

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C.

FORM 10-K

(Mark One)

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

For the fiscal year ended December 30, 2000

OR

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

Commission File Number 0-20001

VISTA EYECARE, INC.  
(Exact name of Registrant as specified in its charter)

Georgia  
(State or other jurisdiction of  
incorporation or organization)

58-1910859  
(I.R.S. Employer Identification No.)

296 Grayson Highway  
Lawrenceville, Georgia  
(Address of principal executive offices)

30045  
(Zip Code)

Registrant's telephone number, including area code: (770) 822-3600

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

None

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

Common Stock, par value \$.01 per share

(Title of Class)

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

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. ☐

The number of shares of Common Stock of the registrant outstanding as of March 15, 2001, was 21,169,103. The aggregate market value of shares of Common Stock held by non-affiliates of the registrant as of March 15, 2001, was approximately \$2.1 million based on a closing price of \$0.14 on the OTC Bulletin Board on such date. For purposes of this computation, all executive officers and directors of the registrant are deemed to be affiliates. Such determination should not be deemed to be an admission that such directors and officers are, in fact, affiliates of the registrant.

## PART I

### ITEM 1. BUSINESS

#### OVERVIEW

Vista is a retail optical company, with 725 vision centers throughout the United States and Mexico. We operate 499 of our vision centers in host departments, such as Wal-Mart and Fred Meyer locations, and 226 of our free-standing vision centers in malls and strip centers. Our locations sell a wide range of optical products, including eyeglasses, contact lenses, and sunglasses. At approximately 690 of our locations, we offer the services of optometrists. These optometrists are typically independent of us and operate their own practices within our retail locations. To support our retail operations, we also operate three manufacturing and distribution centers.

#### CHAPTER 11 CASES

On April 5, 2000, the Company and ten of its subsidiaries (collectively, the "Debtors") filed voluntary petitions with the United State Bankruptcy Court for the Northern District of Georgia for reorganization under Chapter 11 (the "Chapter 11 Cases"). The Chapter 11 Cases have been consolidated for the purpose of joint administration under Case No. 00-65214. The Debtors are currently operating their businesses as debtors-in-possession pursuant to the Bankruptcy Code. All affiliated entities of the Company are included in the Chapter 11 Cases, except only (a) three subsidiaries which are licensed managed care organizations and (b) foreign subsidiaries of the Company.

In March 2001, the Debtors filed a plan of reorganization for the Chapter 11 Cases. We expect the Company will emerge from Chapter 11 in the second quarter of 2001. There can be no assurance that the reorganization plan will be confirmed by the Bankruptcy Court, or that such plan will be consummated. If confirmed and consummated, the proposed plan of reorganization will result in the settlement of unsecured claims at less than 100% of face value. The existing Common Stock will be cancelled, resulting in existing shareholders receiving no value for their interests. (See Item 7, "Proceedings Under Chapter 11", and Note 3 of Notes to Consolidated Financial Statements and Report of Independent Public Accountants included herein.)

#### DEPENDENCE ON WAL-MART

We operate 397 units in domestic Wal-Mart stores, of which 395 operate pursuant to a master license agreement (See Item 1, "Leased Department Agreements"). These units generated approximately 68% of our revenue in 2000. We therefore depend on Wal-Mart and on our agreement with them for much of our operations.

#### ACQUISITIONS AND DISPOSITIONS

To reduce our dependence on Wal-Mart, we acquired Midwest Vision, Inc. in 1997 and Frame-n-Lens Optical, Inc. and New West Eyeworks, Inc. in 1998 (the "Acquired Businesses"). At the time of the respective acquisitions, these three companies collectively generated approximately \$140 million in annualized revenues and operated more than 500 vision centers, including approximately 330 freestanding locations.

Throughout 1999 and 2000, we were unable to profitably operate the free-standing vision centers. Sales shortfalls in these vision centers resulted in pressure on earnings and liquidity, which ultimately forced the Company to seek protection under Chapter 11 in April 2000.

In February 2001, we entered into a purchase agreement to sell substantially all of the freestanding vision centers and our Fullerton, California laboratory-distribution center. We expect the transaction to close in April 2001.

#### DATE OF INFORMATION

Unless otherwise expressly stated, all information in this "Business" section of this Form 10-K is as of December 30, 2000.

#### VISION CENTER OPERATIONS

Our vision centers typically occupy between 1,000 and 1,500 square feet, including areas for merchandise display, customer service, and contact lens fitting. Each vision center maintains inventory of approximately 1,000 eyeglass frames and 550 pairs of contact lenses, along with sunglasses and other optical accessories. Our three optical laboratories deliver prescription eyewear to all our vision centers. The vision centers located in Wal-Mart typically have a finishing laboratory, which allows for the vision center to provide one hour service for most single vision prescription lenses. These vision centers carry inventory of approximately 725 pairs of spectacle lenses.

#### MARKETING

We are a value provider of optical goods and stress that theme in our marketing. We offer everyday low prices at our vision centers. Vista also has a "satisfaction guaranteed" customer policy. We are constantly vigilant about ways to lower our own costs so we may pass savings on to our customers.

#### MANAGED VISION CARE

We expect that retail optical sales through managed vision care programs will increase over the next several years as a percentage of overall retail optical sales. Under managed vision care programs, participants fulfill their eyecare and eyewear needs at specific locations designated by the program sponsor. We believe our network of vision centers combined with the convenience of their locations and our ability to offer low prices should enable us to make competitive bids for managed care contracts.

#### TRADEMARKS

We use the "Vista Optical" name to identify our freestanding vision centers, as well as those vision centers operating in Fred Meyer locations. Our vision centers in Wal-Mart are identified as the "Vision Center located in Wal-Mart." Vista has also licensed the right to use the "Guy Laroche" trademark for certain optical goods. Our agreement with Guy Laroche expires on December 31, 2001, but can be renewed at our option.

We have provisionally determined, effective upon our anticipated emergence from Chapter 11, to change our name to "National Vision, Inc.". As part of our agreement to sell the freestanding vision centers, we have agreed to phase out, over 18 months, our use of the "Vista" name.

## EMPLOYEES

We employ 2,860 associates on a full-time basis and 1,200 associates on a part-time basis. We have 3,450 associates engaged in retail sales, 360 in laboratory and distribution operations, and 250 in management and administration. Apart from our retail employees in Mexico, none of our employees are governed by any collective bargaining agreements. We believe that our employment relations are generally good.

## OPTOMETRISTS

Optometrists are important to the success of our vision centers. We strive to have an optometrist on at least a part time basis at most of our locations. These optometrists are typically independent from Vista and lease a portion of our locations for an eye examination facility. We typically charge rent to these optometrists, in exchange for the premises and the equipment which we provide. Our agreement with Wal-Mart requires us to have an optometrist on duty at least 48 hours each week. Our relationships with optometrists are subject to extensive regulation. (See Item 1, "Government Regulation".)

## MANUFACTURING AND DISTRIBUTION

Vista operates three manufacturing and distribution facilities which supply substantially all requirements of our vision centers. The facilities are located in Lawrenceville, Georgia (this facility also includes the central administrative offices of Vista); Fullerton, California (this facility also includes administrative offices); and St. Cloud, Minnesota. Each vision center located in Wal-Mart stores (with the exception of two vision centers acquired in 1998) has its own finishing laboratory, which manufactures lenses for approximately half of all customers purchasing spectacle lenses.

Our distribution centers provide lens blanks, frames, contact lenses, and sunglasses to our vision centers. We use an overnight delivery service to ship completed orders and replenishment items to the vision centers. The distribution centers and the manufacturing facilities are interfaced with Vista's management information system.

## MANAGEMENT INFORMATION SYSTEM

In 1999, Vista completed the development of a new point of sale system. We began installing the system in our vision centers in the fall of 1999 and expect to complete the installation in all of our units by the second half of 2001. The system is working substantially as planned. The system was designed to upgrade data processing, broaden capabilities at the retail level, and improve the processing of managed care transactions.

## LEASED DEPARTMENT AGREEMENTS

We have agreements in place which govern our operations in host environments, such as Wal-Mart. Typically, each agreement is for a base term, followed by an option to renew. The agreements provide for payments of minimum and percentage rent, and also contain customary provisions for leased department operations. The table below sets forth key data about each of these agreements:

| Vision Centers<br>Located In | No. of Units as<br>of December 30,<br>2000 | Length of<br>Base Term<br>(in years) | Length of<br>Option Term<br>(in years) | No. of Options<br>Exercisable in<br>Fiscal 2001 |
|------------------------------|--------------------------------------------|--------------------------------------|----------------------------------------|-------------------------------------------------|
| Wal-Mart(1)                  | 395                                        | 9                                    | 3                                      | 50                                              |
| Fred Meyer                   | 56                                         | 5                                    | 5                                      | —                                               |
| Wal-Mart Mexico              | 27                                         | 5                                    | 2                                      | —                                               |
| Military Bases               | 19                                         | 2 or 5                               | —                                      | —                                               |

(1) The Company also operates two additional Wal-Mart stores which operate under individual leases.

#### Other Terms

Our agreement with Wal-Mart gives us the right to open at least 400 vision centers, including those already open. Our agreement with Wal-Mart also provides that, if Wal-Mart converts its own store to a "supercenter" (a store which contains a grocery department in addition to the traditional Wal-Mart store offering) and relocates our vision center as part of the conversion, the term of our lease begins again. We believe that Wal-Mart may in the future convert many of its stores and thereby cause many of our leases to start again. We have received no assurances from Wal-Mart as to how many of their locations will ultimately be converted.

Our agreement with Wal-Mart Mexico provides that each party will not deal with other parties to operate leased department vision centers in Mexico. This agreement also permits each party to terminate the lease for each vision center which fails to meet minimum sales requirements specified in the agreement.

#### Options to Renew

##### Wal-Mart Vision Centers

We exercised our option to renew the leases for 44 Wal-Mart vision centers in 2000. The base term for 50 vision centers expires in 2001, and we will need to determine which leases to extend. We expect to renew the leases for the vast majority of these vision centers. These decisions will be based on various factors, including sales levels, anticipated future profitability, increased rental fees in the option period, and market share.

## Other Vision Centers

Our agreement with Fred Meyer obligates us to exercise our renewal option as to all or none of these locations with the exception of five stores, which are covered by a separate agreement. This option must be exercised in 2003. Under our agreement with Wal-Mart Mexico, we have two options for two year renewals, and one option for an additional one year renewal, for each vision center.

## No Assurances of Expansion

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We have no assurances or guarantees that we will be able to expand our operations in any of our host environments. However, we periodically discuss such opportunities with existing and new potential host companies.

## GOVERNMENT REGULATION

Our business is heavily regulated by federal, state, and local law. We must comply with federal laws such as the Social Security Act (which applies to our participation in Medicare programs), the Health Insurance Portability Act of 1996 (which governs our participation in managed care programs), and the Food and Drug Administration Act (which regulates medical devices such as contact lenses). In addition, all states have passed laws which govern or affect our arrangements with the optometrists who practice in our vision centers. Some states, such as California, Texas, North Carolina, and Kansas, have particularly extensive and burdensome requirements which affect the way we do business. Many of these states also have adopted laws which mirror the federal laws described above. Local ordinances (such as zoning requirements) can also impose significant burdens and costs of compliance. Frequently, our competitors sit on state and local boards. Our risks and costs of compliance are often increased as a result.

We believe that we substantially comply with material regulations which apply to our business.

## COMPETITION

The retail eyecare industry is extremely competitive. We compete with national companies such as Lenscrafters and Cole; we also compete with numerous regional and local firms. In addition, optometrists, ophthalmologists, and opticians provide many of the same goods and services we provide. The level and intensity of competition can vary dramatically depending on the particular market. We believe that we have numerous competitive advantages, such as our everyday low pricing, product selection, and quality and consistency of service.

We also compete for managed care business. Our competition for this business is principally the larger national and regional optical firms. Competition for this business is driven by size of provider network, quality and consistency of service, and by pricing of vision care services. We have one of the largest networks in the country and believe that the size of the network gives us a competitive advantage.

Several of our competitors have significantly greater financial resources than we do. As a result, they may be able to engage in extensive and prolonged price promotions which may adversely affect our business. They may also be able to spend more than we do for advertising.

## MEXICO OPERATIONS

We operate 27 vision centers in Mexico under a master license agreement with Wal-Mart. Our operations in Mexico face unique risks, such as currency devaluations, inflation, difficulties in cross-cultural marketing, and similar factors.

## ITEM 2. PROPERTIES

Our 725 vision centers in operation as of December 30, 2000 are located as follows:

| Location<br>----- | Total<br>----- | Location<br>----- | Total<br>----- |
|-------------------|----------------|-------------------|----------------|
| Alabama           | 9              | Nevada            | 7              |
| Alaska            | 16             | New Hampshire     | 4              |
| Arizona           | 38             | New Jersey        | 13             |
| California        | 196            | New Mexico        | 10             |
| Colorado          | 24             | New York          | 26             |
| Connecticut       | 10             | North Carolina    | 56             |
| Florida           | 5              | North Dakota      | 10             |
| Georgia           | 37             | Oregon            | 38             |
| Hawaii            | 4              | Pennsylvania      | 18             |
| Idaho             | 11             | South Carolina    | 11             |
| Iowa              | 8              | South Dakota      | 1              |
| Kansas            | 10             | Tennessee         | 2              |
| Kentucky          | 1              | Texas             | 7              |
| Louisiana         | 2              | Virginia          | 23             |
| Maine             | 1              | Washington        | 43             |
| Maryland          | 3              | West Virginia     | 7              |
| Massachusetts     | 5              | Wisconsin         | 3              |
| Minnesota         | 32             | Wyoming           | 3              |
| Montana           | 4              |                   |                |
|                   |                | Mexico            | 27             |

Our headquarters in Lawrenceville, Georgia is located in a 66,000 square foot building which includes a distribution center and lens laboratory. The building is subleased from Wal-Mart through 2001. We have an option to renew this lease for approximately seven years.

The Company has regional facilities located in St. Cloud, Minnesota and Fullerton, California. The 20,000 square foot St. Cloud facility is subject to a lease that expires in October 2007. The 45,000 square foot Fullerton facility is subject to a lease that expires in August 2006. The Company also has an option to extend the Fullerton lease for five years. Both facilities contain optical laboratories.

## ITEM 3. LEGAL PROCEEDINGS

On April 5, 2000, the Company and ten of its subsidiaries filed voluntary petitions with the United States Bankruptcy Court for the Northern District of Georgia for reorganization under Chapter 11 of the Bankruptcy Code. The Debtors are currently operating their businesses as debtors-in-possession. The Chapter 11 Cases have been consolidated for the purpose of joint administration under case number 00-65214. All affiliated entities of the Company are included in the Chapter 11 cases, except only (a) three subsidiaries which are licensed managed care organizations and (b) foreign subsidiaries of the Company. Page 8

In March 2001, the Debtors filed a plan of reorganization for the Chapter 11 Cases. We expect the Company will emerge from Chapter 11 in the second quarter of 2001. There can be no assurance that the reorganization plan will be confirmed by the Bankruptcy Court, or that such plan will be consummated. If confirmed and consummated, the proposed plan of reorganization will result in the settlement of unsecured claims at less than 100% of face value. The existing Common Stock will be cancelled, resulting in existing shareholders receiving no value for their interests. (See Item 7, "Proceedings Under Chapter 11", and Note 3 of Notes to Consolidated Financial Statements and Report of Independent Public Accountants included herein.)

On October 6, 1999, former store managers of Frame-n-Lens filed a class action in the Orange County Superior Court in California (Kremer and Riddle v. Vista Eyecare, Inc.), alleging that the Company failed to pay overtime wages to present and former store managers. The Company is vigorously defending the lawsuit. The Company has also asserted a right of indemnification pursuant to the share purchase agreement for the acquisition of Frame-n-Lens.

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

No matters were submitted to a vote of security holders during the last quarter of fiscal 2000.

## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

The Company's Common Stock was traded on the NASDAQ National Market System under the symbol "NVAL" from May 1992 until January 4, 1999, when the symbol was changed to "VSTA". From October 12, 1999 through April 4, 2000, our Common Stock was traded on the NASDAQ SmallCap Market. On April 5, 2000, trading of our Common Stock was halted after we issued a press release announcing the filing of the Chapter 11 Cases. As of May 17, 2000, our common stock began trading on the OTC Bulletin Board.

The following table sets forth for the periods indicated the high and low prices of the Company's Common Stock in the various market systems as noted above.

|             | Quarter Ended<br>----- | High<br>----- | Low<br>----- |
|-------------|------------------------|---------------|--------------|
| Fiscal 1999 | April 3, 1999          | \$6.250       | \$4.500      |
|             | July 3, 1999           | \$6.250       | \$3.625      |
|             | October 2, 1999        | \$3.938       | \$2.250      |
|             | January 1, 2000        | \$2.750       | \$0.625      |
| Fiscal 2000 | April 1, 2000          | \$2.500       | \$0.844      |
|             | July 1, 2000           | \$0.875       | \$0.203      |
|             | September 30, 2000     | \$0.359       | \$0.125      |
|             | December 30, 2000      | \$0.219       | \$0.031      |

As of December 30, 2000, there were approximately 500 holders of record of the Company's Common Stock.

In March 2001, the Company filed its plan of reorganization with the Bankruptcy Court. The plan provides for the conversion of the Company's Liabilities Subject to Compromise into new secured notes and common stock. Under the proposed plan, the existing Common Stock outstanding would be cancelled and would result in existing shareholders receiving no value for their interests. The Company believes that the value of the Common Stock is highly speculative since it is probable that it will be cancelled, and therefore, will be worthless if the expected plan of reorganization is consummated.

Under the proposed plan of Reorganization, it is the Company's intent to use cash resources only for its operations, expenses related to its Chapter 11 proceedings and, ultimately, for payment of interest expense and repayment of principal on the Company's new secured notes. Future dividend policy will depend upon the earnings and financial condition of the Company, the Company's need for funds and other factors.

### ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data of the Company with respect to the consolidated financial statements for the years ended December 30, 2000, January 1, 2000, January 2, 1999, January 3, 1998, and December 28, 1996, is derived from the Company's Consolidated Financial Statements. The selected financial data set forth below should be read in conjunction with the Consolidated Financial Statements and Notes thereto included elsewhere in this Report. Amounts presented are in thousands, except per share data.

Vista Eyecare, Inc.  
DEBTORS-IN-POSSESSION  
Consolidated Statements of Operations

|                                                                                                            | 2000        | 1999        | 1998       | 1997       | 1996       |
|------------------------------------------------------------------------------------------------------------|-------------|-------------|------------|------------|------------|
|                                                                                                            | -----       | -----       | -----      | -----      | -----      |
|                                                                                                            | (1)(4)      | (1)(3)      | (1)        | (1)(2)     | (1)        |
| Net sales                                                                                                  | \$ 307,694  | \$ 329,055  | \$ 245,331 | \$ 186,354 | \$ 160,376 |
| Cost of goods sold                                                                                         | 143,458     | 147,768     | 112,929    | 86,363     | 76,692     |
|                                                                                                            | -----       | -----       | -----      | -----      | -----      |
| Gross profit                                                                                               | 164,236     | 181,287     | 132,402    | 99,991     | 83,684     |
| Gross profit percentage                                                                                    | 53.4%       | 55.1%       | 54.0%      | 53.7%      | 52.2%      |
| Selling, general, & administrative expense                                                                 | 166,364     | 177,162     | 121,413    | 89,156     | 76,920     |
| Impairment of long-lived assets                                                                            | 2,684       | 1,952       | --         | --         | --         |
| Restructuring expense                                                                                      | 1,601       | --          | --         | --         | --         |
|                                                                                                            | -----       | -----       | -----      | -----      | -----      |
| Operating income/(loss)                                                                                    | (6,413)     | 2,173       | 10,989     | 10,835     | 6,764      |
| Interest expense                                                                                           | 7,723       | 19,329      | 5,538      | 1,554      | 2,084      |
|                                                                                                            | -----       | -----       | -----      | -----      | -----      |
| Earnings/(loss) before reorganization items and taxes                                                      | (14,136)    | (17,156)    | 5,451      | 9,281      | 4,680      |
| Reorganization items (See Note 5)                                                                          | 121,539     | --          | --         | --         | --         |
|                                                                                                            | -----       | -----       | -----      | -----      | -----      |
| Earnings/(loss) before taxes, extraordinary item and cumulative effect of a change in accounting principle | (135,675)   | (17,156)    | 5,451      | 9,281      | 4,680      |
| Income tax expense (See Note 14)                                                                           | --          | --          | 2,037      | 3,708      | 1,200      |
|                                                                                                            | -----       | -----       | -----      | -----      | -----      |
| Earnings/(loss) before extraordinary loss and cumulative effect of a change in accounting principle        | (135,675)   | (17,156)    | 3,414      | 5,573      | 3,480      |
| Extraordinary loss, net (See Note 11)                                                                      | (827)       | (406)       | --         | --         | --         |
| Cumulative effect, net (See Note 2)                                                                        | (3,378)     | --          | --         | --         | --         |
|                                                                                                            | -----       | -----       | -----      | -----      | -----      |
| Net earnings/(loss)                                                                                        | \$(139,880) | \$ (17,562) | \$ 3,414   | \$ 5,573   | \$ 3,480   |
|                                                                                                            | =====       | =====       | =====      | =====      | =====      |
| Basic earnings/(loss) per share:                                                                           |             |             |            |            |            |
| Earnings/(loss) before extraordinary item and cumulative effect                                            | (6.41)      | (0.81)      | 0.16       | 0.27       | 0.17       |
| Loss from extraordinary item                                                                               | (0.04)      | (0.02)      | --         | --         | --         |
| Loss from cumulative effect                                                                                | (0.16)      | --          | --         | --         | --         |
|                                                                                                            | -----       | -----       | -----      | -----      | -----      |
| Net earnings/(loss) per basic share                                                                        | \$ (6.61)   | \$ (0.83)   | \$ 0.16    | \$ 0.27    | \$ 0.17    |
|                                                                                                            | =====       | =====       | =====      | =====      | =====      |
| Diluted earnings/(loss) per share:                                                                         |             |             |            |            |            |
| Earnings/(loss) before extraordinary item and cumulative effect                                            | (6.41)      | (0.81)      | 0.16       | 0.27       | 0.17       |
| Loss from extraordinary item                                                                               | (0.04)      | (0.02)      | --         | --         | --         |
| Loss from cumulative effect                                                                                | (0.16)      | --          | --         | --         | --         |
|                                                                                                            | -----       | -----       | -----      | -----      | -----      |
| Net earnings/(loss) per diluted share                                                                      | \$ (6.61)   | \$ (0.83)   | \$ 0.16    | \$ 0.27    | \$ 0.17    |
|                                                                                                            | =====       | =====       | =====      | =====      | =====      |
| STATISTICAL DATA (UNAUDITED):                                                                              |             |             |            |            |            |
| (In thousands except vision center data)                                                                   |             |             |            |            |            |
| Domestic vision centers open at end of period:                                                             |             |             |            |            |            |
| Leased department vision centers                                                                           | 472         | 577         | 562        | 364        | 320        |
| Freestanding vision centers                                                                                | 226         | 322         | 331        | 50         | --         |
| Average weekly consolidated sales                                                                          |             |             |            |            |            |
| per leased department vision center (5)                                                                    | \$ 8,700    | \$ 8,200    | \$ 9,000   | \$ 9,400   | \$ 9,300   |
| Average weekly consolidated sales                                                                          |             |             |            |            |            |
| per freestanding vision center (5)                                                                         | \$ 4,500    | \$ 4,700    | \$ 4,900   | \$ --      | \$ --      |
| Capital expenditures                                                                                       | \$ 5,379    | \$ 12,704   | \$ 9,183   | \$ 8,049   | \$ 2,713   |
| Depreciation and amortization                                                                              | 17,526      | 18,602      | 14,177     | 11,035     | 10,058     |
| EBITDA (6)                                                                                                 | 11,113      | 20,775      | 25,166     | 21,870     | 16,822     |
| EBITDA margin percentage                                                                                   | 3.6%        | 6.3%        | 10.3%      | 11.7%      | 10.5%      |
| EBITDA prior to significant provisions (6)                                                                 | 17,009      | 25,427      | 25,166     | 21,870     | 16,822     |
| EBITDA margin percentage                                                                                   |             |             |            |            |            |
| prior to significant provisions                                                                            | 5.5%        | 7.7%        | 10.3%      | 11.7%      | 10.5%      |
| BALANCE SHEET DATA:                                                                                        |             |             |            |            |            |
| Working capital                                                                                            | \$ 17,866   | \$ (11,714) | \$ 4,208   | \$ 12,171  | \$ 13,502  |
| Total assets                                                                                               | 90,888      | 220,219     | 229,097    | 83,250     | 74,564     |
| Current and long-term debt obligations (7)                                                                 | 183,735     | 151,902     | 139,608    | 24,973     | 26,500     |
| Shareholders' (deficit) equity                                                                             | (113,323)   | 26,557      | 43,927     | 35,598     | 29,906     |

# PRO FORMA RESULTS:

As part of the proposed Plan of Reorganization filed with the Bankruptcy Court in March 2001, the Company will dispose of all freestanding operations, including the Fullerton, California laboratory/distribution facility. In February 2001, the Company signed a purchase agreement to sell the assets of its freestanding locations and the Fullerton, California laboratory for \$8.5 million. The sale is expected to close in April 2001.

Pro forma unaudited financial results of operations are presented below, as if the freestanding operations were disposed of at the beginning of the periods presented. The pro forma results presented include certain adjustments and estimates by management. The pro forma information does not necessarily reflect actual results that would have occurred nor is it necessarily indicative of future results of operations of the Company without the freestanding operations. (See Item 7, "Management's Discussion and Analysis".)

|                                            | 2000       | 1999       | 1998       | 1997       | 1996       |
|--------------------------------------------|------------|------------|------------|------------|------------|
|                                            | -----      | -----      | -----      | -----      | -----      |
| Net sales                                  | \$ 246,915 | \$ 247,875 | \$ 209,220 | \$ 182,813 | \$ 160,376 |
| Gross profit                               | \$ 133,481 | \$ 134,057 | \$ 112,509 | \$ 98,174  | \$ 83,684  |
| Operating income                           | \$ 13,493  | \$ 12,230  | \$ 11,424  | \$ 10,888  | \$ 6,764   |
| EBITDA prior to significant provisions (6) | \$ 25,833  | \$ 26,021  | \$ 23,751  | \$ 21,797  | \$ 16,822  |

- (1) Financial information for all years presented includes results of international operations for the 12 months ended November 30. (See Note 2 to Consolidated Financial Statements.)
- (2) Effective January 1, 1995, the Company changed its year end to a 52/53 week retail calendar. (See Note 2 to Consolidated Financial Statements.) Fiscal 1997 consisted of 53 weeks ended January 3, 1998. Sales for the 53rd week approximated \$3.0 million in fiscal 1997.
- (3) In 1999, the Company recorded a \$2.7 million provision for the write-off of certain receivables and an impairment of \$1.9 million in connection with 36 underperforming vision centers.
- (4) In 2000, the Company recorded an impairment provision for inventory and receivables at the freestanding locations totaling \$1.1 million and \$518,000, respectively. These items were included in Cost of goods sold and SG&A expense, as appropriate.
- (5) Calculated from sales from each month during the period divided by the number of store weeks of sales during the period, excluding stores not open a full month.
- (6) EBITDA is calculated as operating income before interest, taxes, depreciation and amortization. EBITDA is presented because it is a widely accepted financial indicator of a company's ability to service or incur indebtedness. However, EBITDA does not represent cash flow from operations as defined by generally accepted accounting principles ("GAAP"), is not necessarily indicative of cash available to fund all cash flow needs, should not be considered an alternative to net income or to cash flow from operations (as determined in accordance with GAAP) and should not be considered an indication of the Company's operating performance or as a measure of liquidity. EBITDA is not necessarily comparable to similarly titled measures for other companies. EBITDA prior to significant provisions is calculated as EBITDA prior to Restructuring Expense, Reorganization Items, Extraordinary Items, Cumulative Effect and provisions described in Footnote 3 and 4 above.
- (7) Current and long-term debt obligations include the Revolving Credit Facility and term loan, Senior Notes, Redeemable Common Stock and other long-term debt and capital lease obligations. In 2000, this includes \$171 million of liabilities Subject to Compromise which may be settled at less than face value.

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

Proceedings Under Chapter 11 of the Bankruptcy Code

On April 5, 2000, the Company and ten of its subsidiaries filed voluntary petitions with the Bankruptcy Court for reorganization under Chapter 11. The Debtors are currently operating their businesses as debtors-in-possession pursuant to the Bankruptcy Code. All affiliated entities of the Company are included in the Chapter 11 Cases, except only (a) three subsidiaries which are licensed managed care organizations and (b) foreign subsidiaries of the Company.

At a hearing held on April 5, 2000, the Bankruptcy Court entered orders granting authority to the Debtors, among other things, to maintain our cash management system, to pay pre-petition and post-petition employee wages, salaries, benefits and other employee obligations, and to honor customer service programs, including warranties, returns and gift certificates. The Bankruptcy Court also ordered that the Company could enter into a debtor-in-possession credit facility. (See Note 3 of Notes to Consolidated Financial Statements and the Report of Independent Public Accountants included herein.)

In March 2001, the Debtors filed a plan of reorganization for the Chapter 11 Cases. We expect the Company will emerge from bankruptcy in the second quarter of 2001. There can be no assurance that the reorganization plan will be confirmed by the Bankruptcy Court, or that such plan will be consummated. If confirmed and consummated, the proposed plan of reorganization will result in the settlement of unsecured claims at less than 100% of face value and the common stock of the Company will have no value. (See Item 7, "Liquidity and Capital Resources" and Note 3 of Notes to Consolidated Financial Statements and Report of Independent Public Accountants included herein.)

## Consolidated Financial Statements

The Company's Consolidated Financial Statements have been prepared on a going concern basis of accounting and do not reflect any adjustments that might result if the Company is unable to continue as a going concern. The Company's recent losses and negative cash flows from operations, and the Chapter 11 Cases, raise substantial doubt about the Company's ability to continue as a going concern. As discussed above, management has submitted a plan for reorganization to the Bankruptcy Court. The ability of the Company to continue as a going concern and the appropriateness of using the going concern basis is dependent upon, among other things, (i) the Company's ability to comply with the debtor-in-possession financing agreements ("DIP" Facility), (ii) the Company's ability to obtain financing upon expiration of the DIP Facility, (iii) confirmation of a plan of reorganization under the Bankruptcy Code, (iv) the Company's ability to achieve profitable operations after such confirmation, and (v) the Company's ability to generate sufficient cash from operations to meet its obligations.

As a result of the filing of the Chapter 11 Cases and related circumstances, realization of assets and liquidation of liabilities is subject to substantial doubt. While under the protection of Chapter 11, the Debtors may sell or otherwise dispose of assets, and liquidate or settle liabilities, for amounts other than those reflected in the Consolidated Financial Statements. Further, the confirmation of a plan or plans of reorganization could materially change the amounts reported in the accompanying Consolidated Financial Statements. The Consolidated Financial Statements do not include any adjustments relating to recoverability of the value of recorded asset amounts or the amounts and classification of liabilities that might be necessary as a consequence of a plan or reorganization.

## Results of Operations

The Company's results of operations in any period are significantly affected by the number and mix of vision centers opened and operating during such period. As of December 30, 2000, the Company operated 725 vision centers versus 926 vision centers as of January 1, 2000. In the third quarter of 2000, the Company terminated its 72 leases governing all the Company's units located in Sam's Club locations. (See Note 5 to Consolidated Financial Statements.) In addition, the Company terminated its ten leases in Meijer Thrifty Acre locations in October 2000. (See Note 5 to Consolidated Financial Statements.) The Company also rejected, or otherwise terminated the leases for, approximately 97 freestanding vision centers.

As part of our proposed plan of reorganization, we will dispose of all free-standing operations, including the Fullerton, California laboratory-distribution facility. In February 2001, the Company signed a purchase agreement to sell the assets of its freestanding locations and the Fullerton, California laboratory for \$8.5 million. The sale, which is subject to customary terms and conditions, is expected to close in April 2001. (See Note 6 of Consolidated Financial Statements.)

Pro forma unaudited financial results of operations are presented below, as if the freestanding operations were disposed of at the beginning of the periods presented. The pro forma results presented include certain adjustments and estimates by management. The pro forma information does not necessarily reflect actual results that would have occurred nor is it necessarily indicative of future results of operations of the Company without the freestanding operations.

|                                      | 2000       | 1999       | 1998       |
|--------------------------------------|------------|------------|------------|
|                                      | -----      | -----      | -----      |
| Net Sales                            | \$ 246,915 | \$ 247,875 | \$ 209,220 |
| Gross Profit                         | \$ 133,481 | \$ 134,057 | \$ 112,509 |
| Operating Income                     | \$ 13,493  | \$ 12,230  | \$ 11,424  |
| EBITDA before significant provisions | \$ 25,833  | \$ 26,021  | \$ 23,751  |

EBITDA prior to significant provisions is calculated as EBITDA prior to Restructuring Expense, Reorganization Items, Extraordinary Items, Cumulative Effect and the 1999 provision for receivables.

YEAR ENDED DECEMBER 30, 2000 COMPARED TO YEAR ENDED JANUARY 1, 2000

NET SALES. The Company recorded net sales of \$307.7 million in fiscal 2000, a decrease of 6.5% over sales of \$329.1 million in fiscal 1999. Sales decreased due to the following reasons:

- o The Company closed 91 freestanding stores in April 2000. These stores had sales of \$3.1 million in 2000 versus \$13.0 million in 1999, a reduction of \$9.9 million.
- o The remaining freestanding stores generated negative comparable store sales of 15.5% resulting in a decrease of \$10.6 million in sales.
- o During 2000, the Company closed 117 Sam's Club locations, 72 of which were terminated prior to the end of their lease term. These closings resulted in a sales decrease of \$12.2 million in 2000.

These decreases were partially offset by:

- o Favorable comparable store sales at the Wal-Mart and Military divisions of 2.0% and 6.5%, respectively. This resulted in a \$4.7 million sales increase.
- o New store openings at the Wal-Mart and Military divisions resulted in sales increases of \$6.9 million over the prior year.

In addition, the Company's adoption of SAB 101 deferred the recognition of approximately \$300,000 of net sales in fiscal 2000. (See Note 2 of Consolidated Financial Statements.)

GROSS PROFIT. In 2000, gross profit decreased to \$164.2 million versus \$181.3 million in 1999. This decrease was due to the following:

- o A reduction in sales caused by the closure of all of the Company's Sam's Club locations, as well as the operation of approximately 97 fewer freestanding locations and the negative comparable store sales registered by the remaining freestanding vision centers acquired by the Company (\$11.8 million).
- o A charge of approximately \$1.1 million to adjust inventory at the Company's freestanding stores to net realizable value (See "Reorganization Items, Restructuring Expenses and Impairment of Long-lived Assets").
- o A reduction in vendor promotional monies and independent optometrist revenue from the amounts received a year ago.

Gross profit as a percentage of sales decreased from 55.1% a year ago to 53.4% in the current period. In addition to the reasons described above, the decrease can also be attributed to the following:

- o A loss of efficiency in the Fullerton Lab caused by the decrease in volume as a result of declining sales levels in the Company's freestanding vision centers as well as lower volume resulting from closed stores.
- o A sales shift from eyeglasses to contact lenses caused by contact lens promotions in the freestanding vision centers. Eyeglasses have a higher margin than do contact lenses. Additionally, contact lens margins decreased due to competitive price pressure.

- o A decline in average sales per store recorded by the freestanding operations caused rent as a percentage of net sales to increase and thereby reduced margin as a percent of net sales.

SELLING, GENERAL, AND ADMINISTRATIVE EXPENSE. This category of expense includes both retail operating expense and corporate office administrative costs. SG&A expense decreased from \$177.2 million in 1999 to \$166.4 million in 2000. The decrease was due primarily to the following:

- o Payroll savings of \$6.7 million from the closure of the Sam's Club locations and approximately 97 freestanding locations.
- o Home office savings of \$2.2 million related to the elimination of amortization of goodwill from the Frame-n-Lens, New West and Midwest acquisitions, which was impaired in the third quarter of 2000, and a reduction in payroll, recruiting and relocation expenses.

OPERATING INCOME/(LOSS). Operating results for 2000, prior to reorganization and restructuring items and impairment of long-lived assets, decreased to an operating loss of \$2.1 million versus operating income of \$4.1 million in 1999.

INTEREST EXPENSE. Interest expense decreased from \$19.3 million in 1999 to \$7.7 million in 2000. Because of the filing of the Chapter 11 Cases, we have stopped accruing for interest on unsecured debt until the Company emerges from Chapter 11 of the Bankruptcy Code, or it becomes probable that the Company will pay these amounts as part of a plan of reorganization. (See "Accounting During Reorganization Proceedings".) Contractual interest expense for 2000 was \$20.7 million. In addition, interest expense excludes \$144,000 of interest income which has been reflected as a reorganization item.

BENEFIT FOR INCOME TAXES. We recorded a pre-tax operating loss of \$135.7 million versus a loss of \$17.2 million in the prior period. The resulting income tax benefit was approximately \$1.7 million. We have established a valuation allowance equal to the amount of the tax benefit.

EXTRAORDINARY LOSS. Results also include an extraordinary loss of \$827,000 in 2000 associated with the write-off of the capitalized costs of the Company's previous Foothill Credit Facility.

CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE. In December 1999, the SEC issued Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements." SAB 101 summarizes the SEC's view in applying generally accepted accounting principles to selected revenue recognition issues. Prior to the adoption of SAB 101, the Company recognized revenues and the related costs from retail sales when at least 50% of the payment was received. In response to SAB 101, the Company is required to recognize revenue upon delivery of the product. The cumulative effect of this change in accounting principle was a \$3.4 million reduction in net earnings of 2000.

NET INCOME. The Company recorded a net loss of \$139.9 million, or a loss of \$6.61 per basic and diluted share.

ACCOUNTING DURING REORGANIZATION PROCEEDINGS

Entering the reorganization proceedings does not affect or change the application of generally accepted accounting principles followed by the Company in the preparation of its Consolidated Financial Statements. During the pendency of the Chapter 11 Cases, our consolidated financial statements distinguish transactions and events that are directly associated with the reorganization from the ongoing operations of the business in accordance with the American Institute of Certified Public Accountants' Statement of Position 90-7 - "Financial Reporting by Entities in Reorganization under the Bankruptcy Code" ("SOP 90-7"). The Company's consolidated balance sheets segregate Liabilities Subject to Compromise from liabilities not subject to compromise. In addition, we have stopped accruing for interest on unsecured debt until the Company emerges from protection under Chapter 11 of the Bankruptcy Code, or it becomes probable that we will pay these amounts as part of a plan of reorganization.

Liabilities Subject to Compromise

Liabilities Subject to Compromise refers to liabilities incurred prior to the commencement of the Chapter 11 Cases, including those considered by the Bankruptcy Court to be pre-petition claims, such as claims arising out of a rejection of a lease for real property. These liabilities consist primarily of amounts outstanding under long-term debt and also include accounts payable, accrued interest, accrued restructuring costs and other accrued expenses. These amounts represent the Company's estimate of known or potential claims to be resolved in the Chapter 11 Cases. Such claims remain subject to future adjustments. Adjustments may result from (1) negotiations; (2) actions of the Bankruptcy Court; (3) further development with respect to disputed claims; (4) future rejection of additional executory contracts or unexpired leases; (5) the determination as to the value of any collateral securing claims; (6) proofs of claim; or (7) other events. Payment terms for these amounts, which are considered long-term liabilities at this time, will be established in connection with the Chapter 11 Cases.

The principal categories of claims classified as Liabilities Subject to Compromise in the Chapter 11 Cases are identified below: (amounts in thousands)

|                                                                  | December 30, 2000 |
|------------------------------------------------------------------|-------------------|
|                                                                  | -----             |
| Accounts payable                                                 | \$ 25,856         |
| Accrued expenses                                                 | 2,717             |
| Provision for rejected contracts                                 | 3,142             |
| Senior notes, net of discount including \$7,480 accrued interest | 131,266           |
| Other long-term debt and capital lease obligations               | 7,843             |
|                                                                  | -----             |
|                                                                  | \$170,824         |
|                                                                  | =====             |

The Company has received approval from the Bankruptcy Court to pay pre-petition and post-petition employee wages, salaries, benefits and other employee obligations, to pay vendors and other providers in the ordinary course for goods and services received from April 5, 2000 and to honor customer service programs, including warranties and returns. These items are recorded as accrued expenses not subject to compromise.

REORGANIZATION ITEMS, RESTRUCTURING EXPENSES AND IMPAIRMENT OF LONG-LIVED ASSETS.

General

In the last quarter of 1999 and in fiscal 2000, we recorded charges relating to store closings, to impairment of long-lived assets and to expenses incurred in the Chapter 11 Cases. Generally accepted accounting principles require different presentations depending on whether we incurred the cost before or after the filing of the Chapter 11 Cases.

Impairment of Fixed Assets and Restructuring Expenses

We have recorded charges for impairment of fixed assets and restructuring expenses in connection with stores closed before the filing of the Chapter 11 Cases. Emerging Issues Task Force Issue 94-03, "Liability Recognition for Certain Employee Termination Benefits to Exit an Activity (Including Certain Costs Incurred in a Restructuring)", requires that we present these charges as components of operating income.

In connection with stores closed after the filing of the Chapter 11 Cases, we have recorded charges for impairment of fixed assets and for restructuring expenses. All expenses of this nature incurred after the first quarter of 2000 have been presented as reorganization items, below operating income.

Summary of Restructuring Charges

The table below summarizes charges for impairment of fixed assets and restructuring expenses incurred in the fourth quarter 1999 and the first quarter 2000. These charges were incurred before the Company began the Chapter 11 Cases (amounts in thousands):

|                               | Fourth Quarter 1999 | First Quarter 2000 |
|-------------------------------|---------------------|--------------------|
|                               | -----               | -----              |
| Impairment of fixed assets    | \$1,952             | \$2,684            |
| Restructuring expense:        |                     |                    |
| Provision for rejected leases | \$ --               | \$1,362            |
| Other store closing costs     | --                  | 239                |
|                               | -----               | -----              |
|                               | \$ --               | \$1,601            |
|                               | =====               | =====              |

Impairment and restructuring charges incurred after the first quarter of 2000 are considered reorganization items and are presented below operating income.

## Summary of Reorganization Items

Results for fiscal 2000 include charges which were incurred after the Company filed the Chapter 11 Cases. Expenses related to the reorganization process and the Chapter 11 Cases are considered reorganization items. The table below summarizes these charges: (amounts in thousands)

|                                     | 2000       |
|-------------------------------------|------------|
|                                     | -----      |
| Impairment of goodwill              | \$ 100,805 |
| Impairment of fixed assets          | 12,000     |
| Provision for rejected leases       | 1,920      |
| Other store closing costs           | 670        |
| Professional fees                   | 3,421      |
| Retention bonus                     | 2,173      |
| Interest income on accumulated cash | (144)      |
| Other reorganization costs          | 694        |
|                                     | -----      |
|                                     | \$ 121,539 |
|                                     | =====      |

## Impairment of Long-Lived Assets

Due to continuing negative cash flows, coupled with the possible sale or disposition of certain Company assets, we recorded a noncash charge of \$100.8 million for the impairment of goodwill associated with the acquisition of Frame-n-Lens Optical, Inc., New West Eyeworks, Inc. and Midwest Vision, Inc. in the third quarter of 2000. In addition, we recorded a noncash charge of \$10.6 million to reflect the impairment of fixed assets associated with these acquired entities.

The Company terminated ten leases governing all of the Company's units located in Meijer Thrifty Acre locations. The Company recorded a noncash pre-tax charge of \$987,000 in 2000 related to the impairment of leasehold improvements and furniture and fixtures in the Meijer locations.

In the second quarter of 2000, the Company reached an agreement with Wal-Mart Stores, Inc. to terminate its 72 leases governing all of the Company's units located in Sam's Club locations. Pursuant to this agreement, the Company turned over all such locations to Wal-Mart Stores by September 1, 2000. The Company received no proceeds from Wal-Mart for the early termination, and Wal-Mart will waive all claims for rent under the leases for the balance of the original lease term. The Company recorded a noncash pre-tax charge of \$367,000 related to the impairment of leasehold improvements and furniture and fixtures in the Sam's Club locations. (See Note 5 to Consolidated Financial Statements.)

A summary of the impairment charges recorded in 2000 follows: (amounts in thousands)

|                              |           |
|------------------------------|-----------|
| Impairment of goodwill:      |           |
| Frame-n-Lens                 | \$ 38,318 |
| New West Eyeworks            | 60,610    |
| Midwest Vision               | 1,877     |
|                              | -----     |
| Total goodwill impairment    | \$100,805 |
|                              | =====     |
| Impairment of fixed assets:  |           |
| Frame-n-Lens                 | \$ 4,792  |
| New West Eyeworks            | 5,186     |
| Midwest Vision               | 668       |
| Meijer Thrifty Acre          | 987       |
| Sam's Club                   | 367       |
|                              | -----     |
| Total fixed asset impairment | \$ 12,000 |
|                              | =====     |

In addition to the impairment of goodwill and fixed assets, the Company recorded adjustments to inventory of \$1.1 million and to accounts receivable of \$0.5 million to adjust the carrying value to net realizable value. These charges were included in Cost of goods sold and SG&A expense, as appropriate.

#### YEAR ENDED JANUARY 1, 2000 COMPARED TO YEAR ENDED JANUARY 2, 1999

NET SALES. The Company recorded net sales of \$329.1 million in fiscal 1999, an improvement of 34% over sales of \$245.3 million in fiscal 1998. We increased sales for two reasons. First, in 1999 our net sales included the net sales of our Acquired Businesses for the entire fiscal year, whereas our net sales for 1998 included the sales of the acquired businesses for only a portion of the year. Second, our sales in our core leased departments increased by 4.1% over 1998 results.

NET SALES IN ACQUIRED BUSINESSES. In 1999, the integration of these businesses fell below expectations which negatively affected our results. The most important reason for the disappointing performance was the significant shortfall in sales. The following factors contributed to our poor operating results in the Acquired Businesses:

- o The consolidation of three different retail concepts into one existing concept proved more difficult than we anticipated.
- o We underestimated the power of the existing trade names of the acquired businesses and lost market share when we changed the store names to "Vista Optical".
- o We incurred significant service disruptions when we closed three of our manufacturing locations and consolidated their operations into our existing facilities.
- o We had substantial turnover at the field and management levels, which further disrupted our operations.

In 1999, we made a number of changes to improve these businesses. In particular, we:

- o improved the inventory carried by these vision centers.
- o recruited optometrists to many locations.
- o instituted intensive training programs for retail personnel.
- o created a new advertising campaign, which began running in early 2000.

GROSS PROFIT. In 1999, we increased gross profit to \$181.3 million, a 37% increase over \$132.4 million in 1998. The increase in net sales resulted in an increase in gross profit dollars. Our gross profit percentage increased from 54% in 1998 to 55.1% in 1999. Several factors contributed to this increase:

- o We increased our purchasing power since completing the acquisitions.
- o The consolidation of our manufacturing operations from six facilities to three facilities reduced our average lens cost.
- o We received significant promotional payments from key vendors.

Other factors had a negative impact on gross profit percentage:

- o Retail prices for contact lenses continued to decline because of intense price competition.
- o During the consolidation of our manufacturing operations, our service declined, causing an increase in remake and warranty work on customer orders.
- o Shortfalls in sales at the acquired vision centers caused rent as a percent of sales to increase.

SELLING, GENERAL, AND ADMINISTRATIVE EXPENSE. This category of expense includes both retail operating expense and corporate office administrative costs. SG&A expense increased from \$121.4 million in 1998 to \$177.2 million in 1999. The increase was primarily due to the increase in the number of vision centers. As a percent of net sales, SG&A expense increased from 49.5% in 1998 to 53.8% in 1999. This increase was due to:

- A decline in sales at the acquired businesses, which thereby caused store payroll to increase as a percent of sales.
- An increase in goodwill amortization from \$800,000 in 1998 to \$3.5 million in 1999 (this increase reflects the goodwill associated with the businesses acquired by the Company in 1998 and therefore amortized over all of 1999 versus a portion of 1998).

- SG&A includes a non-cash expense provision of \$2.7 million for the write-off of managed care receivables. During 1999, the Company continued its efforts with its third party processor to timely collect managed care receivable accounts. In the fourth quarter, management concluded these efforts were not achieving anticipated results and, consequently, determined an additional provision for doubtful accounts was warranted.

In addition, before giving effect to goodwill amortization, home office expense as a percent of sales decreased by 0.5% over levels recorded in 1998.

Results for 1999 include a non-cash charge of \$1.9 million, which represents an impairment loss on fixed assets associated with 36 underperforming vision centers acquired by the Company. We closed these vision centers in 2000.

OPERATING INCOME. Operating income decreased to \$2.2 million from \$11 million in 1998. Operating margin decreased from 4.5% to 0.7% of net sales in 1999. The decrease was attributable to:

- o The shortfall in operating results of the acquired businesses.
- o The increase in SG&A expense discussed above.
- o The non-cash charges discussed above.

Despite poor results in the acquired businesses, we increased operating income in our core leased business more than 10% over levels recorded in 1998.

INTEREST EXPENSE. Interest expense increased to \$19.3 million from \$5.5 million in 1998. The Company issued its \$125 million senior notes in 1998 (See Note 10 to Consolidated Financial Statements) and incurred the associated expense over the entirety of 1999 versus a portion of 1998. In November 1999, the Company refinanced its secured credit facility at a higher interest rate than that provided for in its previous credit facility. (See Item 7, "Liquidity and Cash Resources".)

PROVISION FOR INCOME TAXES. Vista recorded a pre-tax operating loss before extraordinary item of \$17.2 million in 1999. The resulting income tax benefit was approximately \$5.2 million. We have established a valuation allowance equal to the amount of the tax benefit.

EXTRAORDINARY LOSS. Results also include an extraordinary loss of \$406,000 associated with the write-off of the capitalized costs of the Company's 1998 secured credit facility.

NET INCOME. The Company recorded a net loss of \$17.6 million, or a loss of \$0.83 per basic and diluted share.

#### Inflation

Although the Company cannot determine the precise effects of inflation, it does not believe inflation has had a material effect on its domestic sales or results of operations. The Company cannot determine whether inflation will have a material long-term effect on its sales or results of operations.

As a result of inflation in prior years, the Company has in the past adjusted its retail pricing. Further pricing adjustments are contingent upon competitive pricing levels in the marketplace. Management is monitoring the continuing impact of these inflationary trends.

## LIQUIDITY AND CAPITAL RESOURCES

Our capital needs have been for operating expenses, capital expenditures, and interest expense. Our sources of capital have been cash flow from operations and borrowings under our credit facilities.

In October 1998, we issued our \$125 million notes due 2005 to help fund the acquisition of Frame-n-Lens Optical, Inc. and New West Eyeworks, Inc. These notes bear interest of 12.75% and were issued pursuant to an indenture which contains a variety of customary provisions and restrictions. Interest payments are due on April 15 and October 15 of each year. The Company did not make the interest payments due in 2000. Amounts due under the indenture are unsecured claims in the Chapter 11 Cases, and are classified as Liabilities Subject to Compromise. (See Note 4 to Condensed Consolidated Financial Statements.)

On April 5, 2000, the Debtors filed the Chapter 11 Cases. On May 9, 2000, the Bankruptcy Court approved an order permitting the Company to enter into a \$25 million debtor-in-possession credit facility with Foothill Capital Corporation (the "DIP Facility"). The DIP Facility (which replaced the Company's prior secured credit facility) consists of a \$12.5 million term loan and \$12.5 million revolving credit facility. As of December 30, 2000, the Company had borrowed a total of \$12.9 million (inclusive of the \$12.5 million term loan portion) under the DIP Facility.

The DIP Facility contains customary terms and conditions. It expires on May 31, 2001. The DIP Facility further provides that:

- o The Company must maintain a rolling twelve month EBITDA of no less than \$15 million, calculated prior to restructuring charges, reorganization items, extraordinary losses, cumulative effect losses and store impairment reserves.
- o The \$12.5 million term loan portion of the DIP Facility bears interest at 15% per annum.
- o Interest rates on the revolver portion of the DIP Facility are based on either the Wells Fargo Bank, N.A. Base Rate plus 2% or the Adjusted Eurodollar Rate plus 3.25%.

Although the Company is currently in compliance with the terms of the DIP Facility, a continuation of negative sales and cash flow trends could cause the Company to breach the EBITDA covenant.

The Company believes that the DIP Facility should provide it with adequate liquidity to conduct its operations while it awaits confirmation of its reorganization plan. The Company is currently working with Foothill to establish a revolving credit facility which will be available upon exiting from bankruptcy (the "Exit Facility"). The Exit Facility will replace the current DIP Facility and should provide the Company with adequate liquidity to conduct its operations upon emergence from bankruptcy. However, the Company's liquidity, capital resources, results of operations and ability to continue as a going concern are subject to known and unknown risks and uncertainties. (See "MANAGEMENT'S DISCUSSION AND ANALYSIS AND RESULTS OF OPERATIONS - RISK FACTORS.")

The plan of reorganization filed with the Bankruptcy Court in March 2001 assumes the conversion of pre-petition unsecured claims into a combination of new secured notes and common stock. The secured notes will have a face value of \$120 million and will pay interest of 12% twice a year at the end of March and September. The notes have an eight year duration with principal repayments based on excess cash balances available at each interest payment date. It also provides for the cancellation of the Company's current Common Stock. We do not know whether the plan will be approved, or if it is approved, whether it will succeed. If the Company is successful in restructuring its debt obligations and its equity, the Company may trigger limitations on certain tax net operating loss carry-forwards.

Under the proposed plan of reorganization, it is the Company's intent to use cash reserves for its ongoing operations and for payment of interest expense and repayment of principal on the Company's outstanding debt.

We plan, as of December 30, 2000, to open approximately 5 Wal-Mart vision centers during fiscal 2001. We may open up to 10 additional vision centers dependent upon liquidity, construction schedules and other constraints. For each of our new vision centers, we typically spend between \$100,000 and \$160,000 for fixed assets and approximately \$25,000 for inventory. We also spend approximately \$20,000 for pre-opening costs. Before 1998, we capitalized these pre-opening costs. Beginning in 1998, we expensed them as required by new accounting rules (See Note 2 to Consolidated Financial Statements).

#### Risk Factors

This Form 10-K contains a number of statements about the future. It also contains statements which involve assumptions about the future. All these statements are forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements represent our expectations or belief concerning future events, including the following: any statements regarding future sales levels, the continuation of historical trends, and the Company's liquidity and the Chapter 11 Cases, including the Company's plan of reorganization. Without limiting the foregoing, the words "believes", "anticipates", "plans", "expects", and similar expressions are intended to identify forward-looking statements.

We do not know whether the forward-looking statements made in this Form 10-K will prove to be correct. We have tried to identify factors which may cause these statements to be incorrect, but we may not have identified all of them. These factors could also have a negative impact on our results. The following is our list of these factors:

- o We have filed for protection under Chapter 11 of the Bankruptcy Code. The fact of this filing, along with the process through the Bankruptcy Court, could affect our business in a variety of unforeseen ways. There could be impairment of our ability to: operate our business during the pendency of the proceedings; continue normal operating relationships with our host licensors, such as Wal-Mart; obtain shipments and negotiate terms with vendors; fund, develop, and execute an operating plan; attract and retain key executives and associates; maintain our gross margins through vendor participation programs and otherwise to maintain favorable courses of dealing with vendors.

- o Under the plan of reorganization we have proposed to the Bankruptcy Court, the equity of the current shareholders in the Company will have no value.
- o The Purchase and Sale Agreement for the remaining freestanding stores and the Fullerton lab/DC may not close thus creating additional unsecured claims.
- o There are various risks associated with the Chapter 11 Cases. Our plan of reorganization may not be approved or, even if it is approved, may not succeed.
- o We may not obtain exit financing to replace our DIP Facility.
- o We depend heavily on our host store relationships, particularly with Wal-Mart. Any change in these relationships could have a significant negative impact on our business. The filing of the Chapter 11 Cases could affect those relationships.
- o Managed care plans are increasingly important in the optical industry. We will need to attract new managed care business if we intend to remain competitive. We will also need to retain our existing managed care arrangements. Loss of these arrangements, or our failure to attract new managed care business, would impair our competitive position. The filing of the Chapter 11 Cases could impair our ability to retain existing contracts and to enter into new ones.
- o We depend on reliable and timely reimbursement of claims we submit to third party payors. There are risks we may not be paid on a timely basis, or that we will be paid at all. Some plans have complex forms to complete. Sometimes our staff may incorrectly complete forms, delaying our reimbursement. These delays can hurt our cash flow and also force us to write-off more of these accounts receivable.
- o Each year, we expect to have increasing numbers of vision centers under our Wal-Mart agreement come up for renewal. Our rental obligations to Wal-Mart will increase in the three year option period. We will need to continue to improve sales at these vision centers. If we do not, our rent as a percent of sales will increase significantly during the option period. Alternatively, we may choose not to exercise the options.
- o Operating factors affecting customer satisfaction and quality controls of the Company in optical manufacturing.

Liabilities Subject to Compromise may increase as a result of:

- o negotiations
- o actions of the Bankruptcy Court
- o further development with respect to disputed claims
- o future rejection of additional executory contracts or unexpired leases
- o the determination as to the value of any collateral securing claims
- o proofs of claim
- o other events

Payment terms for these amounts, which are considered long-term liabilities at this time, will be established in connection with the Chapter 11 Cases. This may further reduce the settlement of unsecured claims.

- Pricing and other competitive factors, including, without limitation, increased price competition with respect to contact lenses.
- Technological advances in the eyecare industry, such as new surgical procedures or medical devices, which could reduce the demand for the Company's products. The number of individuals electing Lasik and similar surgical procedures has dramatically increased each year. If these trends continue, demand for our goods and services could decrease significantly.
- The mix of goods sold.
- Availability of optical and optometric professionals. An element of the Company's business strategy and a requirement of the Wal-Mart Agreement is the availability of vision care professionals at clinics in or nearby the Company's vision centers.
- State and federal regulation of managed care and of the practice of optometry and opticianry.
- General risks arising from investing and operating in Mexico, including a different regulatory, political, and governmental environment, currency fluctuations, high inflation, price controls, restrictions on profit repatriation, lower per capita income and spending levels, import duties, value added taxes, and difficulties in cross-cultural marketing.
- The Company's ability to select in-stock merchandise attractive to customers.
- Weather affecting retail operations.
- Variations in the level of economic activity affecting employment and income levels of consumers.
- Seasonality of the Company's business.

#### Recent Accounting Pronouncements

In December 1999, the SEC issued Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements". SAB 101 summarizes the SEC's view in applying generally accepted accounting principles to selected revenue recognition issues. We applied the guidance in SAB 101 to our financial statements in 2000. The impact has been reflected as a cumulative effect adjustment to our consolidated financial statements resulting from a change in accounting principles.

In 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133 ("SFAS No. 133"), "Accounting for Derivative Instruments and Hedging Activities". SFAS No. 133 is effective in fiscal 2000. The Company had no derivatives in 2000.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk

Market risk is the potential change in an instrument's value caused by, for example, fluctuations in interest and currency exchange rates. The Company's primary market risk exposures are interest rate risk and the risk of unfavorable movements in exchange rates between the U.S. dollar and the Mexican peso. Monitoring and managing these risks is a continual process carried out by senior management, which reviews and approves the Company's risk management policies. We manage market risk on the basis of an ongoing assessment of trends in interest rates, foreign exchange rates, and economic developments, giving consideration to possible effects on both total return and reported earnings. The Company's financial advisors, both internal and external, provide ongoing advice regarding trends that affect management's assessment.

Interest Rate Risk

The Company borrows long-term debt under our credit facility at variable interest rates. (See Note 10 to Consolidated Financial Statements.) We therefore incur the risk of increased interest costs if interest rates rise.

Foreign Exchange Rate Risk

Historically, Mexico qualified as a highly inflationary economy under the provisions of SFAS No. 52, "Foreign Currency Translation". Consequently, in 1997, the financial statements of the Mexico operation were remeasured with the U.S. dollar as the functional currency. Since 1997, we have recorded immaterial losses because of changes in foreign currency rates between the peso and the U.S. dollar.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Consolidated Financial Statements of the Company are included as a separate section of this Report commencing on page F-1.

ITEM 9. DISAGREEMENTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information Concerning Directors

| Name and Age as of March 30, 2001<br>----- | Position, Business Experience and Directorships<br>-----                                                                                                                                                                                                                                                                                                                                                                                           |
|--------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| James W. Krause.....56                     | Joined the Company in April 1994 as President and Chief Executive Officer and a director. He was named Chairman of the Company in June 1995.                                                                                                                                                                                                                                                                                                       |
| Ronald J. Green.....53                     | A director since December 1990, Mr. Green has been a partner in the accounting firm of Stephen M. Berman & Associates, Atlanta, Georgia, since 1980.                                                                                                                                                                                                                                                                                               |
| James E. Kanaley.....59                    | A director since October 1998, Mr. Kanaley was employed at Bausch & Lomb Inc. from 1978 until his retirement in 1997. From 1990 until 1993, he served as Senior Vice President and Group President Contact Lens Care, and from 1993 until his retirement he served as Senior Vice President and President, North American Healthcare.                                                                                                              |
| Peter T. Socha.....41                      | Mr. Socha joined the Company in October 1999 as Senior Vice President, Strategic Planning. Prior to joining the Company he worked as a consultant, and served as Executive Vice President of COHR, Inc., from May 1998 to October 1998; and as Chief Credit Officer with Sirrom Capital Corporation, from 1994 to 1997. Mr. Socha became a director and was appointed Senior Vice President, Strategic Planning and Managed Care in February 2000. |

Information Concerning Executive Officers

| Name, Age and Position<br>as of March 30, 2001<br>-----                                                            | Business Experience<br>-----                                                                                                                                                                                                                                                                                                                                                                                                         |
|--------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| James W. Krause                      56<br>Chairman<br>and Chief Executive Officer                                 | See "Information Concerning Directors"                                                                                                                                                                                                                                                                                                                                                                                               |
| Michael J. Boden                      53<br>Executive Vice President,<br>Retail Operations                         | Mr. Boden joined the Company in June 1995 as Vice President, Sales and Marketing and was named a Senior Vice President in February 1998. He was named Senior Vice President, Leased retail Operations in February 1999. From 1992 until joining the Company, he served as Vice President-- Store Operations of This End Up Furniture Company. He was appointed to his current position in February 2000.                             |
| Richard D. Anderson                  42<br>Senior Vice President,<br>Real Estate                                   | Mr. Anderson joined the Company in January 1999 and was named Senior Vice President, Real Estate in February 1999. From 1987 until joining the Company, he was employed by W.H. Smith, PLC where he served as Vice President, Real Estate and Vice President, Development and Construction.                                                                                                                                          |
| Eduardo A. Egusquiza                48<br>Senior Vice President,<br>Information Technology                         | Mr. Egusquiza joined the Company in March 1998 as Senior Vice President, Information Technology. From 1982 until joining the Company, he was employed by Musicland Stores Corporation, Inc. where he served as Vice President of Information Systems and Services.                                                                                                                                                                   |
| Mitchell Goodman                    47<br>Senior Vice President,<br>General Counsel and Secretary                  | Mr. Goodman joined the Company as General Counsel and Secretary in September 1992 and was named a Vice President in November 1993 and Senior Vice President in May 1998.                                                                                                                                                                                                                                                             |
| Charles M. Johnson                  51<br>Senior Vice President,<br>Manufacturing and Distribution                 | Mr. Johnson joined the Company in October 1997 as Senior Vice President, Manufacturing and Distribution. From 1988 until joining the Company, he was employed by the Sherwin-Williams Company, where he served as Vice President and Director of Research and Development.                                                                                                                                                           |
| Angus C. Morrison                    44<br>Senior Vice President,<br>Chief Financial Officer                       | Mr. Morrison joined the Company in February of 1995 as Vice President, Corporate Controller. He was appointed Senior Vice President, Chief Financial Officer and Treasurer in March 1998. From 1993 until joining the Company, he was Controller and Senior Financial Officer of the Soap Division of The Dial Corp. He was Controller and Senior Financial Officer of the Food Division of the same company from 1989 through 1992. |
| Timothy W. Ranney                    48<br>Vice President,<br>Corporate Controller                                 | Mr. Ranney joined the Company in September 1998 and was named Vice President, Corporate Controller in October 1998. From 1991 until joining the Company, he was employed by CVS Corporation where he served as Store Controller and then as Director of Financial Systems.                                                                                                                                                           |
| Peter T. Socha                        41<br>Senior Vice President,<br>Strategic Planning and<br>Managed Care       | See "Information Concerning Directors"                                                                                                                                                                                                                                                                                                                                                                                               |
| Robert W. Stein                       45<br>Senior Vice President,<br>Human Resources and<br>Professional Services | Mr. Stein joined the Company as Director of Human Resources in May 1992. In January 1993, he was appointed Vice President, Human Resources, and was appointed Senior Vice President in February 1999. He was appointed to his current position in February 2000.                                                                                                                                                                     |

# SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires our directors, executive officers and holders of more than ten percent (10%) of Common Stock to file with the Securities and Exchange Commission initial reports of ownership and reports of changes in ownership of Common Stock and other equity securities of the Company. We believe that, during 2000, our officers, directors and holders of more than ten percent (10%) of Common Stock complied with all Section 16(a) filing requirements except that the Company did not timely file a Form 5 (relating to our transactions for Timothy Ranney). In making these statements, we have relied upon the written representations of our directors and officers and upon copies of reports furnished to the Company.

## ITEM 11. EXECUTIVE COMPENSATION

The following table discloses compensation received from the Company by the Company's Chief Executive Officer, and the Company's four most highly compensated officers other than the Chief Executive Officer (all such individuals, collectively, the "named executive officers").

Summary Compensation Table

| Name and Principal Position                                                    | Annual Compensation |            |           |                               | Long Term Compensation         |                                       |                            |
|--------------------------------------------------------------------------------|---------------------|------------|-----------|-------------------------------|--------------------------------|---------------------------------------|----------------------------|
|                                                                                | Fiscal Year         | Salary(\$) | Bonus(\$) | Other Annual Compensation(\$) | Restricted Stock Awards(\$)(1) | Securities Underlying Options/SARs(#) | All Other Compensation(\$) |
| James W. Krause<br>Chairman of the Board<br>and Chief Executive Officer        | 2000                | 375,000    | 112,000   | --                            | --(2)                          | 40,000                                | 20,000(3)                  |
|                                                                                | 1999                | 375,000    | --        | --                            | --                             | 340,000                               | 20,000                     |
|                                                                                | 1998                | 368,000    | 101,500   | --                            | 79,688                         | 250,000                               | 20,000                     |
| Michael J. Boden<br>Executive Vice President,<br>Retail Operations             | 2000                | 222,000    | 64,000    | --                            | --(4)                          | 12,000                                | --                         |
|                                                                                | 1999                | 200,000    | --        | --                            | --                             | 12,000                                | --                         |
|                                                                                | 1998                | 193,000    | 38,000    | --                            | 26,563                         | 15,000                                | --                         |
| Eduardo A. Egusquiza<br>Senior Vice President,<br>Information Technology       | 2000                | 188,000    | 58,000    | --                            | --(7)                          | 12,000                                | --                         |
|                                                                                | 1999                | 170,000    | --        | 153,000(6)                    | --                             | 12,000                                | --                         |
|                                                                                | 1998(5)             | 139,000    | 36,000    | --                            | 26,563                         | 50,000                                | --                         |
| Charles M. Johnson<br>Senior Vice President,<br>Manufacturing and Distribution | 2000                | 218,000    | 67,000    | --                            | --(7)                          | 12,000                                | --                         |
|                                                                                | 1999                | 204,000    | --        | --                            | --                             | 12,000                                | --                         |
|                                                                                | 1998                | 197,000    | 39,000    | 37,000(8)                     | 26,563                         | 15,000                                | --                         |
| Peter T. Socha<br>Senior Vice President, Strategic Planning                    | 2000                | 208,000    | 62,000    | --                            | --                             | 40,000                                | --                         |
|                                                                                | 1999(9)             | 36,000     | --        | --                            | --                             | 100,000                               | --                         |

- (1) Restricted Stock Awards vest and restrictions lapse after five-year performance period to the extent and depending upon achievement by the Company of return on asset goals relative to a comparison group of companies. For awards made in 1998, restricted shares, to the extent not vested after five years, vest after ten years of employment. Vesting is accelerated automatically upon a change of control (as defined). Dividends (if any are declared) will not be paid on restricted stock.
- (2) As of December 30, 2000, Mr. Krause had restricted stock holdings representing 30,000 shares of Common Stock with a value of \$936.
- (3) The Company has executed a "split dollar" insurance agreement with Mr. Krause. The annual premium (payable by the Company) is \$20,000. The term life portion of this premium is \$2,500; the non-term life portion is \$17,500.
- (4) As of December 30, 2000, Mr. Boden had restricted stock holdings representing 10,000 shares of Common Stock with a value of \$312.
- (5) Mr. Egusquiza joined the Company in March 1998.
- (6) \$82,000 represents reimbursement of relocation expenses; \$71,000 represents tax reimbursement payments on the foregoing.
- (7) As of December 30, 2000, this executive had restricted stock holdings representing 5,000 shares of Common Stock with a value of \$156.
- (8) \$34,000 represents reimbursement of relocation expenses; \$3,000 represents tax reimbursement payments.
- (9) Mr. Socha joined the Company in October 1999.

#### OPTION GRANTS IN LAST FISCAL YEAR

The following table provides information on option grants to the named executive officers by the Company in 2000. The table also shows the hypothetical gains or "option spreads" that would exist for the respective options. These gains are based on assumed rates of annual compound stock price appreciation of 5% and 10% from the date the options were granted over the full option term.

|                      | No. of Securities Underlying Option/SARs Granted | % of Total Options/SARs Granted to Employees in Fiscal Year (1) | Exercise or Base Price (\$) | Expiration Date | Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Terms (2) |         |
|----------------------|--------------------------------------------------|-----------------------------------------------------------------|-----------------------------|-----------------|-----------------------------------------------------------------------------------------------------|---------|
|                      |                                                  |                                                                 |                             |                 | 5%                                                                                                  | 10%     |
| James W. Krause      | 40,000(3)                                        | 9.3                                                             | 2.00                        | 2/24/10         | 130,312                                                                                             | 207,499 |
| Michael J. Boden     | 12,000(3)                                        | 2.8                                                             | 2.00                        | 2/24/10         | 39,093                                                                                              | 62,250  |
| Eduardo A. Egusquiza | 12,000(3)                                        | 2.8                                                             | 2.00                        | 2/24/10         | 39,093                                                                                              | 62,250  |
| Charles M. Johnson   | 12,000(3)                                        | 2.8                                                             | 2.00                        | 2/24/10         | 39,093                                                                                              | 62,250  |
| Peter T. Socha       | 40,000(3)                                        | 9.3                                                             | 2.00                        | 2/24/10         | 130,312                                                                                             | 207,499 |

- (1) The Company granted options covering 431,200 shares to employees in 2000.
- (2) These amounts represent assumed rates of appreciation only. Actual gains, if any, on stock option exercises and holdings of Common Stock are dependent on the future performance of Common Stock and overall stock market conditions. There can be no assurance that the amounts reflected in this table will be achieved. Under the plan of reorganization filed by the Company, all existing Common Stock and other equity interests will be cancelled.
- (3) Grants under the Company's Restated Stock Option and Incentive Award Plan. Options vest 50% on second anniversary of grant date and 25% on each of the third and fourth anniversary of grant date, subject to continued employment. Expiration date is 10th anniversary of grant date.

# FISCAL YEAR END OPTION VALUES

The following table provides information, as of December 30, 2000, regarding the number and value of options held by the named executive officers.

|                      | No. of Securities Underlying<br>Unexercised Options at<br>Fiscal Year End |                  | Value of Unexercised<br>In-the-Money Options<br>At Fiscal Year End(\$) |               |
|----------------------|---------------------------------------------------------------------------|------------------|------------------------------------------------------------------------|---------------|
|                      | Exercisable                                                               | Unexercisable(1) | Exercisable                                                            | Unexercisable |
| James W. Krause      | 362,500                                                                   | 367,500          | 0                                                                      | 0             |
| Michael J. Boden     | 33,750                                                                    | 35,250           | 0                                                                      | 0             |
| Eduardo A. Egusquiza | 25,000                                                                    | 49,000           | 0                                                                      | 0             |
| Charles M. Johnson   | 56,250                                                                    | 42,750           | 0                                                                      | 0             |
| Peter T. Socha       | 100,000                                                                   | 40,000           | 0                                                                      | 0             |

(1) Shares represented were not exercisable as of December 30, 2000, and future exercisability is subject to the executive's remaining employed by the Company for up to four years from grant date of options. No options were exercised by the named executive officers in fiscal 2000.

## Change in Control Arrangements

The Company has agreements with the named executive officers which provide severance benefits in the event of termination of employment under certain circumstances following a change in control of the Company (as defined). The circumstances are:

- termination by the Company, other than because of death or disability commencing prior to a threatened change in control (as defined);
- for cause (as defined); or
- by an officer as the result of a voluntary termination (as defined).

Following any such termination, in addition to compensation and benefits already earned, the officer will be entitled to receive a lump sum severance payment equal to up to three times the officer's annual rate of base salary.

Cause for termination by the Company is the:

- commission of any act that constitutes, on the part of the officer,
  - (a) fraud, dishonesty, gross negligence, or willful misconduct and
  - (b) that directly results in material injury to the Company, or
- officer's material breach of the agreement, or
- officer's conviction of a felony or crime involving moral turpitude.

Circumstances which would entitle the officer to terminate as a result of voluntary termination following a change in control include, among other things:

- the assignment to the officer of any duties inconsistent with the officer's title and status in effect prior to the change in control or threatened change in control;
- a reduction by the Company of the officer's base salary;
- the Company's requiring the officer to be based anywhere other than the Company's principal executive offices;
- the failure by the Company, without the officer's consent, to pay to the officer any portion of the officer's then current compensation;
- the failure by the Company to continue in effect any material compensation plan in which the officer participates immediately prior to the change in control or threatened change in control; or
- the failure by the Company to continue to provide the officer with benefits substantially similar to those enjoyed by the officer under any of the Company's life insurance, medical, or other plans.

The term of each agreement is for a rolling three years unless the Company gives notice that it does not wish to extend such term, in which case the term of the agreement would expire three years from the date of the notice.

Under the plan of reorganization filed by the Company, all these agreements will be rejected by the Company, or amended to the satisfaction of the Company and the Official Committee of Unsecured Creditors.

## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

COMMON STOCK OWNERSHIP OF CERTAIN  
BENEFICIAL OWNERS AND MANAGEMENT

The Company is not aware of any person who, on March 1, 2001, was the beneficial owner of five percent (5%) or more of outstanding shares of Common Stock, except as set forth below.

|                         | Amount and Nature of<br>Beneficial Ownership | Percent<br>of Class |
|-------------------------|----------------------------------------------|---------------------|
| -----                   | -----                                        | -----               |
| Campbell B. Lanier, III | 4,363,062(a)(b)                              | 20.7                |
| Rayna Casey             | 1,808,152(c)                                 | 8.5                 |

- 
- (a) Includes shares owned by the following individuals and entities, who may be deemed a "group" within the meaning of the beneficial ownership provisions of the federal securities laws: Mr. Lanier (838,832 shares); Mr. Lanier's wife (750 shares); Campbell B. Lanier, IV (25,550 shares); ITC Service Company (3,356,648 shares); William H. Scott, III (82,782 shares); Martha J. Scott (28,000 shares, inclusive of 10,000 shares owned by the Scott Trust, of which Ms. Scott is the sole trustee); William H. Scott, III Irrevocable Trust F/B/O Martha Scott (the "Scott Trust") (10,000 shares); Bryan W. Adams (8,000 shares).
- (b) Includes 24,375 shares which Mr. Lanier has the right to acquire under the Company's Non-Employee Director Stock Option Plan.
- (c) Includes 159,948 shares owned by a trust of which Ms. Casey is the trustee and her daughter the beneficiary. Ms. Casey's address is 712 West Paces Ferry Road, Atlanta, Georgia.

The following table sets forth information, as of March 1, 2001, concerning beneficial ownership by all directors, by each of the executive officers named in the Summary Compensation Table above, and by all directors and executive officers as a group.

| Name and Address<br>of Beneficial Owner(1)<br>-----                       | Beneficially<br>Owned<br>Common Stock<br>----- | Percent of<br>Number of<br>Shares<br>Outstanding<br>----- |
|---------------------------------------------------------------------------|------------------------------------------------|-----------------------------------------------------------|
| Campbell B. Lanier, III.....                                              | 4,363,062(2)(3)                                | 20.7                                                      |
| James W. Krause.....                                                      | 797,193(4)                                     | 3.7                                                       |
| J. Smith Lanier, II.....                                                  | 304,110(3)(5)                                  | 1.4                                                       |
| Ronald J. Green.....                                                      | 113,375(3)(6)                                  | *                                                         |
| Peter T. Socha.....                                                       | 100,000(7)                                     | *                                                         |
| James E. Kanaley.....                                                     | 5,625                                          | *                                                         |
| Michael J. Boden.....                                                     | 60,327(8)                                      | *                                                         |
| Charles M. Johnson.....                                                   | 75,600(9)                                      | *                                                         |
| Eduardo A. Egusquiza.....                                                 | 48,500(10)                                     | *                                                         |
| All directors and executive officers as a<br>group (sixteen persons)..... | 6,137,982                                      | 27.6                                                      |

- \* Represents less than one percent of the outstanding Common Stock.
- (1) Unless otherwise indicated below, the address of the persons named is 296 Grayson Highway, Lawrenceville, GA 30045.
- (2) See footnote (a) in table above.
- (3) Includes 24,375 shares which this individual has the right to acquire under the Company's Non-Employee Director Stock Option Plan. Messrs. Campbell B. Lanier, III and J. Smith Lanier, II resigned from the Board of Directors in March 2001.
- (4) Includes 532,500 shares which Mr. Krause has the right to acquire under the Company's Restated Stock Option and Incentive Award Plan (the "Plan"). Also includes 30,000 shares of restricted stock awarded under the Plan.
- (5) Includes 1,800 shares owned by Mr. Lanier's wife, as to which he disclaims beneficial ownership.
- (6) Includes 9,000 shares owned by Mr. Green's children, as to which he disclaims beneficial ownership.
- (7) Represents 100,000 shares which Mr. Socha has the right to acquire under the Plan.
- (8) Includes 47,250 shares which Mr. Boden has the right to acquire under the Plan. Also includes 10,000 shares of restricted stock awarded under the Plan.
- (9) Includes 62,250 shares which Mr. Johnson has the right to acquire under the Plan and 5,000 shares of restricted stock awarded under the Plan.
- (10) Includes 43,500 shares which Mr. Egusquiza has the right to acquire under the Plan and 5,000 shares of restricted stock awarded under the Plan.

#### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The Company paid insurance premiums of approximately \$443,000 in 2000 for insurance policies purchased through an agency in which J. Smith Lanier, II, a director of the Company, has a substantial ownership interest. The Audit Committee (which has ratified the purchase of insurance by the Company from this insurance agency) and management of the Company believe that these premiums are comparable to those which could have been obtained from unaffiliated companies.

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) (1) and (2) The Consolidated Financial Statements and Schedule of the Company and its subsidiaries are filed as a separate section of this Report commencing on page F-1.

(3) We have filed or incorporated by reference the following exhibits:

Exhibit

Number Description

- - - - -

- 3.1 -- Amended and Restated Articles of Incorporation of the Company, dated April 8, 1992, along with Articles of Amendment to the Amended and Restated Articles of Incorporation of the Company dated January 17, 1997, and Articles of Amendment to the Amended and Restated Articles of Incorporation of the Company dated December 31, 1998, incorporated by reference to the Company's Form 8-K filed with the Commission on January 6, 1999.
- 3.2 -- Amended and Restated By-Laws of the Company, incorporated by reference to the Company's Registration Statement on Form S-1, registration number 33-46645, filed with the Commission on March 25, 1992, and amendments thereto.
- 4.1 -- Form of Common Stock Certificate, incorporated by reference to the Company's Registration Statement on Form 8-A filed with the Commission on January 17, 1997.
- 4.2 -- Rights Agreement dated as of January 17, 1997 between the Company and Wachovia Bank of North Carolina, N.A., incorporated by reference to the Company's Registration Statement on Form 8-A filed with the Commission on January 17, 1997.
- 4.3 -- Indenture dated as of October 8, 1998, among the Company, the Guarantors and State Street Bank & Company, as Trustee (including form of Exchange Note), incorporated by reference to the Company's Registration Statement on Form S-4, registration number 333-71825, filed with the Commission on February 5, 1998, and amendments thereto.
- 4.4 -- Purchase Agreement dated as of October 8, 1998, among the Company, the Guarantors and the Initial Purchasers, incorporated by reference to the Company's Registration Statement on Form S-4, registration number 333-71825, filed with the Commission on February 5, 1998, and amendments thereto.
- 4.5 -- Registration Rights Agreement dated as of October 8, 1998, among the Company, the Guarantors and the Initial Purchasers, incorporated by reference to the Company's Registration Statement on Form S-4, registration number 333-71825, filed with the Commission on February 5, 1998, and amendments thereto.

- 10.1 -- Sublease Agreement, dated December 16, 1991, by and between Wal-Mart Stores, Inc. and the Company, incorporated by reference to the Company's Registration Statement on Form S-1, registration number 33-46645, filed with the Commission on March 25, 1992, and amendments thereto.
- 10.2 -- Form indemnification agreement for directors and executive officers of the Company, incorporated by reference to the Company's Form 10-K for the fiscal year ended December 31, 1992.
- 10.3 -- Vision Center Master License Agreement, dated as of June 16, 1994, by and between Wal-Mart Stores, Inc. and the Company, incorporated by reference to the Company's Form 10-Q for the quarterly period ended September 30, 1994. [Portions of Exhibit 10.3 have been omitted pursuant to an order for confidential treatment granted by the Commission. The omitted portions have been filed separately with the Commission.]
- 10.4++ -- Split Dollar Life Insurance Agreement, dated as of November 3, 1994, among the Company, A. Kimbrough Davis, as Trustee, and James W. Krause, incorporated by reference to the Company's Form 10-K for the fiscal year ended December 31, 1994.
- 10.5++ -- Level IV Management Incentive Plan, incorporated by reference to the Company's Form 10-K for the fiscal year ended December 31, 1994.
- 10.6 -- Agreement dated as of November 23, 1995 by and between Mexican Vision Associates Operadora, S. de R.L. de C.V. and Wal-Mart de Mexico, S.A. de C.V. in original Spanish and an uncertified English translation, incorporated by reference to the Company's Form 10-K for the fiscal year ended December 30, 1995. [Portions of Exhibit 10.6 have been omitted pursuant to a request for confidential treatment filed with the Commission. The omitted portions have been filed separately with the Commission.]
- 10.7++ -- Executive Relocation Policy, incorporated by reference to the Company's Form 10-Q for the quarterly period ended March 30, 1996.
- 10.8++ -- Restated Stock Option and Incentive Award Plan, incorporated by reference to the Company's Form 10-Q for the quarterly period ended June 29, 1996.
- 10.9++ -- First Amendment to Restated Stock Option and Incentive Award Plan, incorporated by reference to the Company's Form 10-Q for the quarterly period ended March 29, 1997.
- 10.10++-- Form Change in Control Agreement for executive officers of the Company, incorporated by reference to the Company's Form 10-K for the fiscal year ended December 28, 1996.

- 10.11+-- Form Restricted Stock Award, incorporated by reference to the Company's Form 10-Q for the quarterly period ended March 29, 1997.
- 10.12+-- Restated Non-Employee Director Stock Option Plan, incorporated by reference to the Company's Form 10-Q filed on June 28, 1997.
- 10.13+-- Executive Deferred Compensation Plan, incorporated by reference to the Company's Form 10-K for the fiscal year ended January 3, 1998.
- 10.14 -- Credit Agreement dated October 8, 1998 by and among the Company, Bank of America, FSB, First Union National Bank and the financial institutions listed hereto, incorporated by reference to the Company's Registration Statement on Form S-4, registration number 333-71825, filed with the Commission on February 5, 1999, and amendments thereto.
- 10.15 -- Amended and Restated Credit Agreement dated as of November 12, 1999 by and between the Company and Foothill Capital Corporation, incorporated by reference to the Company's Form 10-K for the fiscal year ended January 1, 2000.
- 10.16 -- Agreement dated as of September 9, 1999, by and among the Company, ITC Service Company, and Campbell B. Lanier, III, incorporated by reference to the Company's Form 10-K for the fiscal year ended January 1, 2000.
- 10.17 -- Senior Secured, Super-Priority Debtor in Possession Loan and Security Agreement dated as of April 6, 2000 by and between the Company and Foothill Capital Corporation, incorporated by reference to the Company's Form 10-Q for the quarterly period ended July 1, 2000.
- 21 -- Subsidiaries of the Registrant, incorporated by reference to the Company's Form 10-K for the fiscal year ended January 1, 2000.
- 23\*\* -- Consent by Arthur Andersen LLP.
- \*\* Filed with this Form 10-K.
- ++ Management contract or compensatory plan or arrangement in which a director or named executive officer participates.

(b) No reports on Form 8-K have been filed during the last quarter of the period covered by this report.

VISTA EYECARE, INC. AND SUBSIDIARIES  
DEBTORS-IN-POSSESSION

CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULE  
AS OF DECEMBER 30, 2000, JANUARY 1, 2000 AND JANUARY 2, 1999  
TOGETHER WITH AUDITORS' REPORT

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULE

The following consolidated financial statements and schedule of the registrant and its subsidiaries are submitted herewith in response to Item 8 and Item 14(a)1 and to Item 14(a)2, respectively.

|                                                                                                                                            | Page |
|--------------------------------------------------------------------------------------------------------------------------------------------|------|
|                                                                                                                                            | ---- |
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All other schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions, are inapplicable, or have been disclosed in the notes to consolidated financial statements and, therefore, have been omitted.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Vista Eyecare, Inc. and Subsidiaries:

We have audited the accompanying consolidated balance sheets of VISTA EYECARE, INC. (a Georgia corporation) AND SUBSIDIARIES as of December 30, 2000 and January 1, 2000 and the related consolidated statements of operations, shareholders' (deficit)/equity, and cash flows for each of the three years in the period ended December 30, 2000. These financial statements and the schedule referred to below are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Vista Eyecare, Inc. and subsidiaries as of December 30, 2000 and January 1, 2000 and the results of their operations and their cash flows for each of the three years in the period ended December 30, 2000 in conformity with accounting principles generally accepted in the United States.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 3 to the financial statements, the Company filed voluntary petitions with the United States Bankruptcy Court for reorganization under Chapter 11. These matters raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are described in Note 3. The financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might result should the Company be unable to continue as a going concern.

As explained in Note 2 to the financial statements, effective January 2, 2000 the Company changed its method of accounting for revenues and related costs of retail sales upon adoption of Securities and Exchange Commission Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements."

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule listed in the index to consolidated financial statements is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

ARTHUR ANDERSEN LLP

Atlanta, Georgia  
March 30, 2001

VISTA EYECARE, INC. AND SUBSIDIARIES  
(DEBTORS-IN-POSSESSION)  
CONSOLIDATED BALANCE SHEETS  
December 30, 2000 and January 1, 2000  
(In thousands except share information)

|                                                                        | 2000      | 1999       |
|------------------------------------------------------------------------|-----------|------------|
|                                                                        | -----     | -----      |
| ASSETS                                                                 |           |            |
| CURRENT ASSETS:                                                        |           |            |
| Cash and cash equivalents                                              | \$ 8,066  | \$ 2,886   |
| Accounts receivable (net of allowance: 2000 - \$5,744; 1999 - \$4,403) | 10,119    | 10,416     |
| Inventories                                                            | 31,478    | 34,373     |
| Other current assets                                                   | 1,590     | 2,761      |
|                                                                        | -----     | -----      |
| Total current assets                                                   | 51,253    | 50,436     |
|                                                                        | -----     | -----      |
| PROPERTY AND EQUIPMENT:                                                |           |            |
| Equipment                                                              | 47,187    | 57,750     |
| Furniture and fixtures                                                 | 23,272    | 26,600     |
| Leasehold improvements                                                 | 18,664    | 28,458     |
| Construction in progress                                               | 540       | 3,427      |
|                                                                        | -----     | -----      |
|                                                                        | 89,663    | 116,235    |
| Less accumulated depreciation                                          | (60,092)  | (62,329)   |
|                                                                        | -----     | -----      |
| Net property and equipment                                             | 29,571    | 53,906     |
|                                                                        | -----     | -----      |
| OTHER ASSETS AND DEFERRED COSTS                                        |           |            |
| (net of accumulated amortization: 2000 - \$2,142; 1999 - \$1,500)      | 7,766     | 9,315      |
| DEFERRED INCOME TAX ASSET                                              | 385       | 385        |
| GOODWILL AND OTHER INTANGIBLE ASSETS                                   |           |            |
| (net of accumulated amortization: 2000 - \$2,691; 1999 - \$6,994)      | 1,913     | 106,177    |
|                                                                        | -----     | -----      |
|                                                                        | \$ 90,888 | \$ 220,219 |
|                                                                        | =====     | =====      |

|                                                                                  | 2000      | 1999       |
|----------------------------------------------------------------------------------|-----------|------------|
|                                                                                  | -----     | -----      |
| LIABILITIES AND SHAREHOLDERS' (DEFICIT)/EQUITY                                   |           |            |
| LIABILITIES NOT SUBJECT TO COMPROMISE:                                           |           |            |
| CURRENT LIABILITIES:                                                             |           |            |
| Accounts payable                                                                 | \$ 783    | \$ 17,288  |
| Accrued expenses and other current liabilities                                   | 19,693    | 24,472     |
| Current portion of other long-term debt and capital lease obligations            | --        | 1,098      |
| Revolving credit facility and term loan                                          | 12,911    | 19,292     |
|                                                                                  | -----     | -----      |
| Total current liabilities                                                        | 33,387    | 62,150     |
|                                                                                  | -----     | -----      |
| SENIOR NOTES (net of discount: 1999 - \$1,253)                                   | --        | 123,747    |
| OTHER LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS                               | --        | 6,865      |
| LIABILITIES SUBJECT TO COMPROMISE (See Note 4)                                   | 170,824   | --         |
| COMMITMENTS AND CONTINGENCIES (See Note 13)                                      | --        | --         |
| REDEEMABLE COMMON STOCK                                                          | --        | 900        |
| SHAREHOLDERS' (DEFICIT)/EQUITY:                                                  |           |            |
| Preferred deficit stock, \$1 par value; 5,000,000 shares authorized, none issued | --        | --         |
| Common stock, \$0.01 par value, 100,000,000 shares authorized, 21,169,103        |           |            |
| and 21,179,103 shares issued and outstanding as of December 30, 2000 and         |           |            |
| January 1, 2000, respectively                                                    | 211       | 211        |
| Additional paid-in capital                                                       | 47,387    | 47,387     |
| Retained deficit                                                                 | (156,848) | (16,968)   |
| Accumulated other comprehensive income                                           | (4,073)   | (4,073)    |
|                                                                                  | -----     | -----      |
| Total shareholders' (deficit)/equity                                             | (113,323) | 26,557     |
|                                                                                  | -----     | -----      |
|                                                                                  | \$ 90,888 | \$ 220,219 |
|                                                                                  | =====     | =====      |

The accompanying notes are an integral part of these consolidated financial statements.

VISTA EYECARE, INC. AND SUBSIDIARIES  
(DEBTORS-IN-POSSESSION)  
CONSOLIDATED STATEMENTS OF OPERATIONS  
For the years ended December 30, 2000, January 1, 2000 and January 2, 1999  
(In thousands except per share information)

|                                                                                                    | 2000        | 1999        | 1998       |
|----------------------------------------------------------------------------------------------------|-------------|-------------|------------|
|                                                                                                    | -----       | -----       | -----      |
| NET SALES                                                                                          | \$ 307,694  | \$ 329,055  | \$ 245,331 |
| COST OF GOODS SOLD                                                                                 | 143,458     | 147,768     | 112,959    |
|                                                                                                    | -----       | -----       | -----      |
| GROSS PROFIT                                                                                       | 164,236     | 181,287     | 132,402    |
| SELLING, GENERAL, AND ADMINISTRATIVE EXPENSE                                                       | 166,364     | 177,162     | 121,413    |
| IMPAIRMENT OF LONG-LIVED ASSETS                                                                    | 2,684       | 1,952       | -          |
| RESTRUCTURING EXPENSE                                                                              | 1,601       | -           | -          |
|                                                                                                    | -----       | -----       | -----      |
| OPERATING INCOME/(LOSS)                                                                            | (6,413)     | 2,173       | 10,989     |
| INTEREST EXPENSE                                                                                   | 7,723       | 19,329      | 5,538      |
|                                                                                                    | -----       | -----       | -----      |
| INCOME/(LOSS) BEFORE REORGANIZATION ITEMS AND TAXES                                                | (14,136)    | (17,156)    | 5,451      |
| REORGANIZATION ITEMS (SEE NOTE 5)                                                                  | 121,539     | -           | -          |
|                                                                                                    | -----       | -----       | -----      |
| EARNINGS/(LOSS) BEFORE TAXES, EXTRAORDINARY ITEM AND CUMULATIVE EFFECT                             | (135,675)   | (17,156)    | 5,451      |
| INCOME TAX EXPENSE                                                                                 | -           | -           | 2,037      |
|                                                                                                    | -----       | -----       | -----      |
| NET EARNINGS/(LOSS) BEFORE EXTRAORDINARY ITEM AND CUMULATIVE EFFECT                                | (135,675)   | (17,156)    | 3,414      |
| EXTRAORDINARY LOSS, NET (SEE NOTE 11)                                                              | (827)       | (406)       | -          |
| CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE, NET (SEE NOTE 2)                              | (3,378)     | -           | -          |
|                                                                                                    | -----       | -----       | -----      |
| NET INCOME/(LOSS)                                                                                  | \$(139,880) | \$ (17,562) | \$ 3,414   |
|                                                                                                    | =====       | =====       | =====      |
| BASIC EARNINGS/(LOSS) PER SHARE:                                                                   |             |             |            |
| EARNINGS/(LOSS) BEFORE EXTRAORDINARY ITEM AND CUMULATIVE EFFECT                                    | (6.41)      | (0.81)      | 0.16       |
| LOSS FROM EXTRAORDINARY ITEM                                                                       | (0.04)      | (0.02)      | -          |
| LOSS FROM CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE                                      | (0.16)      | -           | -          |
|                                                                                                    | -----       | -----       | -----      |
| NET EARNINGS/(LOSS)PER BASIC SHARE                                                                 | \$ (6.61)   | \$ (0.83)   | \$ 0.16    |
|                                                                                                    | =====       | =====       | =====      |
| DILUTED EARNINGS/(LOSS) PER SHARE:                                                                 |             |             |            |
| EARNINGS/(LOSS) BEFORE EXTRAORDINARY ITEM AND CUMULATIVE EFFECT                                    | (6.41)      | (0.81)      | 0.16       |
| LOSS FROM EXTRAORDINARY ITEM                                                                       | (0.04)      | (0.02)      | -          |
| LOSS FROM CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE                                      | (0.16)      | -           | -          |
|                                                                                                    | -----       | -----       | -----      |
| NET EARNINGS/(LOSS)PER DILUTED SHARE                                                               | \$ (6.61)   | \$ (0.83)   | \$ 0.16    |
|                                                                                                    | =====       | =====       | =====      |
| Pro forma amounts as if the new revenue recognition policy was applied retroactively (See Note 2): |             |             |            |
|                                                                                                    |             | 1999        | 1998       |
|                                                                                                    |             | -----       | -----      |
| NET EARNINGS/(LOSS) BEFORE EXTRAORDINARY ITEM                                                      |             | \$ (17,239) | \$ 3,352   |
| NET EARNINGS/(LOSS)                                                                                |             | \$ (17,645) | \$ 3,352   |
| NET EARNINGS/(LOSS) PER SHARE-BASIC AND DILUTED:                                                   |             |             |            |
| NET EARNINGS/(LOSS) BEFORE EXTRAORDINARY ITEM                                                      |             | \$ (0.82)   | \$ 0.16    |
| NET EARNINGS/(LOSS)                                                                                |             | \$ (0.84)   | \$ 0.16    |

The accompanying notes are an integral part of these consolidated financial statements.

VISTA EYECARE, INC. AND SUBSIDIARIES  
(DEBTORS-IN-POSSESSION)  
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' (DEFICIT)/EQUITY  
For the years ended December 30, 2000, January 1, 2000 and January 2, 1999  
(In thousands except share information)

|                                    | Common Stock |        | Additional<br>Paid-In<br>Capital | Retained<br>Earnings<br>(Deficit) | Accumulated<br>Other<br>Comprehensive<br>Income |             |
|------------------------------------|--------------|--------|----------------------------------|-----------------------------------|-------------------------------------------------|-------------|
|                                    | Shares       | Amount |                                  |                                   |                                                 | Total       |
| BALANCE, January 3, 1998           | 20,819,955   | 207    | 42,284                           | (2,820)                           | (4,073)                                         | 35,598      |
| Awards of restricted stock         | 52,000       | 1      | 121                              |                                   |                                                 | 122         |
| Exercise of stock options          | 294,657      | 3      | 1,482                            |                                   |                                                 | 1,485       |
| Tax settlement (See Note 14)       |              |        | 3,308                            |                                   |                                                 | 3,308       |
| Net income                         |              |        |                                  | 3,414                             |                                                 | 3,414       |
| BALANCE, January 2, 1999           | 21,166,612   | 211    | 47,195                           | 594                               | (4,073)                                         | 43,927      |
| Restricted stock                   |              |        | 136                              |                                   |                                                 | 136         |
| Exercise of stock options          | 12,491       |        | 56                               |                                   |                                                 | 56          |
| Net loss                           |              |        |                                  | (17,562)                          |                                                 | (17,562)    |
| BALANCE, January 1, 2000           | 21,179,103   | 211    | 47,387                           | (16,968)                          | (4,073)                                         | 26,557      |
| Cancellation of Shares<br>(10,000) |              |        |                                  |                                   |                                                 |             |
| Net Loss                           |              |        |                                  | (139,880)                         |                                                 | (139,880)   |
| BALANCE, December 30, 2000         | 21,169,103   | \$ 211 | \$ 47,387                        | \$(156,848)                       | \$ (4,073)                                      | \$(113,323) |

The accompanying notes are an integral part of these consolidated financial statements.

VISTA EYECARE, INC. AND SUBSIDIARIES  
(DEBTORS-IN-POSSESSION)  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
For the Years Ended December 30, 2000, January 1, 2000, and  
January 2, 1999 (In thousands)

|                                                                                                       | 2000<br>---- | 1999<br>---- | 1998<br>---- |
|-------------------------------------------------------------------------------------------------------|--------------|--------------|--------------|
| CASH FLOWS FROM OPERATING ACTIVITIES:                                                                 |              |              |              |
| Net income/(loss)                                                                                     | \$(139,880)  | \$(17,562)   | \$ 3,414     |
| Adjustments to reconcile net income/(loss) to<br>net cash provided by (used in) operating activities: | -----        | -----        | -----        |
| Depreciation and amortization                                                                         | 17,526       | 18,602       | 14,177       |
| Provision for deferred income tax expense                                                             | --           | --           | 1,173        |
| Impairment of long-lived assets                                                                       | 2,684        | 1,952        | --           |
| Restructuring expense                                                                                 | 1,601        | --           | --           |
| Reorganization items                                                                                  | 121,539      | --           | --           |
| Extraordinary loss                                                                                    | 827          | 406          | --           |
| Cumulative effect of a change in accounting principle                                                 | 3,378        | --           | --           |
| Other                                                                                                 | 1,181        | (459)        | 936          |
| Changes in operating assets and liabilities, net of<br>effects of acquisitions:                       |              |              |              |
| Receivables                                                                                           | (1,480)      | (281)        | (1,504)      |
| Inventories                                                                                           | 5,026        | (2,703)      | 1,304        |
| Other current assets                                                                                  | 1,171        | 138          | (1,630)      |
| Accounts payable                                                                                      | 9,351        | (1,733)      | (410)        |
| Accrued expenses                                                                                      | (4,335)      | (2,069)      | (7,691)      |
|                                                                                                       | -----        | -----        | -----        |
| Total adjustments                                                                                     | \$ 158,469   | \$ 13,853    | \$ 6,355     |
|                                                                                                       | -----        | -----        | -----        |
| Net cash (used in) provided by operating activities                                                   | 18,589       | (3,709)      | 9,769        |
|                                                                                                       | -----        | -----        | -----        |
| CASH FLOWS FROM INVESTING ACTIVITIES:                                                                 |              |              |              |
| Purchase of property and equipment                                                                    | (5,379)      | (12,704)     | (9,183)      |
| Acquisitions, net of cash acquired                                                                    | --           | --           | (97,357)     |
| Proceeds from sale of property and equipment                                                          | --           | 955          | --           |
|                                                                                                       | -----        | -----        | -----        |
| Net cash used in investing activities                                                                 | (5,379)      | (11,749)     | (106,540)    |
|                                                                                                       | -----        | -----        | -----        |
| CASH FLOWS FROM FINANCING ACTIVITIES:                                                                 |              |              |              |
| Proceeds from sale of senior notes, net of discount                                                   | --           | --           | 123,580      |
| Advances on revolving credit facility                                                                 | 305,751      | 79,238       | 52,500       |
| Repayments on revolving credit facility                                                               | (312,132)    | (65,946)     | (66,000)     |
| Principal payment on notes payable and capital leases                                                 | (934)        | (1,265)      | (436)        |
| Proceeds from exercise of stock options                                                               | --           | 56           | 1,485        |
| Deferred financing costs                                                                              | (715)        | (811)        | (9,845)      |
|                                                                                                       | -----        | -----        | -----        |
| Net cash provided by (used in) financing activities                                                   | (8,030)      | 11,272       | 101,284      |
|                                                                                                       | -----        | -----        | -----        |
| NET INCREASE/(DECREASE) IN CASH                                                                       | 5,180        | (4,186)      | 4,513        |
| CASH, beginning of year                                                                               | 2,886        | 7,072        | 2,559        |
|                                                                                                       | -----        | -----        | -----        |
| CASH, end of year                                                                                     | \$ 8,066     | \$ 2,886     | \$ 7,072     |
|                                                                                                       | =====        | =====        | =====        |

The accompanying notes are an integral part of these consolidated financial statements.

VISTA EYECARE, INC. AND SUBSIDIARIES  
(DEBTORS-IN-POSSESSION)  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND OPERATIONS

Vista Eyecare, Inc. (the "Company") is engaged in the retail sale of optical goods and services. The Company is largely dependent on Wal-Mart Stores, Inc. ("Wal-Mart") for continued operation of vision centers which generate a significant portion of the Company's revenues (See Note 7). In October 1997, the Company acquired the capital stock of Midwest Vision, Inc., a retail optical company with 51 locations in Minnesota and three adjoining states. In July 1998, the Company acquired the capital stock of Frame-n-Lens Optical, Inc., which operated approximately 280 vision centers, mainly in the western United States. In October 1998, the Company acquired the capital stock of New West Eyeworks, Inc. which operated approximately 175 vision centers in 13 states (See Note 8).

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. The Company operates on a 52/53 week retail calendar with the fiscal year ending on the Saturday closest to December 31. Pursuant to such calendar, financial information for 1998 is presented for the 52-week period ended January 2. Due to various statutory and other considerations, international operations do not operate on this 52/53 week calendar. To allow for more timely consolidation and reporting, international operations are reported using a fiscal year ending November 30.

Certain amounts in the financial statements have been reclassified to conform to the current year presentation.

Revenue Recognition

In December 1999, the SEC issued Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements". SAB 101 summarizes the SEC's view in applying generally accepted accounting principles to selected revenue recognition issues. Prior to the adoption of SAB 101, the Company recognized revenues and the related costs from retail sales when at least 50% of the payment was received. In response to SAB 101, the Company is required to recognize revenue upon delivery of the product. The amount of cash received at the time the customer's order is placed is recorded as a deposit liability and is presented within accrued liabilities. The effect of this change in accounting principle was applied cumulatively as of the beginning of 2000 and totaled \$3.4 million.

Cash and Cash Equivalents

The Company considers cash on hand and short-term cash investments to be cash and cash equivalents. The Company's policy is to maintain uninvested cash at minimal levels. Cash includes cash equivalents which represent highly liquid investments with a maturity of one month or less. The Company restricts investment of temporary cash investments to financial institutions with high credit standings.

## Inventories

Inventories are valued at the lower of weighted average cost or market. Market represents the net realizable value.

## Property and Equipment

Property and equipment are stated at cost. For financial reporting purposes, depreciation is computed using the straight-line method over the assets' estimated useful lives or terms of the related leases, whichever is shorter. Accelerated depreciation methods are used for income tax reporting purposes. For financial reporting purposes, the useful lives used for computation of depreciation range from five to ten years for equipment, from three to nine years for furniture and fixtures, from three to six years for hardware and software related to information systems processing, and from five to nine years which approximate the remaining lease term for leasehold improvements. At the time property and equipment are retired, the cost and related accumulated depreciation are removed from the accounts and any gain or loss is credited or charged to income. Periodically, the Company evaluates the net book value of property and equipment for impairment. This evaluation is performed for retail locations and compares management's best estimate of future cash flows with the net book value of the property and equipment. (See Note 4 for a discussion of impaired property and equipment.) Maintenance and repairs are charged to expense as incurred. Replacements and improvements are capitalized.

## Balance Sheet Financial Instruments: Fair Values

The carrying amounts reported in the consolidated balance sheets for cash, accounts receivable, accounts payable and short-term debt approximates fair value because of the immediate or short-term maturity of these financial instruments. The carrying amount reported for "Revolving Credit Facility and Term Loan" approximates fair value because the underlying instrument is a variable rate note that reprices frequently.

Liabilities Subject to Compromise refers to liabilities incurred prior to the commencement of the Chapter 11 Cases (See Note 4). The settlement of these liabilities will be determined in a court-approved plan of reorganization. In March 2001, the Company filed a plan of reorganization which will result in the settlement of these liabilities at less than 100% of face value. No adjustment to these liabilities has been made in the December 30, 2000 financial statements as the proposed plan of reorganization has yet to be approved.

The Company is party to letters of credit totaling \$4.5 million and \$2.2 million at December 30, 2000 and January 1, 2000, respectively. In the Company's past experience, virtually no claims have been made against these financial instruments. Management does not expect any material losses to result from these off-balance-sheet instruments because performance is not expected to be required. Therefore, management is of the opinion that the fair value of these instruments is zero.

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of trade accounts receivable. The risk is limited due to the large number of individuals and entities comprising the Company's customer base.

## Goodwill and other Intangible Assets

Goodwill and other intangible assets represent the excess of the cost of net assets acquired in certain contract transactions and business acquisitions over their fair value. Such amounts are amortized over periods ranging from 11 years to 30 years. The Company periodically evaluates the carrying value of goodwill and other intangible assets based on the expected future undiscounted operating cash flows of the related business unit. (See Note 5 for a discussion of goodwill impairments in 2000.)

## Income Taxes

Deferred income taxes are recorded using current enacted tax laws and rates. Deferred income taxes are provided for depreciation, inventory basis differences, and accrued expenses where there is a temporary difference in recording such items for financial reporting and income tax reporting purposes.

## Other Deferred Costs

Other deferred costs include capitalized financing costs which are being amortized on a straight line basis over periods from one to seven years to correspond with the terms of the underlying debt. In addition, certain capitalized assets resulting from contractual obligations are included and are being amortized on a straight line basis over periods of up to five years. Certain deferred financing costs which relate to pre-petition debt are no longer being amortized. When the related pre-petition debt is approved as an allowed claim by the Bankruptcy Court, these deferred costs will adjust the carrying value of the related debt. Any gain or loss will be recognized as a reorganization item at that time.

## Advertising and Promotion Expense

Production costs of future media advertising and related promotion campaigns are deferred until the advertising events occur. All other advertising and promotion costs are expensed over the course of the year in which they are incurred.

## Interest Expense, Net

Interest expense includes interest on debt and capital lease obligations, purchase discounts on invoice payments, the amortization of finance fees, and the amortization of the discount on the senior notes. The Company has stopped accruing interest on unsecured debt until the Company emerges from Chapter 11, or it becomes probable that the Company will pay these amounts as part of a reorganization plan.

## Foreign Currency Translation

The financial statements of foreign subsidiaries are translated into U.S. dollars in accordance with Statement of Financial Accounting Standards No. 52 ("SFAS 52"). Translation adjustments, which result from the process of translating foreign financial statements into U.S. dollars, were not material for the years ended December 30, 2000 or January 1, 2000.

## Derivative Instruments and Hedging Activities

In 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133 ("SFAS 133"), "Accounting for Derivative Instruments and Hedging Activities". The Company's adoption of SFAS 133 in 2000 had no impact on the Company's financial statements as the Company did not hold derivative instruments, nor participate in hedging activities during the reporting period.

## Other Comprehensive Income

In July 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 130 ("SFAS 130"), "Reporting Comprehensive Income". The statement addresses the reporting and display of changes in equity that result from transactions and other economic events, excluding transactions with owners. The adoption of SFAS No. 130 did not have a material impact on the Company's financial statements, as comprehensive income was equal to net income in 2000, 1999 and 1998.

## Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## 3. BANKRUPTCY PROCEEDINGS AND GOING CONCERN MATTERS

### Proceedings Under Chapter 11 of the Bankruptcy Code

On April 5, 2000, the Company and ten of its subsidiaries (collectively, the "Debtors") filed voluntary petitions with the United State Bankruptcy Court for the Northern District of Georgia for reorganization under Chapter 11 (the "Chapter 11 Cases"). The Chapter 11 Cases have been consolidated for the purpose of joint administration under Case No. 00-65214. The Debtors are currently operating their businesses as debtors-in-possession pursuant to the Bankruptcy Code. All affiliated entities of the Company are included in the Chapter 11 Cases, except only (a) three subsidiaries which are licensed managed care organizations and (b) foreign subsidiaries of the Company.

In March 2001, the Debtors filed a plan of reorganization for the Chapter 11 Cases. We expect the Company will emerge from Chapter 11 in the second quarter of 2001. There can be no assurance that the reorganization plan will be confirmed by the Bankruptcy Court, or that such plan will be consummated. If confirmed and consummated, the proposed plan of reorganization will result in the settlement of unsecured claims at less than 100% of face value. The existing Common Stock will be cancelled, resulting in existing shareholders receiving no value for their interests.

The proposed plan of reorganization includes the conversion of the Company's pre-petition unsecured claims into new secured notes and common stock. The secured notes will have a face value of \$120 million and will pay interest of 12% twice a year at the end of March and September. The notes have an eight year duration with principal repayments based on excess cash balances available at each interest payment date.

As a result of the Chapter 11 filings, absent approval of the Bankruptcy Court, the Company is prohibited from paying, and creditors are prohibited from attempting to collect, claims or debts arising prior to April 5, 2000 (See Note 10). We may assume or reject certain contracts which were signed before the date the Debtors filed the Bankruptcy petition. Rejected contracts will generate unsecured claims in the Chapter 11 Cases. To assume contracts, we will have to cure any outstanding defaults. We believe that, as part of our reorganization plan, the Company will be able to assume the contracts it desires to continue.

Because of our operating losses and the changes we recorded in 2000, (See Note 5), we do not meet certain requirements contained in some of our contracts. We anticipate that, as part of our reorganization plan, we will meet these requirements upon emergence from Chapter 11.

#### Going Concern Matters

The accompanying consolidated financial statements have been prepared on a going concern basis of accounting and do not reflect any adjustments that might result if the Company is unable to continue as a going concern. The Company's recent losses and negative cash flows from operations, and the Chapter 11 Cases, raise substantial doubt about the Company's ability to continue as a going concern. As discussed above, management has submitted a plan of reorganization to the Bankruptcy Court. The ability of the Company to continue as a going concern and the appropriateness of using the going concern basis is dependent upon, among other things, (i) the Company's ability to comply with the debtor-in-possession financing agreements ("DIP" Facility), (ii) the Company's ability to obtain financing upon expiration of the DIP Facility, (iii) confirmation of a plan of reorganization under the Bankruptcy Code, (iv) the Company's ability to achieve profitable operations after such confirmation, and (v) the Company's ability to generate sufficient cash from operations to meet its obligations.

Management believes that the DIP Facility, along with cash provided by operations, will provide sufficient liquidity to allow the Company to continue as a going concern; however, there can be no assurance that the sources of liquidity will be available or sufficient to meet the Company's needs. The consolidated financial statements do not include any adjustments relating to recoverability and classification of recorded asset amounts or the amount and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

A plan of reorganization could materially change the amounts currently recorded in the consolidated financial statements. The consolidated financial statements do not give effect to any adjustments to the carrying value of assets or amounts and classifications of liabilities that might be necessary as a result of the Chapter 11 Cases, except as discussed in Note 5.

#### 4. ACCOUNTING DURING REORGANIZATION PROCEEDINGS

Entering the reorganization proceedings does not affect or change the application of generally accepted accounting principles followed by the Company in the preparation of its consolidated financial statements. During the pendency of the Chapter 11 Cases, our consolidated financial statements distinguish transactions and events that are directly associated with the reorganization from the ongoing operations of the business in accordance with the American Institute of Certified Public Accountants' Statement of Position 90-7 - "Financial Reporting by Entities in Reorganization under the Bankruptcy Code" ("SOP 90-7"). The Company's consolidated balance sheets segregate Liabilities Subject to Compromise from liabilities not subject to compromise. In addition, we have stopped accruing for interest on unsecured debt until the Company emerges from protection under Chapter 11 of the Bankruptcy Code, or it becomes probable that we will pay these amounts as part of a plan of reorganization.

## Liabilities Subject to Compromise

Liabilities Subject to Compromise refers to liabilities incurred prior to the commencement of the Chapter 11 Cases, including those considered by the Bankruptcy Court to be pre-petition claims, such as claims arising out of a rejection of a lease for real property. These liabilities consist primarily of amounts outstanding under long-term debt and also include accounts payable, accrued interest, accrued restructuring costs and other accrued expenses. These amounts represent the Company's estimate of known or potential claims to be resolved in the Chapter 11 Cases. Such claims remain subject to future adjustments. Adjustments may result from (1) negotiations; (2) actions of the Bankruptcy Court; (3) further development with respect to disputed claims; (4) future rejection of additional executory contracts or unexpired leases; (5) the determination as to the value of any collateral securing claims; (6) proofs of claim; or (7) other events. Payment terms for these amounts, which are considered long-term liabilities at this time, will be established in connection with the Chapter 11 Cases.

The principal categories of claims classified as Liabilities Subject to Compromise in the Chapter 11 Cases are identified below: (amounts in thousands)

|                                                    | December 30, 2000 |
|----------------------------------------------------|-------------------|
|                                                    | -----             |
| Accounts payable                                   | \$ 25,856         |
| Accrued expenses                                   | 2,717             |
| Provision for rejected contracts                   | 3,142             |
| Senior notes, net of discount including \$7,480    |                   |
| accrued interest                                   | 131,266           |
| Other long-term debt and capital lease obligations | 7,843             |
|                                                    | -----             |
|                                                    | \$170,824         |
|                                                    | =====             |

The Company has received approval from the Bankruptcy Court to pay pre-petition and post-petition employee wages, salaries, benefits and other employee obligations, to pay vendors and other providers in the ordinary course for goods and services received from April 5, 2000 and to honor customer service programs, including warranties and returns. These items are recorded as accrued expenses not subject to compromise.

## 5. REORGANIZATION ITEMS, RESTRUCTURING EXPENSES AND IMPAIRMENT OF LONG-LIVED ASSETS.

### General

In the last quarter of 1999 and in fiscal 2000, we have recorded charges relating to store closings, to impairment of long-lived assets and to expenses incurred in the Chapter 11 Cases. Generally accepted accounting principles require different presentations depending on whether we incurred the cost before or after the filing of the Chapter 11 Cases.

## Impairment of Fixed Assets and Restructuring Expenses

We have recorded charges for impairment of fixed assets and restructuring expenses in connection with stores closed before the filing of the Chapter 11 Cases. Emerging Issues Task Force Issue 94-03, "Liability Recognition for Certain Employee Termination Benefits to Exit an Activity (Including Certain Costs Incurred in a Restructuring)", requires that we present these charges as components of operating income.

In connection with stores closed after the filing of the Chapter 11 Cases, we have recorded charges for impairment of fixed assets and for restructuring expenses. All expenses of this nature incurred after the first quarter of 2000 have been presented as reorganization items, below operating income.

### Summary of Restructuring Charges

The table below summarizes charges for impairment of fixed assets and restructuring expenses incurred in the fourth quarter 1999 and the first quarter 2000. These charges were incurred before the Company began the Chapter 11 Cases: (amounts in thousands)

|                               | Fourth Quarter 1999 | First Quarter 2000 |
|-------------------------------|---------------------|--------------------|
|                               | -----               | -----              |
| Impairment of fixed assets    | \$1,952             | \$2,684            |
| Restructuring expense         |                     |                    |
| Provision for rejected leases | \$ --               | \$1,362            |
| Other store closing costs     | --                  | 239                |
|                               | -----               | -----              |
|                               | \$ --               | \$1,601            |
|                               | =====               | =====              |

Impairment and restructuring charges incurred after the first quarter of 2000 are considered reorganization items and are presented below operating income.

### Summary of Reorganization Items

Results for fiscal 2000 include charges which were incurred after the Company filed the Chapter 11 Cases. Expenses related to the reorganization process and the Chapter 11 Cases are considered reorganization items. The table below summarizes these charges: (amounts in thousands)

|                                     | 2000       |
|-------------------------------------|------------|
|                                     | -----      |
| Impairment of goodwill              | \$ 100,805 |
| Impairment of fixed assets          | 12,000     |
| Provision for rejected leases       | 1,920      |
| Other store closing costs           | 670        |
| Professional fees                   | 3,421      |
| Retention bonuses                   | 2,173      |
| Interest income on accumulated cash | (144)      |
| Other reorganization costs          | 694        |
|                                     | -----      |
|                                     | \$ 121,539 |
|                                     | =====      |

The following represents activity in the restructuring and reorganization provisions during 2000: (amounts in thousands)

|                                           | Charged to expense | Paid    | Accrued at<br>December 30, 2000 |
|-------------------------------------------|--------------------|---------|---------------------------------|
|                                           | -----              | ----    | -----                           |
| Restructuring and<br>reorganization items | \$8,505            | \$3,778 | \$4,727                         |

## Impairment of Long-Lived Assets

Due to continuing negative cash flows, coupled with the possible sale or disposition of certain Company assets, we recorded a noncash charge of \$100.8 million for the impairment of goodwill associated with the acquisition of Frame-n-Lens Optical, Inc., New West Eyeworks, Inc. and Midwest Vision, Inc. ("Acquired Entities"). In addition, we recorded a noncash charge of \$10.6 million to reflect the impairment of fixed assets associated with the Acquired Entities.

The Company terminated ten leases governing all of the Company's units located in Meijer Thrifty Acre locations. The Company recorded a noncash pre-tax charge of \$987,000 in 2000 related to the impairment of leasehold improvements and furniture and fixtures in the Meijer locations.

In the second quarter of 2000, the Company reached an agreement with Wal-Mart Stores, Inc. to terminate its 72 leases governing all of the Company's units located in Sam's Club locations. Pursuant to this agreement, the Company turned over all such locations to Wal-Mart Stores by September 1, 2000. The Company received no proceeds from Wal-Mart for the early termination, and Wal-Mart will waive all claims for rent under the leases for the balance of the original lease term. The Company recorded a noncash pre-tax charge of \$367,000 related to the impairment of leasehold improvements and furniture and fixtures in the Sam's Club locations.

A summary of the impairment charges recorded since filing the Chapter 11 Cases follows: (amounts in thousands)

|                              |           |
|------------------------------|-----------|
| Impairment of goodwill:      |           |
| Frame-n-Lens                 | \$ 38,318 |
| New West Eyeworks            | 60,610    |
| Midwest Vision               | 1,877     |
|                              | -----     |
| Total goodwill impairment    | \$100,805 |
|                              | =====     |
| Impairment of fixed assets:  |           |
| Frame-n-Lens                 | \$ 4,792  |
| New West Eyeworks            | 5,186     |
| Midwest Vision               | 668       |
| Meijer Thrifty Acre          | 987       |
| Sam's Club                   | 367       |
|                              | -----     |
| Total fixed asset impairment | \$ 12,000 |
|                              | =====     |

We periodically evaluate the carrying value of long-lived assets based on the expected future undiscounted operating cash flows of the related business unit. As part of the reorganization process, we may decide to sell or otherwise dispose of assets for amounts other than those reflected in the Consolidated Financial Statements, which may result in further impairment of long-lived assets.

In addition to the impairment of goodwill and fixed assets, the Company recorded adjustments to inventory of \$1.1 million and to accounts receivable of \$0.5 million to adjust the carrying value to net realizable value. These charges were included in cost of goods sold and SG&A expense, as appropriate.

## 6. SUBSEQUENT EVENTS

In March 2001, the Company filed a plan of reorganization with the Bankruptcy Court. Major provisions of the plan are as follows:

- o Unsecured creditors will receive 12% secured notes with a face value of \$120 million and equity in the Reorganized Company. This proposed settlement is less than 100% of the face value of this debt.
- o The existing Common Stock will be cancelled and current shareholders will not receive a distribution for their interests.
- o The freestanding operations will be disposed of either by sale or abandonment, prior to emergence from Bankruptcy.

In February 2001, the Company signed a purchase agreement to sell the assets of its freestanding locations and the Fullerton, California laboratory for \$8.5 million. The sale is expected to close in April 2001.

Freestanding operations include the remaining 226 freestanding locations acquired from Midwest Vision, Inc. ("Midwest"), Frame-n-Lens Optical, Inc. ("Frame-n-Lens"), and New West Eyeworks, Inc. ("New West") and the Fullerton, California laboratory and administrative facility. The assets to be disposed of consist primarily of inventory, fixed assets and a California HMO license. The principal liability of this division is rent obligations that will either be assumed by the purchaser or rejected through the Company's Chapter 11 proceedings.

Pro forma unaudited financial results of operations are presented below, as if the freestanding operations were disposed of at the beginning of the periods presented. The pro forma results presented include certain adjustments and estimates by management. The pro forma information does not necessarily reflect actual results that would have occurred nor is it necessarily indicative of future results of operations of the Company without the freestanding operations.

|                                        | 2000      | 1999      | 1998      |
|----------------------------------------|-----------|-----------|-----------|
|                                        | -----     | -----     | -----     |
| Net sales                              | \$246,915 | \$247,875 | \$209,220 |
| Gross profit                           | \$133,481 | \$134,057 | \$112,509 |
| Operating income                       | \$ 13,493 | \$ 12,230 | \$ 11,424 |
| EBITDA prior to significant provisions | \$ 25,833 | \$ 26,021 | \$ 23,751 |

EDITDA is calculated as operating income before interest, taxes, depreciation and amortization. EBITDA prior to significant provisions is calculated as EBITDA prior to Restructuring Expense, Reorganization Items, Extraordinary Items, Cumulative Effect and the 1999 provisions for receivables of \$1.3 million.

## 7. WAL-MART MASTER LICENSE AGREEMENT AND OTHER AGREEMENTS

### Wal-Mart Agreement -----

In 1994, the Company and Wal-Mart replaced their original agreement with a new master license agreement (the "Wal-Mart Agreement"), which increased minimum and percentage license fees payable by the Company and also granted the Company the opportunity to operate up to 400 vision centers in existing and future Wal-Mart stores (395 vision centers were in operation under the Wal-Mart Agreement at fiscal year end 2000). In January 1995, the Company made a lump sum payment in exchange for such opportunity. The payment is being amortized over the initial term of the vision centers opened subsequent to January 1, 1995. Each vision center covered by the Wal-Mart Agreement has a separate license. Pursuant to the Wal-Mart Agreement, the term of each such license is nine years with a renewable option for one additional three-year term. Percentage license fees remain the same over the nine-year base term and three-year option term, whereas minimum license fees increase during the three-year option term.

## Consulting and Management Agreement

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Among other things, the Wal-Mart Agreement requires an independent, licensed optometrist to practice adjacent to or near each of the Company's vision centers for at least 48 hours per week. In 1990, the Company entered into a long-term consulting and management service agreement, as amended, with two companies (Eyecare Leasing, Inc. ("ELI") and Stewart-Phillips, Inc. ("SPI")) jointly owned by two shareholders to recruit such optometrists for certain of its vision centers. Subject to applicable state regulations, this agreement, among other things, required the Company to provide space and certain equipment to the optometrists for which the optometrists pay the Company an occupancy fee. In exchange for their services, ELI and SPI received certain fees under the agreement. The net payments offset occupancy expense incurred by the Company. Occupancy expense is a component of cost of goods sold.

In January 1997, the Company completed various transactions related to its relationship with each of ELI and SPI. The transactions involved the termination of such consulting agreement and transfer of the responsibilities of ELI and SPI to a subsidiary of the Company. As a result of these transactions, the Company acquired the right to the payments which otherwise would have been made to ELI and SPI under the consulting agreement. The aggregate cost of the transactions was \$4.6 million, which was capitalized as an intangible asset and is being amortized over the remaining life of the original term of vision center leases. The Company made a lump sum payment of \$500,000 at closing and entered into promissory obligations for the balance, payable over a 12-year period at 6.4% interest.

## Mexico Agreement

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In 1994, the Company opened 8 vision centers in stores owned and operated by Wal-Mart de Mexico, S.A. de C.V. ("Wal-Mart de Mexico"). In 1995, the Company completed the negotiation of a master license agreement governing these vision centers. Pursuant to this agreement, each vision center has an individual base term of five years from the date of opening, followed by two options (each for two years), and one option for one year. Each party has the right to terminate a location which fails to meet specified sales levels. The agreement provides for annual fees based on a minimum and percentage of sales. The agreement also gives the Company a right of first refusal to open vision centers in all stores in Mexico owned by Wal-Mart de Mexico. As of December 30, 2000, the Company operated 27 vision centers in Wal-Mart de Mexico stores.

## Fred Meyer

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The Company operates 56 leased vision centers in stores owned by Fred Meyer pursuant to a master license agreement. The agreement provides for minimum and percentage rent and other customary terms and conditions. The term of the agreement is for five years (expiring December 31, 2003), with a five-year option.

## 8. ACQUISITIONS

On July 28, 1998, the Company acquired all the outstanding capital stock of Frame-n-Lens Optical, Inc. ("Frame-n-Lens") in a transaction accounted for as a purchase business combination. Prior to the acquisition, Frame-n-Lens operated approximately 280 retail optical centers in 23 states. The aggregate purchase price was \$50 million of which \$23 million was paid in cash and additional borrowings from the Company's credit facilities, \$24 million was assumed in debt and liabilities, and \$3 million was established as a deferred purchase obligation to be paid in quarterly installments over six years.

The Company has deposited installment payments of the deferred purchase obligation into a separate company bank account. As of December 30, 2000, the Company had deposited a total of \$914,000 which is included in the Company's cash balance. The Company has the right to withhold payment of the deferred purchase obligation based upon the identification of any undisclosed liabilities. The Company is currently defending a class-action lawsuit which was filed against Frame-n-Lens and which was not disclosed to the Company at the time of acquisition. Although management cannot predict the outcome of this litigation, we believe that the amount accrued for the deferred purchase obligation will be sufficient to cover any costs incurred related to this lawsuit.

The excess of cost over fair value of assets acquired was \$41 million, and was being amortized over 30 years using the straight-line method. In the third quarter of 2000, the Company determined that the goodwill associated with the Frame-n-Lens acquisition was impaired, resulting in a charge of \$38.3 million in 2000. Frame-n-Lens' financial position and results of operations are included with those of the Company for the periods subsequent to the date of the acquisition. In November 2000, the Company decided to dispose of the remaining locations acquired from Frame-n-Lens. (See Note 6.)

On October 23, 1998, the Company acquired all the outstanding capital stock of New West Eyeworks, Inc. ("New West") in a transaction accounted for as a purchase business combination. Prior to the acquisition, New West operated approximately 175 retail optical centers in 13 states. The aggregate purchase price was \$79 million, including the assumption of certain indebtedness and acquisition-related expenses which were paid with a portion of the proceeds of the Company's 12 3/4% Senior Notes due 2005 (the "Notes") (See Note 10 to Consolidated Financial Statements). In September 1999, the Company sold the Tempe manufacturing facility acquired from New West Eyeworks for approximately \$1 million.

The excess of cost over fair value of the assets acquired was \$64 million and was being amortized over 30 years using the straight-line method. In the third quarter of 2000, the Company determined that the goodwill associated with the New West acquisition was impaired, resulting in a charge of \$60.6 million in 2000. New West's financial position and results of operations are included with those of the Company in the period subsequent to the date of the acquisition. In November 2000, the Company decided to dispose of the freestanding locations acquired from New West. (See Note 6.)

The following summary prepared on an unaudited basis presents the results of operations of the Company combined with Frame-n-Lens and New West as if the acquisitions had occurred at the beginning of 1998, after the impact of certain adjustments. These adjustments include 1) the cost savings related to the consolidation of duplicative manufacturing and administrative support facilities, 2) the amortization of goodwill, 3) increased interest expense on the acquisition debt, 4) elimination of interest on debt repaid with proceeds from the Notes, and 5) the related income tax effects: (amounts in thousands, except per share amounts)

|                  | January 2,<br>1999<br>(unaudited)<br>----- |
|------------------|--------------------------------------------|
| Net sales        | \$ 325,670                                 |
| Operating income | \$ 15,831                                  |
| Net loss         | \$ (2,811)                                 |
| Loss per share   | \$ (0.13)                                  |
| -----            |                                            |

The pro forma results are not necessarily indicative of what actually would have occurred if the acquisitions had occurred as of the beginning of the period presented.

In October 1997, the Company acquired all the outstanding common stock of Midwest Vision, Inc. ("Midwest") in a transaction accounted for as a purchase business combination. Midwest's financial position and results of operations are included with those of the Company in the period subsequent to the date of acquisition. Prior to the acquisition, Midwest operated 51 retail optical centers in Minnesota, Wisconsin, Iowa and North Dakota. The aggregate purchase price was approximately \$5 million, including assumed long-term debt of approximately \$1 million. The excess of cost over fair value of the assets acquired was \$2 million and was being amortized on a straight-line basis over 15 years. In the third quarter of 2000, the Company determined that the goodwill associated with the Midwest acquisition was impaired, resulting in a charge of \$1.9 million in 2000.

The purchase price was paid in cash of \$2 million, a note payable of \$0.6 million and 110,975 shares of the Company's common stock. In addition, the Company issued a put option to the seller, entitling the seller to put 100,000 of such shares to the Company at \$9.00 per share in January 2000. Subsequent to January 1, 2000, the seller exercised the put option. The Company has not paid this obligation. Any claims asserted by the seller will be addressed during the Company's Chapter 11 proceedings. The additional obligation has been reflected in Liabilities Subject to Compromise in the Consolidated Balance Sheets.

#### 9. INVENTORY

The Company classifies inventory as finished goods if such inventory is readily available for sale to customers without assembly or value added processing. Finished goods include contact lenses, over the counter sunglasses and accessories. The Company classifies inventory as raw materials if such inventory requires assembly or value added processing. This would include grinding a lens blank, "cutting" the lens in accordance with a prescription from an optometrist, and fitting the lens in a frame. Frames and uncut lens are considered raw materials. A majority of the Company's sales represent custom orders; consequently, the majority of the Company's inventory is classified as raw materials.

Inventory balances, by classification, may be summarized as follows:  
(amounts in thousands)

|                | 2000      | 1999      |
|----------------|-----------|-----------|
|                | -----     | -----     |
| Raw materials  | \$ 22,175 | \$ 24,408 |
| Finished goods | 8,153     | 8,804     |
| Supplies       | 1,150     | 1,161     |
|                | -----     | -----     |
|                | \$ 31,478 | \$ 34,373 |
|                | =====     | =====     |

#### 10. LONG-TERM DEBT

All of the Company's unsecured debt is considered part of Liabilities Subject to Compromise in the Consolidated Balance Sheets (See Note 4) and may be settled at less than face value. All interest accruals and payments on unsecured debt were suspended upon filing the Chapter 11 Cases. No principal or interest payments will be made on unsecured debt until approved by the Bankruptcy Court.

##### Debtor-in-Possession Financing

On May 9, 2000, the Bankruptcy Court approved an order permitting the Company to enter into a \$25 million debtor-in-possession credit facility with Foothill Capital Corporation (the "DIP Facility"). The DIP Facility (which replaced the Company's prior secured credit facility with Foothill Capital Corporation) consists of a \$12.5 million term loan and \$12.5 million revolving credit facility. The Company paid professional fees, organization fees and waiver fees of \$500,000 to convert the previous Foothill Credit Facility to the DIP Facility. As of December 30, 2000, the Company had borrowed a total of \$12.9 million (inclusive of the \$12.5 million term loan portion) under the DIP Facility.

The DIP Facility contains customary terms and conditions. It expires on May 31, 2001. The DIP Facility further provides that:

- o The Company must maintain a rolling twelve month EBITDA of no less than \$15 million, calculated prior to restructuring charges, reorganization items, extraordinary losses and store impairment reserves.
- o The \$12.5 million term loan portion of the DIP Facility bears interest at 15% per annum.
- o Interest rates on the revolver portion of the DIP Facility are based on either the Wells Fargo Bank, N.A. Base Rate plus 2% or the Adjusted Eurodollar Rate plus 3.25%.
- o Availability under the DIP Facility is limited to certain percentages of accounts receivable and inventory, subject to other limitations based on rolling 60-day cash collections.

Although the Company is currently in compliance with the terms of the DIP Facility, a continuation of negative sales and cash flow trends could cause the Company to breach the EBITDA covenant.

The Company believes that the DIP Facility should provide it with adequate liquidity to conduct its operations while it awaits confirmation of its reorganization plan. The Company is currently working with Foothill to establish a revolving credit facility which will be available upon exiting from bankruptcy (the "Exit Facility"). The Exit Facility will replace the current DIP Facility and should provide the Company with adequate liquidity to conduct its operations upon emergence from bankruptcy. However, the Company's liquidity, capital resources, results of operations and ability to continue as a going concern are subject to known and unknown risks and uncertainties.

#### Foothill Credit Facility -----

On November 12, 1999, the Company replaced its prior secured credit facility with a new \$25.0 million secured credit facility with Foothill Capital Corporation (the "Foothill Credit Facility"). The Foothill Credit Facility consists of a \$12.5 million term loan and a \$12.5 million revolver.

The proceeds of the Foothill Credit Facility were available for making the October 15, 1999 payment under the Senior Notes, refinancing existing debt, working capital, and general corporate purposes. All obligations of the Company under the Foothill Credit Facility were unconditionally and irrevocably guaranteed jointly and severally by certain of the Company's subsidiaries.

The revolver under the Foothill Credit Facility carried interest rates equal to, at the option of the Company, either (i) Foothill's Reference Rate plus 2.00% or (ii) the LIBOR rate plus 3.25%. The term loan portion bore interest at the rate of 15% per annum.

The Company filed for protection under Chapter 11 of the Bankruptcy Code on April 5, 2000 and negotiated with Foothill to establish the DIP Facility. The DIP Facility, which was approved by the Bankruptcy Court in May 2000, replaced the Foothill Credit Facility.

The Company paid approximately \$715,000 and \$811,000 in various fees related to its various credit facilities in 2000 and 1999, respectively.

#### Senior Notes -----

On October 8, 1998, the Company issued \$125 million 12 3/4% Senior Notes due 2005 (the "Notes") pursuant to Rule 144A of the Securities Act. The Notes, which were sold at a discount for an aggregate price of \$123.6 million, require semiannual interest payments commencing on April 15, 1999. The Notes were issued pursuant to an indenture containing customary provisions including: limitations on incurrence of additional indebtedness; limitations on restricted payments; limitations on asset sales; payment restrictions affecting subsidiaries; limitations on liens; limitations on transactions with affiliates; and other customary terms.

A portion of the proceeds from the Notes was utilized to extinguish outstanding indebtedness on the Company's existing credit facility (such credit facility was terminated simultaneously with the repayment), with the remainder to be utilized to complete the acquisition of New West and pay for miscellaneous expenses related to the acquisitions of Frame-n-Lens and New West.

In anticipation of the Notes offering, the Company entered into three anticipatory hedging transactions with a notional amount of \$100 million. The interest rates on these instruments were tied to U.S. Treasury securities and ranged from 5.43% to 5.62%. The Company settled these transactions for approximately \$4.6 million. The settlement costs were being treated as deferred financing costs amortized over the life of the Notes; however, the Company stopped amortizing these deferred financing costs upon filing the Chapter 11 Cases. When the senior notes are approved as an allowed claim by the Bankruptcy Court, these deferred financing costs, along with the Bond discount of \$1.2 million, will adjust the carrying value of the notes to the allowed value. Any gain or loss will be recognized as a reorganization item at that time.

#### Unsecured Notes

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The Company entered into unsecured promissory notes relative to various transactions completed with the Frame-n-Lens and New West acquisitions in 1998 and the ELI and Midwest Vision acquisitions in 1997 (See Note 8). The notes are fixed rate instruments, with rates ranging from 6.4% to 8.5%. The future scheduled contractual principal payments for the Company's borrowings (which are subject to being restructured in connection with the Chapter 11 Cases) were as follows at December 30, 2000: (amounts in thousands)

|            | Contractual<br>Principal Payments |
|------------|-----------------------------------|
|            | -----                             |
| 2001       | \$ 14,303                         |
| 2002       | 545                               |
| 2003       | 373                               |
| 2004       | 373                               |
| 2005       | 373                               |
| Thereafter | 128,752                           |
|            | -----                             |
|            | \$ 144,719                        |
|            | =====                             |

#### Long-Term Debt Balances

-----

Long-term debt obligations, exclusive of capital lease obligations, at December 30, 2000 and January 1, 2000 consisted of the following: (amounts in thousands)

|                                                                     | 2000      | 1999       |
|---------------------------------------------------------------------|-----------|------------|
|                                                                     | -----     | -----      |
| 12 3/4% Senior Notes Due 2005                                       | \$125,000 | \$ 125,000 |
| Discount on 12 3/4 % Senior Notes                                   | (1,214)   | (1,253)    |
| Borrowings under Foothill Credit Facility                           | --        | 19,292     |
| Borrowings under DIP Facility                                       | 12,911    | --         |
| Other promissory notes                                              | 6,808     | 7,586      |
|                                                                     | -----     | -----      |
|                                                                     | \$143,505 | \$ 150,625 |
| Less: Borrowings not subject to compromise<br>classified as current | 12,911    | 20,154     |
|                                                                     | -----     | -----      |
| Long-term debt subject to compromise                                | \$130,594 | \$ 130,471 |
|                                                                     | =====     | =====      |

As of December 30, 2000, the Company had borrowed \$12.9 million under the DIP Facility at a weighted average interest rate of 15%. The aggregate fair value of the Company's long-term debt obligation under the DIP Facility is estimated to approximate its carrying value.

# 11. EXTRAORDINARY ITEM

In 2000, the Company recorded an extraordinary loss of \$827,000 as a result of refinancing the Company's Foothill Credit Facility. In 1999, the Company recorded an extraordinary loss of \$406,000 as a result of refinancing the previous secured credit facility. Both refinancings necessitated the write-off of capitalized costs associated with the previous facilities. Because of the Company's decision to fully reserve for the Company's 2000 and 1999 tax benefit, the net tax effect on these extraordinary items is zero.

# 12. FINANCIAL INFORMATION OF GUARANTORS

The Company's wholly owned domestic subsidiaries, Midwest Vision, Inc.; NVAL Healthcare Systems, Inc.; International Vision Associates, Ltd.; Frame-n-Lens Optical, Inc.; Vision Administrators, Inc.; Family Vision Centers, Inc.; New West Eyeworks, Inc.; Alexis Holdings Company, Inc.; and Vista Eyecare Network, LLC (collectively, the "Guarantors"), have guaranteed on a senior unsecured basis, jointly and severally, the payment of the principal of, premium, if any, and interest on the Notes. Combined summarized financial information of the Guarantors is presented below: (amounts in thousands)

| For the years ending:  | December 30, 2000<br>----- | January 1, 2000<br>----- | January 2, 1999<br>----- |
|------------------------|----------------------------|--------------------------|--------------------------|
| Net sales              | \$ 77,004                  | \$ 123,090               | \$ 49,904                |
| Gross profit           | \$ 41,772                  | \$ 63,747                | \$ 21,545                |
| Net loss               | \$ (133,126)               | \$ (10,151)              | \$ (2,861)               |
|                        | December 30, 2000<br>----- | January 1, 2000<br>----- | January 2, 1999<br>----- |
| Current assets         | \$ 13,963                  | \$ 14,287                | \$ 22,080                |
| Noncurrent assets      | \$ 2,989                   | \$ 16,574                | \$ 15,832                |
| Current liabilities    | \$ 3,288                   | \$ 25,742                | \$ 18,979                |
| Noncurrent liabilities | \$ 3,554                   | \$ 3,265                 | \$ 3,748                 |

# 13. COMMITMENTS AND CONTINGENCIES

The Company incurred liabilities prior to the commencement of the Chapter 11 Cases (Liabilities Subject to Compromise), including claims arising out of rejections of leases for real property. These liabilities consist primarily of amounts outstanding under long-term debt and also include accounts payable, accrued interest, accrued restructuring costs and other accrued expenses. These amounts represent the Company's estimate of known or potential claims to be resolved in the Chapter 11 Cases. Such claims remain subject to future adjustments. Adjustments may result from (1) negotiations; (2) actions of the Bankruptcy Court; (3) further development with respect to disputed claims; (4) future rejection of additional executory contracts or unexpired leases; (5) the determination as to the value of any collateral securing claims; (6) proofs of claim; or (7) other events. Payment terms for these amounts, which are considered long-term liabilities at this time, will be established in connection with the Chapter 11 Cases. As part of the disposition of the freestanding locations, the Company expects to either assign or reject all freestanding location leases, including the Fullerton, California facility lease.

# Non-cancellable Operating Lease and License Agreements

As of December 30, 2000, the Company is a lessee under non-cancellable operating lease agreements for certain equipment which expire at various dates through 2003. Additionally, the Company is required to pay minimum and percentage license fees pursuant to certain commercial leases and pursuant to its agreements with its host store companies.

Effective December 20, 1991, the Company entered into a lease agreement with Wal-Mart for approximately 66,000 square feet of corporate office space. The term of the lease is ten years with a renewal option of seven years. The Company paid Wal-Mart approximately \$215,000 annually in rental fees in 2000, 1999 and 1998.

In connection with its acquisition of Midwest Vision, Inc. (See Note 8), the Company entered into a ten-year lease for administrative headquarters and an optical laboratory located in St. Cloud, Minnesota. The facility is leased from the former owner of Midwest Vision. Lease expense on the headquarters and laboratory is approximately \$6,667 monthly which, in the opinion of management, represents a fair market lease rate. Additionally, the Company assumed operating lease agreements in connection with 51 freestanding locations obtained from the acquisition. Lease expense on these leases is approximately \$64,000 monthly.

In connection with its acquisitions of Frame-n-Lens and New West (See Note 8), the Company assumed operating lease agreements in connection with approximately 280 and 175 vision centers, respectively, obtained from the acquisitions. Through the Frame-n-Lens acquisition, the Company assumed a lease for a manufacturing and distribution facility located in Fullerton, California. This facility is subject to a lease with a term expiring on August 31, 2006. Lease expense is \$408,000 annually for this facility.

Aggregate future minimum payments under the license and lease arrangements that will not be assigned or rejected in the Bankruptcy proceedings are as follows: (amounts in thousands)

| Fiscal Year                                                     | Leases | Leases    |
|-----------------------------------------------------------------|--------|-----------|
| -----                                                           | -----  | -----     |
| 2001                                                            | \$ 131 | \$ 21,026 |
| 2002                                                            | 12     | 18,188    |
| 2003                                                            | -      | 10,567    |
| 2004                                                            | -      | 6,307     |
| 2005                                                            | -      | 4,778     |
| Thereafter                                                      | -      | 6,336     |
|                                                                 | -----  | -----     |
| Total minimum lease payments                                    | 143    | \$ 67,202 |
| Less amounts representing interest                              | 7      | =====     |
|                                                                 | -----  |           |
| Present value of minimum capital lease payments                 | 136    |           |
| Less current installments of obligations under capital leases   | 124    |           |
|                                                                 | -----  |           |
| Obligations under capital leases excluding current installments | \$ 12  |           |
|                                                                 | =====  |           |

Total rental expenses related to cancellable and non-cancellable operating leases were approximately \$41.0 million, \$43.1 million and \$30.1 million for the years ended December 30, 2000, January 1, 2000 and January 2, 1999, respectively.

#### Guy Laroche and Gitano Trademark Licenses

The Company has a license agreement with Guy Laroche of North America, Inc., giving the Company the right to use the trademark "Guy Laroche" in its vision centers in North America. The agreement requires the Company to pay minimum and percentage royalties on retail and wholesale sales. The Guy Laroche agreement, as amended, expires on December 31, 2001. Under the Guy Laroche agreement, the Company paid \$310,000, \$310,000 and \$389,000 in fees during 2000, 1999 and 1998, respectively.

In 2000, 1999 and 1998, the Company paid \$34,000, \$53,000, and \$96,000, respectively, in fees to Gitano, Inc. and its successors in connection with a license agreement which gave the Company the right to use the "Gitano" trademark in its vision centers.

#### Change in Control and Other Arrangements

There are agreements between the Company and twelve of its officers which provide severance benefits in the event of termination of employment under certain circumstances following a change in control of the Company (as defined). The circumstances are termination by the Company other than because of death or disability commencing prior to a threatened change in control (as defined), or for cause (as defined), or by the officer as the result of a voluntary termination (as defined). Following any such termination, in addition to compensation and benefits already earned, the officer will be entitled to receive a lump sum severance payment equal to up to three times the officer's annual rate of base salary. The term of each agreement is for a rolling three-years unless the Company gives notice that it does not wish to extend such term, in which case the term of the agreement would expire three years from the date of the notice.

#### 14. INCOME TAXES

The Company accounts for income taxes under Statement of Financial Accounting Standards (SFAS No. 109) "Accounting for Income Taxes," which requires the use of the liability method of accounting for deferred income taxes. The components of the net deferred tax assets are as follows: (amounts in thousands)

|                                | December 30,<br>2000 | January 1,<br>2000 |
|--------------------------------|----------------------|--------------------|
|                                | -----                | -----              |
| Total deferred tax liabilities | \$ (6,053)           | \$ (8,980)         |
| Total deferred tax assets      | 23,773               | 17,918             |
| Valuation allowance            | (17,335)             | (8,553)            |
|                                | -----                | -----              |
| Net deferred tax asset         | \$ 385               | \$ 385             |
|                                | =====                | =====              |

The sources of the difference between the financial accounting and tax basis of the Company's liabilities and assets which give rise to the deferred tax liabilities and deferred tax assets and the tax effects of each are as follows: (amounts in thousands)

|                                  | December 30,<br>2000 | January 1,<br>2000 |
|----------------------------------|----------------------|--------------------|
|                                  | -----                | -----              |
| Deferred tax liabilities:        |                      |                    |
| Depreciation                     | \$ 2,875             | \$ 4,935           |
| Reserve for foreign losses       | 2,218                | 2,218              |
| Other                            | 960                  | 1,827              |
|                                  | -----                | -----              |
|                                  | \$ 6,053             | \$ 8,980           |
|                                  | =====                | =====              |
| Deferred tax assets:             |                      |                    |
| Accrued expenses and reserves    | \$ 5,929             | \$ 3,206           |
| Inventory basis differences      | 334                  | 171                |
| Net operating loss carryforwards | 14,222               | 10,698             |
| Alternative minimum tax          | 2,062                | 2,062              |
| Other                            | 1,226                | 1,781              |
|                                  | -----                | -----              |
|                                  | \$ 23,773            | \$ 17,918          |
|                                  | =====                | =====              |

The consolidated provision for income taxes consists of the following:  
(amounts in thousands)

|                                  | Year Ended           |                    |                    |
|----------------------------------|----------------------|--------------------|--------------------|
|                                  | December 30,<br>2000 | January 1,<br>2000 | January 2,<br>1999 |
|                                  | ----                 | ----               | ----               |
| Current:                         |                      |                    |                    |
| Federal                          | \$ 0                 | \$ 0               | \$ 1,426           |
| State                            | 0                    | 0                  | 191                |
|                                  | -----                | -----              | -----              |
|                                  | 0                    | 0                  | 1,617              |
|                                  | -----                | -----              | -----              |
| Deferred:                        |                      |                    |                    |
| Federal                          | 0                    | 0                  | 338                |
| State                            | 0                    | 0                  | 82                 |
|                                  | -----                | -----              | -----              |
|                                  | 0                    | 0                  | 420                |
|                                  | -----                | -----              | -----              |
| Total Provision for Income Taxes | \$ 0                 | \$ 0               | \$ 2,037           |
|                                  | =====                | =====              | =====              |

The tax expense differs from the amounts resulting from multiplying income before income taxes by the statutory federal income tax rate for the following reasons: (amounts in thousands)

|                                                                | Year Ended           |                    |                    |
|----------------------------------------------------------------|----------------------|--------------------|--------------------|
|                                                                | December 30,<br>2000 | January 1,<br>2000 | January 2,<br>1999 |
| Federal income tax/(benefit) provision at statutory rate       | \$(46,148)           | \$ (5,971)         | \$ 1,853           |
| State income taxes, net of federal income tax benefit          | (3,393)              | (439)              | 180                |
| Foreign losses not deductible for U.S. federal tax purposes    | 13                   | 3                  | 37                 |
| Change in valuation allowance for U.S. federal and state taxes | 8,782                | 5,182              | (548)              |
| Nondeductible goodwill                                         | 38,640               | 1,425              | 292                |
| Other, net                                                     | 2,106                | (200)              | 223                |
|                                                                | -----                | -----              | -----              |
|                                                                | \$ 0                 | \$ 0               | \$ 2,037           |
|                                                                | =====                | =====              | =====              |

At December 30, 2000, the Company had U.S. regular tax net operating loss carryforwards of approximately \$37.4 million that can reduce future federal income taxes. If not utilized, these carryforwards will expire beginning in 2007. The Company also has non-expiring alternative minimum tax credit carryforwards of \$2.1 million available to offset future regular taxes.

On July 28, 1998, the Company acquired all of the outstanding capital stock of Frame-n-Lens. The Company accounted for the acquisition as a purchase, with the excess of the purchase price over the fair value of the net assets acquired to be allocated to goodwill. Frame-n-Lens had net operating loss carryforwards of \$1.4 million.

On October 25, 1998, the Company acquired all of the outstanding common stock and common stock equivalents of New West. The Company accounted for the acquisition as a purchase, with the excess of the purchase price over the fair value of the net assets acquired to be allocated to goodwill. New West had net operating loss carryforwards of \$5.5 million and \$4.9 million for regular tax and alternative minimum tax purposes, respectively, which begin to expire in 2006. These net operating losses are subject to limitations from a prior ownership change.

As a result of an examination by the Internal Revenue Service ("IRS") of the Company's 1992 tax return, the Company adjusted its net operating carryforward loss by \$314,000. The agreement between the Company and the IRS was reached in February 1998 for which no income tax was due or receivable. The Company reduced its valuation allowance by approximately \$3.3 million and increased additional paid-in-capital for this benefit.

At December 30, 2000, the Company recorded an additional valuation allowance of \$8.8 million due to the uncertainty of the realizability of the current year net operating losses.

The Company's net operating loss carryforwards of \$37.4 million at December 30, 2000, could be limited in the event of a greater than 50% change in stock ownership of the Company. The limitation would be based on the stock value and the Federal Exempt Tax Rate on the date of ownership change. These limitations could create a cap on the amount of the NOLs that would be deductible each year going forward until the amount is depleted or the time limitation on the NOLs expires.

In Mexico, the location of the Company's foreign operations, the Company pays the greater of its income tax or an asset tax. Because the Company has operating losses in Mexico, the Company pays no income tax, but it is subject to the asset tax. Therefore, no provision for income taxes has been made on the Company's books for its operations in Mexico.

# 15. EARNINGS PER COMMON SHARE

Basic earnings per common share are computed by dividing net income by the weighted average number of common shares outstanding during the year. Diluted earnings per common share are computed as basic earnings per common share, adjusted for outstanding stock options that are dilutive. The computation for basic and diluted earnings per share may be summarized as follows: (amounts in thousands except per share information)

|                                                                                                    | 2000         | 1999        | 1998     |
|----------------------------------------------------------------------------------------------------|--------------|-------------|----------|
|                                                                                                    | -----        | -----       | -----    |
| Earnings/(loss) before extraordinary loss and Cumulative Effect and change in accounting principle | \$ (135,675) | \$ (17,156) | \$ 3,414 |
| Extraordinary loss, net                                                                            | (827)        | (406)       | 0        |
| Cumulative effect, net                                                                             | (3,378)      | 0           | 0        |
|                                                                                                    | -----        | -----       | -----    |
| Net earnings/(loss)                                                                                | \$ (139,880) | \$ (17,562) | \$ 3,414 |
|                                                                                                    | =====        | =====       | =====    |
| Weighted shares outstanding                                                                        | 21,169       | 21,068      | 20,949   |
| Basic earnings/(loss) per share:                                                                   |              |             |          |
| Earnings/(loss) before extraordinary Item and cumulative effect                                    | \$ (6.41)    | \$ (0.81)   | \$ 0.16  |
| Loss from extraordinary item                                                                       | (0.04)       | (0.02)      | 0.00     |
| Loss from cumulative effect                                                                        | (0.16)       | 0.00        | 0.00     |
|                                                                                                    | -----        | -----       | -----    |
| Net earnings/(loss) per basic share                                                                | \$ (6.61)    | \$ (0.83)   | \$ 0.16  |
|                                                                                                    | =====        | =====       | =====    |
| Weighted shares outstanding                                                                        | 21,169       | 21,068      | 20,949   |
| Impact of dilutive options held by employees                                                       | 0            | 110         | 285      |
|                                                                                                    | -----        | -----       | -----    |
| Aggregate shares outstanding                                                                       | 21,169       | 21,178      | 21,234   |
|                                                                                                    | =====        | =====       | =====    |
| Diluted earnings/(loss) per share:                                                                 |              |             |          |
| Earnings/(loss) before extraordinary item and cumulative effect                                    | \$ (6.41)    | \$ (0.81)   | \$ 0.16  |
| Loss from extraordinary item                                                                       | (0.04)       | (0.02)      | 0.00     |
| Loss from cumulative effect                                                                        | (0.16)       | 0.00        | 0.00     |
|                                                                                                    | -----        | -----       | -----    |
| Net earnings/(loss) per diluted share                                                              | \$ (6.61)    | \$ (0.83)   | \$ 0.16  |
|                                                                                                    | =====        | =====       | =====    |

Outstanding options with an exercise price below the average price of the Company's common stock have been included in the computation of diluted earnings per common share, using the treasury stock method, as of the date of the grant. In 1999, these options have been excluded from the calculation due to their anti-dilutive effect.

16. SUPPLEMENTAL DISCLOSURE INFORMATION

Supplemental disclosure information is as follows: (amounts in thousands)

(i) Supplemental Cash Flow Information

|               | 2000<br>---- | 1999<br>---- | 1998<br>---- |
|---------------|--------------|--------------|--------------|
| Cash paid for |              |              |              |
| Interest      | \$ 2,729     | \$17,826     | \$2,257      |
| Income taxes  | -            | 495          | 1,918        |

(ii) Supplemental Noncash Investing and Financial Activities

The following information relates to the Frame-n-Lens and New West acquisitions in 1998 (See Note 8).

|                                                 | 1998<br>----- |
|-------------------------------------------------|---------------|
| Business acquisitions, net of cash acquired     |               |
| Fair value of assets acquired                   | \$ 30,240     |
| Purchase price in excess of net assets acquired | 104,813       |
| Liabilities assumed                             | (37,696)      |
|                                                 | -----         |
| Net cash paid for acquisitions                  | \$ 97,357     |
|                                                 | =====         |

(iii) Supplemental Balance Sheet Information

Significant components of accrued expenses and other current liabilities may be summarized as follows:

|                                            | 2000<br>----- | 1999<br>----- |
|--------------------------------------------|---------------|---------------|
| Accrued employee compensation and benefits | \$ 5,859      | \$ 6,343      |
| Accrued rent expense                       | 3,758         | 4,047         |
| Accrued acquisition expenses               | 546           | 1,678         |
| Accrued capital expenditures               | -             | 1,345         |
| Customer deposit liability (See Note 2)    | 3,282         | -             |

(iv) Supplemental Income Statement Information

The components of interest expense, net, may be summarized as follows:

|                                             | 2000<br>----- | 1999<br>----- | 1998<br>----- |
|---------------------------------------------|---------------|---------------|---------------|
| Interest expense on debt and capital leases | \$ 6,902      | \$ 18,306     | \$ 5,721      |
| Purchase discounts on invoice payments      | (86)          | (37)          | (509)         |
| Finance fees                                | 881           | 1,158         | 407           |
| Interest income                             | -             | (73)          | (86)          |
| Other                                       | 26            | (25)          | 5             |
|                                             | -----         | -----         | -----         |
|                                             | \$ 7,723      | \$ 19,329     | \$ 5,538      |
|                                             | =====         | =====         | =====         |

## 17. EQUITY TRANSACTIONS

### Employee Stock Option and Incentive Award Plan

-----

In 1996, the Company adopted the Restated Stock Option and Incentive Award Plan (the "Plan") pursuant to which incentive stock options qualifying under Section 422A of the Internal Revenue Code and nonqualified stock options may be granted to key employees. The Plan also provides for the issuance of other equity awards, such as awards of restricted stock. The Plan replaced and restated all the Company's prior employee stock option plans. The Plan was amended in 1999 to increase the number of shares under the Plan from 3,350,000 to 4,350,000. The Plan is administered by the Compensation Committee of the Company's Board of Directors. The Compensation Committee has the authority to determine the persons receiving options, option prices, dates of grants and vesting periods, although no option may have a term exceeding ten years. Options granted prior to 1996 have a term of five years.

### Directors' Stock Option Plan

-----

In April 1997, the Company adopted the Restated Non-Employee Director Stock Option Plan (the "Directors' Plan"), pursuant to which stock options for up to 500,000 shares of Common Stock may be granted to non-employee directors. The Directors' Plan replaced and restated the Company's prior non-employee director stock option plan. The Directors' Plan provides for automatic grants of options to purchase 7,500 shares of the Company's common stock to each non-employee director serving on the date of each annual meeting of shareholders, beginning with the 1997 annual meeting. No options were granted under this plan in 2000. Of the options previously granted, 50% of the shares under each option are exercisable on the second anniversary of the grant date, 75% in three years, and 100% in four years. All option grants are at exercise prices no less than the market value of a share of Common Stock on the date of grant and are exercisable for a ten-year period. Options granted under the predecessor stock option plan are exercisable for a five-year period. Options covering 69,375 shares under the Directors' Plan were exercisable at December 30, 2000.

### All Stock Option Plans

-----

In 2000 and 1999, all exercise prices represent the estimated fair value of the Common Stock on the date of grant as determined by the Board of Directors. Of the options granted, 50% of the shares under each option are exercisable after two years from the grant date, 75% in three years, and 100% in four years.

The Committee granted a stock option for 100,000 shares of the Company's common stock to one executive officer which became fully vested in 2000.

Stock option transactions during the three years ended December 30, 2000 were as follows:

|                                           | 2000<br>----- | 1999<br>----- | 1998<br>----- |
|-------------------------------------------|---------------|---------------|---------------|
| Options outstanding beginning of year     | 2,615,421     | 2,582,380     | 2,294,203     |
| Options granted                           | 431,200       | 928,060       | 1,171,750     |
| Options exercised                         | -             | (12,491)      | (294,657)     |
| Options cancelled                         | (306,979)     | (882,528)     | (588,916)     |
|                                           | -----         | -----         | -----         |
| Options outstanding end of year           | 2,739,642     | 2,615,421     | 2,582,380     |
|                                           | =====         | =====         | =====         |
| Options exercisable end of year           | 1,245,105     | 760,162       | 748,803       |
|                                           | =====         | =====         | =====         |
| Weighted average option prices per share: |               |               |               |
| Granted                                   | \$ 1.989      | \$ 4.893      | \$ 5.030      |
| Exercised                                 | \$ -          | \$ 4.500      | \$ 4.989      |
| Cancelled                                 | \$ 4.611      | \$ 5.044      | \$ 9.461      |
| Outstanding at year end                   | \$ 4.409      | \$ 4.832      | \$ 4.881      |
|                                           |               |               |               |
| Options exercisable end of year           | \$ 4.570      | \$ 4.369      | \$ 4.973      |

The Company applies the disclosure provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation". The Company will continue to account for stock option awards in accordance with APB Opinion No. 25. Had compensation cost for the Plan been determined based on the fair value at the grant date for awards in 2000, 1999 and 1998 consistent with the provisions of SFAS No. 123, the Company's net earnings and earnings per share would have been reduced to the pro forma amounts indicated below: (amounts in thousands except per share information)

|                             | 2000<br>----- | 1999<br>----- | 1998<br>----- |
|-----------------------------|---------------|---------------|---------------|
| As reported:                |               |               |               |
| Net earnings / (loss)       | \$(139,880)   | \$(17,562)    | \$ 3,414      |
|                             | =====         | =====         | =====         |
| Earnings / (loss) per share | \$ (6.61)     | \$ (0.83)     | \$ 0.16       |
|                             | =====         | =====         | =====         |
| Pro forma:                  |               |               |               |
| Net earnings / (loss)       | \$(141,792)   | \$(19,266)    | \$ 2,655      |
|                             | =====         | =====         | =====         |
| Earnings / (loss) per share | \$ (6.70)     | \$ (0.91)     | \$ 0.13       |
|                             | =====         | =====         | =====         |

Basic and diluted earnings per share are the same for each year.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model. The following weighted average assumptions were used in the model:

|                          | 2000  | 1999  | 1998  |
|--------------------------|-------|-------|-------|
|                          | ----- | ----- | ----- |
| Dividend yield           | 0.00% | 0.00% | 0.00% |
| Expected volatility      | 142%  | 88%   | 76%   |
| Risk free interest rates | 5.1 % | 5.1%  | 4.9%  |
| Expected lives (years)   | 5.0   | 4.7   | 4.9   |

The following table shows the options outstanding and the options exercisable with pertinent data related to each:

|                 | Options Outstanding |             | Options Exercisable |             |          |
|-----------------|---------------------|-------------|---------------------|-------------|----------|
|                 |                     | Weighted    |                     |             |          |
| Range of        | Number              | Average     | Weighted            | Number      | Weighted |
| Exercise Prices | Outstanding         | Remaining   | Average             | Exercisable | Average  |
|                 | as of 12/30/00      | Contractual | Exercise            | As of       | Exercise |
|                 |                     | Life        | Price               | 12/30/00    | Price    |
|                 |                     |             |                     |             |          |
| \$1.42 - \$4.25 | 950,499             | 7.88        | \$2.640             | 393,975     | \$3.002  |
| \$4.50 - \$5.32 | 1,222,832           | 7.17        | \$5.159             | 582,699     | \$5.075  |
| \$5.33 - \$7.88 | 566,361             | 4.97        | \$5.758             | 268,431     | \$5.773  |
|                 |                     |             |                     |             |          |
| \$1.42 - \$7.88 | 2,739,642           | 6.96        | \$4.409             | 1,245,105   | \$4.570  |

#### Restricted Stock Awards

Restricted stock grants, with an outstanding balance of 106,000 shares at December 30, 2000, were awarded to certain officers and key employees which require five years of continuous employment from the date of grant before vesting and receiving the shares without restriction. The number of shares to be received without restriction is based on the Company's performance relative to a peer group of companies. For awards made in 1998, restricted shares, to the extent not awarded after five years, vest after ten years of employment. Unamortized deferred compensation expense with respect to the restricted stock was \$302,000 at December 30, 2000 and January 1, 2000, and is being amortized over the five-year vesting period. Deferred compensation expense aggregated \$131,000 and \$120,000 in 1999 and 1998, respectively. Due to the value of the Company's stock and the uncertainties surrounding the Chapter 11 Cases, no compensation expense was recognized in 2000. There were no new grants or forfeitures of restricted stock in 1999 or 2000. A summary of restricted stock granted during 1998 is as follows:

|                                                             | 1998    |
|-------------------------------------------------------------|---------|
|                                                             | -----   |
| Shares granted                                              | 67,000  |
| Shares forfeited                                            | 15,000  |
| Weighted-average fair value of<br>stock granted during year | \$ 5.34 |

## Preferred Stock

-----

The Company is authorized to issue up to 5,000,000 shares of preferred stock, par value \$1 per share, with such terms, characteristics and designations as may be determined by the Board of Directors. No such shares are issued and outstanding.

## Shareholder Rights Plan

-----

In January of 1997, the Company's Board of Directors approved a Shareholders Rights Plan (the "Rights Plan"). The Rights Plan provides for the distribution of one Right for each outstanding share of the Company's Common Stock held of record as of the close of business on January 27, 1997 or that thereafter becomes outstanding prior to the earlier of the final expiration date of the Rights or the first date upon which the Rights become exercisable. Each Right entitles the registered holder to purchase from the Company one one-hundredth of a share of Series A Participating Cumulative Preferred Stock, par value \$0.01 per share, at a price of \$40.00 (the "Purchase Price"), subject to adjustment. The Rights are not exercisable until ten calendar days after a person or group (an "Acquiring Person") buys or announces a tender offer for 15% or more of the Company's Common Stock, or if any person or group has acquired such an interest, the acquisition by that person or group of an additional 2% of the Company's Common Stock. In the event the Rights become exercisable, then each Right will entitle the holder to receive that number of shares of Common Stock (or, under certain circumstances, an economically equivalent security or securities of the Company) having a market value equal to the Purchase Price. If, after any person has become an Acquiring Person (other than through a tender offer approved by qualifying members of the Board of Directors), the Company is involved in a merger or other business combination where the Company is not the surviving corporation, or the Company sells 50% or more of its assets, operating income, or cash flow, then each Right will entitle the holder to purchase, for the Purchase Price, that number of shares of common or other capital stock of the acquiring entity which at the time of such transaction have a market value of twice the Purchase Price. The Rights will expire on January 26, 2007, unless extended, unless the Rights are earlier exchanged, or unless the Rights are earlier redeemed by the Company in whole, but not in part, at a price of \$0.001 per Right. In February 1998, the Company's Board of Directors amended the Rights Plan effective March 1, 1998 to provide that Rights under this plan can be redeemed and certain amendments to this plan can be effected only with the approval of the Continuing Directors, which are defined in the Rights Plan as the current directors and any future directors that are approved or recommended by Continuing Directors.

On April 22, 1999, the Company permitted a group, of which a director, Campbell B. Lanier, III, is a member, to acquire beneficial ownership of up to 25% of the Company's common stock without triggering the provisions of the Rights Plan. By an agreement dated as of September 9, 1999, the Company further permitted the same group to acquire up to 28% of the Company's common stock (inclusive of amounts previously purchased by the group) without triggering the provisions of the Rights Plan. The group agreed that, if it acquired more than 25% of the outstanding common stock of the Company, the group would vote such additional shares in the same ratio as all other shares voted by shareholders other than the members of the group and their affiliates.

In 2000, the Company cancelled 10,000 shares of its Common Stock.

18. SELECTED QUARTERLY FINANCIAL DATA (Unaudited)

Selected quarterly data for the Company for the fiscal years ended December 30, 2000 and January 1, 2000 is as follows: (amounts in thousands except per share information)

| FISCAL 2000                                                       | Quarter Ended |            |              |             |
|-------------------------------------------------------------------|---------------|------------|--------------|-------------|
|                                                                   | April 1       | July 1     | September 30 | December 30 |
| Net sales                                                         | \$ 83,180     | \$ 78,783  | \$ 75,578    | \$ 70,153   |
| Cost of goods sold                                                | 36,745        | 36,287     | 36,338       | 34,088      |
| Gross profit                                                      | 46,435        | 42,496     | 39,240       | 36,065      |
| Selling, general & administrative                                 | 45,759        | 42,424     | 41,646       | 36,535      |
| Impairment on long-lived assets                                   | 2,684         | 0          | 0            | 0           |
| Restructuring expense                                             | 1,601         | 0          | 0            | 0           |
| Operating income/(loss)                                           | (3,609)       | 72         | (2,406)      | (470)       |
| Interest expense                                                  | 5,330         | 917        | 721          | 755         |
| Earnings / (loss) before reorganization items and taxes           | (8,939)       | (845)      | (3,127)      | (1,225)     |
| Reorganization items                                              | 0             | 4,379      | 114,521      | 2,639       |
| (Loss) before taxes, extraordinary loss and cumulative effect     | (8,939)       | (5,224)    | (117,648)    | (3,864)     |
| Income tax expense                                                | 0             | 0          | 0            | 0           |
| Earnings / (loss) before extraordinary loss and cumulative effect | (8,939)       | (5,224)    | (117,648)    | (3,864)     |
| Extraordinary loss, net                                           | 0             | (827)      | 0            | 0           |
| Cumulative effect, net                                            | (3,378)       | 0          | 0            | 0           |
| Net loss                                                          | \$ (12,317)   | \$ (6,051) | \$ (117,648) | \$ (3,864)  |
| Basic earnings/(loss) per share:                                  |               |            |              |             |
| Earnings/(loss) before extraordinary item and cumulative effect   | \$ (0.42)     | \$ (0.25)  | \$ (5.56)    | \$ (0.18)   |
| Loss from extraordinary item                                      | 0.00          | (0.04)     | 0.00         | 0.00        |
| Loss from cumulative effect                                       | 0.00          | 0.00       | 0.00         | (0.16)      |
| Net earnings/(loss) per basic share                               | \$ (0.42)     | \$ (0.29)  | \$ (5.56)    | \$ (0.34)   |
| Diluted earnings/(loss) per share:                                |               |            |              |             |
| Earnings/(loss) before extraordinary item and cumulative effect   | \$ (0.42)     | \$ (0.25)  | \$ (5.56)    | \$ (0.18)   |
| Loss from extraordinary item                                      | 0.00          | (0.04)     | 0.00         | 0.00        |
| Loss from cumulative effect                                       | 0.00          | 0.00       | 0.00         | (0.16)      |
| Net earnings/(loss) per diluted share                             | \$ (0.42)     | \$ (0.29)  | \$ (5.56)    | \$ (0.34)   |

| FISCAL 1999                                  | Quarter Ended |            |           |            |
|----------------------------------------------|---------------|------------|-----------|------------|
|                                              | April 3       | July 3     | October 2 | January 1  |
| Net sales                                    | \$ 86,634     | \$ 82,531  | \$ 83,262 | \$ 76,628  |
| Cost of goods sold                           | 37,088        | 36,745     | 37,474    | 36,461     |
| Gross profit                                 | 49,546        | 45,786     | 45,788    | 40,167     |
| Selling, general, and administrative expense | 42,446        | 42,937     | 45,355    | 46,424     |
| Impairment loss on long-lived assets         | --            | --         | --        | 1,952      |
| Operating income/(loss)                      | 7,100         | 2,849      | 433       | (8,209)    |
| Interest expense, net                        | 4,665         | 4,743      | 4,809     | 5,112      |
| Income/(loss) before income taxes            | 2,435         | (1,894)    | (4,376)   | (13,321)   |
| Provision/(benefit) for income taxes         | 970           | (584)      | (1,396)   | 1,010      |
| Income/(loss) before extraordinary item      | 1,465         | (1,310)    | (2,980)   | (14,331)   |
| Extraordinary item, net of tax               | --            | --         | --        | (406)      |
| Net income/(loss)                            | \$ 1,465      | \$ (1,310) | \$(2,980) | \$(14,737) |
| Basic earnings/(loss) per common share:      |               |            |           |            |
| Earnings/(loss) before extraordinary item    | \$ 0.07       | \$ (0.06)  | \$ (0.14) | \$ (0.68)  |
| Extraordinary loss                           | --            | --         | --        | (0.02)     |
| Net income/(loss)                            | \$ 0.07       | \$ (0.06)  | \$ (0.14) | \$ (0.70)  |
| Diluted earnings/(loss) per common share:    |               |            |           |            |
| Earnings/(loss) before extraordinary item    | \$ 0.07       | \$ (0.06)  | \$ (0.14) | \$ (0.68)  |
| Extraordinary loss                           | --            | --         | --        | (0.02)     |
| Net income/(loss)                            | \$ 0.07       | \$ (0.06)  | \$ (0.14) | \$ (0.70)  |

# 19. REPORTABLE BUSINESS SEGMENTS

The Company's operating business segments provide quality retail optical services and products that represent high value and satisfaction to the customer. The separate businesses within the Company use the same production processes for eyeglass lens manufacturing, offer products and services to a broad range of customers and utilize the Company's central administrative offices to coordinate product purchases and distribution to retail locations. A field organization provides management support to individual store locations. The Mexico operation has a separate laboratory and distribution center in Mexico and buys a majority of its products from local vendors. However, market demands, customer requirements, laboratory manufacturing and distribution processes, as well as product offerings, are substantially the same for the domestic and Mexico business. Consequently, the Company considers its domestic and Mexico businesses as one reportable segment under the definitions required by SFAS No. 131 - "Disclosures about Segments of an Enterprise and Related Information."

Information relative to sales and identifiable assets for the United States and Mexico for the fiscal years ended December 30, 2000, January 1, 2000 and January 2, 1999 are summarized in the following tables (amounts in thousands). Identifiable assets include all assets associated with operations in the indicated reportable segment excluding inter-company receivables and investments.

|                     | United States<br>----- | Mexico<br>-----   | Other<br>-----  | Consolidated<br>----- |
|---------------------|------------------------|-------------------|-----------------|-----------------------|
| 2000                |                        |                   |                 |                       |
| Sales               | \$ 302,902<br>=====    | \$ 4,792<br>===== | \$ --<br>=====  | \$ 307,694<br>=====   |
| Identifiable Assets | \$ 88,666<br>=====     | \$ 2,222<br>===== | \$ --<br>=====  | \$ 90,888<br>=====    |
| 1999                |                        |                   |                 |                       |
| Sales               | \$ 325,101<br>=====    | \$ 3,954<br>===== | \$ --<br>=====  | \$ 329,055<br>=====   |
| Identifiable Assets | \$ 217,690<br>=====    | \$ 2,328<br>===== | \$ 201<br>===== | \$ 220,219<br>=====   |
| 1998                |                        |                   |                 |                       |
| Sales               | \$ 241,705<br>=====    | \$ 3,429<br>===== | \$ 197<br>===== | \$ 245,331<br>=====   |
| Identifiable Assets | \$ 226,323<br>=====    | \$ 2,147<br>===== | \$ 627<br>===== | \$ 229,097<br>=====   |

## SCHEDULE II

VISTA EYECARE, INC. AND SUBSIDIARIES  
 (DEBTORS-IN-POSSESSION)  
 VALUATION AND QUALIFYING ACCOUNTS  
 December 30, 2000, January 1, 2000 and January 2, 1999  
 (In thousands)

| Description                                                   | Balance at<br>Beginning of Period | Additions                       |                              | Deductions | Balance at<br>End of Period |
|---------------------------------------------------------------|-----------------------------------|---------------------------------|------------------------------|------------|-----------------------------|
|                                                               |                                   | Charged to<br>Cash and Expenses | Charged to<br>Other Accounts |            |                             |
| Year ended<br>January 2, 1999                                 |                                   |                                 |                              |            |                             |
| Allowance for<br>Uncollectible<br>Accounts Receivable         | \$ 762                            | \$ 900                          | \$ 726                       | \$ 872     | \$ 1,516                    |
| Year ended<br>January 1, 2000                                 |                                   |                                 |                              |            |                             |
| Allowance for<br>Uncollectible<br>Accounts Receivable         | \$ 1,516                          | \$ 3,384                        | \$ 885                       | \$ 1,382   | \$ 4,403                    |
| Year ended<br>December 30, 2000                               |                                   |                                 |                              |            |                             |
| Allowance for<br>Uncollectible<br>Accounts Receivable         | \$ 4,403                          | \$ 2,503                        | \$ 1,373                     | \$ 2,535   | \$ 5,744                    |
| Provision for<br>reorganization<br>and restructuring<br>items | \$ --                             | \$ 8,505                        | \$ --                        | \$ 3,778   | \$ 4,727                    |

# 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.

VISTA EYECARE, INC.

By: /s/ James W. Krause

-----  
James W. Krause  
Chairman of the Board & Chief Executive  
Officer and Director

Date: April 9, 2000

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant on April 9, 2000, in the capacities indicated.

| Signature                                           | Title                                                                              |
|-----------------------------------------------------|------------------------------------------------------------------------------------|
| /s/ James W. Krause<br>-----<br>James W. Krause     | Chairman of the Board and<br>Chief Executive Officer and Director                  |
| /s/ Angus C. Morrison<br>-----<br>Angus C. Morrison | Senior Vice President, Chief Financial<br>Officer<br>(Principal Financial Officer) |
| /s/ Timothy W. Ranney<br>-----<br>Timothy W. Ranney | Vice President, Corporate Controller<br>(Principal Accounting Officer)             |
| /s/ Peter T. Socha<br>-----<br>Peter T. Socha       | Senior Vice President,<br>Strategic Planning and Managed Care,<br>Director         |
| /s/ Ronald J. Green<br>-----<br>Ronald J. Green     | Director                                                                           |
| /s/ James E. Kanaley<br>-----<br>James E. Kanaley   | Director                                                                           |

EXHIBIT INDEX  
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23            Arthur Andersen LLP Consent.

## CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our report included in this Form 10-K into the Company's previously filed Registration Statement File No. 333-06579 and File No. 333-21782.

/s/ Arthur Andersen LLP

Atlanta, Georgia  
March 30, 2001