

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 January 3, 2004

OR

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

Commission File Number 0-20001

NATIONAL VISION, 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:

Common Stock, par value \$0.01 per share
12% Senior Secured Notes due 2009

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

None

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

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

The number of shares of Common Stock of the registrant outstanding as of March 8, 2004, was 5,243,047. The aggregate market value of shares of Common Stock held by non-affiliates of the registrant as of June 28, 2003, was approximately \$3.3 million based on a closing price of \$0.68 per share on the American Stock Exchange 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.

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities and Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes ☒ No ☐

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this Form 10-K incorporates portions of our proxy statement mailed to shareholders in connection with our 2004 annual meeting of shareholders.

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PART I

ITEM 1. BUSINESS

Overview

National Vision, Inc. (**the “Company”**) is a retail optical company that operated, as of January 3, 2004, 468 vision centers in the United States and Mexico. Our vision centers are located inside 396 Wal-Mart stores (including 37 in Mexico), 47 Fred Meyer stores and on 25 U.S. military bases located within the United States. We depend on our domestic Wal-Mart locations for substantially all of our revenues and cash flow. Our vision centers sell a wide range of optical products including eyeglasses, contact lenses and sunglasses. Independent optometrists operate their own practices within substantially all of our vision centers, providing our customers with convenient access to eye examinations and contact lens fittings. To support our retail operations, we also operate two manufacturing and distribution centers.

Current and prospective shareholders and holders of our Notes are encouraged to carefully read all of the disclosures contained in this Annual Report on Form 10-K. As described in greater detail elsewhere herein, we are primarily focused on three significant issues: our license agreement with Wal-Mart, our new business opportunities and our financial position including the profitability and cash flow of our existing store base. The importance of these issues is summarized in the remainder of this introductory section.

Our leases with Wal-Mart for domestic locations have begun to expire in significant numbers. The lease on each domestic store provides for a nine-year initial term and a three-year renewal term. If we are operating in a store that is converted to a Wal-Mart supercenter, our lease term at that location starts over. To our knowledge, Wal-Mart is the only other entity operating vision centers within its domestic stores, and Wal-Mart has not offered us leases for additional stores or renewals of expiring leases. Since opening our 400th store within a domestic Wal-Mart location in 2001, we have, through January 3, 2004, closed 41 such stores. We expect to close another 45 domestic Wal-Mart locations in 2004 as a result of lease expirations. In addition and at our request, during the first half of 2004 Wal-Mart will allow us to exit 13 unprofitable domestic stores prior to the expiration of the initial lease term for these locations.

As a result of our declining number of vision centers in Wal-Mart stores, we devote much attention to developing new businesses. We are seeking additional host environments in which to operate and are seeking to expand our presence on military bases. Additionally, we have tested and expect to continue to test new retail concepts. During 2004, for example, we will test the viability of a home medical equipment concept by opening at least two locations within domestic Wal-Mart stores.

We emerged from bankruptcy in 2001 and issued our 12% Notes in the aggregate face amount of \$120 million, resulting in a substantial interest burden. The Note Indenture may limit the expenditures we are able to make in businesses outside of optical. Through January 3, 2004, we have, pursuant to the terms of the Note Indenture, redeemed approximately \$14.0 million of Notes at par. Additionally, we have repurchased, in negotiated or open market transactions, Notes with a par value of \$10.5 million at an aggregate cost of approximately \$6.6 million. The Notes mature on March 30, 2009, and provide for continuing mandatory semi-annual redemption payments, subject to the terms and conditions of the indenture. We intend to continue to repurchase Notes from time to time in negotiated or open market transactions.

Our ability to develop new businesses and to reduce our debt is, of course, tied directly to our ability to generate operating cash flow. Since emerging from bankruptcy in 2001, we have improved our operating processes and continue to focus on achieving greater profitability and stronger cash flow. Because we are operating a declining number of stores, we must improve, and have improved, individual store operating results in order to achieve bottom-line growth and stronger cash flow in the aggregate. We remain highly focused on improving our operating results as a means of supporting our debt reduction and business growth objectives.

The remainder of this Annual Report on Form 10-K expands further upon these matters, describes our operating strategies and emphasizes the risks inherent in our company and the industry in which we operate.

Date of Information

Unless otherwise expressly stated, all information in Item 1 of this Form 10-K is as of January 3, 2004.

History of the Company

The Company was founded as National Vision Associates, Ltd. in 1990, when we entered into a master license agreement with Wal-Mart Stores, Inc. (“Wal-Mart”). As subsequently amended through 1994, the agreement gave us the right to open 400 vision centers in Wal-Mart stores. We opened the 400th such store in 2001.

In late 1997, we made a strategic decision to diversify our revenue base through acquisitions in the freestanding optical market. In October 1997, we acquired Midwest Vision, Inc. with 51 freestanding retail optical centers in four Midwest states. In July 1998, we acquired Frame-n-Lens Optical, Inc. with 150 freestanding vision centers in California and 120 vision centers located within Sam’s Clubs. In October 1998, we acquired New West Eyeworks, Inc. with 175 retail optical centers in 13 states, including approximately 120 vision centers in freestanding locations and more than 50 host vision centers in Fred Meyer stores. Following the acquisitions, we changed our name to Vista Eyecare, Inc. To fund the acquisitions, we issued \$125 million of Senior Subordinated Notes due 2005 bearing interest at 12.75% per annum.

Sales shortfalls in the freestanding stores caused adverse pressure on cash flow and liquidity. After failing to negotiate an out-of-court restructuring with the holders of our Senior Subordinated Notes, we filed for reorganization under Chapter 11 on April 5, 2000.

During the bankruptcy process, we closed or disposed of all of our freestanding stores and closed all of our host vision centers operating in Sam’s Clubs and in Meijer Thrifty Acres stores. On May 31, 2001, we emerged from bankruptcy as an optical retailer operating vision centers in host departments, including Wal-Mart and Fred Meyer locations.

Upon emerging from bankruptcy, we changed our name to National Vision, Inc. (“National Vision”) and implemented “fresh start” accounting. As a result, all assets and liabilities were restated to reflect their respective fair values. The consolidated financial statements after emergence are those of a new reporting entity (the “Successor”) and are not comparable to the financial statements of the pre-confirmation company (the “Predecessor”). A black line has been drawn in the financial statements to distinguish Predecessor and Successor results.

Dependence on Domestic Wal-Mart

As of January 3, 2004, we operated 359 vision centers in domestic Wal-Mart stores, all of which operate pursuant to a master license agreement (see “Management’s Discussion and Analysis — Summary of Lease Agreements”). These units generated approximately 89% of our revenue in 2003 and represent the most profitable division of our host retail operations measured as a percent of sales. We therefore depend on Wal-Mart and on our agreement with them for our continued viability unless and until we develop a replacement business.

Vision Center Operations

Our vision centers typically occupy between 500 and 3,000 square feet, including areas for merchandise display, customer service, and contact lens fitting. Each vision center maintains inventory of approximately 950 eyeglass frames and 500 pairs of contact lenses, along with sunglasses and other optical accessories. Our two optical laboratories deliver prescription eyewear to all our vision centers. Approximately 70% of our vision centers have a finishing laboratory, which allows the vision center to provide one-hour service for most single vision prescription lenses. These vision centers carry inventory of approximately 1,000 pairs of spectacle lenses.

In 2002, we began selling a managed care insurance product in our Wal-Mart California vision centers to retail customers who do not otherwise have vision insurance coverage.

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. National Vision also has a satisfaction guaranteed customer policy. We are vigilant about ways to lower our own costs so we may pass savings on to our customers.

Managed Vision Care

We expect that in the optical industry, retail sales through numerous managed vision care programs will increase over the next several years as a percentage of overall retail optical sales. Under managed vision care plans, members fulfill their eyecare and eyewear needs either at 1) specific locations designated by the plan sponsor, or 2) at locations outside of the plan's network where the provider can accept assignment of benefits as an "out-of-network" provider. 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 and to be an attractive provider for those plans with "out-of-network" benefits. Our declining base of vision centers may adversely affect our ability to compete for managed care contracts. (See "Risk Factors — Our declining base of vision centers in Wal-Mart stores could make it more difficult for us to compete.") Managed care sales accounted for approximately 10%, 11% and 12% of our retail sales in 2001, 2002, and 2003, respectively.

Marks

Our vision centers in domestic Wal-Mart are identified as the "Vision Center located in Wal-Mart" and in Mexico as "Opticas Centro de Vision." Our vision centers on Military bases are identified as "National Vision Optical." Three of our vision centers within Fred Meyer operate as "The Optical Shoppe". We also use the "Vista Optical" name to identify some of our vision centers operating in Fred Meyer locations. As part of our agreement to sell the freestanding vision centers, we obtained a license to continue our use of this name through January 2004. The licensor of this mark filed for bankruptcy during 2003. We have expressed an interest in purchasing this trade-name, but we may, however, lose the right to use this name. We are continuing to use the "Vista Optical" name in certain locations while we await a response from the trustee of the bankruptcy estate.

Employees

We employ 2,020 associates on a full-time basis and 645 associates on a part-time basis. We have 2,210 associates engaged in retail sales, 215 in laboratory and distribution operations, and 240 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 a full-time basis at most of our locations. These optometrists are typically independent from us and lease a portion of our locations for vision examinations. We typically charge rent to these optometrists, in exchange for the premises and the equipment which we provide. Our agreement with Wal-Mart contemplates that we generally will have an optometrist on duty at least 48 hours each week. Our relationships with optometrists are subject to extensive regulation. (See "Government Regulation" below.)

Manufacturing and Distribution

We operate two manufacturing and distribution facilities that supply substantially all merchandise requirements of our vision centers. The facilities are located in Lawrenceville, Georgia (this facility also includes our central administrative offices) and St. Cloud, Minnesota.

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 our management information system. Raw materials consist of frames and lenses which are readily available from multiple vendors.

Lease Agreements

We have agreements governing our operations in host environments, such as Wal-Mart. Typically, each agreement is for a base term, followed by an option to renew for a specified length of time. The agreements provide for payments of minimum and percentage rent, and also contain other customary provisions. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Summary of Lease Agreements”.

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 and Accountability Act of 1996 (“HIPAA”) (which governs our participation in managed care programs), and the Food and Drug Administration Act (which regulates medical devices such as contact lenses). We also must comply with the privacy regulations and the forthcoming security regulations under HIPAA. In addition, all states have passed laws that 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 that affect the way we do business. In California, optometrists who practice adjacent to our retail locations are providers to and subtenants of a subsidiary, which is licensed as a single-service HMO.

Many states also have adopted laws that 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 that apply to our business.

Competition

The retail eye care 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. Our declining base of vision centers may adversely affect our ability to compete for managed care contracts. (See “Risk Factors — Our declining base of vision centers in Wal-Mart stores could make it more difficult for us to compete.”)

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 that may adversely affect our business. They may also be able to spend more than we do for advertising. Our two largest competitors have agreed to merge. The merger, if completed, could adversely affect our business. (See “Risk Factors — The retail eyecare industry is extremely competitive”.)

Mexico Operations

We operate 37 vision centers in Mexico under a master license agreement with Wal-Mart. Our operations in Mexico face unique risks, such as currency devaluations, inflation and difficulties in cross-cultural marketing. Information relative to sales and long-lived assets for the United States and Mexico for the years ended January 3, 2004 and December 28, 2002, the seven months ended December 29, 2001, and the five months ended June 2, 2001, are summarized in the following tables (amounts in thousands):

	United States	Mexico	Consolidated
Successor Company:			
Fiscal year 2003			
Sales during year	\$238,971	\$4,378	\$243,349
Long-lived assets at end of year	\$106,065	\$ 833	\$106,898
Fiscal year 2002			
Sales during year	\$219,171	\$5,026	\$224,197
Long-lived assets at end of year	\$118,177	\$1,204	\$119,381
Seven months ended December 29, 2001			
Sales during period	\$119,615	\$2,910	\$122,525
Long-lived assets at end of period	\$131,894	\$1,352	\$133,246
Predecessor Company:			
Five months ended June 2, 2001			
Sales during period	\$108,267	\$2,150	\$110,417
Long-lived assets at end of period	\$140,249	\$1,226	\$141,475

Available Information

The Securities and Exchange Commission ("SEC") maintains an internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. Information about National Vision, Inc, including our Annual Report on Form 10-K, may be obtained at that website (www.sec.gov) or by any shareholder (without charge) upon written request to National Vision, Inc., 296 Grayson Highway, Lawrenceville, GA 30045, Attn: Investor Relations. In addition, our most recent public filings with the Securities and Exchange Commission are available on our web site at www.nationalvision.com.

ITEM 2. PROPERTIES

Our 468 vision centers in operation as of January 3, 2004 are located as follows:

Location	Total	Location	Total
Alabama	8	Nevada	5
Alaska	11	New Hampshire	3
Arizona	11	New Jersey	13
California	86	New Mexico	10
Colorado	8	New York	24
Connecticut	10	North Carolina	53
Florida	5	Oregon	30
Georgia	36	Pennsylvania	17
Hawaii	4	Puerto Rico	1
Idaho	3	South Carolina	10
Kansas	9	South Dakota	1
Kentucky	1	Tennessee	1
Louisiana	1	Texas	6
Maine	1	Virginia	23
Maryland	3	Washington	22
Massachusetts	5	West Virginia	7
Montana	2	Wyoming	1
		Mexico	37

Our headquarters in Lawrenceville, Georgia are located in a 66,000 square foot building that includes a distribution center and optical laboratory. The building is leased through January 2009.

We operate a second distribution center and optical laboratory facility located in St. Cloud, Minnesota. This 20,000 square foot facility is subject to a lease that expires in October 2007.

ITEM 3. LEGAL PROCEEDINGS**Litigation in California**

On September 3, 2003, the Second Appellate District of the California Court of Appeal affirmed a prior judgment of the Los Angeles County Superior Court (Case No. BC 274257) dismissing litigation that had been instituted against us on May 20, 2002 by Consumer Cause, Inc. alleging that our business model in California failed to comply with applicable legal requirements. The complaint sought attorney fees and an injunction prohibiting us from continuing the alleged violations. The case brought by Consumer Cause, Inc. against us was similar to a case previously brought by the California Attorney General against one of our competitors, alleging, among other things, that their business model fails to comply with applicable legal requirements. (See “Risk Factors — We are subject to state and local regulations of the vision care industry”). The California Supreme Court has “depublished” the favorable opinion of the Court of Appeal in the case brought against us by Consumer Cause, Inc. Under California law, the effect of depublication is to prevent other parties from citing the case as legal authority.

Chapter 11 Proceedings

On November 7, 2003, we resolved the final outstanding claim in our Chapter 11 proceeding. In mid-February 2004, we authorized the trustee to distribute the remaining Notes to creditors on a pro rata basis. We expect that all remaining Notes and shares of common stock will be distributed during the second calendar quarter of 2004. The issuance of these notes and shares could depress the price for our securities.

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 2003.

PART II**ITEM 5. MARKET FOR REGISTRANT’S COMMON STOCK AND RELATED STOCKHOLDER MATTERS**

Our Common Stock is listed on the American Stock Exchange under the symbol “NVI”. The following table sets forth for the periods indicated the high and low prices of our Common Stock.

		High	Low
Fiscal 2002	March 30, 2002	\$1.44	\$0.65
	June 29, 2002	\$1.18	\$0.65
	September 28, 2002	\$1.20	\$0.70
	December 28, 2002	\$0.75	\$0.25
Fiscal 2003	March 29, 2003	\$0.47	\$0.32
	June 28, 2003	\$0.69	\$0.25
	September 27, 2003	\$0.90	\$0.55
	January 3, 2004	\$2.75	\$0.67

As of March 1, 2004, there were approximately 371 holders of record of our Common Stock.

We have never paid dividends on our common stock. In addition, each of our indenture and our credit facility prohibits us from paying cash dividends.

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data is derived from the Consolidated Financial Statements of the Successor for the years ended January 3, 2004 (“2003”) and December 28, 2002, (“2002”) and the seven months ended December 29, 2001, and from the Consolidated Financial Statements of the Predecessor for the five months ended June 2, 2001 and the years ended December 30, 2000 (“2000”) and January 1, 2000 (“1999”) (dollars in thousands):

	Successor			Predecessor		
	2003	2002	Seven months ended December 29, 2001	Five months ended June 2, 2001 (B)	2000	1999
Total net revenue	\$243,349	\$224,197	\$122,525	\$110,417	\$283,423	\$304,115
Gross profit	\$132,442	\$123,498	\$67,688	\$58,124	\$151,673	\$167,817
Gross profit percentage	54.4%	55.1%	55.2%	52.6%	53.5%	55.2%
Interest expense	\$12,913	\$14,099	\$8,459	\$1,154	\$7,783	\$19,391
Operating income (loss) from continuing operations (A)	\$7,695	\$4,047	\$1,498	\$(6,129)	\$(9,944)	\$(2,081)
Income (loss) from discontinued operations (A)	\$(259)	\$1,812	\$1,031	\$905	\$3,531	\$4,254
Net earnings (loss)	\$(3,868)	\$(6,204)	\$(5,860)	\$113,323	\$(139,880)	\$(17,562)
BALANCE SHEET DATA:						
Total assets	\$140,297	\$153,801	\$171,217	\$186,688	\$90,888	\$220,219
Current and long-term debt obligations	\$95,484	\$109,706	\$120,000	\$123,000	\$183,735	\$151,902
Shareholders’ equity (deficit)	\$8,870	\$12,829	\$19,274	\$25,000	\$(113,323)	\$26,557
STATISTICAL DATA:						
Domestic vision centers open at end of period						
Leased department vision centers	431	481	479	473	472	577
Freestanding vision centers	—	—	—	—	226	322
Capital expenditures	\$4,517	\$5,209	\$2,750	\$2,084	\$5,379	\$12,704
Depreciation and amortization	\$15,962	\$18,999	\$11,425	\$4,808	\$17,526	\$18,602

Fiscal 2003 included 53 weeks, whereas each of the other full years presented herein represents a 52-week fiscal year.

- (A) At the beginning of 2002, we adopted Financial Accounting Standard No. 144, “Accounting for the Impairment or Disposal of Long —Lived Assets” (“FAS No. 144”) which includes a requirement that discontinued operations be evaluated at the lowest levels to which cash flow is attributed. We prepare separate internal financial statements for each store we operate; we have determined to present principally all closed stores within “Discontinued Operations”. During 2003, there were 54 such locations. Individual locations that were closed or disposed of prior to the adoption of FAS No. 144, such as the freestanding and Sam’s Club locations, did not qualify for Discontinued Operations presentation and are included within results from Continuing Operations of the Predecessor.
- (B) We emerged from Chapter 11 on May 31, 2001 and implemented “fresh start” accounting as of June 2, 2001. Results of operations for the 3-day period from May 31, 2001 through June 2, 2001 were not material. In accordance with fresh start accounting, all assets and liabilities were restated to reflect their respective fair values. The consolidated financial statements after that date are those of a new reporting entity and are not comparable to the pre-confirmation periods.

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

Overview of Results

Our primary source of revenue is from retail sales of eyeglasses, contact lenses and other optical merchandise in the vision centers we operate within host environments and on military bases. In 2002 we also began selling vision examination insurance in our California stores. In 2003, we began manufacturing eyeglasses for a fifteen-store independent optical chain.

Fiscal 2003 was the first year in which we closed a significant number of domestic vision centers as we reached the end of their contractual option period. We had opened our 400th domestic Wal-Mart store in 2001 and still operated 399 of these at the end of 2002. During 2003, forty of these leases expired and we operated 359 vision centers within domestic Wal-Mart locations at January 3, 2004.

During 2004, we expect to close an additional 58 stores, including thirteen stores whose leases were not scheduled to expire, but which we requested to close because of poor operating results and prospects.

In 2003, we began to narrow our strategies for coping with the gradual closing of stores. We settled on three dominant strategies:

- First, we focused on optimizing the profitability of our existing stores to help maximize the time available to develop new, sustainable growth vehicles.
- Next, we reviewed and tested growth opportunities within optics.
- Finally, we have identified and will begin testing non-optics opportunities inside Wal-Mart.

We made significant changes in our existing optical business in 2003. These changes began to benefit our financial results by late in the third quarter of 2003, and we expect that they will benefit future periods as well. The financial impact of these changes is discussed in further detail in the following sections.

In addition to the operational changes, we also tested two concepts within the optics category in 2003: 1) operating optical kiosks within a mall environment and 2) selling disposable hearing aids and hearing exams within existing vision centers. Neither of these concepts was sufficiently successful to justify continued investment, and both tests were stopped by the end of the year. The financial impact of these two tests was not significant to us.

Results of Operations

Our results of operations in any period are significantly affected by the number and mix of vision centers operating during such period. At January 3, 2004, we operated 468 vision centers, versus 518 vision centers at December 28, 2002 and 514 vision centers at December 29, 2001. The following table sets forth information about the number and type of vision centers we owned and operated as of the end of fiscal 2003, 2002 and 2001, respectively.

	<u>January 3, 2004</u>	<u>December 28, 2002</u>	<u>December 29, 2001</u>
Wal-Mart:			
Domestic	359	399	400
Mexico	37	37	35
Fred Meyer	47	58	55
Military	25	24	24
Total	<u>468</u>	<u>518</u>	<u>514</u>
Vision centers currently reported in continuing operations	<u>468</u>	<u>464</u>	<u>460</u>

National Vision, Inc.
Consolidated Statements of Operations
For the years ended January 3, 2004, December 28, 2002,
and December 29, 2001
(In thousands)

	Year Ended January 3, 2004	Year Ended December 28, 2002	Year Ended December 29, 2001
	(53 Weeks)	(52 Weeks)	(52 Weeks)
Retail sales, net	\$236,125	\$222,156	\$232,942
Premium revenue	6,347	2,041	—
Other revenue	877	—	—
Total net revenue	243,349	224,197	232,942
Cost of goods sold	110,907	100,699	107,130
Gross profit	132,442	123,498	125,812
Operating expenses:			
Selling, general & administrative expense	123,713	119,451	130,443
Impairment of long-lived assets	550	—	—
Restructuring expense	484	—	—
Total operating expense	124,747	119,451	130,443
Operating income (loss)	7,695	4,047	(4,631)
Other expense, net:			
Interest expense	(12,913)	(14,099)	(9,613)
Gain on repurchase of Notes	2,321	1,566	—
Other income, net	50	470	74
Loss before reorganization items, taxes, discontinued operations and cumulative effect of a change in accounting principle	(2,847)	(8,016)	(14,170)
Reorganization gain	—	—	102,515
Gain on restructuring of debt	—	—	17,182
Earnings (loss) before taxes, discontinued operations and cumulative effect of a change in accounting principle	(2,847)	(8,016)	105,527
Income tax expense	(198)	—	—
Net earnings (loss) before discontinued operations and cumulative effect of a change in accounting principle	(3,045)	(8,016)	105,527
Discontinued Operations:			
Operating income (loss) from discontinued operations	(200)	1,862	1,936
Loss on disposal	(59)	(50)	—
Income (loss) from discontinued operations	(259)	1,812	1,936
Earnings (loss) before cumulative effect of a change in accounting principle	(3,304)	(6,204)	107,463
Cumulative effect of a change in accounting principle	(564)	—	—
Net earnings (loss)	\$ (3,868)	\$ (6,204)	\$107,463

We emerged from Chapter 11 on May 31, 2001 and implemented “fresh start” accounting as of June 2, 2001. Results of operations for the 3-day period from May 31, 2001 through June 2, 2001 were not material. In accordance with fresh start accounting, all assets and liabilities were restated to reflect their respective fair values. The consolidated financial statements after that date are those of a new reporting entity and are not comparable to the periods prior to emergence. However, for purposes of this discussion, the Successor results for the seven months ended December 29, 2001 have been combined with the Predecessor results of five months ended June 2, 2001. Differences resulting from fresh start accounting are explained when necessary.

Continuing Operations

Total Net Revenue. Total net revenue is comprised of retail sales, premium revenues and other revenues. In 2003, total domestic comparable store sales were up 5.0% over the prior year. Domestic comparable store sales for 2003 were calculated using the first 52 weeks of 2003 compared to fiscal 2002 which was a 52-week year. This calculation only includes vision centers that were open for all of fiscal 2002 and 2003. The following reconciliation shows the components of the change in retail sales (amounts in thousands):

	2003	2002	2001	2003 vs. 2002 % Change	2002 vs. 2001 % Change
Domestic — first 52 weeks (a)	\$227,467	\$216,699	\$209,385	5.0%	3.5%
Domestic — 53rd week (a)	3,075				
Domestic — other (b)	1,205	431	281	179.6%	53.5%
Mexico (c)	4,378	5,026	5,060	-12.9%	-0.7%
Stores disposed of during reorganization			18,216		-100.0%
Total retail sales, net	<u>\$236,125</u>	<u>\$222,156</u>	<u>\$232,942</u>	<u>6.3%</u>	<u>-4.6%</u>

- (a) We operate on a 52/53 week fiscal year. As a result, fiscal 2003 contained 53 weeks whereas 2002 and 2001 each contained 52 weeks. Sales for the 53rd week has been shown separately to reflect more comparable results. In addition, this category includes locations that were open for all of 2002 and 2003 and are included in the domestic comparable store sales calculation.
- (b) This category includes individual store locations that were not open for all of 2002 and 2003, and, therefore, were not part of the domestic comparable store sales calculation.
- (c) Our Mexico operations are consolidated using the 12 calendar months ended November 30th each year.

During 2003 we made several changes to help drive domestic sales. Although it is difficult to quantify the result of each of these activities, we believe that the following factors had the most significant impact on our retail domestic comparable store sales increase of \$10.8 million or 5% over 2002:

- We implemented significant merchandising changes in every major category (frames, spectacle lenses and contact lenses) to modernize our collection and simplify the presentation for the customer. The most significant category changes are as follows:
 - In the first quarter of 2003, we updated our frame collection to modernize and simplify our presentation. As part of this process, we substantially reduced the number of frame vendors, consolidated price points, and enhanced the presentation of frames to make them more brand focused for the customer, and easier to manage for our associates.
 - During the first half of 2003, we aligned our contact lens selection with the products most frequently prescribed by our independent doctors. This favorably impacted our 2003 contact lens sales, which are up approximately 9% over 2002 and approximately 15% over 2001.
 - We also updated our accessory collection to complement our spectacle offering, increasing 2003 accessory sales by approximately 19% over 2002.
- We restructured our personnel scheduling at the store-level to provide for consistent coverage based on operating needs by sales volume levels
- We amended our incentive programs to increase potential participation by, and therefore the productivity of, our associates.

Our 2002 domestic comparable store sales increase of approximately \$7.3 million over 2001 was largely the result of a change in our frame and lens presentation. Historically, our in-store presentation of frame and lens options was based on a package price concept. The package price included a pair of base lenses, a frame and certain lens options. In July 2002, we changed our presentation strategy by “unbundling” the package price so that pricing for frames and lenses is presented separately in the store. The presentation is intended to be clearer as well as more concise and customer-friendly, and is similar to product and price presentation at a majority of our competitors’ stores. After an initial orientation phase, we experienced increases in the number of spectacle units sold and in the average spectacle transaction value.

Managed care sales accounted for approximately 10%, 11% and 12% of our sales in 2001, 2002 and 2003, respectively. We work with large and small managed care payors to provide vision benefits to their members. 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. (See “Risk Factors — Our declining base of vision centers in Wal-Mart stores could make it more difficult for us to compete.”) As such, changes in the managed vision care industry are likely to impact our sales. Effective October 1, 2003, a large national managed care payor changed its policy regarding out-of-network providers. These changes limited our ability to verify benefit coverage and to accept assignment of the payor’s benefits on behalf of our customer. Prior to October 2003, we were generating sales of approximately \$3.7 million on an annualized basis as a result of being an out-of-network provider for this payor. The net impact of this change has been a substantial reduction in sales as an out-of-network provider for this payor. We are working aggressively to mitigate the decreases in lost sales. We have attempted to discuss these matters with the payor, but do not believe that the payor intends to change its new policy. We are evaluating alternatives but can provide no assurance that they will be successful or that we will again be able to participate as an out-of-network provider for this payor. We will continue to work toward adding third party plans and payors as part of our ongoing managed care growth strategy.

In May 2003, we began offering a twelve month extended warranty plan in our Wal-Mart vision centers to provide for repair and replacement service during the first year after purchase. Revenue recognized in 2003 was approximately \$2.0 million. By the fourth quarter of 2003, approximately 45% of our eyeglass transactions included an extended warranty purchase. We expect these increased warranty sales to continue into 2004. This revenue is reflected within “Retail sales, net” in our Consolidated Statements of Operations.

The 2003 increase of \$4.3 million in premium revenue can be largely attributed to increased enrollments in our California health maintenance organization. The HMO had 150,000 enrollees (or participants) at the end of 2003 compared to 48,000 at the end of 2002. We began selling this managed care insurance product in the Wal-Mart California vision centers in the second quarter of 2002. Revenue from premiums is recognized over the life of the policy as the related services are rendered.

In 2003, we began manufacturing eyeglasses for an independent chain of fifteen vision centers. Total revenue from this activity was \$877,000 during the year.

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Gross Profit. The components of sales and gross profit are detailed below (dollars in thousands):

	Year ended January 3, 2004 (53 weeks)		Year ended December 28, 2002 (52 weeks)		Year ended December 29, 2001 (52 weeks)	
Retail sales, net	\$236,125	100.0%	\$222,156	100.0%	\$232,942	100.0%
Retail cost of goods sold	104,572	44.3%	98,872	44.5%	107,130	46.0%
Retail gross profit	\$131,553	55.7%	\$123,284	55.5%	\$125,812	54.0%
Premium revenue	\$ 6,347	100.0%	\$ 2,041	100.0%		
Claims expense	5,994	94.4%	1,827	89.5%		
Insurance gross profit	\$ 353	5.6%	\$ 214	10.5%		
Other revenue	\$ 877	100.0%				
Other cost of sales	341	38.9%				
Other gross profit	\$ 536	61.1%				
Total net revenue	\$243,349	100.0%	\$224,197	100.0%	\$232,942	100.0%
Total cost of goods sold	110,907	45.6%	100,699	44.9%	107,130	46.0%
Total gross profit	\$132,442	54.4%	\$123,498	55.1%	\$125,812	54.0%

We attribute the 2003 increase in retail gross profit dollars primarily to sales increases arising out of merchandising changes made beginning in mid-2002 and continuing throughout 2003. We have also established a process for updating our selections on a more regular basis. Eyeglass sales are more than 70% of our retail sales. Therefore, changes in frames and lenses have the greatest impact on our business.

The 2002 improvement in gross profit margin percentage and a portion of the 2003 improvement are primarily the result of a shift in sales mix towards eyeglasses, coupled with an increase in eyeglass margins due to the Company's "unbundling" of frame and lens pricing. In the second half of 2003, we began testing different lens offerings to improve eyeglass profit margins and simplify customer presentation. We have substantially completed our lens test as it relates to single vision lenses, but expect this process to continue for multifocal lenses throughout 2004. We have begun to see slight improvements in eyeglass margins as a result of the change in lens offering in the fourth quarter of 2003 and expect this to continue.

These improvements in 2003 and 2002 retail gross profit margins were somewhat reduced by increases in rent as the number of Wal-Mart locations entering the option period of their lease increased in relation to the total number of vision centers. In 2003, we recorded an effective rent of approximately 14% on revenues from our Wal-Mart locations. Because of minimum rent increases during the option period, we need to increase comparable store sales in order to keep our rent percentage at these levels. Any decrease in sales would have a negative impact on occupancy expense as a percent of sales. Approximately 124 and 126 vision centers were operating within their option period at January 3, 2004 and December 28, 2002, respectively. The 2002 decrease in gross profit dollars is the result of the disposal of the freestanding vision centers in April 2001.

Insurance gross profit represents premium revenue less claims expenses for a managed care product that we began selling in the Wal-Mart California vision centers in the second quarter of 2002. This insurance product has significantly lower margins than do our retail products. The introduction of this product increased total 2003 revenues by \$4.3 million over 2002 and gross profit dollars by \$139,000, but decreased total gross profit as a percent of net sales by 0.8 percentage points.

Selling, General and Administrative Expense (“SG&A expense”). Selling, general and administrative expense includes both store operating expenses and home office overhead costs and is shown below.

	2003	2002	2001
Selling, general and administrative expense	\$123,713	\$119,451	\$130,443
As a percent of total net revenue	50.8%	53.3%	56.0%

Sales increases in 2003 resulted in a reduction of SG & A expense as a percent of sales. 2002 expenses are not directly comparable to 2001 expenses because of the freestanding stores that were disposed of during the first four months of 2001. As a result, comparisons to 2001 are not meaningful. Significant factors influencing changes in expenses in 2003 are discussed below.

The following factors influenced vision center payroll and field supervision costs. These costs comprise approximately 56% of our selling, general and administrative expense:

- An increase in retail-level compensation of approximately \$2.0 million for 2003. This includes store payroll costs and supervision-level costs. Substantially all of the increase in base payroll is due to higher rates in certain markets, where availability of dispensing opticians and growing competition resulted in upward pressure on rates for optical personnel. Also in 2003, we restructured payroll scheduling, to provide consistent coverage based on operating need by volume levels. This change did not have a significant impact on the hours of coverage.
- An increase in store level incentive costs of \$1.2 million in 2003 due to a change in incentive structure in 2003, combined with improved performance.
- An increase in health and medical benefit costs of approximately \$800,000 in 2003.

The following factors influenced other expenses included within the selling, general and administrative expense category:

- Workers’ compensation expense, which increased approximately \$800,000 in 2003. This increase was due to adverse development of claims from previous years, particularly in California.
- An increase in professional fees of approximately \$600,000 in 2003, a portion of which was incurred as a result of the re-audit of the 2001 financial statements and the completion of the 2002 financial statements.
- Additionally, during 2003, we realized a reduction in depreciation and amortization expense of approximately \$3.0 million largely due to leasehold improvements and equipment at some stores becoming fully depreciated. We expect this decline in depreciation expense to continue, but to a lesser degree.

Restructuring Expense. During August 2003, we initiated and completed a restructuring of the retail field and home office retail support center. The process resulted in a reduction in headcount approximating 15% of both the retail field management organization and the home office retail support center organization. The cost of the restructuring process was \$484,000, which included separation costs and outplacement costs. The annual payroll and related costs represented by the reduction in force was approximately \$1.9 million. We cannot guarantee the savings from this reduction in force will reduce our payroll and related costs in subsequent years or that it will reduce such expense by the same or similar amounts in subsequent years.

Impairment of Long Lived Assets. Historically, we have operated our vision centers to the maximum term of the lease, including the exercise of all available renewal options in most cases. Our strategy was to maintain store operations, even if the store was under-performing and devote our attention to correcting the store's problems. In the fourth quarter of 2003, we revised our strategy to assess under-performing stores prior to the lease termination date, and potentially close the under-performing stores in order to maximize operating profitability. As a result, we identified certain store locations with a history of operating losses that we do not expect to become profitable without significant cost and effort. We intend to close 13 of these locations in March and April of 2004. Closing these vision centers prior to the end of their lease term (or option period) allows us to focus greater attention on maximizing profits from more promising locations and developing a new business model.

For the 13 locations that we expect to close prior to the lease termination date, we reviewed the locations for potential impairment by comparing the future expected undiscounted cash flows for these locations to the carrying value of their long-lived assets. The long-lived asset carrying value for 12 of the locations exceeded the future expected undiscounted cash flows from the locations. Therefore, impairment was determined to exist for these 12 locations. We also reviewed the remainder of store locations for potential impairment and identified 30 additional vision centers in Wal-Mart, Wal-Mart de Mexico, Fred Meyer and on military bases which were determined to be impaired given that the expected future undiscounted cash flows from these locations are less than the carrying value of their assets. As a result, we have recorded a non-cash impairment charge of \$550,000 to write-down these long-lived assets to their fair market value. Fair market value was determined using the expected discounted cash flows for each location. This impairment was reflected for leasehold improvements, furniture, fixtures and equipment at these 42 locations.

Interest Expense. The outstanding balance of our long-term Senior Subordinated Notes is the primary driver of interest expense. Interest expense decreased by approximately \$1.2 million in 2003 compared to 2002 due to principal repayments and Note repurchases made during 2002 and 2003. During the first five months of 2001, when we were under the protection of the bankruptcy court, we did not accrue interest expense on our former Senior Subordinated Notes outstanding of \$125 million. When we emerged from bankruptcy on May 31, 2001, we restructured our debt and began accruing interest at 12% on our \$120 million of newly issued Senior Subordinated Notes. The table below rolls forward our long-term outstanding debt balances for 2003, 2002 and 2001 and the principal repayments and Note repurchases made each year (in thousands):

	2003	2002	2001
Senior subordinated notes outstanding at beginning of year	\$109,706	\$120,000	<u>\$125,000</u>
Mandatory redemptions, at par	(8,161)	(5,796)	
Repurchases at discounted prices	(6,023)	(4,498)	
Retirement of unissued Notes	(38)	—	
Senior subordinated notes outstanding at end of year	<u>\$ 95,484</u>	<u>\$109,706</u>	<u>\$120,000</u>
Weighted average balance outstanding for the year	\$104,366	\$115,526	

The outstanding Senior Note balance at December 29, 2001 is not comparable to Senior Notes outstanding at the beginning of 2001. The outstanding notes at the beginning of 2001 were issued by the Predecessor and were not accruing interest due to our Chapter 11 proceedings. The weighted average balance outstanding for 2001 is not meaningful.

Gain on Repurchase of Notes. During 2003 and 2002, we repurchased our Senior Subordinated Notes and recorded gains from those repurchases as shown below:

	2003	2002
Face value repurchased	\$6,023	\$4,498
Purchase price	3,702	2,932
Gain on repurchase of Notes	<u>\$2,321</u>	<u>\$1,566</u>

Discontinued Operations. During 2003, 42 of our vision center leases expired, resulting in the closure of 40 Wal-Mart vision centers and 2 vision centers on military bases. In addition, during the second and third quarter of 2003, we closed 12 under-performing vision centers in Fred Meyer locations prior to their scheduled lease expiration. Condensed information for these 54 closed stores is presented below. The net loss on disposal of these operations includes severance and closing costs and gains from the sale of certain assets. Operating results for these closed vision centers have been presented separately as discontinued operations for all periods in the Consolidated Statements of Operations.

	Years Ended		
	January 3, 2004	December 28, 2002	December 29, 2001
	(53 weeks)	(52 weeks)	(52 weeks)
Total net sales	\$9,798	\$22,823	\$23,158
Operating income (loss)	\$ (200)	\$ 1,862	\$ 1,936
Loss on disposal	\$ (59)	\$ (50)	\$ —

Cumulative Effect of a Change in Accounting Principle. We adopted Emerging Issues Task Force Issue No. 02 — 16, “Accounting by a Customer for Certain Consideration Received from a Vendor” (“EITF 02-16”) at the beginning of 2003. This Issue addresses the method by which retailers account for vendor allowances. Prior to fiscal 2003, we received vendor allowances through co-op advertising agreements, which were classified in the income statement as a reduction of advertising expense. As a result of the adoption of EITF 02-16, certain vendor allowances, which formerly were treated as a reduction in advertising costs, are presented as a reduction of inventory cost and subsequently as a component of cost of goods sold. On the first day of fiscal 2003, we recorded additional expense of \$564,000 as the cumulative effect for this change in accounting principle. This amount reflects the portion of vendor allowances that would have reduced inventory costs had this new accounting pronouncement been in effect at the end of 2002.

Use of Non-GAAP Financial Measures: EBITDA

We frequently refer to EBITDA in this document. EBITDA is calculated as net earnings before interest, taxes, depreciation, amortization, cumulative effect of a change in accounting principle, non-cash items, and reorganization items as defined in the terms of our Senior Subordinated Debt Indenture. We refer to EBITDA because:

- it is the basis for the calculation of the excess cash flow principal repayment under our Senior Subordinated Notes; and
- it is a widely accepted financial indicator of a company's ability to service or incur indebtedness.

EBITDA does not represent cash flow from operations as defined by generally accepted accounting principles, 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 our operating performance or as a measure of liquidity. EBITDA is not necessarily comparable to similarly titled measures for other companies.

The following is a reconciliation of net earnings to EBITDA (amounts in thousands):

	2003	2002	2001
Net earnings (loss)	\$ (3,868)	\$ (6,204)	\$ 107,463
Adjustments:			
Interest expense	12,913	14,099	9,613
Interest income	(50)	(147)	(74)
Income tax expense	198	—	—
Depreciation and amortization	15,962	18,999	16,233
Cumulative effect of a change in accounting principle	564	—	—
Non-cash items (a)	(1,771)	(1,889)	(17,182)
Reorganization expense (gain)	—	—	(102,515)
EBITDA	<u>\$ 23,948</u>	<u>\$ 24,858</u>	<u>\$ 13,538</u>

- (a) These items consist of the gains on repurchase of Notes, the impairment of long-lived assets, the gain on recovery of assets previously written off and the Predecessor gain on extinguishment of debt.

SUMMARY OF LEASE AGREEMENTS

We have agreements governing our operations in host environments. Typically, each agreement is for a base term, followed by an option to renew for a specified length of time. The agreements provide for payments of base and/or percentage rent, and also contain other customary leasing provisions. The table below sets forth key data about each of these agreements:

Vision Centers Located In	No. of Units as of January 3, 2004	Length of Base Term (in years)	Length of Option Term (in years)	No. of Options Exercisable in Fiscal 2004
Wal-Mart:				
Domestic	359	9	3	57
Mexico	37	5	2 or 1	11
Fred Meyer	47	3	—	—
U.S. Military Bases	25	2 or 5	—	3

Domestic Wal-Mart Vision Centers

Our agreement with Wal-Mart gave us the right to open 400 vision centers, the last of which opened in 2001. Our agreement with Wal-Mart also provides that, if Wal-Mart relocates our vision center for any reason, including converting its own store to a supercenter (a store which contains a grocery department in addition to the traditional Wal-Mart store offering) the term of our lease begins again. During 2003, 18 locations were relocated, effectively renewing these leases. For these 18 relocations, an average of 117 months were added to the lease term assuming all available options are exercised. We expect approximately 15 to 20 leases to relocate to supercenters in 2004. We expect the 2004 relocations to add an average of approximately 117 months to each relocated vision center's maximum lease term. As of January 3, 2004, we have 158 vision centers located in Wal-Mart supercenters. We believe that Wal-Mart may in the future convert many of its stores and thereby cause many of our leases to start again. The number of lease expirations indicated could decrease if there are future supercenter conversions. We have received no assurances from Wal-Mart as to how many of their locations will ultimately be converted.

On a frequent basis, we monitor the number of vision centers along with total lease months remaining under the Wal-Mart Master License Agreement. Our measurement of lease months assumes that we exercise all available renewal options, exclusive of known and expected non-renewals, and that supercenter conversions currently scheduled will trigger new vision center leases. The remaining lease months may be affected by the conversion of the host store to a supercenter. Additionally, the remaining lease months may be affected by our decisions regarding exercise of lease renewal options.

Lease months shown reflect: 1) expected vision center relocations, whether confirmed or unconfirmed, 2) the expected closure of locations prior to the end of their lease term, and 3) any lease options that are not expected to be exercised. The following table lists our remaining lease months under our Wal-Mart agreement as of the respective fiscal months.

As of the end of fiscal month	Lease months remaining
January 2003	24,867
February 2003	24,479
March 2003	24,094
April 2003	23,710
May 2003	23,440
June 2003	25,164
July 2003	24,784
August 2003	24,267
September 2003	24,008
October 2003	23,746
November 2003	23,377
December 2003	22,605
January 2004	20,964
February 2004	20,735

We view remaining lease months as a proxy for the remaining cash flow associated with the operations of our existing vision centers under our agreement with Wal-Mart. We recognize, however, that there is no necessary connection between remaining lease months and expected cash flow and that our declining base of vision centers could make it more difficult for us to maintain current levels of cash flow recorded by our existing vision centers (see "Risk Factors- Our declining base of vision centers in Wal-Mart stores could make it more difficult for us to compete").

In 2004, 58 leases are expected to close over the course of the year, 18 in the first quarter, 13 in the second quarter, 17 in the third quarter, and 10 in the fourth quarter. These stores represent annualized sales of approximately \$30.6 million and annualized store-level operating income of approximately \$4.0 million. Of the 58 Wal-Mart leases expected to close in 2004, we have elected to close 13 locations prior to the end of their term due to store level operating losses. Store-level operating income excludes corporate overhead and other costs not specifically attributable to individual stores. The 13 leases had an average of 68 months remaining, assuming all options were exercised.

As of March 1, 2004, we have closed 10 Wal-Mart vision centers in fiscal 2004. We have experienced sales declines of approximately 25% in the final month of operations for stores that are closing. We also have incurred store closing costs, including severance, that has averaged between \$4,000 and \$10,000 per vision center.

As of January 3, 2004, we had 124 vision centers that were operating in the three-year extension period of the Wal-Mart lease. We exercised our option to renew the leases for the three year extension period for 48 Wal-Mart vision centers in 2003. The base term for 57 vision centers expires in 2004, and we will need to determine which leases to extend. At this time, we have elected to close 8 of these locations at the end of the original nine-year lease. We expect to exercise the option for many of our leases. These decisions will be based on various factors, including sales levels, anticipated future profitability, increased minimum rental fees in the option period, and market share.

Other Operations

In July 2003, we amended our agreement with Fred Meyer. Our new agreement provides an extension of the original lease term from December 31, 2003 to December 31, 2006 and eliminates the five-year option to extend the agreement. The amendment also revises the rent structure, beginning in 2004, to better align rent obligations with individual store performance. Beginning in 2004, we expect to realize rent cost savings on an annualized basis of approximately \$1 million, based on each vision center's sales levels in 2003. Changes in these sales could have an impact on anticipated rent reductions. The amendment also permitted the closure of 12 under-performing locations. Five of these vision centers closed in the second quarter of 2003, and the remaining seven were closed in the third quarter of 2003.

Our agreement with Wal-Mart de 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. Under our agreement with Wal-Mart de Mexico, we have two options for two-year renewals and one option for an additional one-year renewal for each vision center.

As of January 3, 2004, three of our vision centers in Mexico are operating beyond the original lease term, on a "month-to month" basis. We are currently in negotiations with Wal-Mart de Mexico to amend our existing lease agreement to allow Wal-Mart de Mexico to perform their own vision center tests for a limited time. Should these negotiations be unsuccessful, we would likely close the three locations which are operating beyond the original lease term and continue to operate the remaining locations until such time that their lease expires.

The following table sets forth the number of our vision center leases that expire each year, assuming that we exercise all available options to extend the terms of the leases, excluding 8 such options we have declined or expect to decline to renew as of March 1, 2004. This table includes 14 future Wal-Mart supercenter conversions which are scheduled at this time. These 14 supercenter conversions added an average of 118 months to each location's lease term.

Leases Expiring in Fiscal Year

HOST COMPANY	Actual		Projected						
	2002	2003	2004	2005	2006	2007	2008	2009	2010 AND THEREAFTER
Wal-Mart									
Domestic	1	40	58	36	40	42	28	39	116
Mexico	—	—	12	3	5	8	—	—	9
Fred Meyer	—	12	—	—	—	47	—	—	—
Military	—	2	6	7	6	2	4	—	2
Totals	1	54	76	46	51	99	32	39	127

We meet with representatives of our host companies on a regular basis and periodically discuss proposed amendments to our master license agreements, as well as expansion opportunities. We can provide no assurances that we will enter into favorable amendments to these agreements or that we will have any opportunities to expand our operations within any of our current host environments.

OPERATING STRATEGIES

During much of 2003, we focused heavily upon making changes that would improve our operations and cash flows. The changes affected almost every aspect of our base business, including our frame and lens selection, retail pricing and in-store display, store scheduling, manager and associate incentive programs, training and evaluation, and home office and field supervision staffing levels. We expect these moves to begin to have a significant impact on operating results in 2004, and we will also continue to test and refine other potential improvements. We cannot provide any assurances as to whether such changes will have a positive impact on our operating results or financial condition.

We also tested two new business concepts in 2003, selling eyeglasses from kiosks inside malls and adding a new hearing aid technology to the traditional vision products offered in our optical stores. We tested the eyeglass kiosks in one location and the hearing aid product in two optical stores in Wal-Mart. Neither of these concepts warranted expansion and both were discontinued by the end of the year. The combined cost of testing these two concepts was approximately \$145,000.

In 2004, our focus will turn more toward developing a new business that could potentially replace our declining base of stores inside Wal-Mart. We will continue to seek avenues of growth within optics while also seeking new businesses to grow within Wal-Mart. One new business upon which we are presently focused is the home medical equipment (“HME”) business.

The HME category includes wheelchairs, scooters, walkers, bathroom safety seats, shower rails and many other aids to daily living. In our view, the HME marketplace is similar to the optics marketplace of several years ago, when there were no large, dominant national retailers serving the category. The marketplace currently consists mostly of independent operators and we believe it is poised for a gradual shift to larger national players.

We believe that our expertise and experience in optical retailing will give us certain advantages in the home medical equipment business. Both categories benefit from an aging population and involve a quasi-medical sales consultation with virtually every customer. Both require managed care expertise. Importantly, both categories benefit greatly from the consumer awareness generated by walk-by traffic in a Wal-Mart environment.

In the second quarter of 2004, we expect to open HME test stores inside Wal-Mart stores in Pennsylvania and Tennessee. In each of these locations, the population demographics are favorable to an HME business. We anticipate that, by early 2005, we will have sufficient information to determine whether this concept should be expanded. We believe that other companies are testing the sales of home medical equipment in Wal-Mart stores. The Note Indenture may limit the expenditures we are able to make in businesses outside of optical. (See “Risk Factors – Our pursuit of other lines of business could be constrained by the terms of our Indenture”.)

We have begun reviews of other potential businesses that could possibly benefit from the type of traffic that Wal-Mart stores generate. None of these concepts is as far advanced as the HME concept.

As to our potential new businesses, including the HME concept, we cannot presently predict whether any will be successful. We also cannot predict how many locations we may receive in Wal-Mart stores or the terms of any such lease arrangements. (See “Risk Factors — Our operation of optometric vision centers adjacent to Wal-Mart corporate vision centers in California creates financial and regulatory risk”).

Within optics, in the first quarter of 2004 our HMO began opening optometric offices in California Wal-Mart stores adjacent to a vision center operated by Wal-Mart. At March 1, 2004, we have opened four such offices. Of these, three were in Wal-Mart stores in which our leases had expired in 2003 and one was in a recently opened Wal-Mart. In addition, we also opened an optometric office in one California Sam’s Club location.

We contract with optometrists to provide eye examinations in these locations with doctor coverage running as much as 53 hours per week in the busier locations. We estimate that an optometric office will provide less revenue and income than an average vision center. Nonetheless, we consider this an excellent opportunity to continue deriving a revenue stream from stores in which we had previously operated a vision center while adding a revenue stream for newly opened Wal-Mart and Sam’s locations. We expect to open additional such offices in 2004 and 2005. (See “Risk Factors — Our operation of optometric vision centers adjacent to Wal-Mart corporate vision centers in California creates financial and regulatory risk.”).

LIQUIDITY AND CAPITAL RESOURCES

Since emerging from bankruptcy on May 31, 2001, our operations have generated cash flow in amounts sufficient to fund operating and interest expense, capital expenditures of \$12.5 million, mandatory principal redemptions of \$14.0 million and discounted debt repurchases costing \$10.5 million. We maintain a revolving credit line with Fleet Capital Corporation, a commercial lender, but have generally made borrowings under the credit line for only brief periods of time, near the end of our fiscal first quarter, when several large periodic payments are made.

We also utilize a portion of our line of credit on a year round basis to support a letter of credit required by our workers' compensation insurance provider. As of March 1, 2004, our unused availability under our credit facility with Fleet was approximately \$5.0 million. At January 3, 2004, we had no borrowings under our credit facility, and had letters of credit of \$4.3 million outstanding. We believe that cash generated from operations will be sufficient to satisfy our cash requirements throughout 2004. We expect that funds available under our credit facility will be utilized only for short-term liquidity needs, if at all. We intend to use available cash for our ongoing operations, repurchase of Notes, and repayment of principal on our outstanding debt.

In December 2003, we amended our credit facility with Fleet Capital Corporation (the "Fleet Facility"). The amendment extended the expiration date of the Fleet Facility from May 30, 2004 to May 30, 2007 and eliminated the previous limit of \$3 million in expenditures for repurchases of our Senior Subordinated Notes within each rolling 12 month period. The amendment enables us to repurchase Notes upon meeting certain financial criteria both preceding and following the repurchases. Additionally, the amendment increased availability by approximately \$3.0 million. Subsequent to the amendment, we repurchased our Senior Subordinated Notes with a face value of \$6.0 million for \$3.7 million resulting in a non-cash gain of \$2.3 million.

Our Fleet facility contains various restrictive covenants, including requirements that we

- maintain minimum levels of EBITDA (as defined),
- maintain a minimum fixed charge coverage ratio (as defined) of 1.0 to 1.0, and
- limit our capital expenditures.

We made mandatory principal redemption payments of \$5.3 million on August 28, 2003 and \$2.9 million on February 28, 2003. We also made a principal redemption payment on the Notes of approximately \$545,000 on February 27, 2004 to the trustee for Note holders of record on February 13, 2004. These redemptions are based on the requirements of the indenture and are made at 100% of par. Each principal redemption payment is based on the results for the six-month period ending in June or December, respectively. In addition, we made an interest payment of approximately \$6.1 million from existing cash balances on September 27, 2003. The next scheduled interest payment of approximately \$5.7 million was made on March 30, 2004.

In May 2003, we began offering a twelve month extended warranty plan in our Wal-Mart vision centers to provide for repair and replacement service during the first year after purchase. The new warranty plan has gained considerable consumer acceptance, and we now sell warranties with approximately 40% of all eyeglass transactions. This revenue is deferred over the life of the warranty. Our deferred warranty revenue at January 3, 2004 was approximately \$2.0 million. In fiscal 2003, we received approximately \$4.6 million in cash from the sale of warranties. We expect to receive at least this amount in fiscal 2004.

The Company's capital expenditures have historically been for store openings, relocations, and remodeling, lensmaking and other optometric equipment. During 2004, we expect to open at least two Military stores and to relocate 15 to 20 vision centers within Wal-Mart that have converted to supercenters. These store openings are subject to change depending upon construction schedules and other constraints. For each new center, we expect to spend between \$40,000 and \$60,000 for fixed assets and up to \$15,000 for inventory.

During 2004, we plan to test at least two home medical equipment centers inside Wal-Mart stores. As with all of our test concepts, we plan to prudently invest in this new idea, until we prove that this concept has the consumer acceptance needed to become our next growth vehicle. We expect to invest approximately \$75,000 in fixed assets and inventory in each of our first two test locations (See "Risk Factors — Our pursuit of other lines of business could be constrained by the terms of our indenture"). Other new business concepts that we might pursue could require substantial investments, but none of these efforts are advanced enough at this time to predict what such expenditures might be.

FUTURE COMMITMENTS

As of January 3, 2004, we had no capital lease obligations or other long-term liabilities except the Senior Subordinated Notes. The table below sets forth our contractual obligations (amounts in thousands):

	Payments due by fiscal year						Total
	2004	2005	2006	2007	2008	Thereafter	
Long-term debt obligations (a)	\$ 545					\$94,939	\$95,484
Operating lease obligations (b)	\$25,465	\$19,202	\$13,315	\$6,374	\$4,609	\$ 7,423	\$76,388
Purchase obligations (c)	\$ 567	\$ 69					\$ 636

- (a) Our senior subordinated debt agreement provides for semi-annual principal repayments based on the results of operations for the six-month periods ended in June and December. The timing of future principal repayments is contingent upon future results. Accordingly, except for the payment that was made on February 27, 2004, the total carrying value is presented as long-term debt obligations, due upon maturity in 2009.
- (b) Our operating lease obligations represent minimum rent payments under our Wal-Mart, Fred Meyer and various military agreements as well as miscellaneous operating equipment leases.
- (c) Our purchase obligations represent minimum purchase requirements for local phone and certain other data services including polling and internet capability.

INFLATION

Although we cannot determine the precise effects of inflation, we do not believe inflation has had a material effect on our domestic sales or results of operations. We cannot determine whether inflation will have a material long-term effect on our sales or results of operations.

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our consolidated financial statements, as discussed under Management's Discussion and Analysis of Financial Condition and Results of Operations, have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the 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.

On an ongoing basis, management evaluates its estimates and judgments and incorporates any changes in such estimates and judgments into the accounting records underlying our consolidated financial statements. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

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We have identified the policies below as critical to our business operations and the understanding of our results of operations. The impact and any associated risks related to these policies on our business operations is discussed throughout Management's Discussion and Analysis of Financial Condition and Results of Operations where such policies affect our reported and expected financial results. (For a detailed discussion on the application of these and other accounting policies, see Note 2 in the Notes to the Consolidated Financial Statements.)

Revenue Recognition

We defer revenue recognition until delivery of the product by estimating the value of transactions in which final delivery to the customer has not occurred at the end of the period presented. 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. These estimates are based on historical trends and take into consideration current changes in our manufacturing and distribution process.

We currently sell separately priced extended warranty contracts, generally with terms of twelve months. Revenues from the sale of these contracts are deferred and amortized over the life of the contract on a straight-line basis. The costs to service the warranty claims are expensed as incurred. These warranty contracts currently generate a positive profit margin. However, if the utilization rates of these warranties increased significantly, the repair and replacement expense could exceed the sales price of these warranties. If that became the case, we would record a future liability for anticipated warranty claims at the time of sale, instead of expensing the warranty claims as incurred.

Premium revenue is earned from HMO memberships and services. Revenue from premiums is recognized over the life of the policy, generally twelve months, as the related services are rendered.

We must make estimates of potential returns and replacements of all or part of the eyewear sold to a customer. We analyze historical remake and warranty activity, consider current economic trends and changes in customer demand and acceptance of our products when evaluating the adequacy of our estimate of these costs. If management made different judgments or utilized different estimates, this would likely result in differences in the amount and timing of revenue and related costs for any period.

Allowance for Uncollectible Managed Care Receivables

Managed care accounts receivable are recorded net of contractual allowances and reduced by an allowance for amounts that may become uncollectible in the future. A significant portion of our receivables are due from health care plans or third-party administrators located throughout the United States. Approximately 12% of our net sales relate to products sold to customers that ultimately will be funded in full or in part through private insurance plans, third party insurance administration programs or government reimbursement programs such as Medicare and Medicaid. Any failure on our part to accurately and timely file for reimbursement with these programs can have an adverse effect on our collection results which, in turn, will have an adverse effect on liquidity and profitability.

Estimates of our allowance for uncollectible receivables are based on our historical billing and collection experience. Changes in our billing and collection processes, changes in funding policies by insurance plans and changes in our sales mix within insurance plans may have a material effect on the amount and timing of our estimated expense requirements.

Inventory Valuation

Our inventories are stated at the lower of weighted average cost or market.

In most cases, the expected sales value (i.e., market value) of our inventory is higher than its cost. However, as we progress through a selling season, certain slow-moving merchandise may be removed from stores and returned to the distribution center to be sold below cost in secondary markets. As a result, there is a high degree of judgment and complexity in determining the market value of such inventories. For inventory on hand, we estimate the future selling price of our merchandise, given its current selling price and its planned promotional activities, and provide a reserve for the difference between cost and the expected selling price for all items expected to be sold below cost.

At the beginning of fiscal 2003, we adopted Emerging Issues Task Force Issue No. 02-16, "Accounting by a Customer for Certain Consideration Received from a Vendor" ("EITF 02-16"). As a result of the adoption of EITF 02-16, certain vendor allowances are now presented as a reduction of inventory cost and subsequently as a component of cost of goods sold.

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We conduct physical inventory counts for all of our store locations at least twice per year and adjust our records to reflect the actual inventory counts. Cycle counts are performed monthly for inventory in our distribution center and all inventory in our distribution center is counted near the end of the fiscal year. As all locations are not counted as of our reporting dates, we provide a reserve for inventory shrinkage based principally on historical inventory shrinkage experience.

Fresh Start Accounting

In accounting for the effects of the reorganization, we adopted “fresh start” accounting principles as contained in 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”). SOP 90-7 was applicable because pre-reorganization shareholders received none of our new common stock and the reorganization value of the assets of the Successor company was less than the total pre-petition liabilities allowed plus post-petition liabilities. SOP 90-7 also required that, at the time of fresh start accounting, we early-adopted all accounting principles that were required to be adopted within twelve months following fresh start accounting.

Fresh start accounting principles require that we determine the reorganization value of the reorganized Company. Our reorganization value was developed by management, the Official Committee of Unsecured Creditors and their respective financial advisors. The reorganization value was based on a calculation of the present value of the free cash flows under our financial projections, including an assumption of a terminal value. Such projections were submitted to the bankruptcy court and to creditors for review and objection as part of our disclosure statement accompanying the Plan.

Valuation of Long-Lived and Intangible Assets

Our most significant intangible asset is the Intangible Value of Contractual Rights, which was established as part of our adoption of fresh start accounting in May 2001. This intangible asset, which has a value of \$93.3 million at January 3, 2004, represents the value of our lease agreement with Wal-Mart and the business relationship therein created. In accordance with SFAS No. 142, this intangible is an amortizable asset because it has a finite useful life. However, the precise length of its life is not known due primarily to the Wal-Mart supercenter conversions that automatically trigger extensions on the contractual life of the asset. Based on our projections, our best estimate of the useful life of this asset is fifteen years. Due to the uncertainty involved in predicting the pattern of economic benefits realized from the Wal-Mart relationship, we amortize this asset using the straight-line method.

We assess the impairment of all identifiable intangibles and long-lived assets on an annual basis and whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors we consider important, which could trigger an impairment review, include (1) a significant underperformance of vision center operations relative to expected historical or projected future operating results; (2) significant changes in the manner of our use of our assets or the strategy for our overall retail optical business; (3) significant negative industry or economic trends; (4) a significant decline or adverse change in the rate or geographic concentration of Wal-Mart host store relocations or supercenter conversions; and (5) a permanent adverse change in cash flows generated by an operation.

Upon the existence of one or more of the above indicators of impairment, we determine if the carrying value of intangibles or long-lived assets may not be recoverable based on a projected cash flow model. If the projected cash flows are not in excess of the book value of the related asset, we measure the impairment based on a projected discounted cash flow method. Significant management judgment is required regarding the existence of impairment indicators as discussed above.

Historically, we have operated our vision centers to the maximum term of the lease, including the exercise of all available renewal options in most cases. Our strategy was to maintain store operations, even if the store was under-performing and devote our attention to correcting the store's problems. In the fourth quarter of 2003, we revised our strategy to assess under-performing stores prior to the lease termination date, and potentially close the under-performing stores in order to maximize operating profitability. As a result, we identified certain store locations with a history of operating losses that we do not expect to become profitable without significant cost and effort. We intend to close 13 of these locations in March and April of 2004.

For the 13 locations that we expect to close prior to the lease termination date, we reviewed the locations for potential impairment by comparing the future expected undiscounted cash flows for these locations to the carrying value of their long-lived assets. The long-lived asset carrying value for 12 locations exceeded the future expected undiscounted cash flows from the locations. Therefore, impairment was determined to exist for these 12 locations. We also reviewed the remainder of store locations for potential impairment and identified 30 additional vision centers in Wal-Mart, Wal-Mart de Mexico, Fred Meyer and on military bases which were determined to be impaired given that the expected future undiscounted cash flows from these locations are less than the carrying value of their assets. As a result, we have recorded a non-cash impairment charge of \$550,000 to write-down these long-lived assets to their fair market value. Fair market value was determined using the expected discounted cash flows for each location. This impairment was reflected for leasehold improvements, furniture, fixtures and equipment at these 42 locations.

Future events could cause us to conclude that impairment indicators exist and that long-lived assets or intangible assets are impaired. Any resulting impairment loss could have a material adverse impact on our financial condition and results of operations. Based on our review of our intangible assets as of January 3, 2004, no impairment was determined to exist.

Accounting For Income Taxes

As part of the process of preparing our consolidated financial statements we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves estimating our actual current tax exposure together with assessing temporary differences resulting from differing treatment of items, such as equipment depreciation, for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheet. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income and to the extent we believe that recovery is not likely, we must establish a valuation allowance. To the extent we establish a valuation allowance or increase this allowance in a period, we must include an expense within the tax provision in the statement of operations.

We emerged from Chapter 11 Bankruptcy on May 31, 2001. As part of our plan of reorganization, our capital structure was highly leveraged with \$120 million of Senior Subordinated Notes providing for interest at 12% per annum. Before, during and after the bankruptcy process, we incurred significant net operating losses (“NOL”) that resulted in tax loss carry-forwards. A portion of these carry-forwards are subject to limitations under Section 382 of the Internal Revenue Code.

Generally accepted accounting principles require that we record a valuation allowance against the deferred tax asset associated with this NOL if it is “more likely than not” that we will not be able to utilize it to offset future taxes. We have provided a full valuation allowance against this net deferred tax asset because our high leverage will make it difficult for us to become profitable, and our historical high leverage substantially contributed to our failure to achieve profitability. We currently provide for income taxes only to the extent that we expect to pay cash taxes for current income.

It is possible, however, that we could be profitable in the future at levels which cause management to conclude that it is more likely than not that we will realize all or a portion of the NOL carry forward. Upon reaching such a conclusion, we would immediately record the estimated net realizable value at a rate equal to our combined federal and state effective rates. Subsequent revisions to the estimated net realizable value of the deferred tax asset could cause our provision for income taxes to vary significantly from period to period, although our cash tax payments would remain unaffected until the benefit of the NOL is utilized.

Self-Insurance Accruals

We self-insure estimated costs associated with workers’ compensation claims and group medical liabilities, up to certain limits. Insurance reserves are established based on actuarial estimates of the loss that we will ultimately incur on reported claims, as well as estimates of claims that have been incurred but not yet reported. Trends in actual experience are a significant factor in the determination of such reserves. We believe our estimated reserves for such claims are adequate, however actual experience in claim frequency and/or severity could materially differ from our estimates and affect our results of operations.

Other Accounting Policies

The above listing is not intended to be a comprehensive list of all of our accounting policies. In many cases, the accounting treatment of a particular transaction is specifically dictated by generally accepted accounting principles. See our audited consolidated financial statements and notes thereto which begin on page F-1 of this Annual Report on Form 10-K which contain accounting policies and other disclosures required by generally accepted accounting principles.

Recent Accounting Pronouncements

In November 2002, the FASB issued Interpretation (“FIN”) No. 45, “Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Other.” FIN 45 requires footnote disclosure of the guarantee or indemnification agreements a company issues. With certain exceptions, these agreements will also require a company to prospectively recognize an initial liability for the fair value, or market value, of the obligations it assumes under that guarantee. The initial recognition and initial measurement provisions of this Interpretation are applicable on a prospective basis to guarantees, including product warranty liabilities, issued or modified after December 31, 2002. Our adoption of FIN No. 45 on December 29, 2002 did not have a material impact on our consolidated financial position, results of operations, or cash flows.

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In January 2003, the FASB issued FASB Interpretation No. 46 “Consolidation of Variable Interest Entities, an Interpretation of APB No. 50,” (“FIN 46”). FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 is effective for all new variable interest entities created or acquired after January 31, 2003. Our adoption of FIN 46 does not currently have an impact on our consolidated financial position, results of operations or cash flows.

In May 2003, the FASB issued SFAS No. 150 “Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity”, which establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. This statement was effective immediately for all financial instruments created or modified after May 31, 2003 and by the first interim period commencing after June 15, 2003 for existing financial instruments. The adoption of SFAS No. 150 does not currently affect our financial position or results of operations.

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 any statements regarding future sales levels, the continuation of historical trends, and our liquidity. Without limiting the foregoing, the words “believes,” “anticipates,” “plans,” “expects,” and similar expressions are intended to identify forward-looking statements.

In addition, we, through our senior management, from time to time make forward-looking public statements concerning our expected future operations and performance and other developments. These forward-looking statements are necessarily estimates reflecting our best judgment based upon current information and involve a number of risks and uncertainties.

All subsequent written and oral forward-looking statements attributable to the Company and persons acting on our behalf are qualified in their entirety by the cautionary statements contained in this section and elsewhere in this report.

We do not know whether all the forward-looking statements made in this report or elsewhere will prove to be correct. We have tried to identify factors which may cause such 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 non-exclusive list of these factors:

Our substantial indebtedness could adversely affect our financial health and prevent us from fulfilling our obligations under our Notes.

As a result of the issuance of our 12% Notes due 2009, we are highly leveraged. The Notes are subordinated to our credit facility. As of March 1, 2004, we had outstanding:

- total indebtedness of \$94.9 million represented by the Notes, and
- total availability of \$5.0 million under our credit facility, after letter of credit requirements.

Our ability to pay or refinance our indebtedness, including our ability to repay the Notes, or to fund capital expenditures will depend on our future performance. To a certain extent, our performance is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control.

We cannot assure you that our business will generate sufficient cash flow from operations, that revenue growth will be realized or that future borrowings will be available under our credit facility in an amount sufficient to enable us to pay our indebtedness, including the Notes, or to fund our other liquidity needs.

Our substantial indebtedness could have important consequences. For example, it could:

- make it more difficult for us to satisfy our obligations under the Notes, including our ability to pay off the Notes at maturity;
- increase our vulnerability to general adverse economic and industry conditions;
- limit our ability to obtain additional financing to fund future working capital, capital expenditures, new business opportunities, and other general corporate requirements;
- require us to dedicate a substantial portion of our cash flow from operations to the payment of our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures, new business opportunities, or other general corporate purposes;
- limit our flexibility in planning for, or reacting to, changes in our business and our industry;
- place us at a competitive disadvantage compared to competitors that have less debt; and
- limit, along with the financial and other restrictive covenants in our indenture and credit facility, our ability to borrow additional funds.

Our failure to comply with the covenants in the indenture under which our Notes were issued or in our credit facility would result in an event of default which, if not cured or waived, could have a material adverse effect on us.

Our ability to continue to generate revenue and operating income depends on our continued relationship with Wal-Mart.

We are substantially dependent on Wal-Mart and its affiliates for our current operations. The following chart shows, as of January 3, 2004, the number of our vision centers that are in Wal-Mart stores and the total number of our vision centers:

Category	Number
Total Vision Centers	468
Domestic Wal-Mart Locations	359
Wal-Mart de Mexico	37

Our vision centers located in Wal-Mart stores accounted for substantially all of our earnings before interest, taxes, depreciation and amortization for the fiscal year ended January 3, 2004. Vision centers in Wal-Mart stores rely largely on customer traffic generated by the Wal-Mart host store.

Wal-Mart is under no obligation to provide us with additional vision center leases. We have no basis to believe that Wal-Mart will offer us any additional locations. We also have no basis to believe that Wal-Mart will offer to extend any of our existing leases apart from instances where Wal-Mart is obligated to do so pursuant to the terms of our master license agreement upon the relocation or conversion of a store to a supercenter (see “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Summary of Lease Agreements”). We will therefore need to replace our sales and operating earnings generated from our Wal-Mart vision centers with sales and operating earnings generated from new business opportunities, which are subject to significant risk and uncertainty (see “Our new business opportunities are unproven”).

Our lack of growth could adversely affect our ability to make payments on our Notes.

Average annual revenues in our domestic Wal-Mart vision centers were approximately \$580,000 in fiscal 2003. Average annual revenues in the other vision centers that we continue to own were less than \$300,000 in the same period. The expiration of our leases with Wal-Mart will cause a reduction in our revenues that we may not be able to replace with revenues generated by other vision centers or by other lines of business we are exploring. We expect that our expenses, however, will increase over time. A combination of lower sales and higher expenses would adversely affect our ability to repay or refinance our Notes, which could have an adverse effect on the price of our common stock.

In addition, in each of the next several years, the base terms of increasing numbers of leases for vision centers under our Wal-Mart agreement will expire. 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 for each of these vision centers. Alternatively, we may choose not to exercise the extension options.

Our new business opportunities are unproven.

Apart from opening optometric offices in California (see “Our operation of optometric vision centers adjacent to Wal-Mart corporate vision centers in California creates financial and regulatory risk”), we are exploring optical concepts in hosts other than Wal-Mart and non-optical concepts in Wal-Mart. There are risks associated with both types of business opportunity, including risks that:

- we will be unable to reach appropriate lease or other arrangements with the host licensor
- the lease or other arrangement will have high occupancy charges or other onerous terms and conditions
- we will have insufficient capital or otherwise be subject to constraints that limit the investments we can make in these businesses (see “Our substantial indebtedness could adversely affect our financial health and prevent us from fulfilling our obligations under our Notes” and “Our pursuit of other lines of business could be constrained by the terms of our indenture”)
- even if established, the businesses will fail to generate sufficient profits to justify continued exploration or development of the business concepts.

The optical concepts will be subject to the general risks and uncertainties applicable to our current core business in Wal-Mart. The non-optical concepts will be subject to additional risks and uncertainties, including the risk that we will lack sufficient experience and expertise to successfully manage the businesses. The home medical equipment business, in particular, is subject to a number of unique risk factors, including:

- Intensive regulatory scrutiny under federal and state anti-kickback and similar laws (see “Federal and state governments extensively regulate the health care and insurance industries”)
- Complex regulations and requirements applicable to billing for federal and state reimbursement
- The need for significant capital to fund any expansion or operating losses during the time the concept is under development.

Because of the anticipated run-off of our leases with Wal-Mart, we will need to explore and develop these concepts in the shorter rather than the longer term. There is also a risk that, in pursuing these concepts, management will devote less attention to our core business of operating vision centers in Wal-Mart, and that the core business will be adversely affected. In addition, other companies are testing the sales of home medical equipment in Wal-Mart stores. We can therefore provide no assurances that, even if we are successful in these operations, Wal-Mart will offer us additional locations.

Our pursuit of other lines of business could be constrained by the terms of our indenture.

The indenture governing our Senior Subordinated Notes limits our operations to those which are “the same, similar or reasonably related to the businesses in which” we were engaged as of the date we emerged from bankruptcy. We are in the process of opening home medical equipment centers in Wal-Mart stores. We are also investigating other concepts. Our indenture could limit our ability to invest in these other lines of business and, generally, could limit our ability to pursue these lines of business. In addition, certain holders of our Notes have previously objected to our engaging in other lines of business. Although we believe that we are in compliance with the indenture and intend to continue to comply with the indenture, we can give no assurance that these holders might not seek to declare a default arising out of our engaging in these lines of business.

Our financial performance may be adversely affected by sales recorded at vision centers scheduled to close under the Wal-Mart agreement.

We have observed sharp declines in sales levels as our vision centers come to the end of their lease term under the Wal-Mart agreement. We expect to close approximately 58 Wal-Mart vision centers in fiscal 2004 and 36 Wal-Mart vision centers in fiscal 2005. In the months prior to their scheduled date of closure, we expect these vision centers to record substantial sales declines. The extent of the sales declines, coupled with the number of vision centers nearing the end of their lease term, could have a negative impact on our sales and our profitability.

Our declining base of vision centers in Wal-Mart stores could make it more difficult for us to compete.

We expect that the number of our vision centers in Wal-Mart stores will substantially decrease over the next several years. A declining base of vision centers, coupled with a decline in cash flow, could impair our ability

- to attract and retain management
- to compete for managed care contracts
- to obtain favorable terms, such as discounts and rebates, from optical vendors
- to enter into other business arrangements
- to generate cash to fund other business opportunities.

Because our optical laboratories and distribution center provide substantially all the eyeglasses and related products we sell at our retail locations, we depend on their regular and efficient operation, and any disruption could have a severe adverse impact on our retail business.

Our manufacturing and distribution center operations are subject to various risks.

Our manufacturing operations are located in Lawrenceville, Georgia and St. Cloud, Minnesota. A fire, flood, earthquake, war, work stoppage, supply shortage or disruption, adverse government action or other disaster or condition at either location could result in a loss of production capabilities and, accordingly, adversely affect our ability to service our retail locations.

We depend on a small number of suppliers for raw materials. Most of the raw materials used in our products are readily available from a number of suppliers at competitive prices, and we have not experienced any significant shortages in obtaining raw materials. While there are currently multiple suppliers of raw materials, we purchase over 50% of those materials from three suppliers. The loss of any of these suppliers, or a significant decrease in the supply of the raw materials, would require us to obtain these raw materials elsewhere. If we were unable to obtain the materials from other suppliers at acceptable prices, our gross margins and our ability to implement our every day low price strategy could be adversely affected. In addition, a third party processes our photochromic lenses using its proprietary technology. We therefore rely on this party for our production of these lenses.

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We may be adversely affected by environmental and safety regulations to which we are subject. We must comply with environmental laws and regulations concerning emissions to the air, waste water discharges and the generation, handling, storage, transportation and disposal of hazardous wastes, and with other federal, state and local laws and regulations. We believe that we possess all material permits and licenses necessary for the continuing operation of our business and believe that our operations are in substantial compliance with the terms of all applicable environmental laws. We cannot assure you that we will operate at all times in complete compliance with all such requirements. We could be subject to potentially significant fines and penalties for any noncompliance that may occur. We cannot predict accurately the potential impact of these laws and regulations on us in the future.

Our manufacturing operations depend in part on our ability to attract and retain personnel with relevant industry experience. The loss of the services of this personnel or the ability to retain such personnel in the future could have an adverse impact on our manufacturing operations.

The efficiency of our manufacturing operations is an essential component of our everyday low price retail strategy. We must continually control our product manufacturing costs and operating expenses. We may not be able to continually control these costs and expenses. To the extent that we do not control these costs and expenses, the ability of our retail locations to compete may be adversely affected.

Our operation of optometric vision centers adjacent to Wal-Mart corporate vision centers in California creates financial and regulatory risk.

Our HMO subsidiary in California has opened five optometric offices adjacent to Wal-Mart in that State and expects to open more such locations in the future. There are risks that:

- These locations will be unprofitable and drain cash and management resources
- Although we believe these locations operate in compliance with all applicable regulatory and other requirements, regulatory and other authorities will seek to challenge our operations.

We do not know the number of offices our subsidiary will open pursuant to this arrangement. The opening of offices in certain geographic locations could be subject to regulatory approval, which could also increase costs and cause delays.

Increased military action abroad could have a negative impact on our operations, particularly those on military bases.

We operate 25 vision centers on military bases in the United States. Increased military action abroad could have a negative impact on these vision centers.

Our use of net operating loss carry-forwards may be subject to limitations.

In conjunction with our historical results from operations, emergence from Chapter 11 and the disposition of our free-standing operations, we incurred significant net operating losses. These losses resulted in significant net operating loss carry-forwards. Our ability to utilize our net operating losses that were realized prior to our emergence from Chapter 11 is limited under Section 382 of the Internal Revenue Code of 1986. If our net operating losses realized after our emergence from Chapter 11 are subject to substantial limitation because of a future change of control of the Company or for other reasons, our cash tax costs would increase and have an adverse effect on our ability to repay the Notes. If, after such a change of control, we determined that we would be unable to utilize this tax asset, we could then be forced to write down the asset and record a charge against our financial results.

The right of holders of our Notes to receive payments will be junior to our borrowings under our credit facility, which could adversely affect our ability to pay off the Notes.

Our indebtedness under our credit facility is secured by liens against substantially all of our assets. In the event of a default on our secured indebtedness, or a bankruptcy, liquidation or reorganization of the Company and our subsidiaries, these assets will be available to satisfy obligations with respect to the secured indebtedness before they can be used to satisfy our obligations under our Notes.

The terms of our credit facility and the indenture under which our Notes were issued restrict our corporate activities.

Our credit facility contains various restrictive covenants and requires us to maintain specified financial ratios and satisfy financial tests, such as a:

- minimum requirement of earnings before interest, taxes, depreciation and amortization as defined in our credit facility of \$19.6 million for each rolling 12 month period ending on the last day of each fiscal month for the remainder of the term of our credit facility, and
- minimum fixed charge coverage ratio of 1.0 to 1.0.

Our ability to meet these financial ratios and tests may be affected by events beyond our control, and we cannot assure you we will meet these tests. In addition, our credit facility and our indenture limit our ability to take action with respect to:

- capital expenditures,
- investments,
- indebtedness,
- liens,
- dividends,
- loans,
- prepayments of other indebtedness,
- mergers, acquisitions or sales of assets,
- changes in business activities (see “Our pursuit of other lines of business could be constrained by the terms of our indenture”),
- transactions with affiliates, and
- issuance of equity.

Our breach of any of these covenants could result in an event of default under our credit facility. If a default occurs, our lender can declare our indebtedness, both principal and interest, immediately due and payable, and could terminate its commitment to make future advances. In addition, a default under the indenture could cause the principal and accrued interest on the Notes to become due and payable. The restrictions in the indenture and the credit facility will likely restrict our ability to obtain additional financing for working capital, capital expenditures or general corporate purposes. We have pledged substantially all of our assets under our credit facility and under the indenture. If we fail to repay all amounts declared due and payable, our lender and then the holders of our Notes could proceed against the collateral granted to it to satisfy our obligations. It is likely that our assets would be insufficient to repay in full that indebtedness and our other indebtedness, including the Notes.

We are required by our indenture to make mandatory redemptions of principal owing on our Notes if we generate excess cash flow, which may have an adverse impact on our common stock.

The indenture requires mandatory redemptions of principal out of the excess cash flow that we may generate biannually. There can be no assurances that we will generate enough excess cash flow to make any mandatory redemptions. Prepayments of principal on the Notes, if any, will prevent us from having excess cash to reinvest in our business, and could adversely affect the price of our common stock.

The holders of our common stock may exercise significant control over us.

Former holders of our old Senior Subordinated Notes due 2005 held a large majority of our unsecured debt in bankruptcy, and thus were the initial holders of a significant portion of our common stock. If holders of significant numbers of shares of our common stock act as a group, these holders could be in a position to control the outcome of corporate actions requiring shareholder approval, including the election of directors. Certain of these holders have already objected to our repurchase of notes and our pursuit of other business opportunities.

Holders of our common stock and our notes may elect to sell large blocks of common stock or notes, which may have an adverse effect on the price of our common stock and our notes.

Our former unsecured creditors received our common stock and our notes in exchange for their claims against us. Some or all of the holders of our common stock and notes may prefer to liquidate their investment rather than hold the securities on a long-term basis. The possibility that one or more of the holders of significant numbers of shares of our common stock or a large principal amount of our notes may determine to sell all or a large portion of their shares of our common stock or their notes in a short period of time may adversely affect the market price of the common stock or notes. Partially for that reason, there can be no assurance as to the degree of price volatility in any trading market that may develop for the common stock and the notes. As a result, no assurance can be given that any holder of our common stock or our notes will be able to sell them or at what price any sale may occur. No assurance can be given as to the market price, if any, that will prevail for our common stock in the future. If a market were to exist for our notes, they may trade at prices higher or lower than their face value, depending upon many factors, including, without limitation, the prevailing interest rates, markets for similar securities, industry conditions and the performance of, and investor expectations for us.

Our common stock may be delisted from The American Stock Exchange, if we do not meet certain listing standards.

The rules of the American Stock Exchange (“AMEX”) allow the exchange to delist securities if the AMEX determines that a company’s securities fail to meet guidelines with respect to corporate net worth, public float, number of shareholders, the aggregate market value of shares, or price per share. We cannot assure purchasers of our common stock or notes that we will continue to meet the requirements of the AMEX. If we are unable to continue to satisfy these criteria, the AMEX may begin procedures to remove our common stock or notes from the exchange. If our common stock or notes are delisted, a trading market may no longer exist, and the ability of shareholders to buy and sell common stock or notes may be materially impaired.

We have not declared dividends in the past, and do not anticipate doing so in the near future, which may adversely affect the price of our common stock.

Our credit facility and our indenture prohibit the payment of cash dividends without the consent of the lender and the holders of the majority of outstanding principal amounts under the Notes, respectively. We have never declared or paid any dividend on our capital stock. We currently anticipate that all of our earnings, if any, will be retained for payment of our obligations under the Notes, and then for other corporate purposes, and do not anticipate paying any cash dividends in the foreseeable future.

The retail eyecare industry is extremely competitive.

The retail eyecare industry is extremely competitive. We compete with national companies, such as LensCrafters and Cole and 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. Successful renewals of certain existing third-party contracts are integral to maintaining sales revenues.

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. If we are not able to maintain our market share of the retail optical industry, our business will suffer. A decline in our earnings could adversely affect the price of our common stock and the notes, and our ability to repay the notes.

Luxottica (the owner of Lenscrafters) and Cole have recently announced that they have entered into a merger agreement pursuant to which Luxottica would purchase Cole. The completion of this merger could have an adverse impact on our ability to compete for managed care accounts and to participate as a provider under managed care arrangements sponsored by the affiliates of Luxottica or Cole. This merger, if consummated, could also have other effects on our retail business which we cannot now predict.

Federal and state governments extensively regulate the health care industries.

Both federal and state governments extensively regulate the delivery of health care, including relationships among health care providers such as optometrists and eyewear providers like us. Many states prohibit business corporations from practicing medicine or controlling the medical judgments or decisions of physicians. States often prohibit various financial arrangements, such as splitting fees with physicians.

The fraud and abuse provisions of the Social Security Act and anti-kickback laws and regulations adopted in many states prohibit soliciting, paying, receiving or offering any compensation for making, or causing someone to make, referrals of patients, items or services in some circumstances. The Social Security Act also imposes significant penalties for false or improper Medicare and Medicaid billings. Many states have adopted similar laws applicable to any payor of health care services. We must also comply with federal laws such as the Health Insurance Portability and Accountability Act of 1996 (which governs our participation in managed care programs and which also requires that we maintain the privacy of health information of our customers) and the Food and Drug Administration Act (which regulates medical devices such as contact lenses). In addition, the Stark Self-Referral Law restricts referrals for Medicare or Medicaid covered services where the referring physician has a financial relationship with the service provider. In some cases, the rental of space constitutes a financial relationship under this law. Many states have adopted similar self-referral laws which are not limited to Medicare or Medicaid reimbursed services. Violations of these laws may result in substantial civil or criminal penalties, including double and treble civil monetary penalties, and in the case of federal laws, exclusion from the Medicare and Medicaid programs.

A ruling that we have violated these laws could, for example, result in:

- censure,
- delicensing of optometrists,
- civil or criminal penalties, including large civil monetary penalties,
- invalidation or modification of our agreements with optometrists and opticians, or
- an order requiring us to change our business practices.

These consequences could have an adverse effect on our business. Also, changes in our relationships with independent optometrists and opticians could adversely affect our relationship with Wal-Mart or our other host stores.

We are subject to state and local regulation of the vision care industry.

The practice of opticianry is regulated in most states in which we do business. In addition, all states regulate the practice of optometry and many states regulate the contracts and other arrangements between optical firms and optometrists. Our failure to comply with these regulations can have severe consequences, including the closure of retail outlets, possible breaches of our license agreement with Wal-Mart, changes to our way of doing business, and the imposition of fines and penalties.

We are subject to increased regulatory risk in the state of California, where in 2002 the California attorney general filed a lawsuit against one of our competitors, alleging that their operations violated state law (see “Legal Proceedings”). The case is expected to be argued in the California Supreme Court later in 2004. In 2003, a Court of Appeal in the State of California held that our method of doing business in the State of California complies with applicable law. There is, however, a risk that, if the California Supreme Court holds that the operations of our competitor violates state law, the California attorney general could begin proceedings against us, notwithstanding our prior successful result in the Court of Appeal. In addition, the regulatory and litigation risk created by the pendency of the litigation by the attorney general could have an adverse impact on our business.

In California, optometrists who practice adjacent to our retail locations are providers to and subtenants of a subsidiary, which is licensed as a single-service Health Maintenance Organization (“HMO”). This subsidiary is regulated by the Department of Managed Health Care. Although we believe that our operations in California comply with applicable law, there are no assurances that the Department of Managed Health Care, the attorney general, or another state authority will not seek to challenge our manner of doing business in the state. Such challenges could force us to change the way we do business, to incur significant expense in litigation and compliance efforts, and could have a material adverse impact on us.

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. All of these matters could cause our business to suffer, our ability to repay the notes to be adversely affected, and the trading price of our common stock and notes to decline.

The departure of key executives could adversely affect our business.

We depend on the continuing efforts of our executive officers and senior management. The departure of these individuals in significant numbers could adversely affect our business and prospects if we are unable to attract and retain qualified replacements. The run-off of our vision centers could make it more difficult for us to attract and retain management. We do not currently have employment agreements with any personnel, including key executive officers and management. However, we offer our executives and management bonus and stock-based incentives related to our performance.

Failure to have vision care professionals available in or near our vision centers would adversely affect our ability to win managed care and host store contracts, and could prevent us from operating in some states.

Our business and marketing strategies emphasize the availability of independent optometrists in close proximity to our vision centers. Typically, we contract with at least one licensed optometrist to occupy space in or adjacent to each of our stores. Additionally, our agreement with Wal-Mart contemplates that we will make optometrists available at least 48 hours per week if permitted by law. In some markets it may be difficult for us to attract and retain optometrists if our vision centers generate low sales. Historically, if there is no licensed optometrist available to give eye exams, our retail business has suffered.

In some markets, it can be difficult to hire or keep vision care professionals on staff in our vision centers. Failure to maintain a staff of qualified vision care professionals may cause our customers to go elsewhere to provide for their optical needs, which would have an adverse effect on our business.

Many states require that licensed opticians be present when eyeglasses or contact lenses are fitted or dispensed. Any difficulties or delays in securing the services of these professionals could adversely affect our business and our relationship with our host stores. Consequences of difficulty or delay could include termination of our host store licenses for those vision centers, and imposition of legal sanctions against us, including closure of vision centers without licensed professionals.

Our success increasingly depends on our ability to develop and maintain relationships with managed vision care companies.

An increasing percentage of patients receive health care coverage through managed care payors. As this trend continues, our success will increasingly depend on our ability to negotiate contracts with health maintenance organizations referred to as HMOs, employer groups and other private third party payors. We cannot assure you that we will be able to establish or maintain satisfactory relationships with managed care and other third party payors. The run-off of our leases with Wal-Mart will make it more difficult for us to establish and maintain these relationships. In addition, many managed care payors have existing provider structures in place that they may be unable or unwilling to change. The announced merger of our two largest competitors could present additional challenges to our participation in managed care programs (see “The retail eyecare industry is extremely competitive”). Our inability to enter into arrangements with managed care payors in the future could have a material adverse effect on our business.

We have established a network of optometrists and other providers located in or adjacent to our stores in order to enhance our ability to contract with managed care payors for both professional services and retail eyewear supplies. Currently, approximately 12% of our revenues are received from managed care payors. We expect this percentage to increase in the future. Managed care contracts include a variety of reimbursement methods, such as fee for service or discounts. Our contracts with managed care companies on the one hand, and with networks of optometrists and other providers on the other, are subject to federal and state regulations, for example:

Insurance Licensure. Most states impose strict licensure requirements on companies that engage in the business of insurance, including health insurance companies and HMOs. Many licensing laws mandate strict financial and other requirements which we may not be able to meet, were we deemed to be engaging in the business of insurance. Additionally, the licensure process can be lengthy and time consuming.

Antitrust Laws. A range of antitrust laws apply to us and our network of optometrists. These laws prohibit anti-competitive conduct, including price-fixing, concerted refusals to deal, and divisions of markets. We cannot assure you that our operations will not be challenged on antitrust grounds in the future.

Proposed reforms may affect our earnings and may adversely affect our business.

There have been numerous reform initiatives at the federal and state levels relating to the payment for and availability of healthcare services. We believe that these initiatives will continue for the foreseeable future. If adopted, some of these reforms could adversely affect our financial results, and may adversely affect our business.

We rely on third parties to pay many of our customers' costs.

A significant portion of medical care in the United States is funded by government and private insurance programs, such as Medicare, Medicaid and company-sponsored health insurance plans. According to government projections, more medical beneficiaries who are significant consumers of eye care services will enroll in managed care organizations. Governmental and private third-party payors try to contain medical costs by:

- lowering reimbursements,
- imposing use restrictions and risk-based compensation arrangements,
- redesigning benefits, and
- exploring more cost-effective methods of health care delivery.

These cost containment efforts may lead to limitations or reductions in reimbursement for eye care services, which would adversely affect our future sales. Additionally, some reimbursement programs require us to collect payment from third party payors. Our inability to fully collect reimbursable amounts could adversely affect cash flow generated from operations.

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.

New advances may reduce the need for our products or allow other manufacturers to produce eyewear at lower cost than we can.

Technological advances in the eyecare industry, such as new surgical procedures or medical devices, could reduce the demand for our products. Corneal refractive surgery procedures such as laser surgery, radial-keratotomy and photo-refractive keratectomy may reduce the demand for our products. The development of new drugs may have a similar effect. Technological advances such as wafer technology and lens casting may make our current lens manufacturing method uncompetitive or obsolete. The number of individuals electing Lasik and similar surgical procedures has increased each year, which could significantly decrease demand for our goods and services. These and other medical and technological advances may have a material adverse effect on our operations.

A prolonged economic downturn could have an adverse impact on us.

We believe that a weakening economy may cause an increase in the period of time between repurchases of our retail products by the average consumer, since customers may see replacement purchases of eyeglasses and contact lenses as non-essential. An extension of the repurchase cycle for our retail products would reduce the number of sales of our retail products. Lower sales of our retail products would reduce our revenues.

Operating in other countries presents special risks that may affect our results of operations.

Our Mexican operations face risks substantially similar to those we face in our Wal-Mart stores, including dependence on the host store and limits on expansion. We cannot assure you that our Mexican operations will be able to attain profitability.

Our foreign operations expose us to all of the risks of investing and operating in foreign countries generally, including:

- differing regulatory, political and governmental environments,
- currency fluctuations,
- high inflation,
- price controls,
- restrictions on profit repatriation,
- generally lower per capita income and spending levels,
- import duties and value-added taxes, and
- difficulties of cross-cultural marketing.

Our Articles of Incorporation, By-Laws, Indenture, and the company shareholder rights agreement contain provisions that make it more difficult to effect a change in control of the company, which may adversely affect the price of our common stock.

Provisions of our Articles of Incorporation and By-Laws could discourage tender offers or other transactions that would result in shareholders receiving a premium over the market price for our common stock. These include provisions:

- authorizing the issuance of preferred stock without shareholder approval,
- requiring a supermajority shareholder vote in various circumstances,
- restricting who may call a special meeting of shareholders,
- permitting our board of directors to consider constituencies in addition to the shareholders, and
- requiring shareholders to comply with various procedures in connection with any shareholder proposals or director nominations.

The Indenture governing our Senior Subordinated Notes provides that, upon a “Change of Control” (as defined), the Company is obligated to offer to repurchase all outstanding notes at par. A “Change of Control” is defined to include, among other things, the acquisition by a group of 50% or more of our common stock, and the election of a majority of directors who were not approved by a majority of the prior directors. Our shareholder rights agreement provides us with a defensive mechanism that decreases the risk that a hostile acquirer will attempt to take control of us without negotiating directly with our board of directors. It is meant to prevent an acquirer from gaining control of us by paying an inadequate price or by using coercive techniques. The shareholder rights agreement may discourage acquirers from attempting to purchase us, which may adversely affect the price of our common stock.

We may not have the ability to raise the funds necessary to finance the change of control repurchase contemplated by our indenture.

Upon some changes of control of the Company, holders of our notes have the right to require us to repurchase all or a portion of the notes. If a change of control occurs, we cannot assure you that we will have sufficient funds to repurchase all of the notes tendered.

Our failure to repurchase tendered notes would be an event of default under our indenture. Changes of control are also restricted by, and constitute a default under, our credit facility. If the lender under our credit facility were to accelerate our obligations due to a default, it would have a priority claim to the proceeds from the sale of our assets that secure the credit facility.

Our adoption of “fresh start” accounting may make evaluating our financial position and results of operations, as compared to prior periods, more difficult.

Due to our emergence from bankruptcy pursuant to our plan of reorganization, we implemented “fresh start” accounting as of June 2, 2001. In accordance with fresh start accounting, all assets and liabilities were restated to reflect their respective fair values. As a result, the consolidated financial statements for our reorganized company starting on and going forward from June 2, 2001 will not be comparable to our consolidated financial statements for the periods prior to June 2, 2001. The change in our accounting principles may make it more difficult to compare our operations to prior periods.

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. Our 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 our 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. Our financial advisors, both internal and external, provide ongoing advice regarding trends that affect management's assessment. Our operations are not considered to give rise to significant market risk.

Interest Rate Risk

We borrow 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. At January 3, 2004, we had no outstanding borrowings under our credit facility. Our interest cost under our Senior Subordinated Notes is fixed at 12% through the expiration date of the Senior Subordinated Notes, due 2009.

Foreign Currency Risk

Our division in Mexico operates in a functional currency other than the U.S. dollar. The net assets of this division are exposed to foreign currency translation gains and losses, which are included as a component of accumulated other comprehensive loss in shareholders' equity. Such translation resulted in unrealized losses of approximately \$141,000 in 2003 and unrealized losses of \$274,000 in 2002. Historically, we have not attempted to hedge this equity risk.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

ITEM 9. DISAGREEMENTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective as of the date of such evaluation. Disclosure controls and procedures are controls and procedures that are designed to ensure that information required to be disclosed in Company reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

There were no changes in our internal control over financial reporting that occurred during our fourth fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Since the evaluation date, there have not been any significant changes in our internal controls, or in other factors that could significantly affect these controls subsequent to the evaluation date.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

We have in place a Code of Business Conduct and Ethics that applies to our employees, directors and certain contractors. We have also adopted a Code of Ethics that applies to our Chief Executive Officer, Chief Financial Officer, and our Controller. We will provide a copy of this Code of Ethics to any person without charge, upon written request sent to: Investor Relations, National Vision, Inc., 296 Grayson Highway, Lawrenceville, Georgia 30045.

With respect to the remaining information called for by this item, we incorporate by reference the section titled “Election of Directors” in our Proxy Statement to be mailed to shareholders in connection with our 2004 annual meeting of shareholders.

ITEM 11. EXECUTIVE COMPENSATION

We incorporate by reference the section titled “Compensation of Executive Officers” in our Proxy Statement to be mailed to shareholders in connection with our 2004 annual meeting of shareholders.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

We incorporate by reference the section titled “Common Stock Ownership of Certain Beneficial Owners and Management” in our Proxy Statement to be mailed to shareholders in connection with our 2004 annual meeting of shareholders.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

In 2003, Nelson Eye Associates, P.C., which is wholly owned by Dr. Marc Nelson, paid us approximately \$300,000 in occupancy fees related to the sub-occupancy of nine of our retail optical locations. Dr. Nelson is a member of our Board of Directors.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

We incorporate by reference the section entitled “Fees of Independent Accountants” in our Proxy Statement to be mailed to shareholders in connection with our 2004 annual meeting of shareholders.

PART IV

ITEM 15. 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 furnished the following exhibits:

Exhibit Number:

Description:

2.1 — First Amended Joint Plan of Reorganization Under Chapter 11, Title 11, United States Code, filed by Vista Eyecare, Inc. and certain of its Debtor Subsidiaries, dated April 13, 2001, incorporated by reference to Exhibit 2.1 to our Current Report on Form 8-K filed with the Commission on June 1, 2001.

2.2 — Modification to First Amended Joint Plan of Reorganization Under Chapter 11, Title 11, United States Code, filed by Vista Eyecare, Inc. and certain of its Debtor Subsidiaries and First Amended Joint Plan of Reorganization Under Chapter 11, Title 11, United States Code, filed by Frame-n-Lens Optical, Inc.; Midwest Vision, Inc.; New West Eyeworks, Inc., and certain of their Debtor Subsidiaries, dated May 17, 2001, incorporated by reference to Exhibit 2.2 to our Current Report on Form 8-K filed with the Commission on June 1, 2001.

3.1 — Amended and Restated Articles of Incorporation of the Company dated April 8, 1992 as amended, incorporated by reference to Exhibit 3.1 to our Registration Statement on Form 8-A filed with the Commission on August 9, 2001.

3.2 — Amended and Restated By-Laws of the Company, incorporated by reference to our 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 Exhibit 4.1 to our Registration Statement on Form 8-A filed with the Commission on August 9, 2001.

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 our Registration Statement on Form 8-A filed with the Commission on January 17, 1997.

4.3 — Amendment to Rights Agreement dated as of March 1, 1998 between the Company and Wachovia Bank of North Carolina, N.A., incorporated by reference to Exhibit 10.2 to our Registration Statement on Form 8-A filed with the Commission on March 24, 1998.

4.4 — Second Amendment to Rights Agreement dated as of June 1, 1999 between the Company and First Union National Bank, as successor to Wachovia Bank, N.A.*

4.5 — Indenture dated as of June 15, 2001 between the Company and State Street Bank and Trust Company, as trustee, incorporated by reference to Exhibit 4.4 to our Annual Report on Form 10-K for fiscal 2002.

4.6 — First Amendment of Indenture dated as of July 6, 2001 between the Company and State Street Bank and Trust Company, as trustee, incorporated by reference to Exhibit 4.2 to our Registration Statement on Form 8-A filed with the Commission on August 9, 2001.

4.7 — Registration Rights Agreement dated as of May 31, 2001 among the Company and the Holders (as defined therein) of registrable securities, incorporated by reference to Exhibit 4.8 to our Amendment to Quarterly Report on Form 10-Q/A filed with the Commission on August 22, 2001.

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- 4.8 — Amendment to Registration Rights Agreement dated as of August 7, 2001 among the Company and the Holders (as defined therein) of registrable securities, incorporated by reference to Exhibit 4.9 to our Amendment to Quarterly Report on Form 10-Q/A filed with the Commission on August 22, 2001.
- 4.9 — Lock-Up Agreement dated May 31, 2001 between Scudder High Yield Series — Scudder High Yield Fund and the Company, incorporated by reference to Exhibit 4.8 to our Annual Report on Form 10-K for fiscal 2001.
- 4.10 — Lock-Up Agreement dated May 31, 2001 between U.S. Bancorp Investments, Inc. and the Company, incorporated by reference to Exhibit 4.9 to our Annual Report on Form 10-K for fiscal 2001.
- 4.11 — Second Amendment of Indenture dated as of December 7, 2001 between the Company and State Street Bank and Trust Company, as trustee, incorporated by reference to Exhibit 4.10 to our Annual Report on Form 10-K for fiscal 2001.
- 10.1 — 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 our Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1994, Commission File No. 0-20001.
- 10.2 — Sublease Agreement dated December 16, 1991 by and between Wal-Mart Stores, Inc. and the Company, incorporated by reference to our Registration Statement on Form S-1, registration number 33-46645, filed with the Commission on March 25, 1992, and amendments thereto.
- 10.3 — 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 our Form 10-K for the fiscal year ended December 30, 1995, Commission File No. 0-20001.
- 10.4 — Retail Lease Agreement dated as of March 1999 between Fred Meyer Stores, Inc. and the Company. [Portions of Exhibit 10.4 have been omitted pursuant to a request for confidential treatment filed with the Commission. The omitted portions have been filed separately with the Commission.]*
- 10.5 — Lease Extension and Modification Agreement dated as of July 1, 2003 between Fred Meyer Stores, Inc. and the Company. [Portions of Exhibit 10.5 have been omitted pursuant to a request for confidential treatment filed with the Commission. The omitted portions have been filed separately with the Commission.]*
- 10.6 — Restated Stock Option and Incentive Award Plan.*++
- 10.7 — Restated Non-Employee Director Stock Option Plan, incorporated by reference to our Quarterly Report on Form 10-Q for the quarterly period ended June 28, 1997, Commission File No. 0-20001.++
- 10.8 — Form Restricted Stock Award, incorporated by reference to our Quarterly Report on Form 10-Q for the quarterly period ended March 29, 1997, Commission File No. 0-20001.++
- 10.9 — Restricted Stock Award made as of April 11, 2002 by the Company to L. Reade Fahs, incorporated by reference to our Quarterly Report on Form 10-Q for the quarterly period ended June 29, 2002.++
- 10.10 — Form Performance Share Award Agreement, incorporated by reference to our Quarterly Report on Form 10-Q for the quarterly period ended June 29, 2002.++
- 10.11 — Form Stock Option 2001 Grant for Employees, incorporated by reference to our Quarterly Report on Form 10-Q for the quarterly period ended June 29, 2002.++
- 10.12 — Form Change in Control Agreement, incorporated by reference to our Annual Report on Form 10-K for the fiscal year ended December 30, 2000.++

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10.13 — Form indemnification agreement for directors and executive officers of the Company, incorporated by reference to our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2001.

10.14 — 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 our Annual Report on Form 10-K for the fiscal year ended December 31, 1994, Commission File No. 0-20001.++

10.15 — Management Incentive Plan.*++

10.16 — Executive Relocation Policy, incorporated by reference to our Quarterly Report on Form 10-Q for the quarterly period ended March 30, 1996, Commission File No. 0-20001.++

10.17 — Loan and Security Agreement dated as of May 30, 2001 between the Company and Fleet Capital Corporation, incorporated by reference to our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2001.

10.18 — First Amendment to Loan and Security Agreement dated as of December 21, 2001 between the Company and Fleet Capital Corporation.*

10.19 — Letter Agreement dated June 30, 2002 between the Company and Fleet Capital Corporation, incorporated by reference to our Quarterly Report on Form 10-Q for the quarterly period ended September 28, 2002.

10.20 — Second Amendment to Loan and Security Agreement dated as of December 19, 2003 between the Company and Fleet Capital Corporation.*

10.21 — Agreement and General Release dated as of December 27, 2002 between the Company and James W. Krause, incorporated by reference to our Annual Report on Form 10-K for the fiscal year ended December 28, 2002.++

21 — Subsidiaries of the Registrant.*

23.1 — Consent of Deloitte & Touche LLP.*

31.1 — Certification of Chief Executive Officer required by Rule 13a-14(a).*

31.2 — Certification of Chief Financial Officer required by Rule 13a-14(a).*

32 — Certifications of Chief Executive Officer and Chief Financial Officer required by Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code.*

* Filed with this Form 10-K.

++ Management contract or compensatory plan or arrangement in which a director or named executive officer participates.

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(b) 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
November 18, 2003	Item 12	3rd Quarter 2003
December 3, 2003	Item 9	None
December 29, 2003	Item 5	None
	46	



NATIONAL VISION, INC. AND SUBSIDIARIES

**CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULE
FOR THE YEARS ENDED JANUARY 3, 2004 AND DECEMBER 28, 2002,
THE SEVEN MONTHS ENDED DECEMBER 29, 2001 AND
THE FIVE MONTHS ENDED JUNE 2, 2001,
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.

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Independent Auditors' Report	F-2
Consolidated Balance Sheets as of January 3, 2004 and December 28, 2002	F-3
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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.

INDEPENDENT AUDITORS' REPORT

Board of Directors and Shareholders
National Vision, Inc.
Lawrenceville, Georgia

We have audited the accompanying consolidated balance sheets of National Vision, Inc. and subsidiaries as of January 3, 2004 and December 28, 2002 (Successor Company balance sheets), and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the two years in the period ended January 3, 2004 (Successor Company operations), the seven months ended December 29, 2001 (Successor Company operations), and the five months ended June 2, 2001 (Predecessor Company operations). Our audits also included the financial statement schedule listed in the Index at page S-1. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 Successor Company consolidated financial statements present fairly, in all material respects, the financial position of National Vision, Inc. and subsidiaries as of January 3, 2004 and December 28, 2002, and the results of their operations and their cash flows for each of the two years in the period ended January 3, 2004, and the period from June 3, 2001 to December 29, 2001, in conformity with accounting principles generally accepted in the United States of America. Further, in our opinion, the Predecessor Company financial statements referred to above present fairly, in all material respects, the Predecessor Company's results of their operations and their cash flows for the period from December 31, 2000 to June 2, 2001, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

DELOITTE & TOUCHE LLP

Atlanta, Georgia
April 2, 2004

NATIONAL VISION, INC.
CONSOLIDATED BALANCE SHEETS
January 3, 2004 and December 28, 2002
(in thousands, except share information)

	January 3, 2004	December 28, 2002
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 3,545	\$ 9,020
Accounts receivable (net of allowance: 2003 - \$769; 2002 - \$1,031)	3,078	2,164
Inventories	17,387	17,928
Other current assets	1,278	1,305
Deferred income tax asset	7,305	3,428
Total current assets	32,593	33,845
PROPERTY AND EQUIPMENT:		
Equipment	20,383	19,876
Furniture and fixtures	7,785	7,833
Leasehold improvements	6,556	6,709
Construction in progress	1,750	1,360
	36,474	35,778
Less accumulated depreciation	(22,855)	(17,786)
Net property and equipment	13,619	17,992
OTHER ASSETS AND DEFERRED COSTS		
(net of accumulated amortization: 2003 - \$964; 2002 - \$658)	806	1,004
INTANGIBLE VALUE OF CONTRACTUAL RIGHTS		
(net of accumulated amortization: 2003 - \$19,466; 2002 - \$11,944)	93,279	100,960
	<u>\$140,297</u>	<u>\$153,801</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 3,506	\$ 3,445
Accrued expenses and other current liabilities	25,132	24,393
Current portion of long-term debt	545	3,824
Total current liabilities	29,183	31,662
DEFERRED INCOME TAX LIABILITY	7,305	3,428
SENIOR SUBORDINATED NOTES	94,939	105,882
COMMITMENTS AND CONTINGENCIES (Note 11)		
SHAREHOLDERS' EQUITY:		
Preferred stock, \$1 par value; 5,000,000 shares authorized; none issued Common stock, \$0.01 par value; 10,000,000 shares authorized, 5,243,047 and 5,084,400 shares issued and outstanding at January 3, 2004 and December 28, 2002, respectively	52	50
Additional paid-in capital	25,129	25,097
Deferred stock compensation	(108)	(124)
Retained deficit	(15,932)	(12,064)
Accumulated other comprehensive loss	(271)	(130)
Total shareholders' equity	8,870	12,829
	<u>\$140,297</u>	<u>\$153,801</u>

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

National Vision, Inc.
CONSOLIDATED STATEMENTS OF OPERATIONS
For the years ended January 3, 2004 and December 28, 2002,
the seven months ended December 29, 2001
and the five months ended June 2, 2001
(in thousands, except per share information)

	Successor			Predecessor
	Year Ended January 3, 2004 (53 weeks)	Year Ended December 28, 2002 (52 weeks)	Seven Months Ended December 29, 2001	Five Months Ended June 2, 2001
Retail sales, net	\$236,125	\$222,156	\$122,525	\$110,417
Premium revenue	6,347	2,041	—	—
Other revenue	877	—	—	—
Total net revenue	243,349	224,197	122,525	110,417
Cost of goods sold	110,907	100,699	54,837	52,293
Gross profit	132,442	123,498	67,688	58,124
Operating expenses:				
Selling, general & administrative expense	123,713	119,451	66,190	64,253
Impairment of long-lived assets	550	—	—	—
Restructuring expense	484	—	—	—
Total operating expense	124,747	119,451	66,190	64,253
Operating income (loss)	7,695	4,047	1,498	(6,129)
Other expense, net:				
Interest expense	(12,913)	(14,099)	(8,459)	(1,154)
Gain on repurchase of Notes	2,321	1,566	—	—
Other income, net	50	470	70	4
Loss before reorganization items, taxes, discontinued operations and cumulative effect of a change in accounting principle	(2,847)	(8,016)	(6,891)	(7,279)
Reorganization gain	—	—	—	102,515
Gain on restructuring of debt	—	—	—	17,182
Earnings (loss) before taxes, discontinued operations and cumulative effect of a change in accounting principle	(2,847)	(8,016)	(6,891)	112,418
Income tax expense	(198)	—	—	—
Net earnings (loss) before discontinued operations and cumulative effect of a change in accounting principle	(3,045)	(8,016)	(6,891)	112,418
Discontinued Operations:				
Operating income (loss) from discontinued operations	(200)	1,862	1,031	905
Loss on disposal	(59)	(50)	—	—
Income (loss) from discontinued operations	(259)	1,812	1,031	905
Earnings (loss) before cumulative effect of a change in accounting principle	(3,304)	(6,204)	(5,860)	113,323
Cumulative effect of a change in accounting principle	(564)	—	—	—
Net earnings (loss)	\$ (3,868)	\$ (6,204)	\$ (5,860)	\$ 113,323
Basic and diluted earnings (loss) per share:				
Income (loss) from continuing operations	\$ (0.61)	\$ (1.60)	\$ (1.38)	\$ 5.31
Income (loss) from discontinued operations	(0.05)	0.36	0.21	0.04
Earnings (loss) before extraordinary items and cumulative effect	(0.66)	(1.24)	(1.17)	5.35
Cumulative effect, net	(0.11)	—	—	—
Net earnings (loss) per share	\$ (0.77)	\$ (1.24)	\$ (1.17)	\$ 5.35

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

National Vision, Inc.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY/(DEFICIT)
For the years ended January 3, 2004 and December 28, 2002,
the seven months ended December 29, 2001
and the five months ended June 2, 2001
(in thousands)

	Total Shareholder's Equity	Common Stock		Additional Paid-in Capital	Deferred Stock Compensation	Retained Earnings/ (Deficit)	Accumulated Other Comprehensive Income/(loss)	Comprehensive Income/(loss)
		Shares	Amount					
Predecessor Company:								
Balance at December 30, 2000	\$ (113,323)	21,169	\$ 211	\$ 47,387	\$ —	\$ (156,848)	\$ (4,073)	\$ —
Net income through June 2, 2001	113,323					113,323		113,323
Comprehensive income								\$ 113,323
Elimination of prior equity	—	(21,169)	(211)	(47,387)	—	43,525	4,073	
Balance at June 2, 2001	\$ —	—	\$ —	\$ —	\$ —	\$ —	\$ —	
Successor Company:								
Distribution of new common shares — June 2, 2001	\$ 25,000	5,000	\$ 50	\$ 24,950	\$ —	\$ —	\$ —	
Stock issuance costs	(10)			(10)				
Net loss, June 3 through December 29, 2001	(5,860)					(5,860)		\$ (5,860)
Cumulative translation adjustment	144						144	144
Comprehensive loss								\$ (5,716)
Balance at Dec 29, 2001	\$ 19,274	5,000	\$ 50	\$ 24,940	\$ —	\$ (5,860)	\$ 144	
Net loss	(6,204)					(6,204)		\$ (6,204)
Cumulative translation adjustment	(274)						(274)	(274)
Comprehensive loss								\$ (6,478)
Restrict stock awards	—	84		157	(157)			
Amortization of deferred compensation	33				33			
Balance at Dec 28, 2002	\$ 12,829	5,084	\$ 50	\$ 25,097	\$ (124)	\$ (12,064)	\$ (130)	
Net loss	(3,868)					(3,868)		\$ (3,868)
Cumulative translation adjustment	(141)						(141)	(141)
Comprehensive loss								\$ (4,009)
Stock incentive awards	5	14	—	5				
Restricted stock awards	—	145	2	27	(29)			
Amortization of deferred compensation	45				45			
Balance at January 3, 2004	\$ 8,870	5,243	\$ 52	\$ 25,129	\$ (108)	\$ (15,932)	\$ (271)	

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

National Vision, Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended January 3, 2004 and December 28, 2002,
the seven months ended December 29, 2001
and the five months ended June 2, 2001
(in thousands)

	Successor			Predecessor
	Year Ended January 3, 2004 (53 weeks)	Year Ended December 28, 2002 (52 weeks)	Seven Months Ended December 29, 2001	Five Months Ended June 2, 2001
Cash flow from operating activities:				
Net income (loss)	\$ (3,868)	\$ (6,204)	\$ (5,860)	\$ 113,323
Adjustments to reconcile cash to net income (loss):				
Depreciation & amortization	15,962	18,999	11,425	4,808
Impairment of long-lived assets	550	—	—	—
Reorganization items	—	—	—	11,748
Cumulative effect of a change in accounting principle	564	—	—	—
Fresh start adjustments	—	—	—	(114,263)
Gain on extinguishment of debt	—	—	—	(17,182)
Gain on repurchase of subordinated notes	(2,321)	(1,566)	—	—
Gain on disposal of equipment	(21)	—	—	—
Other	46	627	256	(259)
Changes in operating assets & liabilities:				
Accounts receivable	(914)	1,744	636	5,177
Inventories	(23)	693	1,245	4,083
Other current assets	27	396	142	597
Accounts payable	61	(490)	2,187	1,210
Accrued expenses and other current liabilities	739	(1,075)	(5,218)	322
Net cash provided by operating activities	10,802	13,124	4,813	9,564
Cash flow from investing activities:				
Purchase of property & equipment	(4,517)	(5,209)	(2,750)	(2,084)
Proceeds from sale of property & equipment	253	—	—	5,656
Net cash provided (used) by investing activities	(4,264)	(5,209)	(2,750)	3,572
Cash flow from financing activities:				
Advances on revolver	1,904	7,378	112,855	125,063
Payments on revolver	(1,904)	(7,378)	(115,855)	(134,975)
Principal payments on subordinated debt	(8,161)	(5,796)	—	—
Repurchases of subordinated debt	(3,702)	(2,932)	—	—
Deferred financing costs	(150)	—	(286)	(125)
Stock issuance costs	—	—	(10)	—
Principal payments on other long-term debt	—	(13)	(86)	—
Net cash used by financing activities	(12,013)	(8,741)	(3,382)	(10,037)
Net (decrease) increase in cash	(5,475)	(826)	(1,319)	3,099
Cash, beginning of period	9,020	9,846	11,165	8,066
Cash, end of period	\$ 3,545	\$ 9,020	\$ 9,846	\$ 11,165

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

NATIONAL VISION, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND OPERATIONS

National Vision, Inc. (the “Company”) is engaged in the retail sale of optical goods and services. We are largely dependent on Wal-Mart Stores, Inc. (Wal-Mart) for continued operation of vision centers which generate a significant portion of our revenues. See Note 8— “Wal-Mart Master License Agreement and Other Agreements”. We emerged from Chapter 11 on May 31, 2001 and adopted “fresh start” accounting. See Note 6 — “Bankruptcy Proceedings and Fresh Start Adjustments”.

2. SIGNIFICANT ACCOUNTING POLICIES**Principles of Consolidation**

The consolidated financial statements include our accounts as well as our subsidiaries’ accounts. All significant inter-company balances and transactions have been eliminated in consolidation.

Fiscal Year

Our fiscal year ends on the Saturday closest to December 31. Pursuant to such calendar, fiscal 2003 was a 53-week period ended January 3, 2004, and fiscal 2002 and 2001 were 52-week periods. 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 (approximately 2% of net revenues) are reported using a twelve-month period ending November 30.

Reclassifications

As a result of our 2003 adoption of Financial Accounting Standard Board Statement No. 145, we have reclassified the prior period gain on the purchase of debt from extraordinary income to income from continuing operations in the Consolidated Statements of Operations. Certain other amounts in the prior year financial statements have been reclassified to conform to the current year presentation.

Discontinued Operations

During 2003, we closed 54 vision centers. Forty-two closings were the result of Wal-Mart or military lease expirations. The remaining twelve closures were under-performing Fred Meyer vision centers closed prior to their scheduled lease expiration. Historical operating results for these closed vision centers have been reclassified as discontinued operations and shown separately for all periods presented. Condensed information for these closed stores is presented below (in thousands):

	Year Ended January 3, 2004	Year Ended December 28, 2002	Seven Months Ended December 29, 2001	Five Months Ended June 2, 2001
Total net sales	\$9,798	\$22,823	\$13,018	\$10,140
Operating income (loss)	\$ (200)	\$ 1,862	\$ 1,031	\$ 905
Loss on disposal	\$ (59)	\$ (50)	\$ —	\$ —

Fresh Start Accounting

Upon emergence from bankruptcy, we adopted “fresh start” accounting in accordance with AICPA Statement of Position 90-7. As a result, all assets and liabilities were restated to reflect their respective fair values. The consolidated financial statements after emergence are those of a new reporting entity (the “Successor”) and are not comparable to the financial statements of the pre-confirmation company (the “Predecessor”). A black line has been drawn in the financial statements to distinguish Predecessor and Successor Company results. (See Note 6 — “Bankruptcy Proceedings and Fresh Start Adjustments.”)

Revenue Recognition

Our retail customers generally pay for their eyewear products at the time they place an order. We defer revenue recognition until delivery of the product by estimating the value of transactions in which final delivery to the customer has not occurred at the end of the period presented. Payments received prior to final delivery of the product are reflected as deposit liabilities within accrued liabilities. These estimates are based on historical trends and take into consideration current changes in our manufacturing and distribution processes.

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In May 2003, we began to offer a separately priced extended warranty which provides for repair and replacement service during the first year after purchase. We had previously provided this same service free of charge. Revenues from the sale of extended warranty contracts are deferred and amortized over the life of the contract on a straight-line basis.

A reconciliation of the changes in deferred revenue from the sale of warranty contracts is as follows (in thousands):

	Year ended January 3, 2004
Deferred warranty revenue:	
Beginning balance	\$ —
Warranty contracts sold	4,603
Amortization of deferred revenue	(1,923)
Ending balance	<u>\$ 2,680</u>

Premium revenue is earned from HMO memberships and services. Revenue from premiums is recognized over the life of the policy as the related services are rendered.

Cost of Goods Sold

We recognize cost of product sold to retail customers when the sales transaction is complete and revenue is recognized. Periodically, we receive purchase discounts or reduced pricing on inventory purchases. These reductions in the normal purchase price are accounted for in the weighted average cost of inventory.

Cash and Cash Equivalents

We consider cash on hand and short-term cash investments to be cash and cash equivalents. Our 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. We restrict investments of temporary cash investments to financial institutions with high credit standings.

Managed Care Accounts Receivable

Managed care accounts receivable are recorded net of contractual allowances and are reduced by an allowance for amounts that may become uncollectible. A significant portion of our receivables is due from health care plans and programs located throughout the United States. Estimates of our allowance for uncollectible receivables are based on our historical collection experience and historical and current operating, billing and collection trends.

Inventory

Our inventories are stated at the lower of weighted average cost or market.

In most cases, the expected sales value (i.e., market value) of our inventory is higher than our cost. However, as we progress through a selling season, certain slow-moving merchandise may be removed from stores and returned to our distribution center to be sold below cost in secondary markets. As a result, there is a high degree of judgment and complexity in determining the market value of such inventories. For inventory on hand, we estimate the future selling price of our merchandise, given our current selling price and our planned promotional activities, and provide a reserve for the difference between cost and the expected selling price for all items expected to be sold below cost.

We conduct physical inventory counts for a selection of store locations near the end of each fiscal quarter and adjust our records to reflect the actual inventory counts. Our distribution center is counted near the end of the fiscal year. As all locations are not counted as of our reporting dates, we provide a reserve for inventory shrinkage based principally on historical inventory shrinkage experience.

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, depreciation periods range from five to ten years for equipment, three to nine years for furniture and fixtures, three to six years for hardware and software related to information systems processing, and five to nine years 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. 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 and cash equivalents, accounts receivable, accounts payable, accrued liabilities and current portion of long-term debt approximate fair value because of the immediate or short-term maturity of these financial instruments.

The fair value of our long-term debt is determined using the weighted average price of the most recent trades made during the last quarters of the fiscal years ending January 3, 2004 and December 28, 2002 (in thousands):

	Carrying Value	Fair Value
Long-term debt at January 3, 2004	\$ 94,939	\$57,934
Long term debt at December 28, 2002	\$105,882	\$53,805

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

Intangible Value Of Contractual Rights

Our most significant intangible asset is the Intangible Value of Contractual Rights, which was established as part of our adoption of "fresh start" accounting in May 2001. This intangible asset represents the value of the Company's lease agreement with Wal-Mart and the business relationship therein created. In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," this intangible is an amortizable asset because it has a finite useful life. However, the precise length of its life is not known due primarily to the Wal-Mart supercenter conversions that automatically trigger extensions on the contractual life of the asset. Based on projections made at the time "fresh start" accounting was adopted, our best estimate of the useful life of this asset was 15 years. At January 3, 2004, the remaining life of this asset is 12 years and 5 months. Due to the uncertainty involved in predicting the pattern of economic benefits realized from the Wal-Mart relationship, we amortize this asset using the straight-line method.

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Amortization expense on the Intangible Value of Contractual Rights was \$7.5 million and \$7.6 million for the years ended January 3, 2004 and December 28, 2002, respectively. Future amortization expense for each of the five succeeding years is as follows (amounts in thousands):

2004	\$7,508
2005	\$7,508
2006	\$7,508
2007	\$7,508
2008	\$7,508

As described in Note 6, we emerged from Bankruptcy on June 2, 2001. During 2003 and 2002, we realized net income tax benefits of \$159,000 and \$712,000, respectively, generated by the Predecessor. In accordance with the provisions of SOP 90-7, these net benefits have been recorded as a reduction in the value of the Intangible Value of Contractual Rights.

We assess the impairment of all identifiable intangibles and long-lived assets on an annual basis and whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors we consider important, which could trigger an impairment review, include (1) a significant underperformance of vision center operations relative to expected historical or projected future operating results; (2) significant changes in the manner of our use of our assets or the strategy for our overall retail optical business; (3) significant negative industry or economic trends; (4) significant decline or adverse change in the rate or geographic concentration of Wal-Mart host store relocations or supercenter conversions; and (5) a permanent adverse change in cash flows generated by an operation.

Based upon the existence of one or more of the above indicators of impairment, we determine if the carrying value of intangibles or long-lived assets may not be recoverable based on a projected cash flow model. If the projected undiscounted cash flows are not in excess of the book value of the related asset, we adjust the carrying value of the long-term assets to their fair market value. Significant management judgment is required regarding the existence of impairment indicators as discussed above.

Income Taxes

Deferred income taxes are recorded using enacted tax rates in effect for the year in which the differences are expected to reverse. Deferred income taxes are provided for depreciation and amortization, inventory basis differences, and accrued expenses where there is a temporary difference in recording such items for financial reporting and income tax reporting purposes. Before, during and after the bankruptcy process, we incurred significant net operating losses ("NOL") that result in tax loss carry-forwards. A portion of these carry-forwards is subject to limitations under Section 382 of the Internal Revenue Code.

A valuation allowance is recorded against any net deferred tax assets if it is "more likely than not" that we will not be able to utilize it to offset future taxes. Due to the size of the NOL carry-forward in relation to our history of unprofitable operations and the continuing uncertainties surrounding the profitability of our ongoing retail businesses, we provide a full valuation allowance for the net deferred tax asset. We currently provide for income tax only to the extent that we expect to pay taxes.

Accounting for Stock Options

We apply the disclosure provisions of SFAS No. 123, "Accounting for Stock-Based Compensation." Stock Option awards continue to be accounted for in accordance with APB Opinion No. 25. The number of shares to be issued and the per share strike price are not subject to uncertainty; accordingly our stock option grants qualify for fixed accounting treatment. As a result, we do not record compensation expense in connection with the granting of these stock options.

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Had compensation cost for the employee and non-employee director stock options been determined based on the fair value at the grant date for awards in 2003, 2002 and 2001 consistent with the provisions of SFAS No. 123, our net earnings and earnings per share would have been reduced to the pro forma amounts indicated below (amounts in thousands except per share information):

	Successor			Predecessor
	Year Ended January 3, 2004	Year Ended December 28, 2002	Seven Months Ended December 29, 2001	Five Months Ended June 2, 2001
	(53 weeks)	(52 weeks)		
As reported:				
Net earnings (loss)	\$ (3,868)	\$ (6,204)	\$ (5,680)	\$ 113,323
Pro Forma:				
Compensation expense (income)	68	53	4	(4,312)
Pro Forma:				
Net earnings (loss)	<u>\$ (3,936)</u>	<u>\$ (6,257)</u>	<u>\$ (5,864)</u>	<u>\$ 117,635</u>
As reported:				
Earnings (loss) per share*	\$ (0.77)	\$ (1.24)	\$ (1.17)	\$ 5.35
Pro Forma compensation expense per share	<u>(0.02)</u>	<u>(0.01)</u>	<u>—</u>	<u>0.21</u>
Pro Forma earnings (loss) per share	<u>\$ (0.79)</u>	<u>\$ (1.25)</u>	<u>\$ (1.17)</u>	<u>\$ 5.56</u>

*Basic and diluted earnings per share are the same for each period presented.

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:

	Successor			Predecessor
	Year Ended January 3, 2004	Year Ended December 28, 2002	Seven Months Ended December 29, 2001	Five Months Ended June 2, 2001
Dividend yield	0.00%	0.00%	0.00%	(a)
Expected volatility	410%	172%	217%	(a)
Risk free interest rates	2.60%	3.00%	4.50%	(a)
Expected lives (years)	5.0	3.4	6.7	(a)

(a) No options were granted during this period.

Other Assets and Deferred Costs

Other assets and deferred costs include capitalized financing costs which are being amortized using a method that approximates the effective interest yield method over periods from one to seven years to correspond with the terms of the underlying debt.

Self-Insurance Accruals

We self-insure estimated costs associated with workers' compensation claims and group medical liabilities, up to certain limits. Insurance reserves are established based on actuarial estimates of the loss that we will ultimately incur on reported claims, as well as estimates of claims that have been incurred but not yet reported. Trends in actual experience are a significant factor in the determination of such reserves. We believe our estimated reserves for such claims are adequate, however actual experience in claim frequency and/or severity could materially differ from our estimates and affect our results of operations.

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. Advertising expense for the years ended January 3, 2004 and December 28, 2002, the seven months ended December 29, 2001, and the five months ended June 2, 2001, was approximately \$3.5 million, \$3.2 million, \$2.8 million, and \$3.6 million, respectively. Advertising expense for periods prior to fiscal 2003 are shown net of cooperative advertising allowances received.

Other Expense, Net

Other expense includes interest expense, purchase discounts on invoice payments, the amortization of finance fees and the amortization of the discount on the subordinated debt.

Cumulative Effect of a Change in Accounting Principle

We adopted Emerging Issues Task Force Issue No. 02 – 16, "Accounting by a Customer for Certain Consideration Received from a Vendor" ("EITF 02-16") at the beginning of 2003. This Issue addresses the method by which retailers account for vendor allowances. Prior to fiscal 2003, vendor allowances received under co-op advertising agreements were classified in the income statement as a reduction in advertising expense. As a result of the adoption of EITF 02-16, certain vendor allowances are now presented as a reduction of inventory cost and subsequently as a component of cost of goods sold. On the first day of fiscal 2003, we recorded additional expense of \$564,000 as the cumulative effect of this change in accounting principle. This amount reflects the portion of vendor allowances that would have reduced inventory costs had this new accounting pronouncement been in effect in 2002.

Foreign Currency Translation

Assets and liabilities of our foreign operations are translated into U.S. dollars using year-end exchange rates; income and expenses are translated using the average exchange rates for the reporting period. Translation gains or losses are deferred in accumulated other comprehensive income, a separate component of shareholders' equity.

Other Comprehensive Income

Other comprehensive income is defined as net income and other changes in stockholders' equity from transactions other than those involving stockholders and net income. Our only source of other comprehensive income is the cumulative translation adjustment from our operations in Mexico. The Predecessor's cumulative other comprehensive income was eliminated as part of fresh start accounting on June 2, 2001.

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the 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.

On an ongoing basis, management evaluates its estimates and judgments and incorporates any changes in such estimates and judgments into the accounting records underlying our consolidated financial statements. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

3. RECENT ACCOUNTING PRONOUNCEMENTS

In November 2002, the FASB issued Interpretation (“FIN”) No. 45, “Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Other.” FIN 45 requires footnote disclosure of the guarantee or indemnification agreements a company issues. With certain exceptions, these agreements will also require a company to prospectively recognize an initial liability for the fair value, or market value, of the obligations it assumes under that guarantee. The initial recognition and initial measurement provisions of this Interpretation are applicable on a prospective basis to guarantees, including product warranty liabilities, issued or modified after December 31, 2002. Our adoption of FIN No. 45 does not currently have a material impact on our consolidated financial position, results of operations, or cash flows. Notes 2 and 14 to the Consolidated Financial Statements include the additional disclosure requirements of FIN No. 45 as required by companies which provide product warranties.

In January 2003, the FASB issued FASB Interpretation No. 46 “Consolidation of Variable Interest Entities, an Interpretation of APB No. 50,” (“FIN 46”). FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 is effective for all new variable interest entities created or acquired after January 31, 2003. Our adoption of FIN 46 does not currently have an impact on our consolidated financial position, results of operations or cash flows.

In May 2003, the FASB issued SFAS No. 150 “Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity”, which establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. This statement was effective immediately for all financial instruments created or modified after May 31, 2003 and by the first interim period commencing after June 15, 2003 for existing financial instruments. The adoption of SFAS No. 150 does not currently affect our financial position or results of operations.

4. IMPAIRMENT OF LONG LIVED ASSETS

Historically, we have operated our vision centers to the maximum term of the lease, including the exercise of all available renewal options in most cases. Our strategy was to maintain store operations, even if the store was under-performing and devote our attention to correcting the store's problems. In the fourth quarter of 2003, we revised our strategy to assess under-performing stores prior to the lease-termination date, and potentially close the under-performing stores in order to maximize operating profitability. As a result, we identified certain store locations with a history of operating losses that we do not expect to become profitable without significant cost and effort. We intend to close 13 of these locations in March and April of 2004.

For the 13 locations that we expect to close prior to the lease termination date, we reviewed the locations for potential impairment by comparing the future expected undiscounted cash flows for these locations to the carrying value of their long-lived assets. The long-lived asset carrying value for 12 of the locations exceeded the future expected undiscounted cash flows from the locations. Therefore, impairment was determined to exist for these 12 locations. We also reviewed the remainder of store locations for potential impairment and identified 30 additional vision centers in Wal-Mart, Wal-Mart de Mexico, Fred Meyer and on military bases which were determined to be impaired given that the expected future undiscounted cash flows from these locations are less than the carrying value of their assets. As a result, we have recorded a non-cash impairment charge of \$550,000 to write-down these long-lived assets to their fair market value. Fair market value was determined using the expected discounted cash flows for each location. This impairment was reflected for leasehold improvements, furniture, fixtures and equipment at these 42 locations.

5. RESTRUCTURING EXPENSE

During August 2003, as a result of the declining store base, we initiated and completed a restructuring of the retail field and home office retail support center. The process resulted in a reduction in headcount approximating 15% of both the retail field management organization and the home office retail support center organization. Involuntary termination benefits and outplacement costs accrued were \$484,000, of which \$306,000 has been paid as of January 3, 2004. The remaining \$178,000 of accrued costs are expected to be completely paid by the end of the fourth quarter of 2004.

6. BANKRUPTCY PROCEEDINGS AND FRESH START ADJUSTMENTS

On April 5, 2000, we and ten of our subsidiaries (collectively, the "Debtors") filed voluntary petitions for reorganization under Chapter 11 (the "Chapter 11 Cases"). In March 2001, the Debtors filed a plan of reorganization (the "Plan") for the Chapter 11 Cases. The Plan was confirmed by the Bankruptcy court and on May 31, 2001, after securing a new revolving credit facility with Fleet Capital Corporation, we emerged from bankruptcy.

The Plan provided for the conversion of our pre-petition unsecured claims into new secured notes and common stock. The secured notes have a face value of \$120 million, provide for the payment of interest of 12% twice a year at the end of March and September, and are subordinated to debt under our Fleet credit facility. The notes are payable semi-annually on February 28, and August 31 over eight years with principal repayments based on excess cash flow for the preceding six month periods ending in fiscal December and fiscal June. Any remaining unpaid principal will become due on March 31, 2009. Five million shares of new common stock, par value \$0.01, were issued based on our reorganization value. Under the Plan, former shareholders received no value for their interests, and all Predecessor common stock securities were cancelled.

The gain on cancellation of indebtedness aggregated \$17.2 million and has been reflected as a gain on extinguishment of debt in the accompanying Condensed Consolidated Statements of Operations for the period ended June 2, 2001.

In accounting for the effects of the reorganization, we adopted "fresh start" accounting principles as contained in the American Institute of Certified Public Accountant's Statement of Position 90-7, Financial Reporting by Entities in Reorganization Under the Bankruptcy Code ("SOP 90-7"). SOP 90-7 was applicable because pre-reorganization shareholders received none of our new common stock and the reorganization value of the assets of the Successor company was less than the total pre-petition liabilities allowed plus post-petition liabilities. SOP 90-7 also required the early adoption of any new accounting principles that otherwise became effective within twelve months of fresh start accounting.

Fresh start accounting principles required that we determine the reorganization value of the reorganized Company. Our reorganization value was developed by the Company, the Official Committee of Unsecured Creditors and their respective financial advisors. The reorganization value was based on a calculation of the present value of the free cash flows under our financial projections, including an assumption of a terminal value. Such projections were submitted to the bankruptcy court and to creditors for review and objection as part of our disclosure statement accompanying the Plan.

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In the allocation of the reorganization value, our tangible and intangible assets were recorded at their assumed fair value. Intangible Value of Contractual Rights, approximating \$113.6 million, was established as part of fresh start accounting and is amortized over 15 years using the straight-line method. This intangible asset represents the value of our lease agreement and the business relationship developed with Wal-Mart. In accordance with SFAS 142, "Goodwill and Other Intangible Assets," this intangible is an amortizable asset because it has a finite useful life. However, the precise length of its life is not known due primarily to the Wal-Mart supercenter conversions that automatically trigger extensions on the contractual life of the asset. Based on our projections, our best estimate of the useful life of this asset is 15 years. At January 3, 2004, the remaining life of this asset is 12 years and 5 months. Due to the uncertainty involved in predicting the pattern of economic benefits realized from the Wal-Mart relationship, we amortize this asset using the straight-line method.

Changes to the fair value of our identifiable assets totaled \$114.3 million. This amount was recognized as a gain in the Predecessor's statement of operations and is detailed below (amounts in thousands):

	Increase/(Decrease)
Inventory	\$ (700)
Property, plant and equipment, net	1,942
Other assets	(586)
Intangible value of contractual rights	113,607
Total fair value adjustments	<u>\$114,263</u>

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The application of fresh start accounting on the Predecessor company's June 2, 2001 balance sheet is as follows (amounts in thousands):

	Predecessor				Successor
	Before Fresh Start June 2, 2001	Extinguishment of debt	New issuance Notes /Stock	Fair value adjustments	Reorganized Balance Sheet June 2, 2001
Cash & cash equivalents	\$ 11,165	\$	\$	\$	\$ 11,165
Accounts receivable	4,544				4,544
Inventory	20,566			(700)(e)	19,866
Deferred tax asset	—			7,199(j)	7,199
Other current assets	778				778
Total current assets	37,053	—	—	6,499	43,552
Property and equipment					
Gross property and equipment	88,191			(60,323)	27,868
Accumulated depreciation	(62,265)			62,265	—
Property and equipment, net	25,926	—	—	1,942(f)	27,868
Other assets and deferred costs	9,310	(7,063)(a)		(586)(g)	1,661
Deferred tax asset	385			(385)(j)	—
Intangible value of contractual rights	—			113,607(h)	113,607
Total assets	\$ 72,674	\$ (7,063)	\$ —	\$121,077	\$186,688
Liabilities not subject to compromise:					
Current liabilities					
Accounts payable	\$ 1,858	\$	\$	\$	\$ 1,858
Accrued expenses	27,619	2,300(b)			29,919
Total current liabilities	29,477	2,300	—	—	31,777
Revolving credit facility	3,000				3,000
Senior Subordinated Notes	—		120,000(d)		120,000
Other debt	—	97(b)			97
Deferred tax liability				6,814(j)	6,814
Liabilities subject to compromise	171,642	(171,642)(b)			
Shareholders' equity/(deficit)					
Common stock	211		50(d)	(211)(i)	50
Additional paid-in capital	47,387		24,950(d)	(47,387)(i)	24,950
Retained earnings/(deficit)	(174,970)	17,182(c)		157,788(i)	—
Cumulative translation adjustment	(4,073)			4,073(i)	—
Total shareholders' equity / (loss)	(131,445)	17,182	25,000	114,263	25,000
Total liabilities and shareholders' equity	\$ 72,674	\$ (152,063)	\$145,000	\$121,077	\$186,688

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- (a) Elimination of deferred financing costs associated with the Senior Subordinated Notes being cancelled as part of the plan of reorganization.
- (b) Elimination of pre-petition liabilities. Cash claims of \$2.3 million were accrued as well as assumed capital leases totaling \$97,000.
- (c) Gain on extinguishment of debt is calculated as follows (amounts in thousands):

Net liabilities subject to compromise	\$169,245
Deferred financing costs related to cancelled Senior Subordinated Notes	(7,063)
Net liabilities extinguished	162,182
Less: Reorganized value	145,000
Gain on extinguishment of debt	<u>\$ 17,182</u>

Contractual interest for the five months ended June 2, 2001 was \$8.1 million.

- (d) Issuance of new Senior Subordinated Notes, totaling \$120 million, and the issuance of 5,000,000 shares of new common stock with par value of \$0.01. The reorganization value was derived from a recovery analysis filed in the bankruptcy court in connection with the Plan. The components of the reorganized value are shown below (amounts in thousands):

Reorganized value:	
New Debt	\$120,000
New Equity	25,000
Reorganization value	<u>\$145,000</u>

- (e) Reduction of inventory for a change in accounting policy related to the capitalization of certain freight costs incurred for transfers of inventory between Company locations and certain business supplies.
- (f) Net increase in fixed assets is the result of fair value adjustments increasing equipment by approximately \$3.4 million and decreasing certain leaseholds and furniture and fixtures by \$1.5 million.
- (g) Elimination of all intangibles with the exception of the California HMO license.
- (h) Establishment of Intangible value of contractual rights to be amortized over 15 years using the straight-line method. This intangible asset represents the value of our lease agreement and the business relationship developed with Wal-Mart.
- (i) Elimination of Predecessor Company equity.
- (j) Deferred tax effects of fair value adjustments.

7. REORGANIZATION GAIN

In accordance with SOP 90-7, the Predecessor recorded all transactions incurred as a result of the Chapter 11 Cases as reorganization items. The table below summarizes these items (amounts in thousands):

	(Predecessor) Five Months Ended June 2, 2001
Fresh start adjustments	\$114,263
Impairment of goodwill	—
Impairment of fixed assets	(33)
Provision for rejected leases	(1,592)
Loss on sale of freestanding division	(3,645)
Other store closing costs	(532)
Professional fees	(2,008)
Retention plan	(3,231)
Interest income	127
Letter of credit reserve on DIP Facility	(197)
Other reorganization items	(637)
Total reorganization gain	<u>\$102,515</u>

The following represents activity in the reorganization provisions for the years ended January 3, 2004, December 28, 2002, the seven months ended December 29, 2001 and the five months ended June 2, 2001 (amounts in thousands):

	January 3, 2004	December 28, 2002	Seven Months Ended December 29, 2001	Five Months Ended June 2, 2001
Beginning balance	\$ 248	\$1,225	\$ 9,231	\$ 4,727
Charged to expense			—	5,847
Paid	(248)	(605)	(8,383)	(1,343)
Other adjustments (a)	—	(372)	377	—
Ending balance	<u>\$ —</u>	<u>\$ 248</u>	<u>\$ 1,225</u>	<u>\$ 9,231</u>

- (a) Other adjustments consist of an increase to reflect additional cash claims accrued in 2001 post-emergence from bankruptcy. These cash claims were subsequently deemed to be invalid claims, resulting in the 2002 reversal of substantially all of the previous increase. The adjustments to this provision subsequent to our emergence from bankruptcy were not reflected as adjustments to reorganization expense.

8. WAL-MART MASTER LICENSE AGREEMENT AND OTHER AGREEMENTS

At January 3, 2004, we operated 359 vision centers in domestic Wal-Mart stores, pursuant to a master license agreement. These units generated approximately 89% of our revenue in 2003 and represent the most profitable of our host retail operations. 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 gave us the right to open up to 400 vision centers in existing and future Wal-Mart stores. We opened our 400th vision center pursuant to the agreement in 2001. 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.

In 1994, we opened our first 8 vision centers in stores owned and operated by Wal-Mart de Mexico, S.A. de C.V. (Wal-Mart de Mexico). We completed the negotiation of a master license agreement governing these vision centers in 1995. 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 percentage of sales. The agreement also gives us a right of first refusal to open vision centers in all stores in Mexico owned by Wal-Mart de Mexico. As of January 3, 2004, we operated 37 vision centers in Wal-Mart de Mexico stores.

We operate 47 leased vision centers in stores owned by Fred Meyer, all of which operate pursuant to a master license agreement. The agreement provides for base and percentage rent and other customary terms and conditions. The term of the agreement was amended in 2003 and now expires in December 2006.

We operate 25 leased vision centers on military bases, each of which operates pursuant to a separate lease agreement. These agreements provide for percentage rent and other customary terms and conditions.

9. INVENTORY

We classify 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. We classify 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. Work in progress includes spectacle orders that are being processed in either of our centralized lab facilities. On average, a custom pair of spectacles will be classified as work in progress for less than two days.

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

	2003	2002
Raw materials and work in progress	\$ 9,941	\$10,024
Finished goods	6,961	7,344
Supplies	485	560
	<u>\$17,387</u>	<u>\$17,928</u>

10. LONG-TERM DEBT**Fleet Facility**

In December 2003, we amended our credit facility with Fleet Capital Corporation (the “Fleet Facility”). This amendment extended the term of the previous credit facility from an expiration date of May 30, 2004 to an expiration date of May 30, 2007. The amendment also effectively increased availability by approximately \$3.5 million and allowed us to repurchase Notes within certain limitations. The Fleet Facility bears interest at the prime rate plus 0.75% per annum or at LIBOR plus 3.0%, and provides availability of an estimated \$10 million, subject to borrowing base limitations and inclusive of letter of credit requirements. At January 3, 2004, we had \$5.2 million of unused availability under the Fleet Facility. Any borrowings under the Fleet Facility are secured by substantially all of our assets. The Fleet Facility contains various restrictive covenants and requires us to maintain minimum levels of EBITDA (as defined) and a minimum fixed charge coverage ratio (as defined) of 1.0 to 1.0 and limits the amount of our capital expenditures. Our weighted average interest rate under the Fleet Facility was 4.87%, and 5.43% for the years ended January 3, 2004 and December 28, 2002. During 2001, our weighted average interest rate under the revolving line of credit for the seven months ended December 29, 2001 was 6.78%. For the five months ended June 2, 2001, our credit facility with Foothill Capital, was comprised of a term loan and a revolving line of credit. The weighted average interest rate under the term loan was 15.00% and 10.19% under the revolving line of credit. We paid \$150,000 in commitment fees related to the Fleet Facility in December 2003. At January 3, 2004 and at December 28, 2002, we had no outstanding borrowings under the Fleet Facility.

Senior Subordinated Notes

As part of our Plan of Reorganization, the Predecessor Company’s \$125 million unsecured Notes were converted into new Successor Company Notes and common stock. The Successor Company Notes have a face value of \$120 million, provide for the payment of interest of 12% twice a year at the end of March and September, are subordinated to debt under our credit facility and are secured by substantially all of the Company’s assets. The Senior Subordinated Notes contain various restrictive covenants including prohibition from paying dividends. These Notes are due in 2009; however, principal repayments (“Excess Cash Repayments”) are required semi-annually at the end of February and August based on excess cash flow (as defined) for the prior six month periods, ended June and December, beginning with December 2001. For the six months ended January 3, 2004, we made an Excess Cash Repayment of approximately \$545,000 on February 27, 2004 to the trustee for Note holders of record on February 13, 2004. This amount is classified as current at January 3, 2004. As future principal repayments are contingent upon future cash flows, the only portion reflected as a current liability is the repayment that is based on financial results reported herein.

Long-Term Debt Balances

Long-term debt obligations at January 3, 2004 and December 28, 2002 consisted of the following (amounts in thousands):

	2003	2002
12% Senior Subordinated Notes due 2009	\$95,484	\$109,706
Less current portion	545	3,824
Total long-term debt	<u>\$94,939</u>	<u>\$105,882</u>

We are party to letters of credit totaling \$4.3 million and \$4.4 million at January 3, 2004 and December 28, 2002, respectively. Virtually no claims have historically 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.

See Note 2 “Significant Accounting Policies – Balance Sheet Financial Instruments: Fair Values” for the fair value estimate of the long-term debt at January 3, 2004.

11. COMMITMENTS AND CONTINGENCIES

Non-Cancelable Operating Lease and License Agreements

As of January 3, 2004, we are a lessee under non-cancelable operating lease agreements for certain equipment which expire at various dates through 2005. Additionally, we are required to pay minimum and percentage license fees pursuant to certain commercial leases and pursuant to agreements with our host store companies.

Our headquarters in Lawrenceville, Georgia includes a distribution center and lens laboratory. The building is leased through January 2009. We paid approximately \$215,000 annually in rents in 2003, 2002, and 2001.

In connection with our acquisition of Midwest Vision, Inc., we 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 was approximately \$80,000 per year in 2003, 2002 and 2001.

Aggregate future minimum payments under the license and lease arrangements are as follows (amounts in thousands):

Fiscal Year	Operating Leases
2004	\$25,465
2005	19,202
2006	13,315
2007	6,374
2008	4,609
Thereafter	7,423
Total minimum lease payments	<u>\$76,388</u>

Total rental expenses related to cancelable and non-cancelable operating leases were approximately \$34.1 million, \$34.0 million, \$18.1 million and \$16.6 million for the years ended January 3, 2004, December 28, 2002, and for the seven months ended December 29, 2001 and the five months ended June 2, 2001 and respectively. Total rental expense includes contingent rental expense of approximately \$8.0 million, \$6.9 million, \$3.9 million and \$3.6 million in fiscal 2003, 2002, the seven months ended December 29, 2001 and the five months ended June 2, 2001, respectively.

Legal Proceedings

On September 3, 2003, the Second Appellate District of the California Court of Appeal affirmed a prior judgment of the Los Angeles County Superior Court (Case No. BC 274257) dismissing litigation that had been instituted against us on May 20, 2002 by Consumer Cause, Inc. alleging that our business model in California failed to comply with applicable legal requirements. The complaint sought attorney fees and an injunction prohibiting us from continuing the alleged violations.

We are involved in certain other litigation and claims arising in the normal course of business. In the opinion of management, the resolution of these matters will not have a material adverse effect on our financial position or results of operations.

12. INCOME TAXES

The components of the net deferred tax assets are as follows (amounts in thousands):

	<u>January 3, 2004</u>	<u>December 28, 2002</u>
Total deferred tax assets	\$ 39,698	\$ 41,077
Total deferred tax liabilities	(35,462)	(38,383)
Valuation allowance	(4,236)	(2,694)
Net deferred tax asset	<u>\$ —</u>	<u>\$ —</u>

Each year's valuation allowance was recorded due to the uncertainty of the realizability of the net operating losses and other deferred tax assets.

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The sources of the difference between the financial accounting and tax basis of our 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):

	As of January 3, 2004		As of December 28, 2002	
	Current	Non-current	Current	Non-current
Depreciation	\$	\$ 3,114	\$	\$ 2,170
Accrued expenses and reserves	2,485		3,054	71
Inventory	181		612	
Net operating loss carry-forwards	3,836	26,345		32,997
Intangible value of contract rights		(35,446)		(38,365)
Other	1,678	2,044	3	2,152
Valuation allowance	(875)	(3,362)	(241)	(2,453)
Deferred tax asset / (liability)	<u>\$7,305</u>	<u>\$ (7,305)</u>	<u>\$3,428</u>	<u>\$ (3,428)</u>

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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):

	Successor			Predecessor
	Year ended January 3, 2004	Year ended December 28, 2002	Seven months ended December 29, 2001	Five months ended June 2, 2001
Federal income tax/(benefit) provision at statutory rate	\$(1,315)	\$(2,357)	\$(2,051)	\$ 39,663
State income taxes, net of federal income tax benefit	(27)	(186)	(176)	3,400
Loss on disposed subsidiaries	—	—	—	(26,912)
Professional fees	—	—	344	573
Change in deferred tax asset valuation allowance	1,543	1,557	1,137	(17,335)
Other, net	(3)	986	746	611
	<u>\$ 198</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

At January 3, 2004, we had U.S. regular tax net operating loss carry-forwards of approximately \$79 million that can reduce future federal income taxes. If not utilized, these carry-forwards will expire beginning in 2007. Utilization of our net operating loss carry-forwards could be limited in the event of a greater than 50% change in our stock ownership. 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 our foreign operations, we pay the greater of our income tax or an asset tax. Because we have operating losses in Mexico, we pay no income tax, but are subject to the asset tax. Therefore, no provision for income taxes has been made for our operations in Mexico.

13. 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 the effect of all potential common stock equivalent shares. The computation for basic and diluted earnings per share are summarized as follows (amounts in thousands except per share information):

	Year ended January 3, 2004	Year ended December 28, 2002	Seven Months ended December 29, 2001	Five Months ended June 2, 2001
Basic and diluted earnings per share:				
Net income (loss) from continuing operations	\$(3,045)	\$(8,016)	\$(6,891)	\$112,418
Net income (loss) from discontinued operations	(259)	1,812	1,031	905
Earnings (loss) before cumulative effect	(3,304)	(6,204)	(5,860)	113,323
Cumulative effect, net	(564)			
Net earnings (loss)	<u>\$(3,868)</u>	<u>\$(6,204)</u>	<u>\$(5,860)</u>	<u>\$113,323</u>
Weighted shares outstanding	5,169	5,084	5,000	21,169
Less: Unvested restricted stock	(137)	(84)		
Weighted shares for basic earnings per share	<u>5,032</u>	<u>5,000</u>	<u>5,000</u>	<u>21,169</u>
Basic earnings (loss) per share:				
Income (loss) from continuing operations	\$ (0.61)	\$ (1.60)	\$ (1.38)	\$ 5.31
Income (loss) from discontinued operations	(0.05)	0.36	0.21	0.04
Earnings (loss) before cumulative effect	(0.66)	(1.24)	(1.17)	5.35
Cumulative effect, net	(0.11)			
Net earnings (loss) per basic and diluted share	<u>\$ (0.77)</u>	<u>\$ (1.24)</u>	<u>\$ (1.17)</u>	<u>\$ 5.35</u>

For the years ended January 3, 2004, December 28, 2002 and for the seven months ended December 29, 2001 and for the Predecessor five months ended June 2, 2001, stock options and unvested restricted shares in the amounts of 129,189, 214,370, 7,327, and 0 are excluded from the calculation of diluted earnings per common share due to their anti-dilutive effect.

14. SUPPLEMENTAL DISCLOSURE INFORMATION

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

(i) Supplemental Cash Flow Information

	Successor			Predecessor
	Year Ended January 3, 2004	Year Ended December 28, 2002	Seven Months Ended December 29, 2001	Five Months Ended June 2, 2001
Cash paid for (received)				
Interest	\$13,292	\$14,257	\$4,906	\$ 860
Income taxes	\$ (204)	\$ (1,243)	\$ 433	\$ 167

(ii) Supplemental Balance Sheet Information

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

	Balance at January 3, 2004	Balance at December 28, 2002
Accrued employee compensation and benefits	\$4,529	\$5,736
Provision for self -insured liabilities	\$3,785	\$2,814
Accrued rent expense	\$5,612	\$5,914
Customer deposit liability	\$2,231	\$2,158
Accrued interest expense	\$2,986	\$3,297
Deferred revenue	\$2,965	\$ 48

(iii) Product Warranty Liability

The following table details the activity in our product warranty liabilities for the years ended January 3, 2004 and December 28, 2002. This represents our liability for certain product warranty services provided free of charge (amounts in thousands):

	January 3, 2004	December 28, 2002
Beginning of year balance	\$ 1,120	\$ 79
Charged to expense	6,846	8,773
Paid	(7,250)	(7,732)
End of year balance	\$ 716	\$ 1,120

15. SHAREHOLDERS' EQUITY

Employee Stock Options and Incentive Award Plan

Under our Stock Option and Incentive Award Plan (the "Plan"), 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 grants of restricted stock and of performance awards, which may be paid in cash and common stock. The Compensation Committee of our Board of Directors 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. All options outstanding at our emergence from bankruptcy in 2001 were cancelled. The total number of shares authorized for issuance under the Plan is 720,000. After giving effect to outstanding options and performance stock grants, there were, at January 3, 2004, 113,753 remaining unissued shares under the Plan.

In 2001, the Compensation Committee granted to employees 288,750 options to purchase shares of our common stock at the stated market value on the date of grant. These options vest 100% at the end of seven years. Vesting, however, can be accelerated if we achieve certain financial goals prior to the end of the seven-year period. Unexercised options expire ten years from the date of grant. These options vested 25% on April 1, 2003.

In 2002, the Compensation Committee granted to employees 183,600 options to purchase shares of our common stock at the stated market value on the date of grant. These options vest one-third each year over the subsequent three years of continued employment. Unexercised options expire ten years from the date of grant.

In April 2002, the Compensation Committee issued 84,400 shares of restricted stock under the Plan to our President and Chief Executive Officer. The shares vest one-third each year over the subsequent three years of continued employment. Unamortized deferred compensation expense with respect to the restricted stock amounted to approximately \$19,600 at January 3, 2004 and is being amortized over the three-year vesting period.

In July 2003, the Compensation Committee granted 168,000 shares of restricted stock to certain employees. Of these shares, 23,625 were cancelled prior to year end in connection with employee terminations. The shares vest one-third each year over the subsequent three years of continued employment. Unamortized deferred compensation expense with respect to the restricted stock amounted to approximately \$88,400 at January 3, 2004 and is being amortized over the three year vesting period.

In October 2001, the Compensation Committee (the "Committee") granted performance awards to certain officers of the Company. In April 2002, the Committee granted a performance award to our chief executive officer. The performance awards provide for the issuance of award units on the basis of the determination by the Committee that the Company has attained defined financial results. Under the terms of the performance awards, there are three performance periods: fiscal 2002, fiscal 2002-2003, and fiscal 2002-2004. Award units are payable two-thirds in cash and one-third in common stock. The cash portion is payable at the greater of \$5.00 per unit or the closing trading price of common stock as of the last day of the performance period. We accrue compensation expense for the awards over the related service period. We recorded compensation expense of \$201,000 and \$143,000 for the years ended January 3, 2004 and December 28, 2002, respectively. In 2003, we paid a total of approximately \$143,000 to the holders of the performance awards and issued a total of 14,272 shares of common stock to such holders for the 2002 performance period.

Directors' Stock Option Plan

Under our Non-Employee Director Stock Option Plan (the Directors' Plan), we may grant stock options for up to 180,000 shares of Common Stock to non-employee directors. In October 2001, the Committee made a one-time grant, to each eligible non-employee director of options to purchase 15,000 shares. Each non-employee director also receives automatic grants of options to purchase 10,000 shares as of the date of each annual meeting of shareholders. Each grant is at an exercise price equal to the market value on the date of grant. Under the option grant, 50% of the shares vest on the second anniversary of the grant date, 25% on the third anniversary and 25% on the fourth anniversary. All option grants are exercisable for a ten-year period. The remaining shares available for grant under the Directors' Plan totaled 45,000 at January 3, 2004.

All Stock Option Plans

In 2003, 2002, and 2001, all exercise prices for options granted represent the estimated fair value of the Common Stock on the date of grant as determined by the Board of Directors. Stock option transactions during the three years ended January 3, 2004 were as follows:

	Successor			Predecessor
	Year Ended January 3, 2004	Year Ended December 28, 2002	Seven Months Ended December 29, 2001	Five Months Ended June 2, 2001
Options outstanding beginning of period	539,450	348,750	—	2,739,642
Options granted	50,000	223,600	348,750	—
Options cancelled	(91,250)	(32,900)	—	(2,739,642)
Options outstanding end of period	498,200	539,450	348,750	—
Options exercisable end of period	129,393	—	—	—
Weighted average option prices per share:				
Granted	\$ 0.760	\$ 0.830	\$ 0.400	\$ —
Cancelled	\$ 0.400	\$ 0.400	\$ —	\$ 4.409
Outstanding at year end	\$ 0.615	\$ 0.580	\$ 0.400	\$ —
Options exercisable end of period	\$ 0.568	\$ —	\$ —	\$ —

No options were exercised in any of the periods presented.

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The following table shows the options outstanding and the options exercisable with pertinent data related to each at January 3, 2004:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$0.40 - \$0.40	224,600	7.81	\$0.400	68,193	\$0.400
\$0.60 - \$0.76	224,600	8.59	\$0.746	58,200	\$0.742
\$1.00 - \$1.00	9,000	8.64	\$1.000	3,000	\$1.000
\$1.18 - \$1.18	40,000	8.39	\$1.180	0	\$0.000
\$0.40 - \$1.18	498,200	8.22	\$0.630	129,393	\$0.568

Preferred Stock

We are 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.

Shareholders' Rights Plan

In January of 1997, our 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 our 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 us 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 our 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 our 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), we are involved in a merger or other business combination where we are not the surviving corporation, or we sell 50% or more of our 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 us in whole, but not in part, at a price of \$0.001 per Right. In February 1998, our 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.

We amended the Rights Plan in March 2004 in connection with the appointment of a new rights agent under the Rights Plan (see Note 18).

16. SELECTED QUARTERLY FINANCIAL DATA (Unaudited)

Selected quarterly data for our fiscal years ended January 3, 2004 and December 28, 2002 is as follows (in thousands, exclusive of per share information):

Fiscal 2003	Quarter Ending March 29	Quarter Ending June 28	Quarter Ending September 27	Quarter Ending January 3
Total net revenue	\$59,058	\$58,267	\$63,470	\$62,554
Gross profit	\$32,736	\$31,746	\$33,884	\$34,076
Net earnings (loss) before discontinued operations and cumulative effect of a change in accounting principle	\$ (1,386)	\$ (2,506)	\$ 355	\$ 492
Income (loss) from discontinued operations	\$ (98)	\$ (215)	\$ 7	\$ 47
Cumulative effect of a change in accounting principle	\$ (564)	\$ —	\$ —	\$ —
Net earnings (loss)	\$ (2,048)	\$ (2,721)	\$ 362	\$ 539
Earnings (loss) per basic share:				
Continuing operations	\$ (0.28)	\$ (0.50)	\$ 0.07	\$ 0.10
Discontinued operations	(0.02)	(0.04)	0.00	0.01
Cumulative effect of a change in accounting principle	(0.11)			
Net earnings (loss) per basic share	\$ (0.41)	\$ (0.54)	\$ 0.07	\$ 0.11
Earnings (loss) per diluted share:				
Continuing operations	\$ (0.28)	\$ (0.50)	\$ 0.07	\$ 0.09
Discontinued operations	(0.02)	(0.04)	0.00	0.01
Cumulative effect of a change in accounting principle	(0.11)			
Net earnings (loss) per diluted share	\$ (0.41)	\$ (0.54)	\$ 0.07	\$ 0.10

Fiscal 2002	Quarter Ending March 30	Quarter Ending June 29	Quarter Ending September 28	Quarter Ending December 28
Total net revenue	\$56,085	\$56,166	\$56,119	\$55,827
Gross profit	\$32,028	\$31,372	\$31,636	\$28,462
Net loss before discontinued operations	\$ (1,878)	\$ (2,098)	\$ (1,159)	\$ (2,881)
Income from discontinued operations	\$ 458	\$ 543	\$ 405	\$ 406
Net loss	\$ (1,420)	\$ (1,555)	\$ (754)	\$ (2,475)
Earnings (loss) per basic and diluted share:				
Continuing operations	\$ (0.38)	\$ (0.42)	\$ (0.23)	\$ (0.58)
Discontinued operations	0.10	0.11	0.08	0.07
Net loss per basic and diluted share	\$ (0.28)	\$ (0.31)	\$ (0.15)	\$ (0.51)

17. RELATED PARTY TRANSACTIONS

In 2003, 2002 and 2001, we made rent payments of approximately \$80,000 per year for the St. Cloud laboratory/distribution facility, which is owned by Myrel Neumann, a former director of the Company. Mr. Neumann was a director of the Company through May 2002. Nelson Eye Associates, P.C., which is wholly owned by Dr. Marc Nelson, a current member of our Board of Directors, paid us approximately \$300,000 in each of 2002 and 2003 for rent related to the sub-occupancy of ten retail optical locations which we own.

18. SUBSEQUENT EVENTS

From January 4, 2004 through March 1, 2004, we have closed ten Wal-Mart vision centers that had annualized sales of \$4.8 million and store operating income of \$0.5 million.

In February 2004, we authorized our trustee to make final distribution of our Senior Subordinated Notes under our plan of reorganization. In March 2004, we authorized our stock transfer agent to make final distribution of our common stock under our plan of reorganization. Distribution of the Notes and common stock is expected to occur during the second calendar quarter of 2004. At that time, all bankruptcy claims will be resolved and settled, and we would expect to receive the final dismissal order by the bankruptcy court.

In March 2004, we amended our Shareholder Rights Plan to, among other matters, provide that “Continuing Directors”, as defined in the Rights Plan, consist of the directors of the Company as of July 1, 2001 and any future directors that are approved or recommended by the Continuing Directors.

In the first quarter of 2004, we amended our credit facility with Fleet Capital Corporation to, among other matters, permit us to invest up to \$500,000 in the home medical equipment business we are exploring.

SCHEDULE II

NATIONAL VISION, INC.
VALUATION AND QUALIFYING ACCOUNTS
January 3, 2004, December 28, 2002, and December 29, 2001

(In thousands)

Description	Balance at Beginning of Period	Additions		Deductions	Balance at End of Period
		Charged to Cash and Expenses	Charged to Other Accounts		
Predecessor:					
Five months ended June 2, 2001					
Allowance for uncollectible managed care accounts receivable	\$4,340	\$6,195	\$ —	\$7,706	\$2,829
Successor:					
Seven months ended December 29, 2001					
Allowance for uncollectible managed care accounts receivable	\$2,829	\$ 320	\$ —	\$1,360	\$1,789
Year ended December 28, 2002					
Allowance for uncollectible managed care accounts receivable	\$1,789	\$ 50	\$ —	\$ 983	\$ 856
Year ended January 3, 2004					
Allowance for uncollectible managed care accounts receivable	\$ 856	\$ 78	\$ 89	\$ 390	\$ 633

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.

NATIONAL VISION, INC.

By: /s/ Reade Fahs
Reade Fahs
President and Chief Executive Officer

April 2, 2004

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on April 2, 2004 by the following persons on behalf of the registrant, in the capacities indicated.

Signature	Title
By: <u>/s/ Reade Fahs</u> Reade Fahs	Chief Executive Officer and President
By: <u>/s/ Paul A. Criscillis, Jr.</u> Paul A. Criscillis, Jr.	Senior Vice President, Chief Financial Officer
By: <u>/s/ S. Lynn Butler</u> S. Lynn Butler	Vice President, Principal Accounting Officer
By: <u>/s/ Robert Floum</u> Robert Floum	Director
By: <u>/s/ James W. Krause</u> James W. Krause	Director
By: <u>/s/ Marc B. Nelson</u> Marc B. Nelson	Director
By: <u>/s/ Jeffrey Snow</u> Jeffrey Snow	Director
By: <u>/s/ Peter T. Socha</u> Peter T. Socha	Director

SECOND AMENDMENT TO RIGHTS AGREEMENT

This Second Amendment to Rights Agreement, dated as of June 1, 1999, between Vista Eyecare, Inc., a Georgia corporation formerly known as National Vision Associates, Ltd. (the "Company"), and First Union National Bank, as Rights Agent (the "Rights Agent"), as successor to Wachovia Bank N.A., a Georgia bank ("Wachovia").

RECITALS

WHEREAS, the Company and Wachovia entered into a Rights Agreement dated as of January 17, 1997 and subsequently amended such Rights Agreement by an Amendment dated as of March 1, 1998 (such Agreement and Amendment, jointly, the "Rights Agreement"); and

WHEREAS, the Company has appointed the Rights Agent to succeed Wachovia as Rights Agent, and the Rights Agent has accepted such appointment in accordance with the Rights Agreement; and

WHEREAS, in connection with the appointment of the Rights Agent, the Company and the Rights Agent have agreed to amend the Rights Agreement in the manner set forth herein;

NOW, THEREFORE, in consideration of the premises and mutual agreements set forth in the Rights Agreement and this Second Amendment, the parties hereto agree as follows:

1. Section 3(c) of the Rights Agreement shall be amended to read as follows:

"(c) Rights shall be issued in respect of all shares of Common Stock that become outstanding (on original issuance or out of treasury) after the Effective Date but prior to the earlier of the Distribution Date or the Expiration Date. Certificates for the Common Stock that become outstanding or shall be transferred or exchanged after the Effective Date but prior to the earlier of the Distribution Date or the Expiration Date shall also be deemed to be certificates for Rights and shall have impressed on, printed on, written on or otherwise affixed to them the following legend:

This certificate also evidences certain Rights as set forth in a Rights Agreement between Vista Eyecare, Inc. and First Union National Bank, dated as of January 17, 1997, as the same has or may be amended or restated (the "Rights Agreement"), the terms of which are hereby incorporated herein by reference and a copy of which is on file at the principal office of the Company. The Company will mail to the holder of this certificate a copy of the Rights Agreement without charge promptly after receipt of a written request therefor. Under certain circumstances, as set forth in the Rights Agreement, such Rights may be evidenced by separate certificates and no longer be evidenced by this certificate, may be redeemed or exchanged or may expire. As set forth in the Rights Agreement, Rights issued to, or held by, any Person who is, was or becomes an Acquiring Person or an Affiliate or Associate thereof (as such terms are defined in the Rights Agreement), whether currently held by or on behalf of such Person or by any subsequent holder, may be null and void."

2. The last sentence of Section 12 of the Rights Agreement shall be amended to read as follows:

"The Rights Agent shall be fully protected in relying on any such certificate and on any adjustment contained therein and shall not be obligated or responsible for calculating any adjustment nor shall it be deemed to have knowledge of any such adjustment unless and until it shall have received such a certificate."

3. The second sentence of Section 18 (a) of the Rights Agreement shall be amended to read as follows:

"The Company also agrees to indemnify the Rights Agent for, and to hold it harmless against, any loss, liability, or expense, incurred without gross negligence, bad faith, or willful misconduct on the part of the Rights Agent, for anything done or omitted by the Rights Agent in connection with the acceptance and administration of this Agreement or the exercise or performance of its duties hereunder, including the costs and expenses of defending against any claim of liability."

4. A new Section 18 (c) of the Rights Agreement shall be added to read as follows:

"(c) The indemnity provided in this Section 18 shall survive the expiration of the Rights and the termination of this Agreement."

5. Section 20 (a) of the Rights Agreement shall be amended to read as follows:

"The Rights Agent may consult with legal counsel (who may be legal counsel for the Company), and the advice or opinion of such counsel shall be full and complete authorization and protection to the Rights Agent as to any action taken or omitted by it in good faith and in accordance with such advice or opinion."

6. Section 20 (c) of the Rights Agreement shall be amended to read as follows:

"The Rights Agent shall be liable hereunder only for its own gross negligence, bad faith or willful misconduct."

7. Section 20 (g) of the Rights Agreement shall be amended to read as follows:

"The Rights Agent is hereby authorized and directed to accept instructions with respect to the performance of its duties hereunder from the Chairman of the Board, the President, any Vice President, the Secretary or any Assistant Secretary of the Company, and to apply to such officers for advice or instructions in connection with its duties, and it shall not be liable for any action taken, suffered or omitted to be taken by it in good faith in accordance with instructions of any such officer or for any delay in acting while awaiting instructions."

8. A new Section 20 (1) of the Rights Agreement shall be added to read as follows:

"(1) The Rights Agent undertakes only the express duties and obligations imposed on it by this Agreement and no implied duties or obligations shall be read into this Agreement against the Rights Agent."

9. A new Section 20 (m) of the Rights Agreement shall be added to read as follows:

"(m) Anything in this Agreement to the contrary notwithstanding, in no event shall the Rights Agent be liable for special, indirect or consequential loss or damage of any kind whatsoever (including but not limited to lost profits)."

10. A new sentence shall be added as follows to the end of Section 27 of the Rights Agreement:

"No supplement or amendment that changes the rights and duties of the Rights Agent (as Rights Agent) under this Agreement shall be effective without the consent of the Rights Agent."

11. The term "Agreement" as used in the Rights Agreement shall be deemed to refer to the Rights Agreement as amended hereby.

12. This Second Amendment shall be effective as of June 1, 1999 and, except as set forth herein, the Rights Agreement shall remain in full force and effect and shall be otherwise unaffected hereby.

13. This Second Amendment may be executed in two or more counterparts each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Second Amendment to be duly executed as of the date and year first above written.

VISTA EYECARE, INC.

By: _____
Name:
Title:

FIRST UNION NATIONAL BANK

By: _____
Name:
Title:

RETAIL LEASE AGREEMENT
(MULTIPLE LOCATION MASTER LEASE)

LANDLORD: FRED MEYER STORES, INC. (AS TO LOCATIONS IN OREGON AND IDAHO),
ROUNDUP CO. (AS TO LOCATIONS IN WASHINGTON), GRAND CENTRAL,
INC. (AS TO ANY FUTURE LOCATIONS IN UTAH), AND FRED MEYER OF
ALASKA, INC. (AS TO LOCATIONS IN ALASKA)

TENANT: VISTA EYECARE, INC.

COVERING SPACE IN VARIOUS FRED MEYER DEVELOPMENTS
IN THE STATES OF OREGON, IDAHO, WASHINGTON, UTAH AND ALASKA

SUMMARY OF LEASE TERMS

1. LEASED PROPERTY. Approximate gross ground floor area in the property:
VARIES FOR EACH LEASED LOCATION.
2. LEASE TERM. FIVE years (60 months), commencing with the "Commencement
Date," which will be AS OF JANUARY 1, 1999. OPTION(S): ONE FIVE-YEAR (60 MONTH)
renewal term, subject to the conditions stated in this Lease.
3. BASE RENT. The initial base rent is initially set at \$ * per square
foot of leased space AT THE LOCATION per year (\$ * PSF PER MONTH), payable in
equal monthly installments, subject to periodic adjustment ON THE FIRST DAY OF
THE RENEWAL TERM, as specified in the Lease.
4. PERCENTAGE RENT. * (* %) of Gross Sales, calculated and paid on a
monthly basis.
5. MONTHLY CHARGES. Utility charge of \$[SEE PARAGRAPH 5.4], gas charge of
\$NONE, sewer and water charge of \$NONE, and common expense charge of \$NONE,
payable monthly.
6. REAL PROPERTY TAXES. Tenant's responsibility for property taxes and
assessments on the Development is as follows: NONE. In addition, Tenant will pay
any personal property taxes on Tenant's own property.
7. SECURITY DEPOSIT. \$NONE, as a security deposit, due on execution of
this Lease.
8. TENANT'S TRADE NAME. The trade name under which Tenant will conduct
business on the Property is as follows: "VISTA OPTICAL" OR OTHER TRADE NAME
PERMITTED OR APPROVED PURSUANT TO PARAGRAPH 3.8.
9. PERMITTED USE. RETAIL SALES OF OPTICAL MERCHANDISE, EYEGLASSES, CONTACT
LENSES, PRESCRIPTION AND NON- PRESCRIPTION SUNGLASSES, AND PROFESSIONAL SERVICES
BY A LICENSED DOCTOR OF OPTOMETRY (THE "PRIMARY Use") AND (AS INCIDENTAL TO SUCH
PRIMARY USE) A PORTION OF THE PROPERTY MAY BE USED AS AN EYEGLASS ASSEMBLY
LABORATORY AND TENANT MAY SELL TELESCOPES AND MICROSCOPES. Tenant's permitted
use is SUBJECT, HOWEVER, to all restrictions contained in this Lease.
10. GUARANTOR(S). NONE. Address of Guarantor(s): N/A.

Commencement Date: AS OF JANUARY 1, 1999 Termination Date: DECEMBER 31, 2003
(UNLESS RENEWED)

FMI FORM 201 (Jan 1992 - REVISED 4/96) RETAIL LEASE AGREEMENT March 22, 1999

* Confidential portion, which has been omitted and filed separately with the
Commission.

RETAIL LEASE

(VARIOUS LOCATIONS IN THE STATES OF OREGON, IDAHO, WASHINGTON, UTAH AND ALASKA)

DATED: MARCH____, 1999

BETWEEN: FRED MEYER STORES, INC., A DELAWARE CORPORATION
(AS TO LOCATIONS IN OREGON AND IDAHO), ROUNDUP CO.,
A WASHINGTON CORPORATION (AS TO LOCATIONS IN
WASHINGTON), GRAND CENTRAL, INC., A UTAH CORPORATION (AS
TO LOCATIONS IN UTAH), AND FRED MEYER OF ALASKA, INC.,
AN ALASKAN CORPORATION (AS TO LOCATIONS IN ALASKA),
EACH OF WHICH DOES BUSINESS IN THEIR RESPECTIVE STATES
OF OPERATION AS "FRED MEYER" ATTENTION: BEVERLY A.
STAUTZ,
VICE PRESIDENT, PROPERTY MANAGEMENT
3800 SE 22ND AVENUE
PO BOX 42121
PORTLAND, OREGON 97242-0121 LANDLORD

AND: VISTA EYECARE, INC.,
A GEORGIA CORPORATION
ATTENTION: BARRY J. FELD
296 GRAYSON HIGHWAY
LAWRENCEVILLE, GEORGIA 30045 TENANT

THE CORPORATE ENTITIES WHO ARE COLLECTIVELY THE LANDLORD OWN
OR LEASE CERTAIN RETAIL DEVELOPMENTS IN THE STATES OF OREGON, IDAHO, WASHINGTON,
UTAH AND ALASKA. TENANT (OR A SUBSIDIARY THEREOF) LEASES SPACE PRESENTLY AT 52
OF THESE RETAIL DEVELOPMENTS UNDER LEASES WITH VARIOUS LEASE DATES AND
EXPIRATION DATES (THE "EXISTING LEASES"). THE PARTIES DESIRE TO ENTER INTO A NEW
MASTER LEASE AGREEMENT, WHICH WILL BE EFFECTIVE AS OF JANUARY 1, 1999, FOR THE
REPLACEMENT OF THE EXISTING LEASES WITH A NEW LEASE COVERING ALL LOCATIONS. SUCH
NEW MASTER LEASE WILL COVER ALL LOCATIONS THAT ARE PRESENTLY LEASED AND THAT MAY
(PURSUANT TO FUTURE AMENDMENTS OR ADDENDA TO THE MASTER LEASE AGREEMENT) BE
ADDED IN THE FUTURE TO THE MASTER LEASE; PROVIDED, THAT THE TERM OF THE LEASE
FOR ANY LOCATIONS ADDED TO THIS LEASE WILL IN EACH CASE BE A FIVE-YEAR (60
MONTH) TERM COMMENCING ON THE "ADDITIONAL LOCATION COMMENCEMENT DATE" SPECIFIED
IN PARAGRAPH 1.1, WITH THE FIVE-YEAR (60 MONTH) RENEWAL OPTION TERM THEREAFTER.
THERE ARE THREE LOCATIONS PRESENTLY LEASED BY TENANT (AT THE FRED MEYER RETAIL
DEVELOPMENTS AT KLAMATH FALLS, OREGON, LACEY, WASHINGTON, AND NAMPA, IDAHO) THAT
HAVE SPECIAL CIRCUMSTANCES AND FOR WHICH THE RENT AND TERMS WILL BE SET FORTH IN
AN ADDENDUM #1 TO LEASE, EXECUTED CONTEMPORANEOUSLY HERewith, WHICH AS TO THESE
THREE LOCATIONS MODIFIES THE PROVISIONS OF THIS LEASE WITH RESPECT TO THE
DURATION OF THE LEASE TERM AND RENTAL OBLIGATIONS (THE "SPECIAL LOCATIONS").

THE PARTIES HAVE ATTACHED, AS PART OF THE ATTACHED EXHIBIT A
(LABELED EXHIBIT A-3), A SCHEDULE (THE "LOCATION SCHEDULE") OF ALL LOCATIONS
THAT ARE PRESENTLY LEASED BY TENANT AND THAT WILL BE COVERED BY THIS LEASE
(OTHER THAN THE SPECIAL LOCATIONS, WHICH ARE BEING ADDED TO THIS LEASE PURSUANT
TO THE TERMS SET FORTH IN THE ADDENDUM #1 TO LEASE REFERENCED ABOVE). THE
LOCATION SCHEDULE SHOWS THE MUTUALLY AGREED UPON SQUARE FOOTAGE OF THE SPACE
LEASED AT EACH LOCATION (EACH LOCATION WHICH AT ANY TIME IS MADE SUBJECT TO THIS
LEASE WILL BE REFERRED TO, INDIVIDUALLY AND COLLECTIVELY, AS THE "PROPERTY").
The location of the Property at EACH Fred Meyer development (EACH DEVELOPMENT AT
WHICH TENANT AT ANY TIME LEASES PROPERTY IS REFERRED TO, INDIVIDUALLY AND
COLLECTIVELY, AS the "DEVELOPMENT") IS THE SAME AS CURRENTLY LEASED AND OCCUPIED
BY TENANT. The building in which EACH Property is located is referred to,
INDIVIDUALLY AND COLLECTIVELY, as the "BUILDING."

NOW, THEREFORE, Landlord hereby leases the Property to Tenant
on the following terms:

1. TERM; POSSESSION.

FMI FORM 201 (Jan 1992 - REVISED 4/96) RETAIL LEASE AGREEMENT

March 22, 1999

1.1 TERM. The term of this Lease ("Lease TERM") shall be for a period of FIVE YEARS (sixty CALENDAR months) (plus any partial month in which the Lease commences), beginning on the commencement date referenced below ("EXISTING LEASES COMMENCEMENT DATE") and ending at the end of the SIXTIETH full calendar month of the Lease Term ("EXISTING LOCATIONS TERMINATION DATE"). THE "EXISTING LEASES COMMENCEMENT DATE" will be as of JANUARY 1,1999. UNTIL THE EXISTING LEASES COMMENCEMENT DATE, THE LEASE OF THE PROPERTY WILL CONTINUE UNDER THE TERMS AND CONDITIONS AS SET FORTH IN THE EXISTING LEASES BETWEEN THE PARTIES.

AS TO ADDITIONAL LOCATIONS WHICH ARE SUBSEQUENTLY ADDED TO THIS LEASE (REFERRED TO AS AN "ADDITIONAL LOCATION" OR COLLECTIVELY AS THE "ADDITIONAL LOCATIONS") BY EXECUTION OF A LEASE SUPPLEMENT, ADDENDUM OR AMENDMENT, THE PARTIES WILL SPECIFY THE COMMENCEMENT DATE FOR THE TERM OF TENANT'S LEASES OF THE ADDITIONAL LOCATION OR THE FORMULA FOR DETERMINING THE COMMENCEMENT DATE, IN SUCH LEASE SUPPLEMENT, ADDENDUM OR AMENDMENT. UNLESS OTHERWISE AGREED TO, THE Commencement Date for the Additional Location (the "ADDITIONAL LOCATION COMMENCEMENT DATE") will be the first to occur of the following: (i) NINETY (90) days after Landlord has delivered possession OF THE ADDITIONAL LOCATION to Tenant for purposes of commencement of "Tenant's Work" (as defined below), with any Landlord's Work substantially completed (as defined below); (ii) 90 days after Tenant has obtained Landlord's approval of plans for Tenant's Work pursuant to this Lease and has all necessary governmental permits and approvals for Tenant's Work AND ANY LANDLORD'S WORK IS SUBSTANTIALLY COMPLETED (AS DEFINED BELOW); or (iii) when Tenant opens for business to the public at the ADDITIONAL LOCATION; PROVIDED, THAT IN THE EVENT THE LOCATION IS AT A NEW STORE WITH A PLANNED GRAND OPENING DATE, THEN LANDLORD MAY REQUIRE THAT TENANT CO-ORDINATE THE SCHEDULE WITH LANDLORD'S SCHEDULE FOR OPENING OF LANDLORD'S BUILDING AND OPEN ON THE GRAND OPENING DATE FOR THE STORE.

THE TERM OF THIS LEASE AS TO THE ADDITIONAL LOCATION SHALL BE A PERIOD OF FIVE YEARS (SIXTY CALENDAR MONTHS) (PLUS ANY PARTIAL MONTH IN WHICH THE LEASE TERM COMMENCES AS TO THE ADDITIONAL LOCATION), BEGINNING ON THE ADDITIONAL LOCATION COMMENCEMENT DATE AND ENDING AT THE END OF THE SIXTIETH FULL CALENDAR MONTH OF THE TERM OF THIS LEASE AS TO SUCH ADDITIONAL LOCATION (THE "ADDITIONAL LOCATION TERMINATION DATE"). Upon Landlord's request, Tenant will execute a supplemental memorandum at the start of the lease term stating the actual ADDITIONAL LOCATION Commencement Date and the ADDITIONAL LOCATION Termination Date. ATTACHED HERETO AS PART OF EXHIBIT A ARE SOME PROVISIONS RELATING TO ANY SUCH ADDITIONAL LOCATIONS.

For purposes of this Lease, the term "COMMENCEMENT DATE" will mean the Existing Location Commencement Date or the Additional Location Commencement Date, as applicable to the location in question, and the "TERMINATION DATE" will mean Existing Location Termination Date or the Additional Location Termination Date, as applicable to the location in question.

NOTWITHSTANDING ANY OTHER PROVISION OF THIS LEASE, IN THE EVENT LANDLORD'S LEASE OF THE BUILDING IN WHICH A PROPERTY IS SITUATED IS NOT RENEWED OR EXTENDED IN THE YEAR IN WHICH ITS CURRENT TERM EXPIRES, THEN THE LEASE BY TENANT OF THE PARTICULAR PROPERTY PURSUANT TO THIS LEASE WILL AUTOMATICALLY TERMINATE ON THE DATE OF TERMINATION OF LANDLORD'S LEASE OR TENANCY OF THE BUILDING (WITHOUT AFFECTING TENANT'S LEASE AS TO OTHER LOCATIONS LEASED PURSUANT TO THIS LEASE). THIS LEASE SHALL BIND AND INURE TO THE BENEFIT OF THE PARTIES, THEIR RESPECTIVE HEIRS, SUCCESSORS AND ASSIGNS, INCLUDING ANY NAME CHANGE OR SALE OF THE COMPANY THAT IS A PARTY TO THIS LEASE, SUBJECT TO THE LIMITATIONS ON TRANSFER OF TENANT'S INTEREST CONTAINED IN PARAGRAPH 9 BELOW.

1.2 LANDLORD'S WORK AND TENANT'S WORK. AS TO ALL PROPERTY THAT IS INITIALLY MADE A PART OF THIS LEASE AND THE SPECIAL LOCATIONS (WHICH ARE PRESENTLY LEASED BY THE PARTIES UNDER THE EXISTING LEASES), THERE IS NO LANDLORD'S WORK OR TENANT'S WORK REQUIRED IN CONNECTION WITH THE EXECUTION OF THIS LEASE. TENANT IS PRESENTLY OCCUPYING ALL SUCH PROPERTY AND SPECIAL LOCATIONS AND ACCEPTS THE CONDITION OF THE PROPERTY AND SPECIAL LOCATIONS, AS IS, WITH NO WORK REQUIRED TO BE DONE.

AS TO ADDITIONAL LOCATIONS WHICH ARE SUBSEQUENTLY ADDED TO THIS LEASE (OTHER THAN THE SPECIAL LOCATIONS, WHICH ARE LEASED AS IS), THE LEASE ADDENDUM, AMENDMENT OR SUPPLEMENT EXECUTED BY THE PARTIES TO ADD THE ADDITIONAL LOCATION TO THIS LEASE WILL SPECIFY WHICH OF THE EXHIBITS C THROUGH D THAT ARE ATTACHED

TO THIS LEASE WILL APPLY AS TO THE ADDITIONAL LOCATION, WILL STATE ANY DIFFERENCES IN THE GENERIC DESCRIPTION OF LANDLORD'S WORK AND TENANT'S WORK THAT WILL BE APPLICABLE TO THE ADDITIONAL LOCATION, AND WILL REFERENCE THE APPLICABLE EXHIBITS CONCERNING SIGNAGE.

AS TO ADDITIONAL LOCATIONS, Landlord will notify Tenant when Landlord has substantially completed the items of "Landlord's Work" (if any) described on the attached Exhibit C and when the Property is ready for the installation of Tenant's personal property and performance of the items of "Tenant's Work" described on the attached Exhibit C. Tenant will promptly perform the Tenant's Work, in accordance with the terms attached as Exhibit C. No examination, inspection or approval of work by Landlord will be construed to place upon Landlord any responsibility or liability for Tenant's Work or for any noncompliance of Tenant's Work with applicable Legal Requirements (as defined in paragraph 3.2 below) or otherwise waive or affect the requirements of this Lease or the attached exhibits.

1.3 DELIVERY OF POSSESSION. AS TO THE PROPERTY AND THE SPECIAL LOCATIONS, TENANT HAS POSSESSION OF THE PROPERTY AND SPECIAL LOCATIONS UNDER THE EXISTING LEASES. TENANT COVENANTS TO CONTINUE TO PERFORM ITS OBLIGATIONS UNDER SUCH EXISTING LEASES UNTIL THE EXISTING LOCATIONS COMMENCEMENT DATE.

1.4 CHANGES TO SITE PLAN AND DEVELOPMENT. No aspect of any site plan or layout drawing attached to this Lease or any supplement, addendum or amendment to this Lease or otherwise approved by the parties will be construed as a representation, warranty or commitment by Landlord as to the location, dimensions, placement, or continuation of common areas, parking areas, buildings, improvements or other matters shown thereon. SUBJECT TO THE LIMITATIONS STATED BELOW, Landlord reserves the right at any time to change the location of, remove, alter or add to and build additional improvements within the Development and to modify the Building and/or any other portion of the Development. Upon Landlord's request at any time, the parties will amend any site plan or layout drawing attached to this Lease or any supplement, addendum or amendment to this Lease to reflect any change, removal, alteration or addition which affects the Property or Tenant's right of use under this Lease. NOTWITHSTANDING THE FOREGOING, ANY SUCH CHANGE, REMOVAL, ALTERATION, ADDITION OR CONSTRUCTION WORK BY LANDLORD PURSUANT TO THIS PARAGRAPH 1.4 WILL BE SUBJECT TO THE FOLLOWING LIMITATIONS: (i) ANY CHANGE IN THE LOCATION OF THE PROPERTY WITHIN A PARTICULAR BUILDING WILL BE MADE IN ACCORDANCE WITH, AND SUBJECT TO THE TERMS AND PROVISIONS OF, PARAGRAPH 14.8 OF THIS LEASE; (ii) ANY SUCH WORK BY LANDLORD WILL BE PERFORMED IN A MANNER THAT DOES NOT UNREASONABLY INTERFERE WITH THE CONDUCT OF TENANT'S BUSINESS; AND (iii) AS TO THE SPECIAL LOCATIONS WHICH HAVE EXTERIOR ENTRANCES, ANY SUCH CHANGES, REMOVALS, ALTERATIONS, ADDITIONS OR CONSTRUCTION WORK BY LANDLORD PURSUANT TO THIS PARAGRAPH 1.4 WILL NOT UNREASONABLY DETRIMENT THE ACCESS TO AND FROM THE PROPERTY (OTHER THAN FOR TEMPORARY INTERFERENCE DURING MAJOR REMODELINGS OR OTHER CONSTRUCTION, WHICH WORK WILL NEVERTHELESS BE PERFORMED IN A MANNER DESIGNED TO REASONABLY MINIMIZE ANY INTERFERENCE WITH TENANT'S BUSINESS) OR THE VISIBILITY OF THE PROPERTY FROM THE ADJOINING COMMON AREAS.

1.5 CONTINGENCIES CONCERNING TENANT'S OBLIGATIONS. AS TO ADDITIONAL LOCATIONS AT WHICH TENANT IS NOT CURRENTLY THE LESSEE OF THE PROPERTY UNDER AN EXISTING LEASE, Tenant will have an initial contingency period, IF ANY, OF THE DURATION SPECIFIED IN THE ADDENDUM, AMENDMENT OR SUPPLEMENT ADDING THE ADDITIONAL LOCATION TO THIS LEASE, in order to satisfy itself as to the availability of governmental permits or licenses required for the construction of Tenant's Work ("BUILDING PERMIT(S)") and as to the presence or absence of any hazardous substances (as defined below). Before commencing Tenant's Work, Tenant will provide to Landlord a copy of Tenant's building permit(s) and any environmental assessment obtained by Tenant and waive the foregoing contingencies. Tenant will provide periodic updates on the status of its efforts and will respond to request for information as Landlord may reasonably require about the status of such matters. Tenant will diligently pursue satisfaction of such contingencies and will notify Landlord as soon as Tenant obtains (or is denied) the building permit(s) and receives any such environmental assessment. If Tenant is unable to satisfy such contingencies by the deadline date stated above, Tenant may, not later than 5:00 p.m (Pacific Time) on the next business day after such deadline date, terminate its obligation to lease the Additional Location by written notice to Landlord. Thereafter, neither party shall have any rights or liabilities under this Lease, and Landlord shall return any prepaid rent and security deposit to Tenant, if any.

2. RENTAL.

2.1 BASE RENTAL. During the lease term (including any renewal terms), commencing on the Commencement Date, Tenant will pay to Landlord on a monthly basis a base rent for the Property, determined on a per square foot of agreed area of the Property for each Property covered by this Lease (other than the Special Locations), initially of \$ * per square foot per year \$ * PSF PER MONTH), payable in equal monthly installments, subject to adjustment as provided in this Lease. The monthly base rent will be paid in advance on the FIFTEENTH (15TH) day of each month, AND WILL BE DEEMED TO BE PAST DUE AND IN DEFAULT IF NOT RECEIVED BY LANDLORD BY THE TWENTY-FIFTH (25TH) DAY OF THE MONTH. Tenant has paid, upon execution of this Lease, the sum of \$NONE which shall be applied to the first month's rent and has paid a security deposit of \$NONE as referenced in the attached Exhibit A.

2.2 BASE RENTAL ADJUSTMENT. On THE Adjustment Date described below, the base rental for the Property, determined on a per square foot of agreed area of the Property FOR EACH PROPERTY COVERED BY THIS LEASE (OTHER THAN THE SPECIAL LOCATIONS), shall be adjusted as follows: on the adjustment date shown below, the base rent will be adjusted as follows:

Adjustment Date	Monthly Base Rental (Minimum)	Annual Base Rental (Minimum)
- - - - -	- - - - -	- - - - -
JANUARY 1, 2004	\$ * per square foot	\$ * per square foot

AS TO ANY ADDITIONAL LOCATION LEASED BY TENANT, THE LEASE SUPPLEMENT, ADDENDUM OR AMENDMENT ADDING THE ADDITIONAL LOCATION TO THE LEASE WILL STATE THE RENT AMOUNTS TO BE PAID FOR THE ADDITIONAL LOCATION. THE RENT FOR THE INITIAL 5-YEAR TERM FOR AN ADDITIONAL LOCATION WILL BE \$ * PER SQUARE FOOT PER YEAR (\$ * PER SQUARE FOOT PER MONTH) FOR ANY PORTION OF THE TERM UP TO JANUARY 1, 2004 AND \$ * PER SQUARE FOOT PER YEAR (\$ * PER SQUARE FOOT PER MONTH) THEREAFTER. AS TO ANY PORTION OF THE TERM FOR THE ADDITIONAL LOCATION THAT IS ON AND AFTER JANUARY 1, 2009, THE BASE RENT WILL BE AS MAY BE AGREED TO BY THE PARTIES AND STATED IN THE LEASE SUPPLEMENT, ADDENDUM OR AMENDMENT ADDING THE ADDITIONAL LOCATION TO THE LEASE.

2.3 TIME AND PLACE OF BASE RENT PAYMENTS. The base rent will be paid in advance on the DATE AND at the address for Landlord set forth in this Lease. Base rent for any partial month will be calculated on the basis of a 30-day month. Base rent for the partial month (if any) in which the Lease commences shall be prorated and paid at commencement of the lease term.

2.4 INTEREST AND LATE CHARGES. All rent and other charges not paid when due shall bear interest from the due date until fully paid at the same rate as specified in paragraph 11.3 below. In addition, if Tenant fails to make any rent or other charge required by this Lease to be paid to Landlord within ten days after it is due, Landlord may elect to impose a late charge of 5 cents per dollar of the overdue payment, to reimburse Landlord for the costs of collecting the overdue payment. Tenant shall pay the late charge upon demand by Landlord, and will reimburse Landlord upon demand for reasonable attorneys' fees incurred by Landlord in connection with the overdue payment. Landlord may levy and collect a late charge in addition to all other remedies available for Tenant's default, and collection of a late charge shall not waive the breach caused by the late payment. If two or more checks are returned by Tenant's bank for insufficient funds ("NSF") in any calendar year, then Tenant agrees that future payments of rent and other charges to Landlord will (at Landlord's option) be made by bank certified or cashier's checks. All bank service charges resulting from NSF checks will be promptly paid by Tenant.

2.5 PARTIAL OR DELINQUENT PAYMENTS. Payment by Tenant or receipt by Landlord of any amount less than the full monthly rental or other charges due from Tenant, or any endorsement or statement on any check or letter accompanying any check or rent payment, shall not in any event be deemed an accord and satisfaction. Landlord may accept such check or payment without prejudice to Landlord's right to recover the balance of such rental or pursue any other remedy provided in this Lease. Any payments required under this Lease which are not paid on

* Confidential portion, which has been omitted and filed separately with the Commission.

or before the date for payment in this Lease (subject to any permitted grace period or notice requirement specified in this Lease) shall be considered delinquent and in default.

2.6 ADDITIONAL RENT, No OFFSETS. All charges required to be paid by Tenant under this Lease, other than base rent and percentage rent, will constitute additional rent. All rent (including base, percentage and additional rent) shall be received by Landlord without set-off, offset, abatement, or deduction of any kind.

2.7 PERCENTAGE RENT. In addition to base rent, Tenant will pay to Landlord a percentage rent equal to * percent (* %) of Gross Sales (as defined below) for the prior calendar month or partial calendar month, less a credit against such percentage rent amount for the base rent paid for the same period AND SUBJECT TO THE ANNUAL RECONCILIATION AND ADJUSTMENT PROVIDED BELOW. Tenant will also provide monthly reports of Gross Sales, as set forth below. THE CALCULATION OF GROSS SALES AND PERCENTAGE RENT, IF ANY, THAT IS DUE FOR A PROPERTY WILL BE DETERMINED ON A PROPERTY-BY-PROPERTY BASIS, BASED ON THE GROSS SALES AND BASE RENT PAID FOR EACH PROPERTY.

2.8 DEFINITION OF GROSS SALES. As used in this Lease, "GROSS SALES" will mean all sales of merchandise and services, whether for cash or credit, including all gift and merchandise certificates, all credit charges and carrying charges, and all other receipts of business conducted in or from the Property, whether by Tenant, any licensee, subtenant or franchisee of Tenant or other occupant of the Property, SUBJECT NEVERTHELESS TO THE EXCLUSIONS STATED BELOW. Gross Sales will include (without limitation) all sales to employees, all mail or telephone orders received or filled at or from the Property, all deposits not refunded to the customer, and all orders taken in and from the Property (whether or not such orders are filled elsewhere). Without limiting the foregoing, sales of merchandise through orders received through the Internet or other computer-to-computer system of communication will be treated as part of the Gross Sales from the Property if the order is received or filled at or from the Property (whether or not the merchandise is mailed or filled elsewhere). However, Gross Sales shall exclude THE FOLLOWING: (i) THE AMOUNT OF any CASH OR CREDIT refund made upon any sale where the merchandise sold from the Property covered by this Lease is thereafter returned BY THE CUSTOMER AND ACCEPTED BY TENANT; (ii) INTEREST OR OTHER CHARGES PAID BY CUSTOMERS FOR THE EXTENSION OF CREDIT WHERE SUCH CHARGES ARE NOT INCLUDED IN THE SALES PRICE OF THE MERCHANDISE; (iii) sums received by Tenant from sales of trade fixtures, equipment or other personal property provided that such property is not Tenant's inventory or stock in trade; (iv) SUBLEASE RENTALS RECEIVED BY TENANT FROM DOCTORS OF OPTOMETRY (OR OTHER OPTOMETRIST PERFORMING SIMILAR SERVICES AS REFERRED TO ABOVE) AND THE GROSS SALES FROM EXAMINATIONS OR FEES CHARGED TO THE CUSTOMER BY DOCTORS OF OPTOMETRY WHO ARE PROVIDING EYE EXAMINATIONS OR SERVICES AT THE PROPERTY (BUT WILL NOT EXCLUDE ANY SALES OF MERCHANDISE BY SUCH DOCTORS OF OPTOMETRY); and (v) sales taxes paid by Tenant for sales made from the Property and collected from its customers at the time of sale. No DEDUCTION SHALL BE MADE FROM GROSS SALES FOR ANY FRANCHISE, INCOME OR GROSS RECEIPT TAXES, OR FOR ANY OTHER TAXES BASED UPON THE INCOME OF TENANT. IN THE PAPER OR CREDIT ACCOUNTS WITH ITS CUSTOMERS FOR INSTALLMENT OR CREDIT SALES, THE SALES PRICE OF THE MERCHANDISE WILL NOT BE INCLUDED IN GROSS SALES ON THE DATE OF SALE, BUT WILL BE TREATED AND INCLUDED AS A "SALE" FOR THE FULL PRICE IN THE MONTH IN WHICH TENANT RECEIVES THE FIRST INSTALLMENT PAYMENT FROM ITS CUSTOMER AFTER THE DATE OF SALE (REGARDLESS OF THE TIME FOR PAYMENT OF THE BALANCE OF THE ACCOUNT). OTHER SALES PURSUANT TO BANK CREDIT OR DEBIT CARDS OR OTHER CREDIT SALES WILL BE TREATED AS A SALE FOR THE FULL PRICE AT THE TIME TENANT DEPOSITS THE CHARGE SLIPS FOR REMITTANCE. HOWEVER, WHERE TENANT RECEIVES A DEPOSIT AT THE TIME OF AN ORDER AND THE BALANCE IS PAID BY THE CUSTOMER ON DELIVERY OF THE MERCHANDISE, THE DEPOSIT WILL BE TREATED AS A RECEIPT WHEN RECEIVED, BUT THE BALANCE WILL BE TREATED AS A SALE AND RECEIPT BY TENANT WHEN TENANT ACTUALLY RECEIVES PAYMENT ON DELIVERY OF THE MERCHANDISE TO THE CUSTOMER (NOT ON THE ORIGINAL DATE ON WHICH THE CUSTOMER MADE THE DEPOSIT).

2.9 CALCULATION AND PAYMENT OF PERCENTAGE RENT. Percentage rent will be calculated as of the last day of the month and will be paid by Tenant within TWENTY-FIVE (25) days after the end of the calendar month, less a credit for the base rent for the same period previously paid by Tenant. SUCH MONTHLY PAYMENTS OF PERCENTAGE RENT WILL BE SUBJECT TO THE ANNUAL RECONCILIATION AND ADJUSTMENT PROVIDED IN PARAGRAPH 2.11. Whether or not any percentage rent is owed or payable, Tenant shall submit to Landlord a written statement of Gross Sales for each month during the lease term, within TWENTY-FIVE (25) days after the end of each month for the prior month.

FMI FORM 201 (Jan 1992 - REVISED 4/96) RETAIL LEASE AGREEMENT March 22, 1999

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2.10 RECORDS CONCERNING GROSS SALES. Tenant shall maintain accurate records showing Gross Sales from the Property on a monthly basis, in accordance with industry standards for comparable businesses. Such records, consisting of ledgers, bank deposit slips, and any other similar accounts, AND RECORDS FROM TENANT'S POINT OF SALE DEVICES (OR DAILY SUMMARY EQUIVALENTS OR OTHER RECORDS OF GROSS SALES OF THE TYPE RETAINED IN THE ORDINARY COURSE OF TENANT'S BUSINESS OPERATIONS) shall be preserved for a period of 3 years after the date on which Tenant provides its annual statement of Gross Sales to Landlord (however, if an audit is begun or if there is a dispute regarding Gross Sales, Tenant's records for the year being audited or that are in dispute will in any event be retained until a final resolution of the audit or dispute). Such records shall be available for examination or audit by Landlord following reasonable advance notice. HOWEVER, IN NO EVENT WILL LANDLORD CONDUCT SUCH AUDITS OR EXAMINATIONS MORE FREQUENTLY THAN ANNUALLY.

2.11 REPORTING BY TENANT; ANNUAL RECONCILIATION AND ADJUSTMENT. Tenant shall submit to Landlord a monthly statement of Gross Sales for each calendar month within TWENTY-FIVE (25) days after the end of the month and an annual statement of Gross Sales for each calendar year and partial calendar year during the lease term within SIXTY (60) days after the end of the year. Each monthly statement will show Gross Sales FOR EACH LOCATION (CALCULATED SEPARATELY) and any percentage rent payable during the prior calendar month FOR EACH LOCATION (CALCULATED SEPARATELY). Each annual statement will show Gross Sales and percentage rent during the prior calendar year or partial calendar year FOR EACH PROPERTY (CALCULATED SEPARATELY), recapitulated on a monthly basis. All statements will be deemed a certificate by Tenant as to Gross Sales for the period in question. EACH MONTHLY AND ANNUAL STATEMENT WILL SHOW GROSS SALES AND PERCENTAGE RENT ON A PROPERTY-BY-PROPERTY BASIS.

AFTER LANDLORD'S RECEIPT OF TENANT'S ANNUAL STATEMENT, THERE WILL BE A PERCENTAGE RENT RECONCILIATION AND ADJUSTMENT BETWEEN THE PARTIES. IF THE PERCENTAGE RENT PAYMENTS MADE BY TENANT FOR EACH LOCATION (CALCULATED SEPARATELY) ARE LESS THAN THE ACTUAL AMOUNT PAYABLE FOR THE PRIOR CALENDAR YEAR FOR EACH LOCATION (CALCULATED SEPARATELY), TENANT WILL PAY THE DEFICIENCY IN PERCENTAGE RENT PAYMENTS TO LANDLORD AT THE TIME TENANT SUBMITS THE ANNUAL STATEMENT. IF TENANT'S PAYMENTS FOR THE PRIOR CALENDAR YEAR EXCEED THE ACTUAL AMOUNT PAYABLE, LANDLORD WILL CREDIT THE DIFFERENCE AGAINST THE NEXT RENT PAYMENTS DUE FROM TENANT, OR, AT THE END OF THE LEASE, LANDLORD WILL REFUND SUCH EXCESS WITHIN THIRTY (30) DAYS AFTER TENANT'S REQUEST.

2.12 LANDLORD'S RIGHT TO AUDIT; CONFIDENTIALITY. Landlord may examine or audit any or all of the records of Tenant, and any licensee, subtenant or franchise of Tenant or other occupant of the Property, which relate in any manner to Gross Sales and Tenant's percentage rent computation. LANDLORD WILL NOT EXAMINE OR AUDIT RECORDS THAT PERTAIN SOLELY TO ANY GROSS SALES FROM EXAMINATIONS OR FEES CHARGED TO THE CUSTOMER BY DOCTORS OF OPTOMETRY WHO ARE PROVIDING EYE EXAMINATIONS OR SERVICES AT THE PROPERTY (BUT MAY AUDIT OR EXAMINE RECORDS OF ANY SALES OF MERCHANDISE BY SUCH DOCTORS OF OPTOMETRY). If such examination or audit discloses that the percentage rent was understated, Tenant shall immediately pay the percentage rent to Landlord together with interest on the shortage of percentage rent from the dates such rent should have been paid by Tenant. If the percentage rent was understated by more than THREE percent (3%) AND THE CAUSE OF THE UNDERSTATEMENT OF PERCENTAGE RENT WAS TENANT'S FAILURE TO REPORT SALES OR TENANT'S KNOWING, WILLFUL OR GROSSLY NEGLIGENT PREPARATION OR CALCULATION OF THE GROSS SALES AND PERCENTAGE RENT AMOUNTS, EXCLUDING ROUTINE CLERICAL ERRORS MADE BY TENANT'S ACCOUNTANTS OR EMPLOYEES, Tenant shall pay for the costs of the audit, and if the percentage rent was understated by more than six percent (6%), Tenant shall pay to Landlord (in addition to the percentage rent and interest owed) an amount equal to TEN percent (10%) of the percentage rent owed, as AN additional rent SURCHARGE. PAYMENT OF SUCH COSTS OR SURCHARGE WILL BE in addition to any other right or remedy available under this Lease or applicable law.

Landlord will hold the financial and sales information obtained from the records of Tenant in confidence, except that: (i) Landlord may submit such reports and information in confidence (but Landlord will not be liable for any breach of confidentiality by the recipient) to any of Landlord's mortgagees or master lessors or to any potential or actual mortgagee or purchaser of Landlord's interest, or to employees, directors, officers and partners of Landlord, or to Landlord's accountants, legal counsel and professional advisors; (ii) such reports and information may be disclosed or submitted as may be required in connection with any litigation, arbitration or other proceeding

between the parties; and/or (iii) such information may be disclosed or submitted as may be legally required by any governmental or court order or law or regulation.

3. USE OF PROPERTY.

3.1 PERMITTED USE. Tenant shall use the Property only for conducting the following business and for no other purpose without Landlord's written consent: RETAIL SALES OF OPTICAL MERCHANDISE, EYEGLASSES, CONTACT LENSES, PRESCRIPTION AND NON-PRESCRIPTION SUNGLASSES, AND PROFESSIONAL SERVICES BY A LICENSED DOCTOR OF OPTOMETRY (THE "PRIMARY Use") AND (AS INCIDENTAL TO SUCH PRIMARY USE) A PORTION OF THE PROPERTY MAY BE USED AS AN EYEGLASS ASSEMBLY LABORATORY AND TENANT MAY SELL TELESCOPES AND MICROSCOPES. FABRICATION OF LENSES AND FRAMES AT THE PROPERTY IS NOT A PERMITTED USE. Any proposed change of such permitted use or other material change to the retail marketing orientation or quality of operation of the business within the Property (whether by Tenant or by any proposed assignee, subtenant or transferee, subject nevertheless to the restrictions on transfer stated in paragraph 9 below) are subject to the advance written approval of Landlord in its sole BUT COMMERCIALLY REASONABLE discretion. Landlord may withhold its approval if Tenant has not demonstrated to Landlord's COMMERCIALLY REASONABLE satisfaction that the proposed use, retail marketing orientation and/or quality of operation is compatible (in Landlord's sole BUT COMMERCIALLY REASONABLE judgment) with other business operations (including Landlord's) conducted or permitted within the Development.

3.2 COMPLIANCE WITH LEGAL REQUIREMENTS. In connection with its use, Tenant shall comply at its expense with all applicable laws, rules, regulations and ordinances of all federal, state, county, municipal and other public authorities having or claiming jurisdiction, and all recorded covenants, conditions and restrictions affecting the Development and Building (collectively, the "LEGAL REQUIREMENTS"), including those regarding maintenance, operation, and use of the Property and appliances on the Property (including signs).

Notwithstanding the foregoing, in the event any present or future law, ordinance, governmental rule or other Legal Requirement applicable to the Development, including, without limitation, the American with Disabilities Act of 1990, all amendments and supplements thereto and all applicable rules and regulations issued thereunder (collectively referred to as the "ADA"), mandates changes to the leased Property or Development, then Landlord will be responsible for causing such changes to be made to the common areas and other portions of the Development under Landlord's control, and Tenant will be responsible for causing such changes to be made to the leased Property under Tenant's control. If the installation of Tenant's leasehold improvements, furniture, fixtures and equipment ("FF&E") or any subsequent work or alteration by Tenant within the Property may require changes to the Building or common areas or other portions of the Development in order to comply with the ADA or other governmental requirement, then the parties will, in good faith, cooperate with each other and resolve any dispute as to the commercial reasonableness of the proposed action or alteration, as part of Landlord's review and decision as to whether to consent to the action or alteration.

3.3 HAZARDOUS SUBSTANCES. Tenant shall comply fully with all applicable Legal Requirements pertaining to the protection of human health and the environment, including (but not limited to) employee and community right-to-know laws, occupational safety and health regulations, and all Legal Requirements regarding the use, generation, storage, transportation, treatment, disposal or other handling of hazardous substances ("ENVIRONMENTAL REQUIREMENTS"). Tenant shall promptly advise Landlord in writing of any hazardous substances regulated by such laws that are used, generated, manufactured, stored, transported or otherwise handled on the Property. Tenant shall exercise extreme care in handling any hazardous substances and shall not cause or permit hazardous substances to be spilled, leaked, disposed of or otherwise released on the or from the Property or on, under or into the remainder of the Development. The only hazardous substances permitted on the Property are cleaning products and other materials in ordinary quantities which are used in the ordinary course of business and necessary for the conduct of Tenant's business and which Tenant uses in strict compliance with all applicable Environmental Requirements. The term "HAZARDOUS SUBSTANCES" is used in its very broadest sense, and refers to materials which because of their quantity, concentration, or physical, chemical, or infectious characteristics may cause or pose a present or potential hazard to human health or the environment when improperly handled, treated, stored, transported, disposed of, or otherwise managed. The term shall include, but is not limited to, all hazardous substances, hazardous materials and

hazardous wastes listed by the U.S. Environmental Protection Agency and the state in which the Property is located under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), the Resource Conservation and Recovery Act (RCRA), the Toxic Substances Control Act (TSCA), and the Federal Water Pollution Control Act (FWPCA), and comparable State statutes and other Environmental Requirements, and specifically includes asbestos-containing materials and petroleum products.

3.4 INFECTIOUS WASTES. Subject to the limitations stated in paragraphs 3.1 and 3.3, Tenant shall cause any infectious wastes to be stored, discarded, treated, transported and disposed of in strict compliance with all applicable Legal Requirements and Environmental Requirements.

3.5 NO OFFENSIVE ACTIVITIES. Tenant shall not conduct or permit any activities on the Property that create a nuisance or damage the reputation of the Property or Development, or are offensive to Landlord or other owners or users of adjoining property.

3.6 SUPERVISION. Tenant shall keep the Property clean and orderly and will cause its employees on the Property to be well-groomed and dressed in accordance with a first-class, professional operation of Tenant's business. Tenant will supervise its employees and cause Tenant's agents, independent contractors, employees, customers, suppliers and invitees to conduct their activities in such a manner as to comply with the requirements of this Lease and the rules and regulations referenced below.

3.7 COMMON AREAS. SUBJECT TO THE LIMITATIONS STATED IN PARAGRAPH 1.4, Landlord reserves the right at any time to change the location of, remove, alter or add to and build on any portion of the Building, other improvements and common areas within the Development. All access, customer parking, employee parking and common areas within the Development shall be used in strict compliance with Landlord's rules, regulations and requirements for such areas.

3.8 NAME OF BUSINESS. The advertised name of the business operated at the Property shall be as follows: "VISTA OPTICAL" (OR ANY OTHER TRADE NAME USED FROM TIME TO TIME BY A MAJORITY OF TENANT'S STORES IN THE STATE IN WHICH THE PARTICULAR PROPERTY IS SITUATED) . OR AS OTHERWISE APPROVED FROM TIME TO TIME BY LANDLORD IN ITS COMMERCIALY REASONABLE DISCRETION. Tenant may change its advertised name at the Property TO ANY OTHER TRADE NAME APPROVED BY LANDLORD OR OTHERWISE PERMITTED PURSUANT TO THIS PARAGRAPH, AFTER GIVING LANDLORD WRITTEN NOTICE OF THE CHANGE IN TRADE NAME. AS TO ANY PROPERTY, TENANT'S ADVERTISING MAY IDENTIFY TENANT'S BUSINESS AS A BUSINESS CONDUCTED "AT FRED MEYER," "IN FRED Meyer," "AT FRED MEYER SHOPPING CENTERS," OR "IN FRED MEYER SHOPPING CENTERS," BUT TENANT WILL NOT OTHERWISE USE THE NAME OF FRED MEYER IN CONNECTION WITH ANY ADVERTISING UNLESS SPECIFICALLY APPROVED IN WRITING BY LANDLORD, WHICH APPROVAL WILL NOT BE UNREASONABLY WITHHELD IN LANDLORD'S SOLE BUT COMMERCIALY REASONABLE JUDGMENT.

IN ANY STATE IN WHICH TENANT OPERATES AT LEAST ONE (1) PROPERTY UNDER THIS LEASE (ANY SUCH STATE, A "COVERED STATE"). TENANT, ANY FRANCHISEE OF TENANT OR ANY OTHER PERSON WITH TENANT'S AUTHORIZATION AND APPROVAL SHALL NOT, IN SUCH COVERED STATE, OPERATE A RESTRICTED OPERATION (AS DEFINED BELOW) WITH THE RESTRICTED TRADE NAME (AS DEFINED BELOW) DURING SUCH TIME AS THERE IS AT LEAST ONE (1) PROPERTY OPERATED PURSUANT TO THIS LEASE (WHETHER OR NOT CURRENTLY LEASED OR SUBSEQUENTLY ADDED TO THIS LEASE) IN THE COVERED STATE. FOR PURPOSES OF THE FOREGOING, A "RESTRICTED OPERATION" SHALL MEAN A RETAIL VISION CENTER LOCATED IN A HOSTED ENVIRONMENT (AS DEFINED BELOW), SUCH AS THE OPERATION OF A RETAIL VISION CENTER AT A WALMART, ALBERTSON'S, SAFEWAY OR OTHER RETAIL CHAIN STORE. A "HOSTED ENVIRONMENT" MEANS THE OPERATION OF A RETAIL LOCATION INSIDE ANOTHER RETAIL STORE OR WITH AN INTERIOR ACCESS BETWEEN THE RESTRICTED OPERATION AND THE ADJOINING RETAIL STORE. THE "RESTRICTED TRADE NAME" SHALL MEAN THE SAME, OR SUBSTANTIALLY THE SAME, TRADE NAME AS THEN USED BY TENANT AT ANY OF THE PROPERTIES LEASED FROM LANDLORD IN THE COVERED STATE.

3.9 STORAGE. TRASH. Tenant shall not store anything outside except in areas approved by Landlord. Tenant will use only trash and garbage receptacles approved by Landlord. Tenant shall dispose of trash and other matter in a manner acceptable to Landlord, at Tenant's expense.

3.10 SIGNAGE. Tenant must install and maintain its own signage on the Property at all times and in a manner acceptable to Landlord IN ITS SOLE BUT COMMERCIALY REASONABLE JUDGMENT. Tenant will be required to obtain Landlord's prior approval (IN LANDLORD'S SOLE BUT COMMERCIALY REASONABLE JUDGMENT) of the design, size, color, materials and other details of the signage, including (without limitation) any window signage that can be seen from the exterior. Any sign on the Property will be designed and constructed in compliance with applicable sign codes and the requirements of the attached Exhibit D. If Landlord performs a major remodeling at the Development, Tenant will be responsible for modifying or remodeling its sign consistent with the style used in the major remodeling and in accordance with the attached Exhibit D.

3.11 REGULATIONS. Landlord shall have the right to make and enforce rules and regulations consistent with this Lease for the purpose of regulating access, parking, and the use of common areas, establishing standards and requirements concerning the conduct and operation of business, and promoting safety, order, cleanliness, and good service to the Property, Development and adjacent property. Tenant will promptly comply with all such rules and regulations. Tenant acknowledges receipt of the rules and regulations attached as Exhibit B and agrees to comply with the same.

3.12 COVENANT OF CONTINUOUS OPERATION AND FULL MERCHANDISING. Tenant shall continuously use and conduct its merchandising business on the Property AT LEAST FOR THE MINIMUM HOURS STATED BELOW. Tenant shall carry and offer for sale at all times a full and complete stock of merchandise, and shall maintain adequate personnel for the efficient serving of its customers. Tenant shall not lower the quality of its merchandise or change the quality of its business without Landlord's consent. Tenant shall use best efforts to operate the business conducted on the Property in a diligent manner that will produce the maximum volume of Gross Sales, consistent with prudent business practices.

3.13 HOURS OF OPERATION. Tenant agrees to keep open and operate its business at the Property the following hours: AT LEAST EIGHT HOURS PER DAY AND SIX DAYS PER WEEK WITHIN BUSINESS HOURS AND DAYS AS LANDLORD'S RETAIL OPERATION IN THE BUILDING IS OPEN FOR BUSINESS (THE "MINIMUM HOURS"). TENANT MAY ALTER ITS DAILY HOURS OF OPENING OR CLOSING, AT TENANT'S OPTION, AND MAY KEEP ITS BUSINESS OPEN FOR ADDITIONAL HOURS DURING THE NORMAL HOURS OF OPERATION OF BUSINESS IN THE BUILDING. AS TO ANY SPECIAL LOCATION, IF TENANT DESIRES TO BE OPEN DURING HOURS OTHER THAN THE NORMAL BUSINESS HOURS OF THE DEVELOPMENT, Landlord may charge Tenant for any after hours service requirements. Tenant will not, however, be required to be open on Christmas Day or on Thanksgiving, New Year's Eve, New Year's Day or during any hours on any other recognized state or national holiday on which the Fred Meyer retail operation at the Development is not open or is closed before 11:00 p.m. Tenant will keep its hours of business posted at the Property at all times. NOTWITHSTANDING ANYTHING TO THE CONTRARY CONTAINED HEREIN, TENANT MAY CLOSE ITS OPERATION AT A PROPERTY UP TO 4 HOURS EARLY ON ONE DAY IN EACH CALENDAR QUARTER FOR THE PURPOSES OF CONDUCTING INVENTORY. IF TENANT'S OPERATION AT A PROPERTY IS TO BE CLOSED FOR BUSINESS DURING PART OR ALL OF A DAY ON WHICH TENANT IS TYPICALLY OPEN FOR BUSINESS (FOR PURPOSES OF CONDUCTING INVENTORY OR OTHER REASONS, OTHER THAN "FORCE MAJEURE" EVENTS THAT TENANT COULD NOT REASONABLY ANTICIPATE), TENANT WILL POST AND MAINTAIN IN A LOCATION LIKELY TO BE SEEN BY TENANT'S CUSTOMERS A SIGN STATING THE DATE AND TIME OF THE INTENDED CLOSURE DURING THE PERIOD OF AT LEAST TEN (10) CALENDAR DAYS) BEFORE THE CLOSURE.

3.14 COMPETITIVE BUSINESS. EXCEPT FOR THE EXCLUDED LOCATIONS STATED BELOW, while this Lease is in effect, Tenant shall not directly or indirectly own, operate, manage or engage in any business PROVIDING ANY OPTICAL SERVICES within a ONE (1) mile radius of the Development. In case of violation by Tenant of this paragraph, Landlord shall have all the rights provided in this Lease for default, and in addition, at Landlord's option, Tenant's Gross Sales (as defined in this Lease) on or from the similar or competing business shall be added to and deemed a part of Tenant's Gross Sales under this Lease. In such event, such Gross Sales from the similar or competing business within such radius are will be treated as Tenant's Gross Sales for all purposes of this Lease, and the same shall be computed and reported to Landlord in the same manner provided above for the computation and accounting of Tenant's Gross Sales from the Property. Tenant acknowledges this provision is an essential part of Landlord's agreement to lease the Property to Tenant at the rental and on the terms contained in this Lease and, further, that the period of time and area set forth in this paragraph are fair and reasonable to assure Landlord of its expected

rental income, but not to control competition. HOWEVER, THIS PARAGRAPH 3.14 SHALL NOT APPLY TO ANY OF THE FOLLOWING (THE "EXCLUDED LOCATIONS"): ANY COMPETING BUSINESS DIRECTLY OR INDIRECTLY OWNED, OPERATED OR LEASED BY TENANT AS OF THE DATE OF THIS LEASE, OR THAT IS NOW OR HEREAFTER LOCATED WITHIN A WAL-MART STORE, OR THAT IS ACQUIRED AS PART OF A MERGER OR ASSET ACQUISITION BY TENANT WITH ANOTHER BUSINESS OR THAT THE OTHER PARTY IN SUCH MERGER OR ASSET ACQUISITION MAY THEN OWN, OPERATE OR LEASE IF SUCH PARTY ACQUIRES TENANT OR TENANT'S ASSETS IN THE MERGER OR ASSET ACQUISITION (SUBJECT TO ANY REQUIREMENTS FOR LANDLORD'S APPROVAL UNDER PARAGRAPH 9), OR THAT IS LOCATED IN A MAJOR MALL WITH AT LEAST TWO MAJOR DEPARTMENT STORES. ANY SUCH OPERATION IN AN EXCLUDED LOCATION WILL NEVERTHELESS BE SUBJECT TO THE LIMITATION IN PARAGRAPH 3.8 (IF THE EXCLUDED LOCATION IS NOT IN AN ENCLOSED MALL). A WAL-MART OR SAM'S CLUB STORE IS NOT CONSIDERED TO BE AN "ENCLOSED MALL" EVEN IF THERE IS MORE THAN ONE INTERIOR TENANT.

4. MAINTENANCE AND ALTERATIONS.

4.1 LANDLORD'S OBLIGATIONS. Landlord shall be under no obligation to make any repairs, alterations or improvements on the Property at any time, except as otherwise expressly required in this Lease. Subject to the terms of paragraph 4.3 below, Landlord shall be responsible for: (i) providing water and sewer to the Property; (ii) the repair and maintenance of the roof and structure of the Building; AND (iii) THE ELECTRICAL, LIGHTING (BUT NOT THE LIGHT BALLASTS AND LIGHT BULBS), PLUMBING AND SPRINKLER SYSTEMS IN THE BUILDING AND UNDERGROUND, AND THE HEATING, VENTILATION AND AIR CONDITIONING SYSTEM ("HVAC") SERVING THE PROPERTY; provided, however, that if Landlord is required to make any repairs to the water or sewer system or the roof or structure OR OTHER PORTION OF THE BUILDING OR BUILDING SYSTEMS OR HVAC REFERENCED ABOVE THAT ARE TO BE MAINTAINED BY LANDLORD by reason of any act, neglect or omission to act of Tenant or its employees, agents, invitees, licensees, contractors or subtenants (SUBJECT TO THE WAIVER IN PARAGRAPH 7.4, IF APPLICABLE), Landlord shall have the right to recover from Tenant the REASONABLE cost of the repairs, as provided in paragraph 4.3, plus interest as provided in paragraph 11.3 below.

4.2 WORK BY LANDLORD. Landlord shall have the right to erect scaffolding and apparatus for the purpose of making repairs, installations, alterations or modifications to the Building or common areas or to any portion of the Development. Landlord shall have no liability for failure to perform required maintenance and repair on or about the Property for which Landlord may be responsible under this Lease, unless written notice of the needed maintenance or repair is given by Tenant, and Landlord fails to remedy the problem within a reasonable time after receipt of such notice. Landlord shall have no liability for interference with Tenant's use by repairs, installations, alterations or modifications, provided the work is performed in a manner designed to cause a reasonable minimum of interference to Tenant.

4.3 TENANT'S OBLIGATIONS. Tenant, at its sole cost and expense, shall put, keep and maintain at all times all portions of the Property not required to be maintained by Landlord under paragraph 4.1 (including, without limitation, all tenant improvements, drains, displays, all exterior and interior plate glass, show cases, storefront parts and moldings, doors, door jams, door closers, door hardware, fixtures, equipment and appurtenances thereof, floors, partitions, fixtures and equipment, and the exterior sign cabinet (if any), including lights, LIGHT BULBS and LIGHT ballasts, and interior and any exterior signs) in first class repair, operating condition, working order and appearance, and in accordance with all applicable Legal Requirements, including (without limitation) those requiring any alteration of the Property (structural or nonstructural), subject to requirements in paragraph 4.6 below concerning Landlord's consent to such alterations.

The interior of the Property and Tenant's signs shall be repainted, redecorated and refurbished by Tenant ONCE EVERY FIVE YEARS DURING THE LEASE TERM TO THE EXTENT NECESSARY FOR TENANT TO MAINTAIN THEM IN A FIRST-CLASS APPEARANCE AND CONDITION.

Tenant shall also be responsible for the repair of any and all damage caused to the Property, Building and/or Development by any act, neglect or omission of Tenant or its employees, agents, invitees, licensees, contractors or subtenants (SUBJECT TO THE WAIVER IN PARAGRAPH 7.4, IF APPLICABLE). The repair of any such damage shall, at Landlord's option, either be performed by Tenant at its expense or will be made by Landlord at Tenant's

cost and expense. Tenant shall reimburse to Landlord ALL REASONABLE costs and expenses incurred by Landlord IN CONNECTION WITH ANY SUCH REPAIR, within THIRTY (30) days after submission by Landlord to Tenant of a statement of the amount thereof. If not so paid within such 30-day period, the total amount will bear interest as provided in paragraph 11.3 below from the date such costs were incurred.

4.4 ADDITIONAL EQUIPMENT. EXCEPT FOR EQUIPMENT AND MACHINERY APPROVED BY LANDLORD WHICH TENANT WILL BE USING TO ENGAGE IN THE PERMITTED USES DESCRIBED IN PARAGRAPH 3.1 OF THIS LEASE, Tenant shall not, without Landlord's prior written consent (WHICH WILL NOT BE UNREASONABLY WITHHELD OR DELAYED), use heat- generating machines or equipment or lighting other than standard lights provided to the Property that affect the temperature otherwise maintained by the air-conditioning system. If such consent is given, Landlord shall have the right to install supplementary air-conditioning units in the Property and the ACTUAL, REASONABLE cost thereof, including the ACTUAL, REASONABLE costs of installation, operation and maintenance of such units, shall be paid by Tenant to Landlord upon billing by Landlord. Tenant shall not install lighting or other electrical equipment or devices requiring power in excess of the standard amounts (load and usage) as determined from time to time by Landlord for normal office/retail use of the Property and other premises in the Building.

4.5 BUILDING OVERLOADS. Tenant will refrain from doing anything on or about the Property that will cause an overload. If Landlord believes there is an overload or a material risk of an overload, Landlord may select a qualified electrician whose opinion will control regarding any overload of electric circuits, or a qualified engineer or architect whose opinion will control regarding floor overloads or other stresses. Tenant will promptly comply with any actions recommended by the electrician, engineer or architect.

4.6 ALTERATIONS; SIGNS. Tenant shall not alter the Property (including, without limitation, changes in color, removals, replacements and additions) or make any exterior or structural alterations or any material interior alterations, or install additional electrical equipment, machinery or any signs, without Landlord's prior written consent in each instance (WHICH WILL NOT BE UNREASONABLY WITHHELD OR DELAYED). Any alterations or installations by Tenant must be performed in a good and workmanlike manner and in compliance with provisions of this Lease (including, without limitation, the provisions of the attached Exhibit C and paragraph 3.2). All alterations and fixtures installed by Tenant (other than trade fixtures and equipment) shall become part of the Property and belong to Landlord upon the expiration or termination of this Lease, subject to paragraph 12.2 below. All such work shall be done in such a manner so as not to interfere with or disturb any other tenant or occupant of the Building.

4.7 REMODEL PROGRAM AND REFURBISHING; SIGNS. Subject to the limitations and exclusions stated IN THIS PARAGRAPH, in the event Landlord develops a plan to renovate or perform a major remodel of the portion of the Development in which the Property is situated (collectively, a "REMODEL") and the Remodel plan would require changes to Tenant's exterior signage, storefront, floor covering or other portions of the Property maintained by Tenant, then the following will apply: (i) Landlord will give Tenant at least 60 days' prior written notice of the planned Remodel; (ii) Landlord will attempt to perform the Remodel in an efficient manner that reasonably minimizes any interference with Tenant's business operation; and (iii) Tenant will (at its expense) design and reconstruct its sign to the extent necessary to give it a quality and appearance in accord with FIRST-CLASS CONDITION AND APPEARANCE AND THE CONDITION AND APPEARANCE OF the remainder of the Development as modified by the Remodel. LANDLORD WILL BE RESPONSIBLE FOR INSPECTING OR EXAMINING AND NOTIFYING TENANT IF LANDLORD DEEMS IT NECESSARY TO DO ANY WORK UNDER THIS PARAGRAPH, AND TENANT WILL PERFORM THE SAME.

5. TAXES; UTILITIES; COMMON EXPENSES.

5.1 PERSONAL PROPERTY TAXES. Tenant shall pay when due all personal property taxes assessed against its personal property, equipment or trade fixtures on the Property.

5.2 TAXES AND ASSESSMENTS. [THIS PARAGRAPH HAS BEEN INTENTIONALLY DELETED BY THE PARTIES.]

5.3 ADDITIONAL IMPOSITIONS. [THIS PARAGRAPH HAS BEEN INTENTIONALLY DELETED BY THE PARTIES.]

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5.4 UTILITIES. As to locations other than exterior locations, which are separately metered, Tenant shall pay to Landlord on the 10th day of each month, charges for utilities initially in the amount of one-twelfth of \$1.00 per square foot of gross leaseable area of the property, payable monthly.

5.5 COMMON EXPENSES PAID BY TENANT. [THIS PARAGRAPH HAS BEEN INTENTIONALLY DELETED BY THE PARTIES.]

6. LIENS, INDEMNIFICATION AND LIABILITY.

6.1 LIENS. Tenant shall pay as due all claims for work done on or for services rendered or material furnished to the Property, and shall keep the Property free from any liens other than liens created by Landlord. If Tenant fails to pay such claim or to cause any lien to be released (by bonding over or otherwise) against the Property and Development under the law of the state in which the Development is located within 30 days after Tenant becomes aware that such lien exists, Landlord may do so AFTER GIVING TENANT AT LEAST TEN (10) DAYS' WRITTEN NOTICE OF LANDLORD'S INTENT TO DO SO, and collect such amount as additional rent. Amounts paid by Landlord shall bear interest and be repaid by Tenant as provided in paragraph 11.3 below. Such payment by Landlord shall not constitute a waiver of any right or remedy Landlord may have because of Tenant's default.

6.2 INDEMNIFICATION OF LANDLORD. Tenant shall indemnify, reimburse, hold harmless and defend Landlord for, from and against any claim, loss, damages, expense or liability arising out of or related to any action or inaction of Tenant or its agents, independent contractors, employees, customers, suppliers or invitees, any condition of the Property which is the responsibility of Tenant under this Lease, or any goods sold by Tenant from the Property (including product liability, professional malpractice and other claims).

6.3 LANDLORD'S LIABILITY. EXCEPT FOR LANDLORD'S OBLIGATIONS WITH RESPECT TO ITS WARRANTY OF QUIET ENJOYMENT CONTAINED IN PARAGRAPH 13 BELOW, AND EXCEPT FOR LANDLORD'S OWN GROSS NEGLIGENCE, SOLE NEGLIGENCE OR WILLFUL MISCONDUCT, Landlord shall have no liability to Tenant for acts of other tenants or users of adjacent property or acts of any third party, or for any defect in the Property which is the responsibility of Tenant under this Lease, or for any interruption or failure in the supply of utilities or services to the Property.

7. INSURANCE AND DAMAGE.

7.1 LIABILITY AND WORKERS' COMPENSATION INSURANCE. Commencing not later than the date on which Tenant or its contractors, agents or employees are given access to the Property to perform fixturing or other activities (the "DELIVERY DATE"), and continuing throughout the term of this Lease, Tenant shall continuously maintain at its expense commercial general liability insurance applying to the use, occupancy and business operated (including products sold and services rendered) by Tenant, or any other occupant of the Property. Such insurance shall include broad form contractual liability insurance coverage insuring all of Tenant's indemnity obligations under this Lease. The commercial general liability coverage shall have a minimum combined single limit of liability per occurrence of at least One Million Dollars (\$1,000,000) per occurrence and a general aggregate limit of at least Two Million Dollars (\$2,000,000) per location and with umbrella liability excess liability insurance with limits of not less than Five Million Dollars (\$5,000,000) PER LOCATION. Such minimum required limits and scope of coverage may be increased from time to time by Landlord based upon industry standards for comparable business operations. All such policies shall be written to apply to all bodily injury, property damage, personal injury and other covered loss, however occasioned, shall be endorsed to name Landlord as an additional insured, and shall provide that such coverage shall be primary and that any insurance maintained by Landlord shall be excess and non-contributing insurance. Such insurance shall also include coverage for: (a) hired and non-owned automobile liability; (b) products liability; and (c) excess Employer's liability insurance (if necessary). All such insurance shall: (i) provide for severability of interest; (ii) provide that an act or omission of one of the named or additional insureds (excluding deliberate or intentional acts that are not covered under a general liability policy) shall not reduce or void coverage to the other named or additional insureds; and (iii) afford coverage for all occurrences based on acts, omissions, injury and damage, which occurred or arose (or the onset of which occurred or arose) in whole or in part during the term of this Lease.

Tenant shall also maintain Worker's Compensation insurance in accordance with the law of the state in which the Property is located, and Employer's liability insurance (or "Stop Gap" insurance, if the Property is within the State of Washington) with a limit of not less than \$1,000,000 each accident.

7.2 PLATE GLASS AND CASUALTY INSURANCE. Landlord shall be responsible for insuring the Building. SUBJECT TO PERMITTED SELF-INSURED ARRANGEMENTS (AS DESCRIBED BELOW), throughout the term of this Lease, Tenant shall be responsible for maintaining so-called "all-risk" or "special form" property insurance covering loss to Tenant's personal property, fixtures, equipment, tenant improvements and Tenant's betterments, ON A replacement cost BASIS AND IN AN AMOUNT SUFFICIENT TO AVOID APPLICATION OF ANY CO-INSURANCE CLAUSE IN THE POLICY. Tenant's insurance shall include, but not be limited to, the following: (i) earthquake coverage; (ii) flood damage coverage; (iii) sprinkler leakage coverage; (iv) replacement cost coverage; (v) an agreed amount endorsement; (vi) plate glass coverage sufficient to pay for the replacement of any damage to exterior plate glass and storefront supports for the Property. Such coverage shall also insure against any damage to the floor, doors, interior or other portions of the Building caused by any break-in or burglary; (vii) business interruption, in an amount that is equal to not less than six months of Tenant's expected net profits to be earned within the specified policy year, but in no event shall the amount of business interruption coverage be less than the total sum of rents to be paid to Landlord under this Lease during the same period of time; and (viii) extra expense coverage. All such policies shall be written to apply to all covered property for loss occurring within the term of this Lease, and shall be endorsed to add Landlord as a loss payee. In the event of casualty, the proceeds of Tenant's property insurance policies shall, so long as this Lease is in effect, be used for the repair or replacement of the personal property, fixtures and equipment so insured.

NOTWITHSTANDING THE FOREGOING, SO LONG AS TENANT IS NOT THEN IN DEFAULT UNDER THIS LEASE, TENANT MAY SELF-INSURE PART OR ALL OF THE COVERAGES DESCRIBED IN THE FOREGOING PARAGRAPH IN ACCORDANCE WITH THE FOLLOWING (THE "SELF-INSURED ARRANGEMENTS"): (i) TENANT MAY SELF-INSURE THE PLATE GLASS COVERAGE REFERENCED IN PARAGRAPH 7.2(vi) ABOVE, WITHOUT THE NEED FOR FURTHER CONSENT FROM LANDLORD; AND/OR (ii) SO LONG AS TENANT'S SHAREHOLDER'S EQUITY EXCEEDS \$50,000,000, TENANT MAY SELF-INSURE OTHER COVERAGES, OTHER THAN PLATE GLASS, REQUIRED BY THIS LEASE AS REFERENCED ABOVE, PROVIDED THAT THE PROGRAM OF SELF-INSURANCE IS MAINTAINED BY TENANT FOR ITS PROPERTIES GENERALLY (AND NOT SPECIFICALLY FOR THE PROPERTY) AND THE SELF-INSURED ARRANGEMENTS HAVE BEEN APPROVED BY LANDLORD IN ITS SOLE BUT COMMERCIALY REASONABLE DISCRETION. LANDLORD WILL REASONABLY APPROVE SELF-INSURED ARRANGEMENTS THAT ARE REASONABLE IN LIGHT OF TENANT'S NET WORTH. WITH RESPECT TO ANY CLAIM, LOSS OR LIABILITY THAT WOULD HAVE BEEN COVERED BY THE INSURANCE POLICIES REQUIRED TO BE MAINTAINED BY TENANT BUT WHICH ARE SUBJECT TO SELF-INSURED ARRANGEMENTS OR DEDUCTIBLES, TENANT WILL BE RESPONSIBLE FOR PAYMENT OF THE SELF-INSURED AMOUNT OR DEDUCTIBLE ON OR FOR SUCH CLAIM, LOSS OR LIABILITY ON THE SAME BASIS AS THE INSURANCE CARRIER WOULD HAVE BEEN IF TENANT HAD NO SELF-INSURED ARRANGEMENTS OR DEDUCTIBLES ON SUCH INSURANCE POLICIES.

7.3 INSURANCE POLICIES. All insurance policies required to be carried by Tenant under this Lease shall: (i) be written by companies rated A/IX or better in the most recent edition of "Best's Insurance guide" and authorized to do business in the state in which the Property is located, and (ii) name any parties designated by Landlord as additional insureds. Any self-insured retention or deductible amounts (the "SELF-INSURED AMOUNT") under any insurance policies required hereunder shall be subject to Landlord's prior written approval, which shall not be unreasonably withheld. Tenant shall deliver to Landlord on or before the Delivery Date, and thereafter at least fifteen (15) days before the expiration dates of expiring policies, certified copies of its insurance policies, or a certificate evidencing the same issued by the insurer thereunder (or if such policies or certificates are not available at such date, Tenant will provide to Landlord appropriate written confirmations or assurance of continued coverage, to be followed by the actual policy or certificate when available). Tenant will also provide to Landlord a certificate of insurance, naming Landlord and Tenant as additional insureds, evidencing liability insurance maintained by Tenant's contractor(s), which will be delivered to Landlord prior to the Delivery Date, and (with respect to any subsequent construction by Tenant during the lease term) prior to the date on which Tenant commences any other construction work on the Property. If Tenant shall fail to procure such insurance or to deliver such policies or certificates, then Landlord may, at its option and in addition to any other remedies provided by this Lease, procure the same for the account of Tenant, and Tenant shall pay the cost thereof to Landlord as additional rent. With respect to any claim, loss or liability that would have been covered by the insurance policies required to be

maintained by Tenant but which are within the self-insured amount, Tenant will be responsible for payment of the self-insured amount on or for such claim, loss or liability on the same basis as the insurance carrier would have been if Tenant had no self-insured arrangements or deductibles on such insurance policies.

7.4 RELEASES AND WAIVERS OF SUBROGATION. Notwithstanding any other provision of this Lease, Landlord and Tenant each hereby release the other from any and all liability or responsibility to the other (or anyone claiming through or under them by way of subrogation or otherwise) for any loss or damage to the Property, THE BUILDING, THE DEVELOPMENT, or property thereon caused by a peril which would be covered by a standard "all-risk" property insurance policy, whether or not such insurance is in force or is collectible, even if such loss or damage shall have been caused by the fault or negligence of the other party, or anyone for whom such party may be responsible. Landlord and Tenant each hereby agree that it shall cause a clause or endorsement to be included in its insurance policies with respect to the Property, the Building and Development (to the extent required to make the foregoing release and waiver of subrogation effective) to the effect that such release shall not adversely affect or impair said policies or prejudice the right of the releasor to recover thereunder.

7.5 RESTORATION OF DAMAGE. If fire or other casualty causes damage to the Building in an amount exceeding 25 percent of its full construction-replacement cost, then Landlord may elect to terminate this Lease by giving written notice of such termination to Tenant within 60 days following the date of damage. Otherwise, Landlord shall proceed to restore the Building to a condition comparable in function and value to that existing prior to the damage. The base rent AND ALL OTHER CHARGES PAYABLE TO LANDLORD UNDER THIS LEASE FOR THE PROPERTY SO DAMAGED shall be abated during the period and to the extent the Property is not reasonably usable for Tenant's use. If the damage does not cause any material interference with Tenant's use, there shall be no rent abatement. HOWEVER, IF SO MUCH OF THE BUILDING OR DEVELOPMENT IS DESTROYED THAT TENANT CANNOT REASONABLY OPERATE BUSINESS IN THE REMAINDER OF THE PROPERTY, TENANT WILL SO NOTIFY LANDLORD AND LANDLORD, IN LANDLORD'S SOLE BUT COMMERCIALY REASONABLE DISCRETION, WILL APPROVE A TEMPORARY SUSPENSION OF OPERATIONS BY TENANT UNTIL THE DAMAGE IS REPAIRED SUCH THAT TENANT MAY RESUME OPERATION OF BUSINESS, AND DURING THE PERIOD OF SUCH TEMPORARY SUSPENSION OF OPERATIONS, THE MINIMUM BASE RENT AND OTHER CHARGES PAYABLE TO LANDLORD UNDER THIS LEASE SHALL BE ABATED. Tenant shall cooperate with Landlord during the period of repair and vacate all or any part of the Property to the extent necessary for the performance of the required work.

7.6 REPAIR OF TENANT'S PROPERTY. Repair, replacement, or restoration of any fixtures, equipment and personal property owned by Tenant, Tenant's improvements, and any additions or improvements to the Property constructed by Tenant shall be the responsibility of Tenant regardless of the cause of the damage. Tenant shall pay all costs of moving its property when required in connection with the repairs of the Property for which Landlord is responsible.

7.7 INSURANCE REQUIREMENTS. Tenant will comply with all of the rules and regulations of the American Insurance Association, the state Insurance Rating Bureau and any similar bodies. Tenant will not commit any action or permit any condition to be continued on the Property which might increase the existing rate of any insurance policy held by Landlord. Tenant will not do or keep anything that will cause cancellation of (or be prohibited by) Landlord's insurance policies.

8. CONDEMNATION.

If the entire Development, Building or Property is condemned, or if a portion is taken which causes the Property to be reasonably unusable for the continued conduct of Tenant's business operation, notwithstanding any repair or alteration by Landlord, then this Lease shall terminate as of the date upon which possession of the Property is taken by the condemning authority. Otherwise, Landlord shall proceed to make necessary repairs and alterations to the Property to permit Tenant to continue its operation of the Property thereon, except for repairs to Tenant's property for which Tenant is responsible under paragraph 7.6 above. The base rent shall be abated during the period of restoration to the extent the Property is not reasonably usable for Tenant's use, and shall be reduced for the remainder of the lease term to the extent and in the same proportion as the reduction in rentable area of the Property. All condemnation proceeds shall belong to Landlord, except for any separate award available from the

condemning authority and specifically made to Tenant for interruption of business, moving expenses, or the taking of Tenant's trade fixtures. All condemnation proceeds related to the taking of the Development, Building and Property shall belong to Landlord. To the extent permitted by law, Tenant may pursue a separate claim against the condemning authority for interruption of business, moving expenses, or the taking of Tenant's equipment, signage, improvements and other property of Tenant at the Property, and any other damages available under applicable law, but such separate claims shall not diminish Landlord's claim for the Property, the Building or for Landlord's reversionary interest in the land under the Property or for the taking of other portions of the Development. TENANT WILL USE ANY PORTION OF THE AWARD ATTRIBUTABLE TO SUCH TENANT IMPROVEMENTS OR PROPERTY OF TENANT AT THE PROPERTY TO PAY THE COSTS OF RESTORATION OR REPAIR TO THE TENANT IMPROVEMENTS OR TENANT'S PROPERTY FOR WHICH TENANT IS RESPONSIBLE AS PROVIDED ABOVE. Sale of all or a part of the Property to a purchaser with the power of eminent domain in the face of a threat or the probability of the exercise of the power shall be treated as a taking by condemnation. Landlord need not incur expenses for restoration in excess of the amount of condemnation proceeds received by Landlord after payment of all reasonable costs, expenses and attorneys' fees paid or incurred by Landlord in connection with the condemnation.

9. TRANSFERS BY TENANT.

9.1 PROHIBITION OF TRANSFER. Except as otherwise set forth below, Tenant shall not assign, mortgage, pledge, hypothecate or encumber the Property or Tenant's leasehold estate, or sublet any portion of the Property, or license the use of any portion of the Property, or otherwise transfer any interest in the Property (whether voluntary, involuntary, by operation of law or otherwise) (collectively, all of the foregoing are a "TRANSFER"), without the prior written consent of Landlord, IN ITS COMMERCIALY REASONABLE DISCRETION. If Tenant (now or hereafter) is a corporation, limited liability company, general partnership, limited partnership or other entity, then a transfer of a controlling interest in such entity will be deemed a transfer of Tenant's leasehold estate; provided, that so long as Tenant's stock is publicly held and traded on a recognized national stock exchange OR ON NASDAQ, no transfer of stock of Tenant will be deemed a transfer of this Lease. If Tenant's stock is not so publicly held and traded on a recognized national stock exchange, then a transfer of a controlling interest in the ownership of Tenant will be deemed a transfer of Tenant's leasehold estate. Landlord shall not be liable for failure to give such consent UNLESS LANDLORD DID NOT ACT IN GOOD FAITH IN RESPONDING TO THE REQUEST FOR CONSENT (BUT THIS LIMITATION WILL NOT AFFECT TENANT'S RIGHT TO PURSUE DECLARATORY OR OTHER ACTION TO REQUIRE LANDLORD TO GIVE ITS CONSENT IN ACCORDANCE WITH THE STANDARD STATED IN THE FIRST SENTENCE OF THIS PARAGRAPH, AND IF TENANT IS THE PREVAILING PARTY IN SUCH ACTION, THE TERMS OF PARAGRAPH 14.16 SHALL APPLY). Any attempted transfer without consent shall be null and void and, at the option of Landlord, will cause termination of this Lease. If Tenant requests consent to a proposed transfer, Tenant or the prospective transferee will pay a review fee of \$200 at the time of the request, for application to Landlord's reasonable expenses (legal and administrative) in reviewing the request for consent to transfer, which expenses will be paid by Tenant or the prospective transferee, but will not exceed \$2,500 IN THE AGGREGATE FOR ALL PROPERTIES COVERED BY THE REQUEST FOR CONSENT (WHETHER ONE, MORE THAN ONE OR ALL PROPERTIES COVERED BY THIS LEASE).

NOTWITHSTANDING THE FOREGOING, THE PARTIES AGREE THAT SUBLEASES TO AN APPROVED OPTOMETRIST AND ASSIGNMENTS TO AFFILIATES WILL BE SUBJECT TO THE FOLLOWING TERMS, WHICH MODIFY THE FOREGOING PROVISIONS FOR LANDLORD'S CONSENT:

9.1.1 SUBLEASE TO APPROVED OPTOMETRIST. LANDLORD WILL CONSENT TO A SUBLEASE OF A PORTION OF THE PROPERTY TO DOCTORS OF OPTOMETRY OR ANY REPUTABLE PERSON OR ENTITY LICENSED IN THE STATE IN WHICH THE PROPERTY IS LOCATED TO PRACTICE OPTOMETRY. NO FEE WILL BE CHARGED BY LANDLORD FOR REVIEWING AND CONSENTING TO SUCH SUBLEASE;

9.1.2 ASSIGNMENT TO AFFILIATE WITH RELEASE OF TENANT. LANDLORD WILL CONSENT TO AN ASSIGNMENT OF ALL OR A PORTION OF TENANT'S INTEREST UNDER THIS LEASE TO A SUBSIDIARY OR AFFILIATED CORPORATION WITH A NET WORTH AT LEAST EQUAL TO TENANT, SO LONG AS TENANT OWNS AT LEAST 51 PERCENT OF THE VOTING STOCK OF THE ASSIGNEE. UPON ASSUMPTION OF TENANT'S OBLIGATIONS IN CONNECTION WITH THIS LEASE, PURSUANT TO AN

ASSUMPTION AGREEMENT AND BY AN ASSIGNEE CORPORATION PREVIOUSLY APPROVED BY LANDLORD, TENANT SHALL BE RELEASED FROM LIABILITY WITH RESPECT TO THE INTEREST SO TRANSFERRED; AND

9.1.3 ASSIGNMENT TO AFFILIATE WITHOUT RELEASE OF TENANT. SO LONG AS TENANT IS NOT THEN IN DEFAULT, TENANT MAY ASSIGN OR TRANSFER ALL OR A PORTION OF TENANT'S INTEREST UNDER THIS LEASE TO A SUBSIDIARY OR AFFILIATED CORPORATION, PROVIDED THAT THE ASSIGNEE ASSUMES TENANT'S OBLIGATIONS IN CONNECTION WITH THIS LEASE, PURSUANT TO AN ASSUMPTION AGREEMENT TO BE PREPARED BY TENANT OR THE TRANSFEREE AND TO BE REASONABLY APPROVED BY LANDLORD PRIOR TO THE TRANSFER, AND PROVIDED THAT TENANT IS NOT BEING LIQUIDATED OR DISSOLVED AND TENANT IS NOT BEING RELEASED FROM LIABILITY WITH RESPECT TO THE INTEREST SO TRANSFERRED;

9.2 NOTICE AND CONSENT. If Tenant desires to transfer any interest for which Landlord's consent is required under paragraph 9.1, Tenant shall, in each instance, notify Landlord at least 30 days before the effective date of such intended transfer and will pay the review fee stated above (EXCEPT THAT NO REVIEW FEE IS REQUIRED UNDER PARAGRAPHS 9.1.1 OR 9.1.3). AS TO ANY SUBLEASE UNDER PARAGRAPH 9.1.1, TENANTS' NOTICE WILL CONTAIN THE NAME AND LICENSE INFORMATION FOR THE DOCTOR OF OPTOMETRY. AS TO ANY ASSIGNMENT WITHOUT RELEASE OF LIABILITY OR LIQUIDATION OF TENANT PURSUANT TO PARAGRAPH 9.1.3, TENANT'S NOTICE WILL CONTAIN THE NAME AND STATE OF INCORPORATION OF THE ASSIGNEE AND ENOUGH INFORMATION FOR LANDLORD TO VERIFY THAT THE ASSIGNMENT MEETS THE REQUIREMENTS OF PARAGRAPH 9.1.3. AS TO ANY OTHER TRANSFER UNDER PARAGRAPH 9.1 (OTHER THAN PARAGRAPHS 9.1.1 OR 9.1.3), Tenant's notice will contain reasonable detail concerning the nature of the proposed transaction, the date thereof, the identity of the transferee and nature of its business, the financial worth of the transferee and its prior business experience (if applicable), the transferee's business and financial references, and such financial statements and other information as Landlord may REASONABLY require. If Landlord consents to the proposed transfer, a condition to such consent is that the transferee shall agree in writing for the benefit of Landlord to be bound by and to comply with the terms of this Lease (except that this sentence will not apply to any lender who only holds a secured interest in Tenant's personal property).

9.3 OBLIGATIONS AFTER TRANSFER. The giving of such consent in one instance shall not preclude the need for Tenant to obtain Landlord's consent to further transfers where such consent is required. If Tenant is permitted to make any transfer, Tenant and any Guarantor(s) or co-obligor(s) of Tenant's obligations under this Lease shall not be relieved of their respective obligations, but shall remain primarily liable to Landlord for performance of all such obligations, EXCEPT AS SPECIFICALLY PROVIDED IN PARAGRAPH 9.1.2.

10. DEFAULT.

The following shall be events of default:

10.1 PAYMENT DEFAULT. Failure of Tenant to pay any rent or other charge under this Lease within FIFTEEN (15) days after it is due.

10.2 UNAUTHORIZED TRANSFER. Tenant makes any transfer without Landlord's prior written consent, as (AND TO THE EXTENT) required under paragraph 9.1.

10.3 ABANDONMENT OF PROPERTY. Tenant abandons the Property, for which purpose "ABANDONS" means a failure by Tenant to occupy and use the Property for one or more of the purposes permitted under this Lease for a total of 3 consecutive days or more OR FIVE (5) DAYS (WHETHER OR NOT CONSECUTIVE) OR MORE during the lease term, unless such failure is excused under other provisions of this Lease.

10.4 DEFAULT IN OTHER COVENANTS. Failure of Tenant to comply with any other term or condition or fulfill any other obligation of this Lease within 20 days after written notice by Landlord specifying the nature of the default with reasonable particularity. If the default is of such a nature that it cannot be remedied fully within the 20-day period, this requirement shall be satisfied if Tenant begins correction of the default within the 20-day period and thereafter proceeds with reasonable diligence and in good faith to effect the remedy as soon as practicable (but shall

nevertheless cause the default to be fully remedied not later than sixty (60) days after the date of Landlord's first notice).

10.5 INSOLVENCY DEFAULTS. Dissolution, termination of existence, insolvency on a balance sheet basis or business failure of Tenant; the commencement by Tenant of a voluntary case under the federal bankruptcy laws or under any other federal or state law relating to insolvency or debtor's relief; the entry of a decree or order for relief against Tenant in an involuntary case under the federal bankruptcy laws or under any other applicable federal or state law relating to insolvency or debtor's relief and such is not dismissed within 60 days; the appointment of or the consent by Tenant to the appointment of a receiver, trustee, or custodian of Tenant or of any of Tenant's property; an assignment for the benefit of creditors by Tenant; Tenant's failure generally to pay its debts as such debts become due; the making or suffering by Tenant of a fraudulent transfer under applicable federal or state law; concealment by Tenant of any of its property in fraud of creditors; the making or suffering by Tenant of a preference within the meaning of the federal bankruptcy law; or the imposition of a lien through legal proceedings or distraint upon any of the property of Tenant which is not discharged or bonded within 60 days. During any period in which there is a Guarantors(s) of this Lease, each reference to "Tenant" in this paragraph shall be deemed to refer to "Guarantor or Tenant," separately.

11. REMEDIES ON DEFAULT.

Upon default, Landlord may exercise any one or more of the following remedies, or any other remedy available under applicable law:

11.1 RETAKE POSSESSION; EXERCISE OF OTHER RIGHTS. Landlord may re-enter and retake possession of the Property, without notice, either by summary proceedings, any other applicable action or proceeding, or otherwise. Landlord may use the Property for Landlord's own purposes or relet it upon any reasonable terms without prejudice to any other remedies that Landlord may have by reason of Tenant's default. Landlord may effect a removal of any furniture, furnishings, trade fixtures or other property of Tenant and place it in public storage for Tenant's account. Tenant shall be liable to Landlord for the cost of removal, restoration, transportation to storage, and storage, with interest on all such expenses at the same rate as provided in paragraph 11.3 below. None of these actions will be deemed an acceptance of surrender by Tenant.

IF THE NATURE OF THE DEFAULT IS THAT IT RELATES TO A PARTICULAR PROPERTY (E.G., IF TENANT FAILS TO PAY THE REQUIRED RENT AS TO A PROPERTY, BUT DOES PAY IT WITH RESPECT TO OTHER PROPERTIES), THEN LANDLORD'S REMEDIES FOR DEFAULT SHALL BE LIMITED TO THOSE THAT RELATE TO THE PROPERTY THAT IS IN DEFAULT; THAT IS, LANDLORD MAY RETAKE POSSESSION, TERMINATE THE LEASE, CURE THE DEFAULT (UNDER PARAGRAPH 11.3) OR TAKE OTHER ACTION FOR DEFAULT SOLELY AGAINST THE PROPERTY THAT IS IN DEFAULT OR AGAINST TENANT (BY CLAIM AND ACTION FOR DAMAGES) AND NOT BY DECLARING A DEFAULT AS TO OTHER PROPERTIES COVERED BY THIS LEASE.

11.2 DAMAGES FOR DEFAULT. Whether or not Landlord retakes possession or relets the Property, Landlord may recover all damages caused by the default (including but not limited to unpaid rent, attorneys' fees relating to the default, and costs of reletting). Landlord may sue periodically to recover damages as they accrue during the remainder of the lease term without barring a later action for further damages. Landlord may at any time bring an action for accrued damages plus damages for the remaining lease term equal to the difference between the rent specified in this Lease and the reasonable rental value of the Property for the remainder of the term, discounted to the time of judgment at the rate of NINE PERCENT (9%) per annum.

11.3 CURE OF TENANT'S DEFAULT. Without prejudice to any other remedy for default, Landlord may perform any obligation or make any payment required to cure a default by Tenant. The cost of performance, including attorneys' fees and all disbursements, shall immediately be repaid by Tenant upon demand, together with interest from the date of expenditure until fully paid at the rate of 18 percent per annum, but not in any event at a rate greater than the maximum rate of interest permitted by law.

11.4 PERCENTAGE RENT. If at the time of any default Gross Sales from the Property are sufficient to cause percentage rent in excess of the monthly base rent amount to be payable, or if Tenant has previously made such payments to Landlord, then in computing damages the monthly Gross Sales for purposes of computing percentage rent for the remainder of the calendar year and subsequent calendar years will be regarded as the higher of (i) the average Gross Sales for the 12 months immediately prior to the default, or (ii) the average Gross Sales for the prior 2 full calendar years. Any damage computation shall consider that percentage rent would have been paid during the remainder of the lease term based upon such average monthly Gross Sales.

12. SURRENDER AT EXPIRATION.

12.1 CONDITION OF PROPERTY. Upon expiration of the lease term or earlier termination on account of default, Tenant shall deliver all keys to Landlord and surrender the Property in first-class condition. DEPRECIATION AND WEAR FROM ORDINARY USE FOR THE PURPOSE FOR WHICH THE PROPERTY WAS LET NEED NOT BE RESTORED, BUT ALL REPAIR FOR WHICH TENANT IS RESPONSIBLE SHALL BE COMPLETED TO THE LATEST PRACTICAL DATE PRIOR TO SUCH SURRENDER. All repair for which Tenant is responsible shall be completed to the latest practical date prior to such surrender.

12.2 FIXTURES AND INSTALLATIONS. Upon expiration of the lease term or earlier termination on account of default, Tenant shall remove all of its furnishings, furniture, and trade fixtures that remain the property of Tenant. ALL FIXTURES PLACED UPON THE PROPERTY DURING THE LEASE TERM OR PURSUANT TO THE ORIGINAL LEASE OF THE PROPERTY BETWEEN THE PARTIES THAT PRE-DATED THIS LEASE (EXCEPT TENANT'S OWN TRADE FIXTURES) SHALL, AT LANDLORD'S OPTION, BECOME THE PROPERTY OF LANDLORD ON EXPIRATION OR TERMINATION OF THIS LEASE. TENANT will remove any alterations, improvements and installations made by Tenant that Landlord requires Tenant to remove, as Landlord may specify on expiration or termination of this Lease, except any that Landlord has specifically agreed in writing may remain on the Property after expiration or termination of this Lease. Tenant will restore any physical damage caused by such removal (including, without limitation, resurfacing or covering holes in the walls, floors or other parts of the Property and any necessary repainting to put the Property in the condition required by this Lease). If Tenant fails to do so, such failure shall, at Landlord's option, be deemed an abandonment of the property and Landlord may retain the property and all rights of Tenant with respect to it shall cease or, by notice in writing given to Tenant within 20 days after removal was required, Landlord may elect to hold Tenant to its obligation of removal. If Landlord elects to require Tenant to remove, Landlord may effect a removal and place the property in public storage for Tenant's account. Tenant shall be liable to Landlord for the cost of removal, restoration, transportation to storage, and storage, with interest on all such expenses as provided in paragraph 11.3 above.

THE TIME FOR REMOVAL OF ANY PROPERTY OR FIXTURES THAT TENANT IS REQUIRED TO REMOVE FROM THE PROPERTY AS PROVIDED ABOVE SHALL BE AS FOLLOWS: (i) IF THIS LEASE EXPIRES OR IS TERMINATED ON ACCOUNT OF DEFAULT, ON OR BEFORE THE DATE THE LEASE TERMINATES; AND (ii) IF THIS LEASE IS OTHERWISE TERMINATED IN ACCORDANCE WITH ITS TERMS, ON OR BEFORE 30 DAYS AFTER THE DATE OF THE NOTICE OF TERMINATION.

12.3 HOLDOVER. If Tenant does not vacate the Property at the time required, Landlord shall have the option to treat Tenant as a tenant from month to month, subject to all of the provisions of this Lease (except that the term will be month to month and the initial base rent will be 125 percent of the base rent then being paid by Tenant), or to eject Tenant from the Property and recover damages caused by wrongful holdover. Failure of Tenant to remove property or installations which Tenant is required to remove under paragraph 12.2 shall constitute a failure to vacate to which this paragraph shall apply if the property or installations not removed substantially interferes with occupancy of the Property by another tenant or with occupancy by Landlord for any purpose including preparation for a new tenant. If a month-to-month tenancy results from a holdover by Tenant, the tenancy shall be terminable at the end of any monthly rental period on written notice from Landlord given not less than 20 days prior to the termination date which shall be specified in the notice. Tenant waives any notice which would otherwise be provided by law with respect to month-to-month tenancy.

13. WARRANTY OF QUIET ENJOYMENT; PRIOR MATTERS.

13.1 WARRANTY OF QUIET ENJOYMENT. So long as Tenant complies with all terms of this Lease, Tenant shall be entitled to peaceable and undisturbed possession of the Property free from any interference by Landlord or those claiming through Landlord.

13.2 PRIOR MATTERS. The Property is subject and subordinate to (i) any construction, operation and reciprocal easement agreement (the "REA") now or hereafter in effect with respect to the Development, and (ii) applicable zoning and code requirements. Any REA shall not prevent Tenant from using the Property for the purposes set forth in paragraph 3.1.

14. GENERAL PROVISIONS.

14.1 TIME OF ESSENCE. Time is of the essence of the performance of each of Tenant's obligations under this Lease.

14.2 MODIFICATIONS. This Lease may not be modified except by A FORMAL WRITTEN MODIFICATION OF THIS LEASE WHICH HAS BEEN DATED AND MUTUALLY executed by the parties. Landlord shall not be bound by any statement of any agent or employee modifying this Lease.

14.3 NO APPURTENANCES. This Lease does not create any rights to light and air by means of openings in the walls of the Building, any rights or interests in parking facilities, any view rights or restrictions on changes or additions to or within the Development, or any other rights, easements or licenses, by implication or otherwise, except as expressly set forth in this Lease or its exhibits.

14.4 NO ENCUMBRANCING BY TENANT. Landlord will not be subordinating its interest in the Property to any financing by Tenant. Any such financing by Tenant will not be secured by the Property or Tenant's leasehold estate, but may be secured by Tenant's furnishings, furniture and trade fixtures that Tenant is permitted to remove pursuant to paragraph 12.2 and other terms of this Lease and applicable law.

14.5 NONWAIVER. No waiver will be effective unless it is in writing, signed by an authorized person, and otherwise meeting the requirements for modifications of this Lease. Waiver of performance of any provision shall not be a waiver of nor prejudice the party's right otherwise to require performance of the same provision or any other provision.

14.6 SUCCESSION. Subject to the limitations on transfer of Tenant's interest, this Lease shall bind and inure to the benefit of the parties, their respective heirs, successors, and assigns.

14.7 INSPECTION. Landlord or its authorized representatives may enter at any reasonable time to determine Tenant's compliance with this Lease, to make necessary repairs, or (after at least 24 hours' notice) to show the Property to any actual or prospective mortgagees or purchasers or, during the last 180 days of the Lease term, to prospective tenants.

14.8 RELOCATION OF PROPERTY. From time to time during the lease term, BUT SUBJECT TO ANY APPLICABLE LIMITATION IN PARAGRAPH 1.4, Landlord may (and reserves the right at any time to) remodel, change, remove, alter or add improvements within the Development and change the location of the Building and/or Property.

Landlord will notify Tenant at least NINETY (90) days PRIOR TO the intended date of relocation or temporary closure (for ease of reference, either the date on which either such event will occur is referred to as the "RELOCATION DATE") and provide Tenant with a site plan and other information about the temporary or permanent relocation that Landlord desires to make. The parties will promptly discuss the terms of the relocation and any temporary closure required to do the remodel or other work, and any adjustment required to this Lease as a result of such relocation and/or temporary closure, including (without limitation) the re-calculation of the base rental (on

a per square foot basis) for any increase or decrease in the gross area of the substitute premises (the "SUBSTITUTE PREMISES").

In addition, within 10 days after receipt of Landlord's notice, Tenant will provide to Landlord a written statement, certified by Tenant, as to the not-yet-amortized remaining balance (determined in the same manner as for federal income tax purposes by Tenant), as shown on Tenant's records (the "IMPROVEMENT BALANCE") of the cost of Tenant's improvements (the "IMPROVEMENT COST") to the Property which were installed by Tenant at (or before OR DURING) the commencement of the Lease term, if any (excluding trade fixtures, equipment and other personal property that Tenant is permitted or required to remove on expiration or termination of this Lease and excluding any improvements, additions and alterations by Tenant installed during the Lease term IF NOT MADE WITH LANDLORD'S CONSENT OR FOR WHICH LANDLORD'S CONSENT IS NOT REQUIRED UNDER THE TERMS AND LIMITATIONS IN THIS LEASE).

If Landlord's remodel would cause the Property to be closed for business for more than FIFTEEN (15) days, and/or if Landlord is proposing a permanent relocation of the Property to Substitute Premises, and if the parties do not mutually agree upon the terms for such closure and/or relocation and execute a memorandum evidencing such terms within 20 days after Landlord's notice of the Relocation Date as provided above, either party may elect in its discretion to terminate this Lease by written notice to the other. If Tenant elects to terminate this Lease, Tenant will surrender and vacate the Property not later than the Relocation Date, and upon completion of such actions both parties will be released from any further liability to each other under this Lease. If Landlord elects to terminate this Lease as permitted above, Tenant will surrender and vacate the Property not later than 10 days after receipt of Landlord's notice of termination or the Relocation Date, whichever is later, and Landlord will pay the Improvement Balance to Tenant upon its surrender and vacation of the Property.

If Tenant is relocated as permitted above, and this Lease is not so terminated, then the parties will cooperate in effecting the relocation, including any necessary relocations to temporary space while demolition, remodeling, reconstruction or other work is being performed to make the Building and/or Substitute Premises ready for Tenant's occupancy. Costs related to any such relocation will be handled as follows: (i) if the relocation occurs PRIOR TO the fifth (5TH) anniversary of the date on which Tenant first opened for business at the Property (whether under this Lease or under the lease that preceded this Lease), then Landlord will be solely responsible for causing Tenant to be moved, paying the costs of moving and installing Tenant's property and readying the SHELL OF THE Substitute Premises for Tenant's use AND WILL PAY OR REIMBURSE TENANT FOR THE REASONABLE OUT-OF-POCKET COST OF PREPARING PLANS AND SPECIFICATIONS FOR THE INSTALLATIONS AND WORK NEEDED TO THE SUBSTITUTE PREMISES; (ii) IF the relocation occurs AFTER the fifth (5TH) anniversary of the date on which Tenant first opened for business at the Property (whether under this Lease or under the lease that preceded this Lease), then Landlord will be responsible for readying the SHELL OF THE Substitute Premises (for THE INSTALLATION OF TENANT'S FIXTURES AND FOR TENANT'S INSTALLATION OF TILE, CARPET AND PAINTING), AND FOR DOING THE WORK REQUIRED TO PROVIDE IT WITH UTILITIES AND OTHER IMPROVEMENTS AT LEAST AS GOOD AS THE CONDITION REQUIRED BY THIS LEASE AT THE TIME OF THE ORIGINAL DELIVERY OF THE LOCATION TO TENANT; AND (iii) Tenant will be responsible for PREPARATION OF ITS PLANS AND SPECIFICATIONS, PERFORMING AND PAYING THE COST OF INSTALLATION OF TENANT'S FIXTURES, AND TENANT'S INSTALLATION OF TILE, CARPET AND PAINTING, AND EFFECTING THE MOVE ITSELF TO THE NEW LOCATION.

THE PARTIES DESIRE TO MINIMIZE THE POSSIBILITY OF ANY POTENTIAL LOSS OR EXPENSE RELATED TO TENANT'S REFURBISHING A PROPERTY AND THEN THEREAFTER BEING REQUIRED TO RELOCATE (TEMPORARILY OR PERMANENTLY). AT THE TIME TENANT REQUESTS CONSENT FOR A REFURBISHING OR NOTIFIES LANDLORD IN WRITING PURSUANT TO PARAGRAPH 4.6 (OR OTHERWISE) OF A PLAN TO REFURBISH OR ALTER THE PROPERTY, THE PARTIES WILL TAKE THE FOLLOWING STEPS: (i) TENANT WILL NOTIFY LANDLORD OF ITS ESTIMATE OF THE COST OF DOING THE REFURBISHING OR OTHER ALTERATION, INCLUDING REASONABLE DETAIL AS TO THE ESTIMATED COST FOR INSTALLATIONS; (ii) LANDLORD WILL PROMPTLY NOTIFY TENANT AS TO WHETHER THE BUILDING AT WHICH THE PROPERTY IS LOCATED IS SCHEDULED DURING THE NEXT 3 YEARS FOR A MAJOR REMODEL THAT MAY REQUIRE TENANT TO RELOCATE (TEMPORARILY OR PERMANENTLY), AS PROVIDED ABOVE; AND (iii) WHEN TENANT COMPLETES ITS REFURBISHING OR OTHER ALTERATION, TENANT WILL PROVIDE TO LANDLORD A STATEMENT IN REASONABLE DETAIL SHOWING THE COSTS FOR INSTALLATIONS AND WORK DONE TO THE PROPERTY. IF LANDLORD NOTIFIES TENANT THAT THE BUILDING IS NOT SCHEDULED FOR A MAJOR REMODEL THAT WOULD REQUIRE ANY RELOCATION OF THE

PROPERTY (TEMPORARILY OR PERMANENTLY), AND IF TENANT THEN PROCEEDS TO REFURBISH OR OTHERWISE ALTER THE PROPERTY IN ANTICIPATION THAT NO MAJOR REMODEL OF THE BUILDING BY LANDLORD WOULD OCCUR WITHIN SUCH 3-YEAR PERIOD, AND IF LANDLORD WAS INCORRECT AND A MAJOR REMODEL IS MADE WITHIN SUCH 3-YEAR PERIOD PURSUANT TO WHICH TENANT IS REQUIRED TO RELOCATE (TEMPORARILY OR PERMANENTLY), THEN THE COSTS OF RELOCATION WILL BE HANDLED IN ACCORDANCE WITH SUBPARAGRAPH (i) OF THE PRECEDING PARAGRAPH, AND NOT SUBPARAGRAPH (ii) OF THE PRECEDING PARAGRAPH (REGARDLESS OF WHETHER THE RELOCATION IS PRIOR TO OR AFTER THE FIFTH (5TH) ANNIVERSARY AS SET FORTH THEREIN).

IF AS A RESULT OF A RELOCATION TENANT IS REASONABLY UNABLE TO OPERATE BUSINESS AT THE LOCATION FOR MORE THAN 72 HOURS, THEN Base rent AND OTHER CHARGES PAYABLE TO LANDLORD UNDER THIS LEASE will be abated under this Lease during the period and to the extent that Tenant is reasonably unable to operate its business during such relocation process. After completion of the relocation, there shall be no rent abatement or other change to the terms of this Lease (other than the relocation of the Property to the Substitute Premises and the re-calculation of the base rent, based on any increase or decrease in its area).

14.9 CUSTOMER RELATIONS. Tenant shall use its best efforts to maintain good relations with customers and will provide first-rate customer service to its customers. Justified customer complaints shall be dealt with to the satisfaction of the customer.

14.10 MASTER LEASE BY LANDLORD. This Lease is and shall be subject and subordinate to any master lease now or hereafter existing between Landlord as lessee and the fee owner or underlying landlord ("MASTER LANDLORD") as lessor, covering the Development, and to all renewals, modifications, consolidations, replacements, and extensions thereof (the "MASTER LEASE"). Landlord will perform its obligations under such Master Lease. Upon Landlord's request, Tenant will promptly execute any confirmation of subordination or any tenant estoppel certificate required by the Master Landlord with respect to this Lease. Landlord will have no obligation, express or implied, to exercise any renewal option(s) in the Master Lease.

14.11 ATTORNMEN. IN the event any proceedings are brought for foreclosure, or in the event of the exercise of the power of sale under any mortgage or trust deed made by Landlord covering the Property, Tenant shall attorn to the purchaser upon any such foreclosure or sale and recognize such purchaser as Landlord under this Lease.

14.12 SUBORDINATION. This Lease is subordinate to any existing Master Lease or mortgage lien on the real property at which the Property is situated. In addition, this Lease shall be subordinate to the lien of any trust deed, mortgage or other security instrument (collectively, "MORTGAGE") hereafter placed upon the Building or other property, and to any and all advances made on the security thereof, and to all renewals, modifications, consolidations, replacements, and extensions thereof. If any such party elects (in its discretion) to have this Lease prior to the lien of its Mortgage, or to grant a non-disturbance and attornment commitment under any such Master Lease, and shall give written notice thereof to Tenant, this Lease shall be deemed prior to such Mortgage held by such party so electing and will survive any termination of Landlord's interest in the Property or under the Master Lease, as applicable, whether this Lease is dated prior or subsequent to the date of such Master Lease or Mortgage or the date of recording thereof. This Lease may be terminated by the holder of such Mortgage or the Master Landlord (in its discretion) in the event Landlord's interest in the Property is acquired upon judicial or nonjudicial foreclosure or by deed-in-lieu of foreclosure or upon termination or expiration of such Master Lease. Upon any such election to terminate, Tenant will continue to pay rent and perform its obligations under this Lease with respect to the Property through the effective date of termination and will vacate and surrender the Property on the effective date of termination.

14.13 ESTOPPEL CERTIFICATES. Within 10 days after Landlord's written request, Tenant shall deliver a written statement stating the date to which the rent and other charges have been paid, whether the Lease is unmodified and in full force and effect, and any other matters that may reasonably be requested by Landlord. Failure to do so within such 10-day period will be a default under this Lease and will not require further notice from Landlord or grace period to cure. In addition, Tenant hereby grants to Landlord an irrevocable power of attorney,

coupled with an interest, to execute, in Tenant's name and stead, any estoppel certificate or subordination instrument required under this paragraph or paragraph 14.12 above, if Tenant fails to do so within such 10-day period.

14.14 FINANCIAL CONDITION. Tenant will promptly notify Landlord in writing of (i) any material adverse change in the liquidity or financial condition of Tenant or any of its partners (if applicable) or any guarantor(s) of this Lease, or (ii) any suit, governmental action, claim or other proceeding pending or threatened in writing which may have a material adverse effect on or involving the Property, Tenant or any partner(s) or guarantor(s) of Tenant's obligations or their respective business operation, condition (financial or otherwise) or prospects. Tenant, any of its partners and any guarantor(s) (as applicable) will promptly provide to Landlord on request such credit reports, current financial statements, balance sheets and other documents and information pertaining to the financial condition and obligations of Tenant, any of its partners or any guarantor(s), in reasonable detail, and, where applicable, certified by such party or parties and (where applicable and as required by Landlord) prepared by qualified accountant or QUALIFIED BOOKKEEPER, as Landlord may REASONABLY require from time to time.

14.15 NOTICES. Any consent, approval, notice or demand (individually, and collectively, a "NOTICE" or "NOTICES") which may or are required or permitted to be given by either party to the other hereunder shall be in writing. All Notices shall be sent by United States Mail, certified or registered mail, return receipt requested, or by recognized overnight courier service (such as Federal Express), or by facsimile or other telecommunication device capable of transmitting and creating a written record (PROVIDED, THAT WITHIN ONE BUSINESS DAY AFTER THE TRANSMISSION OF ANY SUCH FACSIMILE NOTICE OR NOTICE USING ANOTHER TELECOMMUNICATION DEVICE REFERENCED ABOVE THE PARTY WILL FOLLOW UP THE NOTICE BY SENDING A TRUE COPY OF THE NOTICE TO THE OTHER PARTY BY UNITED STATES MAIL OR BY RECOGNIZED OVERNIGHT COURIER SERVICE OR SOME OTHER METHOD OF TRANSMITTAL OTHER THAN THE FACSIMILE OR TELECOMMUNICATION DEVICE), or personally. Notices are effective on receipt. Each party shall give notice to the other or its address for Notices by written Notice to the other. Unless a party designates another address for Notice (by Notice given pursuant to this paragraph), Notices shall be sent to the following addresses:

IF MAILED TO LANDLORD, THEN TO:

IF BY OVERNIGHT COURIER TO LANDLORD, THEN TO:

Fred Meyer Stores, Inc.
PO Box 42121
Portland, OR 97242-0121
Attn: Beverly Stautz, Vice President
Property Management Department
Telephone No.: (503) 797-3121
Facsimile No.: (503) 797-3545

Fred Meyer Stores, Inc.
3800 SE 22nd Avenue
Portland, OR 97202
Attn: Beverly Stautz, Vice President
Property Management Department
Telephone No.: (503) 797-3121
Facsimile No.: (503) 797-3545

WITH A COPY TO:

WITH A COPY TO:

Fred Meyer Stores, Inc.
PO Box 42121
Portland, OR 97242-0121
Attn: Attn: Corporate Legal Department
Telephone No.: (503) 797-7390
Facsimile No.: (503) 797-5623

Fred Meyer Stores, Inc.
3800 SE 22nd Avenue
Portland, OR 97202
Attn: Corporate Legal Department
Telephone No.: (503) 797-7390
Facsimile No.: (503) 797-5623

IF MAILED TO TENANT, THEN TO:

IF BY OVERNIGHT COURIER TO TENANT, THEN TO:

VISTA EYECARE, INC.
ATTENTION: BARRY FELD
PO BOX 1000
LAWRENCEVILLE, GA 30045
TELEPHONE NO.: (770) 822-3600
FACSIMILE NO.: (770) 822-3601

VISTA EYECARE, INC.
ATTENTION: BARRY FELD
296 GRAYSON HIGHWAY
LAWRENCEVILLE, GA 30046
TELEPHONE NO.: (770) 822-3600
FACSIMILE NO.: (770) 822-3601

For the purpose of this Lease, the term "RECEIPT" shall mean the earlier of any of the following: (i) the date of delivery of the Notice to the address specified pursuant to this paragraph as shown on the return receipt or by the records of the courier, (ii) the date of actual receipt of the Notice by the office of the person or entity specified pursuant to this paragraph, or (iii) in the case of refusal to accept delivery or inability to deliver the Notice, the earlier of (A) the date of the attempted delivery or refusal to accept delivery, (B) the date of the postmark on the return receipt, or (C) the date of receipt by the sending party of notice that the Notice has been refused or cannot be delivered. With respect to any notice sent by facsimile or other telecommunication device, the term "RECEIPT" will mean electronic verification that transmission to the recipient was completed, if such transmission occurs during the normal business hours, or otherwise on the next business day after the date of transmission.

14.16 ATTORNEYS' FEES. In the event suit or action is instituted to interpret or enforce the terms of this Lease, the prevailing party shall be entitled to recover from the other party such sum as the court may adjudge reasonable as attorneys' fees, in addition to all other sums provided by law. As used in this Lease, the term "ATTORNEYS' FEES" OR "EXPENSES" (or similar references to attorneys' fees and costs or expenses of Landlord) shall mean all attorneys' and paralegals' fees and expenses, whether in an action or proceeding, upon appeal there from or in connection with any petition for review or action for rescission, or in a case or proceeding under the Bankruptcy Code or successor statute, including the adjudication of any issues that particularly relate thereto, or in connection with any other action to enforce any provision of this LEASE.

14.17 RELATIONSHIP OF PARTIES. The relationship of the parties to this Lease is that of landlord and tenant. Landlord is not a partner or joint venturer or joint employer with Tenant in any respect or for any purpose in the conduct of Tenant's business or otherwise. The provisions of this Lease for payment by Tenant of percentage rent pursuant to paragraph 2 are solely for the purpose of providing a method for measuring and ascertaining rental payments. Landlord is making no opening or operating covenants or any representations, express or implied, regarding any other business in the Development, whether operated by Landlord or any third party, and shall have no liability to Tenant if any such business either fails to commence operations or hereafter ceases operations.

14.18 NON-OCCUPANCY AND CONCESSION RECAPTURE. Landlord has provided certain concessions and agreed to incur certain expenses (including, without limitation, any initial "free rent" period, broker's commissions and certain tenant improvement and other work), in reliance upon Tenant's warranty that Tenant shall faithfully and fully perform in a timely manner all terms and conditions of this Lease. Accordingly, if Tenant fails to occupy the Property or subsequently defaults in performance of its obligations hereunder during the first 24 months of the Lease term, the concessions and such expenses will be immediately due and payable to Landlord as additional rent and will be paid to Landlord on demand. This paragraph will not apply after the first 24 months of the Lease term if Tenant continues to occupy and is not in default through the first 24 months of the Lease term.

14.19 APPLICABLE LAW. This Lease will be governed and construed in accordance with the laws of the State in which the Development is situated.

14.20 PRIOR AGREEMENTS. The parties have attached various exhibits to this Lease containing additional terms, which are incorporated in this Lease by this reference as though fully set forth in this Lease. This Lease is the entire, final, and complete agreement of the parties with respect to the matters set forth in this Lease, and supersedes and replaces all written and oral agreements previously made or existing by and between the parties or their representatives (including, without limitation, any letter of intent) with respect to such matters.

14.21 VALIDITY OF PROVISIONS. If any of the provisions contained in this Lease shall be invalid, illegal, or unenforceable in any respect, the validity of the remaining provisions contained in this Lease shall not be affected.

14.22 NATURE OF MULTIPLE LOCATION LEASE AND CROSS-DEFAULT. [THIS PARAGRAPH HAS BEEN INTENTIONALLY DELETED BY THE PARTIES.]

14.23 JOINT AND SEVERAL LIABILITY. In the event Tenant now or subsequently consists of more than one person, firm or corporation, then all such persons, firms or corporations, then all such persons, firms or corporations shall be jointly and severally liable as Tenant under this Lease.

14.24 COUNTERPARTS. This Lease may be executed in any number of counterparts and by the parties hereto in separate counterparts, each of which (when so executed and delivered) shall be deemed to be an original, and all of which (when taken together) shall constitute one and the same instrument.

14.25 LANDLORD'S OBLIGATIONS. The term "LANDLORD" (as used in this Lease) shall be limited to mean and include only the person or entity holding the interest of lessor/landlord under this Lease (or any mortgagee-in-possession, during the time period of its possession), at the time in question. In the event of any transfer(s) of the title of the Property, the Landlord (and in case of any subsequent transfers or conveyances, the then grantor) shall be automatically freed and relieved of its liabilities accruing from and after the date of such transfer BUT WITHOUT RELEASING THE TRANSFEROR FROM ANY LIABILITY FOR A MATTER THAT ACCRUED PRIOR TO THE DATE OF TRANSFER).

Notwithstanding anything contained in the preceding paragraph or in any other provision of this Lease, THE FOLLOWING WILL APPLY: (i) Tenant shall look solely to the estate and interest of Landlord, its successors and assigns, in the Development (and any condemnation, insurance or other proceeds thereof) for the collection of any judgment (or other judicial process) against Landlord based upon the breach by Landlord of any of the terms, conditions or covenants of this Lease on the part of Landlord to be performed, and no other property or assets of Landlord shall be subject to levy, execution or other enforcement procedures for the satisfaction of Tenant's remedies under or with respect to either this Lease, the relationship of Landlord and Tenant under this Lease, or Tenant's use and occupancy of the Property; (ii) NO officer, director, trustee, partner, principal, agent or other third person, other than Landlord, will be liable for any default or breach by Landlord; AND (iii) IF Landlord now or hereafter is a partnership, trustee(s) of a trust, limited liability company or other entity, then the partners, trustee(s), members of the limited liability company or owners of the entity will not be liable personally for the performance of this Lease by Landlord.

14.26 BROKERS. Each party will defend, indemnify and hold the other party harmless from any claim, loss or liability made or imposed by any third party claiming a commission or fee in connection with this transaction and arising out of its own conduct.

14.27 NO OFFER OR OPTION; NO RECORDATION. The submission of this Lease for examination by Tenant does not constitute an offer or an option to lease the Property, nor is it intended as a reservation of the Property or the benefit of Tenant. On the contrary, it is expressly understood that this Lease shall not be effective or binding upon the parties until it is fully executed by both Tenant and Landlord. This Lease will NOT be recorded.

NEITHER THE DELIVERY OF THIS LEASE TO TENANT FOR EXECUTION NOR THE DELIVERY OF ANY SIGNED LEASE TO LANDLORD WILL CREATE A BINDING CONTRACTUAL OBLIGATION, OR A LEASE CONTRACT BY ESTOPPEL OR OTHERWISE, BETWEEN THE PARTIES. THIS LEASE MUST BE SIGNED AND DELIVERED TO LANDLORD AT ITS ADDRESS STATED ABOVE NOT LATER THAN 5 PM (PACIFIC TIME) ON _____ 199__, AND LANDLORD WILL HAVE 10 DAYS AFTER RECEIPT OF THE SIGNED LEASE TO ACCEPT AND EXECUTE THIS LEASE, AND IF NOT SO SIGNED AND EXECUTED WITHIN SUCH TIME PERIODS, THIS LEASE WILL BE NULL AND VOID AND OF NO EFFECT.

[NO MORE TEXT ON THIS PAGE]

IN WITNESS WHEREOF, the parties have executed this Lease as of the date first above written.

LANDLORD:

FRED MEYER STORES, INC.,
A DELAWARE CORPORATION, ROUNDUP
CO., A WASHINGTON CORPORATION,
GRAND CENTRAL, INC., A UTAH
CORPORATION, AND FRED MEYER OF
ALASKA, INC., AN ALASKAN CORPORATION

By: /s/ BEVERLY STAUTZ

Name printed: BEVERLY STAUTZ,
Title: VICE PRESIDENT, PROPERTY
MANAGEMENT DEPARTMENT

TENANT:

VISTA EYECARE, INC.,
A GEORGIA CORPORATION

By: /s/ Barry J. Feld

Name printed: Barry J. Feld
TITLE: President and Co
Dated: 4-23-99

By: /s/ Mitchell Goodman

Name printed: Mitchell Goodman
Title: Sup, General Counsel and Secretary
DATED: 4-23-99

Phone: (770) 822-3600

Dated: 4/26/99

Facsimile (if any): (770) 822-3601

Social Security Number or Federal
Taxpayer Identification Number:

EIN# 58-1910859

Name, address and telephone number at
which a representative of Tenant can be
contacted outside of business hours:

Barry J. Feld
296 Grayson Hwy
Lawrenceville, Ga Zip: 30045

Phone: 770-822-2384

Facsimile (if any): 770-822-2027
[NOTE: FRED MEYER REQUIRES THAT TWO
AUTHORIZED CORPORATE OFFICERS MUST
EXECUTE THIS LEASE FOR TENANT.]

FMI FORM 201 (Jan 1992 - REVISED 4/96) RETAIL LEASE AGREEMENT March 22, 1999

EXHIBIT A

ADDITIONAL PROVISIONS

1. SECURITY DEPOSIT.

Upon execution of this Lease, Tenant has paid a security deposit to Landlord in the amount of \$NONE. The deposit shall be held by Landlord to secure all payments and performances due from Tenant under this Lease. Landlord may commingle the deposit with its funds and will owe no interest on the deposit. Landlord may apply the deposit to the cost of performing any obligation which Tenant fails to perform within the time required by this Lease, but such application by Landlord shall not be the exclusive remedy for Tenant's default. If the deposit is applied by Landlord, Tenant shall pay the sum necessary to replenish the deposit to its original amount upon Landlord's demand. To the extent not applied by Landlord, the deposit shall be refunded to Tenant within 30 days after expiration of the lease term.

2. TENANT'S OPTION TO RENEW LEASE.

2.1 RENEWAL OPTION. Subject to satisfaction of the other conditions stated below, Tenant will have the option to renew this Lease for ONE (1) additional renewal term, as provided below, provided that each of the following conditions is satisfied: (i) Tenant shall not have failed to pay rent or charges required under this Lease within 10 days after it is due on three (3) or more occasions in the 24-month period prior to exercise of the renewal option (whether or not Landlord has exercised remedies for such failure or Tenant has subsequently cured the late payments); (ii) no event of default shall be outstanding as of the time the option is exercised and at the time the renewal term is to commence; and (iii) the Master Lease term must extend to the end of such renewal term. The renewal term will be for FIVE (5) year (60 calendar month) term, commencing on the day following expiration of the preceding term. The other terms and conditions of this Lease will remain the same during the renewal term, except that the monthly base rent shall be as provided in paragraph 2.2 below and Tenant will have no further option to renew this Lease. Exercise of the renewal option shall be by notice given at least 180 days prior to expiration of the preceding term. THIS LEASE MAY BE RENEWED ONLY AS TO ALL LOCATIONS WHICH ARE THEN PART OF THE PROPERTY THAT IS SUBJECT TO THIS LEASE (AND TENANT MAY NOT RENEW ITS LEASE AS TO SOME LOCATIONS AND NOT OTHERS).

2.2 BASE RENT DURING RENEWAL TERM. During the renewal term(s), the monthly base rent shall be ADJUSTED AS SET FORTH IN PARAGRAPH 2.2 OF THE LEASE.

2.3 PROCEDURE FOR RENT ARBITRATION. [THIS SECTION HAS BEEN INTENTIONALLY DELETED BY THE PARTIES.]

2.4 ADJUSTMENT OF BASE RENT DURING MIDDLE OF RENEWAL TERM. [THIS SECTION HAS BEEN INTENTIONALLY DELETED BY THE PARTIES.]

2.5 ADJUSTMENT OF SECURITY DEPOSIT. [THIS SECTION HAS BEEN INTENTIONALLY DELETED BY THE PARTIES.]

3. LOCATIONS THAT ARE THE INITIAL PROPERTY.

ATTACHED AS PART OF THIS EXHIBIT IS A SCHEDULE (EXHIBIT A-3) OF ALL PROPERTY THAT IS INITIALLY SUBJECT TO THIS LEASE. THE SPECIAL LOCATIONS WILL BE ADDED TO THIS LEASE, BUT WITH DIFFERENT RENT AND RELATED PROVISIONS, PURSUANT TO THE ADDENDUM #1 TO LEASE EXECUTED CONTEMPORANEOUSLY HERewith.

4. LANDLORD'S AND TENANT'S WORK GENERALLY AS TO ADDITIONAL LOCATIONS.

4.1 ADDITIONAL LEASES. LANDLORD IS NOT OBLIGATED TO OFFER ANY ADDITIONAL LOCATIONS TO TENANT OR TO GIVE TENANT A RIGHT OF FIRST REFUSAL, FIRST OPPORTUNITY TO LEASE OR OTHER OPPORTUNITIES OF ANY KIND TO LEASE ADDITIONAL LOCATIONS. IF LANDLORD IN FACT OFFERS, AND TENANT ACCEPTS AN OFFER OF, ADDITIONAL LOCATIONS, AS

EVIDENCED BY A FULLY EXECUTED LEASE ADDENDUM, SUPPLEMENT OR AMENDMENT TO THIS LEASE, THEN LANDLORD WILL BE RESPONSIBLE FOR PERFORMING WORK TO PREPARE A LOCATION (ALSO REFERRED TO HEREIN, INDIVIDUALLY, AS AN "ADDITIONAL LOCATION" AND, COLLECTIVELY, AS "ADDITIONAL LOCATIONS") FOR TENANT'S USE IN ACCORDANCE WITH THE TERMS OF THE LEASE AND ITS EXHIBITS AND WITH THE LEASE ADDENDUM, SUPPLEMENT OR AMENDMENT THAT ADDED THE ADDITIONAL LOCATION TO THE LEASE. THE LEASE ADDENDUM, SUPPLEMENT OR AMENDMENT THAT ADDED THE ADDITIONAL LOCATION TO THE LEASE WILL SPECIFY WHICH OF THE ATTACHED EXHIBITS WILL APPLY TO THE ADDITIONAL LOCATION.

4.2 DELIVERY OF POSSESSION. LANDLORD SHALL HAVE NO LIABILITY FOR DELAYS IN DELIVERY OF POSSESSION CAUSED BY LABOR DISPUTES, SHORTAGES OF MATERIALS, ACTS OF GOD, HOLDOVER BY PRIOR TENANTS, OR OTHER CAUSES. TENANT WILL NOT HAVE THE RIGHT TO TERMINATE THIS LEASE BECAUSE OF DELAY IN THE DELIVERY OF POSSESSION FOR ANY REASON. HOWEVER, THE COMMENCEMENT DATE AND TENANT'S OBLIGATION TO PAY RENT (INCLUDING, BASE RENT, PERCENTAGE RENT AND "ADDITIONAL RENT") WILL BE DELAYED UNTIL POSSESSION IS DELIVERED TO TENANT AND THE BUILDING IS OPEN AND BEING OPERATED FOR BUSINESS TO THE GENERAL PUBLIC. DELIVERY OF POSSESSION WILL OCCUR WHEN TENANT ACTUALLY OCCUPIES THE ADDITIONAL LOCATION OR WHEN THE ADDITIONAL LOCATION IS AVAILABLE FOR OCCUPANCY BY TENANT WITH THE WORK REQUIRED BY THIS LEASE TO BE PERFORMED BY LANDLORD SUBSTANTIALLY COMPLETED. THE TERM "SUBSTANTIALLY COMPLETED" MEANS THAT ITEMS OF LANDLORD'S WORK ARE COMPLETED, EXCEPT FOR ANY ITEMS WHOSE SUBSEQUENT COMPLETION WILL NOT INTERFERE WITH TENANT'S WORK AND WHICH ARE SHOWN ON ANY "PUNCH LIST" WHICH THE PARTIES PREPARE AND MUTUALLY APPROVE IN WRITING PRIOR TO ANY ENTRY FOR COMMENCEMENT OF TENANT'S WORK. LANDLORD SHALL NOT BE REQUIRED TO PERFORM ANY WORK TO READY THE PROPERTY FOR TENANT'S OCCUPANCY UNLESS THE PARTIES HAVE DESCRIBED THE WORK TO BE PERFORMED IN THE LEASE ADDENDUM, SUPPLEMENT OR AMENDMENT THAT ADDS THE ADDITIONAL LOCATION TO THIS LEASE.

4.3 TENANT'S PLANS. TENANT WILL PROMPTLY PROVIDE TO LANDLORD PLANS AND OTHER INFORMATION CONCERNING THE LAYOUT, DESIGN, CONSTRUCTION, AND OPERATION OF TENANT'S AREA (INCLUDING, WITHOUT LIMITATION, SALE DISPLAY AND STORAGE AREAS, TENANT'S EQUIPMENT AND PERSONAL PROPERTY, SIGNS AND ELECTRICAL EQUIPMENT, AND REQUIREMENTS), WHICH WILL BE SUBJECT TO LANDLORD'S REVIEW AND APPROVAL.

4.4 LANDLORD'S WORK. LANDLORD WILL NOT BE REQUIRED TO PERFORM ANY WORK TO READY THE ADDITIONAL LOCATION FOR TENANT'S OCCUPANCY, EXCEPT FOR THE INSTALLATION OF DEMISING WALLS, UTILITY SERVICES REASONABLY REQUIRED BY TENANT, STUBBING IN OF THE HVAC TO THE POINT OF OUTLET ON THE ADDITIONAL LOCATION, AND ELECTRICAL OUTLETS AND STANDARD LIGHTING FOR THE BUILDING. LANDLORD WILL NOTIFY TENANT WHEN THE ADDITIONAL LOCATION IS READY FOR THE INSTALLATION OF TENANT IMPROVEMENTS AND TENANT'S TRADE FIXTURES AND EQUIPMENT. TENANT WILL CONCLUSIVELY BE DEEMED TO HAVE AGREED THAT THE ADDITIONAL LOCATION IS IN GOOD AND SATISFACTORY CONDITION, UNLESS TENANT NOTIFIES LANDLORD IN WRITING, WITHIN 30 DAYS AFTER THE RECEIPT OF LANDLORD'S NOTICE, OF THE CONDITION OF THE ADDITIONAL LOCATION THAT DOES NOT CONFORM TO THIS LEASE AND THE LEASE ADDENDUM, SUPPLEMENT OR AMENDMENT THAT ADDS THE ADDITIONAL LOCATION TO THIS LEASE.

4.5 APPROVAL OF WORK. UPON COMPLETION AND TENANT'S APPROVAL OF LANDLORD'S WORK, TENANT WILL ACCEPT THE ADDITIONAL LOCATION IN THE CONDITION WHICH IT MAY THEN BE, AS IS.

4.6 EARLY OCCUPANCY. IF TENANT ENTERS THE ADDITIONAL LOCATION PRIOR TO SUBSTANTIAL COMPLETION OF LANDLORD'S WORK, FOR THE PURPOSE OF INSTALLING TENANT IMPROVEMENTS AND FIXTURES OR EQUIPMENT, TENANT SHALL HOLD LANDLORD HARMLESS AND INDEMNIFY LANDLORD FOR ANY LOSS OR DAMAGE TO TENANT'S PROPERTY, FIXTURES, EQUIPMENT AND MERCHANDISE AND FOR INJURY TO ANY PERSONS, AND TENANT WILL BE RESPONSIBLE FOR PAYING FOR ANY ADDITIONAL WORK OR ANY INCREASED COSTS RESULTING FROM SUCH EARLY OCCUPANCY.

4.7 TENANT'S WORK. TENANT WILL BE RESPONSIBLE FOR PERFORMING ALL TENANT IMPROVEMENTS AND ANY ADDITIONAL WORK REQUIRED TO MAKE THE ADDITIONAL LOCATION READY FOR THE OPERATION OF TENANT'S BUSINESS. ALL WORK WILL BE PROMPTLY PERFORMED IN A GOOD AND WORKMANLIKE MANNER AND THE COSTS PAID BY TENANT. ANY ALTERATIONS OR IMPROVEMENTS TO THE ADDITIONAL LOCATION WILL BE SUBJECT TO LANDLORD'S PRIOR REVIEW AND APPROVAL.

5. STORE CLOSURES BY LANDLORD. LANDLORD MAY IN THE FUTURE DETERMINE THAT AN ENTIRE DEVELOPMENT OR LANDLORD'S RETAILING OPERATION WITHIN A BUILDING SHOULD BE SHUT DOWN. IN THAT EVENT, SO LONG AS THE BUSINESS JUDGMENT OF LANDLORD IS EXERCISED IN GOOD FAITH AND NOT PRIMARILY FOR THE PURPOSE OF DENYING TENANT RIGHTS IT WOULD OTHERWISE HAVE UNDER THIS LEASE, THEN UPON 120 DAYS' NOTICE TO TENANT, THE RIGHTS OF TENANT UNDER THE LEASE AND ITS LEASE OF THE PROPERTY AT SUCH DEVELOPMENT MAY BE TERMINATED BY LANDLORD.

IN ADDITION, IF LANDLORD IN THE FUTURE DETERMINES THAT AN ENTIRE DEVELOPMENT OR LANDLORD'S RETAILING OPERATION WITHIN A BUILDING SHOULD BE SHUT DOWN, TENANT WILL ALSO HAVE THE RIGHT AND OPTION TO TERMINATE THIS LEASE AS TO THE DEVELOPMENT OR BUILDING THAT HAS BEEN OR IS BEING SHUT DOWN. IN THE EVENT LANDLORD NOTIFIES TENANT THAT LANDLORD IS SHUTTING DOWN RETAIL OPERATIONS AT A DEVELOPMENT OR WITHIN A BUILDING, BUT HAS NOT ALSO SPECIFIED THAT THE LEASE AT THE DEVELOPMENT OR BUILDING IS BEING TERMINATED, THEN TENANT MAY NOTIFY LANDLORD, NOT LATER THAN THIRTY (30) DAYS AFTER RECEIPT OF LANDLORD'S NOTICE THAT LANDLORD IS SHUTTING DOWN RETAIL OPERATIONS AT A DEVELOPMENT OR WITHIN THE BUILDING, THAT TENANT ELECTS TO TERMINATE THIS LEASE (THE EFFECTIVE DATE OF TENANT'S TERMINATION OF THIS LEASE MAY BE AT ANY TIME ON OR AFTER THE DATE OF DELIVERY OF THE NOTICE TO LANDLORD, BUT NOT LATER THAN THIRTY (30) DAYS THEREAFTER).

THE PARTIES DESIRE TO MINIMIZE THE POSSIBILITY OF ANY POTENTIAL LOSS OR EXPENSE RELATED TO TENANT'S REFURBISHING A PROPERTY AND THEN HAVING LANDLORD ELECT THEREAFTER TO SHUT DOWN RETAIL OPERATIONS AT THE DEVELOPMENT OR BUILDING AT WHICH TENANT DOES THE REFURBISHING. AT THE TIME TENANT REQUESTS CONSENT FOR A REFURBISHING OR NOTIFIES LANDLORD IN WRITING PURSUANT TO PARAGRAPH 4.6 (OR OTHERWISE) OF A PLAN TO REFURBISH THE PROPERTY, THE PARTIES WILL TAKE THE FOLLOWING STEPS: (I) TENANT WILL NOTIFY LANDLORD OF ITS ESTIMATE OF THE COST OF DOING THE REFURBISHING OR OTHER ALTERATION, INCLUDING REASONABLE DETAIL AS TO THE ESTIMATED COST FOR INSTALLATIONS; (IF) LANDLORD WILL PROMPTLY NOTIFY TENANT AS TO WHETHER LANDLORD'S RETAILING OPERATION AT THE BUILDING AT WHICH THE PROPERTY IS LOCATED IS SCHEDULED TO BE SHUT DOWN DURING THE THEN-CURRENT TERM OF THIS LEASE AND (III) WHEN TENANT COMPLETES ITS REFURBISHING OR OTHER ALTERATION, TENANT WILL PROVIDE TO LANDLORD A STATEMENT, CERTIFIED BY TENANT AND IN REASONABLE DETAIL, SHOWING THE COSTS FOR INSTALLATIONS AND WORK DONE TO THE PROPERTY. IF LANDLORD NOTIFIES TENANT THAT LANDLORD'S RETAILING OPERATION AT THE BUILDING IS NOT SCHEDULED TO BE SHUT DOWN DURING THE THEN-CURRENT TERM OF THIS LEASE, AND IF TENANT THEN PROCEEDS TO REFURBISH THE PROPERTY IN ANTICIPATION THAT NO SHUTTING DOWN OF OPERATIONS BY LANDLORD WOULD OCCUR WITHIN THE THEN-CURRENT TERM OF THIS LEASE, AND IF LANDLORD WAS INCORRECT AND A SHUTTING DOWN OF RETAIL OPERATIONS IS MADE DURING THE THEN-CURRENT TERM OF THIS LEASE, AND IF THIS LEASE IS TERMINATED BY LANDLORD OR TENANT UNDER THIS PARAGRAPH, THEN LANDLORD SHALL PAY TO TENANT, UPON TENANT'S SURRENDER AND VACATION OF THE PROPERTY, THE NOT-YET-AMORTIZED "IMPROVEMENT BALANCE." FOR THIS PURPOSE, THE "IMPROVEMENT BALANCE" WILL BE AS DEFINED, AND WILL BE DETERMINED ON THE SAME BASIS AS PROVIDED, IN PARAGRAPH 14.8 (PROVIDED THE IMPROVEMENTS WERE MADE WITH LANDLORD'S CONSENT OR WERE IMPROVEMENTS FOR WHICH LANDLORD'S CONSENT WAS NOT REQUIRED UNDER THE TERMS AND LIMITATIONS OF THE LEASE). TENANT WILL PROVIDE A WRITTEN, CERTIFIED STATEMENT AS TO THE IMPROVEMENT COST AND IMPROVEMENT BALANCE AND THE PARTIES WILL OTHERWISE CONFORM TO THE TERMS AND PROCEDURES IN THE THIRD FULL PARAGRAPH OF PARAGRAPH 14.8 WITH RESPECT TO THE DETERMINATION OF THE AMOUNT TO BE PAID TO TENANT.

6. DISCLAIMERS. NOTHING IN THIS LEASE OR ANY OTHER AGREEMENT, CONDUCT OR ACTION OF THE PARTIES WILL BE CONSTRUED TO LIMIT LANDLORD'S RIGHT TO MERGE WITH OR INTO ANY PARENT, AFFILIATED OR OTHER ENTITY OR TO LIMIT THE TRADE NAME(S), STYLE OF OPERATION OR OTHER ASPECTS OF LANDLORD'S BUSINESS OPERATIONS. WHETHER OR NOT LANDLORD MAY CONTINUE TO OPERATE A BUILDING AS A FRED MEYER RETAIL STORE IS A DECISION THAT THE SENIOR MANAGEMENT OF LANDLORD (AND OF LANDLORD'S CORPORATE PARENT(S)) MAY MAKE IN THE FUTURE ON A STORE-BY-STORE BASIS. NOTHING IN THIS LEASE OR ANY OTHER AGREEMENT, CONDUCT OR ACTION OF THE PARTIES WILL BE DEEMED TO REQUIRE LANDLORD TO CONTINUE TO OPERATE A BUILDING AS A FRED MEYER RETAIL STORE. FURTHERMORE, LANDLORD (OR ITS CORPORATE PARENT(S)) MAY FROM TIME TO TIME DECIDE TO SHUT DOWN THE FRED MEYER RETAIL STORE OR CHANGE ITS FORMAT, TRADE NAME AND/OR STYLE OF OPERATION TO THAT OF A NON-FRED MEYER RETAIL FACILITY, IN WHICH CASE SUCH SHUT DOWN OR CHANGE WILL BE TREATED AS IF IT WERE A STORE CLOSURE UNDER PARAGRAPH 5 ABOVE, AND LANDLORD AND TENANT WILL HAVE THE RIGHT TO TERMINATE THE LEASE OF THE PROPERTY AT SUCH DEVELOPMENT AS IS INVOLVED IN THE SHUT DOWN OR CHANGE, ON THE SAME BASIS AND AFTER NOTICE AS IS PROVIDED IN PARAGRAPH 5 ABOVE. NOTHING IN THIS LEASE OR ANY OTHER AGREEMENT, CONDUCT OR ACTION OF THE PARTIES WILL BE CONSTRUED AS AN EXPRESS OR IMPLIED

COMMITMENT TO LEASE ONLY TO TENANT ANY SPACE AT ANY STORE OF LANDLORD (AND/OR LANDLORD'S AFFILIATES OR CORPORATE PARENT(S)) THAT IT OR THEY DECIDE TO USE FOR THE USE PERMITTED UNDER THIS LEASE.

FMI FORM 201 (Jan 1992 - REVISED 4/96) RETAIL LEASE AGREEMENT March 22, 1999

LEASE EXTENSION AND MODIFICATION AGREEMENT

THIS LEASE EXTENSION AND MODIFICATION AGREEMENT, made and entered into this 1st day of July, 2003, by and between NATIONAL VISION, INC. (formerly known as Vista Eyecare), dba Vista Optical, and FRED MEYER STORES, INC. (formerly known as Fred Meyer, Inc.) or its corporate subsidiaries, a Delaware corporation ("Fred Meyer").

W I T N E S S E T H:

WHEREAS, Fred Meyer and National Vision, Inc. hold the landlord's and tenant's interests, respectively, under a master Lease Agreement dated April 26, 1999, as amended ("Lease") which covers National Vision, Inc.'s right to lease and operate Vista Optical stores at various Fred Meyer retail developments which Agreement is incorporated herein by reference; and

WHEREAS, it is now the desire of the parties to modify said Lease in certain particulars as set forth below.

NOW, THEREFORE, for value received, the parties hereby agree as follows:

1. TERM AND RENT
 - a.) The Term of the Lease for all locations on Exhibit A shall be modified or extended to expire on December 31, 2006.
 - b.) Effective January 1, 2004, rent (inclusive of base rent and percentage rent) for each location shall be the greater of \$ * per square foot per year, or *% of Gross Sales which exceeds \$ * per calendar year reported and paid monthly as required by the Lease. All other provisions of Section 2 of the Lease will remain in full force and effect.
 - c.) The five (5) year option provided for in the Lease for all locations (original and additional) is hereby deleted.
2. CLOSURE OF SELECTED LOCATIONS. From and after June 1, 2003 and prior to December 31, 2003, Tenant, at Tenant's sole option, may cease to operate at any or all of the locations as listed on Exhibit B attached hereto. Tenant is required to provide Landlord with twenty (20) days written notice prior to closing any of the locations. The Lease as to a closed location shall terminate as of the time the location closes, except that Tenant must, as of the date any location closes, continue to pay all base and percentage rent obligations as required herein as to the closed location without offset through December 31, 2003 (but Tenant shall have no obligation to pay any additional rent as to any closed location).
3. LANDLORD'S RIGHT TO TERMINATE. Landlord has the right to terminate no more than three (3) locations per year listed in Exhibit A or Exhibit B with sixty (60) days written notice if the Landlord requires Tenant's premises as a result of renovations by Fred Meyer of the Development in which the Property is located.

* Confidential portion, which has been omitted and filed separately with the Commission.

4. GENERAL PROVISIONS.

4.1 AFFIRMATION OF LEASE. Subject to the modifications stated in this Agreement, all of the terms and provisions of the Lease are hereby ratified and reaffirmed.

4.2 ATTORNEYS' FEES. In the event of any litigation concerning this Agreement, the prevailing party shall be entitled to reasonable attorneys' fees and courts costs, at trial, upon appeal and any petition for review.

4.3 ENTIRE AGREEMENT. This Agreement and the Lease (including any attachments) are the entire, final and complete agreement of the parties and supersedes and replaces all prior written and oral agreements between the parties or their representatives with respect to such matters. If any provision therein is held to be invalid or unenforceable for any reason, the remainder shall not be affected and shall be enforced to the fullest extent permitted by law.

4.4 FULL FORCE AND EFFECT. The Lease (including all prior amendments thereto) is in full force and effect and nothing contained in this Agreement shall be construed as modifying such Lease, except as specifically provided pursuant to this Agreement.

IN WITNESS WHEREOF, the undersigned have caused this instrument to be duly executed as of the day and year shown above.

LANDLORD:

TENANT:

By: /s/ Beverly Stautz

By: /s/ L. Reade Fahs

Beverly Stautz
Vice President
Property Management Department

Title: CEO

Date: 7/1/2003

Date: June 27, 2003

NATIONAL VISION, INC.
RESTATED STOCK OPTION AND
INCENTIVE AWARD PLAN

NATIONAL VISION, INC.
RESTATED STOCK OPTION AND INCENTIVE AWARD PLAN

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NATIONAL VISION, INC.
RESTATED STOCK OPTION AND INCENTIVE AWARD PLAN

ARTICLE 1. ESTABLISHMENT, PURPOSE, AND DURATION

1.1 ESTABLISHMENT OF THE PLAN. National Vision, Inc., a Georgia corporation (hereinafter referred to as the "Company"), hereby establishes a stock option and incentive award plan known as the "National Vision, Inc. Restated Stock Option and Incentive Award Plan" (the "Plan"), as set forth in this document. The Plan permits the grant of Non-qualified Stock Options and Incentive Stock Options, and the award of Stock Appreciation Rights, Stock Awards (restricted or unrestricted), and Performance Shares.

The Company's Board of Directors and shareholders established the Plan effective February 27, 1996 (the "Effective Date"). The Plan was amended by that certain First Amendment dated February 12, 1997, further amended by that certain Second Amendment dated March 8, 1999, further amended by that certain Amendment No. 3 dated October 25, 2001, and further adjusted by the Compensation Committee pursuant to Section 4.3 of the Plan and set forth in the minutes of the meeting of the Compensation Committee held on October 25, 2001. This May 2002 restatement of the Plan incorporates each of the above referenced amendments and adjustment, but does not further amend the Plan. The Plan shall remain in effect as provided in Section 1.3 below.

1.2 PURPOSES OF THE PLAN. The purposes of the Plan are to promote greater stock ownership in the Company by those employees who are principally responsible for its future growth and continued success; to more closely link the personal interests of Participants to those of the Company's shareholders; and to provide flexibility to the Company in its ability to motivate, attract and retain the services of Participants upon whose judgment, initiative and special effort the continued success of the Company depends.

1.3 DURATION OF THE PLAN. The Plan shall commence on the Effective Date, and shall remain in effect, subject to the right of the Board to amend or terminate the Plan at any time pursuant to Article 14, until the day prior to the tenth (10th) anniversary of the Effective Date.

ARTICLE 2. DEFINITIONS

Whenever used in the Plan the following terms shall have the meanings set forth below and, when the meaning is intended, the initial letter of the word is capitalized:

(a) "Award" means, individually or collectively, any award under this Plan of Stock Appreciation Rights, Stock Awards, or Performance Shares.

(b) "Award Agreement" or "Option Agreement" means an agreement entered into by each Participant and the Company, setting forth as applicable, the terms and provisions applicable to Awards or Grants made to Participants.

(c) "Beneficial Owner" or "Beneficial Ownership" shall have the meaning ascribed to such term in Rule 13d-3 under the Exchange Act.

(d) "Board" means the Board of Directors of the Company.

(e) "Cause" means: (i) with respect to the Company or any Subsidiary which employs the Participant or for which the Participant primarily performs services, the commission by the Participant of an act of fraud, embezzlement, theft or proven dishonesty, or any other illegal act or practice (whether or not resulting in criminal prosecution or conviction), or any act or practice which the Committee shall, in good faith, deem to have resulted in the Participant's becoming unbondable under the Company's or the Subsidiary's fidelity bond; (ii) the willful engaging by the Participant in misconduct which is deemed by the Committee, in good faith, to be materially injurious to the Company or any Subsidiary, monetarily or otherwise; or (iii) the willful and continued failure or habitual neglect by the Participant to perform his duties with the Company or the Subsidiary substantially in accordance with the operating and personnel policies and procedures of the Company or the Subsidiary generally applicable to all their employees. For purposes of this Plan, no act or failure to act by the Participant shall be deemed to be "willful" unless done or omitted to be done by the Participant not in good faith and without reasonable belief that the Participant's action or omission was in the best interest of the Company and/or the Subsidiary. Notwithstanding the foregoing, if the Participant has entered into an employment agreement that is binding as of the date of employment termination, and if such employment agreement defines "Cause," then the definition of "Cause" in such agreement shall apply to the Participant in this Plan. "Cause" under either (i), (ii) or (iii) shall be determined by the Committee.

(f) "Code" means the Internal Revenue Code of 1986, as amended from time to time.

(g) "Committee" means the committee appointed by the Board to administer the Plan with respect to Grants or Awards, as specified in Article 3.

(h) "Common Stock" means the common stock of the Company.

(i) "Company" means National Vision, Inc., a Georgia corporation, or any successor thereto, as provided in Article 16.

(j) "Director" means any individual who is a member of the Board.

(k) "Disability" shall have the meaning ascribed to such term in the Company's long-term disability plan covering the Participant, or in the absence of such plan, a meaning consistent with Section 22(e) (3) of the Code.

(l) "Effective Date" shall have the meaning ascribed to such term in Section 1.1.

(m) "Employee" means any full-time, salaried employee of the Company, or of any Subsidiary.

(n) "Exchange Act" means the Securities Exchange Act of 1934, as amended from time to time, or any successor act thereto.

(o) "Fair Market Value" shall be determined as follows:

(i) If, on the relevant date, the Shares are traded on a national or regional securities exchange or on the NASDAQ National Market System and closing sale prices for the Shares are customarily quoted, on the basis of the quoted closing sale price or, if there is no such sale on the relevant date, then on the last previous day on which a sale was reported;

(ii) If, on the relevant date, the Shares are not listed on any securities exchange or traded on the NASDAQ National Market System, but the Shares otherwise are publicly traded and reported by NASDAQ (but closing sale prices for the Shares are not customary quoted), on the basis of the mean between the closing bid and asked quotations in such other over-the-counter market as reported by NASDAQ; but, if there are no bid and asked quotations in the over-the-counter market as reported by NASDAQ on that date, then the mean between the closing bid and asked quotations in the over-the-counter market as reported by NASDAQ on the last previous day such bid and asked prices were quoted; and

(iii) If, on the relevant date, the Shares are not publicly traded as described in (i) or (ii), on the basis of the good faith determination of the Committee.

(p) "Grant" means, individually or collectively, any grant under this Plan of Non-qualified Stock Options or Incentive Stock Options.

(q) "Incentive Stock Option" or "ISO" means an option to purchase Shares granted under Article 6 which is designated by the Committee as an Incentive Stock Option and is intended to meet the requirements of Section 422 of the Code.

(r) "Insider" shall mean an Employee who is, on the relevant date, an officer or a director, or a ten percent (10%) beneficial owner of any class of the Company's equity securities that is registered pursuant to Section 12 of the Exchange Act, all as defined under Section 16 of the Exchange Act.

(s) "Named Executive Officer" means a Participant who, as of the date of vesting and/or payout of an Award or Grant, is one of the group of "covered employees,"

as defined in the regulations promulgated under Code Section 162(m), or any successor statute.

(t) "Non-qualified Stock Option" or "NQSO" means an option to purchase Shares granted under Article 6, and which is not intended to meet the requirements of Code Section 422.

(u) "Option" means an Incentive Stock Option or a Non-qualified Stock Option.

(v) "Option Price" means the price, as determined by the Committee, at which a Share may be purchased by a Participant pursuant to an Option.

(w) "Participant" means an Employee who has an outstanding Grant or Award made under the Plan.

(x) "Performance Share" means an Award granted to an Employee, as described in Article 9 hereof.

(y) "Retirement" shall have the meaning ascribed to such term in the pension plan for Employees, but if there is no such plan at the relevant date, "Retirement" shall mean, with respect to an Employee, termination of employment by the Employee on or after (i) age 65 or (ii) age 55 after completion of at least 10 years of service with the Company.

(z) "Restricted Stock" means restricted Shares awarded in accordance with the terms of Article 8 and the other provisions of the Plan.

(aa) "SAR Award Value" means, as applied to an SAR granted independent of an Option, such amount which may be greater than 100% but not less than 100% of the Fair Market Value of a Share on the date the SAR is granted, as shall be fixed by the Committee.

(ab) "Shares" means shares of Common Stock.

(ac) "Stock Award" means Shares (whether restricted or unrestricted) awarded under the provisions of Article 8 of the Plan.

(ad) "Stock Appreciation Right" or "SAR" means an Award of the right to receive an amount based upon an increase in the Fair Market Value of the Shares, as described in Article 7 hereof.

(ae) "Subsidiary" means any corporation, partnership, joint venture or other entity in which the Company has a majority voting interest, either direct or indirect. With respect to a Participant, the term shall refer to the Subsidiary for which the Participant primarily performs services.

(af) "Threatened Change in Control" means any pending tender offer for the outstanding Shares, or any pending bona fide offer to acquire the Company by merger or consolidation, or any other pending action or plan to effect a Change in Control (as defined in Section 13.2) of the Company.

ARTICLE 3. ADMINISTRATION

3.1 THE COMMITTEE. The Plan shall be administered by the Compensation Committee of the Board, or by any substitute Committee appointed by the Board that is granted authority to administer the Plan, said Committee or substitute Committee consisting of two (2) or more Directors. At least a majority of the members of the Committee must meet the "non-employee director" requirements of Rule 16b-3 under the Exchange Act and the "outside director" requirements of Code Section 162(m). Qualified members of the Committee shall be appointed from time to time by, and shall serve at the discretion of, the Board.

3.2 AUTHORITY OF THE COMMITTEE. Subject to the provisions of the Plan, the Committee shall have full and exclusive power to select Employees who shall participate in the Plan (who may change from year to year); determine the size and types of Awards or Grants; determine the terms and conditions of Awards or Grants in a manner consistent with the Plan (including vesting provisions and the duration of the Awards or Grants); construe and interpret the Plan and any agreement or instrument entered into under the Plan; establish, amend or waive rules and regulations for the Plan's administration; and (subject to the provisions of Article 14) amend the terms and conditions of any outstanding Award or Grant to the extent such terms and conditions are within the discretion of the Committee as provided in the Plan. Further, the Committee shall make all other determinations which may be necessary or advisable in the Committee's opinion for the administration of the Plan. The Committee shall also have the authority to establish and delegate any of its responsibilities to one or more subcommittees.

3.3 COMMITTEE DECISIONS BINDING. All determinations and decisions made by the Committee pursuant to Section 3.2 above shall be final, conclusive and binding on the Company and the Participants, their estates and beneficiaries.

ARTICLE 4. SHARES SUBJECT TO THE PLAN

4.1 NUMBER OF SHARES. Subject to adjustment as provided in Section 4.3, the gross number of Shares available for Awards or Grants shall be seven hundred twenty thousand (720,000) Shares. These Shares may, in the discretion of the Company, be either authorized but unissued Shares or Shares purchased by the Company on the open market.

The following rules shall apply for purposes of the determination of the number of Shares available for Grant or Award:

(a) The number of Shares underlying any outstanding Stock Option, SAR, or Stock Award shall be counted against the gross number of Shares authorized to be issued under the Plan regardless of its vested status.

(b) The Committee shall determine the appropriate number of Shares to deduct against the gross number of Shares available hereunder in connection with the award of Performance Shares.

4.2 LAPSED GRANTS OR AWARDS. If any Award or Grant is canceled, terminates, expires or lapses for any reason, any Shares subject to such Award or Grant shall again be available for issuance under the Plan.

4.3 ADJUSTMENTS IN NUMBER OF PLAN SHARES. In the event of any change in corporate capitalization (such as a stock split or a corporate transaction, such as any merger, consolidation, separation, including a spin-off, or other distribution of stock or property of the Company, any reorganization [whether or not such reorganization comes within the definition of such term in Code Section 368] or any partial or complete liquidation of the Company) and to prevent dilution or enlargement of rights under this Plan, an adjustment, as the Committee shall in its sole discretion determine to be appropriate and equitable, shall be made in the number and class of Shares which may be delivered under the Plan and in the number and class of and/or price of Shares subject to outstanding Awards or Grants; provided, however, that the number of Plan Shares subject to any Award or Grant shall always be a whole number and the Committee shall make such adjustments as are necessary to insure Awards or Grants of whole Shares.

ARTICLE 5. ELIGIBILITY AND PARTICIPATION

Any key Employee of the Company, or of any Subsidiary, whose judgment, initiative and efforts contribute or may be expected to contribute materially to the successful performance of the Company and its Subsidiaries shall be eligible to receive an Award or Grant. In determining the Employees to whom such an Award or Grant will be made, the Committee shall take into account the duties and responsibilities of the respective Employees, their present and potential contributions to the success of the Company and its Subsidiaries, and such other factors as the Committee shall deem relevant in connection with accomplishing the purposes of the Plan.

No person who is a member of the Committee shall be eligible to receive an Award or Grant while so serving. Any person who is a Director, but who is not an Employee, shall not be eligible to receive an Award or Grant.

ARTICLE 6. STOCK OPTIONS

6.1 GRANT OF OPTIONS. Subject to the terms and provisions of the Plan, Options may be granted to Employees from time to time, as determined by the Committee. The Committee shall have sole discretion in determining the number of Shares underlying each Option granted to a Participant; provided, however, that in the case of any ISO granted under the Plan, the aggregate Fair Market Value (determined at the time such Option is granted) of the Shares as to which ISOs are exercisable for the first time by the Participant during any calendar year (under the Plan and all other incentive stock option plans of the Company and any Subsidiary) shall not exceed \$100,000.

The Committee may grant a Participant ISOs, NQSOs or a combination thereof, and may vary such Grants among Participants. In no event, however, shall any Employee who owns (within the meaning of Section 424(d) of the Code), at the time he would otherwise be granted an Option, stock of the Company possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company be eligible to receive an Incentive Stock Option hereunder.

The maximum number of Shares subject to Options which can be granted under the Plan during any calendar year to any Employee shall be one hundred sixty-five thousand six hundred (165,600) Shares; provided, however, that the maximum number of Option Shares available for grant to any Employee during any calendar shall be correspondingly reduced by the number of Shares underlying any SAR awarded under Article 7 hereof to the Employee during the same period.

6.2 OPTION AGREEMENT. Each Option granted under the Plan shall be evidenced by an Option Agreement that shall specify the Option Price, the duration of the Option, the number of Shares to which the Option pertains and such other provisions as the Committee shall determine. The Option Agreement shall further specify whether the Option is intended to be an ISO within the meaning of Code Section 422, or an NQSO, which is not intended to fall under the provisions of Code Section 422.

6.3 OPTION PRICE. The Option Price for each ISO granted under this Article 6 shall be not less than the Fair Market Value of a Share on the date the ISO is granted. The Option Price of each Share underlying a NQSO shall be established by the Committee, but in no event shall such price be less than eighty-five percent (85%) of the Fair Market Value (or such higher percentage of Fair Market Value as may be established by Internal Revenue Service rules or regulations as the limit for granting discounted stock options without causing immediate tax consequences to the Participant) of a Share on the date the Option is granted.

6.4 DURATION OF OPTIONS. Each Option shall expire at such time as the Committee shall determine at the time of grant; provided, however, that no Options shall be exercisable later than the tenth (10th) anniversary of its grant.

6.5 EXERCISE OF OPTIONS. Options shall be subject to such vesting schedules and exercise periods, and other restrictions and conditions, as the Committee shall in each instance approve, which need not be the same for each Grant or for each Participant. Except as the Committee may otherwise provide, Options granted under this Plan shall not generally be exercisable prior to six (6) months following the date of grant.

6.6 PAYMENT. Options shall be exercised by the delivery of a written notice of exercise to the Company, setting forth the number of Shares with respect to which the Option is to be exercised, accompanied by full payment for the Shares. The Option Price upon exercise of any Option shall be payable to the Company in full either: (a) in cash, or (b) by tendering previously acquired Shares (or by attestation of ownership of such Shares) having an aggregate Fair Market Value at the time of exercise equal to the total Option Price (provided that the Shares which are tendered must have been held by the Participant for the period required by the Committee, in its sole discretion), or (c) by a combination of (a) and (b). The Committee also may allow cashless exercises, subject to applicable securities law restrictions, or by any other means which the Committee determines to be consistent with the Plan's purpose and applicable law.

As soon as practicable after receipt of a written notification of exercise and full payment, the Company shall deliver to the Participant, in the Participant's name, Share certificates in an appropriate amount based upon the number of Shares purchased under the Option(s).

6.7 TERMINATION OF EMPLOYMENT DUE TO DEATH, DISABILITY OR RETIREMENT. Unless otherwise provided by the Committee in the Option Agreement, the following rules shall apply in the event of the Participant's termination of employment due to death, Disability or Retirement:

(a) Termination by Death. In the event the Participant dies while actively employed, all outstanding unvested Options granted to that Participant shall immediately vest, and thereafter all vested Options shall remain exercisable at any time prior to their expiration date, or for one (1) year after the date of death, whichever period is shorter, by (i) such person(s) as shall have been named as the Participant's beneficiary, (ii) such person(s) that have acquired the Participant's rights under such Options by will or by the laws of descent and distribution, or (iii) the Participant's estate or representative of the Participant's estate.

(b) Termination by Disability. In the event the employment of the Participant is terminated by reason of Disability, all outstanding unvested Options granted to the Participant shall immediately vest as of the date the Committee determines the definition of Disability to have been satisfied, and thereafter all vested Options shall remain exercisable at any time prior to their expiration date, or for one (1) year after the date that the Committee determines the definition of Disability to have been satisfied, whichever period is shorter.

(c) Termination by Retirement. In the event the employment of the Participant is terminated by reason of Retirement, the Participant shall be entitled to prorata vesting of all outstanding unvested Options. The prorata vesting shall be determined by the Committee, in its sole discretion, and shall be based upon the length of time that the Participant held the unvested Options relative to the vesting period for each Grant of outstanding unvested Options. Upon retirement, vested Options shall remain exercisable at any time prior to their expiration date, or for six (6) months after the effective date of Retirement, whichever period is shorter.

6.8 TERMINATION OF EMPLOYMENT FOR OTHER REASONS. If the employment of a Participant shall terminate for any reason other than the reasons set forth in Section 6.7, and subject to the provisions of Article 13 herein, all Options held by the Participant which are not vested as of the effective date of his employment termination shall be immediately forfeited to the Company. However, the Committee, in its sole discretion, shall have the right to immediately vest all or any portion of such Options, subject to such terms as the Committee, in its sole discretion, deems appropriate; provided, however, that the foregoing discretion shall not be applicable with regard to Grants to Named Executive Officers except to the extent permitted under Code Section 162(m).

If a Participant's employment is terminated by the Company or Subsidiary for Cause, or if such Participant voluntarily terminates his employment (other than a voluntary termination following a Change in Control), the Participant's right to exercise any then vested outstanding Options shall terminate immediately upon termination of employment. If the Participant's employment is terminated by the Company or Subsidiary without Cause, or if the Participant voluntarily terminates his employment after a Change in Control, any Options vested as of his date of termination shall remain exercisable at any time prior to their expiration date or for six (6) months after his date of termination of employment, whichever period is shorter.

6.9 NONTRANSFERABILITY OF OPTIONS. Unless the Committee provides otherwise in the Option Agreement, no Option may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution, and any attempt to sell, transfer, pledge, assign or otherwise alienate or hypothecate an Option shall be null and void and of no force or effect, and all Options granted to a Participant shall be exercisable during his or her lifetime only by such Participant.

ARTICLE 7. STOCK APPRECIATION RIGHTS

7.1 Grant of SAR. Stock Appreciation Rights may be awarded in conjunction with, or in addition to, any Options granted under the Plan, or may be awarded under the Plan independent of any Option. Nothing shall preclude the award on the same day an Option is granted (with or without related SARs) of SARs independent of an Option. SARs granted in conjunction with, or in addition to, an Option may be granted either at the time of the Grant of the Option or any time thereafter during the term of the Option.

SARs awarded in conjunction with an Option shall entitle the holder of the related Option, upon exercise, in whole or in part, of the SARs, to surrender the Option, or any portion thereof, to the extent unexercised, and to receive a number of Shares determined pursuant to Section 7.3 below. Such Option shall, to the extent so surrendered, cease to be exercisable.

The maximum number of Shares underlying SARs which can be awarded under the Plan during any calendar year to any Employee shall be one hundred sixty-five thousand six hundred (165,600) Shares; provided, however, that the maximum number of Shares available for award to any Employee during any calendar year shall be correspondingly reduced by the number of Shares subject to Options granted to the Participant during the same period.

7.2 AWARD AGREEMENT. SARs shall be subject to such terms and conditions not inconsistent with the Plan as shall from time to time be approved by the Committee and to the following:

(a) SARs granted in conjunction with an Option shall be exercisable at such time or times and to the extent, but only to the extent, that the Option to which they relate shall be exercisable.

(b) SARs not granted in conjunction with an Option shall be exercisable at such time or times as may be determined by the Committee at the time of grant, but shall be subject to the same restrictions and other rules as to duration, transferability, and exercisability that are set out for Options in Article 6 above.

7.3 EXERCISE OF SARs. (a) Upon exercise of SARs, the holder thereof shall be entitled to receive a number of Shares which have an aggregate Fair Market Value on the date of exercise equal to the amount by which the Fair Market Value per share of one Share on the date of such exercise shall exceed (i) in the case of SARs granted in conjunction with an Option or in addition to an Option, the Option Price per Share of the related Option, or (ii) in the case of SARs unrelated to an Option, its SAR Award Value, in each case multiplied by the number of Shares in respect of which the SARs shall have been exercised.

(b) All or any part of the obligation arising out of an exercise of SARs, whether or not such SARs are granted in conjunction with an Option, may in the sole discretion of the Committee (and consistent with the requirements of Rule 16b-3 of the Exchange Act) be settled by the payment of cash equal to the aggregate Fair Market Value of the Shares that would otherwise have been delivered under subsection (a) above.

(c) To the extent that SARs granted in conjunction with an Option shall be exercisable and regardless of whether the obligation upon such exercise shall be discharged by the delivery of Shares or the payment of cash, the Option in connection with which such SAR shall have been granted shall be deemed to have been exercised for the purpose of the maximum share limitation set forth in the Plan.

(d) To the extent that SARs granted in addition to, or independent of, an Option shall be exercised and regardless of whether the obligation upon such exercise shall be discharged by the delivery of Shares or the payment of cash, the number of Shares in respect of which the SARs shall have been exercised shall be charged against the maximum share limitation set forth in the Plan.

ARTICLE 8. STOCK AWARDS - RESTRICTED AND UNRESTRICTED

8.1 AWARD. The Committee may from time to time in its discretion make Stock Awards to Participants and may determine the number of Shares to be awarded. The Committee shall determine the terms and conditions of, and the amount of payment, if any, to be made by the Participant for such Stock Award. An Award of Restricted Stock may require the Participant to pay for such Shares of Restricted Stock, but the Committee may establish a price below Fair Market Value at which the Participant can purchase the Shares of Restricted Stock. Each Award of Restricted Stock will be evidenced by an Award Agreement containing terms and conditions not inconsistent with the Plan as the Committee shall determine to be appropriate in its sole discretion.

The maximum number of Shares that may be awarded under a Stock Award (whether restricted or unrestricted) to any Employee during any calendar year shall be one hundred sixty-five thousand six hundred (165,600) Shares.

8.2 RESTRICTED PERIOD; LAPSE OF RESTRICTIONS. At the time an Award of Restricted Stock is made, the Committee shall establish a period or periods of time (the "Restricted Period") applicable to such Award which, unless the Committee otherwise provides, shall not be less than six (6) months. Subject to the other provisions of this Article 8, at the end of the Restricted Period all restrictions shall lapse and the Restricted Stock shall vest in the Participant. At the time an Award is made, the Committee may, in its discretion, prescribe conditions for the incremental lapse of restrictions during the Restricted Period and for the lapse or termination of restrictions upon the occurrence of other conditions in addition to or other than the expiration of the Restricted Period with respect to all or any portion of the Restricted Stock. Such conditions may, but need not, include without limitation:

(a) The death, Disability or Retirement of the Employee to whom Restricted Stock is awarded, or

(b) The occurrence of a Change in Control or Threatened Change in Control. The Committee may also, in its discretion, shorten or terminate the Restricted Period, or waive any conditions for the lapse or termination of restrictions with respect to all or any portion of the Restricted Stock at any time after the date the Award is made.

8.3 RIGHTS OF RESTRICTED STOCK HOLDER; LIMITATIONS THEREON. Upon an Award of Restricted Stock, a stock certificate (or certificates) representing the number of

Shares of Restricted Stock granted to the Participant shall be registered in the Participant's name and shall be held in custody by the Company or a bank selected by the Committee for the Participant's account. Following such registration, the Participant shall have the rights and privileges of a shareholder as to such Restricted Stock, including the right to receive dividends and to vote such Restricted Stock, provided that, the right to receive cash dividends shall be the right to receive such dividends either in cash currently or by payment in Restricted Stock, as the Committee shall determine, and provided further that the following restrictions shall apply:

(a) The Participant shall not be entitled to delivery of a certificate until the expiration or termination of the Restricted Period for the Shares represented by such certificate and the satisfaction of any and all other conditions prescribed by the Committee;

(b) None of the Shares of Restricted Stock may be sold, transferred, assigned, pledged, or otherwise encumbered or disposed of during the Restricted Period and until the satisfaction of any and all other conditions prescribed by the Committee; and

(c) All of the Shares of Restricted Stock that have not vested shall be forfeited and all rights of the Participant to such Shares of Restricted Stock shall terminate without further obligation on the part of the Company, unless the Participant has remained an Employee, until the expiration or termination of the Restricted Period and the satisfaction of any and all other conditions prescribed by the Committee applicable to such Shares of Restricted Stock. Upon the forfeiture of any Shares of Restricted Stock, such forfeited Shares shall be transferred to the Company without further action by the Participant.

With respect to any Shares received as a result of adjustments under Section 4.3 hereof and any Shares received with respect to cash dividends declared on Restricted Stock, the Participant shall have the same rights and privileges, and be subject to the same restrictions, as are set forth in this Article 8.

8.4 DELIVERY OF UNRESTRICTED SHARES. Upon the expiration or termination of the Restricted Period for any Shares of Restricted Stock and the satisfaction of any and all other conditions prescribed by the Committee, the restrictions applicable to such Shares of Restricted Stock shall lapse and a stock certificate for the number of Shares of Restricted Stock with respect to which the restrictions have lapsed shall be delivered, free of all such restrictions except any that may be imposed by law, to the holder of the Restricted Stock. The Company shall not be required to deliver any fractional Share but will pay, in lieu thereof, the Fair Market Value (determined as of the date the restrictions lapse) of such fractional share to the holder thereof. Prior to or concurrently with the delivery of a certificate for Restricted Stock, the holder shall be required to pay an amount necessary to satisfy any applicable federal, state and local tax requirements as set out in Article 15 below.

8.5 NONASSIGNABILITY OF RESTRICTED STOCK. Unless the Committee provides otherwise in the Award Agreement, no Award of, nor any right or interest of a Participant

in or to any Restricted Stock, or in any instrument evidencing any Award of Restricted Stock, may be assigned, encumbered or transferred except, in the event of the death of a Participant, by will or the laws of descent and distribution.

ARTICLE 9. PERFORMANCE SHARES

9.1 GRANT OF PERFORMANCE SHARES. Subject to the terms of the Plan, Performance Shares may be granted to Participants from time to time for no payment. The Committee shall have complete discretion in determining the number of Performance Shares granted to each Participant; provided, however, that (subject to the terms of Article 14 hereof) no Employee may earn more than one hundred sixty-five thousand six hundred (165,600) Performance Shares with respect to any performance period.

9.2 VALUE OF PERFORMANCE SHARES. Each Performance Share shall have a value equal to or greater than the Fair Market Value of a Share on the date the Performance Share is earned. The Committee shall set performance goals in its discretion which, depending on the extent to which they are met, will determine the number of Performance Shares that will be earned by the Participants. The time period during which the performance goals must be met shall be called a "performance period." Performance periods shall, in all cases, equal or exceed one (1) year in length. The performance goals shall be established at the beginning of the performance period (or within such time period as is permitted by Code Section 162(m) and the regulations thereunder).

The Committee will select one or more of the following performance measures for purposes of Awards to Named Executive Officers: total shareholder return, average return on assets, average return on equity, average growth in assets, increase in operating earnings per share, increase in book value per Share, and ratio of operating revenue to operating overhead. The Committee, in its sole discretion, may assign the relative weights to be given to each performance measure selected by it. For Participants other than Named Executive Officers, the Committee may, in its sole discretion, select such performance measures (from among those described above or other) as it may deem appropriate, and may assign the relative weights to be given to each performance measure selected by it. The Committee may, in its sole discretion, reserve the right to exclude the effect of extraordinary and non-recurring items from calculations involving any performance measure.

In the event that applicable tax and/or securities laws (including, but not limited to, Code Section 162(m) and Section 16 of the Exchange Act) change to permit Committee discretion to alter the governing performance measures without obtaining shareholder approval of such changes, the Committee shall have sole discretion to make such changes without obtaining shareholder approval.

9.3 EARNING OF PERFORMANCE SHARES. After the applicable performance period has ended, the Committee shall certify the extent to which the established

performance goals have been achieved. The Committee may increase or decrease the amount of any Performance Share payment otherwise payable to a Participant under this Article 9 if, in the Committee's view, the Company's financial performance during the relevant performance period justifies such adjustment, whether or not any one or more of the established performance goals has been achieved; provided, however, that the Committee shall have no discretion to increase the amount of any Performance Share otherwise payable to a Named Executive Officer under this Article 9.

9.4 FORM AND TIMING OF PAYMENT OF PERFORMANCE SHARES. Except as otherwise provided in Article 13 hereof, payment of earned Performance Shares shall be made in a single lump sum as soon as practicable after the end of the performance period to which the Award relates. The Committee, in its sole discretion, may pay earned Performance Shares in the form of cash or in Shares (or in a combination thereof) which have, as of the last day of the performance period, an aggregate value equal to the Fair Market Value of the earned Performance Shares.

9.5 TERMINATION OF EMPLOYMENT DUE TO DEATH, DISABILITY OR RETIREMENT OR BY THE COMPANY WITHOUT CAUSE. Unless the Award Agreement provides otherwise, in the event the employment of a Participant is terminated by reason of death, Disability or Retirement or by the Company without Cause during a performance period, the Participant shall be entitled to a prorated payout with respect to the unearned Performance Shares. The prorated payout shall be determined by the Committee, in its sole discretion, and shall be based upon the length of time that the Participant held the unearned Performance Shares during the performance period relative to the performance period, and shall be the greater of the target award prorated for the applicable time period, or the payout earned on the basis of actual performance, measured by the achievement of the established performance goals prorated to the time of his termination due to death, Disability or Retirement or by the Company without Cause.

Payment of earned Performance Shares to Participants whose termination is due to Retirement or by the Company without Cause shall be made at the same time payments are made to Participants who did not terminate employment during the applicable performance period. Payment of earned Performance Shares to Participants whose termination is due to death or Disability shall be made as soon as practicable after the Participant's termination.

9.6 TERMINATION OF EMPLOYMENT FOR OTHER REASONS. Except as provided in Article 13 and in the Award Agreement, in the event that a Participant's employment terminates during a performance period for any reason other than those reasons set forth in Section 9.5 hereof, all unearned Performance Shares shall be forfeited by the Participant to the Company.

9.7 NONTRANSFERABILITY. Performance Shares may not be sold, transferred, pledged, assigned or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution. Further, a Participant's Performance Share rights under

the Plan shall be exercisable during the Participant's lifetime only by the Participant or the Participant's legal representative.

ARTICLE 10. BENEFICIARY DESIGNATION

Each Participant may, from time to time, name any beneficiary or beneficiaries (who may be named contingently or successively) to whom any benefit under the Plan is to be paid in case of his death before he receives any or all of such benefit. Each such designation shall revoke all prior designations by the same Participant, shall be in a form prescribed by the Company and shall be effective only when filed by the Participant in writing, with the Company during the Participant's lifetime. In the absence of any such designation, benefits remaining unpaid at the Participant's death shall be paid to the Participant's estate.

ARTICLE 11. DEFERRALS

The Committee may permit a Participant to defer to another plan or program such Participant's receipt of Shares or cash that would otherwise be due to such Participant by virtue of the exercise of an Option or SAR, the vesting of Restricted Stock or the earning of Performance Shares. If any such deferral election is required or permitted, the Committee shall, in its sole discretion, establish rules and procedures for such payment deferrals.

ARTICLE 12. RIGHTS OF PARTICIPANTS

12.1 EMPLOYMENT. Nothing in the Plan shall interfere with or limit in any way the right of the Company or a Subsidiary to terminate any Participant's employment at any time, nor confer upon any Participant any right to continue in the employ of the Company or a Subsidiary. For purpose of the Plan, transfer of employment of a Participant between the Company and any one of its Subsidiaries (or between Subsidiaries) shall not be deemed a termination of employment.

12.2 PARTICIPATION. No Employee shall have the right to be selected to receive an Award or Grant, or, having been so selected, to be selected to receive a future Award or Grant.

ARTICLE 13. CHANGE IN CONTROL

13.1 OCCURRENCE. Upon the occurrence of a Change in Control, or upon the termination of a Participant by the Company or a Subsidiary other than for Cause as a result of a Threatened Change in Control, and except as provided in the Award

Agreement, Option Agreement or Section 13.3, or as prohibited by the terms of Article 17 hereof:

(a) All outstanding, unvested Options and SARs granted or awarded to Participants hereunder (or, in the case of the termination of a Participant by the Company or a Subsidiary other than for Cause as a result of a Threatened Change in Control, to the terminated Participant) shall become fully vested and immediately exercisable;

(b) To the extent provided by the Committee in the Award Agreement, the earning of unearned Performance Shares will be based upon the target award levels or the actual performance compared with goals prorated to the date of the Change in Control or to the date of the Participant's termination by the Company or Subsidiary other than for Cause as a result of a Threatened Change in Control, whichever provides the greater amount. Unearned Performance Shares outstanding at the time of a Change in Control or at the time of a Participant's termination by the Company or Subsidiary other than for Cause as a result of a Threatened Change in Control will be fully vested (subject to the employment requirements in the next sentence) and will be payable in Common Stock or cash, or a combination thereof as determined by the Committee. The Participant will be entitled to payment of vested Performance Shares for a performance period only if (i) he remains employed by the Company or Subsidiary (or their respective successors) until the date that would have been the last day of the performance period, at which time the payment of the Performance Shares shall be made, or (ii) prior to the end of the performance period, (x) his employment is terminated by the Company or Subsidiary without Cause, (y) he terminates employment for a reason other than Cause or (z) he retires (whether early, nominal or late) under the Retirement Plan, dies or becomes Disabled. In any of these cases, payment of vested Performance Shares shall be made as soon as possible after the Participant ceases active employment.

(c) Unless otherwise provided in the Award Agreement, all restrictions on an Award of Restricted Stock shall lapse and such Restricted Stock shall be delivered to the Participant in accordance with Section 8.4; and

(d) Subject to Article 14 hereof, the Committee shall have the authority to make any modifications to the Awards or Grants as determined by the Committee to be appropriate before the effective date of the Change in Control or the date of the Participant's termination by the Company or Subsidiary other than for Cause as a result of a Threatened Change in Control.

13.2 DEFINITION. For purposes of the Plan, a "Change in Control" shall be deemed to have occurred if:

(a) the Company consolidates or merges with or into another corporation, or is otherwise reorganized, if the Company is not the surviving corporation in such transaction or if after such transaction any other corporation, association or other person, entity or group or the shareholders thereof own, direct and/or indirectly, more than 50%

of the then outstanding shares of Common Stock or more than 50% of the assets of the Company; or

(b) more than 35% of the then outstanding shares of Common Stock are, in a single transaction or in a series of related transactions, sold or otherwise transferred to or are acquired by any other corporation, association or other person, entity or group, whether or not any such shareholder or any shareholders included in such group were shareholders of the Company prior to the Change in Control; or

(c) all or substantially all of the assets of the Company are sold or otherwise transferred to or otherwise acquired by any other corporation, association or other person, entity or group; or

(d) the occurrence of any other event or circumstance which is not covered by (a) through (c) above which the Committee determines affects control of the Company and constitutes a Change in Control for purpose of the Plan.

13.3 POOLING OF INTERESTS ACCOUNTING. No Award or Grant shall have a scheduled vesting date which is earlier than the date two years following the Effective Date. During the two-year period commencing on the Effective Date, the acceleration of vesting provided for in Section 13.1 shall not apply in a transaction involving a Change in Control if both of the following circumstances exist:

(a) The provisions contained in Section 13.1 create conditions which would preclude the use of pooling of interests accounting, and

(b) The completion of the transaction is subject to the use of pooling of interests accounting.

ARTICLE 14. AMENDMENT, MODIFICATION AND TERMINATION

14.1 AMENDMENT, MODIFICATION AND TERMINATION. The Board may, at any time and from time to time, alter, amend, suspend or terminate the Plan in whole or in part; provided, that, unless approved by the holders of a majority of the total number of Shares represented and entitled to vote at a meeting at which a quorum is present, no amendment shall be made to the Plan if such amendment would (a) materially modify the eligibility requirements provided in Article 5; (b) increase the total number of Shares (except as provided in Section 4.3) which may be granted or awarded under the Plan, as provided in Section 4.1; (c) extend the term of the Plan; or (d) amend the Plan in any other manner which the Board, in its discretion, determines should become effective only if approved by the shareholders even though such shareholder approval is not expressly required by the Plan or by law. No amendment which requires shareholder approval in order for the Plan to continue to comply with Rule 16b-3 under the Exchange Act, including any successor to such Rule, shall be effective unless such amendment shall be approved by the requisite vote of shareholders.

14.2 GRANTS OR AWARDS PREVIOUSLY GRANTED. No termination, amendment or modification of the Plan shall adversely affect in any material way any Award or Grant previously made under the Plan, without the written consent of the Participant holding such Award or Grant. The Committee shall, with the written consent of the Participant holding such Award or Grant, have the authority to cancel Awards or Grants outstanding and grant replacement Awards or Grants therefor.

14.3 COMPLIANCE WITH CODE SECTION 162(m). It is the intent of the Board that all Awards or Grants shall comply with the requirements of Code Section 162(m). In the event changes are made to Code Section 162(m) to permit greater flexibility with respect to any Award or Grant, the Committee may, subject to this Article 14, make any adjustments it deems appropriate in such Award or Grant.

ARTICLE 15. WITHHOLDING

15.1 TAX WITHHOLDING. The Company shall have the power and the right to deduct or withhold, or require a Participant to remit to the Company, an amount sufficient to satisfy federal, state and local taxes (including the Participant's FICA obligation) required by law to be withheld with respect to any taxable event arising in connection with an Award or Grant.

15.2 SHARE WITHHOLDING. With respect to withholding required upon the exercise of Options, or upon any other taxable event arising as a result of Awards or Grants which are to be paid in the form of Shares, Participants may request, subject to the approval of the Committee, to satisfy the withholding requirement, in whole or in part, by having the Company withhold Shares having a Fair Market Value on the date the tax is to be determined equal to the minimum statutory total tax which could be imposed on the transaction. All such requests shall be irrevocable, made in writing, and signed by the Participant, and requests by Insiders shall additionally comply with all legal requirements applicable to Share transactions by such Participants.

ARTICLE 16. SUCCESSORS

All obligations of the Company under the Plan, with respect to Awards or Grants, shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation or otherwise, of all or substantially all of the business and/or assets of the Company.

ARTICLE 17. LEGAL CONSTRUCTION

17.1 GENDER AND NUMBER. Except where otherwise indicated by the context, any masculine term used herein also shall include the feminine; the plural shall include the singular and the singular shall include the plural.

17.2 SEVERABILITY. In the event any provision of the Plan shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had not been included.

17.3 REQUIREMENTS OF LAW. The making of Awards or Grants and the issuance of Shares under the Plan shall be subject to all applicable laws, rules and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required.

17.4 REGULATORY APPROVALS AND LISTING. The Company shall not be required to issue any certificate or certificates for Shares under the Plan prior to (i) obtaining any approval from any governmental agency which the Company shall, in its discretion, determine to be necessary or advisable, (ii) the admission of such shares to listing on any national securities exchange on which the Shares may be listed, and (iii) the completion of any registration or other qualification of the Shares under any state or federal law or ruling or regulations of any governmental body which the Company shall, in its sole discretion, determine to be necessary or advisable.

Notwithstanding any other provision set forth in the Plan, any "derivative security" or "equity security" offered pursuant to the Plan to any Insider may not, if required by the then-current Section 16 of the Exchange Act, be sold or transferred for at least six (6) months after the date of grant of such Award. The terms "equity security" and "derivative security" shall have the meanings ascribed to them in the then-current Rule 16(a) under the Exchange Act.

The Committee may impose such restrictions on any Shares acquired pursuant to the Plan as it may deem advisable, including, without limitation, restrictions under applicable federal securities laws, under the requirements of any stock exchange or market upon which such Shares are then listed and/or traded and under any blue sky or state securities laws applicable to such Shares.

17.5 SECURITIES LAW COMPLIANCE. With respect to Insiders, transactions under this Plan are intended to comply with all applicable conditions of Rule 16b-3 or its successors under the Exchange Act. To the extent any provisions of the Plan or action by the Committee fails to so comply, it shall be deemed null and void, to the extent permitted by law and deemed advisable by the Committee.

17.6 GOVERNING LAW. To the extent not preempted by federal law, the Plan, and all agreements hereunder, shall be construed in accordance with and governed by the laws of the State of Georgia.

17.7 DISPUTES AND EXPENSES. After a Change in Control or a Participant's termination by the Company or Subsidiary other than for Cause as a result of a Threatened Change in Control, if a Participant affected by such Change in Control or termination incurs legal fees or other expenses in seeking to obtain or enforce any rights

to benefits under this Plan and is successful, in whole or in part, in obtaining or enforcing any such rights through settlement, litigation, arbitration or otherwise, the Company shall promptly pay the affected Participant's reasonable legal fees and expenses incurred in enforcing his rights under the Plan.

AS APPROVED BY THE BOARD OF DIRECTORS OF NATIONAL VISION, INC. ON MAY 23, 2002.

NATIONAL VISION, INC.

By: _____
Name: _____
Title: _____

ATTEST:

By: _____
Name: _____
Title: _____

NATIONAL VISION, INC.
MANAGEMENT INCENTIVE PLAN

1. PURPOSE OF THE PLAN

The purpose of this Management Incentive Plan is to promote the interests of National Vision, Inc. and its shareholders by providing incentive compensation for certain designated key executives and employees of the Company and its subsidiaries.

2. DEFINITIONS

As used in this Plan, the following capitalized terms have the following meanings:

(a) "Award" means a periodic cash bonus award granted pursuant to the Plan.

(b) "Board" means the Board of Directors of the Company.

(c) "Change in Control", with respect to the Plan, shall be deemed to have occurred if: (a) the Company consolidates or merges with or into another corporation, or is otherwise reorganized, if the Company is not the surviving corporation in such transaction or if after such transaction any other corporation, association or other person, entity or group or the shareholders thereof own, direct and/or indirectly, more than 50% of the then outstanding Shares or more than 50% of the assets of the Company; or (b) more than 35% of the then outstanding Shares are, in a single transaction or in a series of related transactions, sold or otherwise transferred to or are acquired by any other corporation, association or other person, entity or group, whether or not any such shareholder or any shareholders included in such group were shareholders of the Company prior to the Change in Control; or (c) all or substantially all of the assets of the Company are sold or otherwise transferred to or otherwise acquired by any other corporation, association or other person, entity or group; or (d) the occurrence of any other event or circumstance which is not covered by (a) through (c) above which the Committee determines affects control of the Company and constitutes a Change in Control for purpose of the Plan.

(d) "Code" means the Internal Revenue Code of 1986, as amended.

(e) "Committee" means the Compensation Committee of the Board, or any successor thereto, or any other committee designated by the Board to assume the obligations of the Committee hereunder.

(f) "Company" means National Vision, Inc., a Georgia corporation.

(g) "Effective Date" means the date on which the Plan takes effect, as defined pursuant to Section 13 of the Plan.

(h) "Participant" means an employee of the Company or any of its subsidiaries who is selected by the Committee to participate in the Plan pursuant to Section 4 of the Plan.

(i) "Performance Period" means a calendar or fiscal year or any other period that the Committee, in its sole discretion, may determine.

(j) "Plan" means this Management Incentive Plan.

(k) "Share" means a common share of the Company.

3. ADMINISTRATION

The Plan shall be administered by the Committee or such other persons designated by the Board. The Committee shall have the authority to select the Participants, to determine the size and terms of an Award, to modify the terms of any Award that has been granted, to determine the time when Awards will be made and the Performance Period to which they relate, to establish performance objectives in respect of such Performance Periods and to certify that such performance objectives were attained. The Committee is authorized to interpret the Plan, to establish, amend and rescind any rules and regulations relating to the Plan, and to make any other determinations that it deems necessary or desirable for the administration of the Plan; provided, however, that any action permitted to be taken by the Committee may be taken by the Board, in its discretion. Any decision of the Committee in the interpretation and administration of the Plan, as described herein, shall lie within its sole and absolute discretion and shall be final, conclusive and binding on all parties concerned. Determinations made by the Committee under the Plan need not be uniform and may be made selectively among Participants, whether or not such Participants are similarly situated. The Committee shall have the right to deduct or withhold from any payment made under the Plan any federal, state, local or foreign income or other taxes required by law to be withheld with respect to such payment. Any dispute or disagreement which may arise under, or as a result of, or in any way relate to, the interpretation, construction or application of this Agreement shall be resolved by the Committee.

4. ELIGIBILITY AND PARTICIPATION

The Committee shall designate those persons who shall be Participants for each Performance Period. Participants shall be selected from among the employees of the Company and any of its subsidiaries who are in a position to have a material impact on the results of the operations of the Company or of one or more of its subsidiaries. Participation in the Plan for any Performance Period shall not provide a Participant any right to participate in the Plan (or any other plan of the Company) in any subsequent Performance Period. To be eligible for an Award, a Participant must, subject to the provisions of Sections 5(c) and 10(b) of the Plan, be an employee of the Company as of the last day of the applicable Performance Period.

5. AWARDS

(a) Performance Goals. A Participant's Award shall be determined based on the attainment of written performance goals approved by the Committee for a Performance Period established by the Committee.

The Committee shall have the right to adjust any performance goals for unusual or unplanned items, favorable or unfavorable. The performance goals,

which must be objective, shall be based solely upon one or more of the following criteria (or such other objective criteria selected by the Committee):

1. Earnings per Share;
2. Operating cash flow;
3. Gross margin
4. Operating or other expenses;
5. Earnings before interest and taxes;
6. Earnings before interest, taxes, depreciation and amortization;
7. Net income;
8. Pre-tax income;
9. Return on investment (determined with reference to one or more categories of income or cash flow and one or more categories of assets, capital or equity); and
10. Stock price appreciation.

The foregoing criteria may relate to the Company, one or more of its subsidiaries or one or more of its divisions, units, partnerships, joint ventures or minority investments, product lines or products or any combination of the foregoing, and may be applied on an absolute basis and/or be relative to one or more peer group companies or indices, or any combination thereof, all as the Committee shall determine. In addition, the performance goals may be calculated without regard to extraordinary or nonrecurring items and may also be calculated to reflect or exclude the effect of other items, such as transactions by the Company in its own securities, as the Committee may determine. The Committee may also adjust the performance calculations to exclude the unanticipated effect on financial results of changes in the Code, or other tax laws, and the regulations thereunder. The Committee may decrease the amount of the Award otherwise payable hereunder if, in the Committee's view, such adjustment is necessary or desirable, regardless of the extent to which a performance goal has been achieved. The Committee may establish such guidelines and procedures for reducing the amount of an Award as it deems appropriate.

(b) Payment. Within a reasonable time following the filing by the Company with the Securities and Exchange Commission of its financial statements for the Performance Period (or within such other time as determined by the Committee in its sole discretion), the Committee shall determine whether, with respect to a Performance Period, the applicable performance goals have been met with respect to a given Participant and, if they have, to so certify, and ascertain the amount of the applicable Award. No Awards will be paid for a Performance Period until such certification is made by the Committee. The amount of the Award actually paid to a given Participant may be less than the amount determined by the applicable performance goal formula (including zero), at the discretion of the

Committee. The amount of the Award determined by the Committee for a Performance Period shall, subject to the provisions of the Plan, be paid to the Participant at such time as determined by the Committee in its sole discretion after the end of such Performance Period.

(c) Termination of Employment. If a Participant dies, retires, is assigned to a different position that the Committee determines would not be eligible for continued participation in the Plan, or is granted a leave of absence during a Performance Period (other than a Performance Period in which a Change of Control occurs), a pro rata share of the Participant's Award based on the period of actual participation shall be paid to the Participant after the end of the Performance Period if it would have become earned and payable had the Participant's employment status not changed; provided, however, that the amount of the Award actually paid to a given Participant may be less than the amount determined by the applicable performance goal formula (including zero), at the discretion of the Committee. If the Participant's employment is terminated by the Company for cause (as determined by the Committee in its sole discretion), the Participant will not be entitled to any Award for the Performance Period in which his employment terminates or to any unpaid Award for other Performance Periods.

6. AMENDMENTS OR TERMINATION

The Board or the Committee may amend, alter or discontinue the Plan, but no amendment, alteration or discontinuation shall be made which would impair any of the rights or obligations under any Award theretofore granted to a Participant under the Plan without such Participant's consent. Notwithstanding anything to the contrary herein, the Board or the Committee may not amend, alter or discontinue the provisions relating to Section 10(b) of the Plan for a period of 18 months after the occurrence of a Change in Control.

7. NO RIGHT TO EMPLOYMENT

Neither the Plan nor any action taken hereunder shall be construed as giving any Participant or other person any right to continue to be employed by or perform services for the Company or any subsidiary, and the right to terminate the employment of or performance of services by any Participant at any time and for any reason is specifically reserved to the Company and its subsidiaries.

8. NONTRANSFERABILITY OF AWARDS

An Award shall not be transferable or assignable by the Participant otherwise than by will or by the laws of descent and distribution.

9. REDUCTION OF AWARDS

Notwithstanding anything to the contrary herein, the Committee, in its sole discretion (but subject to applicable law), may reduce any amounts payable to any Participant hereunder in order to satisfy any liabilities owed to the Company or any of its Subsidiaries by the Participant.

10. ADJUSTMENTS UPON CERTAIN EVENTS

(a) Generally. In the event of any change in the outstanding Shares by reason of any Share dividend or split, reorganization, recapitalization, merger, consolidation, spin-off, combination or exchange of Shares or other corporate exchange, or any distribution to shareholders of Shares other than regular cash dividends, the Committee in its sole discretion and without liability to any person may make such substitution or adjustment, if any, as it deems to be equitable, as to any affected terms of outstanding Awards.

(b) Change in Control. In the event that (i) a Participant's employment is terminated during a given Performance Period (the "Affected Performance Period") and (ii) a Change in Control shall have occurred within the 365 days immediately preceding the date of such termination, then such Participant shall receive, promptly after the date of such termination, an Award for the Affected Performance Period as if the performance goals for such Performance Period had been achieved at 100%.

11. MISCELLANEOUS PROVISIONS

The Company is the sponsor and legal obligor under the Plan and shall make all payments hereunder. The Company shall not be required to establish any special or separate fund or to make any other segregation of assets to ensure the payment of any amounts under the Plan, and the Participants' rights to the payment hereunder shall be no greater than the rights of the Company's (or subsidiary's) unsecured creditors. All expenses involved in administering the Plan shall be borne by the Company.

12. CHOICE OF LAW

To the extent not preempted by federal law, the Plan shall be governed by and construed in accordance with Georgia law.

13. EFFECTIVENESS OF THE PLAN

The Plan shall be effective as of July 11, 2003.

14. SUCCESSORS AND ASSIGNS

The Plan shall be binding upon the Company and its successors, including any successor to the Company by reason of any dissolution, merger, consolidation, sale of all or substantially all the assets of the Company, or other reorganization of the Company.

NATIONAL VISION, INC.

By: _____

FIRST AMENDMENT TO LOAN AND SECURITY AGREEMENT

THIS FIRST AMENDMENT TO LOAN AND SECURITY AGREEMENT (this "Amendment") is made and entered into as of December 21, 2001, but effective as of June 30, 2001, by and between NATIONAL VISION, INC., a Georgia corporation (hereinafter referred to as "Borrower") with its chief executive office and principal place of business at 296 Grayson Highway, Lawrenceville, Georgia 30045-5737, and FLEET CAPITAL CORPORATION, a Rhode Island corporation (hereinafter referred to as "Lender") with an office at 300 Galleria Parkway, N.W., Suite 800, Atlanta, Georgia 30339.

RECITALS:

Lender and Borrower are parties to a certain Loan and Security Agreement dated as of May 30, 2001 (the "Loan Agreement") pursuant to which Lender has made certain revolving credit loans and other financial accommodations to Borrower.

The parties desire to amend the Loan Agreement as hereinafter set forth.

NOW, THEREFORE, for TEN DOLLARS (\$10.00) in hand paid and other good and valuable consideration, the receipt and sufficiency of which are hereby severally acknowledged, the parties hereto, intending to be legally bound hereby, agree as follows:

1. DEFINITIONS. All capitalized terms used in this Amendment, unless otherwise defined herein, shall have the meaning ascribed to such terms in the Loan Agreement.

2. AMENDMENTS TO LOAN AGREEMENT. The Loan Agreement is hereby amended as follows:

(a) By adding the following new language to the end of Section 6.6 of the Loan Agreement:

Unless prohibited by Applicable Law, Borrower hereby irrevocably authorizes Lender to execute and file in any jurisdiction any financing statements or amendments thereto on Borrower's behalf, including, without limitation, financing statements that indicate the Collateral (i) as all assets or all personal property of Borrower or words of similar effect, or (ii) as being of an equal or lesser scope, or with greater or lesser detail, than as set forth in this SECTION 6. Borrower also hereby ratifies its authorization for Lender to have filed in any jurisdiction any like financing statements or amendments thereto if filed prior to the date hereof.

(b) By deleting Sections 7.2.5 and 7.2.6 of the Loan Agreement in their entirety and by substituting in lieu thereof the following:

7.2.5. Cash Management/Maintenance of Dominion Account. Borrower shall maintain with Bank a Deposit Account (the "Collection Account") into which all Payment Items (except as provided in SECTION 7.2.6 hereof) received by Borrower, including Payment Items received in the lockboxes maintained by Borrower with Bank and First Union National Bank, shall be deposited on a daily basis. All of the funds contained in the Collection Account shall be subject to a Lien in favor of Lender. Prior to the occurrence of a Cash Control Event, Borrower may use the funds in the Collection Account for the conduct of its business operations and in a manner not inconsistent with the provisions of this Agreement. Borrower and Bank shall enter into a Dominion Account Agreement with Lender with respect to the Collection Account pursuant to which Bank shall agree that, from and after the occurrence of a Cash Control Event, Bank shall immediately transfer to the Payment Account all monies deposited into the Collection Account (which, from and after the occurrence of a Cash Control Event, shall be a Dominion Account) and to waive any offset rights against funds deposited into such Dominion Account, except offset rights in respect of charges incurred in the administration of such Dominion Account. Upon and after the occurrence of a Cash Control Event, (i) Borrower shall cease to have access to funds in the Collection Account and (ii) the Collection Account shall constitute a Dominion Account. Lender does not assume any responsibility to Borrower for any Dominion Account, including any claim of accord and satisfaction or release with respect to deposits accepted by any bank thereunder.

7.2.6. Collection of Accounts and Proceeds of Collateral. To expedite collection, Borrower shall endeavor in the first instance to make collection of Borrower's Accounts for Lender. All Payment Items received by Borrower in respect of its Accounts, together with the proceeds of any other Collateral, shall be held by Borrower as trustee of an express trust for Lender's benefit and, from and after the occurrence of a Cash Control Event, Borrower shall immediately deposit same in kind in the Dominion Account, except that (i) Borrower may deposit Payment Items received in its retail stores in such stores' local Deposit Accounts, provided that all amounts in the local Deposit Accounts of such stores are transferred on a daily basis to the Payment Account and (ii) unless a Default or Event of Default then exists, Borrower may retain \$500 for each of its retail store locations. Lender retains the right at all times that a Default or an Event of Default exists to notify Account Debtors of Borrower that Accounts have been assigned to Lender and to collect Accounts directly in its own

name and to charge to Borrower the collection costs and expenses incurred by Lender, including reasonable attorneys' fees.

(c) By deleting Schedule 8.1.1 to the Loan Agreement in its entirety and by substituting in lieu thereof Schedule 8.1.1 hereto.

(d) By deleting Section 9.1.12 of the Loan Agreement in its entirety and by substituting in lieu thereof the following:

9.1.12. Post-Closing Obligations.

(i) On or before December 31, 2001, exercise a good faith effort to deliver to Lender a duly executed amendment to the Wal-Mart Agreement memorializing the terms set forth in the letter of intent dated May 14, 2001 between Borrower and Wal-Mart;

(ii) On or before December 31, 2001, deliver to Lender good standing certificates for Borrower issued by the Secretary of State or other appropriate official of each state or jurisdiction denoted with an asterisk on SCHEDULE 8.1.1 hereto; and

(iii) On or before May 30, 2002, deliver to Lender good standing certificates for Borrower issued by the Secretary of State or other appropriate official of the jurisdiction of its organization and each state or jurisdiction listed on SCHEDULE 8.1.1 hereto and all other states and jurisdictions in which the failure of Borrower to be so qualified would have a Material Adverse Effect, each certificate reflecting Borrower's correct corporate name as registered with the Secretary of State or other appropriate official of the jurisdiction of its organization.

(e) By deleting Section 9.2.1 of the Loan Agreement in its entirety and by substituting in lieu thereof the following:

9.2.1. Fundamental Changes. Merge, reorganize, consolidate or amalgamate with any Person, or liquidate, wind up its affairs or dissolve itself, except for (i) mergers or consolidations of any Subsidiary with Borrower or the liquidation or dissolution of any Subsidiary, provided, however, that no Lien (except Permitted Liens) exists upon any of such Subsidiary's Property, income or profits, whether now owned or hereafter acquired, or (ii) mergers or consolidations of any Subsidiary with another Subsidiary or the liquidation or dissolution of any Subsidiary into another Subsidiary; change Borrower's name or conduct business under any new fictitious name; or change Borrower's FEIN.

(f) By deleting Schedule 9.2.5 to the to the Loan Agreement in its entirety and by substituting in lieu thereof Schedule 9.2.5 hereto.

(g) By deleting Sections 9.3.1 and 9.3.2 of the Loan Agreement in their entirety and by substituting in lieu thereof the following:

9.3.1. Minimum Consolidated EBITDA. Achieve Consolidated EBITDA of not less than the amount shown below for the period corresponding thereto:

Period -----	Amount -----
For the 4 Reporting Periods ending September 29, 2001	\$ 6,000,000
For the 7 Reporting Periods ending December 29, 2001	\$11,000,000
For the 10 Reporting Periods ending March 30, 2002	\$17,000,000
For the 4 Fiscal Quarters ending June 29, 2002 and the 4-Fiscal Quarter period ending on the last day of each Fiscal Quarter thereafter	\$19,600,000

9.3.2. Minimum Consolidated Fixed Charge Coverage Ratio. Maintain a Consolidated Fixed Charge Coverage Ratio as of the last day of the Reporting Period ending on or about June 30 and December 31 of each year that is not less than 1.0 to 1.0, commencing with the last day of the Reporting Period ending on or about December 31, 2001, provided, however, the Consolidated Fixed Charge Coverage Ratio as of the last day of the Reporting Period ending on or about December 31, 2001 shall be measured for the 7-month period of Borrower then ending.

(h) By adding the following definitions to Appendix A to the Loan Agreement in proper alphabetical sequence:

Cash Control Event - Lender's written notification to Borrower that Lender has in its sole and absolute discretion elected to require dominion over Borrower's funds.

Collection Account - as defined in SECTION 7.2.5 of the Agreement.

(i) By deleting clause (ii)(b) of the definition of Eligible Account in Appendix A to the Loan Agreement and by substituting in lieu thereof the following:

(b) if it is to be processed under Premis, it is outstanding (1) more than 60 days after the date of service or sale of goods, during the period commencing on the Closing Date and ending on September 30, 2002, or (2) more than 30 days after the date of service or sale of goods, at all times after September 30, 2002;

3. CONSENT TO DISSOLUTION OF CERTAIN SUBSIDIARIES. Lender hereby consents to the dissolution of New West Eyeworks, Inc., a Delaware corporation, Frame-n-Lens Optical, Inc., a California corporation, and Family Vision Centers, Inc., a Delaware corporation, provided, however, that at the time of dissolution, no Lien (except Permitted Liens) exists upon any of such Subsidiaries' Property, income or profits, whether now owned or hereafter acquired.

4. RATIFICATION AND REAFFIRMATION. Borrower hereby ratifies and reaffirms the Obligations, each of the Loan Documents and all of Borrower's covenants, duties, indebtedness and liabilities under the Loan Documents.

5. ACKNOWLEDGMENTS AND STIPULATIONS. Borrower acknowledges and stipulates that the Loan Agreement and the other Loan Documents executed by Borrower are legal, valid and binding obligations of Borrower that are enforceable against Borrower in accordance with the terms thereof; all of the Obligations are owing and payable without defense, offset or counterclaim (and to the extent there exists any such defense, offset or counterclaim on the date hereof, the same is hereby waived by Borrower); the security interests and Liens granted by Borrower in favor of Lender are duly perfected, first priority security interests and Liens.

6. REPRESENTATIONS AND WARRANTIES. Borrower represents and warrants to Lender, to induce Lender to enter into this Amendment, that no Default or Event of Default exists on the date hereof; the execution, delivery and performance of this Amendment have been duly authorized by all requisite corporate action on the part of Borrower and this Amendment has been duly executed and delivered by Borrower; and all of the representations and warranties made by Borrower in the Loan Agreement are true and correct on and as of the date hereof.

7. REFERENCE TO LOAN AGREEMENT. Upon the effectiveness of this Amendment, each reference in the Loan Agreement to "this Agreement," "hereunder," or words of like import shall mean and be a reference to the Loan Agreement, as amended by this Amendment.

8. BREACH OF AMENDMENT. This Amendment shall be part of the Loan Agreement and a breach of any representation, warranty or covenant herein shall constitute an Event of Default.

9. EXPENSES OF LENDER. Borrower agrees to pay, ON DEMAND, all costs and expenses incurred by Lender in connection with the preparation, negotiation and execution of this Amendment and any other Loan Documents executed pursuant hereto and any and all amendments, modifications, and supplements thereto, including, without limitation, the costs and fees of Lender's legal counsel and any taxes or expenses associated with or incurred in connection with any instrument or agreement referred to herein or contemplated hereby.

10. EFFECTIVENESS; GOVERNING LAW. This Amendment shall be effective upon acceptance by Lender in Atlanta, Georgia, notice of which acceptance Borrower hereby waives, whereupon the same shall be governed by and construed in accordance with the internal laws of the State of Georgia.

11. SUCCESSORS AND ASSIGNS. This Amendment shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns.

12. NO NOVATION, ETC.. Except as otherwise expressly provided in this Amendment, nothing herein shall be deemed to amend or modify any provision of the Loan Agreement or any of the other Loan Documents, each of which shall remain in full force and effect. This Amendment is not intended to be, nor shall it be construed to create, a novation or accord and satisfaction, and the Loan Agreement as herein modified shall continue in full force and effect.

13. COUNTERPARTS; TELECOPIED SIGNATURES. This Amendment may be executed in any number of counterparts and by different parties to this Amendment on separate counterparts, each of which, when so executed, shall be deemed an original, but all such counterparts shall constitute one and the same agreement. Any signature delivered by a party by facsimile transmission shall be deemed to be an original signature hereto.

14. FURTHER ASSURANCES. Borrower agrees to take such further actions as Lender shall reasonably request from time to time in connection herewith to evidence or give effect to the amendments set forth herein or any of the transactions contemplated hereby.

15. SECTION TITLES. Section titles and references used in this Amendment shall be without substantive meaning or content of any kind whatsoever and are not a part of the agreements among the parties hereto.

16. WAIVER OF JURY TRIAL. TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, THE PARTIES HERETO EACH HEREBY WAIVES THE RIGHT TO TRIAL BY JURY IN ANY ACTION, SUIT, COUNTERCLAIM OR PROCEEDING ARISING OUT OF OR RELATED TO THIS AMENDMENT.

[Signatures on following page]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed and delivered by their respective duly authorized officers on the date first written above.

ATTEST:

NATIONAL VISION, INC.
("Borrower")

MITCHELL GOODMAN, Secretary

By: _____
ANGUS C. MORRISON, Senior Vice President

ACCEPTED IN ATLANTA, GEORGIA:

FLEET CAPITAL CORPORATION
("Lender")

By: _____
DAVID C. RICH, Vice President

SCHEDULE 8.1.1

JURISDICTIONS IN WHICH BORROWER
AND EACH SUBSIDIARY IS
AUTHORIZED TO DO BUSINESS

Name of Entity -----	Jurisdictions -----
National Vision, Inc.	Alabama, Alaska, Arizona, California, Colorado, Connecticut, Florida, Hawaii, Kansas*, Kentucky, Louisiana, Maryland*, Massachusetts*, Michigan, Minnesota, Montana, Nevada, New Hampshire, New Jersey, New Mexico*, New York, North Carolina, North Dakota, Oregon*, Pennsylvania, South Carolina, South Dakota, Tennessee*, Texas, Virginia*, Washington*, West Virginia* and Wyoming.
Midwest Vision, Inc.	None.
Frame-n-Lens Optical, Inc.	None.
Family Vision Centers, Inc.	None.
Vision Administrators, Inc.	None.
ProCare Eye Exam, Inc.	None.
New West Eyeworks, Inc.	None.
Vista Eyecare Network, LLC	None.
NVAL Healthcare Systems, Inc.	None.
NVAL Visioncare Systems of California, Inc.	None.
NVAL Visioncare Systems of North Carolina, Inc.	None.
Vista Optical Express, Inc.	None.
Alexis Holding Company, Inc.	None.
International Vision Associates, Ltd.	None.
Mexican Vision Associates, S.A. de C.V.	None.

* Not currently authorized; to be authorized on or before December 31,
2001.

Mexican Vision Associates Operadora, s. de R.L. de C.V.	None.
Mexican Vision Associates Servicios, s. de R.L. de C.V.	None.
CECIVA B.V.	None.
International Vision Associates (Netherlands) B.V.	None.
Czech Vision Associates, s.r.o.	None.
Slovak Vision Associates, s.r.o.	None.

SCHEDULE 9.2.5

PERMITTED LIENS

Secured Party

Nature of Lien

- - - - -
Darrell Flowe and Associates, Inc., with Regions Bank
as assignee

- - - - -
Computer Equipment (hardware and software) as
specified in Master Equipment Lease

- - - - -
Darrell Flowe and Associates, Inc., with Regions Bank
as assignee

- - - - -
All hardware, software and peripherals as specified in
Master Equipment Lease

- - - - -
IBM Credit Corporation

- - - - -
Certain IBM Equipment as referenced on IBM Slip
#222272

- - - - -
IBM Credit Corporation

- - - - -
Certain IBM Equipment as referenced on IBM Slip
#303254

- - - - -
Darrell Flowe and Associates, Inc., with Regions Bank
as assignee

- - - - -
IBM 9406/8051 to 8052 Base Storage Expansion Unit and
IBM 9406/6907 4.19GB Disk Unit

- - - - -
Wachovia Leasing Corporation

- - - - -
Certain Leased Equipment specified in Master Lease
Agreement

- - - - -
First National Bank of West Point

- - - - -
MB9600-Briot Complete Finishing Lab and related
Equipment

- - - - -
KeyCorp Leasing, a division of Key Corporate Capital
Inc.

- - - - -
Certain Leased Equipment listed on that certain UCC
financing statement bearing file number 01057032, on
record with the Secretary of State of Arizona, and
that certain UCC financing statement bearing file
number 459720, on record with the Secretary of State
of Oregon, each naming New West Eyeworks, Inc. as
debtor.

CONSENT AND REAFFIRMATION

The undersigned guarantors of the Obligations of Borrower at any time owing to Lender hereby: (i) acknowledge receipt of a copy of the foregoing First Amendment to Loan and Security Agreement; (ii) consent to Borrower's execution and delivery thereof; (iii) agree to be bound thereby; and (iv) affirm that nothing contained therein shall modify in any respect whatsoever its respective guaranty of the Obligations and reaffirm that such guaranty is and shall remain in full force and effect.

IN WITNESS WHEREOF, the undersigned have executed this Consent and Reaffirmation as of the date of such First Amendment to Loan and Security Agreement.

ATTEST: INTERNATIONAL VISION ASSOCIATES, LTD.

MITCHELL GOODMAN, Secretary By: _____
MITCHELL GOODMAN, Vice President

ATTEST: NVAL HEALTHCARE SYSTEMS, INC.

MITCHELL GOODMAN, Secretary By: _____
MITCHELL GOODMAN, Vice President

ATTEST: VISTA OPTICAL EXPRESS, INC.

MITCHELL GOODMAN, Secretary By: _____
MITCHELL GOODMAN, Vice President

ATTEST: FRAME-N-LENS OPTICAL, INC.

MITCHELL GOODMAN, Secretary By: _____
MITCHELL GOODMAN, Vice President

ATTEST: MIDWEST VISION, INC.

MITCHELL GOODMAN, Secretary By: _____
MITCHELL GOODMAN, Vice President

[Signatures continued on following page]

ATTEST:	NEW WEST EYEWORKS, INC.
_____ MITCHELL GOODMAN, Secretary	By: _____ MITCHELL GOODMAN, Vice President
ATTEST:	FAMILY VISION CENTERS, INC.
_____ MITCHELL GOODMAN, Secretary	By: _____ MITCHELL GOODMAN, Vice President
ATTEST:	VISION ADMINISTRATORS, INC.
_____ MITCHELL GOODMAN, Secretary	By: _____ MITCHELL GOODMAN, Vice President
ATTEST:	ALEXIS HOLDING COMPANY, INC.
_____ MITCHELL GOODMAN, Secretary	By: _____ MITCHELL GOODMAN, Vice President
ATTEST:	VISTA EYECARE NETWORK, LLC
_____ MITCHELL GOODMAN, Secretary	By: _____ MITCHELL GOODMAN, Vice President

SECOND AMENDMENT TO LOAN AND SECURITY AGREEMENT

THIS SECOND AMENDMENT TO LOAN AND SECURITY AGREEMENT (this "Amendment") is made and entered into this 19th day of December, 2003, by and between NATIONAL VISION, INC., a Georgia corporation (hereinafter referred to as "Borrower") with its chief executive office and principal place of business at 296 Grayson Highway, Lawrenceville, Georgia 30045-5737, and FLEET CAPITAL CORPORATION, a Rhode Island corporation (hereinafter referred to as "Lender") with an office at 300 Galleria Parkway, N.W., Suite 800, Atlanta, Georgia 30339.

RECITALS:

Lender and Borrower are parties to a certain Loan and Security Agreement dated May 30, 2001 (as amended, the "Loan Agreement") pursuant to which Lender has made certain revolving credit loans and other financial accommodations to Borrower.

The parties desire to amend the Loan Agreement as hereinafter set forth.

NOW, THEREFORE, for TEN DOLLARS (\$10.00) in hand paid and other good and valuable consideration, the receipt and sufficiency of which are hereby severally acknowledged, the parties hereto, intending to be legally bound hereby, agree as follows:

1. DEFINITIONS. All capitalized terms used in this Amendment, unless otherwise defined herein, shall have the meaning ascribed to such terms in the Loan Agreement.

2. AMENDMENTS TO LOAN AGREEMENT. The Loan Agreement is hereby amended as follows:

(a) By deleting Section 2.2.5 of the Loan Agreement in its entirety and by substituting the following new Section 2.2.5 in lieu thereof:

2.2.5. Audit and Appraisal Fees. Borrower shall reimburse Lender for all reasonable costs, expenses and standard fees incurred by Lender in connection with all audits and appraisals of any Obligor's books and records or any Collateral as Lender shall deem appropriate and shall pay to Lender an audit fee (\$850 as of the date hereof) per day for each day that an employee or agent of Lender shall be engaged in an audit of any Obligor's books and records or the Collateral.

(b) By deleting Section 5.1 of the Loan Agreement in its entirety and by substituting the following new Section 5.1 in lieu thereof:

5.1 Original Term of Revolver Commitment.
Subject to Lender's right to cease making Revolver Loans and other extensions of credit to Borrower when any Default or Event of Default exists or upon termination of the Revolver Commitment as provided in SECTION 5.2 hereof, the Revolver Commitment shall be in effect for a period of 6 years from May 30, 2001 through the close of business on May 30, 2007 (the "Original Term").

(c) By deleting Section 5.2.3 of the Loan Agreement in its entirety and by substituting the following new section 5.2.3 in lieu thereof:

5.2.3. Termination Charges. On the effective date of termination of the Revolver Commitment pursuant to SECTION 5.2.2, Borrower shall pay to Lender (in addition to the then outstanding principal, accrued interest, fees and other charges owing under the terms of this Agreement and any of the other Loan Documents), as liquidated damages for the loss of the bargain and not as a penalty, an amount equal to 1.00% of the Revolver Commitment if termination occurs during the fourth Loan Year; and .50% of the Revolver Commitment if termination occurs during the fifth Loan Year. In no event shall any termination charge be payable if the effective date of termination occurs any time after the last day of the fifth Loan Year.

(d) By deleting Section 9.1.9 of the Loan Agreement in its entirety and by substituting the following new Section 9.1.9 in lieu thereof:

9.1.9 Reserved.

(e) By adding the following new subsection (iii) to Section 9.2.22 thereof immediately after subsection (ii) of Section 9.2.22 thereof and immediately preceding Section 9.3 thereof:

(iii) Purchase any New Senior Note, unless at the time of and after giving effect to any such purchase each of the following conditions is met: (a) no Default or Event of Default shall exist; and (b) Average Availability for the thirty-day period immediately preceding such purchase, and Availability after giving effect to such purchase, is not less than \$1,000,000. As a condition precedent to Borrower's or any Subsidiary's purchase of New Senior Notes in accordance with this SECTION 9.2.22(III), Borrower shall provide to Lender, a certificate from a Senior Officer of Borrower that (w) sets forth Borrower's intent to purchase New Senior Notes, (x) discloses the aggregate purchase price to be paid by Borrower for the purchase of such New Senior Notes and (y) states that no Default or Event of Default is in existence as of the date of the certificate or will be in

existence as of the date of such purchase (both with and without giving effect to the making of such purchase). Such certificate shall include the calculations demonstrating that (a) the Consolidated Fixed Charge Coverage Ratio for the 12 Reporting Periods ending on the last day of the most recently ended Reporting Period preceding such purchase or purchases for which financial statements have been delivered to Lender in accordance with SECTIONS 9.1.3(i) or (ii) hereof, as applicable, is not less than 1.0 to 1.0, (b) Consolidated EBITDA for the 12 Reporting Periods ending on the last day of the most recently ended Reporting Period preceding such purchase or purchases for which financial statements have been delivered to Lender in accordance with SECTIONS 9.3.1 (i) or (ii) hereof, as applicable, is not less than \$ 19,600,000, and (c) Average Availability for the thirty-day period prior to the date of such certificate is not less than \$1,000,000. All purchases disclosed in any certificate of the type described above in this SECTION 9.2.22(iii) shall be consummated within the 15-Business Day period following the date of such certificate (with the first Business Day of such period being the Business Day immediately following the date of such certificate). Any purchase of New Senior Notes disclosed in any certificate delivered by a Senior Officer of Borrower to Lender in compliance with the requirements of this SECTION 9.2.22(iii) likewise shall satisfy the requirements of SECTION 9.2.6 hereof.

(f) By deleting Section 9.3.1 of the Loan Agreement in its entirety and by substituting the following new Section 9.3.1 in lieu thereof:

9.3.1. Minimum Consolidated EBITDA. Achieve Consolidated EBITDA of not less than \$19,600,000 for the 12 Reporting Periods ending on the last day of each Reporting Period from and after the Reporting Period ending on September 30, 2003.

(g) By deleting clause (viii) of the definition of Availability Reserve in Appendix A to the Loan Agreement and by substituting the following in lieu thereof:

(viii) an amount equal to \$500,000;

(h) By deleting the definition of Consolidated Adjusted Net Earnings in Appendix A to the Loan Agreement in its entirety and by substituting the following new definition in lieu thereof:

Consolidated Adjusted Net Earnings - with respect to any fiscal period, means the Consolidated Net Income (or loss) for such fiscal period of Borrower and the Subsidiaries, all as reflected on the financial statement of Borrower supplied to Lender pursuant to SECTION 9.1.3 of the Agreement, but excluding: (i) any gain or loss arising from the sale of capital assets; (ii) any gain arising from any write-up of assets during such period; (iii) earnings of any Subsidiary

accrued prior to the date it became a Subsidiary; (iv) earnings of any Person, substantially all the assets of which have been acquired in any manner of Borrower, realized by such Person prior to the date of such acquisition; (v) net earnings of any entity (other than a Subsidiary of Borrower) in which Borrower has an ownership interest unless such net earnings have actually been received by Borrower in the form of cash Distributions; (vi) any portion of the net earnings of any Subsidiary which for any reason is unavailable for payment of Distributions to Borrower; (vii) the earnings of any Person to which any assets of Borrower shall have been sold, transferred or disposed of, or into which Borrower shall have merged, or been a party to any consolidation or other form of reorganization, prior to the date of such transaction; (viii) any gain arising from the acquisition of any Securities of Borrower; (ix) without duplication, any gain arising from the acquisition of New Senior Notes; and (x) any gain arising from extraordinary or nonrecurring items, all as determined on a Consolidated basis in accordance with GAAP.

(i) By deleting the definition of Consolidated Fixed Charge Coverage Ratio in Appendix A to the Loan Agreement in its entirety and by substituting the following new definition in lieu thereof (which shall also supersede the definition of Consolidated Fixed Charge Coverage Ratio set forth in the letter agreement dated as of December 28, 2002, from Lender to Borrower):

Consolidated Fixed Charge Coverage Ratio - for the 6 Reporting Periods of Borrower ending on the date of determination, the ratio of (i) the sum of (a) Consolidated EBITDA for such period minus (b) Borrower's Capital Expenditures for such period minus (c) Taxes based on income paid during such period plus (d) any decrease in Consolidated Working Capital during such period or minus any increase in Consolidated Working Capital during such period to (ii) the sum of (x) Consolidated Fixed Charges for such period plus (y) the amount of any mandatory redemption of the New Senior Notes to which the holders of the New Senior Notes would be entitled under the New Notes Indenture calculated as of the date of determination and to be paid during the immediately succeeding 6 Reporting Periods plus (z) the aggregate amounts expended by Borrower or any Subsidiary to purchase New Senior Notes during such period. For purposes hereof, if, after the date on which Borrower pays to the holders of the New Senior Notes the amount of any mandatory redemption of the New Senior Notes required pursuant to the New Notes Indenture, there is a Financial Adjustment (as defined in the New Notes Indenture, as in effect on the Closing Date) as provided in Section 3.06 of the New Notes Indenture (as in effect on the Closing Date), then the amount of such mandatory redemption shall be retroactively adjusted by the amount of such Financial Adjustment.

(j) By deleting the definition of Inventory Formula Amount in Appendix A to the Loan Agreement in its entirety and by substituting the following new definition in lieu thereof:

Inventory Formula Amount - on any date of determination thereof, an amount equal to the lesser of (i) \$8,500,000 or (ii) 50% of the Value of Eligible Inventory on such date.

(k) By adding the following new clause (ix) to the end of the definition of Restricted Investment in Appendix A to the Loan agreement as follows:

(ix) the purchase of New Senior Notes from time to time, subject to Borrower's satisfaction of the requirements of SECTION 9.2.22(III) of the Agreement at each such time.

(l) By deleting SCHEDULES 7.1.1 and 8.1.1 to the Loan Agreement and by substituting in lieu thereof SCHEDULES 7.1.1 and 8.1.1 attached to this Amendment.

(m) Pursuant to Section 2(b) of this Amendment, the automatic renewal provisions relative to the original Term have been eliminated from the Loan Agreement. In order to give effect to such elimination, any and all references to the term "Renewal Term" in the Loan Agreement or other Loan Documents shall be deleted therefrom and deemed to be of no force or effect.

(n) By adding the following new definition to Appendix A to the Loan Agreement in the proper alphabetical sequence:

Average Availability - for any period, an amount equal to the sum of the actual amount of Availability on each day during such period, as determined by Lender, divided by the number of days in such period. For purposes hereof, the amount of Availability on any day that is not a Business Day shall be deemed to be the amount of Availability on the most recent Business Day preceding such day.

3. TERMINATION OF LETTER AGREEMENT. This Amendment, and the terms hereof, shall supersede the letter agreement dated June 30, 2002, from Lender to Borrower with respect to the purchase by Borrower of New Senior Notes, which letter agreement shall be of no further force or effect.

4. ADDITIONAL COVENANT. To induce Lender to enter into this Amendment, Borrower covenants and agrees that, simultaneously with the execution and delivery of this Amendment, Borrower shall pay to Lender an appraisal fee of \$7,000 plus all out-of-pocket expenses incurred by Lender in connection with the appraisal of Borrower's Inventory and Equipment prior to the date of this Amendment.

5. RATIFICATION AND REAFFIRMATION. Borrower hereby ratifies and reaffirms the Obligations, each of the Loan Documents, and all of Borrower's covenants, duties, indebtedness and liabilities under the Loan Documents.

6. ACKNOWLEDGMENTS AND STIPULATIONS. Borrower acknowledges and stipulates that the Loan Agreement and the other Loan Documents executed by Borrower are legal, valid and binding obligations of Borrower that are enforceable against Borrower in accordance with the terms thereof; all of the Obligations are owing and payable without defense, offset or counterclaim (and to the extent there exists any such defense, offset or counterclaim on the date hereof, the same is hereby waived by Borrower); the security interests and liens granted by Borrower in favor of Lender are duly perfected, first priority security interests and liens.

7. REPRESENTATIONS AND WARRANTIES. Borrower represents and warrants to Lender, to induce Lender to enter into this Amendment, that no Default or Event of Default exists on the date hereof; the execution, delivery and performance of this Amendment have been duly authorized by all requisite corporate action on the part of Borrower and this Amendment has been duly executed and delivered by Borrower; and all of the representations and warranties made by Borrower in the Loan Agreement are true and correct on and as of the date hereof.

8. REFERENCE TO LOAN AGREEMENT. Upon the effectiveness of this Amendment, each reference in the Loan Agreement to "this Agreement," "hereunder," or words of like import shall mean and be a reference to the Loan Agreement, as amended by this Amendment.

9. BREACH OF AMENDMENT. This Amendment shall be part of the Loan Agreement and a breach of any representation, warranty or covenant herein shall constitute an Event of Default.

10. CONDITIONS PRECEDENT. The effectiveness of the amendments contained in Section 2 hereof are subject to the satisfaction of each of the following conditions precedent, in form and substance satisfactory to Lender, unless satisfaction thereof is specifically waived in writing by Lender:

(a) Borrower shall cause Borrower's counsel to issue and deliver to Lender a written opinion as to, among other things, the due authorization by Borrower of the execution, delivery and performance of the Loan Documents.

(b) Borrower shall have established a relationship and arrangement with Bank pursuant to which Bank shall provide credit card and merchant services to Borrower.

(c) Lender shall have received current appraisals of Borrower's Equipment and Inventory, conducted and prepared by independent appraisers that are in all respects acceptable to Lender.

11. AMENDMENT FEE; EXPENSES OF LENDER. In consideration of Lender's willingness to enter into this Amendment as set forth herein, Borrower agrees to pay to Lender an amendment and extension fee in the amount of \$150,000 in immediately available funds on the date hereof. Additionally, Borrower agrees to pay, ON DEMAND, all costs and expenses incurred by Lender in connection with the preparation, negotiation and execution of this Amendment and any other Loan Documents executed pursuant hereto and any and all amendments, modifications, and supplements thereto, including, without limitation, the costs and fees of Lender's legal counsel and any taxes or expenses associated with or incurred in connection with any instrument or agreement referred to herein or contemplated hereby and the costs of the appraisals described in Section 10(c) hereof.

12. GOVERNING LAW. This Amendment shall be governed by and construed in accordance with the internal laws of the State of Georgia.

13. SUCCESSORS AND ASSIGNS. This Amendment shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns.

14. NO NOVATION, ETC. Except as otherwise expressly provided in this Amendment, nothing herein shall be deemed to amend or modify any provision of the Loan Agreement or any of the other Loan Documents, each of which shall remain in full force and effect. This Amendment is not intended to be, nor shall it be construed to create, a novation or accord and satisfaction, and the Loan Agreement as herein modified shall continue in full force and effect.

15. COUNTERPARTS; TELECOPIED SIGNATURES. This Amendment may be executed in any number of counterparts and by different parties to this Amendment on separate counterparts, each of which, when so executed, shall be deemed an original, but all such counterparts shall constitute one and the same agreement. Any signature delivered by a party by facsimile transmission shall be deemed to be an original signature hereto.

16. FURTHER ASSURANCES. Borrower agrees to take such further actions as Lender shall reasonably request from time to time in connection herewith to evidence or give effect to the amendments set forth herein or any of the transactions contemplated hereby.

17. SECTION TITLES. Section titles and references used in this Amendment shall be without substantive meaning or content of any kind whatsoever and are not a part of the agreements among the parties hereto.

18. RELEASE OF CLAIMS. TO INDUCE LENDER TO ENTER INTO THIS AMENDMENT, BORROWER HEREBY RELEASES, ACQUITS AND FOREVER DISCHARGES LENDER, AND ALL OFFICERS, DIRECTORS, AGENTS, EMPLOYEES, SUCCESSORS AND ASSIGNS OF LENDER, FROM ANY AND ALL LIABILITIES, CLAIMS, DEMANDS, ACTIONS OR CAUSES OF ACTION OF ANY KIND OR NATURE (IF THERE BE ANY), WHETHER ABSOLUTE OR CONTINGENT, DISPUTED OR UNDISPUTED, AT LAW OR IN EQUITY, OR KNOWN OR UNKNOWN, THAT BORROWER NOW HAS OR EVER HAD AGAINST LENDER ARISING UNDER OR IN CONNECTION WITH ANY OF THE LOAN DOCUMENTS OR OTHERWISE. BORROWER REPRESENTS AND WARRANTS TO LENDER THAT BORROWER HAS NOT TRANSFERRED OR ASSIGNED TO ANY PERSON ANY CLAIM THAT BORROWER EVER HAD OR CLAIMED TO HAVE AGAINST LENDER.

19. WAIVER OF JURY TRIAL. TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, THE PARTIES HERETO EACH HEREBY WAIVES THE RIGHT TO TRIAL BY JURY IN ANY ACTION, SUIT, COUNTERCLAIM OR PROCEEDING ARISING OUT OF OR RELATED TO THIS AMENDMENT.

[Signatures on following page]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed under seal in and delivered by their respective duly authorized officers on the date first written above.

ATTEST

/S/

- - - - -

Secretary

[CORPORATE SEAL]

NATIONAL VISION, INC.
("Borrower")

By: /s/ George C. Morm

- - - - -

Title: Senior Vice President CFO

FLEET CAPITAL CORPORATION
("Lender")

By:

- - - - -

Title:

[Consent and Reaffirmation on following page]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed under seal in and delivered by their respective duly authorized officers on the date first written above.

ATTEST

NATIONAL VISION, INC.
("Borrower")

- -----
Secretary

By: -----
Title:

[CORPORATE SEAL]

FLEET CAPITAL CORPORATION
("Lender")

By: /s/ -----

Title: Senior Vice President

[Consent and Reaffirmation on following page]

CONSENT AND REAFFIRMATION

Each of the undersigned guarantors of the Obligations of Borrower at any time owing to Lender hereby: (i) acknowledges receipt of a copy of the foregoing Second Amendment to Loan and Security Agreement and Waiver; (ii) consent to Borrower's execution and delivery thereof and of the other documents, instruments or agreements Borrower agrees to execute and deliver pursuant thereto; (iii) agrees to be bound thereby; and (iv) affirms that nothing contained therein shall modify in any respect whatsoever its respective guaranty of the Obligations and reaffirms that such guaranty is and shall remain in full force and effect.

IN WITNESS WHEREOF, the undersigned have executed this Consent and Reaffirmation, as of the date of such First Amendment to Loan and Security Agreement.

INTERNATIONAL VISION ASSOCIATES, LTD.

By: /s/ George C. Morm

Title: Vice President

NVAL HEALTHCARE SYSTEMS, INC.

By: /s/ George C. Morm

Title: Vice President

VISTA OPTICAL EXPRESS, INC.

By: /s/ George C. Morm

Title: Vice President

MIDWEST VISION, INC.

By: /s/ George C. Morm

Title: Vice President

[Signatures continued on next page]

VISION ADMINISTRATORS, INC.

By: /s/ George C. Morm

Title: Vice President

ALEXIS HOLDING COMPANY

By: /s/ George C. Morm

Title: Vice President

VISTA EYECARE NETWORK, LLC

By: /s/ George C. Morm

Title: Vice President

Subsidiaries of
National Vision, Inc.

Mexican Vision Associates Operadora, S. de R.L. de C.V.
Mexican Vision Associates Servicios, S. de R.L. de C.V.
Mexican Vision Associates, S.A. de C.V.
NVAL Healthcare Systems, Inc.
NVAL Visioncare Systems of California, Inc.

Exhibit 23.1

INDEPENDENT AUDITOR'S CONSENT

We consent to the incorporation by reference in Registration Statements Nos. 333-84425, 333-84287, and 333-27187 of National Vision, Inc. (the "Company") on Form S-8 of our report dated April 2, 2004, appearing in this Annual Report on Form 10-K of National Vision, Inc. for the year ended January 3, 2004.

DELOITTE & TOUCHE LLP

Atlanta, Georgia
April 2, 2004

I, Reade Fahs, certify that:

1. I have reviewed this annual report on Form 10-K of National Vision, Inc.
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)), for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: April 2, 2004

/s/ Reade Fahs

Reade Fahs
Title: Chief Executive Officer

I, Paul A. Criscillis, Jr., certify that:

1. I have reviewed this annual report on Form 10-K of National Vision, Inc.
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: April 2, 2004

/s/ Paul A. Criscillis, Jr.

Paul A. Criscillis, Jr.
Title: Chief Financial Officer

***Certificate of Chief Executive Officer and Chief Financial Officer
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002***

In connection with the annual report of National Vision, Inc. (the “Company”) on Form 10-K for the fiscal year ended January 3, 2004, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Reade Fahs, the Chief Executive Officer of the Company, and I, Paul A. Criscillis, Jr., the Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 , that:

1. The Report fully complies with the requirements of Section 13 (a) or 15 (d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date April 2, 2004

/s/ Reade Fahs

Chief Executive Officer

/s/ Paul A. Criscillis, Jr.

Chief Financial Officer