

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C.

FORM 10-Q

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

For the quarterly period
ended March 31, 2001

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

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 -----

The number of shares of Common Stock of the registrant outstanding as of May 5, 2001 was 21,169,103.

The Exhibit Index is located at page 11.

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PART I

FINANCIAL INFORMATION

ITEM I. FINANCIAL STATEMENTS

VISTA EYECARE, INC.
(DEBTORS-IN-POSSESSION)
CONDENSED CONSOLIDATED BALANCE SHEETS

March 31, 2001 and December 30, 2000
(In thousands except share information)

	March 31, 2001 ----- (unaudited)	December 30, 2000 -----
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 11,969	\$ 8,066
Accounts receivable (net of allowance: 2001-\$5,446; 2000-\$5,744)	11,155	10,119
Inventories	30,354	31,478
Other current assets	2,043	1,590
	-----	-----
Total current assets	55,521	51,253
	-----	-----
PROPERTY AND EQUIPMENT:		
Equipment	47,561	47,187
Furniture and fixtures	18,918	23,272
Leasehold improvements	23,527	18,664
Construction in progress	590	540
	-----	-----
	90,596	89,663
Less accumulated depreciation	(62,492)	(60,092)
	-----	-----
Net property and equipment	28,104	29,571
	-----	-----
OTHER ASSETS AND DEFERRED COSTS (net of accumulated amortization: 2001-\$2,287; 2000-\$2,142)		
	7,625	7,766
DEFERRED INCOME TAX ASSETS		
	385	385
GOODWILL AND OTHER INTANGIBLE ASSETS (net of accumulated amortization: 2001-\$2,859; 2000-\$2,691)		
	1,728	1,913
	-----	-----
	\$ 93,363	\$ 90,888
	=====	=====

LIABILITIES AND SHAREHOLDERS' DEFICIT

LIABILITIES NOT SUBJECT TO COMPROMISE:

CURRENT LIABILITIES:

Accounts payable	\$ 469	\$ 783
Accrued expenses and other current liabilities	21,997	19,693
Revolving credit facility and term loan	12,897	12,911
	-----	-----
Total current liabilities	35,363	33,387
	-----	-----

LIABILITIES SUBJECT TO COMPROMISE	172,713	170,824
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COMMITMENTS AND CONTINGENCIES	--	--
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SHAREHOLDERS' DEFICIT:

Preferred stock, \$1 par value; 5,000,000 shares authorized, none issued		
Common stock, \$.01 par value; 100,000,000 shares authorized, 21,169,103 shares issued and outstanding as of March 31, 2001 and December 30, 2000, respectively	211	211
Additional paid-in capital	47,387	47,387
Retained deficit	(158,238)	(156,848)
Accumulated other comprehensive income	(4,073)	(4,073)
	-----	-----
Total shareholders' deficit	(114,713)	(113,323)
	-----	-----
	\$ 93,363	\$ 90,888
	=====	=====

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

VISTA EYECARE, INC.
(DEBTORS-IN-POSSESSION)
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands except per share information)
(Unaudited)

	Three Months Ended	
	March 31, 2001	April 1, 2000
NET SALES	\$74,735	\$83,180
COST OF GOODS SOLD	34,525	36,745
GROSS PROFIT	40,210	46,435
SELLING, GENERAL, AND ADMINISTRATIVE EXPENSE	39,071	45,759
IMPAIRMENT LOSS ON LONG-LIVED ASSETS	--	2,684
RESTRUCTURING EXPENSE	--	1,601
OPERATING INCOME/(LOSS)	1,139	(3,609)
INTEREST EXPENSE, NET	739	5,330
INCOME/(LOSS) BEFORE REORGANIZATION ITEMS AND TAXES	400	(8,939)
REORGANIZATION ITEMS	1,789	--
LOSS BEFORE TAXES AND CUMULATIVE EFFECT	(1,389)	(8,939)
INCOME TAX EXPENSE	--	--
NET LOSS BEFORE CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE	(1,389)	(8,939)
CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE	--	(3,378)
NET LOSS	<u>\$(1,389)</u>	<u>\$(12,317)</u>
BASIC LOSS PER SHARE:		
LOSS BEFORE CUMULATIVE EFFECT	\$ (0.07)	\$ (0.42)
LOSS FROM CUMULATIVE EFFECT	--	(0.16)
NET LOSS PER BASIC SHARE	<u>\$ (0.07)</u>	<u>\$ (0.58)</u>
DILUTED LOSS PER SHARE		
LOSS BEFORE CUMULATIVE EFFECT	\$ (0.07)	\$ (0.42)
LOSS FROM CUMULATIVE EFFECT	--	(0.16)
NET LOSS PER DILUTED SHARE	<u>\$ (0.07)</u>	<u>\$ (0.58)</u>

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

VISTA EYECARE, INC.
(DEBTORS-IN-POSSESSION)
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(In thousands)

	Three Months Ended	
	March 31, 2001 ----	April 1, 2000 -----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$(1,389)	\$(12,317)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,867	4,816
Impairment of long-lived assets	--	2,684
Restructuring expense	--	1,601
Reorganization items	1,789	--
Cumulative effect of a change in accounting principle	--	3,378
Changes in operating assets and liabilities:		
Receivables	(1,036)	(533)
Inventories	1,124	(1,646)
Other current assets	(453)	422
Other assets	152	628
Accounts payable	(314)	5,399
Accrued expenses and other current liabilities	2,304	2,673
Liabilities subject to compromise	133	--
Total adjustments	6,566	19,422
Net cash provided by operating activities	5,177	7,105
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(1,259)	(2,445)
Net cash used in investing activities	(1,259)	(2,445)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments on revolving credit facility	(76,423)	(88,093)
Advances on revolving credit facility	76,408	84,769
Repayments on notes payable and capital leases	--	(619)
Deferred financing costs	--	(108)
Net cash used in financing activities	(15)	(4,051)
NET INCREASE IN CASH	3,903	609
CASH, beginning of period	8,066	2,886
CASH, end of period	\$11,969 =====	\$ 3,495 =====

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

VISTA EYECARE, INC.
(DEBTORS-IN-POSSESSION)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2001

(Unaudited)

(1) BASIS OF FINANCIAL STATEMENT PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared by Vista Eyecare, Inc. ("Vista" or the "Company") pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. Although management believes that the disclosures are adequate to make the information presented not misleading, it is suggested that these interim condensed consolidated financial statements be read in conjunction with the Company's most recent audited consolidated financial statements and notes thereto. In the opinion of management, all adjustments necessary for a fair presentation of the financial position, results of operations, and cash flows for the interim periods presented have been made. Operating results for the interim periods presented are not necessarily indicative of the results that may be expected for the year ending December 29, 2001. Certain amounts in the April 1, 2000 condensed consolidated financial statements have been reclassified to conform to the March 31, 2001 presentation.

(2) BANKRUPTCY PROCEEDING 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 States Bankruptcy Court for the Northern District of Georgia for reorganization under Chapter 11 (the "Chapter 11 Cases"). The Debtors are currently operating their businesses as debtors-in-possession pursuant to the Bankruptcy Code.

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.

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.

The Company believes that the DIP Facility will provide it with adequate liquidity to conduct its operations while it awaits confirmation of its reorganization plan. The Company is currently working to establish a secured, revolving credit facility which will replace the DIP Facility (the "Exit Facility"). As of May 15, 2001, the Company was finalizing the terms of the Exit Facility. It is anticipated that the proposed Exit Facility will have a term of 3 years, bear interest at the prime rate plus 0.25% per annum or at LIBOR plus 2.50% and, subject to customary terms and conditions, is expected to provide availability of \$9.5 million, inclusive of letter of credit requirements. The Exit Facility should provide the Company with adequate liquidity upon emergence from bankruptcy. However, no assurances can be given that the Exit Facility will be finalized or that it will be completed with the terms discussed above.

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.

(3) 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)

	March 31, 2001	December 30, 2000
	-----	-----
Accounts payable	\$ 26,786	\$ 25,856
Accrued expenses	3,002	2,717
Provision for rejected contracts	3,839	3,142
Senior notes, net of discount		
including \$7,480 accrued interest	131,266	131,266
Other long-term debt and capital		
lease obligations	7,820	7,843
	-----	-----
	\$172,713	\$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.

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

General

In the first quarter of 2000 and 2001, 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 first quarter of 2000. These charges were incurred before the Company began the Chapter 11 Cases:(amounts in thousands)

	First Quarter 2000

Impairment of fixed assets	\$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 the first quarter of 2001 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)

	First Quarter 2001

Impairment of fixed assets	\$ 33
Provision for rejected leases	697
Other store closing costs	37
Professional fees	1,008
Interest income on accumulated cash	(89)
Other reorganization costs	103

	\$ 1,789
	=====

The following represents activity in the restructuring and reorganization provisions during the first quarter of 2001: (amounts in thousands)

	Accrued at December 30, 2000	Charged to expense	Paid	Accrued at March 31, 2001
	-----	-----	----	-----
Restructuring and reorganization items	\$ 4,727	\$1,697	\$ 701	\$5,723

(5) INCOME TAXES

Vista recorded a pre-tax operating loss of \$1.4 million in the Current Three Months. The resulting income tax benefit was approximately \$0.5 million. We have established a valuation allowance equal to the amount of the tax benefit.

(6) 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 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.

(7) EARNINGS PER COMMON SHARE

Basic earnings per common share were computed by dividing net income by the weighted average number of common shares outstanding during the quarter. Diluted earnings per common share were 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):

	Three Months Ended	
	March 31, 2001	April 1, 2000
	-----	-----
Net Loss Before Cumulative Effect	\$ (1,389)	\$ (8,939)
Cumulative Effect	--	(3,378)
Net Loss	----- \$ (1,389) =====	----- \$(12,317) =====
Weighted Shares Outstanding	21,169	21,179
Basic and Diluted Loss per Share Before Cumulative Effect	\$ (0.07)	\$ (0.42)
Cumulative Loss per Basic and Diluted Share	--	\$ (0.16)
Net Loss per Basic and Diluted Share	----- \$ (0.07) =====	----- \$ (0.58) =====

No outstanding options were included in the above calculation as their impact would be anti-dilutive.

(8) SUPPLEMENTAL DISCLOSURE INFORMATION

Inventory balances, by classification, may be summarized as follows:

	March 31, 2001 -----	December 30, 2000 -----
Raw Material	\$22,234	\$22,175
Finished Goods	7,070	8,153
Supplies	1,050	1,150
	-----	-----
	\$30,354	\$31,478
	=====	=====

Since filing for protection under Chapter 11 of the Bankruptcy Code, we have stopped accruing interest on unsecured debt. Contractual interest for the quarter ending March 31, 2001 was \$5.1 million. The components of interest expense, net, may be summarized as follows:

	Three Months Ended -----	
	March 31, 2001 -----	April 1, 2000 -----
Interest expense on debt and capital leases	\$ 559	\$5,010
Purchase discounts on invoice payments	(30)	(1)
Finance fees and amortization of hedge and swap agreements	190	325
Interest income	--	(1)
Other	20	(3)
	-----	-----
	\$ 739	\$5,330
	=====	=====

Results for the three months ended March 31, 2001 exclude interest income of \$89,000. This amount was treated as a reorganization item. (See Note 4 to Condensed Consolidated Financial Statements.)

(9) SUBSEQUENT EVENTS

On April 20, 2001, the Company completed the sale of its freestanding retail operations to Vista Acquisition LLC (the "Buyer"). We received consideration of approximately \$7.5 million, consisting of \$6.0 million in cash and \$1.5 million in notes receivable. The assets sold consist primarily of furniture, fixtures and inventory at approximately 200 freestanding locations and inventory and equipment at the Fullerton, California laboratory/distribution center.

In a related transaction, Vista agreed to sell to the Buyer its interest in a subsidiary for \$1.0 million note receivable. This subsidiary owns a portion of the equipment in approximately half of the freestanding locations sold. This transaction is expected to close in the summer of 2001. For purposes of the unaudited pro forma financial information, these transactions have been combined.

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.

	March 31, 2001	April 1, 2000
	-----	-----
Net sales	\$ 61,021	\$ 65,518
Gross profit	\$ 33,409	\$ 36,605
Operating income	\$ 4,475	\$ 4,112
EBITDA prior to significant provisions	\$ 7,277	\$ 7,196

EBITDA 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 and the Cumulative Effect of a Change in Accounting Principle.

ITEM 2. 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 (collectively, the "Debtors") filed voluntary petitions with the United States Bankruptcy Court for the Northern District of Georgia for reorganization under Chapter 11 (the "Chapter 11 Cases"). The Debtors are currently operating their businesses as debtors-in-possession pursuant to the Bankruptcy Code.

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.

Condensed Consolidated Financial Statements

The Company's Condensed Consolidated Financial Statements have been prepared on a going concern basis, which contemplates continuity of operations, realization of assets and liquidation of liabilities and commitments in the normal course of business. The filing of the bankruptcy petition, the related circumstances and the losses from operations raise substantial doubt with respect to the Company's ability to continue as a going concern. The appropriateness of using the going concern basis is dependent upon, among other things, confirmation of a plan or plans of reorganization, future profitable operations and the ability to generate cash from operations and financing sources sufficient to meet 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 significant uncertainty. 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 Condensed Consolidated Financial Statements. Further, a plan or plans of reorganization could materially change the amounts reported in the accompanying Condensed Consolidated Financial Statements. The Condensed 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 of 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. At March 31, 2001, the Company operated 706 vision centers, versus 935 vision centers at April 1, 2000.

THREE MONTHS ENDED MARCH 31, 2001 (THE "CURRENT THREE MONTHS") COMPARED TO THREE MONTHS ENDED APRIL 1, 2000 (THE "PRIOR THREE MONTHS")

CONSOLIDATED RESULTS

NET SALES. The Company recorded net sales of \$74.7 million in the Current Three Months, a decrease of 10% over sales of \$83.2 million in the Prior Three Months. Sales decreased due to the following:

- o The Company closed 91 freestanding stores in April 2000. These stores had sales of \$2.8 million in the first quarter of 2000.
- o The Company closed all of its Sam's Club operations in the third quarter of 2000. These locations had sales of \$5.4 million in the first quarter of 2000.

Net sales from international operations increased to \$1.3 million in the Current Three Months from \$1.2 million in the comparable period a year ago.

GROSS PROFIT. In the Current Three Months, gross profit decreased to \$40.2 million from \$46.4 million in the Prior Three Months. This decrease in gross profit dollars was primarily driven by a reduction in sales caused by the closure of approximately 91 freestanding locations and the Sam's Club locations. Gross margin as a percent of sales decreased to 53.8% from 55.8% in the Prior Three Months. Gross margin percentage was also negatively impacted by the store closures described above, as the Fullerton lab experienced a decrease in volume resulting in a loss of efficiency in the lab operation. In addition, rent expense which is a component of Gross Profit, increased as a percent of sales for the Wal-Mart division. This was due to approximately 42 vision centers entering the "3-year option period" of the Wal-Mart lease. The option period effectively increases each location's minimum rent requirement. We expect this trend of increased rent to continue as additional Wal-Mart locations enter the "option period" of their lease.

SELLING, GENERAL, AND ADMINISTRATIVE EXPENSE ("SG&A expense"). SG&A expense (which includes both store operating expenses and home office overhead) decreased to \$39.1 million in the Current Three Months from \$45.8 million for the Prior Three Months. The dollar decrease was primarily the result of fewer payroll, depreciation and other expenses due to the above-mentioned store closures. SG&A expense also decreased as a percent of sales from 55.0% in the Prior Three Months to 52.3% in the Current Three Months.

The percentage decrease in SG&A was due to the following:

- o A 2.1% decrease in retail and field supervision payroll costs. This is primarily the result of the store closures in 2000. The closed stores had higher payroll costs as a percent of sales.
- o A 1.9% decrease in depreciation and amortization costs due to the third quarter 2000 goodwill impairment of \$100.8 million, and fixed asset impairment of \$12.0 million.

These decreases were partially offset by:

- o an increase in third-party processing costs as a result of increased managed care sales and receipts,
- o an increase in group health benefit costs due to increased claims experience, and
- o an increase in workers' compensation costs, due to rising claims experience.

IMPAIRMENT LOSS, RESTRUCTURING EXPENSE AND REORGANIZATION ITEMS. In the first quarter of 2000, the Company recorded a noncash pre-tax charge of approximately \$2.7 million primarily related to the impairment of leasehold improvements and furniture and fixtures in 91 closed stores.

Also, in the first quarter of 2000, the Company recorded a \$1.6 million reserve for anticipated closing costs of stores. This charge was comprised of \$1.4 million in lease termination costs and \$239,000 in severance and other closing costs.

Generally accepted accounting principles require that these charges, incurred prior to the Company's filing for Chapter 11 protection, be presented as components of operating income. Charges of this nature incurred subsequent to the Company's Chapter 11 filing are presented below operating income as "Reorganization Items." Results for the first quarter of 2001 include charges which were incurred after the Company's Chapter 11 filing. The table below summarizes these charges: (amounts in thousands)

	First Quarter 2001

Impairment of fixed assets	\$ 33
Provision for rejected leases	697
Other store closing costs	37
Professional fees	1,008
Interest income on accumulated cash	(89)
Other reorganization costs	103

	\$ 1,789
	=====

OPERATING INCOME. Operating income for the Current Three Months prior to restructuring reserves and the impairment loss on long-lived assets, increased to \$1.1 million from \$0.7 million in the Prior Three Months. Operating income as a percentage of sales prior to the restructuring reserve and the impairment loss was 1.5% in the Current Three Months, compared to 0.8% in the Prior Three Months. This increase was primarily due to the closure of the 91 freestanding locations and the Sam's Club locations.

INTEREST EXPENSE. Interest Expense decreased to \$0.7 million compared to \$5.3 million in the Prior Three Months. As a result of the Chapter 11 filing, the Company stopped accruing interest on unsecured debt until we emerge from Chapter 11 or it becomes probable that we will pay these amounts as part of a plan of reorganization. Contractual interest for the first quarter of 2001 was \$5.1 million.

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 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.

BENEFIT FOR INCOME TAXES. Vista recorded a pre-tax operating loss of \$1.4 million in the Current Three Months. The resulting income tax benefit was approximately \$0.5 million. We have established a valuation allowance equal to the amount of the tax benefit.

NET INCOME. The Company posted a net loss of \$1.4 million, or (\$0.07) per share, versus a net loss of \$12.3 million, or (\$0.58) per share, in the Prior Three Months.

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.

On April 5, 2000, the Company filed for protection under Chapter 11. The Bankruptcy Court permitted the Company to enter into a Debtor-in-Possession ("DIP") Credit Facility. As of March 31, 2001, the Company had borrowed a total of \$12.9 million (inclusive of the \$12.5 million term loan portion) under the DIP Facility. The term of the DIP Facility expires on May 31, 2001.

The Company believes that the DIP Facility will provide it with adequate liquidity to conduct its operations while it awaits confirmation of its reorganization plan. The Company is currently working to establish a secured, revolving credit facility which will replace the DIP Facility (the "Exit Facility"). As of May 15, 2001, the Company was finalizing the terms of the Exit Facility. It is anticipated that the proposed Exit Facility will have a term of 3 years, bear interest at the prime rate plus 0.25% per annum or at LIBOR plus 2.50% and, subject to customary terms and conditions, is expected to provide availability of \$9.5 million, inclusive of letter of credit requirements. The Exit Facility should provide the Company with adequate liquidity upon emergence from bankruptcy. However, no assurances can be given that the Exit Facility will be finalized or that it will be completed with the terms discussed above.

In March 2001, the Company filed a plan of reorganization with the bankruptcy court. Management expects the plan to be approved in the second quarter of 2001. In the Company's plan of reorganization, Liabilities Subject to Compromise are estimated to be \$175 million and are expected to be converted, at approximately 80% of face value, 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.

If the plan of reorganization is approved by the Bankruptcy Court, the Company will adopt "fresh start" accounting principles as contained in the AICPA's Statement of Position 90-7, "Financial Reporting by Entities in Reorganization under the Bankruptcy Code." "Fresh Start" accounting principles require that we determine the reorganization value of the reorganized Company. The Company's reorganization value is based on financial projections developed by the Company, the credit committee and their respective financial advisors. Such projections were submitted to the court and to creditors for review via the Company's disclosure statement accompanying the proposed Reorganization Plans. The reorganization value will be allocated, based on estimated fair values to specific identifiable assets of the Company. To the extent that the reorganization value of the Company exceeds the value of the specific identifiable assets, the Company will record an intangible asset.

We do not know whether the reorganization 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. Subsequent to the first quarter of 2001, the Company has repaid approximately \$7.0 million of principal on the DIP Facility.

In April 2001, the Company finalized the sale of its freestanding operations for consideration of \$7.5 million, consisting of \$6.0 million in cash and \$1.5 million in notes receivable. The Company anticipates that cashflow from operations will improve with the disposition of the freestanding operations.

We plan, as of April 1, 2001, to open one Wal-Mart vision center during the remainder of 2001. We may open up to six 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 \$140,000 for fixed assets and approximately \$25,000 for inventory.

RISK FACTORS

Any expectations, beliefs, and other non-historical statements contained in this Form 10-Q are forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements represent the Company's expectations or belief concerning future events, including the following: any statements regarding future sales levels, any statements regarding the continuation of historical trends, and any statements regarding the Company's liquidity. Without limiting the foregoing, the words "believes," "anticipates," "plans," "expects," and similar expressions are intended to identify forward-looking statements. With respect to such forward-looking statements and others which may be made by, or on behalf of, the Company, the factors described as "Risk Factors" in the Company's Report on Form 10-K for 2000 could materially affect the Company's actual results.

ITEM 3. 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. 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.

PART II

OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits.

The following exhibits are filed herewith or incorporated by reference:

	Exhibit Number -----
Amended and Restated Articles of Incorporation	3.1*
Amended and Restated Bylaws	3.2**
Form of Common Stock Certificate	4.1***

*Incorporated by reference to the Company's Form 8-K filed with the Commission on January 6, 1999.

**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.

***Incorporated by reference to the Company's Registration Statement on Form 8-A filed with the Commission on January 17, 1997.

(b) Reports on Form 8-K.

The following reports on Form 8-K have been filed during the last quarter of the period covered by this report:

Date of Report -----	Item Reported -----	Financial Statements Filed -----
February 23, 2001	5	None
March 15, 2001	5	None
March 16, 2001	5	None

SIGNATURES

Pursuant to the requirements 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/ Angus C. Morrison

Senior Vice President
Chief Financial Officer

By: /S/ Timothy W. Ranney

Chief Accounting Officer

May 15, 2001