acquired one of its largest U.S. customers, Iacon, Inc., a sunglass specialty retailer. During 2002, the Company transitioned its operations in Brazil to direct distribution from the previous independent distributor and acquired certain intangible assets on May 29, 2002. These acquisitions have been recorded using the purchase method of accounting and the results of operations from the date of acquisitions have been included in the Company's consolidated financial statements. The purchase price for these acquisitions were allocated on the respective date of acquisitions as follows:

	Brazil 2002	Iacon 2001
Inventories, net	$ 187,000	$ 2,747,000
Other current assets	—	448,000
Property and equipment, net	500,000	2,276,000
Identified intangible assets	2,000,000	574,000
Goodwill	—	7,760,000
Assumed liabilities	—	(4,986,000)
	$ 2,687,000	$ 8,819,000

The excess of the purchase prices over the fair values of the net assets acquired have been allocated to intangible assets and goodwill. Had the acquisitions occurred at the beginning of the fiscal year in which they were completed, or the beginning of the immediately preceding year, combined pro forma net sales, net income and net income per common share would not have been materially different from that currently being reported.

Note 3—Inventories

Inventories at December 31, consist of the following:

	2002	2001
Raw materials	$ 22,188,000	$ 23,137,000
Finished goods	64,819,000	54,133,000
	$ 87,007,000	$ 77,270,000

Note 4—Property and Equipment

Property and equipment at December 31, consist of the following:

	2002	2001
Land	$ 8,979,000	$ 9,043,000
Buildings and leasehold improvements	84,471,000	75,821,000
Equipment and furniture	163,556,000	144,315,000
Tooling	23,883,000	19,141,000
	280,889,000	248,320,000
Less accumulated depreciation and amortization	(128,435,000)	(101,729,000)
	$ 152,454,000	$ 146,591,000

Note 5—Goodwill and Intangible Assets

On January 1, 2002, the Company adopted SFAS No. 142 "Goodwill and Other Intangible Assets," which eliminated the amortization of purchased goodwill and other intangibles with indefinite useful lives. Upon adoption of SFAS No. 142, the Company performed an impairment test of the carrying value of its goodwill and intangible assets, and determined that no impairment existed. Under SFAS No. 142, goodwill and non-amortizing intangible assets will be tested for impairment at least annually and more frequently if an event occurs which indicates that goodwill or intangible assets may be impaired.

Included in other assets in the accompanying consolidated financial statements are the following amortizing intangible assets.

	As of December 31, 2002		As of December 31, 2001	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Covenants not to compete	$ 4,267,000	$ 1,955,000	$ 3,576,000	$ 1,519,000
Distribution rights	3,567,000	1,309,000	3,067,000	1,045,000
Patents	3,591,000	1,363,000	3,575,000	1,038,000
Other identified intangible assets	838,000	100,000	828,000	6,000
Total	$ 12,263,000	$ 4,727,000	$ 11,046,000	$ 3,608,000

The following table reflects the impact that SFAS No. 142 would have had on prior years net income and net income per share if the non-amortization provisions had been adopted on January 1, 2000:

	Twelve months ended December 31,:		
	2002	2001	2000
Net income	$ 40,637,000	$ 50,371,000	$ 51,052,000
Add back: Goodwill amortization	—	1,221,000	1,305,000
Related income tax effect	—	(354,000)	(457,000)
Adjusted net income	$ 40,637,000	$ 51,238,000	$ 51,900,000
Net income per share:			
Basic	$ 0.59	$ 0.73	$ 0.74
Add back: Goodwill amortization, net of related income tax effect	—	0.01	0.01
Adjusted basic net income per share	$ 0.59	$ 0.74	$ 0.75
Diluted	$ 0.59	$ 0.72	$ 0.73
Add back: Goodwill amortization, net of related income tax effect	—	0.01	0.01
Adjusted diluted net income per share	$ 0.59	$ 0.73	$ 0.74

Intangible assets other than goodwill will continue to be amortized by the Company using estimated useful lives of 5 to 15 years and no residual values. Intangible amortization expense for the years ended December 31, 2002, 2001 and 2000 were approximately $1,119,000, $840,000 and $799,000,

respectively. Annual estimated amortization expense, based on the Company's intangible assets at December 31, 2002, is as follows:

Estimated Amortization Expense:	
Fiscal 2003	$ 1,265,000
Fiscal 2004	1,265,000
Fiscal 2005	1,265,000
Fiscal 2006	1,207,000
Fiscal 2007	851,000

Changes in goodwill related to domestic and foreign entities is as follows:

	United States	Continental Europe	Other Countries	Consolidated
Balance, December 31, 2001	$ 9,613,000	$ —	$ 11,069,000	$ 20,682,000
Adjustments:				
Goodwill adjustments during the year	165,000	—	—	165,000
Changes due to foreign exchange rates	—	—	623,000	623,000
Balance, December 31, 2002	$ 9,778,000	$ —	$ 11,692,000	$ 21,470,000

Note 6—Accrued Liabilities

Accrued liabilities consist of the following:

	Years ended December 31,	
	2002	2001
Accrued employee compensation and benefits	$ 9,708,000	$ 7,538,000
Derivative liability	5,060,000	—
Other liabilities	9,569,000	7,755,000
	$ 24,337,000	$ 15,293,000

Note 7—Income Taxes

The Company's income before income tax provision was subject to taxes in the following jurisdictions for the years ended December 31,:

	2002	2001	2000
United States	$ 59,153,000	$ 59,382,000	$ 64,482,000
Foreign	3,365,000	11,576,000	14,059,000
	$ 62,518,000	$ 70,958,000	$ 78,541,000

The provision for income taxes for the years ended December 31, consist of the following:

	2002	2001	2000
Current:			
Federal	$ 20,075,000	$ 12,738,000	$ 15,276,000
State	2,051,000	4,001,000	2,610,000
Foreign	1,390,000	4,734,000	4,821,000
	23,516,000	21,473,000	22,707,000
Deferred:			
Federal	(1,120,000)	(448,000)	3,537,000
State	79,000	(108,000)	934,000
Foreign	(594,000)	(330,000)	311,000
	(1,635,000)	(886,000)	4,782,000
	$ 21,881,000	$ 20,587,000	$ 27,489,000

A reconciliation of income tax expense computed at U.S. Federal statutory rates to income tax expense for the years ended December 31, is as follows:

	2002	2001	2000
Tax at U.S. Federal statutory rates	$ 21,881,000	$ 24,835,000	$ 27,489,000
State income taxes, net	1,384,000	2,530,000	2,304,000
U.S. export benefit, net of foreign tax rate differential	(1,268,000)	(6,957,000)	(1,602,000)
Other, net	(116,000)	179,000	(702,000)
	$ 21,881,000	$ 20,587,000	$ 27,489,000

Deferred and prepaid income taxes consist of prepaid taxes of $74,000 at December 31, 2002 and $267,000 at December 31, 2001 and reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for

income tax purposes. Significant components of the Company's deferred tax assets and liabilities at December 31, are as follows:

	2002	2001
Current deferred tax assets:		
Warranty reserve	$ 1,123,000	$ 1,344,000
Uniform capitalization	1,131,000	525,000
Sales returns reserve	1,706,000	1,136,000
State taxes	325,000	404,000
Inventory reserve	1,864,000	2,688,000
Allowance for doubtful accounts	439,000	467,000
Accrued vacation	687,000	574,000
Foreign tax credit	3,587,000	—
Other	220,000	1,329,000
Total current deferred tax assets	11,082,000	8,467,000
Long-term deferred tax liabilities:		
Depreciation and amortization	(5,853,000)	(4,925,000)
Other comprehensive income	(276,000)	(1,247,000)
Other	914,000	965,000
Total long-term deferred tax liability	(5,215,000)	(5,207,000)
Net deferred tax assets	$ 5,867,000	$ 3,260,000

Note 8—Debt

Line of Credit—In January 2001, the Company amended its unsecured line of credit with a bank syndicate which allows for borrowings up to $75 million and matures in August 2004. The amended line of credit bears interest at either LIBOR or IBOR plus 0.75% (2.12% at December 31, 2002) or the bank's prime lending rate minus 0.25% (4.00% at December 31, 2002). At December 31, 2002, the Company did not have any balance outstanding under such facility. The credit agreement contains various restrictive covenants including the maintenance of certain financial ratios. At December 31, 2002, the Company was in compliance with all restrictive covenants and financial ratios. Certain of the Company's foreign subsidiaries have negotiated local lines of credit to provide working capital financing. These foreign lines of credit bear interest from 0.82% to 5.75%. Some of the Company's foreign subsidiaries have bank overdraft accounts that renew annually and bear interest from 4.75% to 17.00%. The aggregate borrowing limit on the foreign lines of credit is $23.3 million of which $14.2 million was outstanding at December 31, 2002.

Long-Term Debt—The Company has a real estate term loan with an outstanding balance of $14.8 million at December 31, 2002, which expires in September 2007. The term loan, which is collateralized by the Company' corporate headquarters, requires quarterly principal payments of approximately $380,000 ($1,519,000 annually), plus interest based upon LIBOR plus 1.00% (2.43% at December 31, 2002). In January 1999, the Company entered into an interest rate swap agreement that eliminates the Company's risk of fluctuations in the variable rate of its long-term debt by fixing the

interest rate over the term of the note at 6.31%. As of December 31, 2002, the fair value of the Company's interest rate swap agreement was a loss of approximately $1.3 million.

The following schedule lists the Company's minimum annual principal payments on its long-term debt:

Year Ending December 31,	
2003	$ 1,519,000
2004	1,519,000
2005	1,519,000
2006	1,519,000
2007	8,731,000
Thereafter	—
	$ 14,807,000

The Company also has a note in the amount of $1.8 million, net of discounts, as of December 31, 2002, payable as a result of an acquisition. Payments under the note are due in annual installments of $500,000 commencing in 2002 and ending in 2006, with a portion of such payments contingent upon certain conditions.

Note 9—Commitments and Contingencies

Leases—The Company is committed under noncancelable operating leases expiring at various dates through 2013 for certain offices, warehouse facilities, retail stores, production facilities and distribution centers.

Minimum future annual rentals under these leases are as follows:

Year Ending December 31,	Related Party	Other	Total
2003	$ 90,000	$ 9,835,000	$ 9,925,000
2004	90,000	9,501,000	9,591,000
2005	90,000	8,524,000	8,614,000
2006	90,000	7,435,000	7,525,000
2007	90,000	6,609,000	6,699,000
Thereafter	—	16,405,000	16,405,000
Total	$ 450,000	$ 58,309,000	$ 58,759,000

Rent expense for the years ended December 31, is summarized as follows:

	2002	2001	2000
Related Party	$ 60,000	$ 48,000	$ 197,000
Other	8,570,000	3,838,000	1,496,000
Total	$ 8,630,000	$ 3,886,000	$ 1,693,000

Additionally, during the years ended December 31, 2002 and 2001, the Company paid an officer and shareholder of the Company approximately $42,000 and $170,000, respectively, for the placement of the Company's trademarks on, and related marketing activities in connection with, an automobile owned by the officer and shareholder that competes on the National Hot Rod Association drag racing circuit.

Purchase Commitments—The Company has an exclusive agreement, which renews annually, with its lens blank supplier and the supplier's French parent, pursuant to which the Company has the exclusive right to purchase decentered sunglass lenses, in return for the Company's agreement to fulfill all of its lens requirements, subject to certain exceptions, from such supplier.

Employment and Consulting Agreements—The Company has entered into employment and consulting agreements with certain officers of the Company which have terms of two to three years. The agreements require minimum aggregate compensation to the respective officers. Additionally, the officers participate in a performance bonus plan, and the employment agreements establish minimum bonus targets for such officers.

Endorsement Contracts—The Company has entered into several endorsement contracts with selected athletes and others who endorse the Company's products. The contracts are primarily of short duration. Under the contracts, the Company has agreed to pay certain incentives based on performance and is required to pay minimum annual payments as follows:

Year Ending December 31,	
2003	$ 5,866,000
2004	3,634,000
2005	1,470,000
2006	—
2007	—
Thereafter	—
	$ 10,970,000

Included in such amounts is an annual retainer of $0.5 million through 2005 for a former director of the Company.

Indemnities, Commitments and Guarantees—During its normal course of business, the Company has made certain indemnities, commitments and guarantees under which it may be required to make payments in relation to certain transactions. These indemnities include indemnities to the Company's

customers in connection with the sales of its products, indemnities to various lessors in connection with facility leases for certain claims arising from such facility or lease, and indemnities to directors and officers of the Company to the maximum extent permitted under the laws of the State of Washington. The Company has also issued a guarantee in the form of a standby letter of credit as security for contingent liabilities under certain workers compensation insurance policies. The duration of these indemnities, commitments and guarantees varies. Some of these indemnities, commitments and guarantees do not provide for any limitation of the maximum potential future payments the Company could be obligated to make. The Company has not recorded any liability for these indemnities, commitments and guarantees in the accompanying consolidated balance sheets.

Litigation—The Company is currently involved in litigation incidental to the Company's business. In the opinion of management, the ultimate resolution of such litigation, in the aggregate, will not likely have a material adverse effect on the accompanying consolidated financial statements.

Note 10—Derivative Financial Instruments

The Company is exposed to gains and losses resulting from fluctuations in foreign currency exchange rates relating to transactions of its international subsidiaries as well as fluctuations in its variable rate debt. As part of its overall strategy to manage the level of exposure to the risk of fluctuations in foreign currency exchange rates, the Company and its subsidiaries use foreign exchange contracts in the form of forward contracts. In addition, as part of its overall strategy to manage the level of exposure to the risk of fluctuations in interest rates, in January 1999, the Company entered into an interest rate swap agreement that results in fixing the interest rate over the term of the Company's ten-year real estate term loan. As of December 31, 2002, the fair value of the Company's interest rate swap agreement was a loss of approximately $1.3 million. At December 31, 2002, all of the Company's derivative were designated and qualified as cash flow hedges. For all qualifying and highly effective cash flow hedges, the changes in the fair value of the derivative are recorded in other comprehensive income. The Company is currently hedging forecasted foreign currency transactions that could result in reclassifications of $3.8 million of losses to earnings over the next twelve months. The Company hedges forecasted transactions that are determined probable to occur within twenty-four months or less.

On the date the Company enters into a derivative contract, management designates the derivative as a hedge of the identified exposure. The Company does not enter into derivative instruments that do not qualify as cash flow hedges as described in SFAS No. 133. The Company formally documents all relationships between hedging instruments and hedged items, as well as the risk-management objective and strategy for undertaking various hedge transactions. In this documentation, the Company specifically identifies the asset, liability, firm commitment, or forecasted transaction that has been designated as a hedged item and states how the hedging instrument is expected to hedge the risks related to the hedged item. The Company formally measures effectiveness of its hedging relationships both at the hedge inception and on an ongoing basis in accordance with its risk management policy. The Company would discontinue hedge accounting prospectively (i) if it is determined that the derivative is no longer effective in offsetting change in the cash flows of a hedged item, (ii) when the derivative expires or is sold, terminated, or exercised, (iii) when the derivative is designated as a hedge instrument, because it is probable that the forecasted transaction will not occur, (iv) because a hedged firm commitment no longer meets the definition of a firm commitment, or (v) if management

determines that designation of the derivative as a hedge instrument is no longer appropriate. During the twelve months ended December 31, 2002, the Company reclassified into earnings net losses of $4.5 million resulting from the expiration, sale, termination, or exercise of foreign currency exchange contracts.

The following is a summary of the foreign currency contracts outstanding by currency at December 31, 2002:

	U.S. Dollar Equivalent	Maturity	Fair Value
Forward Contracts:			
Australian dollar	$ 12,710,250	Jan. 2003 - Dec. 2003	$ (160,272)
British pound	19,768,056	Feb. 2003 - Dec. 2003	(766,126)
Canadian dollar	11,348,507	Jan. 2003 - Sep. 2003	(72,867)
Euro	33,461,964	Jan. 2003 - Dec. 2003	(2,048,683)
Japanese yen	12,659,296	Mar. 2003 - Dec. 2003	(149,652)
South African rand	2,426,764	Mar. 2003 - Jun. 2003	(556,786)
	$ 92,374,837		$ (3,754,386)

The Company is exposed to credit losses in the event of nonperformance by counterparties to its forward exchange contracts but has no off-balance sheet credit risk of accounting loss. The Company anticipates however, that the counterparties will be able to fully satisfy their obligations under the contracts. The Company does not obtain collateral or other security to support the forward exchange contracts subject to credit risk but monitors the credit standing of the counterparties. As of December 31, 2002, outstanding contracts were recorded at fair value and the resulting gains and losses were recorded in the consolidated financial statements pursuant to the policy set forth above.

Note 11—Shareholders' Equity

Stock Repurchase—In December 2000, the Company's Board of Directors authorized a repurchase by the Company of up to $20 million of the Company's common stock from time to time as market conditions warrant. The Company completed this repurchase program during the third quarter of 2002 resulting in aggregate repurchases of 1,400,500 shares of its common stock at a cost of approximately $20.0 million, or an average cost of $14.24 per share. In September 2002, the Company's Board of Directors authorized the repurchase of an additional $20 million of the Company's common stock to occur from time to time as market conditions warrant. Under this program, as of December 31, 2002, the Company had purchased 394,000 shares of its common stock at an aggregate cost of approximately $4.1 million, or an average cost of $10.50 per share.

Stock Incentive Plan—The Company's Amended and Restated 1995 Stock Incentive Plan (the "Plan") provides for stock-based incentive awards, including incentive stock options, nonqualified stock options, restricted stock, performance shares, stock appreciation rights and deferred stock to Company officers, employees, advisors and consultants. These shares are, in most cases, granted at an exercise price equal to the fair market value of the Company's stock at the time of grant. Options vest over periods ranging from one to four years and expire ten years after the grant date. A total of 6,712,000

shares have been reserved for issuance under the Plan. At December 31, 2002, stock options for 2,155,509 shares were exercisable and 1,050,610 shares were available for issuance pursuant to new stock option grants.

The following table summarizes information with respect to the Plan for the years ended December 31, 2002, 2001 and 2000:

	2002	2001	2000
Outstanding shares at January 1	3,495,306	3,005,047	3,573,098
Granted	702,250	1,126,000	625,999
Cancelled	(115,576)	(76,459)	(208,079)
Exercised	(176,753)	(559,282)	(985,971)
Outstanding shares at December 31	3,905,227	3,495,306	3,005,047
Exercisable shares at December 31	2,155,509	1,704,894	1,649,397
Average exercise price at January 1	$ 12.49	$ 10.37	$ 10.45
Granted	16.03	16.89	10.42
Cancelled	14.58	13.56	11.10
Exercised	10.20	9.82	10.53
Average exercise price at December 31	$ 13.16	$ 12.49	$ 10.37
Weighted average exercise price of exercisable options at December 31	$ 11.67	$ 10.81	$ 10.94
Weighted average fair value of options granted during the year	$ 8.33	$ 7.64	$ 4.55

Additional information regarding options outstanding as of December 31, 2002 is as follows:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Avg Remaining Contractual Life (yrs)	Weighted Avg Exercise Price	Number Exercisable	Weighted Avg Exercise Price
$ 5.56 - 8.75	389,081	6.08	$ 7.55	267,303	$ 7.76
$ 9.06 - 11.00	935,255	5.94	$ 10.38	732,042	$ 10.30
$11.50 - 13.32	1,251,562	5.22	$ 12.08	919,859	$ 11.84
$14.04 - 25.19	1,329,329	8.55	$ 17.79	236,305	$ 19.65

During the years ended December 31, 2002, 2001 and 2000, the Company recorded stock compensation expense of $3,000, $98,000 and $141,000, respectively, associated with the fair value of stock options issued to non-employees.

Note 12—Net Sales

The Company's net sales to U.S. and international customers for the years ended December 31, are summarized as follows:

	2002	2001	2000
United States	$ 254,024,000	$ 213,143,000	$ 193,199,000
International	235,528,000	216,124,000	170,275,000
	$ 489,552,000	$ 429,267,000	$ 363,474,000

Note 13—Segment and Geographic Information

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the Company's chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance. The Company operates exclusively in the consumer products industry in which the Company designs, manufactures and sells sunglasses and prescription eyewear, athletic equipment, apparel, footwear and watches. For segment reporting purposes, these product groups have been aggregated because of their common characteristics and their reliance on shared operating functions.

Although the Company operates in one industry segment, it derives revenues from different product lines within the segment. Gross sales from external customers for each product line for the years ended December 31, are as follows:

	2002	2001	2000
Sunglasses	$ 330,154,000	$ 301,623,000	$ 283,797,000
Other consumer products	198,627,000	148,740,000	100,115,000
	$ 528,781,000	$ 450,363,000	$ 383,912,000

Other consumer products consist of prescription eyewear, goggles, footwear, apparel, watches, accessories and Iacon sales of sunglasses other than the Company's.

Consumer product information related to domestic and foreign operations is as follows:

	2002			
	United States	Continental Europe	Other Countries	Consolidated
	(in thousands)			
Net sales	$ 290,347	$ 81,879	$ 117,326	$ 489,552
Operating income	59,946	(1,033)	5,248	64,161
Net income	37,869	(568)	3,336	40,637
Identifiable assets	266,148	38,834	78,968	383,950

	2001			
	United States	Continental Europe	Other Countries	Consolidated
	(in thousands)			
Net sales	$ 252,117	$ 72,301	$ 104,849	$ 429,267
Operating income	60,929	2,171	10,966	74,066
Net income	42,669	474	7,228	50,371
Identifiable assets	273,666	31,176	57,938	362,780

	2000			
	United States	Continental Europe	Other Countries	Consolidated
	(in thousands)			
Net sales	$ 222,691	$ 55,933	$ 84,850	$ 363,474
Operating income	67,506	3,230	10,528	81,264
Net income	42,076	2,154	6,822	51,052
Identifiable assets	186,088	55,092	61,806	302,986

Operating income and net income for the Company's foreign operations in 2002 reflects expenses related to the Company's $2.8 million ($1.8 million on an after-tax basis) charge for the restructuring of its European operations. Operating income and net income for the Company's foreign operations reflects Oakley product sales to its subsidiaries at transfer price and other intercompany corporate charges.

Note 14—Restructure Charge

In December 2002, the Company's Board of Directors approved a plan to restructure (the "Restructuring Plan") the Company's European operations with significant changes to the regional sales and distribution organization. As part of this plan, relationships with several outside sales agents have been modified or terminated, and changes are being implemented to rationalize other warehousing and distribution functions within the European markets. Management believes these actions to modify the Company's sales and distribution organization in the region will provide the infrastructure necessary to support future growth and position the Company to better capitalize on opportunities in footwear and apparel.

Related to this Restructuring Plan, the Company recorded a charge of $2.8 million ($1.8 million, or $0.02 per diluted share, on an after-tax basis) during the fourth quarter of the fiscal year ended

December 31, 2002. This charge is included in selling and shipping and warehousing expenses and is comprised of the following components:

	As of December 31, 2002		
	Total restructure expense	Amounts paid	Reserves to be utilized by December 31, 2003
Termination and modification of sales agent contracts and employee contracts	$ 2,249,000	$ (210,000)	$ 2,039,000
Rationalization of warehousing and distribution	539,000	—	539,000
	$ 2,788,000	$ (210,000)	$ 2,578,000

Note 15—Quarterly Financial Data (unaudited)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(in thousands, except per share data)			
Year ended December 31, 2002:				
Net sales	$ 109,572	$ 145,144	$ 131,913	$ 102,923
Gross profit	57,683	91,067	74,284	54,556
Income before provision for income taxes	9,217	34,545	19,272	1,127
Net income	5,562	22,334	12,254	487
Basic net income per share	$ 0.08	$ 0.32	$ 0.18	$ 0.01
Diluted net income per share	$ 0.08	$ 0.32	$ 0.18	$ 0.01
Year ended December 31, 2001:				
Net sales	$ 93,831	$ 131,212	$ 113,997	$ 90,227
Gross profit	54,411	84,186	66,785	49,553
Income before provision for income taxes	13,031	33,751	20,520	3,656
Net income	9,122	23,625	14,365	3,259
Basic net income per share	$ 0.13	$ 0.34	$ 0.21	$ 0.05
Diluted net income per share	$ 0.13	$ 0.34	$ 0.21	$ 0.05
Year ended December 31, 2000:				
Net sales	$ 63,086	$ 100,013	$ 107,044	$ 93,331
Gross profit	39,075	66,743	65,133	54,116
Income before provision for income taxes	8,418	28,396	26,828	14,899
Net income	5,472	18,457	17,438	9,685
Basic net income per share	$ 0.08	$ 0.27	$ 0.25	$ 0.14
Diluted net income per share	$ 0.08	$ 0.27	$ 0.25	$ 0.14

OAKLEY, INC. AND SUBSIDIARIES

SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS
FOR THE YEARS ENDED DECEMBER 31, 2002, 2001, 2000

	Balance at beginning of period	Additions charged to costs and expense	Deductions	Adjustments	Balance at end of period
For the year ended December 31, 2002:					
Allowance for doubtful accounts	$ 1,844,000	$ 1,877,000	$ (1,115,000)	$ —	$ 2,606,000
Sales return reserve	$ 4,111,000	$ 5,108,000	$ (3,394,000)	$ —	$ 5,825,000
Inventory reserve	$ 8,074,000	$ 1,630,000	$ (2,546,000)	$ —	$ 7,158,000
For the year ended December 31, 2001:					
Allowance for doubtful accounts	$ 1,512,000	$ 894,000	$ (562,000)	$ —	$ 1,844,000
Sales return reserve	$ 2,261,000	$ 4,789,000	$ (2,939,000)	$ —	$ 4,111,000
Inventory reserve	$ 6,756,000	$ 2,009,000	$ (691,000)	$ —	$ 8,074,000
For the year ended December 31, 2000:					
Allowance for doubtful accounts	$ 598,000	$ 1,607,000	$ (693,000)	$ —	$ 1,512,000
Sales return reserve	$ 3,896,000	$ 3,494,000	$ (5,129,000)	$ —	$ 2,261,000
Inventory reserve	$ 9,272,000	$ 3,705,000	$ (6,221,000)	$ —	$ 6,756,000

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

OAKLEY, INC.

By:

/s/ JIM JANNARD

Jim Jannard
Chairman of the Board and Chief Executive Officer

Date:

March 26, 2003

Pursuant to the requirement of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ JIM JANNARD Jim Jannard	Chairman of the Board and CEO (Principal Executive Officer)	March 26, 2003
/s/ LINK NEWCOMB Link Newcomb	Chief Operating Officer and Director	March 26, 2003
/s/ THOMAS GEORGE Thomas George	Chief Financial Officer (Principal Accounting Officer)	March 26, 2003
/s/ ABBOTT BROWN Abbott Brown	Director	March 26, 2003
/s/ LEE CLOW Lee Clow	Director	March 26, 2003
/s/ IRENE MILLER Irene Miller	Director	March 26, 2003
/s/ ORIN SMITH Orin Smith	Director	March 26, 2003

CERTIFICATION FOR
ANNUAL REPORTS ON FORM 10-K

I, Jim Jannard, certify that:*1.*
I have reviewed this annual report on Form 10-K of Oakley, Inc.;

2.
Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3.
Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4.
The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a)
Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b)
Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c)
Presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5.
The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a)
All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b)
Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6.
The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 26, 2003

/s/ JIM JANNARD

Jim Jannard
Chief Executive Officer

CERTIFICATION FOR

ANNUAL REPORTS ON FORM 10-K

I, Thomas George, certify that:*1.*
I have reviewed this annual report on Form 10-K of Oakley, Inc.;

2.
Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3.
Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4.
The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a)
Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b)
Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c)
Presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5.
The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a)
All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b)
Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6.
The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 26, 2003

/s/ THOMAS GEORGE

Thomas George
Chief Financial Officer

QuickLinks

Exhibit 10.26

INDEMNIFICATION AGREEMENT

This Indemnification Agreement is made as of this 7th day of February, 2003, by and between OAKLEY, INC., a Washington corporation (the "Company"), and Jim Jannard.

WHEREAS, as of the date hereof, the Company has provisions for indemnification of its directors and officers in Article V of its Amended and Restated Articles of Incorporation (the "Articles of Incorporation") and Article VII of its Bylaws (the "Bylaws") which provide for indemnification of the Company's directors and officers to the fullest extent permitted by law;

WHEREAS, the indemnification provisions in the Bylaws provide that the right of indemnification is a contract right of the covered parties;

WHEREAS, the Bylaws provide that the Company may maintain, at its expense, insurance to protect itself and any of its directors and officers against liability asserted against such persons incurred in such capacity whether or not the Company has the power to indemnify such persons against the same liability under Section 23B.08.510 or .520 of the Act (as defined below) or a successor statute;

WHEREAS, the Company and the Indemnified Party recognize that the officers and directors of publicly owned companies are frequently joined as parties to Proceedings (as defined below) against their respective companies as a result of their serving in such capacity; and

WHEREAS, in order to induce Indemnified Party to serve or continue to serve the Company, the Company wishes to confirm the contract indemnification rights provided in the Bylaws and agrees to provide Indemnified Party with the benefits contemplated by this Agreement and to supplement the provisions of this Agreement with directors' and officers' liability insurance maintained by the Company.

NOW, THEREFORE, in consideration of the promises, conditions, representations and warranties set forth herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company and Indemnified Party hereby agree as follows:

1. *Definitions.* The following terms, as used herein, shall have the following respective meanings; other capitalized terms used and not specifically defined in this Section 1 shall have the meanings provided elsewhere in the Agreement and in the Bylaws:

(a) "Act" means the Washington Business Corporation Act RCW Title 23B, as amended from time to time.

(b) "Adjudication" shall refer to a final, non-appealable decision by a court of competent jurisdiction. "Adjudged" shall have a correlative meaning.

(c) "Covered Amount" means any Loss, Fine and Expense, to the extent such Loss, Fine or Expense, in type or amount, is not insured under the D&O Insurance maintained by the Company from time to time.

(d) "Covered Act" means any act or omission of the Indemnified Party in his or her capacity as a director, officer, employee, agent, fiduciary or consultant of the Company alleged by any claimant or any claim against Indemnified Party by reason of him or her serving in such a capacity, or by reason of Indemnified Party serving, at the request of the Company, in such capacity with another corporation, partnership, employee benefit plan, trust or other enterprise, in all cases, whether such alleged act or omission occurred before or after the date of this Agreement.

(e) "D&O Insurance" means the liability insurance which the Company may purchase on behalf of Indemnified Party against liability asserted against or incurred by Indemnified Party in connection with claims arising from Covered Acts, whether or not the Company would have the power to indemnify the individual against the same liability under Section 23B.08.510 or 23B.08.520 of the Act.

(f) "Determination" means a determination, based on the facts known at the time, made:

(i) by the Board of Directors by majority vote of a quorum consisting of directors not at the time parties to the Proceeding;

(ii) if a quorum cannot be obtained under clause (i), by majority vote of a duly designated committee of the Board of Directors, in the manner provided by Section 23B.08.550(2)(b) of the Act;

(iii) by special legal counsel, selected in the manner provided by Section 23B.08.550(2)(c) of the Act, in a written opinion; or

(iv) by a majority of the shareholders of the Company, excluding shares owned or voted under the control of directors who are at the time parties to the Proceeding.

"Determined" shall have a correlative meaning.

(g) "Excluded Claim" means any payment for Losses, Fines or Expenses in connection with any claim relating to or arising out of:

(i) acts or omissions of the Indemnified Party Adjudged to be intentional misconduct or a knowing violation of law;

(ii) conduct of the Indemnified Party Adjudged to be in violation of Section 23B.08.310 of the Act; or

(iii) any transaction with respect to which it was Adjudged that such Indemnified Party personally received a benefit in money, property, or services to which the Indemnified Party was not legally entitled.

(h) "Expenses" means any reasonable expenses incurred by Indemnified Party as a result of a claim or claims made against Indemnified Party from Covered Acts, including, without limitation, reasonable counsel fees and costs of investigative, judicial or administrative proceedings or appeals.

(i) "Fines" means any fine or penalty including, with respect to an employee benefit plan, any excise tax assessed with respect thereto.

(j) "Losses" means amounts, as determined by an Adjudication, which the Indemnified Party is legally obligated to pay as a result of a claim or claims arising from Covered Acts, including, without limitation, Fines, damages and judgments and sums paid in settlement of such claim or claims.

(k) "Proceeding" means any threatened, pending or completed action, suit, proceeding or investigation, whether civil, criminal or administrative whether formal or informal.

2. *Maintenance of D&O Insurance.*

(a) The Company hereby covenants and agrees that, so long as Indemnified Party shall continue to serve as a director or executive officer of the Company and thereafter, for so long as Indemnified Party shall be subject to any possible Proceeding arising from any Covered Act, the Company, subject to Section 2(c), shall maintain in full force and effect D&O Insurance.

(b) In all policies of D&O Insurance, Indemnified Party shall be named as an insured in such a manner as to provide Indemnified Party the same rights and benefits, and the same limitations, as are accorded to the Company's directors or executive officers most favorably insured by such policy.

(c) The Company shall have no obligation to maintain D&O Insurance if the Company, by majority vote of the Board of Directors, determines in good faith that such insurance is not reasonably available, the premium costs for such insurance are disproportionate to the amount of coverage provided, or the coverage provided by such insurance is limited by exclusions so as to provide an insufficient benefit;*provided,however*, that such decision shall not adversely affect

coverage of D&O Insurance for periods prior to such decision without the unanimous vote of all directors.

3. *Indemnification.* The Company shall indemnify Indemnified Party up to the Covered Amount and shall advance any and all Expenses to Indemnified Party in connection with any Proceeding or any Covered Act, subject, in each case, to the further provisions of this Agreement. This Agreement is made pursuant to and to effectuate the indemnification provisions set forth in Article V of the Articles of Incorporation and Article VII of the Bylaws. Notwithstanding any other provision of this Agreement, the Company shall indemnify Indemnified Party to the extent Indemnified Party is successful, on the merits or otherwise, in the defense of any Proceeding to which Indemnified Party was a party because of being a director, officer, employee, agent, fiduciary or consultant of the Company, against reasonable Expenses incurred by Indemnified Party in connection with the Proceeding.

4. *Excluded Coverage.* The Company shall have no obligation to indemnify Indemnified Party for any Losses or Expenses which arise from an Excluded Claim.

5. *Indemnification Procedures.*

(a) Promptly after receipt by Indemnified Party of notice of the commencement of or the threat of commencement of any Proceeding, Indemnified Party shall, if indemnification or advancement of Expenses with respect thereto may be sought from the Company under this Agreement, notify the Company of the commencement or the threat of commencement thereof.

(b) If, at the time of the receipt of such notice, the Company has D&O Insurance in effect, the Company shall give prompt notice of the commencement or the threat of commencement of such Proceeding to the appropriate insurers in accordance with the procedures set forth in the respective policies in favor of Indemnified Party. The Company shall thereafter take all necessary or desirable action to cause such insurers to, in accordance with the terms of such policies: (i) advance, to the extent permitted by law, any and all Expenses to Indemnified Party, (ii) pay, on behalf of Indemnified Party, all amounts (including, without limitation, Losses and Expenses) payable as a result of, or in connection with, such Proceeding and (iii) reimburse Indemnified Party for all amounts (including, without limitation, Losses and Expenses) paid by Indemnified Party as a result of, or in connection with, such Proceeding.

(c) To the extent the Company does not, at the time of the commencement of or the threat of commencement of such Proceeding, have applicable D&O Insurance, or if a Determination is made that any Loss, Fine or Expense of the Indemnified Party arising out of such Proceeding will not be payable under the D&O Insurance then in effect, the Company shall be obligated to pay the Covered Amount with respect to any Proceeding and to provide counsel satisfactory to Indemnified Party upon the delivery to Indemnified Party of written notice of the Company's election to do so. After delivery of such notice, the Company will not be liable to Indemnified Party under this Agreement for any legal or other Expenses subsequently incurred by the Indemnified Party in connection with such defense other than the reasonable Expenses of investigation of Indemnified Party;*provided*, that Indemnified Party shall have the right to employ his or her own counsel in connection with the defense of any such Proceeding, the fees and expenses of such counsel incurred after delivery of notice from the Company of its assumption of such defense to be at the Indemnified Party's sole expense. Notwithstanding the foregoing, if (i) the employment of counsel by Indemnified Party has been previously authorized by the Company, (ii) Indemnified Party shall have been advised by counsel that there may be a conflict of interest between the Company and Indemnified Party in the conduct of any such defense or (iii) the Company shall not, in fact, have employed counsel to assume the defense of such Proceeding, in each such case, the fees and expenses of such counsel retained by Indemnified Party shall be at the expense of the Company. In the event Indemnified Party is entitled to employ counsel at the Company's expense pursuant to the terms of this Paragraph 5(c), and if so requested in writing by Indemnified Party, the Company shall advance any and all Expenses to Indemnified Party to the extent permitted by law.

(d) All payments on account of the Company's indemnification or advancement obligations under Paragraph 5(b) of this Agreement shall be made within sixty (60) days of Indemnified Party's written request therefor unless a Determination is made that the claims giving rise to Indemnified Party's request are Excluded Claims or otherwise not payable under this Agreement. All payments on account of the Company's obligations under Paragraph 5(c) of this Agreement shall be made within 20 days of Indemnified Party's written request therefor, subject to Paragraph 5(e) of this Agreement.

(e) In the event that (i) a Determination is made that the claims giving rise to Indemnified Party's request are Excluded Claims or otherwise not payable under this Agreement or (ii) it is Adjudged that the Indemnified Party is not entitled to be indemnified by the Company for Losses or Expenses under this Agreement, the Articles of Incorporation, the Bylaws or the Act, the Company shall have no obligation to indemnify, or advance any Expenses to Indemnified Party. Further, in either case, Indemnified Party agrees that he or she will reimburse the Company for all Losses and Expenses paid by the Company and all Expenses advanced by the Company in connection with such Proceeding against Indemnified Party.

6. *Settlement.* The Company shall have no obligation to indemnify Indemnified Party under this Agreement for any amounts paid in settlement of any Proceeding effected without the Company's prior written consent. The Company shall not settle any claim in any manner which would impose any loss or expense on Indemnified Party without Indemnified Party's prior written consent, unless the Company provides a written undertaking to the Indemnified Party to pay for such loss or expense on behalf of the Indemnified Party. Neither the Company nor Indemnified Party shall unreasonably withhold their consent to any proposed settlement.

7. *Rights Not Exclusive.* The rights provided hereunder shall be in addition to any other rights to which Indemnified Party may be entitled under the Articles of Incorporation, the Bylaws, the Act, any agreement or vote of shareholders or directors or otherwise, both as to action in Indemnified Party's official capacity and as to action in any other capacity, and such rights shall continue after Indemnified Party ceases to serve the Company as a director or officer.

8. *Enforcement.*

(a) Indemnified Party's rights to indemnification or advancement of Expenses hereunder shall be enforceable by Indemnified Party notwithstanding any adverse Determination. In any such action, if a prior adverse Determination has been made, the burden of proving that indemnification or advancement of Expenses is required under this Agreement, the Articles of Incorporation, the Bylaws or the Act shall be on the Indemnified Party. The Company shall have the burden of proving that indemnification or advancement of Expenses is not required under this Agreement if no prior adverse Determination shall have been made.

(b) In the event that any action is instituted by Indemnified Party under this Agreement, or to enforce or interpret any of the terms of this Agreement, Indemnified Party shall be entitled to be paid all court costs and expenses, including reasonable counsel fees, incurred by Indemnified Party with respect to such action, unless the court determines that each of the material assertions made by Indemnified Party as a basis for such action were not made in good faith or were frivolous.

9. *No Presumptions.* For purposes of this Agreement, the termination of any Proceeding by judgment, order, settlement (whether with or without court approval) or conviction, or upon a plea of nolo contendre, or its equivalent, shall not create a presumption that the Indemnified Party did not meet any particular standard of conduct or have any particular belief or that a court has determined that indemnification or advancement of Expenses by the Company is not permitted hereunder or by applicable law. In addition, neither the absence of a Determination as to whether Indemnified Party has met any particular standard of conduct or had any particular belief or the existence of a Determination that Indemnified Party has not met such standard of conduct or did not have such belief, prior to the commencement of legal proceedings by Indemnified Party to secure an Adjudication

that Indemnified Party should be indemnified or advanced or reimbursed Expenses hereunder or under applicable law, shall be a defense to Indemnified Party's claim or create a presumption that Indemnified Party has not met any particular standard of conduct or did not have any particular belief.

10. *Subrogation.* In the event of payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnified Party, who shall execute all papers required and shall do everything that may be necessary to secure such rights, including the execution of such documents necessary to enable the Company to effectively bring suit to enforce such rights.

11. *No Duplication of Payments.* The Company shall not be liable under this Agreement to make any payment in connection with any Proceeding against Indemnified Party to the extent Indemnified Party has otherwise actually received payment (under any D&O Insurance, the Articles of Incorporation, the Bylaws, the Act or otherwise) of the amounts which may be paid hereunder.

12. *Severability; Supersedes Prior Agreement.* In the event that any provision of this Agreement is determined by a court of competent jurisdiction to require the Company to do or to fail to do an act which is in violation of the Articles of Incorporation, the Bylaws or the Act or other applicable law, such provision shall be limited or modified in its application to the minimum extent necessary to avoid such violation, and, as so limited or modified, such provision and the remainder of this Agreement shall be enforceable in accordance with the respective terms. This Agreement shall supersede the Indemnification Agreement between the parties hereto, dated August 1, 1995, which is hereby terminated.

13. *Choice of Law.* This Agreement shall be governed by, construed and enforced in accordance with the laws of the State of Washington, without reference to conflicts of law principles therein.

14. *Successors and Assigns.* This Agreement shall be (i) binding upon all successors and assigns of the Company (including any transferee of all or substantially all of the Company's assets and any successor by merger or otherwise by operation of law) and (ii) binding on and inure to the benefit of the heirs, personal representatives and estate of Indemnified Party. Indemnified Party may not assign this Agreement or any of Indemnified Party's rights hereunder without the prior written consent of the Company.

15. *Amendment.* No amendment, modification, termination or cancellation of this Agreement shall be effective unless made in a writing signed by each of the parties hereto.

xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx

IN WITNESS WHEREOF, the Company and Indemnified Party have executed this Indemnification Agreement as of the date first above written.

OAKLEY, INC.

By: /s/ LINK NEWCOMB

Name: Link Newcomb
Title: *Chief Operating Officer*

/s/ JIM JANNARD

Jim Jannard,*Indemnified Party*

Exhibit 10.27

INDEMNIFICATION AGREEMENT

This Indemnification Agreement is made as of this 7th day of February, 2003, by and between OAKLEY, INC., a Washington corporation (the "Company"), and Link Newcomb.

WHEREAS, as of the date hereof, the Company has provisions for indemnification of its directors and officers in Article V of its Amended and Restated Articles of Incorporation (the "Articles of Incorporation") and Article VII of its Bylaws (the "Bylaws") which provide for indemnification of the Company's directors and officers to the fullest extent permitted by law;

WHEREAS, the indemnification provisions in the Bylaws provide that the right of indemnification is a contract right of the covered parties;

WHEREAS, the Bylaws provide that the Company may maintain, at its expense, insurance to protect itself and any of its directors and officers against liability asserted against such persons incurred in such capacity whether or not the Company has the power to indemnify such persons against the same liability under Section 23B.08.510 or .520 of the Act (as defined below) or a successor statute;

WHEREAS, the Company and the Indemnified Party recognize that the officers and directors of publicly owned companies are frequently joined as parties to Proceedings (as defined below) against their respective companies as a result of their serving in such capacity; and

WHEREAS, in order to induce Indemnified Party to serve or continue to serve the Company, the Company wishes to confirm the contract indemnification rights provided in the Bylaws and agrees to provide Indemnified Party with the benefits contemplated by this Agreement and to supplement the provisions of this Agreement with directors' and officers' liability insurance maintained by the Company.

NOW, THEREFORE, in consideration of the promises, conditions, representations and warranties set forth herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company and Indemnified Party hereby agree as follows:

1. *Definitions.* The following terms, as used herein, shall have the following respective meanings; other capitalized terms used and not specifically defined in this Section 1 shall have the meanings provided elsewhere in the Agreement and in the Bylaws:

(a) "Act" means the Washington Business Corporation Act RCW Title 23B, as amended from time to time.

(b) "Adjudication" shall refer to a final, non-appealable decision by a court of competent jurisdiction. "Adjudged" shall have a correlative meaning.

(c) "Covered Amount" means any Loss, Fine and Expense, to the extent such Loss, Fine or Expense, in type or amount, is not insured under the D&O Insurance maintained by the Company from time to time.

(d) "Covered Act" means any act or omission of the Indemnified Party in his or her capacity as a director, officer, employee, agent, fiduciary or consultant of the Company alleged by any claimant or any claim against Indemnified Party by reason of him or her serving in such a capacity, or by reason of Indemnified Party serving, at the request of the Company, in such capacity with another corporation, partnership, employee benefit plan, trust or other enterprise, in all cases, whether such alleged act or omission occurred before or after the date of this Agreement.

(e) "D&O Insurance" means the liability insurance which the Company may purchase on behalf of Indemnified Party against liability asserted against or incurred by Indemnified Party in connection with claims arising from Covered Acts, whether or not the Company would have the power to indemnify the individual against the same liability under Section 23B.08.510 or 23B.08.520 of the Act.

(f) "Determination" means a determination, based on the facts known at the time, made:

(i) by the Board of Directors by majority vote of a quorum consisting of directors not at the time parties to the Proceeding;

(ii) if a quorum cannot be obtained under clause (i), by majority vote of a duly designated committee of the Board of Directors, in the manner provided by Section 23B.08.550(2)(b) of the Act;

(iii) by special legal counsel, selected in the manner provided by Section 23B.08.550(2)(c) of the Act, in a written opinion; or

(iv) by a majority of the shareholders of the Company, excluding shares owned or voted under the control of directors who are at the time parties to the Proceeding.

"Determined" shall have a correlative meaning.

(g) "Excluded Claim" means any payment for Losses, Fines or Expenses in connection with any claim relating to or arising out of:

(i) acts or omissions of the Indemnified Party Adjudged to be intentional misconduct or a knowing violation of law;

(ii) conduct of the Indemnified Party Adjudged to be in violation of Section 23B.08.310 of the Act; or

(iii) any transaction with respect to which it was Adjudged that such Indemnified Party personally received a benefit in money, property, or services to which the Indemnified Party was not legally entitled.

(h) "Expenses" means any reasonable expenses incurred by Indemnified Party as a result of a claim or claims made against Indemnified Party from Covered Acts, including, without limitation, reasonable counsel fees and costs of investigative, judicial or administrative proceedings or appeals.

(i) "Fines" means any fine or penalty including, with respect to an employee benefit plan, any excise tax assessed with respect thereto.

(j) "Losses" means amounts, as determined by an Adjudication, which the Indemnified Party is legally obligated to pay as a result of a claim or claims arising from Covered Acts, including, without limitation, Fines, damages and judgments and sums paid in settlement of such claim or claims.

(k) "Proceeding" means any threatened, pending or completed action, suit, proceeding or investigation, whether civil, criminal or administrative whether formal or informal.

2. *Maintenance of D&O Insurance.*

(a) The Company hereby covenants and agrees that, so long as Indemnified Party shall continue to serve as a director or executive officer of the Company and thereafter, for so long as Indemnified Party shall be subject to any possible Proceeding arising from any Covered Act, the Company, subject to Section 2(c), shall maintain in full force and effect D&O Insurance.

(b) In all policies of D&O Insurance, Indemnified Party shall be named as an insured in such a manner as to provide Indemnified Party the same rights and benefits, and the same limitations, as are accorded to the Company's directors or executive officers most favorably insured by such policy.

(c) The Company shall have no obligation to maintain D&O Insurance if the Company, by majority vote of the Board of Directors, determines in good faith that such insurance is not reasonably available, the premium costs for such insurance are disproportionate to the amount of coverage provided, or the coverage provided by such insurance is limited by exclusions so as to provide an insufficient benefit;*provided,however*, that such decision shall not adversely affect

coverage of D&O Insurance for periods prior to such decision without the unanimous vote of all directors.

3. *Indemnification.* The Company shall indemnify Indemnified Party up to the Covered Amount and shall advance any and all Expenses to Indemnified Party in connection with any Proceeding or any Covered Act, subject, in each case, to the further provisions of this Agreement. This Agreement is made pursuant to and to effectuate the indemnification provisions set forth in Article V of the Articles of Incorporation and Article VII of the Bylaws. Notwithstanding any other provision of this Agreement, the Company shall indemnify Indemnified Party to the extent Indemnified Party is successful, on the merits or otherwise, in the defense of any Proceeding to which Indemnified Party was a party because of being a director, officer, employee, agent, fiduciary or consultant of the Company, against reasonable Expenses incurred by Indemnified Party in connection with the Proceeding.

4. *Excluded Coverage.* The Company shall have no obligation to indemnify Indemnified Party for any Losses or Expenses which arise from an Excluded Claim.

5. *Indemnification Procedures.*

(a) Promptly after receipt by Indemnified Party of notice of the commencement of or the threat of commencement of any Proceeding, Indemnified Party shall, if indemnification or advancement of Expenses with respect thereto may be sought from the Company under this Agreement, notify the Company of the commencement or the threat of commencement thereof.

(b) If, at the time of the receipt of such notice, the Company has D&O Insurance in effect, the Company shall give prompt notice of the commencement or the threat of commencement of such Proceeding to the appropriate insurers in accordance with the procedures set forth in the respective policies in favor of Indemnified Party. The Company shall thereafter take all necessary or desirable action to cause such insurers to, in accordance with the terms of such policies: (i) advance, to the extent permitted by law, any and all Expenses to Indemnified Party, (ii) pay, on behalf of Indemnified Party, all amounts (including, without limitation, Losses and Expenses) payable as a result of, or in connection with, such Proceeding and (iii) reimburse Indemnified Party for all amounts (including, without limitation, Losses and Expenses) paid by Indemnified Party as a result of, or in connection with, such Proceeding.

(c) To the extent the Company does not, at the time of the commencement of or the threat of commencement of such Proceeding, have applicable D&O Insurance, or if a Determination is made that any Loss, Fine or Expense of the Indemnified Party arising out of such Proceeding will not be payable under the D&O Insurance then in effect, the Company shall be obligated to pay the Covered Amount with respect to any Proceeding and to provide counsel satisfactory to Indemnified Party upon the delivery to Indemnified Party of written notice of the Company's election to do so. After delivery of such notice, the Company will not be liable to Indemnified Party under this Agreement for any legal or other Expenses subsequently incurred by the Indemnified Party in connection with such defense other than the reasonable Expenses of investigation of Indemnified Party;*provided*, that Indemnified Party shall have the right to employ his or her own counsel in connection with the defense of any such Proceeding, the fees and expenses of such counsel incurred after delivery of notice from the Company of its assumption of such defense to be at the Indemnified Party's sole expense. Notwithstanding the foregoing, if (i) the employment of counsel by Indemnified Party has been previously authorized by the Company, (ii) Indemnified Party shall have been advised by counsel that there may be a conflict of interest between the Company and Indemnified Party in the conduct of any such defense or (iii) the Company shall not, in fact, have employed counsel to assume the defense of such Proceeding, in each such case, the fees and expenses of such counsel retained by Indemnified Party shall be at the expense of the Company. In the event Indemnified Party is entitled to employ counsel at the Company's expense pursuant to the terms of this Paragraph 5(c), and if so requested in writing by Indemnified Party, the Company shall advance any and all Expenses to Indemnified Party to the extent permitted by law.

(d) All payments on account of the Company's indemnification or advancement obligations under Paragraph 5(b) of this Agreement shall be made within sixty (60) days of Indemnified Party's written request therefor unless a Determination is made that the claims giving rise to Indemnified Party's request are Excluded Claims or otherwise not payable under this Agreement. All payments on account of the Company's obligations under Paragraph 5(c) of this Agreement shall be made within 20 days of Indemnified Party's written request therefor, subject to Paragraph 5(e) of this Agreement.

(e) In the event that (i) a Determination is made that the claims giving rise to Indemnified Party's request are Excluded Claims or otherwise not payable under this Agreement or (ii) it is Adjudged that the Indemnified Party is not entitled to be indemnified by the Company for Losses or Expenses under this Agreement, the Articles of Incorporation, the Bylaws or the Act, the Company shall have no obligation to indemnify, or advance any Expenses to Indemnified Party. Further, in either case, Indemnified Party agrees that he or she will reimburse the Company for all Losses and Expenses paid by the Company and all Expenses advanced by the Company in connection with such Proceeding against Indemnified Party.

6. *Settlement.* The Company shall have no obligation to indemnify Indemnified Party under this Agreement for any amounts paid in settlement of any Proceeding effected without the Company's prior written consent. The Company shall not settle any claim in any manner which would impose any loss or expense on Indemnified Party without Indemnified Party's prior written consent, unless the Company provides a written undertaking to the Indemnified Party to pay for such loss or expense on behalf of the Indemnified Party. Neither the Company nor Indemnified Party shall unreasonably withhold their consent to any proposed settlement.

7. *Rights Not Exclusive.* The rights provided hereunder shall be in addition to any other rights to which Indemnified Party may be entitled under the Articles of Incorporation, the Bylaws, the Act, any agreement or vote of shareholders or directors or otherwise, both as to action in Indemnified Party's official capacity and as to action in any other capacity, and such rights shall continue after Indemnified Party ceases to serve the Company as a director or officer.

8. *Enforcement.*

(a) Indemnified Party's rights to indemnification or advancement of Expenses hereunder shall be enforceable by Indemnified Party notwithstanding any adverse Determination. In any such action, if a prior adverse Determination has been made, the burden of proving that indemnification or advancement of Expenses is required under this Agreement, the Articles of Incorporation, the Bylaws or the Act shall be on the Indemnified Party. The Company shall have the burden of proving that indemnification or advancement of Expenses is not required under this Agreement if no prior adverse Determination shall have been made.

(b) In the event that any action is instituted by Indemnified Party under this Agreement, or to enforce or interpret any of the terms of this Agreement, Indemnified Party shall be entitled to be paid all court costs and expenses, including reasonable counsel fees, incurred by Indemnified Party with respect to such action, unless the court determines that each of the material assertions made by Indemnified Party as a basis for such action were not made in good faith or were frivolous.

9. *No Presumptions.* For purposes of this Agreement, the termination of any Proceeding by judgment, order, settlement (whether with or without court approval) or conviction, or upon a plea of nolo contendre, or its equivalent, shall not create a presumption that the Indemnified Party did not meet any particular standard of conduct or have any particular belief or that a court has determined that indemnification or advancement of Expenses by the Company is not permitted hereunder or by applicable law. In addition, neither the absence of a Determination as to whether Indemnified Party has met any particular standard of conduct or had any particular belief or the existence of a Determination that Indemnified Party has not met such standard of conduct or did not have such belief, prior to the commencement of legal proceedings by Indemnified Party to secure an Adjudication

that Indemnified Party should be indemnified or advanced or reimbursed Expenses hereunder or under applicable law, shall be a defense to Indemnified Party's claim or create a presumption that Indemnified Party has not met any particular standard of conduct or did not have any particular belief.

10. *Subrogation.* In the event of payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnified Party, who shall execute all papers required and shall do everything that may be necessary to secure such rights, including the execution of such documents necessary to enable the Company to effectively bring suit to enforce such rights.

11. *No Duplication of Payments.* The Company shall not be liable under this Agreement to make any payment in connection with any Proceeding against Indemnified Party to the extent Indemnified Party has otherwise actually received payment (under any D&O Insurance, the Articles of Incorporation, the Bylaws, the Act or otherwise) of the amounts which may be paid hereunder.

12. *Severability; Supersedes Prior Agreement.* In the event that any provision of this Agreement is determined by a court of competent jurisdiction to require the Company to do or to fail to do an act which is in violation of the Articles of Incorporation, the Bylaws or the Act or other applicable law, such provision shall be limited or modified in its application to the minimum extent necessary to avoid such violation, and, as so limited or modified, such provision and the remainder of this Agreement shall be enforceable in accordance with the respective terms. This Agreement shall supersede the Indemnification Agreement between the parties hereto, dated August 1, 1995, which is hereby terminated.

13. *Choice of Law.* This Agreement shall be governed by, construed and enforced in accordance with the laws of the State of Washington, without reference to conflicts of law principles therein.

14. *Successors and Assigns.* This Agreement shall be (i) binding upon all successors and assigns of the Company (including any transferee of all or substantially all of the Company's assets and any successor by merger or otherwise by operation of law) and (ii) binding on and inure to the benefit of the heirs, personal representatives and estate of Indemnified Party. Indemnified Party may not assign this Agreement or any of Indemnified Party's rights hereunder without the prior written consent of the Company.

15. *Amendment.* No amendment, modification, termination or cancellation of this Agreement shall be effective unless made in a writing signed by each of the parties hereto.

xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx

IN WITNESS WHEREOF, the Company and Indemnified Party have executed this Indemnification Agreement as of the date first above written.

OAKLEY, INC.

By: /s/ THOMAS A. GEORGE

Name: Thomas A. George

Title: *Chief Financial Officer*

/s/ LINK NEWCOMB

Link Newcomb,*Indemnified Party*

Exhibit 10.28

INDEMNIFICATION AGREEMENT

This Indemnification Agreement is made as of this 7th day of February, 2003, by and between OAKLEY, INC., a Washington corporation (the "Company"), and Colin Baden.

WHEREAS, as of the date hereof, the Company has provisions for indemnification of its directors and officers in Article V of its Amended and Restated Articles of Incorporation (the "Articles of Incorporation") and Article VII of its Bylaws (the "Bylaws") which provide for indemnification of the Company's directors and officers to the fullest extent permitted by law;

WHEREAS, the indemnification provisions in the Bylaws provide that the right of indemnification is a contract right of the covered parties;

WHEREAS, the Bylaws provide that the Company may maintain, at its expense, insurance to protect itself and any of its directors and officers against liability asserted against such persons incurred in such capacity whether or not the Company has the power to indemnify such persons against the same liability under Section 23B.08.510 or .520 of the Act (as defined below) or a successor statute;

WHEREAS, the Company and the Indemnified Party recognize that the officers and directors of publicly owned companies are frequently joined as parties to Proceedings (as defined below) against their respective companies as a result of their serving in such capacity; and

WHEREAS, in order to induce Indemnified Party to serve or continue to serve the Company, the Company wishes to confirm the contract indemnification rights provided in the Bylaws and agrees to provide Indemnified Party with the benefits contemplated by this Agreement and to supplement the provisions of this Agreement with directors' and officers' liability insurance maintained by the Company.

NOW, THEREFORE, in consideration of the promises, conditions, representations and warranties set forth herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company and Indemnified Party hereby agree as follows:

1. *Definitions.* The following terms, as used herein, shall have the following respective meanings; other capitalized terms used and not specifically defined in this Section 1 shall have the meanings provided elsewhere in the Agreement and in the Bylaws:

(a) "Act" means the Washington Business Corporation Act RCW Title 23B, as amended from time to time.

(b) "Adjudication" shall refer to a final, non-appealable decision by a court of competent jurisdiction. "Adjudged" shall have a correlative meaning.

(c) "Covered Amount" means any Loss, Fine and Expense, to the extent such Loss, Fine or Expense, in type or amount, is not insured under the D&O Insurance maintained by the Company from time to time.

(d) "Covered Act" means any act or omission of the Indemnified Party in his or her capacity as a director, officer, employee, agent, fiduciary or consultant of the Company alleged by any claimant or any claim against Indemnified Party by reason of him or her serving in such a capacity, or by reason of Indemnified Party serving, at the request of the Company, in such capacity with another corporation, partnership, employee benefit plan, trust or other enterprise, in all cases, whether such alleged act or omission occurred before or after the date of this Agreement.

(e) "D&O Insurance" means the liability insurance which the Company may purchase on behalf of Indemnified Party against liability asserted against or incurred by Indemnified Party in connection with claims arising from Covered Acts, whether or not the Company would have the power to indemnify the individual against the same liability under Section 23B.08.510 or 23B.08.520 of the Act.

(f) "Determination" means a determination, based on the facts known at the time, made:

(i) by the Board of Directors by majority vote of a quorum consisting of directors not at the time parties to the Proceeding;

(ii) if a quorum cannot be obtained under clause (i), by majority vote of a duly designated committee of the Board of Directors, in the manner provided by Section 23B.08.550(2)(b) of the Act;

(iii) by special legal counsel, selected in the manner provided by Section 23B.08.550(2)(c) of the Act, in a written opinion; or

(iv) by a majority of the shareholders of the Company, excluding shares owned or voted under the control of directors who are at the time parties to the Proceeding.

"Determined" shall have a correlative meaning.

(g) "Excluded Claim" means any payment for Losses, Fines or Expenses in connection with any claim relating to or arising out of:

(i) acts or omissions of the Indemnified Party Adjudged to be intentional misconduct or a knowing violation of law;

(ii) conduct of the Indemnified Party Adjudged to be in violation of Section 23B.08.310 of the Act; or

(iii) any transaction with respect to which it was Adjudged that such Indemnified Party personally received a benefit in money, property, or services to which the Indemnified Party was not legally entitled.

(h) "Expenses" means any reasonable expenses incurred by Indemnified Party as a result of a claim or claims made against Indemnified Party from Covered Acts, including, without limitation, reasonable counsel fees and costs of investigative, judicial or administrative proceedings or appeals.

(i) "Fines" means any fine or penalty including, with respect to an employee benefit plan, any excise tax assessed with respect thereto.

(j) "Losses" means amounts, as determined by an Adjudication, which the Indemnified Party is legally obligated to pay as a result of a claim or claims arising from Covered Acts, including, without limitation, Fines, damages and judgments and sums paid in settlement of such claim or claims.

(k) "Proceeding" means any threatened, pending or completed action, suit, proceeding or investigation, whether civil, criminal or administrative whether formal or informal.

2. *Maintenance of D&O Insurance.*

(a) The Company hereby covenants and agrees that, so long as Indemnified Party shall continue to serve as a director or executive officer of the Company and thereafter, for so long as Indemnified Party shall be subject to any possible Proceeding arising from any Covered Act, the Company, subject to Section 2(c), shall maintain in full force and effect D&O Insurance.

(b) In all policies of D&O Insurance, Indemnified Party shall be named as an insured in such a manner as to provide Indemnified Party the same rights and benefits, and the same limitations, as are accorded to the Company's directors or executive officers most favorably insured by such policy.

(c) The Company shall have no obligation to maintain D&O Insurance if the Company, by majority vote of the Board of Directors, determines in good faith that such insurance is not reasonably available, the premium costs for such insurance are disproportionate to the amount of coverage provided, or the coverage provided by such insurance is limited by exclusions so as to provide an insufficient benefit;*provided, however*, that such decision shall not adversely affect

coverage of D&O Insurance for periods prior to such decision without the unanimous vote of all directors.

3. *Indemnification.* The Company shall indemnify Indemnified Party up to the Covered Amount and shall advance any and all Expenses to Indemnified Party in connection with any Proceeding or any Covered Act, subject, in each case, to the further provisions of this Agreement. This Agreement is made pursuant to and to effectuate the indemnification provisions set forth in Article V of the Articles of Incorporation and Article VII of the Bylaws. Notwithstanding any other provision of this Agreement, the Company shall indemnify Indemnified Party to the extent Indemnified Party is successful, on the merits or otherwise, in the defense of any Proceeding to which Indemnified Party was a party because of being a director, officer, employee, agent, fiduciary or consultant of the Company, against reasonable Expenses incurred by Indemnified Party in connection with the Proceeding.

4. *Excluded Coverage.* The Company shall have no obligation to indemnify Indemnified Party for any Losses or Expenses which arise from an Excluded Claim.

5. *Indemnification Procedures.*

(a) Promptly after receipt by Indemnified Party of notice of the commencement of or the threat of commencement of any Proceeding, Indemnified Party shall, if indemnification or advancement of Expenses with respect thereto may be sought from the Company under this Agreement, notify the Company of the commencement or the threat of commencement thereof.

(b) If, at the time of the receipt of such notice, the Company has D&O Insurance in effect, the Company shall give prompt notice of the commencement or the threat of commencement of such Proceeding to the appropriate insurers in accordance with the procedures set forth in the respective policies in favor of Indemnified Party. The Company shall thereafter take all necessary or desirable action to cause such insurers to, in accordance with the terms of such policies: (i) advance, to the extent permitted by law, any and all Expenses to Indemnified Party, (ii) pay, on behalf of Indemnified Party, all amounts (including, without limitation, Losses and Expenses) payable as a result of, or in connection with, such Proceeding and (iii) reimburse Indemnified Party for all amounts (including, without limitation, Losses and Expenses) paid by Indemnified Party as a result of, or in connection with, such Proceeding.

(c) To the extent the Company does not, at the time of the commencement of or the threat of commencement of such Proceeding, have applicable D&O Insurance, or if a Determination is made that any Loss, Fine or Expense of the Indemnified Party arising out of such Proceeding will not be payable under the D&O Insurance then in effect, the Company shall be obligated to pay the Covered Amount with respect to any Proceeding and to provide counsel satisfactory to Indemnified Party upon the delivery to Indemnified Party of written notice of the Company's election to do so. After delivery of such notice, the Company will not be liable to Indemnified Party under this Agreement for any legal or other Expenses subsequently incurred by the Indemnified Party in connection with such defense other than the reasonable Expenses of investigation of Indemnified Party;*provided*, that Indemnified Party shall have the right to employ his or her own counsel in connection with the defense of any such Proceeding, the fees and expenses of such counsel incurred after delivery of notice from the Company of its assumption of such defense to be at the Indemnified Party's sole expense. Notwithstanding the foregoing, if (i) the employment of counsel by Indemnified Party has been previously authorized by the Company, (ii) Indemnified Party shall have been advised by counsel that there may be a conflict of interest between the Company and Indemnified Party in the conduct of any such defense or (iii) the Company shall not, in fact, have employed counsel to assume the defense of such Proceeding, in each such case, the fees and expenses of such counsel retained by Indemnified Party shall be at the expense of the Company. In the event Indemnified Party is entitled to employ counsel at the Company's expense pursuant to the terms of this Paragraph 5(c), and if so requested in writing by Indemnified Party, the Company shall advance any and all Expenses to Indemnified Party to the extent permitted by law.

(d) All payments on account of the Company's indemnification or advancement obligations under Paragraph 5(b) of this Agreement shall be made within sixty (60) days of Indemnified Party's written request therefor unless a Determination is made that the claims giving rise to Indemnified Party's request are Excluded Claims or otherwise not payable under this Agreement. All payments on account of the Company's obligations under Paragraph 5(c) of this Agreement shall be made within 20 days of Indemnified Party's written request therefor, subject to Paragraph 5(e) of this Agreement.

(e) In the event that (i) a Determination is made that the claims giving rise to Indemnified Party's request are Excluded Claims or otherwise not payable under this Agreement or (ii) it is Adjudged that the Indemnified Party is not entitled to be indemnified by the Company for Losses or Expenses under this Agreement, the Articles of Incorporation, the Bylaws or the Act, the Company shall have no obligation to indemnify, or advance any Expenses to Indemnified Party. Further, in either case, Indemnified Party agrees that he or she will reimburse the Company for all Losses and Expenses paid by the Company and all Expenses advanced by the Company in connection with such Proceeding against Indemnified Party.

6. *Settlement.* The Company shall have no obligation to indemnify Indemnified Party under this Agreement for any amounts paid in settlement of any Proceeding effected without the Company's prior written consent. The Company shall not settle any claim in any manner which would impose any loss or expense on Indemnified Party without Indemnified Party's prior written consent, unless the Company provides a written undertaking to the Indemnified Party to pay for such loss or expense on behalf of the Indemnified Party. Neither the Company nor Indemnified Party shall unreasonably withhold their consent to any proposed settlement.

7. *Rights Not Exclusive.* The rights provided hereunder shall be in addition to any other rights to which Indemnified Party may be entitled under the Articles of Incorporation, the Bylaws, the Act, any agreement or vote of shareholders or directors or otherwise, both as to action in Indemnified Party's official capacity and as to action in any other capacity, and such rights shall continue after Indemnified Party ceases to serve the Company as a director or officer.

8. *Enforcement.*

(a) Indemnified Party's rights to indemnification or advancement of Expenses hereunder shall be enforceable by Indemnified Party notwithstanding any adverse Determination. In any such action, if a prior adverse Determination has been made, the burden of proving that indemnification or advancement of Expenses is required under this Agreement, the Articles of Incorporation, the Bylaws or the Act shall be on the Indemnified Party. The Company shall have the burden of proving that indemnification or advancement of Expenses is not required under this Agreement if no prior adverse Determination shall have been made.

(b) In the event that any action is instituted by Indemnified Party under this Agreement, or to enforce or interpret any of the terms of this Agreement, Indemnified Party shall be entitled to be paid all court costs and expenses, including reasonable counsel fees, incurred by Indemnified Party with respect to such action, unless the court determines that each of the material assertions made by Indemnified Party as a basis for such action were not made in good faith or were frivolous.

9. *No Presumptions.* For purposes of this Agreement, the termination of any Proceeding by judgment, order, settlement (whether with or without court approval) or conviction, or upon a plea of nolo contendre, or its equivalent, shall not create a presumption that the Indemnified Party did not meet any particular standard of conduct or have any particular belief or that a court has determined that indemnification or advancement of Expenses by the Company is not permitted hereunder or by applicable law. In addition, neither the absence of a Determination as to whether Indemnified Party has met any particular standard of conduct or had any particular belief or the existence of a Determination that Indemnified Party has not met such standard of conduct or did not have such belief, prior to the commencement of legal proceedings by Indemnified Party to secure an Adjudication that Indemnified Party should be indemnified or advanced or reimbursed Expenses hereunder or under

applicable law, shall be a defense to Indemnified Party's claim or create a presumption that Indemnified Party has not met any particular standard of conduct or did not have any particular belief.

10. *Subrogation.* In the event of payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnified Party, who shall execute all papers required and shall do everything that may be necessary to secure such rights, including the execution of such documents necessary to enable the Company to effectively bring suit to enforce such rights.

11. *No Duplication of Payments.* The Company shall not be liable under this Agreement to make any payment in connection with any Proceeding against Indemnified Party to the extent Indemnified Party has otherwise actually received payment (under any D&O Insurance, the Articles of Incorporation, the Bylaws, the Act or otherwise) of the amounts which may be paid hereunder.

12. *Severability.* In the event that any provision of this Agreement is determined by a court of competent jurisdiction to require the Company to do or to fail to do an act which is in violation of the Articles of Incorporation, the Bylaws or the Act or other applicable law, such provision shall be limited or modified in its application to the minimum extent necessary to avoid such violation, and, as so limited or modified, such provision and the remainder of this Agreement shall be enforceable in accordance with the respective terms.

13. *Choice of Law.* This Agreement shall be governed by, construed and enforced in accordance with the laws of the State of Washington, without reference to conflicts of law principles therein.

14. *Successors and Assigns.* This Agreement shall be (i) binding upon all successors and assigns of the Company (including any transferee of all or substantially all of the Company's assets and any successor by merger or otherwise by operation of law) and (ii) binding on and inure to the benefit of the heirs, personal representatives and estate of Indemnified Party. Indemnified Party may not assign this Agreement or any of Indemnified Party's rights hereunder without the prior written consent of the Company.

15. *Amendment.* No amendment, modification, termination or cancellation of this Agreement shall be effective unless made in a writing signed by each of the parties hereto.

xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx

IN WITNESS WHEREOF, the Company and Indemnified Party have executed this Indemnification Agreement as of the date first above written.

OAKLEY, INC.

By: /s/ LINK NEWCOMB

Name: Link Newcomb
Title: *Chief Operating Officer*

/s/ COLIN BADEN

Colin Baden,*Indemnified Party*

Exhibit 10.29

INDEMNIFICATION AGREEMENT

This Indemnification Agreement is made as of this 14th day of February, 2003, by and between OAKLEY, INC., a Washington corporation (the "Company"), and Tommy Rios.

WHEREAS, as of the date hereof, the Company has provisions for indemnification of its directors and officers in Article V of its Amended and Restated Articles of Incorporation (the "Articles of Incorporation") and Article VII of its Bylaws (the "Bylaws") which provide for indemnification of the Company's directors and officers to the fullest extent permitted by law;

WHEREAS, the indemnification provisions in the Bylaws provide that the right of indemnification is a contract right of the covered parties;

WHEREAS, the Bylaws provide that the Company may maintain, at its expense, insurance to protect itself and any of its directors and officers against liability asserted against such persons incurred in such capacity whether or not the Company has the power to indemnify such persons against the same liability under Section 23B.08.510 or .520 of the Act (as defined below) or a successor statute;

WHEREAS, the Company and the Indemnified Party recognize that the officers and directors of publicly owned companies are frequently joined as parties to Proceedings (as defined below) against their respective companies as a result of their serving in such capacity; and

WHEREAS, in order to induce Indemnified Party to serve or continue to serve the Company, the Company wishes to confirm the contract indemnification rights provided in the Bylaws and agrees to provide Indemnified Party with the benefits contemplated by this Agreement and to supplement the provisions of this Agreement with directors' and officers' liability insurance maintained by the Company.

NOW, THEREFORE, in consideration of the promises, conditions, representations and warranties set forth herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company and Indemnified Party hereby agree as follows:

1. *Definitions.* The following terms, as used herein, shall have the following respective meanings; other capitalized terms used and not specifically defined in this Section 1 shall have the meanings provided elsewhere in the Agreement and in the Bylaws:

(a) "Act" means the Washington Business Corporation Act RCW Title 23B, as amended from time to time.

(b) "Adjudication" shall refer to a final, non-appealable decision by a court of competent jurisdiction. "Adjudged" shall have a correlative meaning.

(c) "Covered Amount" means any Loss, Fine and Expense, to the extent such Loss, Fine or Expense, in type or amount, is not insured under the D&O Insurance maintained by the Company from time to time.

(d) "Covered Act" means any act or omission of the Indemnified Party in his or her capacity as a director, officer, employee, agent, fiduciary or consultant of the Company alleged by any claimant or any claim against Indemnified Party by reason of him or her serving in such a capacity, or by reason of Indemnified Party serving, at the request of the Company, in such capacity with another corporation, partnership, employee benefit plan, trust or other enterprise, in all cases, whether such alleged act or omission occurred before or after the date of this Agreement.

(e) "D&O Insurance" means the liability insurance which the Company may purchase on behalf of Indemnified Party against liability asserted against or incurred by Indemnified Party in connection with claims arising from Covered Acts, whether or not the Company would have the power to indemnify the individual against the same liability under Section 23B.08.510 or 23B.08.520 of the Act.

(f) "Determination" means a determination, based on the facts known at the time, made:

(i) by the Board of Directors by majority vote of a quorum consisting of directors not at the time parties to the Proceeding;

(ii) if a quorum cannot be obtained under clause (i), by majority vote of a duly designated committee of the Board of Directors, in the manner provided by Section 23B.08.550(2)(b) of the Act;

(iii) by special legal counsel, selected in the manner provided by Section 23B.08.550(2)(c) of the Act, in a written opinion; or

(iv) by a majority of the shareholders of the Company, excluding shares owned or voted under the control of directors who are at the time parties to the Proceeding.

"Determined" shall have a correlative meaning.

(g) "Excluded Claim" means any payment for Losses, Fines or Expenses in connection with any claim relating to or arising out of:

(i) acts or omissions of the Indemnified Party Adjudged to be intentional misconduct or a knowing violation of law;

(ii) conduct of the Indemnified Party Adjudged to be in violation of Section 23B.08.310 of the Act; or

(iii) any transaction with respect to which it was Adjudged that such Indemnified Party personally received a benefit in money, property, or services to which the Indemnified Party was not legally entitled.

(h) "Expenses" means any reasonable expenses incurred by Indemnified Party as a result of a claim or claims made against Indemnified Party from Covered Acts, including, without limitation, reasonable counsel fees and costs of investigative, judicial or administrative proceedings or appeals.

(i) "Fines" means any fine or penalty including, with respect to an employee benefit plan, any excise tax assessed with respect thereto.

(j) "Losses" means amounts, as determined by an Adjudication, which the Indemnified Party is legally obligated to pay as a result of a claim or claims arising from Covered Acts, including, without limitation, Fines, damages and judgments and sums paid in settlement of such claim or claims.

(k) "Proceeding" means any threatened, pending or completed action, suit, proceeding or investigation, whether civil, criminal or administrative whether formal or informal.

2. *Maintenance of D&O Insurance.*

(a) The Company hereby covenants and agrees that, so long as Indemnified Party shall continue to serve as a director or executive officer of the Company and thereafter, for so long as Indemnified Party shall be subject to any possible Proceeding arising from any Covered Act, the Company, subject to Section 2(c), shall maintain in full force and effect D&O Insurance.

(b) In all policies of D&O Insurance, Indemnified Party shall be named as an insured in such a manner as to provide Indemnified Party the same rights and benefits, and the same limitations, as are accorded to the Company's directors or executive officers most favorably insured by such policy.

(c) The Company shall have no obligation to maintain D&O Insurance if the Company, by majority vote of the Board of Directors, determines in good faith that such insurance is not reasonably available, the premium costs for such insurance are disproportionate to the amount of coverage provided, or the coverage provided by such insurance is limited by exclusions so as to provide an insufficient benefit;*provided, however,* that such decision shall not adversely affect

coverage of D&O Insurance for periods prior to such decision without the unanimous vote of all directors.

3. *Indemnification.* The Company shall indemnify Indemnified Party up to the Covered Amount and shall advance any and all Expenses to Indemnified Party in connection with any Proceeding or any Covered Act, subject, in each case, to the further provisions of this Agreement. This Agreement is made pursuant to and to effectuate the indemnification provisions set forth in Article V of the Articles of Incorporation and Article VII of the Bylaws. Notwithstanding any other provision of this Agreement, the Company shall indemnify Indemnified Party to the extent Indemnified Party is successful, on the merits or otherwise, in the defense of any Proceeding to which Indemnified Party was a party because of being a director, officer, employee, agent, fiduciary or consultant of the Company, against reasonable Expenses incurred by Indemnified Party in connection with the Proceeding.

4. *Excluded Coverage.* The Company shall have no obligation to indemnify Indemnified Party for any Losses or Expenses which arise from an Excluded Claim.

5. *Indemnification Procedures.*

(a) Promptly after receipt by Indemnified Party of notice of the commencement of or the threat of commencement of any Proceeding, Indemnified Party shall, if indemnification or advancement of Expenses with respect thereto may be sought from the Company under this Agreement, notify the Company of the commencement or the threat of commencement thereof.

(b) If, at the time of the receipt of such notice, the Company has D&O Insurance in effect, the Company shall give prompt notice of the commencement or the threat of commencement of such Proceeding to the appropriate insurers in accordance with the procedures set forth in the respective policies in favor of Indemnified Party. The Company shall thereafter take all necessary or desirable action to cause such insurers to, in accordance with the terms of such policies: (i) advance, to the extent permitted by law, any and all Expenses to Indemnified Party, (ii) pay, on behalf of Indemnified Party, all amounts (including, without limitation, Losses and Expenses) payable as a result of, or in connection with, such Proceeding and (iii) reimburse Indemnified Party for all amounts (including, without limitation, Losses and Expenses) paid by Indemnified Party as a result of, or in connection with, such Proceeding.

(c) To the extent the Company does not, at the time of the commencement of or the threat of commencement of such Proceeding, have applicable D&O Insurance, or if a Determination is made that any Loss, Fine or Expense of the Indemnified Party arising out of such Proceeding will not be payable under the D&O Insurance then in effect, the Company shall be obligated to pay the Covered Amount with respect to any Proceeding and to provide counsel satisfactory to Indemnified Party upon the delivery to Indemnified Party of written notice of the Company's election to do so. After delivery of such notice, the Company will not be liable to Indemnified Party under this Agreement for any legal or other Expenses subsequently incurred by the Indemnified Party in connection with such defense other than the reasonable Expenses of investigation of Indemnified Party;*provided*, that Indemnified Party shall have the right to employ his or her own counsel in connection with the defense of any such Proceeding, the fees and expenses of such counsel incurred after delivery of notice from the Company of its assumption of such defense to be at the Indemnified Party's sole expense. Notwithstanding the foregoing, if (i) the employment of counsel by Indemnified Party has been previously authorized by the Company, (ii) Indemnified Party shall have been advised by counsel that there may be a conflict of interest between the Company and Indemnified Party in the conduct of any such defense or (iii) the Company shall not, in fact, have employed counsel to assume the defense of such Proceeding, in each such case, the fees and expenses of such counsel retained by Indemnified Party shall be at the expense of the Company. In the event Indemnified Party is entitled to employ counsel at the Company's expense pursuant to the terms of this Paragraph 5(c), and if so requested in writing by Indemnified Party, the Company shall advance any and all Expenses to Indemnified Party to the extent permitted by law.

(d) All payments on account of the Company's indemnification or advancement obligations under Paragraph 5(b) of this Agreement shall be made within sixty (60) days of Indemnified Party's written request therefor unless a Determination is made that the claims giving rise to Indemnified Party's request are Excluded Claims or otherwise not payable under this Agreement. All payments on account of the Company's obligations under Paragraph 5(c) of this Agreement shall be made within 20 days of Indemnified Party's written request therefor, subject to Paragraph 5(e) of this Agreement.

(e) In the event that (i) a Determination is made that the claims giving rise to Indemnified Party's request are Excluded Claims or otherwise not payable under this Agreement or (ii) it is Adjudged that the Indemnified Party is not entitled to be indemnified by the Company for Losses or Expenses under this Agreement, the Articles of Incorporation, the Bylaws or the Act, the Company shall have no obligation to indemnify, or advance any Expenses to Indemnified Party. Further, in either case, Indemnified Party agrees that he or she will reimburse the Company for all Losses and Expenses paid by the Company and all Expenses advanced by the Company in connection with such Proceeding against Indemnified Party.

6. *Settlement.* The Company shall have no obligation to indemnify Indemnified Party under this Agreement for any amounts paid in settlement of any Proceeding effected without the Company's prior written consent. The Company shall not settle any claim in any manner which would impose any loss or expense on Indemnified Party without Indemnified Party's prior written consent, unless the Company provides a written undertaking to the Indemnified Party to pay for such loss or expense on behalf of the Indemnified Party. Neither the Company nor Indemnified Party shall unreasonably withhold their consent to any proposed settlement.

7. *Rights Not Exclusive.* The rights provided hereunder shall be in addition to any other rights to which Indemnified Party may be entitled under the Articles of Incorporation, the Bylaws, the Act, any agreement or vote of shareholders or directors or otherwise, both as to action in Indemnified Party's official capacity and as to action in any other capacity, and such rights shall continue after Indemnified Party ceases to serve the Company as a director or officer.

8. *Enforcement.*

(a) Indemnified Party's rights to indemnification or advancement of Expenses hereunder shall be enforceable by Indemnified Party notwithstanding any adverse Determination. In any such action, if a prior adverse Determination has been made, the burden of proving that indemnification or advancement of Expenses is required under this Agreement, the Articles of Incorporation, the Bylaws or the Act shall be on the Indemnified Party. The Company shall have the burden of proving that indemnification or advancement of Expenses is not required under this Agreement if no prior adverse Determination shall have been made.

(b) In the event that any action is instituted by Indemnified Party under this Agreement, or to enforce or interpret any of the terms of this Agreement, Indemnified Party shall be entitled to be paid all court costs and expenses, including reasonable counsel fees, incurred by Indemnified Party with respect to such action, unless the court determines that each of the material assertions made by Indemnified Party as a basis for such action were not made in good faith or were frivolous.

9. *No Presumptions.* For purposes of this Agreement, the termination of any Proceeding by judgment, order, settlement (whether with or without court approval) or conviction, or upon a plea of nolo contendre, or its equivalent, shall not create a presumption that the Indemnified Party did not meet any particular standard of conduct or have any particular belief or that a court has determined that indemnification or advancement of Expenses by the Company is not permitted hereunder or by applicable law. In addition, neither the absence of a Determination as to whether Indemnified Party has met any particular standard of conduct or had any particular belief or the existence of a Determination that Indemnified Party has not met such standard of conduct or did not have such belief, prior to the commencement of legal proceedings by Indemnified Party to secure an Adjudication

that Indemnified Party should be indemnified or advanced or reimbursed Expenses hereunder or under applicable law, shall be a defense to Indemnified Party's claim or create a presumption that Indemnified Party has not met any particular standard of conduct or did not have any particular belief.

10. *Subrogation.* In the event of payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnified Party, who shall execute all papers required and shall do everything that may be necessary to secure such rights, including the execution of such documents necessary to enable the Company to effectively bring suit to enforce such rights.

11. *No Duplication of Payments.* The Company shall not be liable under this Agreement to make any payment in connection with any Proceeding against Indemnified Party to the extent Indemnified Party has otherwise actually received payment (under any D&O Insurance, the Articles of Incorporation, the Bylaws, the Act or otherwise) of the amounts which may be paid hereunder.

12. *Severability.* In the event that any provision of this Agreement is determined by a court of competent jurisdiction to require the Company to do or to fail to do an act which is in violation of the Articles of Incorporation, the Bylaws or the Act or other applicable law, such provision shall be limited or modified in its application to the minimum extent necessary to avoid such violation, and, as so limited or modified, such provision and the remainder of this Agreement shall be enforceable in accordance with the respective terms.

13. *Choice of Law.* This Agreement shall be governed by, construed and enforced in accordance with the laws of the State of Washington, without reference to conflicts of law principles therein.

14. *Successors and Assigns.* This Agreement shall be (i) binding upon all successors and assigns of the Company (including any transferee of all or substantially all of the Company's assets and any successor by merger or otherwise by operation of law) and (ii) binding on and inure to the benefit of the heirs, personal representatives and estate of Indemnified Party. Indemnified Party may not assign this Agreement or any of Indemnified Party's rights hereunder without the prior written consent of the Company.

15. *Amendment.* No amendment, modification, termination or cancellation of this Agreement shall be effective unless made in a writing signed by each of the parties hereto.

xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx

IN WITNESS WHEREOF, the Company and Indemnified Party have executed this Indemnification Agreement as of the date first above written.

OAKLEY, INC.

By: /s/LINK NEWCOMB

Name: Link Newcomb
Title: *Chief Operating Officer*

/s/TOMMY RIOS

Tommy Rios,*Indemnified Party*

Exhibit 10.30

INDEMNIFICATION AGREEMENT

This Indemnification Agreement is made as of this 7th day of February, 2003, by and between OAKLEY, INC., a Washington corporation (the "Company"), and Tom George.

WHEREAS, as of the date hereof, the Company has provisions for indemnification of its directors and officers in Article V of its Amended and Restated Articles of Incorporation (the "Articles of Incorporation") and Article VII of its Bylaws (the "Bylaws") which provide for indemnification of the Company's directors and officers to the fullest extent permitted by law;

WHEREAS, the indemnification provisions in the Bylaws provide that the right of indemnification is a contract right of the covered parties;

WHEREAS, the Bylaws provide that the Company may maintain, at its expense, insurance to protect itself and any of its directors and officers against liability asserted against such persons incurred in such capacity whether or not the Company has the power to indemnify such persons against the same liability under Section 23B.08.510 or .520 of the Act (as defined below) or a successor statute;

WHEREAS, the Company and the Indemnified Party recognize that the officers and directors of publicly owned companies are frequently joined as parties to Proceedings (as defined below) against their respective companies as a result of their serving in such capacity; and

WHEREAS, in order to induce Indemnified Party to serve or continue to serve the Company, the Company wishes to confirm the contract indemnification rights provided in the Bylaws and agrees to provide Indemnified Party with the benefits contemplated by this Agreement and to supplement the provisions of this Agreement with directors' and officers' liability insurance maintained by the Company.

NOW, THEREFORE, in consideration of the promises, conditions, representations and warranties set forth herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company and Indemnified Party hereby agree as follows:

1. *Definitions.* The following terms, as used herein, shall have the following respective meanings; other capitalized terms used and not specifically defined in this Section 1 shall have the meanings provided elsewhere in the Agreement and in the Bylaws:

(a) "Act" means the Washington Business Corporation Act RCW Title 23B, as amended from time to time.

(b) "Adjudication" shall refer to a final, non-appealable decision by a court of competent jurisdiction. "Adjudged" shall have a correlative meaning.

(c) "Covered Amount" means any Loss, Fine and Expense, to the extent such Loss, Fine or Expense, in type or amount, is not insured under the D&O Insurance maintained by the Company from time to time.

(d) "Covered Act" means any act or omission of the Indemnified Party in his or her capacity as a director, officer, employee, agent, fiduciary or consultant of the Company alleged by any claimant or any claim against Indemnified Party by reason of him or her serving in such a capacity, or by reason of Indemnified Party serving, at the request of the Company, in such capacity with another corporation, partnership, employee benefit plan, trust or other enterprise, in all cases, whether such alleged act or omission occurred before or after the date of this Agreement.

(e) "D&O Insurance" means the liability insurance which the Company may purchase on behalf of Indemnified Party against liability asserted against or incurred by Indemnified Party in connection with claims arising from Covered Acts, whether or not the Company would have the power to indemnify the individual against the same liability under Section 23B.08.510 or 23B.08.520 of the Act.

(f) "Determination" means a determination, based on the facts known at the time, made:

(i) by the Board of Directors by majority vote of a quorum consisting of directors not at the time parties to the Proceeding;

(ii) if a quorum cannot be obtained under clause (i), by majority vote of a duly designated committee of the Board of Directors, in the manner provided by Section 23B.08.550(2)(b) of the Act;

(iii) by special legal counsel, selected in the manner provided by Section 23B.08.550(2)(c) of the Act, in a written opinion; or

(iv) by a majority of the shareholders of the Company, excluding shares owned or voted under the control of directors who are at the time parties to the Proceeding.

"Determined" shall have a correlative meaning.

(g) "Excluded Claim" means any payment for Losses, Fines or Expenses in connection with any claim relating to or arising out of:

(i) acts or omissions of the Indemnified Party Adjudged to be intentional misconduct or a knowing violation of law;

(ii) conduct of the Indemnified Party Adjudged to be in violation of Section 23B.08.310 of the Act; or

(iii) any transaction with respect to which it was Adjudged that such Indemnified Party personally received a benefit in money, property, or services to which the Indemnified Party was not legally entitled.

(h) "Expenses" means any reasonable expenses incurred by Indemnified Party as a result of a claim or claims made against Indemnified Party from Covered Acts, including, without limitation, reasonable counsel fees and costs of investigative, judicial or administrative proceedings or appeals.

(i) "Fines" means any fine or penalty including, with respect to an employee benefit plan, any excise tax assessed with respect thereto.

(j) "Losses" means amounts, as determined by an Adjudication, which the Indemnified Party is legally obligated to pay as a result of a claim or claims arising from Covered Acts, including, without limitation, Fines, damages and judgments and sums paid in settlement of such claim or claims.

(k) "Proceeding" means any threatened, pending or completed action, suit, proceeding or investigation, whether civil, criminal or administrative whether formal or informal.

2. *Maintenance of D&O Insurance.*

(a) The Company hereby covenants and agrees that, so long as Indemnified Party shall continue to serve as a director or executive officer of the Company and thereafter, for so long as Indemnified Party shall be subject to any possible Proceeding arising from any Covered Act, the Company, subject to Section 2(c), shall maintain in full force and effect D&O Insurance.

(b) In all policies of D&O Insurance, Indemnified Party shall be named as an insured in such a manner as to provide Indemnified Party the same rights and benefits, and the same limitations, as are accorded to the Company's directors or executive officers most favorably insured by such policy.

(c) The Company shall have no obligation to maintain D&O Insurance if the Company, by majority vote of the Board of Directors, determines in good faith that such insurance is not reasonably available, the premium costs for such insurance are disproportionate to the amount of coverage provided, or the coverage provided by such insurance is limited by exclusions so as to provide an insufficient benefit;*provided, however,* that such decision shall not adversely affect

coverage of D&O Insurance for periods prior to such decision without the unanimous vote of all directors.

3. *Indemnification.* The Company shall indemnify Indemnified Party up to the Covered Amount and shall advance any and all Expenses to Indemnified Party in connection with any Proceeding or any Covered Act, subject, in each case, to the further provisions of this Agreement. This Agreement is made pursuant to and to effectuate the indemnification provisions set forth in Article V of the Articles of Incorporation and Article VII of the Bylaws. Notwithstanding any other provision of this Agreement, the Company shall indemnify Indemnified Party to the extent Indemnified Party is successful, on the merits or otherwise, in the defense of any Proceeding to which Indemnified Party was a party because of being a director, officer, employee, agent, fiduciary or consultant of the Company, against reasonable Expenses incurred by Indemnified Party in connection with the Proceeding.

4. *Excluded Coverage.* The Company shall have no obligation to indemnify Indemnified Party for any Losses or Expenses which arise from an Excluded Claim.

5. *Indemnification Procedures.*

(a) Promptly after receipt by Indemnified Party of notice of the commencement of or the threat of commencement of any Proceeding, Indemnified Party shall, if indemnification or advancement of Expenses with respect thereto may be sought from the Company under this Agreement, notify the Company of the commencement or the threat of commencement thereof.

(b) If, at the time of the receipt of such notice, the Company has D&O Insurance in effect, the Company shall give prompt notice of the commencement or the threat of commencement of such Proceeding to the appropriate insurers in accordance with the procedures set forth in the respective policies in favor of Indemnified Party. The Company shall thereafter take all necessary or desirable action to cause such insurers to, in accordance with the terms of such policies: (i) advance, to the extent permitted by law, any and all Expenses to Indemnified Party, (ii) pay, on behalf of Indemnified Party, all amounts (including, without limitation, Losses and Expenses) payable as a result of, or in connection with, such Proceeding and (iii) reimburse Indemnified Party for all amounts (including, without limitation, Losses and Expenses) paid by Indemnified Party as a result of, or in connection with, such Proceeding.

(c) To the extent the Company does not, at the time of the commencement of or the threat of commencement of such Proceeding, have applicable D&O Insurance, or if a Determination is made that any Loss, Fine or Expense of the Indemnified Party arising out of such Proceeding will not be payable under the D&O Insurance then in effect, the Company shall be obligated to pay the Covered Amount with respect to any Proceeding and to provide counsel satisfactory to Indemnified Party upon the delivery to Indemnified Party of written notice of the Company's election to do so. After delivery of such notice, the Company will not be liable to Indemnified Party under this Agreement for any legal or other Expenses subsequently incurred by the Indemnified Party in connection with such defense other than the reasonable Expenses of investigation of Indemnified Party;*provided*, that Indemnified Party shall have the right to employ his or her own counsel in connection with the defense of any such Proceeding, the fees and expenses of such counsel incurred after delivery of notice from the Company of its assumption of such defense to be at the Indemnified Party's sole expense. Notwithstanding the foregoing, if (i) the employment of counsel by Indemnified Party has been previously authorized by the Company, (ii) Indemnified Party shall have been advised by counsel that there may be a conflict of interest between the Company and Indemnified Party in the conduct of any such defense or (iii) the Company shall not, in fact, have employed counsel to assume the defense of such Proceeding, in each such case, the fees and expenses of such counsel retained by Indemnified Party shall be at the expense of the Company. In the event Indemnified Party is entitled to employ counsel at the Company's expense pursuant to the terms of this Paragraph 5(c), and if so requested in writing by Indemnified Party, the Company shall advance any and all Expenses to Indemnified Party to the extent permitted by law.

(d) All payments on account of the Company's indemnification or advancement obligations under Paragraph 5(b) of this Agreement shall be made within sixty (60) days of Indemnified Party's written request therefor unless a Determination is made that the claims giving rise to Indemnified Party's request are Excluded Claims or otherwise not payable under this Agreement. All payments on account of the Company's obligations under Paragraph 5(c) of this Agreement shall be made within 20 days of Indemnified Party's written request therefor, subject to Paragraph 5(e) of this Agreement.

(e) In the event that (i) a Determination is made that the claims giving rise to Indemnified Party's request are Excluded Claims or otherwise not payable under this Agreement or (ii) it is Adjudged that the Indemnified Party is not entitled to be indemnified by the Company for Losses or Expenses under this Agreement, the Articles of Incorporation, the Bylaws or the Act, the Company shall have no obligation to indemnify, or advance any Expenses to Indemnified Party. Further, in either case, Indemnified Party agrees that he or she will reimburse the Company for all Losses and Expenses paid by the Company and all Expenses advanced by the Company in connection with such Proceeding against Indemnified Party.

6. *Settlement.* The Company shall have no obligation to indemnify Indemnified Party under this Agreement for any amounts paid in settlement of any Proceeding effected without the Company's prior written consent. The Company shall not settle any claim in any manner which would impose any loss or expense on Indemnified Party without Indemnified Party's prior written consent, unless the Company provides a written undertaking to the Indemnified Party to pay for such loss or expense on behalf of the Indemnified Party. Neither the Company nor Indemnified Party shall unreasonably withhold their consent to any proposed settlement.

7. *Rights Not Exclusive.* The rights provided hereunder shall be in addition to any other rights to which Indemnified Party may be entitled under the Articles of Incorporation, the Bylaws, the Act, any agreement or vote of shareholders or directors or otherwise, both as to action in Indemnified Party's official capacity and as to action in any other capacity, and such rights shall continue after Indemnified Party ceases to serve the Company as a director or officer.

8. *Enforcement.*

(a) Indemnified Party's rights to indemnification or advancement of Expenses hereunder shall be enforceable by Indemnified Party notwithstanding any adverse Determination. In any such action, if a prior adverse Determination has been made, the burden of proving that indemnification or advancement of Expenses is required under this Agreement, the Articles of Incorporation, the Bylaws or the Act shall be on the Indemnified Party. The Company shall have the burden of proving that indemnification or advancement of Expenses is not required under this Agreement if no prior adverse Determination shall have been made.

(b) In the event that any action is instituted by Indemnified Party under this Agreement, or to enforce or interpret any of the terms of this Agreement, Indemnified Party shall be entitled to be paid all court costs and expenses, including reasonable counsel fees, incurred by Indemnified Party with respect to such action, unless the court determines that each of the material assertions made by Indemnified Party as a basis for such action were not made in good faith or were frivolous.

9. *No Presumptions.* For purposes of this Agreement, the termination of any Proceeding by judgment, order, settlement (whether with or without court approval) or conviction, or upon a plea of nolo contendre, or its equivalent, shall not create a presumption that the Indemnified Party did not meet any particular standard of conduct or have any particular belief or that a court has determined that indemnification or advancement of Expenses by the Company is not permitted hereunder or by applicable law. In addition, neither the absence of a Determination as to whether Indemnified Party has met any particular standard of conduct or had any particular belief or the existence of a Determination that Indemnified Party has not met such standard of conduct or did not have such belief, prior to the commencement of legal proceedings by Indemnified Party to secure an Adjudication

that Indemnified Party should be indemnified or advanced or reimbursed Expenses hereunder or under applicable law, shall be a defense to Indemnified Party's claim or create a presumption that Indemnified Party has not met any particular standard of conduct or did not have any particular belief.

10. *Subrogation.* In the event of payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnified Party, who shall execute all papers required and shall do everything that may be necessary to secure such rights, including the execution of such documents necessary to enable the Company to effectively bring suit to enforce such rights.

11. *No Duplication of Payments.* The Company shall not be liable under this Agreement to make any payment in connection with any Proceeding against Indemnified Party to the extent Indemnified Party has otherwise actually received payment (under any D&O Insurance, the Articles of Incorporation, the Bylaws, the Act or otherwise) of the amounts which may be paid hereunder.

12. *Severability; Supersedes Prior Agreement.* In the event that any provision of this Agreement is determined by a court of competent jurisdiction to require the Company to do or to fail to do an act which is in violation of the Articles of Incorporation, the Bylaws or the Act or other applicable law, such provision shall be limited or modified in its application to the minimum extent necessary to avoid such violation, and, as so limited or modified, such provision and the remainder of this Agreement shall be enforceable in accordance with the respective terms. This Agreement shall supersede the Indemnification Agreement between the parties hereto, dated October 6, 1997, which is hereby terminated.

13. *Choice of Law.* This Agreement shall be governed by, construed and enforced in accordance with the laws of the State of Washington, without reference to conflicts of law principles therein.

14. *Successors and Assigns.* This Agreement shall be (i) binding upon all successors and assigns of the Company (including any transferee of all or substantially all of the Company's assets and any successor by merger or otherwise by operation of law) and (ii) binding on and inure to the benefit of the heirs, personal representatives and estate of Indemnified Party. Indemnified Party may not assign this Agreement or any of Indemnified Party's rights hereunder without the prior written consent of the Company.

15. *Amendment.* No amendment, modification, termination or cancellation of this Agreement shall be effective unless made in a writing signed by each of the parties hereto.

xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx

IN WITNESS WHEREOF, the Company and Indemnified Party have executed this Indemnification Agreement as of the date first above written.

OAKLEY, INC.

By: /s/ LINK NEWCOMB

Name: Link Newcomb
Title: *Chief Operating Officer*

/s/ TOM GEORGE

Tom George,*Indemnified Party*

Exhibit 10.31

INDEMNIFICATION AGREEMENT

This Indemnification Agreement is made as of this 7th day of February, 2003, by and between OAKLEY, INC., a Washington corporation (the "Company"), and Donna Gordon.

WHEREAS, as of the date hereof, the Company has provisions for indemnification of its directors and officers in Article V of its Amended and Restated Articles of Incorporation (the "Articles of Incorporation") and Article VII of its Bylaws (the "Bylaws") which provide for indemnification of the Company's directors and officers to the fullest extent permitted by law;

WHEREAS, the indemnification provisions in the Bylaws provide that the right of indemnification is a contract right of the covered parties;

WHEREAS, the Bylaws provide that the Company may maintain, at its expense, insurance to protect itself and any of its directors and officers against liability asserted against such persons incurred in such capacity whether or not the Company has the power to indemnify such persons against the same liability under Section 23B.08.510 or .520 of the Act (as defined below) or a successor statute;

WHEREAS, the Company and the Indemnified Party recognize that the officers and directors of publicly owned companies are frequently joined as parties to Proceedings (as defined below) against their respective companies as a result of their serving in such capacity; and

WHEREAS, in order to induce Indemnified Party to serve or continue to serve the Company, the Company wishes to confirm the contract indemnification rights provided in the Bylaws and agrees to provide Indemnified Party with the benefits contemplated by this Agreement and to supplement the provisions of this Agreement with directors' and officers' liability insurance maintained by the Company.

NOW, THEREFORE, in consideration of the promises, conditions, representations and warranties set forth herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company and Indemnified Party hereby agree as follows:

1. *Definitions.* The following terms, as used herein, shall have the following respective meanings; other capitalized terms used and not specifically defined in this Section 1 shall have the meanings provided elsewhere in the Agreement and in the Bylaws:

(a) "Act" means the Washington Business Corporation Act RCW Title 23B, as amended from time to time.

(b) "Adjudication" shall refer to a final, non-appealable decision by a court of competent jurisdiction. "Adjudged" shall have a correlative meaning.

(c) "Covered Amount" means any Loss, Fine and Expense, to the extent such Loss, Fine or Expense, in type or amount, is not insured under the D&O Insurance maintained by the Company from time to time.

(d) "Covered Act" means any act or omission of the Indemnified Party in his or her capacity as a director, officer, employee, agent, fiduciary or consultant of the Company alleged by any claimant or any claim against Indemnified Party by reason of him or her serving in such a capacity, or by reason of Indemnified Party serving, at the request of the Company, in such capacity with another corporation, partnership, employee benefit plan, trust or other enterprise, in all cases, whether such alleged act or omission occurred before or after the date of this Agreement.

(e) "D&O Insurance" means the liability insurance which the Company may purchase on behalf of Indemnified Party against liability asserted against or incurred by Indemnified Party in connection with claims arising from Covered Acts, whether or not the Company would have the power to indemnify the individual against the same liability under Section 23B.08.510 or 23B.08.520 of the Act.

(f) "Determination" means a determination, based on the facts known at the time, made:

(i) by the Board of Directors by majority vote of a quorum consisting of directors not at the time parties to the Proceeding;

(ii) if a quorum cannot be obtained under clause (i), by majority vote of a duly designated committee of the Board of Directors, in the manner provided by Section 23B.08.550(2)(b) of the Act;

(iii) by special legal counsel, selected in the manner provided by Section 23B.08.550(2)(c) of the Act, in a written opinion; or

(iv) by a majority of the shareholders of the Company, excluding shares owned or voted under the control of directors who are at the time parties to the Proceeding.

"Determined" shall have a correlative meaning.

(g) "Excluded Claim" means any payment for Losses, Fines or Expenses in connection with any claim relating to or arising out of:

(i) acts or omissions of the Indemnified Party Adjudged to be intentional misconduct or a knowing violation of law;

(ii) conduct of the Indemnified Party Adjudged to be in violation of Section 23B.08.310 of the Act; or

(iii) any transaction with respect to which it was Adjudged that such Indemnified Party personally received a benefit in money, property, or services to which the Indemnified Party was not legally entitled.

(h) "Expenses" means any reasonable expenses incurred by Indemnified Party as a result of a claim or claims made against Indemnified Party from Covered Acts, including, without limitation, reasonable counsel fees and costs of investigative, judicial or administrative proceedings or appeals.

(i) "Fines" means any fine or penalty including, with respect to an employee benefit plan, any excise tax assessed with respect thereto.

(j) "Losses" means amounts, as determined by an Adjudication, which the Indemnified Party is legally obligated to pay as a result of a claim or claims arising from Covered Acts, including, without limitation, Fines, damages and judgments and sums paid in settlement of such claim or claims.

(k) "Proceeding" means any threatened, pending or completed action, suit, proceeding or investigation, whether civil, criminal or administrative whether formal or informal.

2. *Maintenance of D&O Insurance.*

(a) The Company hereby covenants and agrees that, so long as Indemnified Party shall continue to serve as a director or executive officer of the Company and thereafter, for so long as Indemnified Party shall be subject to any possible Proceeding arising from any Covered Act, the Company, subject to Section 2(c), shall maintain in full force and effect D&O Insurance.

(b) In all policies of D&O Insurance, Indemnified Party shall be named as an insured in such a manner as to provide Indemnified Party the same rights and benefits, and the same limitations, as are accorded to the Company's directors or executive officers most favorably insured by such policy.

(c) The Company shall have no obligation to maintain D&O Insurance if the Company, by majority vote of the Board of Directors, determines in good faith that such insurance is not reasonably available, the premium costs for such insurance are disproportionate to the amount of coverage provided, or the coverage provided by such insurance is limited by exclusions so as to provide an insufficient benefit;*provided, however,* that such decision shall not adversely affect

coverage of D&O Insurance for periods prior to such decision without the unanimous vote of all directors.

3. *Indemnification.* The Company shall indemnify Indemnified Party up to the Covered Amount and shall advance any and all Expenses to Indemnified Party in connection with any Proceeding or any Covered Act, subject, in each case, to the further provisions of this Agreement. This Agreement is made pursuant to and to effectuate the indemnification provisions set forth in Article V of the Articles of Incorporation and Article VII of the Bylaws. Notwithstanding any other provision of this Agreement, the Company shall indemnify Indemnified Party to the extent Indemnified Party is successful, on the merits or otherwise, in the defense of any Proceeding to which Indemnified Party was a party because of being a director, officer, employee, agent, fiduciary or consultant of the Company, against reasonable Expenses incurred by Indemnified Party in connection with the Proceeding.

4. *Excluded Coverage.* The Company shall have no obligation to indemnify Indemnified Party for any Losses or Expenses which arise from an Excluded Claim.

5. *Indemnification Procedures.*

(a) Promptly after receipt by Indemnified Party of notice of the commencement of or the threat of commencement of any Proceeding, Indemnified Party shall, if indemnification or advancement of Expenses with respect thereto may be sought from the Company under this Agreement, notify the Company of the commencement or the threat of commencement thereof.

(b) If, at the time of the receipt of such notice, the Company has D&O Insurance in effect, the Company shall give prompt notice of the commencement or the threat of commencement of such Proceeding to the appropriate insurers in accordance with the procedures set forth in the respective policies in favor of Indemnified Party. The Company shall thereafter take all necessary or desirable action to cause such insurers to, in accordance with the terms of such policies: (i) advance, to the extent permitted by law, any and all Expenses to Indemnified Party, (ii) pay, on behalf of Indemnified Party, all amounts (including, without limitation, Losses and Expenses) payable as a result of, or in connection with, such Proceeding and (iii) reimburse Indemnified Party for all amounts (including, without limitation, Losses and Expenses) paid by Indemnified Party as a result of, or in connection with, such Proceeding.

(c) To the extent the Company does not, at the time of the commencement of or the threat of commencement of such Proceeding, have applicable D&O Insurance, or if a Determination is made that any Loss, Fine or Expense of the Indemnified Party arising out of such Proceeding will not be payable under the D&O Insurance then in effect, the Company shall be obligated to pay the Covered Amount with respect to any Proceeding and to provide counsel satisfactory to Indemnified Party upon the delivery to Indemnified Party of written notice of the Company's election to do so. After delivery of such notice, the Company will not be liable to Indemnified Party under this Agreement for any legal or other Expenses subsequently incurred by the Indemnified Party in connection with such defense other than the reasonable Expenses of investigation of Indemnified Party;*provided,* that Indemnified Party shall have the right to employ his or her own counsel in connection with the defense of any such Proceeding, the fees and expenses of such counsel incurred after delivery of notice from the Company of its assumption of such defense to be at the Indemnified Party's sole expense. Notwithstanding the foregoing, if (i) the employment of counsel by Indemnified Party has been previously authorized by the Company, (ii) Indemnified Party shall have been advised by counsel that there may be a conflict of interest between the Company and Indemnified Party in the conduct of any such defense or (iii) the Company shall not, in fact, have employed counsel to assume the defense of such Proceeding, in each such case, the fees and expenses of such counsel retained by Indemnified Party shall be at the expense of the Company. In the event Indemnified Party is entitled to employ counsel at the Company's expense pursuant to the terms of this Paragraph 5(c), and if so requested in writing by Indemnified Party, the Company shall advance any and all Expenses to Indemnified Party to the extent permitted by law.

(d) All payments on account of the Company's indemnification or advancement obligations under Paragraph 5(b) of this Agreement shall be made within sixty (60) days of Indemnified Party's written request therefor unless a Determination is made that the claims giving rise to Indemnified Party's request are Excluded Claims or otherwise not payable under this Agreement. All payments on account of the Company's obligations under Paragraph 5(c) of this Agreement shall be made within 20 days of Indemnified Party's written request therefor, subject to Paragraph 5(e) of this Agreement.

(e) In the event that (i) a Determination is made that the claims giving rise to Indemnified Party's request are Excluded Claims or otherwise not payable under this Agreement or (ii) it is Adjudged that the Indemnified Party is not entitled to be indemnified by the Company for Losses or Expenses under this Agreement, the Articles of Incorporation, the Bylaws or the Act, the Company shall have no obligation to indemnify, or advance any Expenses to Indemnified Party. Further, in either case, Indemnified Party agrees that he or she will reimburse the Company for all Losses and Expenses paid by the Company and all Expenses advanced by the Company in connection with such Proceeding against Indemnified Party.

6. *Settlement.* The Company shall have no obligation to indemnify Indemnified Party under this Agreement for any amounts paid in settlement of any Proceeding effected without the Company's prior written consent. The Company shall not settle any claim in any manner which would impose any loss or expense on Indemnified Party without Indemnified Party's prior written consent, unless the Company provides a written undertaking to the Indemnified Party to pay for such loss or expense on behalf of the Indemnified Party. Neither the Company nor Indemnified Party shall unreasonably withhold their consent to any proposed settlement.

7. *Rights Not Exclusive.* The rights provided hereunder shall be in addition to any other rights to which Indemnified Party may be entitled under the Articles of Incorporation, the Bylaws, the Act, any agreement or vote of shareholders or directors or otherwise, both as to action in Indemnified Party's official capacity and as to action in any other capacity, and such rights shall continue after Indemnified Party ceases to serve the Company as a director or officer.

8. *Enforcement.*

(a) Indemnified Party's rights to indemnification or advancement of Expenses hereunder shall be enforceable by Indemnified Party notwithstanding any adverse Determination. In any such action, if a prior adverse Determination has been made, the burden of proving that indemnification or advancement of Expenses is required under this Agreement, the Articles of Incorporation, the Bylaws or the Act shall be on the Indemnified Party. The Company shall have the burden of proving that indemnification or advancement of Expenses is not required under this Agreement if no prior adverse Determination shall have been made.

(b) In the event that any action is instituted by Indemnified Party under this Agreement, or to enforce or interpret any of the terms of this Agreement, Indemnified Party shall be entitled to be paid all court costs and expenses, including reasonable counsel fees, incurred by Indemnified Party with respect to such action, unless the court determines that each of the material assertions made by Indemnified Party as a basis for such action were not made in good faith or were frivolous.

9. *No Presumptions.* For purposes of this Agreement, the termination of any Proceeding by judgment, order, settlement (whether with or without court approval) or conviction, or upon a plea of nolo contendre, or its equivalent, shall not create a presumption that the Indemnified Party did not meet any particular standard of conduct or have any particular belief or that a court has determined that indemnification or advancement of Expenses by the Company is not permitted hereunder or by applicable law. In addition, neither the absence of a Determination as to whether Indemnified Party has met any particular standard of conduct or had any particular belief or the existence of a Determination that Indemnified Party has not met such standard of conduct or did not have such belief, prior to the commencement of legal proceedings by Indemnified Party to secure an Adjudication

that Indemnified Party should be indemnified or advanced or reimbursed Expenses hereunder or under applicable law, shall be a defense to Indemnified Party's claim or create a presumption that Indemnified Party has not met any particular standard of conduct or did not have any particular belief.

10. *Subrogation.* In the event of payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnified Party, who shall execute all papers required and shall do everything that may be necessary to secure such rights, including the execution of such documents necessary to enable the Company to effectively bring suit to enforce such rights.

11. *No Duplication of Payments.* The Company shall not be liable under this Agreement to make any payment in connection with any Proceeding against Indemnified Party to the extent Indemnified Party has otherwise actually received payment (under any D&O Insurance, the Articles of Incorporation, the Bylaws, the Act or otherwise) of the amounts which may be paid hereunder.

12. *Severability; Supersedes Prior Agreement.* In the event that any provision of this Agreement is determined by a court of competent jurisdiction to require the Company to do or to fail to do an act which is in violation of the Articles of Incorporation, the Bylaws or the Act or other applicable law, such provision shall be limited or modified in its application to the minimum extent necessary to avoid such violation, and, as so limited or modified, such provision and the remainder of this Agreement shall be enforceable in accordance with the respective terms. This Agreement shall supersede the Indemnification Agreement between the parties hereto, dated August 1, 1995, which is hereby terminated.

13. *Choice of Law.* This Agreement shall be governed by, construed and enforced in accordance with the laws of the State of Washington, without reference to conflicts of law principles therein.

14. *Successors and Assigns.* This Agreement shall be (i) binding upon all successors and assigns of the Company (including any transferee of all or substantially all of the Company's assets and any successor by merger or otherwise by operation of law) and (ii) binding on and inure to the benefit of the heirs, personal representatives and estate of Indemnified Party. Indemnified Party may not assign this Agreement or any of Indemnified Party's rights hereunder without the prior written consent of the Company.

15. *Amendment.* No amendment, modification, termination or cancellation of this Agreement shall be effective unless made in a writing signed by each of the parties hereto.

xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx

IN WITNESS WHEREOF, the Company and Indemnified Party have executed this Indemnification Agreement as of the date first above written.

OAKLEY, INC.

By: /s/ LINK NEWCOMB

Name: Link Newcomb
Title: *Chief Operating Officer*

/s/ DONNA GORDON

Donna Gordon,*Indemnified Party*

Exhibit 10.32

INDEMNIFICATION AGREEMENT

This Indemnification Agreement is made as of this 7th day of February, 2003, by and between OAKLEY, INC., a Washington corporation (the "Company"), and Scott Bowers.

WHEREAS, as of the date hereof, the Company has provisions for indemnification of its directors and officers in Article V of its Amended and Restated Articles of Incorporation (the "Articles of Incorporation") and Article VII of its Bylaws (the "Bylaws") which provide for indemnification of the Company's directors and officers to the fullest extent permitted by law;

WHEREAS, the indemnification provisions in the Bylaws provide that the right of indemnification is a contract right of the covered parties;

WHEREAS, the Bylaws provide that the Company may maintain, at its expense, insurance to protect itself and any of its directors and officers against liability asserted against such persons incurred in such capacity whether or not the Company has the power to indemnify such persons against the same liability under Section 23B.08.510 or .520 of the Act (as defined below) or a successor statute;

WHEREAS, the Company and the Indemnified Party recognize that the officers and directors of publicly owned companies are frequently joined as parties to Proceedings (as defined below) against their respective companies as a result of their serving in such capacity; and

WHEREAS, in order to induce Indemnified Party to serve or continue to serve the Company, the Company wishes to confirm the contract indemnification rights provided in the Bylaws and agrees to provide Indemnified Party with the benefits contemplated by this Agreement and to supplement the provisions of this Agreement with directors' and officers' liability insurance maintained by the Company.

NOW, THEREFORE, in consideration of the promises, conditions, representations and warranties set forth herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company and Indemnified Party hereby agree as follows:

1. *Definitions.* The following terms, as used herein, shall have the following respective meanings; other capitalized terms used and not specifically defined in this Section 1 shall have the meanings provided elsewhere in the Agreement and in the Bylaws:

(a) "Act" means the Washington Business Corporation Act RCW Title 23B, as amended from time to time.

(b) "Adjudication" shall refer to a final, non-appealable decision by a court of competent jurisdiction. "Adjudged" shall have a correlative meaning.

(c) "Covered Amount" means any Loss, Fine and Expense, to the extent such Loss, Fine or Expense, in type or amount, is not insured under the D&O Insurance maintained by the Company from time to time.

(d) "Covered Act" means any act or omission of the Indemnified Party in his or her capacity as a director, officer, employee, agent, fiduciary or consultant of the Company alleged by any claimant or any claim against Indemnified Party by reason of him or her serving in such a capacity, or by reason of Indemnified Party serving, at the request of the Company, in such capacity with another corporation, partnership, employee benefit plan, trust or other enterprise, in all cases, whether such alleged act or omission occurred before or after the date of this Agreement.

(e) "D&O Insurance" means the liability insurance which the Company may purchase on behalf of Indemnified Party against liability asserted against or incurred by Indemnified Party in connection with claims arising from Covered Acts, whether or not the Company would have the power to indemnify the individual against the same liability under Section 23B.08.510 or 23B.08.520 of the Act.

(f) "Determination" means a determination, based on the facts known at the time, made:

(i) by the Board of Directors by majority vote of a quorum consisting of directors not at the time parties to the Proceeding;

(ii) if a quorum cannot be obtained under clause (i), by majority vote of a duly designated committee of the Board of Directors, in the manner provided by Section 23B.08.550(2)(b) of the Act;

(iii) by special legal counsel, selected in the manner provided by Section 23B.08.550(2)(c) of the Act, in a written opinion; or

(iv) by a majority of the shareholders of the Company, excluding shares owned or voted under the control of directors who are at the time parties to the Proceeding.

"Determined" shall have a correlative meaning.

(g) "Excluded Claim" means any payment for Losses, Fines or Expenses in connection with any claim relating to or arising out of:

(i) acts or omissions of the Indemnified Party Adjudged to be intentional misconduct or a knowing violation of law;

(ii) conduct of the Indemnified Party Adjudged to be in violation of Section 23B.08.310 of the Act; or

(iii) any transaction with respect to which it was Adjudged that such Indemnified Party personally received a benefit in money, property, or services to which the Indemnified Party was not legally entitled.

(h) "Expenses" means any reasonable expenses incurred by Indemnified Party as a result of a claim or claims made against Indemnified Party from Covered Acts, including, without limitation, reasonable counsel fees and costs of investigative, judicial or administrative proceedings or appeals.

(i) "Fines" means any fine or penalty including, with respect to an employee benefit plan, any excise tax assessed with respect thereto.

(j) "Losses" means amounts, as determined by an Adjudication, which the Indemnified Party is legally obligated to pay as a result of a claim or claims arising from Covered Acts, including, without limitation, Fines, damages and judgments and sums paid in settlement of such claim or claims.

(k) "Proceeding" means any threatened, pending or completed action, suit, proceeding or investigation, whether civil, criminal or administrative whether formal or informal.

2. *Maintenance of D&O Insurance.*

(a) The Company hereby covenants and agrees that, so long as Indemnified Party shall continue to serve as a director or executive officer of the Company and thereafter, for so long as Indemnified Party shall be subject to any possible Proceeding arising from any Covered Act, the Company, subject to Section 2(c), shall maintain in full force and effect D&O Insurance.

(b) In all policies of D&O Insurance, Indemnified Party shall be named as an insured in such a manner as to provide Indemnified Party the same rights and benefits, and the same limitations, as are accorded to the Company's directors or executive officers most favorably insured by such policy.

(c) The Company shall have no obligation to maintain D&O Insurance if the Company, by majority vote of the Board of Directors, determines in good faith that such insurance is not reasonably available, the premium costs for such insurance are disproportionate to the amount of coverage provided, or the coverage provided by such insurance is limited by exclusions so as to provide an insufficient benefit;*provided, however,* that such decision shall not adversely affect

coverage of D&O Insurance for periods prior to such decision without the unanimous vote of all directors.

3. *Indemnification.* The Company shall indemnify Indemnified Party up to the Covered Amount and shall advance any and all Expenses to Indemnified Party in connection with any Proceeding or any Covered Act, subject, in each case, to the further provisions of this Agreement. This Agreement is made pursuant to and to effectuate the indemnification provisions set forth in Article V of the Articles of Incorporation and Article VII of the Bylaws. Notwithstanding any other provision of this Agreement, the Company shall indemnify Indemnified Party to the extent Indemnified Party is successful, on the merits or otherwise, in the defense of any Proceeding to which Indemnified Party was a party because of being a director, officer, employee, agent, fiduciary or consultant of the Company, against reasonable Expenses incurred by Indemnified Party in connection with the Proceeding.

4. *Excluded Coverage.* The Company shall have no obligation to indemnify Indemnified Party for any Losses or Expenses which arise from an Excluded Claim.

5. *Indemnification Procedures.*

(a) Promptly after receipt by Indemnified Party of notice of the commencement of or the threat of commencement of any Proceeding, Indemnified Party shall, if indemnification or advancement of Expenses with respect thereto may be sought from the Company under this Agreement, notify the Company of the commencement or the threat of commencement thereof.

(b) If, at the time of the receipt of such notice, the Company has D&O Insurance in effect, the Company shall give prompt notice of the commencement or the threat of commencement of such Proceeding to the appropriate insurers in accordance with the procedures set forth in the respective policies in favor of Indemnified Party. The Company shall thereafter take all necessary or desirable action to cause such insurers to, in accordance with the terms of such policies: (i) advance, to the extent permitted by law, any and all Expenses to Indemnified Party, (ii) pay, on behalf of Indemnified Party, all amounts (including, without limitation, Losses and Expenses) payable as a result of, or in connection with, such Proceeding and (iii) reimburse Indemnified Party for all amounts (including, without limitation, Losses and Expenses) paid by Indemnified Party as a result of, or in connection with, such Proceeding.

(c) To the extent the Company does not, at the time of the commencement of or the threat of commencement of such Proceeding, have applicable D&O Insurance, or if a Determination is made that any Loss, Fine or Expense of the Indemnified Party arising out of such Proceeding will not be payable under the D&O Insurance then in effect, the Company shall be obligated to pay the Covered Amount with respect to any Proceeding and to provide counsel satisfactory to Indemnified Party upon the delivery to Indemnified Party of written notice of the Company's election to do so. After delivery of such notice, the Company will not be liable to Indemnified Party under this Agreement for any legal or other Expenses subsequently incurred by the Indemnified Party in connection with such defense other than the reasonable Expenses of investigation of Indemnified Party;*provided,* that Indemnified Party shall have the right to employ his or her own counsel in connection with the defense of any such Proceeding, the fees and expenses of such counsel incurred after delivery of notice from the Company of its assumption of such defense to be at the Indemnified Party's sole expense. Notwithstanding the foregoing, if (i) the employment of counsel by Indemnified Party has been previously authorized by the Company, (ii) Indemnified Party shall have been advised by counsel that there may be a conflict of interest between the Company and Indemnified Party in the conduct of any such defense or (iii) the Company shall not, in fact, have employed counsel to assume the defense of such Proceeding, in each such case, the fees and expenses of such counsel retained by Indemnified Party shall be at the expense of the Company. In the event Indemnified Party is entitled to employ counsel at the Company's expense pursuant to the terms of this Paragraph 5(c), and if so requested in writing by Indemnified Party, the Company shall advance any and all Expenses to Indemnified Party to the extent permitted by law.

(d) All payments on account of the Company's indemnification or advancement obligations under Paragraph 5(b) of this Agreement shall be made within sixty (60) days of Indemnified Party's written request therefor unless a Determination is made that the claims giving rise to Indemnified Party's request are Excluded Claims or otherwise not payable under this Agreement. All payments on account of the Company's obligations under Paragraph 5(c) of this Agreement shall be made within 20 days of Indemnified Party's written request therefor, subject to Paragraph 5(e) of this Agreement.

(e) In the event that (i) a Determination is made that the claims giving rise to Indemnified Party's request are Excluded Claims or otherwise not payable under this Agreement or (ii) it is Adjudged that the Indemnified Party is not entitled to be indemnified by the Company for Losses or Expenses under this Agreement, the Articles of Incorporation, the Bylaws or the Act, the Company shall have no obligation to indemnify, or advance any Expenses to Indemnified Party. Further, in either case, Indemnified Party agrees that he or she will reimburse the Company for all Losses and Expenses paid by the Company and all Expenses advanced by the Company in connection with such Proceeding against Indemnified Party.

6. *Settlement.* The Company shall have no obligation to indemnify Indemnified Party under this Agreement for any amounts paid in settlement of any Proceeding effected without the Company's prior written consent. The Company shall not settle any claim in any manner which would impose any loss or expense on Indemnified Party without Indemnified Party's prior written consent, unless the Company provides a written undertaking to the Indemnified Party to pay for such loss or expense on behalf of the Indemnified Party. Neither the Company nor Indemnified Party shall unreasonably withhold their consent to any proposed settlement.

7. *Rights Not Exclusive.* The rights provided hereunder shall be in addition to any other rights to which Indemnified Party may be entitled under the Articles of Incorporation, the Bylaws, the Act, any agreement or vote of shareholders or directors or otherwise, both as to action in Indemnified Party's official capacity and as to action in any other capacity, and such rights shall continue after Indemnified Party ceases to serve the Company as a director or officer.

8. *Enforcement.*

(a) Indemnified Party's rights to indemnification or advancement of Expenses hereunder shall be enforceable by Indemnified Party notwithstanding any adverse Determination. In any such action, if a prior adverse Determination has been made, the burden of proving that indemnification or advancement of Expenses is required under this Agreement, the Articles of Incorporation, the Bylaws or the Act shall be on the Indemnified Party. The Company shall have the burden of proving that indemnification or advancement of Expenses is not required under this Agreement if no prior adverse Determination shall have been made.

(b) In the event that any action is instituted by Indemnified Party under this Agreement, or to enforce or interpret any of the terms of this Agreement, Indemnified Party shall be entitled to be paid all court costs and expenses, including reasonable counsel fees, incurred by Indemnified Party with respect to such action, unless the court determines that each of the material assertions made by Indemnified Party as a basis for such action were not made in good faith or were frivolous.

9. *No Presumptions.* For purposes of this Agreement, the termination of any Proceeding by judgment, order, settlement (whether with or without court approval) or conviction, or upon a plea of nolo contendre, or its equivalent, shall not create a presumption that the Indemnified Party did not meet any particular standard of conduct or have any particular belief or that a court has determined that indemnification or advancement of Expenses by the Company is not permitted hereunder or by applicable law. In addition, neither the absence of a Determination as to whether Indemnified Party has met any particular standard of conduct or had any particular belief or the existence of a Determination that Indemnified Party has not met such standard of conduct or did not have such belief, prior to the commencement of legal proceedings by Indemnified Party to secure an Adjudication

that Indemnified Party should be indemnified or advanced or reimbursed Expenses hereunder or under applicable law, shall be a defense to Indemnified Party's claim or create a presumption that Indemnified Party has not met any particular standard of conduct or did not have any particular belief.

10. *Subrogation.* In the event of payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnified Party, who shall execute all papers required and shall do everything that may be necessary to secure such rights, including the execution of such documents necessary to enable the Company to effectively bring suit to enforce such rights.

11. *No Duplication of Payments.* The Company shall not be liable under this Agreement to make any payment in connection with any Proceeding against Indemnified Party to the extent Indemnified Party has otherwise actually received payment (under any D&O Insurance, the Articles of Incorporation, the Bylaws, the Act or otherwise) of the amounts which may be paid hereunder.

12. *Severability.* In the event that any provision of this Agreement is determined by a court of competent jurisdiction to require the Company to do or to fail to do an act which is in violation of the Articles of Incorporation, the Bylaws or the Act or other applicable law, such provision shall be limited or modified in its application to the minimum extent necessary to avoid such violation, and, as so limited or modified, such provision and the remainder of this Agreement shall be enforceable in accordance with the respective terms.

13. *Choice of Law.* This Agreement shall be governed by, construed and enforced in accordance with the laws of the State of Washington, without reference to conflicts of law principles therein.

14. *Successors and Assigns.* This Agreement shall be (i) binding upon all successors and assigns of the Company (including any transferee of all or substantially all of the Company's assets and any successor by merger or otherwise by operation of law) and (ii) binding on and inure to the benefit of the heirs, personal representatives and estate of Indemnified Party. Indemnified Party may not assign this Agreement or any of Indemnified Party's rights hereunder without the prior written consent of the Company.

15. *Amendment.* No amendment, modification, termination or cancellation of this Agreement shall be effective unless made in a writing signed by each of the parties hereto.

xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx

IN WITNESS WHEREOF, the Company and Indemnified Party have executed this Indemnification Agreement as of the date first above written.

OAKLEY, INC.

By: /s/ LINK NEWCOMB

Name: Link Newcomb
Title: *Chief Operating Officer*

/s/ SCOTT BOWERS

Scott Bowers,*Indemnified Party*

Exhibit 10.33

INDEMNIFICATION AGREEMENT

This Indemnification Agreement is made as of this 7th day of February, 2003, by and between OAKLEY, INC., a Washington corporation (the "Company"), and Bill Daily.

WHEREAS, as of the date hereof, the Company has provisions for indemnification of its directors and officers in Article V of its Amended and Restated Articles of Incorporation (the "Articles of Incorporation") and Article VII of its Bylaws (the "Bylaws") which provide for indemnification of the Company's directors and officers to the fullest extent permitted by law;

WHEREAS, the indemnification provisions in the Bylaws provide that the right of indemnification is a contract right of the covered parties;

WHEREAS, the Bylaws provide that the Company may maintain, at its expense, insurance to protect itself and any of its directors and officers against liability asserted against such persons incurred in such capacity whether or not the Company has the power to indemnify such persons against the same liability under Section 23B.08.510 or .520 of the Act (as defined below) or a successor statute;

WHEREAS, the Company and the Indemnified Party recognize that the officers and directors of publicly owned companies are frequently joined as parties to Proceedings (as defined below) against their respective companies as a result of their serving in such capacity; and

WHEREAS, in order to induce Indemnified Party to serve or continue to serve the Company, the Company wishes to confirm the contract indemnification rights provided in the Bylaws and agrees to provide Indemnified Party with the benefits contemplated by this Agreement and to supplement the provisions of this Agreement with directors' and officers' liability insurance maintained by the Company.

NOW, THEREFORE, in consideration of the promises, conditions, representations and warranties set forth herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company and Indemnified Party hereby agree as follows:

1. *Definitions.* The following terms, as used herein, shall have the following respective meanings; other capitalized terms used and not specifically defined in this Section 1 shall have the meanings provided elsewhere in the Agreement and in the Bylaws:

(a) "Act" means the Washington Business Corporation Act RCW Title 23B, as amended from time to time.

(b) "Adjudication" shall refer to a final, non-appealable decision by a court of competent jurisdiction. "Adjudged" shall have a correlative meaning.

(c) "Covered Amount" means any Loss, Fine and Expense, to the extent such Loss, Fine or Expense, in type or amount, is not insured under the D&O Insurance maintained by the Company from time to time.

(d) "Covered Act" means any act or omission of the Indemnified Party in his or her capacity as a director, officer, employee, agent, fiduciary or consultant of the Company alleged by any claimant or any claim against Indemnified Party by reason of him or her serving in such a capacity, or by reason of Indemnified Party serving, at the request of the Company, in such capacity with another corporation, partnership, employee benefit plan, trust or other enterprise, in all cases, whether such alleged act or omission occurred before or after the date of this Agreement.

(e) "D&O Insurance" means the liability insurance which the Company may purchase on behalf of Indemnified Party against liability asserted against or incurred by Indemnified Party in connection with claims arising from Covered Acts, whether or not the Company would have the power to indemnify the individual against the same liability under Section 23B.08.510 or 23B.08.520 of the Act.

(f) "Determination" means a determination, based on the facts known at the time, made:

(i) by the Board of Directors by majority vote of a quorum consisting of directors not at the time parties to the Proceeding;

(ii) if a quorum cannot be obtained under clause (i), by majority vote of a duly designated committee of the Board of Directors, in the manner provided by Section 23B.08.550(2)(b) of the Act;

(iii) by special legal counsel, selected in the manner provided by Section 23B.08.550(2)(c) of the Act, in a written opinion; or

(iv) by a majority of the shareholders of the Company, excluding shares owned or voted under the control of directors who are at the time parties to the Proceeding.

"Determined" shall have a correlative meaning.

(g) "Excluded Claim" means any payment for Losses, Fines or Expenses in connection with any claim relating to or arising out of:

(i) acts or omissions of the Indemnified Party Adjudged to be intentional misconduct or a knowing violation of law;

(ii) conduct of the Indemnified Party Adjudged to be in violation of Section 23B.08.310 of the Act; or

(iii) any transaction with respect to which it was Adjudged that such Indemnified Party personally received a benefit in money, property, or services to which the Indemnified Party was not legally entitled.

(h) "Expenses" means any reasonable expenses incurred by Indemnified Party as a result of a claim or claims made against Indemnified Party from Covered Acts, including, without limitation, reasonable counsel fees and costs of investigative, judicial or administrative proceedings or appeals.

(i) "Fines" means any fine or penalty including, with respect to an employee benefit plan, any excise tax assessed with respect thereto.

(j) "Losses" means amounts, as determined by an Adjudication, which the Indemnified Party is legally obligated to pay as a result of a claim or claims arising from Covered Acts, including, without limitation, Fines, damages and judgments and sums paid in settlement of such claim or claims.

(k) "Proceeding" means any threatened, pending or completed action, suit, proceeding or investigation, whether civil, criminal or administrative whether formal or informal.

2. *Maintenance of D&O Insurance.*

(a) The Company hereby covenants and agrees that, so long as Indemnified Party shall continue to serve as a director or executive officer of the Company and thereafter, for so long as Indemnified Party shall be subject to any possible Proceeding arising from any Covered Act, the Company, subject to Section 2(c), shall maintain in full force and effect D&O Insurance.

(b) In all policies of D&O Insurance, Indemnified Party shall be named as an insured in such a manner as to provide Indemnified Party the same rights and benefits, and the same limitations, as are accorded to the Company's directors or executive officers most favorably insured by such policy.

(c) The Company shall have no obligation to maintain D&O Insurance if the Company, by majority vote of the Board of Directors, determines in good faith that such insurance is not reasonably available, the premium costs for such insurance are disproportionate to the amount of coverage provided, or the coverage provided by such insurance is limited by exclusions so as to provide an insufficient benefit;*provided, however,* that such decision shall not adversely affect

coverage of D&O Insurance for periods prior to such decision without the unanimous vote of all directors.

3. *Indemnification.* The Company shall indemnify Indemnified Party up to the Covered Amount and shall advance any and all Expenses to Indemnified Party in connection with any Proceeding or any Covered Act, subject, in each case, to the further provisions of this Agreement. This Agreement is made pursuant to and to effectuate the indemnification provisions set forth in Article V of the Articles of Incorporation and Article VII of the Bylaws. Notwithstanding any other provision of this Agreement, the Company shall indemnify Indemnified Party to the extent Indemnified Party is successful, on the merits or otherwise, in the defense of any Proceeding to which Indemnified Party was a party because of being a director, officer, employee, agent, fiduciary or consultant of the Company, against reasonable Expenses incurred by Indemnified Party in connection with the Proceeding.

4. *Excluded Coverage.* The Company shall have no obligation to indemnify Indemnified Party for any Losses or Expenses which arise from an Excluded Claim.

5. *Indemnification Procedures.*

(a) Promptly after receipt by Indemnified Party of notice of the commencement of or the threat of commencement of any Proceeding, Indemnified Party shall, if indemnification or advancement of Expenses with respect thereto may be sought from the Company under this Agreement, notify the Company of the commencement or the threat of commencement thereof.

(b) If, at the time of the receipt of such notice, the Company has D&O Insurance in effect, the Company shall give prompt notice of the commencement or the threat of commencement of such Proceeding to the appropriate insurers in accordance with the procedures set forth in the respective policies in favor of Indemnified Party. The Company shall thereafter take all necessary or desirable action to cause such insurers to, in accordance with the terms of such policies: (i) advance, to the extent permitted by law, any and all Expenses to Indemnified Party, (ii) pay, on behalf of Indemnified Party, all amounts (including, without limitation, Losses and Expenses) payable as a result of, or in connection with, such Proceeding and (iii) reimburse Indemnified Party for all amounts (including, without limitation, Losses and Expenses) paid by Indemnified Party as a result of, or in connection with, such Proceeding.

(c) To the extent the Company does not, at the time of the commencement of or the threat of commencement of such Proceeding, have applicable D&O Insurance, or if a Determination is made that any Loss, Fine or Expense of the Indemnified Party arising out of such Proceeding will not be payable under the D&O Insurance then in effect, the Company shall be obligated to pay the Covered Amount with respect to any Proceeding and to provide counsel satisfactory to Indemnified Party upon the delivery to Indemnified Party of written notice of the Company's election to do so. After delivery of such notice, the Company will not be liable to Indemnified Party under this Agreement for any legal or other Expenses subsequently incurred by the Indemnified Party in connection with such defense other than the reasonable Expenses of investigation of Indemnified Party;*provided*, that Indemnified Party shall have the right to employ his or her own counsel in connection with the defense of any such Proceeding, the fees and expenses of such counsel incurred after delivery of notice from the Company of its assumption of such defense to be at the Indemnified Party's sole expense. Notwithstanding the foregoing, if (i) the employment of counsel by Indemnified Party has been previously authorized by the Company, (ii) Indemnified Party shall have been advised by counsel that there may be a conflict of interest between the Company and Indemnified Party in the conduct of any such defense or (iii) the Company shall not, in fact, have employed counsel to assume the defense of such Proceeding, in each such case, the fees and expenses of such counsel retained by Indemnified Party shall be at the expense of the Company. In the event Indemnified Party is entitled to employ counsel at the Company's expense pursuant to the terms of this Paragraph 5(c), and if so requested in writing by Indemnified Party, the Company shall advance any and all Expenses to Indemnified Party to the extent permitted by law.

(d) All payments on account of the Company's indemnification or advancement obligations under Paragraph 5(b) of this Agreement shall be made within sixty (60) days of Indemnified Party's written request therefor unless a Determination is made that the claims giving rise to Indemnified Party's request are Excluded Claims or otherwise not payable under this Agreement. All payments on account of the Company's obligations under Paragraph 5(c) of this Agreement shall be made within 20 days of Indemnified Party's written request therefor, subject to Paragraph 5(e) of this Agreement.

(e) In the event that (i) a Determination is made that the claims giving rise to Indemnified Party's request are Excluded Claims or otherwise not payable under this Agreement or (ii) it is Adjudged that the Indemnified Party is not entitled to be indemnified by the Company for Losses or Expenses under this Agreement, the Articles of Incorporation, the Bylaws or the Act, the Company shall have no obligation to indemnify, or advance any Expenses to Indemnified Party. Further, in either case, Indemnified Party agrees that he or she will reimburse the Company for all Losses and Expenses paid by the Company and all Expenses advanced by the Company in connection with such Proceeding against Indemnified Party.

6. *Settlement.* The Company shall have no obligation to indemnify Indemnified Party under this Agreement for any amounts paid in settlement of any Proceeding effected without the Company's prior written consent. The Company shall not settle any claim in any manner which would impose any loss or expense on Indemnified Party without Indemnified Party's prior written consent, unless the Company provides a written undertaking to the Indemnified Party to pay for such loss or expense on behalf of the Indemnified Party. Neither the Company nor Indemnified Party shall unreasonably withhold their consent to any proposed settlement.

7. *Rights Not Exclusive.* The rights provided hereunder shall be in addition to any other rights to which Indemnified Party may be entitled under the Articles of Incorporation, the Bylaws, the Act, any agreement or vote of shareholders or directors or otherwise, both as to action in Indemnified Party's official capacity and as to action in any other capacity, and such rights shall continue after Indemnified Party ceases to serve the Company as a director or officer.

8. *Enforcement.*

(a) Indemnified Party's rights to indemnification or advancement of Expenses hereunder shall be enforceable by Indemnified Party notwithstanding any adverse Determination. In any such action, if a prior adverse Determination has been made, the burden of proving that indemnification or advancement of Expenses is required under this Agreement, the Articles of Incorporation, the Bylaws or the Act shall be on the Indemnified Party. The Company shall have the burden of proving that indemnification or advancement of Expenses is not required under this Agreement if no prior adverse Determination shall have been made.

(b) In the event that any action is instituted by Indemnified Party under this Agreement, or to enforce or interpret any of the terms of this Agreement, Indemnified Party shall be entitled to be paid all court costs and expenses, including reasonable counsel fees, incurred by Indemnified Party with respect to such action, unless the court determines that each of the material assertions made by Indemnified Party as a basis for such action were not made in good faith or were frivolous.

9. *No Presumptions.* For purposes of this Agreement, the termination of any Proceeding by judgment, order, settlement (whether with or without court approval) or conviction, or upon a plea of nolo contendre, or its equivalent, shall not create a presumption that the Indemnified Party did not meet any particular standard of conduct or have any particular belief or that a court has determined that indemnification or advancement of Expenses by the Company is not permitted hereunder or by applicable law. In addition, neither the absence of a Determination as to whether Indemnified Party has met any particular standard of conduct or had any particular belief or the existence of a Determination that Indemnified Party has not met such standard of conduct or did not have such belief, prior to the commencement of legal proceedings by Indemnified Party to secure an Adjudication that Indemnified Party should be indemnified or advanced or reimbursed Expenses hereunder or under

applicable law, shall be a defense to Indemnified Party's claim or create a presumption that Indemnified Party has not met any particular standard of conduct or did not have any particular belief.

10. *Subrogation.* In the event of payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnified Party, who shall execute all papers required and shall do everything that may be necessary to secure such rights, including the execution of such documents necessary to enable the Company to effectively bring suit to enforce such rights.

11. *No Duplication of Payments.* The Company shall not be liable under this Agreement to make any payment in connection with any Proceeding against Indemnified Party to the extent Indemnified Party has otherwise actually received payment (under any D&O Insurance, the Articles of Incorporation, the Bylaws, the Act or otherwise) of the amounts which may be paid hereunder.

12. *Severability.* In the event that any provision of this Agreement is determined by a court of competent jurisdiction to require the Company to do or to fail to do an act which is in violation of the Articles of Incorporation, the Bylaws or the Act or other applicable law, such provision shall be limited or modified in its application to the minimum extent necessary to avoid such violation, and, as so limited or modified, such provision and the remainder of this Agreement shall be enforceable in accordance with the respective terms.

13. *Choice of Law.* This Agreement shall be governed by, construed and enforced in accordance with the laws of the State of Washington, without reference to conflicts of law principles therein.

14. *Successors and Assigns.* This Agreement shall be (i) binding upon all successors and assigns of the Company (including any transferee of all or substantially all of the Company's assets and any successor by merger or otherwise by operation of law) and (ii) binding on and inure to the benefit of the heirs, personal representatives and estate of Indemnified Party. Indemnified Party may not assign this Agreement or any of Indemnified Party's rights hereunder without the prior written consent of the Company.

15. *Amendment.* No amendment, modification, termination or cancellation of this Agreement shall be effective unless made in a writing signed by each of the parties hereto.

xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx

IN WITNESS WHEREOF, the Company and Indemnified Party have executed this Indemnification Agreement as of the date first above written.

OAKLEY, INC.

By: /s/ LINK NEWCOMB

Name: Link Newcomb
Title: *Chief Operating Officer*

/s/ BILL DAILY

Bill Daily,*Indemnified Party*

Exhibit 10.34

INDEMNIFICATION AGREEMENT

This Indemnification Agreement is made as of this 7th day of February, 2003, by and between OAKLEY, INC., a Washington corporation (the "Company"), and Jon Krause.

WHEREAS, as of the date hereof, the Company has provisions for indemnification of its directors and officers in Article V of its Amended and Restated Articles of Incorporation (the "Articles of Incorporation") and Article VII of its Bylaws (the "Bylaws") which provide for indemnification of the Company's directors and officers to the fullest extent permitted by law;

WHEREAS, the indemnification provisions in the Bylaws provide that the right of indemnification is a contract right of the covered parties;

WHEREAS, the Bylaws provide that the Company may maintain, at its expense, insurance to protect itself and any of its directors and officers against liability asserted against such persons incurred in such capacity whether or not the Company has the power to indemnify such persons against the same liability under Section 23B.08.510 or .520 of the Act (as defined below) or a successor statute;

WHEREAS, the Company and the Indemnified Party recognize that the officers and directors of publicly owned companies are frequently joined as parties to Proceedings (as defined below) against their respective companies as a result of their serving in such capacity; and

WHEREAS, in order to induce Indemnified Party to serve or continue to serve the Company, the Company wishes to confirm the contract indemnification rights provided in the Bylaws and agrees to provide Indemnified Party with the benefits contemplated by this Agreement and to supplement the provisions of this Agreement with directors' and officers' liability insurance maintained by the Company.

NOW, THEREFORE, in consideration of the promises, conditions, representations and warranties set forth herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company and Indemnified Party hereby agree as follows:

1. *Definitions.* The following terms, as used herein, shall have the following respective meanings; other capitalized terms used and not specifically defined in this Section 1 shall have the meanings provided elsewhere in the Agreement and in the Bylaws:

(a) "Act" means the Washington Business Corporation Act RCW Title 23B, as amended from time to time.

(b) "Adjudication" shall refer to a final, non-appealable decision by a court of competent jurisdiction. "Adjudged" shall have a correlative meaning.

(c) "Covered Amount" means any Loss, Fine and Expense, to the extent such Loss, Fine or Expense, in type or amount, is not insured under the D&O Insurance maintained by the Company from time to time.

(d) "Covered Act" means any act or omission of the Indemnified Party in his or her capacity as a director, officer, employee, agent, fiduciary or consultant of the Company alleged by any claimant or any claim against Indemnified Party by reason of him or her serving in such a capacity, or by reason of Indemnified Party serving, at the request of the Company, in such capacity with another corporation, partnership, employee benefit plan, trust or other enterprise, in all cases, whether such alleged act or omission occurred before or after the date of this Agreement.

(e) "D&O Insurance" means the liability insurance which the Company may purchase on behalf of Indemnified Party against liability asserted against or incurred by Indemnified Party in connection with claims arising from Covered Acts, whether or not the Company would have the power to indemnify the individual against the same liability under Section 23B.08.510 or 23B.08.520 of the Act.

(f) "Determination" means a determination, based on the facts known at the time, made:

(i) by the Board of Directors by majority vote of a quorum consisting of directors not at the time parties to the Proceeding;

(ii) if a quorum cannot be obtained under clause (i), by majority vote of a duly designated committee of the Board of Directors, in the manner provided by Section 23B.08.550(2)(b) of the Act;

(iii) by special legal counsel, selected in the manner provided by Section 23B.08.550(2)(c) of the Act, in a written opinion; or

(iv) by a majority of the shareholders of the Company, excluding shares owned or voted under the control of directors who are at the time parties to the Proceeding.

"Determined" shall have a correlative meaning.

(g) "Excluded Claim" means any payment for Losses, Fines or Expenses in connection with any claim relating to or arising out of:

(i) acts or omissions of the Indemnified Party Adjudged to be intentional misconduct or a knowing violation of law;

(ii) conduct of the Indemnified Party Adjudged to be in violation of Section 23B.08.310 of the Act; or

(iii) any transaction with respect to which it was Adjudged that such Indemnified Party personally received a benefit in money, property, or services to which the Indemnified Party was not legally entitled.

(h) "Expenses" means any reasonable expenses incurred by Indemnified Party as a result of a claim or claims made against Indemnified Party from Covered Acts, including, without limitation, reasonable counsel fees and costs of investigative, judicial or administrative proceedings or appeals.

(i) "Fines" means any fine or penalty including, with respect to an employee benefit plan, any excise tax assessed with respect thereto.

(j) "Losses" means amounts, as determined by an Adjudication, which the Indemnified Party is legally obligated to pay as a result of a claim or claims arising from Covered Acts, including, without limitation, Fines, damages and judgments and sums paid in settlement of such claim or claims.

(k) "Proceeding" means any threatened, pending or completed action, suit, proceeding or investigation, whether civil, criminal or administrative whether formal or informal.

2. *Maintenance of D&O Insurance.*

(a) The Company hereby covenants and agrees that, so long as Indemnified Party shall continue to serve as a director or executive officer of the Company and thereafter, for so long as Indemnified Party shall be subject to any possible Proceeding arising from any Covered Act, the Company, subject to Section 2(c), shall maintain in full force and effect D&O Insurance.

(b) In all policies of D&O Insurance, Indemnified Party shall be named as an insured in such a manner as to provide Indemnified Party the same rights and benefits, and the same limitations, as are accorded to the Company's directors or executive officers most favorably insured by such policy.

(c) The Company shall have no obligation to maintain D&O Insurance if the Company, by majority vote of the Board of Directors, determines in good faith that such insurance is not reasonably available, the premium costs for such insurance are disproportionate to the amount of coverage provided, or the coverage provided by such insurance is limited by exclusions so as to provide an insufficient benefit;*provided, however*, that such decision shall not adversely affect

coverage of D&O Insurance for periods prior to such decision without the unanimous vote of all directors.

3. *Indemnification.* The Company shall indemnify Indemnified Party up to the Covered Amount and shall advance any and all Expenses to Indemnified Party in connection with any Proceeding or any Covered Act, subject, in each case, to the further provisions of this Agreement. This Agreement is made pursuant to and to effectuate the indemnification provisions set forth in Article V of the Articles of Incorporation and Article VII of the Bylaws. Notwithstanding any other provision of this Agreement, the Company shall indemnify Indemnified Party to the extent Indemnified Party is successful, on the merits or otherwise, in the defense of any Proceeding to which Indemnified Party was a party because of being a director, officer, employee, agent, fiduciary or consultant of the Company, against reasonable Expenses incurred by Indemnified Party in connection with the Proceeding.

4. *Excluded Coverage.* The Company shall have no obligation to indemnify Indemnified Party for any Losses or Expenses which arise from an Excluded Claim.

5. *Indemnification Procedures.*

(a) Promptly after receipt by Indemnified Party of notice of the commencement of or the threat of commencement of any Proceeding, Indemnified Party shall, if indemnification or advancement of Expenses with respect thereto may be sought from the Company under this Agreement, notify the Company of the commencement or the threat of commencement thereof.

(b) If, at the time of the receipt of such notice, the Company has D&O Insurance in effect, the Company shall give prompt notice of the commencement or the threat of commencement of such Proceeding to the appropriate insurers in accordance with the procedures set forth in the respective policies in favor of Indemnified Party. The Company shall thereafter take all necessary or desirable action to cause such insurers to, in accordance with the terms of such policies: (i) advance, to the extent permitted by law, any and all Expenses to Indemnified Party, (ii) pay, on behalf of Indemnified Party, all amounts (including, without limitation, Losses and Expenses) payable as a result of, or in connection with, such Proceeding and (iii) reimburse Indemnified Party for all amounts (including, without limitation, Losses and Expenses) paid by Indemnified Party as a result of, or in connection with, such Proceeding.

(c) To the extent the Company does not, at the time of the commencement of or the threat of commencement of such Proceeding, have applicable D&O Insurance, or if a Determination is made that any Loss, Fine or Expense of the Indemnified Party arising out of such Proceeding will not be payable under the D&O Insurance then in effect, the Company shall be obligated to pay the Covered Amount with respect to any Proceeding and to provide counsel satisfactory to Indemnified Party upon the delivery to Indemnified Party of written notice of the Company's election to do so. After delivery of such notice, the Company will not be liable to Indemnified Party under this Agreement for any legal or other Expenses subsequently incurred by the Indemnified Party in connection with such defense other than the reasonable Expenses of investigation of Indemnified Party;*provided*, that Indemnified Party shall have the right to employ his or her own counsel in connection with the defense of any such Proceeding, the fees and expenses of such counsel incurred after delivery of notice from the Company of its assumption of such defense to be at the Indemnified Party's sole expense. Notwithstanding the foregoing, if (i) the employment of counsel by Indemnified Party has been previously authorized by the Company, (ii) Indemnified Party shall have been advised by counsel that there may be a conflict of interest between the Company and Indemnified Party in the conduct of any such defense or (iii) the Company shall not, in fact, have employed counsel to assume the defense of such Proceeding, in each such case, the fees and expenses of such counsel retained by Indemnified Party shall be at the expense of the Company. In the event Indemnified Party is entitled to employ counsel at the Company's expense pursuant to the terms of this Paragraph 5(c), and if so requested in writing by Indemnified Party, the Company shall advance any and all Expenses to Indemnified Party to the extent permitted by law.

(d) All payments on account of the Company's indemnification or advancement obligations under Paragraph 5(b) of this Agreement shall be made within sixty (60) days of Indemnified Party's written request therefor unless a Determination is made that the claims giving rise to Indemnified Party's request are Excluded Claims or otherwise not payable under this Agreement. All payments on account of the Company's obligations under Paragraph 5(c) of this Agreement shall be made within 20 days of Indemnified Party's written request therefor, subject to Paragraph 5(e) of this Agreement.

(e) In the event that (i) a Determination is made that the claims giving rise to Indemnified Party's request are Excluded Claims or otherwise not payable under this Agreement or (ii) it is Adjudged that the Indemnified Party is not entitled to be indemnified by the Company for Losses or Expenses under this Agreement, the Articles of Incorporation, the Bylaws or the Act, the Company shall have no obligation to indemnify, or advance any Expenses to Indemnified Party. Further, in either case, Indemnified Party agrees that he or she will reimburse the Company for all Losses and Expenses paid by the Company and all Expenses advanced by the Company in connection with such Proceeding against Indemnified Party.

6. *Settlement.* The Company shall have no obligation to indemnify Indemnified Party under this Agreement for any amounts paid in settlement of any Proceeding effected without the Company's prior written consent. The Company shall not settle any claim in any manner which would impose any loss or expense on Indemnified Party without Indemnified Party's prior written consent, unless the Company provides a written undertaking to the Indemnified Party to pay for such loss or expense on behalf of the Indemnified Party. Neither the Company nor Indemnified Party shall unreasonably withhold their consent to any proposed settlement.

7. *Rights Not Exclusive.* The rights provided hereunder shall be in addition to any other rights to which Indemnified Party may be entitled under the Articles of Incorporation, the Bylaws, the Act, any agreement or vote of shareholders or directors or otherwise, both as to action in Indemnified Party's official capacity and as to action in any other capacity, and such rights shall continue after Indemnified Party ceases to serve the Company as a director or officer.

8. *Enforcement.*

(a) Indemnified Party's rights to indemnification or advancement of Expenses hereunder shall be enforceable by Indemnified Party notwithstanding any adverse Determination. In any such action, if a prior adverse Determination has been made, the burden of proving that indemnification or advancement of Expenses is required under this Agreement, the Articles of Incorporation, the Bylaws or the Act shall be on the Indemnified Party. The Company shall have the burden of proving that indemnification or advancement of Expenses is not required under this Agreement if no prior adverse Determination shall have been made.

(b) In the event that any action is instituted by Indemnified Party under this Agreement, or to enforce or interpret any of the terms of this Agreement, Indemnified Party shall be entitled to be paid all court costs and expenses, including reasonable counsel fees, incurred by Indemnified Party with respect to such action, unless the court determines that each of the material assertions made by Indemnified Party as a basis for such action were not made in good faith or were frivolous.

9. *No Presumptions.* For purposes of this Agreement, the termination of any Proceeding by judgment, order, settlement (whether with or without court approval) or conviction, or upon a plea of nolo contendre, or its equivalent, shall not create a presumption that the Indemnified Party did not meet any particular standard of conduct or have any particular belief or that a court has determined that indemnification or advancement of Expenses by the Company is not permitted hereunder or by applicable law. In addition, neither the absence of a Determination as to whether Indemnified Party has met any particular standard of conduct or had any particular belief or the existence of a Determination that Indemnified Party has not met such standard of conduct or did not have such belief, prior to the commencement of legal proceedings by Indemnified Party to secure an Adjudication that Indemnified Party should be indemnified or advanced or reimbursed Expenses hereunder or under

applicable law, shall be a defense to Indemnified Party's claim or create a presumption that Indemnified Party has not met any particular standard of conduct or did not have any particular belief.

10. *Subrogation.* In the event of payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnified Party, who shall execute all papers required and shall do everything that may be necessary to secure such rights, including the execution of such documents necessary to enable the Company to effectively bring suit to enforce such rights.

11. *No Duplication of Payments.* The Company shall not be liable under this Agreement to make any payment in connection with any Proceeding against Indemnified Party to the extent Indemnified Party has otherwise actually received payment (under any D&O Insurance, the Articles of Incorporation, the Bylaws, the Act or otherwise) of the amounts which may be paid hereunder.

12. *Severability.* In the event that any provision of this Agreement is determined by a court of competent jurisdiction to require the Company to do or to fail to do an act which is in violation of the Articles of Incorporation, the Bylaws or the Act or other applicable law, such provision shall be limited or modified in its application to the minimum extent necessary to avoid such violation, and, as so limited or modified, such provision and the remainder of this Agreement shall be enforceable in accordance with the respective terms.

13. *Choice of Law.* This Agreement shall be governed by, construed and enforced in accordance with the laws of the State of Washington, without reference to conflicts of law principles therein.

14. *Successors and Assigns.* This Agreement shall be (i) binding upon all successors and assigns of the Company (including any transferee of all or substantially all of the Company's assets and any successor by merger or otherwise by operation of law) and (ii) binding on and inure to the benefit of the heirs, personal representatives and estate of Indemnified Party. Indemnified Party may not assign this Agreement or any of Indemnified Party's rights hereunder without the prior written consent of the Company.

15. *Amendment.* No amendment, modification, termination or cancellation of this Agreement shall be effective unless made in a writing signed by each of the parties hereto.

xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx

IN WITNESS WHEREOF, the Company and Indemnified Party have executed this Indemnification Agreement as of the date first above written.

OAKLEY, INC.

By: /s/ LINK NEWCOMB

Name: Link Newcomb
Title: *Chief Operating Officer*

/s/ JON KRAUSE

Jon Krause,*Indemnified Party*

Exhibit 10.35

INDEMNIFICATION AGREEMENT

This Indemnification Agreement is made as of this 7th day of February, 2003, by and between OAKLEY, INC., a Washington corporation (the "Company"), and Kent Lane.

WHEREAS, as of the date hereof, the Company has provisions for indemnification of its directors and officers in Article V of its Amended and Restated Articles of Incorporation (the "Articles of Incorporation") and Article VII of its Bylaws (the "Bylaws") which provide for indemnification of the Company's directors and officers to the fullest extent permitted by law;

WHEREAS, the indemnification provisions in the Bylaws provide that the right of indemnification is a contract right of the covered parties;

WHEREAS, the Bylaws provide that the Company may maintain, at its expense, insurance to protect itself and any of its directors and officers against liability asserted against such persons incurred in such capacity whether or not the Company has the power to indemnify such persons against the same liability under Section 23B.08.510 or .520 of the Act (as defined below) or a successor statute;

WHEREAS, the Company and the Indemnified Party recognize that the officers and directors of publicly owned companies are frequently joined as parties to Proceedings (as defined below) against their respective companies as a result of their serving in such capacity; and

WHEREAS, in order to induce Indemnified Party to serve or continue to serve the Company, the Company wishes to confirm the contract indemnification rights provided in the Bylaws and agrees to provide Indemnified Party with the benefits contemplated by this Agreement and to supplement the provisions of this Agreement with directors' and officers' liability insurance maintained by the Company.

NOW, THEREFORE, in consideration of the promises, conditions, representations and warranties set forth herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company and Indemnified Party hereby agree as follows:

1. *Definitions.* The following terms, as used herein, shall have the following respective meanings; other capitalized terms used and not specifically defined in this Section 1 shall have the meanings provided elsewhere in the Agreement and in the Bylaws:

(a) "Act" means the Washington Business Corporation Act RCW Title 23B, as amended from time to time.

(b) "Adjudication" shall refer to a final, non-appealable decision by a court of competent jurisdiction. "Adjudged" shall have a correlative meaning.

(c) "Covered Amount" means any Loss, Fine and Expense, to the extent such Loss, Fine or Expense, in type or amount, is not insured under the D&O Insurance maintained by the Company from time to time.

(d) "Covered Act" means any act or omission of the Indemnified Party in his or her capacity as a director, officer, employee, agent, fiduciary or consultant of the Company alleged by any claimant or any claim against Indemnified Party by reason of him or her serving in such a capacity, or by reason of Indemnified Party serving, at the request of the Company, in such capacity with another corporation, partnership, employee benefit plan, trust or other enterprise, in all cases, whether such alleged act or omission occurred before or after the date of this Agreement.

(e) "D&O Insurance" means the liability insurance which the Company may purchase on behalf of Indemnified Party against liability asserted against or incurred by Indemnified Party in connection with claims arising from Covered Acts, whether or not the Company would have the power to indemnify the individual against the same liability under Section 23B.08.510 or 23B.08.520 of the Act.

(f) "Determination" means a determination, based on the facts known at the time, made:

(i) by the Board of Directors by majority vote of a quorum consisting of directors not at the time parties to the Proceeding;

(ii) if a quorum cannot be obtained under clause (i), by majority vote of a duly designated committee of the Board of Directors, in the manner provided by Section 23B.08.550(2)(b) of the Act;

(iii) by special legal counsel, selected in the manner provided by Section 23B.08.550(2)(c) of the Act, in a written opinion; or

(iv) by a majority of the shareholders of the Company, excluding shares owned or voted under the control of directors who are at the time parties to the Proceeding.

"Determined" shall have a correlative meaning.

(g) "Excluded Claim" means any payment for Losses, Fines or Expenses in connection with any claim relating to or arising out of:

(i) acts or omissions of the Indemnified Party Adjudged to be intentional misconduct or a knowing violation of law;

(ii) conduct of the Indemnified Party Adjudged to be in violation of Section 23B.08.310 of the Act; or

(iii) any transaction with respect to which it was Adjudged that such Indemnified Party personally received a benefit in money, property, or services to which the Indemnified Party was not legally entitled.

(h) "Expenses" means any reasonable expenses incurred by Indemnified Party as a result of a claim or claims made against Indemnified Party from Covered Acts, including, without limitation, reasonable counsel fees and costs of investigative, judicial or administrative proceedings or appeals.

(i) "Fines" means any fine or penalty including, with respect to an employee benefit plan, any excise tax assessed with respect thereto.

(j) "Losses" means amounts, as determined by an Adjudication, which the Indemnified Party is legally obligated to pay as a result of a claim or claims arising from Covered Acts, including, without limitation, Fines, damages and judgments and sums paid in settlement of such claim or claims.

(k) "Proceeding" means any threatened, pending or completed action, suit, proceeding or investigation, whether civil, criminal or administrative whether formal or informal.

2. *Maintenance of D&O Insurance.*

(a) The Company hereby covenants and agrees that, so long as Indemnified Party shall continue to serve as a director or executive officer of the Company and thereafter, for so long as Indemnified Party shall be subject to any possible Proceeding arising from any Covered Act, the Company, subject to Section 2(c), shall maintain in full force and effect D&O Insurance.

(b) In all policies of D&O Insurance, Indemnified Party shall be named as an insured in such a manner as to provide Indemnified Party the same rights and benefits, and the same limitations, as are accorded to the Company's directors or executive officers most favorably insured by such policy.

(c) The Company shall have no obligation to maintain D&O Insurance if the Company, by majority vote of the Board of Directors, determines in good faith that such insurance is not reasonably available, the premium costs for such insurance are disproportionate to the amount of coverage provided, or the coverage provided by such insurance is limited by exclusions so as to provide an insufficient benefit;*provided, however*, that such decision shall not adversely affect

coverage of D&O Insurance for periods prior to such decision without the unanimous vote of all directors.

3. *Indemnification.* The Company shall indemnify Indemnified Party up to the Covered Amount and shall advance any and all Expenses to Indemnified Party in connection with any Proceeding or any Covered Act, subject, in each case, to the further provisions of this Agreement. This Agreement is made pursuant to and to effectuate the indemnification provisions set forth in Article V of the Articles of Incorporation and Article VII of the Bylaws. Notwithstanding any other provision of this Agreement, the Company shall indemnify Indemnified Party to the extent Indemnified Party is successful, on the merits or otherwise, in the defense of any Proceeding to which Indemnified Party was a party because of being a director, officer, employee, agent, fiduciary or consultant of the Company, against reasonable Expenses incurred by Indemnified Party in connection with the Proceeding.

4. *Excluded Coverage.* The Company shall have no obligation to indemnify Indemnified Party for any Losses or Expenses which arise from an Excluded Claim.

5. *Indemnification Procedures.*

(a) Promptly after receipt by Indemnified Party of notice of the commencement of or the threat of commencement of any Proceeding, Indemnified Party shall, if indemnification or advancement of Expenses with respect thereto may be sought from the Company under this Agreement, notify the Company of the commencement or the threat of commencement thereof.

(b) If, at the time of the receipt of such notice, the Company has D&O Insurance in effect, the Company shall give prompt notice of the commencement or the threat of commencement of such Proceeding to the appropriate insurers in accordance with the procedures set forth in the respective policies in favor of Indemnified Party. The Company shall thereafter take all necessary or desirable action to cause such insurers to, in accordance with the terms of such policies: (i) advance, to the extent permitted by law, any and all Expenses to Indemnified Party, (ii) pay, on behalf of Indemnified Party, all amounts (including, without limitation, Losses and Expenses) payable as a result of, or in connection with, such Proceeding and (iii) reimburse Indemnified Party for all amounts (including, without limitation, Losses and Expenses) paid by Indemnified Party as a result of, or in connection with, such Proceeding.

(c) To the extent the Company does not, at the time of the commencement of or the threat of commencement of such Proceeding, have applicable D&O Insurance, or if a Determination is made that any Loss, Fine or Expense of the Indemnified Party arising out of such Proceeding will not be payable under the D&O Insurance then in effect, the Company shall be obligated to pay the Covered Amount with respect to any Proceeding and to provide counsel satisfactory to Indemnified Party upon the delivery to Indemnified Party of written notice of the Company's election to do so. After delivery of such notice, the Company will not be liable to Indemnified Party under this Agreement for any legal or other Expenses subsequently incurred by the Indemnified Party in connection with such defense other than the reasonable Expenses of investigation of Indemnified Party;*provided*, that Indemnified Party shall have the right to employ his or her own counsel in connection with the defense of any such Proceeding, the fees and expenses of such counsel incurred after delivery of notice from the Company of its assumption of such defense to be at the Indemnified Party's sole expense. Notwithstanding the foregoing, if (i) the employment of counsel by Indemnified Party has been previously authorized by the Company, (ii) Indemnified Party shall have been advised by counsel that there may be a conflict of interest between the Company and Indemnified Party in the conduct of any such defense or (iii) the Company shall not, in fact, have employed counsel to assume the defense of such Proceeding, in each such case, the fees and expenses of such counsel retained by Indemnified Party shall be at the expense of the Company. In the event Indemnified Party is entitled to employ counsel at the Company's expense pursuant to the terms of this Paragraph 5(c), and if so requested in writing by Indemnified Party, the Company shall advance any and all Expenses to Indemnified Party to the extent permitted by law.

(d) All payments on account of the Company's indemnification or advancement obligations under Paragraph 5(b) of this Agreement shall be made within sixty (60) days of Indemnified Party's written request therefor unless a Determination is made that the claims giving rise to Indemnified Party's request are Excluded Claims or otherwise not payable under this Agreement. All payments on account of the Company's obligations under Paragraph 5(c) of this Agreement shall be made within 20 days of Indemnified Party's written request therefor, subject to Paragraph 5(e) of this Agreement.

(e) In the event that (i) a Determination is made that the claims giving rise to Indemnified Party's request are Excluded Claims or otherwise not payable under this Agreement or (ii) it is Adjudged that the Indemnified Party is not entitled to be indemnified by the Company for Losses or Expenses under this Agreement, the Articles of Incorporation, the Bylaws or the Act, the Company shall have no obligation to indemnify, or advance any Expenses to Indemnified Party. Further, in either case, Indemnified Party agrees that he or she will reimburse the Company for all Losses and Expenses paid by the Company and all Expenses advanced by the Company in connection with such Proceeding against Indemnified Party.

6. *Settlement.* The Company shall have no obligation to indemnify Indemnified Party under this Agreement for any amounts paid in settlement of any Proceeding effected without the Company's prior written consent. The Company shall not settle any claim in any manner which would impose any loss or expense on Indemnified Party without Indemnified Party's prior written consent, unless the Company provides a written undertaking to the Indemnified Party to pay for such loss or expense on behalf of the Indemnified Party. Neither the Company nor Indemnified Party shall unreasonably withhold their consent to any proposed settlement.

7. *Rights Not Exclusive.* The rights provided hereunder shall be in addition to any other rights to which Indemnified Party may be entitled under the Articles of Incorporation, the Bylaws, the Act, any agreement or vote of shareholders or directors or otherwise, both as to action in Indemnified Party's official capacity and as to action in any other capacity, and such rights shall continue after Indemnified Party ceases to serve the Company as a director or officer.

8. *Enforcement.*

(a) Indemnified Party's rights to indemnification or advancement of Expenses hereunder shall be enforceable by Indemnified Party notwithstanding any adverse Determination. In any such action, if a prior adverse Determination has been made, the burden of proving that indemnification or advancement of Expenses is required under this Agreement, the Articles of Incorporation, the Bylaws or the Act shall be on the Indemnified Party. The Company shall have the burden of proving that indemnification or advancement of Expenses is not required under this Agreement if no prior adverse Determination shall have been made.

(b) In the event that any action is instituted by Indemnified Party under this Agreement, or to enforce or interpret any of the terms of this Agreement, Indemnified Party shall be entitled to be paid all court costs and expenses, including reasonable counsel fees, incurred by Indemnified Party with respect to such action, unless the court determines that each of the material assertions made by Indemnified Party as a basis for such action were not made in good faith or were frivolous.

9. *No Presumptions.* For purposes of this Agreement, the termination of any Proceeding by judgment, order, settlement (whether with or without court approval) or conviction, or upon a plea of nolo contendre, or its equivalent, shall not create a presumption that the Indemnified Party did not meet any particular standard of conduct or have any particular belief or that a court has determined that indemnification or advancement of Expenses by the Company is not permitted hereunder or by applicable law. In addition, neither the absence of a Determination as to whether Indemnified Party has met any particular standard of conduct or had any particular belief or the existence of a Determination that Indemnified Party has not met such standard of conduct or did not have such belief, prior to the commencement of legal proceedings by Indemnified Party to secure an Adjudication

that Indemnified Party should be indemnified or advanced or reimbursed Expenses hereunder or under applicable law, shall be a defense to Indemnified Party's claim or create a presumption that Indemnified Party has not met any particular standard of conduct or did not have any particular belief.

10. *Subrogation.* In the event of payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnified Party, who shall execute all papers required and shall do everything that may be necessary to secure such rights, including the execution of such documents necessary to enable the Company to effectively bring suit to enforce such rights.

11. *No Duplication of Payments.* The Company shall not be liable under this Agreement to make any payment in connection with any Proceeding against Indemnified Party to the extent Indemnified Party has otherwise actually received payment (under any D&O Insurance, the Articles of Incorporation, the Bylaws, the Act or otherwise) of the amounts which may be paid hereunder.

12. *Severability.* In the event that any provision of this Agreement is determined by a court of competent jurisdiction to require the Company to do or to fail to do an act which is in violation of the Articles of Incorporation, the Bylaws or the Act or other applicable law, such provision shall be limited or modified in its application to the minimum extent necessary to avoid such violation, and, as so limited or modified, such provision and the remainder of this Agreement shall be enforceable in accordance with the respective terms.

13. *Choice of Law.* This Agreement shall be governed by, construed and enforced in accordance with the laws of the State of Washington, without reference to conflicts of law principles therein.

14. *Successors and Assigns.* This Agreement shall be (i) binding upon all successors and assigns of the Company (including any transferee of all or substantially all of the Company's assets and any successor by merger or otherwise by operation of law) and (ii) binding on and inure to the benefit of the heirs, personal representatives and estate of Indemnified Party. Indemnified Party may not assign this Agreement or any of Indemnified Party's rights hereunder without the prior written consent of the Company.

15. *Amendment.* No amendment, modification, termination or cancellation of this Agreement shall be effective unless made in a writing signed by each of the parties hereto.

xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx

IN WITNESS WHEREOF, the Company and Indemnified Party have executed this Indemnification Agreement as of the date first above written.

OAKLEY, INC.

By: /s/ LINK NEWCOMB

Name: Link Newcomb
Title: *Chief Operating Officer*

/s/ KENT LANE

Kent Lane,*Indemnified Party*

Exhibit 10.36

INDEMNIFICATION AGREEMENT

This Indemnification Agreement is made as of this 13th day of February, 2003, by and between OAKLEY, INC., a Washington corporation (the "Company"), and Cliff Neill.

WHEREAS, as of the date hereof, the Company has provisions for indemnification of its directors and officers in Article V of its Amended and Restated Articles of Incorporation (the "Articles of Incorporation") and Article VII of its Bylaws (the "Bylaws") which provide for indemnification of the Company's directors and officers to the fullest extent permitted by law;

WHEREAS, the indemnification provisions in the Bylaws provide that the right of indemnification is a contract right of the covered parties;

WHEREAS, the Bylaws provide that the Company may maintain, at its expense, insurance to protect itself and any of its directors and officers against liability asserted against such persons incurred in such capacity whether or not the Company has the power to indemnify such persons against the same liability under Section 23B.08.510 or .520 of the Act (as defined below) or a successor statute;

WHEREAS, the Company and the Indemnified Party recognize that the officers and directors of publicly owned companies are frequently joined as parties to Proceedings (as defined below) against their respective companies as a result of their serving in such capacity; and

WHEREAS, in order to induce Indemnified Party to serve or continue to serve the Company, the Company wishes to confirm the contract indemnification rights provided in the Bylaws and agrees to provide Indemnified Party with the benefits contemplated by this Agreement and to supplement the provisions of this Agreement with directors' and officers' liability insurance maintained by the Company.

NOW, THEREFORE, in consideration of the promises, conditions, representations and warranties set forth herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company and Indemnified Party hereby agree as follows:

1. *Definitions.* The following terms, as used herein, shall have the following respective meanings; other capitalized terms used and not specifically defined in this Section 1 shall have the meanings provided elsewhere in the Agreement and in the Bylaws:

(a) "Act" means the Washington Business Corporation Act RCW Title 23B, as amended from time to time.

(b) "Adjudication" shall refer to a final, non-appealable decision by a court of competent jurisdiction. "Adjudged" shall have a correlative meaning.

(c) "Covered Amount" means any Loss, Fine and Expense, to the extent such Loss, Fine or Expense, in type or amount, is not insured under the D&O Insurance maintained by the Company from time to time.

(d) "Covered Act" means any act or omission of the Indemnified Party in his or her capacity as a director, officer, employee, agent, fiduciary or consultant of the Company alleged by any claimant or any claim against Indemnified Party by reason of him or her serving in such a capacity, or by reason of Indemnified Party serving, at the request of the Company, in such capacity with another corporation, partnership, employee benefit plan, trust or other enterprise, in all cases, whether such alleged act or omission occurred before or after the date of this Agreement.

(e) "D&O Insurance" means the liability insurance which the Company may purchase on behalf of Indemnified Party against liability asserted against or incurred by Indemnified Party in connection with claims arising from Covered Acts, whether or not the Company would have the power to indemnify the individual against the same liability under Section 23B.08.510 or 23B.08.520 of the Act.

(f) "Determination" means a determination, based on the facts known at the time, made:

(i) by the Board of Directors by majority vote of a quorum consisting of directors not at the time parties to the Proceeding;

(ii) if a quorum cannot be obtained under clause (i), by majority vote of a duly designated committee of the Board of Directors, in the manner provided by Section 23B.08.550(2)(b) of the Act;

(iii) by special legal counsel, selected in the manner provided by Section 23B.08.550(2)(c) of the Act, in a written opinion; or

(iv) by a majority of the shareholders of the Company, excluding shares owned or voted under the control of directors who are at the time parties to the Proceeding.

"Determined" shall have a correlative meaning.

(g) "Excluded Claim" means any payment for Losses, Fines or Expenses in connection with any claim relating to or arising out of:

(i) acts or omissions of the Indemnified Party Adjudged to be intentional misconduct or a knowing violation of law;

(ii) conduct of the Indemnified Party Adjudged to be in violation of Section 23B.08.310 of the Act; or

(iii) any transaction with respect to which it was Adjudged that such Indemnified Party personally received a benefit in money, property, or services to which the Indemnified Party was not legally entitled.

(h) "Expenses" means any reasonable expenses incurred by Indemnified Party as a result of a claim or claims made against Indemnified Party from Covered Acts, including, without limitation, reasonable counsel fees and costs of investigative, judicial or administrative proceedings or appeals.

(i) "Fines" means any fine or penalty including, with respect to an employee benefit plan, any excise tax assessed with respect thereto.

(j) "Losses" means amounts, as determined by an Adjudication, which the Indemnified Party is legally obligated to pay as a result of a claim or claims arising from Covered Acts, including, without limitation, Fines, damages and judgments and sums paid in settlement of such claim or claims.

(k) "Proceeding" means any threatened, pending or completed action, suit, proceeding or investigation, whether civil, criminal or administrative whether formal or informal.

2. *Maintenance of D&O Insurance.*

(a) The Company hereby covenants and agrees that, so long as Indemnified Party shall continue to serve as a director or executive officer of the Company and thereafter, for so long as Indemnified Party shall be subject to any possible Proceeding arising from any Covered Act, the Company, subject to Section 2(c), shall maintain in full force and effect D&O Insurance.

(b) In all policies of D&O Insurance, Indemnified Party shall be named as an insured in such a manner as to provide Indemnified Party the same rights and benefits, and the same limitations, as are accorded to the Company's directors or executive officers most favorably insured by such policy.

(c) The Company shall have no obligation to maintain D&O Insurance if the Company, by majority vote of the Board of Directors, determines in good faith that such insurance is not reasonably available, the premium costs for such insurance are disproportionate to the amount of coverage provided, or the coverage provided by such insurance is limited by exclusions so as to provide an insufficient benefit;*provided, however*, that such decision shall not adversely affect

coverage of D&O Insurance for periods prior to such decision without the unanimous vote of all directors.

3. *Indemnification.* The Company shall indemnify Indemnified Party up to the Covered Amount and shall advance any and all Expenses to Indemnified Party in connection with any Proceeding or any Covered Act, subject, in each case, to the further provisions of this Agreement. This Agreement is made pursuant to and to effectuate the indemnification provisions set forth in Article V of the Articles of Incorporation and Article VII of the Bylaws. Notwithstanding any other provision of this Agreement, the Company shall indemnify Indemnified Party to the extent Indemnified Party is successful, on the merits or otherwise, in the defense of any Proceeding to which Indemnified Party was a party because of being a director, officer, employee, agent, fiduciary or consultant of the Company, against reasonable Expenses incurred by Indemnified Party in connection with the Proceeding.

4. *Excluded Coverage.* The Company shall have no obligation to indemnify Indemnified Party for any Losses or Expenses which arise from an Excluded Claim.

5. *Indemnification Procedures.*

(a) Promptly after receipt by Indemnified Party of notice of the commencement of or the threat of commencement of any Proceeding, Indemnified Party shall, if indemnification or advancement of Expenses with respect thereto may be sought from the Company under this Agreement, notify the Company of the commencement or the threat of commencement thereof.

(b) If, at the time of the receipt of such notice, the Company has D&O Insurance in effect, the Company shall give prompt notice of the commencement or the threat of commencement of such Proceeding to the appropriate insurers in accordance with the procedures set forth in the respective policies in favor of Indemnified Party. The Company shall thereafter take all necessary or desirable action to cause such insurers to, in accordance with the terms of such policies: (i) advance, to the extent permitted by law, any and all Expenses to Indemnified Party, (ii) pay, on behalf of Indemnified Party, all amounts (including, without limitation, Losses and Expenses) payable as a result of, or in connection with, such Proceeding and (iii) reimburse Indemnified Party for all amounts (including, without limitation, Losses and Expenses) paid by Indemnified Party as a result of, or in connection with, such Proceeding.

(c) To the extent the Company does not, at the time of the commencement of or the threat of commencement of such Proceeding, have applicable D&O Insurance, or if a Determination is made that any Loss, Fine or Expense of the Indemnified Party arising out of such Proceeding will not be payable under the D&O Insurance then in effect, the Company shall be obligated to pay the Covered Amount with respect to any Proceeding and to provide counsel satisfactory to Indemnified Party upon the delivery to Indemnified Party of written notice of the Company's election to do so. After delivery of such notice, the Company will not be liable to Indemnified Party under this Agreement for any legal or other Expenses subsequently incurred by the Indemnified Party in connection with such defense other than the reasonable Expenses of investigation of Indemnified Party;*provided*, that Indemnified Party shall have the right to employ his or her own counsel in connection with the defense of any such Proceeding, the fees and expenses of such counsel incurred after delivery of notice from the Company of its assumption of such defense to be at the Indemnified Party's sole expense. Notwithstanding the foregoing, if (i) the employment of counsel by Indemnified Party has been previously authorized by the Company, (ii) Indemnified Party shall have been advised by counsel that there may be a conflict of interest between the Company and Indemnified Party in the conduct of any such defense or (iii) the Company shall not, in fact, have employed counsel to assume the defense of such Proceeding, in each such case, the fees and expenses of such counsel retained by Indemnified Party shall be at the expense of the Company. In the event Indemnified Party is entitled to employ counsel at the Company's expense pursuant to the terms of this Paragraph 5(c), and if so requested in writing by Indemnified Party, the Company shall advance any and all Expenses to Indemnified Party to the extent permitted by law.

(d) All payments on account of the Company's indemnification or advancement obligations under Paragraph 5(b) of this Agreement shall be made within sixty (60) days of Indemnified Party's written request therefor unless a Determination is made that the claims giving rise to Indemnified Party's request are Excluded Claims or otherwise not payable under this Agreement. All payments on account of the Company's obligations under Paragraph 5(c) of this Agreement shall be made within 20 days of Indemnified Party's written request therefor, subject to Paragraph 5(e) of this Agreement.

(e) In the event that (i) a Determination is made that the claims giving rise to Indemnified Party's request are Excluded Claims or otherwise not payable under this Agreement or (ii) it is Adjudged that the Indemnified Party is not entitled to be indemnified by the Company for Losses or Expenses under this Agreement, the Articles of Incorporation, the Bylaws or the Act, the Company shall have no obligation to indemnify, or advance any Expenses to Indemnified Party. Further, in either case, Indemnified Party agrees that he or she will reimburse the Company for all Losses and Expenses paid by the Company and all Expenses advanced by the Company in connection with such Proceeding against Indemnified Party.

6. *Settlement.* The Company shall have no obligation to indemnify Indemnified Party under this Agreement for any amounts paid in settlement of any Proceeding effected without the Company's prior written consent. The Company shall not settle any claim in any manner which would impose any loss or expense on Indemnified Party without Indemnified Party's prior written consent, unless the Company provides a written undertaking to the Indemnified Party to pay for such loss or expense on behalf of the Indemnified Party. Neither the Company nor Indemnified Party shall unreasonably withhold their consent to any proposed settlement.

7. *Rights Not Exclusive.* The rights provided hereunder shall be in addition to any other rights to which Indemnified Party may be entitled under the Articles of Incorporation, the Bylaws, the Act, any agreement or vote of shareholders or directors or otherwise, both as to action in Indemnified Party's official capacity and as to action in any other capacity, and such rights shall continue after Indemnified Party ceases to serve the Company as a director or officer.

8. *Enforcement.*

(a) Indemnified Party's rights to indemnification or advancement of Expenses hereunder shall be enforceable by Indemnified Party notwithstanding any adverse Determination. In any such action, if a prior adverse Determination has been made, the burden of proving that indemnification or advancement of Expenses is required under this Agreement, the Articles of Incorporation, the Bylaws or the Act shall be on the Indemnified Party. The Company shall have the burden of proving that indemnification or advancement of Expenses is not required under this Agreement if no prior adverse Determination shall have been made.

(b) In the event that any action is instituted by Indemnified Party under this Agreement, or to enforce or interpret any of the terms of this Agreement, Indemnified Party shall be entitled to be paid all court costs and expenses, including reasonable counsel fees, incurred by Indemnified Party with respect to such action, unless the court determines that each of the material assertions made by Indemnified Party as a basis for such action were not made in good faith or were frivolous.

9. *No Presumptions.* For purposes of this Agreement, the termination of any Proceeding by judgment, order, settlement (whether with or without court approval) or conviction, or upon a plea of nolo contendre, or its equivalent, shall not create a presumption that the Indemnified Party did not meet any particular standard of conduct or have any particular belief or that a court has determined that indemnification or advancement of Expenses by the Company is not permitted hereunder or by applicable law. In addition, neither the absence of a Determination as to whether Indemnified Party has met any particular standard of conduct or had any particular belief or the existence of a Determination that Indemnified Party has not met such standard of conduct or did not have such belief, prior to the commencement of legal proceedings by Indemnified Party to secure an Adjudication that Indemnified Party should be indemnified or advanced or reimbursed Expenses hereunder or under

applicable law, shall be a defense to Indemnified Party's claim or create a presumption that Indemnified Party has not met any particular standard of conduct or did not have any particular belief.

10. *Subrogation.* In the event of payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnified Party, who shall execute all papers required and shall do everything that may be necessary to secure such rights, including the execution of such documents necessary to enable the Company to effectively bring suit to enforce such rights.

11. *No Duplication of Payments.* The Company shall not be liable under this Agreement to make any payment in connection with any Proceeding against Indemnified Party to the extent Indemnified Party has otherwise actually received payment (under any D&O Insurance, the Articles of Incorporation, the Bylaws, the Act or otherwise) of the amounts which may be paid hereunder.

12. *Severability.* In the event that any provision of this Agreement is determined by a court of competent jurisdiction to require the Company to do or to fail to do an act which is in violation of the Articles of Incorporation, the Bylaws or the Act or other applicable law, such provision shall be limited or modified in its application to the minimum extent necessary to avoid such violation, and, as so limited or modified, such provision and the remainder of this Agreement shall be enforceable in accordance with the respective terms.

13. *Choice of Law.* This Agreement shall be governed by, construed and enforced in accordance with the laws of the State of Washington, without reference to conflicts of law principles therein.

14. *Successors and Assigns.* This Agreement shall be (i) binding upon all successors and assigns of the Company (including any transferee of all or substantially all of the Company's assets and any successor by merger or otherwise by operation of law) and (ii) binding on and inure to the benefit of the heirs, personal representatives and estate of Indemnified Party. Indemnified Party may not assign this Agreement or any of Indemnified Party's rights hereunder without the prior written consent of the Company.

15. *Amendment.* No amendment, modification, termination or cancellation of this Agreement shall be effective unless made in a writing signed by each of the parties hereto.

xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx

IN WITNESS WHEREOF, the Company and Indemnified Party have executed this Indemnification Agreement as of the date first above written.

OAKLEY, INC.

By: /s/ LINK NEWCOMB

Name: Link Newcomb
Title: *Chief Operating Officer*

/s/ CLIFF NEILL

Cliff Neill,*Indemnified Party*

Exhibit 10.37

INDEMNIFICATION AGREEMENT

This Indemnification Agreement is made as of this 14th day of February, 2003, by and between OAKLEY, INC., a Washington corporation (the "Company"), and Carlos Reyes.

WHEREAS, as of the date hereof, the Company has provisions for indemnification of its directors and officers in Article V of its Amended and Restated Articles of Incorporation (the "Articles of Incorporation") and Article VII of its Bylaws (the "Bylaws") which provide for indemnification of the Company's directors and officers to the fullest extent permitted by law;

WHEREAS, the indemnification provisions in the Bylaws provide that the right of indemnification is a contract right of the covered parties;

WHEREAS, the Bylaws provide that the Company may maintain, at its expense, insurance to protect itself and any of its directors and officers against liability asserted against such persons incurred in such capacity whether or not the Company has the power to indemnify such persons against the same liability under Section 23B.08.510 or .520 of the Act (as defined below) or a successor statute;

WHEREAS, the Company and the Indemnified Party recognize that the officers and directors of publicly owned companies are frequently joined as parties to Proceedings (as defined below) against their respective companies as a result of their serving in such capacity; and

WHEREAS, in order to induce Indemnified Party to serve or continue to serve the Company, the Company wishes to confirm the contract indemnification rights provided in the Bylaws and agrees to provide Indemnified Party with the benefits contemplated by this Agreement and to supplement the provisions of this Agreement with directors' and officers' liability insurance maintained by the Company.

NOW, THEREFORE, in consideration of the promises, conditions, representations and warranties set forth herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company and Indemnified Party hereby agree as follows:

1. *Definitions.* The following terms, as used herein, shall have the following respective meanings; other capitalized terms used and not specifically defined in this Section 1 shall have the meanings provided elsewhere in the Agreement and in the Bylaws:

(a) "Act" means the Washington Business Corporation Act RCW Title 23B, as amended from time to time.

(b) "Adjudication" shall refer to a final, non-appealable decision by a court of competent jurisdiction. "Adjudged" shall have a correlative meaning.

(c) "Covered Amount" means any Loss, Fine and Expense, to the extent such Loss, Fine or Expense, in type or amount, is not insured under the D&O Insurance maintained by the Company from time to time.

(d) "Covered Act" means any act or omission of the Indemnified Party in his or her capacity as a director, officer, employee, agent, fiduciary or consultant of the Company alleged by any claimant or any claim against Indemnified Party by reason of him or her serving in such a capacity, or by reason of Indemnified Party serving, at the request of the Company, in such capacity with another corporation, partnership, employee benefit plan, trust or other enterprise, in all cases, whether such alleged act or omission occurred before or after the date of this Agreement.

(e) "D&O Insurance" means the liability insurance which the Company may purchase on behalf of Indemnified Party against liability asserted against or incurred by Indemnified Party in connection with claims arising from Covered Acts, whether or not the Company would have the power to indemnify the individual against the same liability under Section 23B.08.510 or 23B.08.520 of the Act.

(f) "Determination" means a determination, based on the facts known at the time, made:

(i) by the Board of Directors by majority vote of a quorum consisting of directors not at the time parties to the Proceeding;

(ii) if a quorum cannot be obtained under clause (i), by majority vote of a duly designated committee of the Board of Directors, in the manner provided by Section 23B.08.550(2)(b) of the Act;

(iii) by special legal counsel, selected in the manner provided by Section 23B.08.550(2)(c) of the Act, in a written opinion; or

(iv) by a majority of the shareholders of the Company, excluding shares owned or voted under the control of directors who are at the time parties to the Proceeding.

"Determined" shall have a correlative meaning.

(g) "Excluded Claim" means any payment for Losses, Fines or Expenses in connection with any claim relating to or arising out of:

(i) acts or omissions of the Indemnified Party Adjudged to be intentional misconduct or a knowing violation of law;

(ii) conduct of the Indemnified Party Adjudged to be in violation of Section 23B.08.310 of the Act; or

(iii) any transaction with respect to which it was Adjudged that such Indemnified Party personally received a benefit in money, property, or services to which the Indemnified Party was not legally entitled.

(h) "Expenses" means any reasonable expenses incurred by Indemnified Party as a result of a claim or claims made against Indemnified Party from Covered Acts, including, without limitation, reasonable counsel fees and costs of investigative, judicial or administrative proceedings or appeals.

(i) "Fines" means any fine or penalty including, with respect to an employee benefit plan, any excise tax assessed with respect thereto.

(j) "Losses" means amounts, as determined by an Adjudication, which the Indemnified Party is legally obligated to pay as a result of a claim or claims arising from Covered Acts, including, without limitation, Fines, damages and judgments and sums paid in settlement of such claim or claims.

(k) "Proceeding" means any threatened, pending or completed action, suit, proceeding or investigation, whether civil, criminal or administrative whether formal or informal.

2. *Maintenance of D&O Insurance.*

(a) The Company hereby covenants and agrees that, so long as Indemnified Party shall continue to serve as a director or executive officer of the Company and thereafter, for so long as Indemnified Party shall be subject to any possible Proceeding arising from any Covered Act, the Company, subject to Section 2(c), shall maintain in full force and effect D&O Insurance.

(b) In all policies of D&O Insurance, Indemnified Party shall be named as an insured in such a manner as to provide Indemnified Party the same rights and benefits, and the same limitations, as are accorded to the Company's directors or executive officers most favorably insured by such policy.

(c) The Company shall have no obligation to maintain D&O Insurance if the Company, by majority vote of the Board of Directors, determines in good faith that such insurance is not reasonably available, the premium costs for such insurance are disproportionate to the amount of coverage provided, or the coverage provided by such insurance is limited by exclusions so as to provide an insufficient benefit;*provided, however*, that such decision shall not adversely affect

coverage of D&O Insurance for periods prior to such decision without the unanimous vote of all directors.

3. *Indemnification.* The Company shall indemnify Indemnified Party up to the Covered Amount and shall advance any and all Expenses to Indemnified Party in connection with any Proceeding or any Covered Act, subject, in each case, to the further provisions of this Agreement. This Agreement is made pursuant to and to effectuate the indemnification provisions set forth in Article V of the Articles of Incorporation and Article VII of the Bylaws. Notwithstanding any other provision of this Agreement, the Company shall indemnify Indemnified Party to the extent Indemnified Party is successful, on the merits or otherwise, in the defense of any Proceeding to which Indemnified Party was a party because of being a director, officer, employee, agent, fiduciary or consultant of the Company, against reasonable Expenses incurred by Indemnified Party in connection with the Proceeding.

4. *Excluded Coverage.* The Company shall have no obligation to indemnify Indemnified Party for any Losses or Expenses which arise from an Excluded Claim.

5. *Indemnification Procedures.*

(a) Promptly after receipt by Indemnified Party of notice of the commencement of or the threat of commencement of any Proceeding, Indemnified Party shall, if indemnification or advancement of Expenses with respect thereto may be sought from the Company under this Agreement, notify the Company of the commencement or the threat of commencement thereof.

(b) If, at the time of the receipt of such notice, the Company has D&O Insurance in effect, the Company shall give prompt notice of the commencement or the threat of commencement of such Proceeding to the appropriate insurers in accordance with the procedures set forth in the respective policies in favor of Indemnified Party. The Company shall thereafter take all necessary or desirable action to cause such insurers to, in accordance with the terms of such policies: (i) advance, to the extent permitted by law, any and all Expenses to Indemnified Party, (ii) pay, on behalf of Indemnified Party, all amounts (including, without limitation, Losses and Expenses) payable as a result of, or in connection with, such Proceeding and (iii) reimburse Indemnified Party for all amounts (including, without limitation, Losses and Expenses) paid by Indemnified Party as a result of, or in connection with, such Proceeding.

(c) To the extent the Company does not, at the time of the commencement of or the threat of commencement of such Proceeding, have applicable D&O Insurance, or if a Determination is made that any Loss, Fine or Expense of the Indemnified Party arising out of such Proceeding will not be payable under the D&O Insurance then in effect, the Company shall be obligated to pay the Covered Amount with respect to any Proceeding and to provide counsel satisfactory to Indemnified Party upon the delivery to Indemnified Party of written notice of the Company's election to do so. After delivery of such notice, the Company will not be liable to Indemnified Party under this Agreement for any legal or other Expenses subsequently incurred by the Indemnified Party in connection with such defense other than the reasonable Expenses of investigation of Indemnified Party;*provided*, that Indemnified Party shall have the right to employ his or her own counsel in connection with the defense of any such Proceeding, the fees and expenses of such counsel incurred after delivery of notice from the Company of its assumption of such defense to be at the Indemnified Party's sole expense. Notwithstanding the foregoing, if (i) the employment of counsel by Indemnified Party has been previously authorized by the Company, (ii) Indemnified Party shall have been advised by counsel that there may be a conflict of interest between the Company and Indemnified Party in the conduct of any such defense or (iii) the Company shall not, in fact, have employed counsel to assume the defense of such Proceeding, in each such case, the fees and expenses of such counsel retained by Indemnified Party shall be at the expense of the Company. In the event Indemnified Party is entitled to employ counsel at the Company's expense pursuant to the terms of this Paragraph 5(c), and if so requested in writing by Indemnified Party, the Company shall advance any and all Expenses to Indemnified Party to the extent permitted by law.

(d) All payments on account of the Company's indemnification or advancement obligations under Paragraph 5(b) of this Agreement shall be made within sixty (60) days of Indemnified Party's written request therefor unless a Determination is made that the claims giving rise to Indemnified Party's request are Excluded Claims or otherwise not payable under this Agreement. All payments on account of the Company's obligations under Paragraph 5(c) of this Agreement shall be made within 20 days of Indemnified Party's written request therefor, subject to Paragraph 5(e) of this Agreement.

(e) In the event that (i) a Determination is made that the claims giving rise to Indemnified Party's request are Excluded Claims or otherwise not payable under this Agreement or (ii) it is Adjudged that the Indemnified Party is not entitled to be indemnified by the Company for Losses or Expenses under this Agreement, the Articles of Incorporation, the Bylaws or the Act, the Company shall have no obligation to indemnify, or advance any Expenses to Indemnified Party. Further, in either case, Indemnified Party agrees that he or she will reimburse the Company for all Losses and Expenses paid by the Company and all Expenses advanced by the Company in connection with such Proceeding against Indemnified Party.

6. *Settlement.* The Company shall have no obligation to indemnify Indemnified Party under this Agreement for any amounts paid in settlement of any Proceeding effected without the Company's prior written consent. The Company shall not settle any claim in any manner which would impose any loss or expense on Indemnified Party without Indemnified Party's prior written consent, unless the Company provides a written undertaking to the Indemnified Party to pay for such loss or expense on behalf of the Indemnified Party. Neither the Company nor Indemnified Party shall unreasonably withhold their consent to any proposed settlement.

7. *Rights Not Exclusive.* The rights provided hereunder shall be in addition to any other rights to which Indemnified Party may be entitled under the Articles of Incorporation, the Bylaws, the Act, any agreement or vote of shareholders or directors or otherwise, both as to action in Indemnified Party's official capacity and as to action in any other capacity, and such rights shall continue after Indemnified Party ceases to serve the Company as a director or officer.

8. *Enforcement.*

(a) Indemnified Party's rights to indemnification or advancement of Expenses hereunder shall be enforceable by Indemnified Party notwithstanding any adverse Determination. In any such action, if a prior adverse Determination has been made, the burden of proving that indemnification or advancement of Expenses is required under this Agreement, the Articles of Incorporation, the Bylaws or the Act shall be on the Indemnified Party. The Company shall have the burden of proving that indemnification or advancement of Expenses is not required under this Agreement if no prior adverse Determination shall have been made.

(b) In the event that any action is instituted by Indemnified Party under this Agreement, or to enforce or interpret any of the terms of this Agreement, Indemnified Party shall be entitled to be paid all court costs and expenses, including reasonable counsel fees, incurred by Indemnified Party with respect to such action, unless the court determines that each of the material assertions made by Indemnified Party as a basis for such action were not made in good faith or were frivolous.

9. *No Presumptions.* For purposes of this Agreement, the termination of any Proceeding by judgment, order, settlement (whether with or without court approval) or conviction, or upon a plea of nolo contendre, or its equivalent, shall not create a presumption that the Indemnified Party did not meet any particular standard of conduct or have any particular belief or that a court has determined that indemnification or advancement of Expenses by the Company is not permitted hereunder or by applicable law. In addition, neither the absence of a Determination as to whether Indemnified Party has met any particular standard of conduct or had any particular belief or the existence of a Determination that Indemnified Party has not met such standard of conduct or did not have such belief, prior to the commencement of legal proceedings by Indemnified Party to secure an Adjudication

that Indemnified Party should be indemnified or advanced or reimbursed Expenses hereunder or under applicable law, shall be a defense to Indemnified Party's claim or create a presumption that Indemnified Party has not met any particular standard of conduct or did not have any particular belief.

10. *Subrogation.* In the event of payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnified Party, who shall execute all papers required and shall do everything that may be necessary to secure such rights, including the execution of such documents necessary to enable the Company to effectively bring suit to enforce such rights.

11. *No Duplication of Payments.* The Company shall not be liable under this Agreement to make any payment in connection with any Proceeding against Indemnified Party to the extent Indemnified Party has otherwise actually received payment (under any D&O Insurance, the Articles of Incorporation, the Bylaws, the Act or otherwise) of the amounts which may be paid hereunder.

12. *Severability.* In the event that any provision of this Agreement is determined by a court of competent jurisdiction to require the Company to do or to fail to do an act which is in violation of the Articles of Incorporation, the Bylaws or the Act or other applicable law, such provision shall be limited or modified in its application to the minimum extent necessary to avoid such violation, and, as so limited or modified, such provision and the remainder of this Agreement shall be enforceable in accordance with the respective terms.

13. *Choice of Law.* This Agreement shall be governed by, construed and enforced in accordance with the laws of the State of Washington, without reference to conflicts of law principles therein.

14. *Successors and Assigns.* This Agreement shall be (i) binding upon all successors and assigns of the Company (including any transferee of all or substantially all of the Company's assets and any successor by merger or otherwise by operation of law) and (ii) binding on and inure to the benefit of the heirs, personal representatives and estate of Indemnified Party. Indemnified Party may not assign this Agreement or any of Indemnified Party's rights hereunder without the prior written consent of the Company.

15. *Amendment.* No amendment, modification, termination or cancellation of this Agreement shall be effective unless made in a writing signed by each of the parties hereto.

xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx

IN WITNESS WHEREOF, the Company and Indemnified Party have executed this Indemnification Agreement as of the date first above written.

OAKLEY, INC.

By: /s/ LINK NEWCOMB

Name: Link Newcomb
Title: *Chief Operating Officer*

/s/ CARLOS REYES

Carlos Reyes,*Indemnified Party*

Exhibit 21.1

Oakley, Inc.
List of Material Subsidiaries

Bazooka, Inc.
Oakley Europe

Exhibit 23.1

Independent Auditors' Consent

We consent to the incorporation by reference in Registration Statement Nos. 33-98690 and 333-07191 of Oakley, Inc. on Form S-8 of our report dated February 14, 2003, (which report expresses an unqualified opinion and includes an explanatory paragraph relating to a change in accounting for goodwill and other intangible assets during 2002) appearing in this Annual Report on Form 10-K of Oakley, Inc. for the year ended December 31, 2002.

/s/ DELOITTE & TOUCHE LLP
Costa Mesa, California
March 28, 2003

Exhibit 99.1

Certification of CEO and CFO Pursuant to
18 U.S.C. Section 1350,
as Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report on Form 10-K of Oakley, Inc. (the "Company") for the annual period ending December 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Jim Jannard, as Chief Executive Officer of the Company, and Tom George, as Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 has been provided to Oakley, Inc. and will be retained by Oakley, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

/s/ JIM JANNARD

Name: Jim Jannard
Title: Chief Executive Officer
Date: March 26, 2003

/s/ THOMAS GEORGE

Name: Thomas George
Title: Chief Financial Officer
Date: March 26, 2002

Created by 10KWizard Technology www.10KWizard.com