



JOHN RANELLI *FGX International*

John Ranelli, 58, has been chairman and chief executive officer of FGX Int'l (Smithfield, RI) since 1999; he was also president from 1999 through 2004. Previously, he was executive vp at Stride Rite Corp. from 1996, coo at Deckers Outdoor Corp. from 1995, executive vp/cfo at TLC Beatrice Int'l Holdings Inc. from 1994, and senior vp/cfo at Timberland Co. from 1990. Earlier, Ranelli was a submarine officer. Privately held FGX, which changed its name from AAi.FosterGrant Inc. in June, acquired Magnivision from American Greetings for approximately \$77 million in July 2004 and the Gargoyles, Anarchy, and Angel brands from Gargoyles in January 2004.

In the following interview, Ranelli discusses FGX's growth strategy and outlook for business.

HBCE: Describe today's FGX Int'l.

JR: FGX Int'l is a multi-brand, multi-channel, worldwide optical and jewelry company, with the leading market position in approximately 80% of its consolidated sales.

The company previously had two brands: FosterGrant, which is company owned, and Ironman, under license agreement. FGX has grown through market-share growth with existing businesses and a strong acquisition program, while FosterGrant has benefitted from excellent brand awareness. FosterGrant is backed by one of the industry's top-rated advertising campaigns: "Who's that behind those FosterGrants?"

FGX Int'l brands now include FosterGrant, Magnivision, Gargoyles, Anarchy, and Angel; we also license the Levi Strauss Signature, Ironman, Body Glove, Club Med, and Champion brands.

In July 2004, we purchased American Greetings' Magnivision business because of its leadership position in the rapidly growing reading glasses market. Economic and demographic factors, particularly the maturing population, make reading glasses an extremely attractive category.

In January 2004, we acquired the Gargoyles, Anarchy, and Angel premium sunglasses brands, which successfully reach a younger demographic in different channels. Gargoyles sunglasses have been made famous by figures such as Clint Eastwood's Harry Callahan character in "Dirty Harry," Arnold Schwarzenegger in "The Terminator," and racecar drivers Dale Earnhardt Sr. and Jr.

Most recently, we have expanded our FosterGrant brand into prescription frames under FosterGrant Optical,

added new licensed brands in sun and prescription frames, and continued to grow our jewelry business.

With the addition of leading brands, FGX has dramatically strengthened its position as a diversified eyewear company, able to meet consumers' needs for sunglasses, reading glasses, and other ophthalmic products.

HBCE: How does the business break down?

JR: With the leading two brands in the reading-glasses category, it now represents 50% of our sales.

Sunglasses generate approximately 30% of our sales, with jewelry making up the balance.

HBCE: What were the circumstances that led to the new corporate name?

JR: Following the completion of the operational integration of Magnivision and the Gargoyles, Anarchy, and Angel brands, AAi.FosterGrant became a leading provider of branded eyewear in the sunglass, prescription frame, and reading-glass categories and a leader in fashion jewelry design and distribution.

Therefore, we wanted a new corporate name to reflect our multi-brand, multi-channel worldwide status.

HBCE: What are the primary objectives for 2005?

JR: Our goal is to continue to grow our comparable sales through increased sell-throughs and greater efficiencies at our company and increased profitability from our retail partners.

Meanwhile, we will grow our brand portfolio and expand globally. Approximately 20% of our sales are international, which we plan to increase considerably.

HBCE: Assess year-to-date results.

JR: Results have been excellent this year as we've risen to number-one in both reading glasses and sunglasses. Comparable sales have been up in the mid-teens, a testament to our brands portfolio.

HBCE: What is impacting business?

JR: The basic demographics of the reading-glasses business has had an extremely positive impact on our business.

In sunglasses, major programs, sell-throughs, and growing comparable sales have bolstered marketshare growth. Weather, on the other hand, has been a challenge; dampness over the past three months has negatively impacted sales.

HBCE: Will further restructuring occur?

JR: We have developed a team-oriented culture, and believe we are fortunate to have incurred little turnover in the past five years. With the key management talent we obtained through the Magnivision acquisition, we have been able to build an all-star team, including our president, Jack Flynn; Steve Crellin, who heads our Magnivision business; and John Agre, who heads up the international business.

Therefore, we view our restructuring as complete, and opportunities to grow our brands are in front of us. With our number-one position in popular-priced sunglasses and reading glasses, our next goal is to be number one in all channels of distribution, including premium sunglasses and prescription frames.

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EXECUTIVE PROFILE

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HBCE: How has the Magnivision business performed since being acquired last year?

JR: The Magnivision business has outperformed our expectations in just about every measure, particularly in comparable sales. Magnivision has increased in marketshare with new distribution, which has opened an avenue for cross-selling sunglasses and jewelry.

HBCE: What are the recent milestones?

JR: We have significantly grown our existing business and successfully integrated a number of new brands into our portfolio. As a result, we are a completely different company than we were just two years ago.

HBCE: What are the primary trends in sunglasses?

JR: The sunglasses market, which continues to increase, has a number of emerging design trends, particularly for 2006. For example, we'll see rich, tortoise-color stripe patterns for a new twist on an old classic. In lady's fashion, we'll see antiqued, open metal temple treatments.

Additionally, steel, color metals, striped, blue denim, plastics, and incorporated studs, stars, and grommets; larger glam frames, square deep plastics, and gradient lenses; a mix of shiny and matte metal color treatments; and satin sheen metal and milky, luster-pearl plastic finishes.

HBCE: What are the trends in OTC reading glasses?

JR: This category is growing extremely well because of the favorable demographics, including a maturing population and increased usage by younger consumers. We are reaching each of these customer groups with new and existing products.

From Magnivision, we are offering more ophthalmically inspired styles. Many younger consumers are beginning to use reading glasses at the computer as well as for reading, and we're capitalizing on this fashion opportunity with our FosterGrant fashion line.

HBCE: What has surprised you about the industry this year?

JR: The only real surprise this year has been the unfavorable weather that has impacted sunglasses.

HBCE: Where are the fastest opportunities for growth?

JR: Our new Gargoyles, Anarchy, and Angel entries and the prescription-frames business are showing significant percentage growth, while FosterGrant, Magnivision, and our licensed brands are garnering significant dollar growth.

HBCE: How far can the FosterGrant and Magnivision brands be stretched?

JR: These brands have not even begun to be stretched.

We'll introduce a new FosterGrant advertising campaign next year. We are significantly increasing both our spending and our focus on consumers, and still believe we are only beginning to tap the potential of FosterGrant in its current channels. Meanwhile, we have plans to introduce FosterGrant into premium channels at significantly higher price points.

Magnivision has a tremendous opportunity for expansion and double-digit growth. Magnivision has excellent name recognition and a solid reputation for quality and service among retailers and consumers.

HBCE: Describe the vision for FGX Int'l and how you see it evolving.

JR: Our overall goal is to be the number-one player in each of the markets in which we compete worldwide. All the platforms necessary for accomplishing this goal are now in place; it is only a matter of time and execution.

We have also added a number of brands and grown our international business by double digits. We recently opened offices in Europe and expanded our Mexican operations into South America. The international market has been highly profitable for us, and we expect continued growth.

HBCE: How is FGX raising its profile among consumers?

JR: Primarily through our advertising campaigns, where we will be stepping up our visibility to consumers. As I mentioned, we're planning a major reintroduction of the FosterGrant campaign. For 2006, we're planning a major campaign and product launch for Gargoyles, also with a well-supported consumer ad campaign. It will be our first major introduction of a brand other than FosterGrant.

HBCE: What are the longer-term opportunities for FGX Int'l?

JR: There is an opportunity for FGX to become the number-one player in all of the channels in which it competes worldwide.

We will continue to grow our existing brands and the optical business. We entered the prescription frames market a year ago, after conducting consumer research; 53% of those surveyed indicated they had worn or would wear FosterGrant frames. Based on our early results, we expect significant growth in this area.

In sunglasses and reading-glasses, FGX will continue to grow comparable sales as well as its owned and licensed brand portfolios. There is also continued opportunity for international growth.

HBCE: What is the goal for the company's jewelry business?

JR: Our goal for jewelry is to become number one in our markets, up from our current position of one of the top three. Leveraging our sunglasses and reading-glasses marketshare, distribution, and brand and service credibility, we have the ability to accomplish this goal.

HBCE: Whom are you keeping an eye on in the marketplace?

JR: We keep an eye on all of our competitors, which varies greatly in each of our product categories.

HBCE: What's the most important issue facing you now?

JR: Our top priority is tapping the full potential of our owned and licensed brands. Our strategy is in place; the challenge is the execution of our sales and marketing programs, including the successful implementation of the upcoming FosterGrant and Gargoyles ad campaigns.

HBCE: Will the company remain private?

JR: Our long-term goal is to go public; however, it will be at least three years before we are ready to make that transition.

HBCE: Complete this sentence: In three years, FGX Int'l will be ...

JR: ... an even larger multi-brand, multi-channel, global optical and jewelry company, number-one in each of the markets in which we compete.