

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C.

FORM 10-K

(Mark One)

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

For the fiscal year ended December 28, 2002

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 ☒

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 7, 2003, was 5,084,400, including shares that are part of the disputed claims reserve in the registrant's Chapter 11 Case. The aggregate market value of shares of Common Stock held by non-affiliates of the registrant as of June 28, 2002, was approximately \$5.6 million based on a closing price of \$1.11 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 ☒



PART I

ITEM 1. BUSINESS

OVERVIEW

National Vision, Inc. (the “Company”) is a retail optical company, with 518 vision centers as of December 28, 2002 throughout the United States and Mexico. Our locations sell a wide range of optical products, including eyeglasses, contact lenses, and sunglasses. We offer the services of optometrists at substantially all of our locations. These optometrists are typically independent of us and operate their own practices within our retail locations. To support our retail operations, we also operate two manufacturing and distribution centers.

HISTORY OF THE COMPANY

The Company was founded as National Vision Associates, Ltd. in 1990, when it entered into a master license agreement with Wal-Mart Stores, Inc. (“Wal-Mart”). The original agreement gave the Company the right to operate 75 vision centers in Wal-Mart stores. The agreement was amended in 1992 to provide for 190 vision centers and was again amended in 1994 to give the Company the right to operate 400 vision centers.

In late 1997, the Company made a strategic decision to diversify its revenue base through acquisitions in the freestanding optical market. Between October 1997 and October 1998, the Company acquired three prominent chains in the freestanding optical market. More specifically, Midwest Vision, Inc. was acquired in October 1997 with 51 freestanding retail optical centers in four Midwest states. Frame-n-Lens Optical, Inc. was acquired in July 1998 with 150 freestanding vision centers in California and 120 vision centers located within Sam’s Clubs. New West Eyeworks, Inc. was acquired in October 1998 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, the Company changed its name to Vista Eyecare, Inc. To fund the acquisitions, the Company issued its \$125 million senior notes due 2005 bearing interest at 12.75% per annum.

Sales shortfalls in the freestanding stores caused adverse pressure on cash flow and liquidity. In October 1999, the Company announced that, because of slow sales in its recently acquired businesses, it would use the 30-day grace period for making the interest payment due on the senior notes.

The Company continued to experience weak sales and cash flow problems with the freestanding stores throughout early 2000. After failing to negotiate an out-of-court restructuring with the holders of the senior notes, the Company filed for reorganization under Chapter 11 on April 5, 2000.

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

Upon emerging from bankruptcy, the Company changed its 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 Company results.

DEPENDENCE ON WAL-MART

As of December 28, 2002, we operated 399 vision centers in domestic Wal-Mart stores, all of which operate pursuant to a master license agreement (see "Business-Leased Department Agreements"). These units generated approximately 87% of our revenue in 2002 and represent the most profitable division of the Company's host retail operations measured as a percent of sales. We therefore depend on Wal-Mart and on our agreement with them for much of our operations.

DATE OF INFORMATION

Unless otherwise expressly stated, all information in this Business section of this Form 10-K is as of December 28, 2002.

VISION CENTER OPERATIONS

Our vision centers typically occupy between 1,000 and 1,500 square feet, including areas for merchandise display, customer service, and contact lens fitting. Each vision center maintains inventory of approximately 850 eyeglass frames and 550 pairs of contact lenses, along with sunglasses and other optical accessories. Our two optical laboratories deliver prescription eyewear to all our vision centers. Many of the vision centers located in Wal-Mart have a finishing laboratory, which allows for the vision center to provide one-hour service for most single vision prescription lenses. These vision centers carry inventory of approximately 725 pairs of spectacle lenses. We have, however, removed the finishing laboratory from 14 of our vision centers as of March 7, 2003, as part of a test to determine whether removing these facilities can reduce our operating expenses. We expect to determine the results of this test by the end of 2003 (see "Management's Discussion and Analysis of Financial Condition and Results of Operations").

In the second quarter of 2002, the Company began selling a managed care insurance product in its Wal-Mart California vision centers to retail customers who do not otherwise have vision insurance coverage. At this time, the Company does not plan to expand the sale of this or similar products outside of California.

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 retail optical 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 at specific locations designated by the plan sponsor. We believe our network of vision centers combined with the convenience of their locations and our ability to offer low prices should enable us to make competitive bids for managed care contracts.

MARKS

Our vision centers in Wal-Mart are identified as the “Vision Center located in Wal-Mart.” We 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 have agreed to phase out our use of the Vista name. We have obtained a license to continue our use of this name through January 2004. The licensor of this mark recently filed for bankruptcy, and it is possible that we will lose our right to use this name.

EMPLOYEES

We employ 2,190 associates on a full-time basis and 740 associates on a part-time basis. We have 2,500 associates engaged in retail sales, 240 in laboratory and distribution operations, and 190 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 an eye examination facility. We typically charge rent to these optometrists, in exchange for the premises and the equipment which we provide. Our agreement with Wal-Mart 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 “Business-Government Regulation”.)

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.

MANAGEMENT INFORMATION SYSTEM

In 2000, National Vision completed the development of a new point of sale system. We began installing the system in our vision centers in the fall of 2000 and completed the installation in all of our units in 2002. The system is working substantially as planned. The system was designed to upgrade data processing, broaden capabilities at the retail level, and improve the processing of managed care transactions.

LEASED DEPARTMENT AGREEMENTS

We have agreements 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 customary provisions for leased department operations. (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 under HIPAA, which went into effect in April 2003. 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 of these 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 eyecare industry is extremely competitive. We compete with national companies such as LensCrafters and Cole; we also compete with numerous regional and local firms. In addition, optometrists, ophthalmologists, and opticians provide many of the same goods and services we provide. The level and intensity of competition can vary dramatically depending on the particular market. We believe that we have numerous competitive advantages, such as our everyday low pricing, convenience, product selection, and quality and consistency of service.

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

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

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, difficulties in cross-cultural marketing, and similar factors.

Information relative to sales and long-lived assets for the United States and Mexico for the seven months ended December 29, 2001, the five months ended June 2, 2001, and for the years ended December 30, 2000 and December 28, 2002 are summarized in the following tables (amounts in thousands):

	United States	Mexico	Consolidated
SUCCESSOR COMPANY:			
Fiscal year 2002			
Sales	\$241,994	\$5,026	\$247,020
Identifiable assets	\$148,816	\$2,206	\$151,022
Seven months ended December 29, 2001			
Sales	\$132,633	\$2,910	\$135,543
Identifiable assets	\$168,600	\$2,617	\$171,217
PREDECESSOR COMPANY:			
Five months ended June 2, 2001			
Sales	\$118,407	\$2,150	\$120,557
Identifiable assets	\$184,034	\$2,654	\$186,688
Fiscal year 2000			
Sales	\$302,902	\$4,792	\$307,694
Identifiable assets	\$ 88,666	\$2,222	\$ 90,888

Availability of Financial Information

The Company's Annual Report on Form 10-K, filed with the Securities and Exchange Commission, may be obtained by any shareholder without charge upon written request to National Vision, Inc., 296 Grayson Highway, Lawrenceville, GA 30045, Attn: Investor Relations. In addition, the Company's most recent public filings with the Securities and Exchange Commission are available on the Company's web site at www.nationalvision.com.

ITEM 2. PROPERTIES

Our 518 vision centers in operation as of December 28, 2002 are located as follows:

Location	Total	Location	Total
Alabama	8	Nevada	7
Alaska	13	New Hampshire	4
Arizona	14	New Jersey	13
California	97	New Mexico	10
Colorado	8	New York	26
Connecticut	10	North Carolina	60
Florida	5	North Dakota	4
Georgia	37	Oregon	34
Hawaii	4	Pennsylvania	18
Idaho	3	Puerto Rico	1
Kansas	10	South Carolina	11
Kentucky	1	South Dakota	1
Louisiana	1	Tennessee	2
Maine	1	Texas	7
Maryland	3	Virginia	23
Massachusetts	5	Washington	29
Minnesota	1	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 lens laboratory. The building is leased through January 2009.

The Company also has a regional facility located in St. Cloud, Minnesota. The 20,000 square foot St. Cloud facility is subject to a lease that expires in October 2007. The facility contains an optical laboratory.

ITEM 3. LEGAL PROCEEDINGS

LITIGATION IN CALIFORNIA

On May 20, 2002, an entity called Consumer Cause, Inc. filed a complaint against the Company in the Superior Court for Los Angeles County (Case No. BC 274257). A first amended complaint was filed on September 4, 2002. The complaint alleges that the Company's operations in California violate certain provisions of California law governing arrangements between opticians and optometrists. The complaint seeks attorney fees and an injunction prohibiting the Company from continuing the alleged violations. The complaint largely duplicates portions of a complaint filed by the California attorney general against one of the competitors of the Company. The case was dismissed on January 23, 2003; the plaintiff has filed an appeal.

CHAPTER 11 PROCEEDINGS

On April 5, 2000, the Company and ten of its subsidiaries (collectively, the “Debtors”) filed voluntary petitions with the United States Bankruptcy Court for the Northern District of Georgia for reorganization under Chapter 11 (the “Chapter 11 Cases”). 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 on May 18, 2001. On May 31, 2001, the Company emerged from bankruptcy.

Under the Plan, the Company’s pre-petition unsecured claims were converted 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 the Company’s credit facility. The notes are payable over eight years with principal repayments based on excess cash flow. Five million shares of new common stock, par value \$0.01, were issued, based on the Company’s reorganization value. Under the Plan, former shareholders received no value for their interests, consequently, all common stock issued prior to emergence from bankruptcy was cancelled.

The Plan also provided for the creation of a disputed claims reserve, which holds securities that will be distributed to creditors as and when pending claims are resolved in the Chapter 11 cases. As of March 7, 2003, approximately 613,000 shares of the Company’s common stock and approximately \$14.5 million of secured notes remained in the disputed claims reserve.

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 2002.



PART II

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

On May 31, 2001, the Company's plan of reorganization was confirmed, resulting in the cancellation of 21,169,103 shares of Common Stock and the issuance of 5,000,000 shares of Common Stock, par value \$0.01, to the Company's creditors, inclusive of shares held in the disputed claims reserve.

The Company's Common Stock was traded on the NASDAQ Small Cap Market under the symbol "VSTA" from October 1999 until May 2000, when it began trading on the OTC Bulletin Board. Upon issuance of Common Stock after our emergence from bankruptcy, the Company's Common Stock was listed on the American Stock Exchange in August of 2001 under the symbol "NVI". The following table sets forth for the periods indicated the high and low prices of the Company's Common Stock in the various market systems as noted above.

Pre-emergence

	<u>Period Ended</u>	<u>High</u>	<u>Low</u>
Fiscal 2001	March 31, 2001	\$0.200	\$0.030
	June 2, 2001	\$0.040	\$0.020

Post-emergence

	<u>Period Ended</u>	<u>High</u>	<u>Low</u>
Fiscal 2001	September 29, 2001	\$5.000	\$0.900
	December 29, 2001	\$1.050	\$0.350
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

As of March 7, 2003, there were approximately 450 holders of record of the Company's Common Stock.

The Company's plan of reorganization in the Chapter 11 Cases provides that, as claims of creditors are resolved, the Company will make periodic distributions of its new common stock and notes. As of March 7, 2003, the Company has made 10 such distributions, for a total of approximately 4,387,000 shares of new common stock and approximately \$105.5 million face amount of new notes. The balance of approximately 613,000 shares of new common stock and approximately \$14.5 million face amount of new notes are held in the disputed claim reserve and will be distributed as and when disputed claims are resolved. Such distributions could have an adverse impact on any trading price for the Company's securities.

It is the Company's intent to use cash resources only for its operations and for payment of interest expense and repayment of principal on and repurchases of the Company's new secured notes. The indenture governing our senior notes and our credit facility agreement restrict the Company's ability to pay dividends.

USE OF NON-GAAP FINANCIAL MEASURES

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

- it is the basis for the calculation of the excess cash flow principal repayment under our senior 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.

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data of the Company for the years ended December 28, 2002, December 29, 2001, December 30, 2000, January 1, 2000 and January 1, 1999 are derived from the Company's Consolidated Financial Statements. The Company 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. The selected financial data set forth below should be read in conjunction with the Consolidated Financial Statements and Notes thereto included elsewhere in this Report.

National Vision, Inc.
Consolidated Statements of Operations
(In thousands except vision center store count)

	Successor		Predecessor			
	2002	Seven months ended December 29, 2001	Five months ended June 2, 2001	2000	1999	1998
	(1)	(1)(2)	(1)(2)(5)	(1)(4)(6)(7)	(1)(3)(6)	(1)
Retail sales, net	\$244,860	\$135,543	\$ 120,557	\$ 307,694	\$329,055	\$245,331
Premium revenue	2,160	—	—	—	—	—
Net sales	247,020	135,543	120,557	307,694	329,055	245,331
Cost of goods sold	112,446	61,488	57,404	143,458	147,768	112,929
Gross profit	134,574	74,055	63,153	164,236	181,287	132,402
Gross profit percentage	54.5%	54.6%	52.4%	53.4%	55.1%	54.0%
Selling, general & administrative expense	128,715	71,526	68,377	166,364	177,162	121,413
Impairment of long-lived assets	—	—	—	2,684	1,952	—
Restructuring expense	—	—	—	1,601	—	—
Operating income/(loss)	5,859	2,529	(5,224)	(6,413)	2,173	10,989
Interest expense, net	13,629	8,389	1,150	7,723	19,329	5,538
Earnings/(loss) before reorganization items and taxes	(7,770)	(5,860)	(6,374)	(14,136)	(17,156)	5,451
Reorganization expense/(gain)	—	—	(102,515)	121,539	—	—
Earnings/(loss) before taxes, extraordinary items and cumulative effect of a change in accounting principle	(7,770)	(5,860)	96,141	(135,675)	(17,156)	5,451
Income tax expense	—	—	—	—	—	2,037
Earnings/(loss) before extraordinary	(7,770)	(5,860)	96,141	(135,675)	(17,156)	3,414

items and cumulative effect of a change in accounting principle						
Extraordinary gain/(loss), net	1,566	—	17,182	(827)	(406)	—
Cumulative effect, net	—	—	—	(3,378)	—	—
Net earnings/(loss)	\$ (6,204)	\$ (5,860)	\$ 113,323	\$ (139,880)	\$ (17,562)	\$ 3,414
BALANCE SHEET DATA:						
Total assets	\$151,022	\$171,217	\$ 186,688	\$ 90,888	\$220,219	\$229,097
Current and long-term obligations	\$109,706	\$120,000	\$ 123,000	\$ 183,735	\$151,902	\$139,608
Shareholders' equity/(deficit)	\$ 12,829	\$ 19,274	\$ 25,000	\$ (113,323)	\$ 26,557	\$ 43,927
STATISTICAL DATA:						
Domestic vision centers open at end of period:						
Leased department vision centers	481	479	473	472	577	562
Freestanding vision centers	—	—	—	226	322	331
Average annual sales per Wal-Mart leased department vision center(8)	\$ 547	\$ 535	\$ 535	\$ 540	\$ 527	\$ 522
Average annual sales per other host leased department vision center(8)	\$ 234	\$ 245	\$ 245	\$ 248	\$ 242	\$ 176
Average annual rent per Wal-Mart leased department vision center(8)	\$ 76	\$ 71	\$ 71	\$ 68	\$ 66	\$ 63
Wal-Mart leased department vision centers converted to supercenters	14	7	4	13	5	5
Capital expenditures	\$ 5,209	\$ 2,750	\$ 2,084	\$ 5,379	\$ 12,704	\$ 9,183
Depreciation and amortization	\$ 18,999	\$ 11,425	\$ 4,808	\$ 17,526	\$ 18,602	\$ 14,177
EBITDA(9)	\$ 24,858	\$ 13,954	\$ (416)	\$ 11,113	\$ 20,775	\$ 25,166

- (1) Financial information for all years presented includes results of international operations for the 12 months ended November 30. (See Note 2 to Consolidated Financial Statements.)
- (2) The Company 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.
- (3) In 1999, the Company recorded a \$2.7 million provision for the write-off of certain receivables and an impairment of \$1.9 million in connection with 36 under-performing vision centers. The receivables provision was included in selling, general and administrative expense.
- (4) In 2000, the Company recorded an impairment provision for inventory and receivables at the freestanding locations totaling \$1.1 million and \$518,000, respectively. These items were included in cost of goods sold and selling, general administrative expense, as appropriate.
- (5) In 2001, the Predecessor Company recorded a \$6.3 million provision for uncollectable receivables. Of this amount \$2.9 million related

to the ongoing host business. This expense was included in selling, general and administrative expense. In addition, the Predecessor Company recorded a \$2.4 million provision for inventory. This expense was included in cost of goods sold.

- (6) The Company incurred expenses for the impairment of certain long-lived assets and store closing costs prior to the Company's filing of Chapter 11 in April 2000.
- (7) This represents the cumulative effect of a change in accounting principle for the adoption of SAB 101. (See Note 2 to the Consolidated Financial Statements.)
- (8) For the purposes of calculating average annual sales and average annual rent, the Successor results for the seven months ended December 29, 2001 have been combined with the Predecessor results for the five months ended June 2, 2001.
- (9) EBITDA is calculated as net earnings before interest, taxes, depreciation and amortization, extraordinary items, cumulative effect of a change in accounting principle, and reorganization items. (See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Use of Non-GAAP Financial Measures"). The following is a reconciliation of net earnings to EBITDA (amounts in thousands):

	(Successor)		(Predecessor)			
	2002	Seven months Ended December 29, 2001	Five months Ended June 2, 2001	2000	1999	1998
Net earnings / (loss)	\$ (6,204)	\$ (5,860)	\$ 113,323	\$(139,880)	\$(17,562)	\$ 3,414
Addback:						
Interest expense, net	13,629	8,389	1,150	7,723	19,329	5,538
Reorganization expense / (gain)	—	—	(102,515)	121,539	—	—
Income tax expense	—	—	—	—	—	2,037
Extraordinary (gain) / loss, net	(1,566)	—	(17,182)	827	406	—
Cumulative effect, net	—	—	—	3,378	—	—
Depreciation and amortization	18,999	11,425	4,808	17,526	18,602	14,177
EBITDA	\$24,858	\$13,954	\$ (416)	\$ 11,113	\$ 20,775	\$25,166

ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**TABLE OF CONTENTS**

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Results of Operations

The Company 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 for the five months ended June 2, 2001 and then compared to the Successor results for the fiscal year ended December 28, 2002 and the Predecessor results for the fiscal year ended December 30, 2000. Differences between periods due to fresh start accounting are explained when necessary. Results for these periods are summarized in the following table:

National Vision, Inc.
Consolidated Statements of Operations
(In thousands)

	Year Ended December 28, 2002	Year Ended December 29, 2001 (A)	Year Ended December 30, 2000
Retail sales, net	\$244,860	\$ 256,100	\$ 307,694
Premium revenue	2,160	—	—
Total net sales	247,020	256,100	307,694
Cost of goods sold	112,446	118,892	143,458
Gross profit	134,574	137,208	164,236
Selling, general & administrative expense	128,715	139,903	166,364
Impairment of long-lived assets	—	—	2,684
Restructuring expense	—	—	1,601
Operating income / (loss)	5,859	(2,695)	(6,413)
Interest expense, net	13,629	9,539	7,723
Loss before reorganization items, taxes and extraordinary items	(7,770)	(12,234)	(14,136)
Reorganization expense / (gain)	—	(102,515)	121,539
Earnings / (loss) before taxes	(7,770)	90,281	(135,675)
Income taxes	—	—	—
Net earnings / (loss) before extraordinary item	(7,770)	90,281	(135,675)
Extraordinary gain / (loss), net of taxes	1,566	17,182	(827)
Cumulative effect, net of taxes	—	—	(3,378)
Net earnings / (loss)	\$ (6,204)	\$ 107,463	\$(139,880)

(A) Represents the combined results of the Successor for the seven months ended December 29, 2001 and the results of the Predecessor for the five months ended June 2, 2001.

The Company's results of operations in any period are significantly affected by the number and mix of vision centers operating during such period. At December 28, 2002, the Company operated 518 vision centers, versus 514 vision centers at December 29, 2001 and 725 vision centers at December 30, 2000. The freestanding stores open at year end 2000 were disposed of during the first half of 2001. The following table sets forth information about the number and type of vision centers owned and operated by the Company as of the end of fiscal 2002, 2001 and 2000, respectively.

	December 28, 2002	December 29, 2001	December 30, 2000
Wal-Mart, domestic	399	400	397
Fred Meyer	58	55	56
Military	24	24	19
Wal-Mart de Mexico	37	35	27
Freestanding stores	—	—	226
	—	—	—
TOTAL	518	514	725

YEAR ENDED DECEMBER 28, 2002 ("CURRENT YEAR") COMPARED TO YEAR ENDED DECEMBER 29, 2001 ("PRIOR YEAR")

Net sales. The Company recorded net sales of \$247.0 million in the Current Year versus \$256.1 million in the Prior Year, a decrease of 3.5% or \$9.1 million. This decrease is mostly attributable to the sale or closure of the Company's freestanding operations in the first half of 2001. These stores represented sales of \$18.2 million in 2001. The offsetting sales increase of \$9.1 million came from the following areas:

- \$2.2 million of premium revenue from a managed care insurance product that the Company began selling in the Wal-Mart California vision centers during 2002, and
- a domestic comparable store sales increase of 2.0% and sales from new stores opened since the end of 2001.

Historically, the Company's 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, the Company changed its presentation strategy by "unbundling" the package price so that pricing for frames and lenses are separately presented in the store. The new presentation is intended to be more clear, concise and customer-friendly and is similar to product and price presentation at a majority of our competitors' stores. After an initial orientation phase, the Company has experienced increases in the average spectacle transaction value and in spectacle unit count. Although we expect these positive trends to continue, we can provide no assurance regarding future average transaction value or spectacle unit count.

Gross profit. In the Current Year, gross profit dollars decreased by \$2.6 million over gross profit dollars in the Prior Year. This decrease in gross profit dollars is primarily the result of the disposition of the Company's freestanding operations in the first half of 2001. The retail and insurance components of sales and gross profit for the Current and Prior Year are detailed below (in thousands):

	Year Ended December 28, 2002		Year Ended December 29, 2001	
Retail sales, net	\$244,860	100.0%	\$256,100	100.0%
Retail cost of goods sold	110,509	45.1%	118,892	46.4%
Retail gross profit	\$134,351	54.9%	\$137,208	53.6%
Premium revenue	\$ 2,160	100.0%	\$ —	—%
Claims expense	1,937	89.7%	—	—%
Insurance gross profit	\$ 223	10.3%	\$ —	—%
Total net sales	\$247,020	100.0%	\$256,100	100.0%
Total cost of goods sold	112,446	45.5%	118,892	46.4%
Total gross profit	\$134,574	54.5%	\$137,208	53.6%

Retail gross profit increased as a percent of sales in the Current Year. The Company experienced a shift in sales mix toward eyeglasses, coupled with an increase in eyeglass margins in the Current Year partially as a result of the Company's "unbundling" of frame and lens pricing. This margin improvement was offset by an increase in rent expense (which is a component of Gross Profit) for the Wal-Mart division. This was due to approximately 43 vision centers entering the "3-year option period" of the Wal-Mart lease. The option period effectively increases each location's minimum rent requirement. As of December 28, 2002, we have 126 vision centers in the three-year option period of the Wal-Mart lease. We expect this trend of increased rent to continue as additional Wal-Mart locations enter the "option period" of their lease. During 2002, the Company's effective rent percentage on the Wal-Mart store revenues was approximately 14%. Any significant shortfall in comparable store sales would have a negative impact on occupancy expense as a percent of sales. The Company cannot give any assurances that it will be able to continue to record comparable sales increases at these levels.

Insurance gross profit represents premium revenue less claims expense for a managed care insurance product that the Company began selling in the Wal-Mart California vision centers in the second quarter of 2002. We do not expect a significant change in insurance gross profit as a percent of premium revenue in future periods. The addition of the lower-margin managed care insurance product increase total revenues and gross profit dollars, but decreases total gross profit as a percent of total net sales.

Selling, general and administrative expense ("SG&A expense"). SG&A expense (which includes both store operating expenses and home office overhead) decreased to \$128.7 from the Prior Year amount of \$139.9 million. This dollar decrease was primarily the result of lower payroll, depreciation and other expenses due to the above-mentioned disposition of the Company's freestanding operations in April 2001. Also, SG&A expense declined as a percentage of sales to 52.1% in the Current Year compared to 54.6% in the Prior Year. The percentage decrease in SG&A was the result of:

- 1) significant improvements in managed care processing which resulted in a decline in receivable write-offs of approximately \$4.9 million in the Current Year;
- 2) a Prior Year Predecessor Company charge of \$6.3 million for uncollectible managed care receivables (\$2.9 million of which related to the ongoing host businesses); and
- 3) a reduction in advertising spending of approximately \$3.2 million in the Current Year versus the Prior Year.

This decrease was partially offset by:

- 1) approximately \$800,000 in incremental costs incurred for evaluating and implementing organizational changes. These costs are expected to continue in the first half of 2003 as we proceed with this process, and
- 2) increases in retail-level payroll costs, which increased approximately \$4.9 million or 1.0% of sales over the Prior Year.

This payroll increase was due to 1) an increase in health and medical benefit costs and 2) an increase in rates in certain markets, where growing competition resulted in upward pressure on rates for optical personnel.

Operating income. Operating income increased from a loss of \$2.7 million in the Prior Year to income of \$5.9 million in the Current Year primarily due to the disposition of the freestanding operations in April 2001. Operating income as a percentage of sales was 2.4% in the Current Year, compared to -1.1% in the Prior Year.

Interest expense. Interest expense in the Current Year represents a full year's worth of interest incurred on an average subordinated debt balance of \$116 million. As a result of the Company's Chapter 11 proceedings, the Company did not accrue interest on subordinated debt until it emerged from Chapter 11 in May 2001.

Reorganization gain. The reorganization gain of \$102.5 million in 2001 is discussed in detail under "Year Ended December 29, 2001 Compared to Year Ended December 30, 2000."

Income taxes. The Company incurred tax operating losses in 2002 and 2001. Resulting tax benefits have been offset by a valuation allowance as realization is considered unlikely.

Extraordinary gain, net. During the Current Year, the Company repurchased notes with a face value of approximately \$4.5 million for \$3 million in cash, which included accrued interest of approximately \$106,000. These transactions resulted in an extraordinary, non-cash gain of \$1.6 million. The extraordinary gain in the Prior Year represents the gain on extinguishment of debt as recorded in fresh start accounting.

Net income / (loss). The Company posted a net loss of \$6.2 million in the Current Year versus net income of \$107.5 million in the Prior Year. The current period variance is primarily the result of fresh start adjustments and the gain on extinguishments of debt recognized in May 2001 as the Company emerged from Chapter 11.

EBITDA. EBITDA is calculated as net earnings before interest, taxes, depreciation and amortization, extraordinary items, cumulative effect of a change in accounting principle and reorganization items. (See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Use of Non-GAAP Financial Measures.")

The following is a reconciliation of net earnings to EBITDA:

	2002	2001
Net earnings / (loss)	\$ (6,204)	\$ 107,463
Addback:		
Interest expense, net	13,629	9,539
Reorganization expense / (gain)	—	(102,515)
Income tax expense	—	—
Extraordinary (gain) / loss, net	(1,566)	(17,182)
Cumulative effect, net	—	—
Depreciation and amortization	18,999	16,233
EBITDA	\$24,858	\$ 13,538

THREE MONTHS ENDED DECEMBER 28, 2002 (“CURRENT THREE MONTHS”) COMPARED TO THE THREE MONTHS ENDED DECEMBER 29, 2001 (“PRIOR THREE MONTHS”)

Condensed consolidated results for the fourth quarter of 2002 and 2001 are included in the quarterly pro forma table on page 23. Both quarters shown are actual results. We are presenting a discussion of fourth quarter results as we believe it is relevant to the reader in conjunction with consideration and review of the quarterly financial results filed with the SEC for the first, second and third quarters of 2002. Significant variances are discussed below.

Net Sales. The Company recorded net sales of \$61.5 million in the Current Three Months versus \$57.2 million in the Prior Three Months, an increase of \$4.3 million or 7.5%. This increase was primarily due to November programs that gave rise to a quarterly domestic comparable store sales increase of 5.5%. Premium revenue of approximately \$0.8 million in the Current Three Months also contributed to the total net sales increase.

Gross profit. In the Current Three Months, gross profit dollars increased by \$1.0 million over the Prior Three Months. Gross profit percentages declined from 52.6% in the Prior Three Months to 50.5% in the Current Three Months as the product mix shifted towards contact lenses and accessories, which have lower margins than eyeglass sales. Also, premium revenues, which have a gross profit margin of approximately 7 to 10%, contributed to the decline in gross profit percentage in the Current Three Months. Also, in connection with finalizing financial results for 2002, the Company recorded certain adjustments which had the effect of increasing cost of goods sold from levels preliminarily reported in a Form 8-K filed on April 10, 2003.

Selling, general and administrative expense (“SG&A”). SG&A expense (which includes both store operating expenses and home office overhead) increased from \$30.1 million in the Prior Three Months to \$31.4 million in the Current Three Months. Increases in compensation costs were a significant factor in the dollar increase in SG&A expenses. More specifically, fourth quarter 2002 includes payroll cost in excess of \$1 million related to a quarterly management incentive plan as well as approximately \$400,000 of expenses related to its review of the Company’s retail and support organization. Expenses for this project will continue into the first half of 2003, as we proceed with this process. SG&A expense decreased as a percent of sales from 52.7% in the Prior Three Months to 51.1% in the Current Three Months. This decline is partially due to:

- 1) significant improvements in managed care processing which resulted in a decline in receivable write-offs in the Current Three Months, and
- 2) a reduction in advertising spending in the Current Three Months versus the Prior Three Months.

The current year improvement in SG&A expenses as a percent of sales was partially offset by increases in rent expense (which is a component of gross profit) as a percent of sales for the Wal-Mart division. This was due to approximately 46 vision centers entering the three-year option period of the Wal-Mart lease since the end of the Prior Year. The option period effectively increases each location’s minimum rent requirement. We expect this trend of increased rent to continue as additional Wal-Mart locations enter the option period of their lease. During 2002, the Company’s effective rent percentage on the Wal-Mart store revenues was approximately 14.0%. Any significant shortfall in comparable store sales would have a negative impact on occupancy expense as a percent of sales. The Company cannot give any assurances that it will be able to continue to record comparable sales increases at historical levels.

Operating income. Operating income for the Current Three Months declined \$0.5 million to a loss of \$549,000 from a loss of \$48,000 in the Prior Three Months primarily due to the shift in product mix as previously discussed.

Interest expense. Interest expense declined by \$0.7 million in the Current Three Months to \$3.0 million due to principal repayments and repurchases totaling \$10.4 million since the Prior Three Months.

Extraordinary gain. The Company repurchased notes with a face value of approximately \$2.8 million for \$1.8 million in cash, which included accrued interest of approximately \$20,000. These transactions resulted in an extraordinary, non-cash gain of \$1.0 million in the Current Three Months.

Net loss. The Company's net loss in the Current Three Months was approximately \$2.5 million compared to a net loss of \$3.7 million in the Prior Three Months. This improvement of \$1.2 million over the Prior Three Months is attributable to three factors:

- 1) strong operating performance in the Current Three Months, as evidenced by domestic comparable store sales growth of 5.5%;
- 2) decreases in interest expense due to reductions in the total outstanding debt; and
- 3) an extraordinary gain of approximately \$1.0 million as we repurchased a portion of our senior subordinated debt at a discount.

YEAR ENDED DECEMBER 29, 2001 COMPARED TO YEAR ENDED DECEMBER 30, 2000

Net Sales. The Company recorded net sales of \$256.1 million in fiscal 2001, a decrease of 16.8% from sales of \$307.7 million in fiscal 2000. Sales decreased due to the following reasons:

- In April 2001, the Company disposed of the remainder of its freestanding stores. These stores had sales of approximately \$61 million in 2000 versus sales of \$18 million in 2001.
- The Company closed all of its Sam's Club operations in the third quarter of 2000. These locations had sales of approximately \$12 million in fiscal 2000.

Comparable store sales in the Company's Wal-Mart business declined 0.5% from levels recorded in the prior fiscal year. This decrease was partially offset by sales from 5 new stores opened in 2001.

Gross Profit. In the Current Year, gross profit decreased to \$137.2 million from \$164.2 million in the prior year. This decrease in gross profit was primarily driven by a reduction in sales caused by the closure of the freestanding locations and the Sam's Club locations. Gross margin, as a percent of sales, increased to 53.6% from 53.4% in the Prior Year. Gross margin percentage was positively impacted by an increase in eyeglass margins, resulting from the introduction and repositioning of certain eyeglass lens items and additional price-point options placed on the frame boards. Also, the Company recorded a charge of approximately \$2.6 million and \$1.1 million to adjust inventory of the freestanding locations to its net realizable value in the Current Year and the Prior Year, respectively.

The current year improvement was partially offset by increases in rent expense (which is a component of gross profit) as a percent of sales for the Wal-Mart division. This was due to approximately 46 vision centers entering the three-year option period of the Wal-Mart lease since the end of the Prior Year. The option period effectively increases each location's minimum rent requirement. We expect this trend of increased rent to continue as additional Wal-Mart locations enter the option period of their lease. The Company believes that, on the basis of comparable store sales growth it has historically achieved over the five year period prior to 2001, occupancy expense under the Wal-Mart agreement as a percent of sales should not, in the foreseeable future, increase by more than one percentage point over levels recorded in 2001. During 2001, the Company's effective rent percentage on the Wal-Mart store revenues was approximately 13.5%. The Company cannot give any assurances that it will be able to continue to record comparable sales increases at these historical levels. Any significant shortfall in comparable store sales would have a negative impact on occupancy expense as a percent of sales.

Selling, General, And Administrative Expense ("SG&A expense"). SG&A expense (which includes both store operating expenses and home office overhead) decreased to \$139.9 million in the Current Year from \$166.4 million for the Prior Year. The dollar decrease was primarily the result of lower payroll, depreciation and other expenses due to the above-mentioned store dispositions and closures. However, SG&A expense increased as a percent of sales from 54.1% in the Prior Year to 54.6% in the Current Year.

The percentage increase in SG&A was the result of

- the amortization of the newly established intangible value of contractual rights of approximately \$4.4 million for the seven months ended December 29, 2001;
- a \$6.3 million charge for uncollectible managed care receivables in the Predecessor Company (\$2.9 million of which related to ongoing businesses);
- an increase in freestanding healthcare costs of approximately \$1.0 million; and
- an increase in third party processing costs as a result of increased managed care sales and receipts. Third party processing costs as a percentage of sales are expected to increase as sales under managed care programs increase.

The percentage increase in SG&A partially offset by

- a 1.7% decrease in retail and field supervision payroll costs as a percent of sales primarily due to the closure of the freestanding stores that had higher payroll costs as a percent of sales;
- a charge of approximately \$0.5 million in the Prior Year to adjust accounts receivable in the Company's freestanding stores to net realizable value; and
- a reduction in total advertising expenditures in the Current Year due to the disposal of the Company's freestanding locations. Historically the Company's advertising expenditures for the freestanding locations have been in excess of 10% of sales, well in excess of expenditures as a percentage of sales for the domestic host businesses. Advertising for the Company's domestic host businesses in 2001 is up slightly from historical levels.

Impairment Loss and Restructuring Expense. In the first quarter of 2000, the Company recorded a non-cash pre-tax charge of approximately \$2.7 million, primarily related to the impairment of leasehold improvements and furniture and fixtures of 91 stores which were closed prior to the Company's Chapter 11 filing. Also, the Company recorded a \$1.6 million reserve for anticipated closing costs which was comprised of \$1.4 million of lease termination costs and \$0.2 million of severance and other closing costs.

Operating Loss. The operating loss for the Current Year was \$2.7 million compared to a loss of \$6.4 million in the Prior Year. Operating loss as a percentage of sales prior to the restructuring reserve and the impairment loss was 1.1% in the Current Year, compared to a loss of 0.7% in the Prior Year. This improvement was primarily due to the closure of the freestanding locations and the Sam's Club locations.

Interest Expense. Interest expense increased to \$9.5 million compared to \$7.7 million in the Prior Year. In the Prior Year, the Company stopped accruing interest on unsecured debt. The Company emerged from bankruptcy on May 31, 2001, and new senior notes in the amount of \$120 million, bearing interest of 12%, were issued and the previous notes were cancelled. The new notes were outstanding for seven months in the current period and interest of approximately \$8.4 million was accrued. Contractual interest for the Prior Year was \$20.7 million.

Reorganization Items. The Company recorded all transactions incurred as a result of the Chapter 11 filing separately as reorganization items. There were no reorganization items recorded after June 2, 2001, as the Company emerged from bankruptcy. The table below summarizes the items incurred by the Predecessor Company (amounts in thousands):

	Five Months Ended June 2, 2001	Twelve Months Ended December 30, 2000
Fresh start adjustments(a)	\$(114,263)	\$ —
Impairment of goodwill	—	100,805
Impairment of fixed assets	33	12,000
Provision for rejected leases	1,592	1,920
Loss on disposal of freestanding division	3,645	—
Other store closing costs	532	670
Retention plan	3,231	2,173
Professional fees	2,008	3,421
Letter of credit reserve on DIP Facility	197	—
Interest income on accumulated cash	(127)	(144)
Other reorganization costs	637	694
Reorganization (gain)/expense	\$(102,515)	\$121,539

(a) The adjustments represent the elimination of Predecessor Company equity and the fair value adjustments that were made as part of fresh-start accounting.

Benefit For Income Taxes. The Company generated operating losses for tax purposes in 2002. No income tax benefit has been recorded as realization is not considered probable.

Extraordinary Items. In 2001, as part of the Company's emergence from bankruptcy, the Predecessor Company recognized an extraordinary gain of \$17.2 million related to the extinguishment of debt. The gain was calculated as follows:

Net liabilities subject to compromise	\$169,245
Deferred financing costs related to cancelled senior notes	(7,063)
Net liabilities extinguished	162,182
Less: Reorganized value	145,000
Gain on extinguishment of debt	\$ 17,182

The 2000 results also include an extraordinary loss of \$827,000 associated with the write-off of the capitalized costs of the Company's previous Foothill credit facility.

Net Income / (loss). The Company posted net income of \$107.5 million in the Current Year versus a net loss of \$139.9 million in the Prior Year. Of the 2001 net income of \$107.5 million, \$102.5 million results from a reorganization gain, as noted above.

EBITDA. EBITDA is calculated as net earnings before interest, taxes, depreciation and amortization, extraordinary items, cumulative effect of a change in accounting principle, and reorganization items. (See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Use of non-GAAP financial Measures.")

The following is a reconciliation of operating income to EBITDA (amounts in thousands):

	2001	2000
Net earnings / (loss)	\$ 107,463	\$(139,880)
Addback:		
Interest expense, net	9,539	7,723
Reorganization expense / (gain)	(102,515)	121,539
Income tax expense	—	—
Extraordinary (gain) / loss, net	(17,182)	827
Cumulative effect, net	—	3,378
Depreciation and amortization	16,233	17,526
EBITDA	\$ 13,538	\$ 11,113

Proceedings Under Chapter 11 of the Bankruptcy Code

On April 5, 2000, the Company and ten of its subsidiaries (collectively, the "Debtors") filed voluntary petitions with the United States Bankruptcy Court for the Northern District of Georgia for reorganization under Chapter 11 (the "Chapter 11 Cases"). 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 on May 18, 2001. On May 31, 2001, after securing a new revolving credit facility with Fleet Capital Corporation, the Company emerged from bankruptcy.

Under the Plan, the Company's pre-petition unsecured claims were converted 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 the Company's credit facility. The notes are payable over eight years with principal repayments based on excess cash flow for the prior six month period. Five million shares of new common stock, par value \$0.01, were issued, based on the Company's reorganization value. Under the Plan, former shareholders received no value for their interests, consequently, all common stock issued prior to emergence from bankruptcy was cancelled.

The Company's 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 the Company's financial projections, including an assumption of a terminal value. Such projections were necessarily based on a variety of estimates and assumptions which might not be realized and are inherently subject to significant uncertainties and contingencies. Some assumptions inevitably will not materialize. The projections therefore should not be considered as a guarantee or other assurance of actual results.

The allocation of the Company’s reorganization value is shown below:

Reorganized value:	
New Debt	\$ 120,000
New Equity	25,000
Reorganization value	\$ 145,000

In the allocation of the reorganization value, the Company’s 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 will be amortized over 15 years using the straight-line method. This intangible asset represents the value of the Company’s lease agreement and the business relationship developed with Wal-Mart. 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 subject to future change due to various reasons, including the Wal-Mart superstore conversions that automatically trigger extensions on the contractual life of the asset, possible changes and/or extensions to the Master Lease Agreement as well as other businesses that may be developed through our relationship with Wal-Mart. Based on projections, management believes that the best estimate of the useful life of this asset is 15 years. Due to the uncertainty involved in predicting the pattern of economic benefits realized from the Wal-Mart relationship, this asset is amortized using the straight-line method.

HISTORICAL PRO FORMA RESULTS OF ONGOING OPERATIONS.

On April 20, 2001 the Predecessor Company completed the sale of its freestanding retail operations to Vista Acquisition LLC (the “Buyer”). We received consideration of approximately \$7.0 million, consisting of \$5.7 million in cash and a \$1.3 million note receivable. The note receivable was fully reserved at the time of the sale, due to the low probability of collection. The assets sold consisted primarily of furniture, fixtures and inventory at approximately 200 freestanding locations and inventory and equipment at the Fullerton, California laboratory/distribution center. In a related transaction, the Company agreed to sell, subject to regulatory approval, to the Buyer its interest in a managed care subsidiary. The net book value of the assets of the subsidiary (\$1.1 million) was fully reserved upon the agreement date as the Buyer took possession of these assets; however, the Company received no consideration from the Buyer for these assets and future receipt was uncertain. For purposes of the unaudited pro forma financial information, these transactions have been combined.

The following information presents the Company’s results of operations for the retail store operations retained by the Company upon emergence from bankruptcy in June 2001. In addition to the exclusion of the freestanding store financial results, the pro forma information also excludes the financial results of other dispositions that occurred during the bankruptcy process, including the Sam’s Club stores and Meijer Thrifty Acres stores. Accordingly, data for the first and second quarter of 2001 is presented on a pro forma basis as if all disposed operations were closed or disposed of as of the beginning of 2001. The pro forma information does not necessarily reflect actual results that would have occurred nor is it necessarily indicative of future results of operations of the Company without the closed or disposed operations. Costs related to the bankruptcy, reorganization and restructuring costs are excluded.

2002	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Fiscal 2002
Store count at end of period	516	518	518	518	518
Domestic comparable store sales growth	0.0%	1.0%	1.5%	5.5%	2.0%
Net sales	\$61,873	\$61,935	\$61,745	\$61,467	\$247,020
Gross profit	\$34,893	\$34,255	\$34,358	\$31,068	\$134,574
Operating income	\$ 2,160	\$ 2,008	\$ 2,239	\$ (549)	\$ 5,859
Net loss	\$ (1,420)	\$ (1,556)	\$ (753)	\$ (2,475)	\$ (6,204)
Capital expenditures	\$ 796	\$ 1,357	\$ 825	\$ 2,231	\$ 5,209
Depreciation and amortization	\$ 4,953	\$ 4,868	\$ 4,791	\$ 4,387	\$ 18,999
2001	Pro Forma First Quarter	Pro Forma Second Quarter	Third Quarter	Fourth Quarter	Pro Forma Fiscal 2001
Store count at end of period	502	503	505	514	514
Domestic comparable store sales growth	-0.5%	0.5%	0.0%	-0.5%	0.0%
Net sales	\$60,906	\$60,042	\$59,741	\$57,196	\$237,885
Gross profit	\$33,357	\$33,699	\$33,644	\$30,100	\$130,800
Operating income	\$ 4,428	\$ 789	\$ 2,204	\$ (48)	\$ 7,374
Net earnings /(loss)	\$ 3,689	\$ (731)	\$ (1,469)	\$ (3,655)	\$ (2,165)
Capital expenditures	\$ 1,200	\$ 1,100	\$ 970	\$ 1,445	\$ 4,715
Depreciation and amortization	\$ 2,817	\$ 3,443	\$ 4,979	\$ 4,910	\$ 16,149

Reconciliation to Pro Forma Results

A reconciliation of the quarterly results for the first and second quarter of 2001 from reported results to pro forma results is presented in the following tables (amounts in thousand):

	Three Months Ended March 31, 2001		
	As Reported	Adjustments	Pro Forma
Net sales	\$74,735	\$13,829(D)	\$60,906
Cost of goods sold	34,525	6,976(D)	27,549
Gross profit	40,210	6,853	33,357
Selling, general & administrative	39,071	10,142(D)	28,929
Operating income / (loss)	1,139	(3,289)	4,428
Interest expense, net	739	—	739
Loss before reorganization items, taxes, extraordinary item and cumulative effect of a change in accounting principle	400	(3,289)	3,689
Reorganization expense / (gain)	1,789	1,789(E)	—
(Loss) / earnings before taxes, extraordinary item and cumulative effect of a change in accounting principle	(1,389)	(5,078)	3,689
Income taxes	—	—	—

Net earnings / (loss) before extraordinary item and cumulative effect of a change in accounting principle	(1,389)	(5,078)	3,689
Extraordinary (loss) / gain, net	—	—	—
Net earnings / (loss)	\$ (1,389)	\$ (5,078)	\$ 3,689

**Three Months Ended
June 30, 2001**

	As Reported (A)	Adjustments	Pro Forma
Net sales	\$ 64,428	\$ 4,386(D)	\$60,042
Cost of goods sold (B)	31,174	4,831(D)	26,343
Gross profit	33,254	(445)	33,699
Selling, general & administrative (C)	39,244	6,334(D)	32,910
Operating income / (loss)	(5,990)	(6,779)	789
Interest expense, net	1,520	—	1,520
Loss before reorganization items, taxes, extraordinary item and cumulative effect of a change in accounting principle	(7,510)	(6,779)	(731)
Reorganization expense / (gain)	(104,304)	(104,304)(E)	—
(Loss) / earnings before taxes, extraordinary item and cumulative effect of a change in accounting principle	96,794	97,525	(731)
Income taxes	—	—	—
Net earnings / (loss) before extraordinary item and cumulative effect of a change in accounting principle	96,794	97,525	(731)
Extraordinary (loss) / gain, net	17,182	17,182(E)	—
Net earnings / (loss)	\$ 113,976	\$ 114,707	\$ (731)

- (A) For the three months ending June 30, 2001, represents the combination of the Predecessor Company's financial results for the two months ended June 2, 2001 and the Successor Company's financial results for the one month ending June 30, 2001.
- (B) Includes a \$2.6 million charge to reflect the net realizable value of certain inventories impacted by the sale of the freestanding operations.
- (C) Includes a \$6.3 million charge for uncollectible accounts receivable incurred by the Predecessor Company, \$2.9 million of which related to host vision centers.
- (D) Represents the results of the disposed operations that were either sold or closed during the restructuring of the Company.
- (E) Reorganization items and the Extraordinary gain were expenses/gains recorded during the Company's Chapter 11 proceedings and are not expenses/gains of the Successor Company.

**Year Ended December 28, 2002 (“Current Year”)
Compared to the Pro Forma Year Ended December 29, 2001 (“Pro Forma Prior Year”)**

	Fiscal Year Ended	
	December 28, 2002	December 29, 2001
Domestic store comp %	2.0%	0.0%
Store count at end of period	518	514
Net sales	\$247,020	\$237,885
Gross profit	\$134,574	\$130,800
Operating income	\$ 5,859	\$ 7,374
Net earnings/(loss)	\$ (6,204)	\$ (2,165)
Capital expenditures	\$ 5,209	\$ 4,715
Depreciation and amortization	\$ 18,999	\$ 16,149

Other variances are discussed below:

- Net sales increased over the Pro Forma Prior Year primarily due to a 2.0% domestic comparable store sales increase and premium revenue of \$2.2 million in the Current Year.
- Gross profit as a percent of sales decreased to 54.5% from 55.0% in the Pro Forma Prior Year. This percentage decrease was partially driven by \$2.2 million in sales of a new managed care product in the Company’s California Wal-Mart stores. This product has a profit margin of approximately 7 to 11% of sales, which served to increase the Company’s gross profit dollars, but decreases gross profit as a percent of sales.
- Operating income declined in the Current Year primarily as a result of the amortization of Intangible Value of Contractual Rights and depreciation of revalued fixed assets, both of which were established during fresh start accounting. The incremental increase in these expenses was \$3.8 million in the Current Year. This increase in expenses was partially offset by the Prior Year non-cash provision of \$2.9 million related to receivables.
- SG&A expense increased due to an increase in payroll costs as a percent of sales primarily resulting from new store openings and an increase in benefit costs and payroll rates in certain markets where increased competition has resulted in upward pressure on rates for optical personnel. Also, in the fourth quarter of 2002, the Company incurred approximately \$800,000 of consulting expenses and other organizational costs as part of our review of the retail and support organizations, processes and technology.

USE OF NON-GAAP FINANCIAL MEASURES

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

- it is the basis for the calculation of the excess cash flow principal repayment under our senior 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.

Reconciliation of Non-GAAP Financial Measures

This table includes the reconciliation of net earnings to EBITDA of reported results to the historical pro forma results for the Year Ended December 29, 2001. EBITDA is calculated as net earnings before interest, taxes, depreciation, and amortization. (See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Use of Non-GAAP Financial Measures.")

	Twelve Months Ended December 29, 2001		
	As Reported (A)	Adjustments	Pro Forma
Net earnings / (loss)	\$ 107,463	\$ 109,628	\$ (2,165)
Addback:			
Interest expense, net	9,539	—	9,539
Reorganization expense / (gain)	(102,515)	(102,515)(C)	—
Income tax expense	—	—	—
Extraordinary (gain) / loss, net	(17,182)	(17,182)(C)	—
Cumulative effect, net	—	—	—
Depreciation and amortization	16,233	84(B)	16,149
EBITDA	\$ 13,538	\$ (9,985)(B)	\$23,523

- (A) Represents the combination of the Predecessor Company's financial results for the five months ended June 2, 2001 and the Successor Company's financial results for the seven months ending December 29, 2001.
- (B) Represents the results of the disposed operations that were either sold or closed during the restructuring of the Company.
- (C) Reorganization items and the extraordinary gain were expenses/gains recorded during the Company's Chapter 11 proceedings and are not expenses/gains of the Successor Company.

SUMMARY OF 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 customary provisions for leased department operations. The table below sets forth key data about each of these agreements:

Vision Centers Located In	No. of Units as of December 28, 2002	Length of Base Term (in years)	Length of Option Term (in years)	No. of Options Exercisable in Fiscal 2003
Wal-Mart	399	9	3	52
Fred Meyer	58	5	5	50
Wal-Mart de Mexico	37	5	2 or 1	13
Military Bases	24	2 or 5	—	10

Wal-Mart Vision Centers

Our agreement with Wal-Mart gives 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 converts its own store to a supercenter (a store which contains a grocery department in addition to the traditional Wal-Mart store offering) and relocates our vision center as part of the conversion, the term of our lease begins again. During 2002, 14 locations were relocated, effectively renewing these leases. We expect approximately 16 leases to relocate to supercenters in 2003. As of December 28, 2002, 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. We have received no assurances from Wal-Mart as to how many of their locations will ultimately be converted.



We have previously discussed with Wal-Mart possible amendments to our master license agreement. The parties have considered various proposals to restructure the master license agreement. At this time, the parties have not agreed to amend the master license agreement, which remains in effect. The Wal-Mart leases will accordingly expire as noted in the table below. The number of lease expirations indicated could decrease if there are future supercenter conversions.

The following table sets forth the number of leases for domestic Wal-Mart and Fred Meyer vision centers that expire each year, assuming the Company exercises all available options to extend the terms of the leases. This table includes 16 future Wal-Mart superstore conversions which are scheduled at this time.

Leases Expiring in Calendar Year

HOST COMPANY	2002	2003	2004	2005	2006	2007	2008	2009 AND THEREAFTER	TOTAL
Wal-Mart	6	31	41	40	52	58	29	143	400
Fred Meyer	—	—	—	—	—	—	58	—	58
Totals	6	31	41	40	52	58	87	143	458

Of the six Wal-Mart leases scheduled to expire in 2002, one location was closed in the first quarter of 2002 at the end of the original nine-year lease term. The remaining five leases expired on December 31, 2002, which fell in the Company's fiscal year 2003. These five leases represent annualized sales of approximately \$3.3 million and annualized store-level cash flow of approximately \$1 million. In 2003, 36 leases are scheduled to expire over the course of the year, including five closed on December 31, 2002; 13 in the first quarter, five in the second quarter, seven in the third quarter, and eleven in the fourth quarter. These stores represent annualized sales of approximately \$16.6 million and annualized store-level cash flow of approximately \$2.3 million. Store-level cash flow excludes corporate overhead and other costs not specifically attributable to individual stores. The Company anticipates that the results of stores which cease operations in 2003 will be shown as discontinued operations beginning in 2003.

As of March 7, 2003, we have closed 13 Wal-Mart vision centers in fiscal 2003. We are experiencing declining sales of approximately -25% in the final month of operations for stores that are closing. We also have incurred store closing costs, including severance related to the thirteen stores closed through March 7, 2003. Store closing costs average between \$5,000 and \$10,000 per vision center.

As of December 28, 2002, we had 126 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 43 Wal-Mart vision centers in 2002. The base term for 52 vision centers expires in 2003, and we will need to determine which leases to extend. We expect to renew the leases for the vast majority of these vision centers. These decisions will be based on various factors, including sales levels, anticipated future profitability, increased rental fees in the option period, and market share.

Other Vision Centers

Our agreement with Wal-Mart de Mexico provides that each party will not deal with other parties to operate leased department vision centers in Mexico. (We have agreed to waive this restriction for the next five stores opened by Wal-Mart de 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.

Our agreement with Fred Meyer obligates us to exercise our renewal option as to all or none of these locations with the exception of five stores, which are covered by a separate agreement. This option must be exercised in 2003. We are currently discussing possible changes to this agreement with Fred Meyer.

OPERATING STRATEGIES

The Company's "Vision" is to be the "Best Growth Retailer" operating in host environments. To achieve this vision, we are focused on a strategic process, which includes efforts to (1) maximize sales and cash flow from our Wal-Mart stores and other host retail operations, (2) selectively expand store operations in other host environments, and (3) test, develop, and create additional growth opportunities within Wal-Mart. More specifically, we are actively pursuing this vision through the following three steps:

STEP 1

Maximize sales and cash flow from our current base stores.

- Increase profits per store for base stores through same store sales increases and expense control.
- Shift to a more variable cost structure.
- Grow store count among existing brands, while continuing to hope for and enjoy vision center conversions to Wal-Mart supercenters, which extends the lease terms of each affected vision center lease.

STEP 2

Grow in the optical industry, but outside our current host stores.

- Successfully identify and execute on new hosts and/or new concepts.
- Successfully identify and execute on new revenue lines.

STEP 3

Grow inside Wal-Mart, but outside optical.

- Partner with manufacturers who could benefit from a "consultative selling" environment for new product introductions inside Wal-Mart.
- Explore alternative business ideas with Wal-Mart and encourage execution on such ideas.

We cannot provide any assurances as to whether these measures will be successful.

During the second half of 2002 and the first quarter of 2003, we implemented numerous changes and initiatives in our existing host stores, which, we believe, will improve our long-term operations and profitability for the average store. Such changes and initiatives include the following:

1. In July, we changed the in-store presentation and pricing strategy of our frame and lens options by "unbundling" the package prices so that pricing for frames and lenses are separately presented in the store. The new presentation is more clear, concise and customer-friendly and is similar to product and price presentation at optical stores managed by Wal-Mart. We believe this change has provided a small increase in average spectacle transaction value.
2. We instituted a partnership initiative with our independent doctors which includes business discussions and goal setting with objectives toward improving the working relationship between the retail optical store and the doctor's practice, as well as improving business results. This initiative is an ongoing process.
3. We broadened and improved our offerings related to our fourth quarter contact lens and holiday programs.

During the first half of 2003, we will continue to implement changes and initiatives that, in the opinion of management, will have a favorable long-term impact on the operations and profitability of our existing host stores. Some of the anticipated changes and initiatives may be summarized as follows:

1. New Frame Collection/Improved Price Points: We rolled out a new frame collection in January and February involving a change to 50% of the frames we carry. Through this process, we substantially reduced the number of frame vendors, consolidated certain price points and enhanced the presentation of the frames on the frame boards to make them more brand focused for the customer and easier to manage for our associates. As a result of this process, we expect to achieve an increase in gross profit margin as a percent of sales and an increase in average transaction value on frame sales.
2. Improvements to Store-level Operations: During our annual sales meeting in January, we introduced new improvements in store operating procedures, which include:
 - (a) A "code of excellence" for all associates with a new training regimen which requires skill practice sessions on a weekly basis;
 - (b) A revised store compensation plan, which is simpler in concept but shorter in duration, with payouts every two weeks.
 - (c) A revised approach to store personnel scheduling based on a pre-determined hours matrix targeting required coverage based on store sales volume;
 - (d) Added technology at store level, on an as-needed basis to enhance performance, including computer upgrades, voice mail and new printers; and
 - (e) Improved management training for district and region managers.

3. Capitalizing on Managed Care Opportunities: During the first quarter of 2003, we neared completion of restructuring our approach to the managed care optical market segment. In 2002, managed care sales requiring reimbursement by plan payors represented approximately 11% of our domestic retail sales. Industry statistics indicate managed care sales are between 45% and 55% of optical industry sales (statistics exclude optometrist examination fees). The objective of these changes is to put ourselves in a better position to increase our share of sales in this market segment. We have engaged an outside consulting firm with strong retail experience to assist us in this process. Through this process, the Company has also consulted with Wal-Mart, with the goal to explore alternatives that would allow both companies to work together in servicing this market segment. The components of this revised approach to the managed care segment may be summarized as follows:

- (a) Increase plan participation and plan utilization, which will lead to greater sales growth;
- (b) Increase participation by our optometrists and improve the teamwork between the optometrists and the retail associates, which will lead to increased plan participation and plan utilization;
- (c) Develop faster, better, cheaper and easier in-store processes, which incorporate personal computer and web-based applications for eligibility verification and claims processing; this will enhance participation by our optometrists and lead to improved teamwork at the store level; and
- (d) Continue improvement to our back office processing environment to accommodate sales growth and to facilitate collections of reimbursement amounts from payors.

We view the managed care market as the best opportunity for enhanced sales growth in our existing retail store operations.

4. Changes to Merchandising Presentation: During 2003, we will review all of our product offerings with an eye toward

- (a) improvement of product presentation;
- (b) enhancement of the pricing structure;
- (c) improvement in product margins;
- (d) simplification of associate presentation to customers; and
- (e) higher customer satisfaction.

As of the first quarter of 2003, we have completed the rollout of a new accessory collection that adds value to our customers purchasing eyewear. We plan to make changes to the contact lens inventories stocked in stores in June and July. In the second half of the year, we plan to test changes to our eyeglass lens offerings, as well.

5. Improvements in Store Support: On an ongoing basis, we continue to review alternatives to improve the way our labs and distribution centers support our stores. We will continue to pursue such changes in this area if such changes represent an improvement in our efficiency and quality of store support. We are currently testing taking lensmaking labs out of the stores and providing more cost effective service from our central labs. We expect to test this in approximately 50 stores by the end of the second quarter.

We cannot provide any assurances as to whether these changes and initiatives will improve our operations or profitability.

We are also looking at new growth opportunities that are similar to our existing optical business and that allow for leveraging existing competencies, capacities and relationships. These growth opportunities represent new areas in which we do not currently have an operating business. In order to create new business opportunities, our strategic focus is to leverage existing strengths acquired in operating our host retail optical stores. The Company is considering the creation of a retail business with both a product and service component, consultation from a professional services expert and a store model within a host environment. We are considering options including health, wellness and beauty-related services, which require consultative selling, managed care, and medical competencies and customer support services similar to those required in the optical industry. As part of our efforts, we are working with Wal-Mart to investigate potential growth vehicles. We can provide no assurances, however, (a) that Wal-Mart or any other host operator will permit us to test new concepts in their stores, (b) that any such test will be successful, or (c) that we will be able to develop a profitable line of business arising out of any such test.

Under the indenture governing the Company's senior notes, the Company can engage in businesses that are "the same, similar or reasonably related to" the businesses engaged in by the Company as of the date the Company emerged from bankruptcy. In the fourth quarter of 2002, certain holders of the Company's senior notes (who also own a significant percentage of the Company's common stock) notified the Company that on the basis of this limitation in the indenture, they objected to the Company's engaging in lines of business outside of retail vision centers. The Company has engaged in discussions with these holders. We believe that, to date, the Company has complied with the provisions of the indenture, and the Company intends to continue to comply with these provisions. It is possible, however, that the indenture could prohibit the Company from engaging in business opportunities it is exploring or may explore in the future, or that there could be a dispute with those bondholders regarding the applicability of those provisions. These same holders have also objected to the Company's repurchase of senior notes outside of the mandatory redemption provisions of the indenture. (See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources").

The Company is operating one hearing center inside one of our Wal-Mart vision centers. We believe that, consistent with our indenture, we may engage in this line of business.

In the fourth quarter, we initiated a review of the Company's retail and support organizations, store and home office processes and the technology that supports both. As part of our review process, we have engaged an outside consulting firm to assist us. Our initial focus will be on our Wal-Mart vision centers in three areas: 1) optimizing store employee and doctor scheduling, 2) simplifying and improving the processing of managed care transactions at the store and in the retail support center, and 3) simplifying and improving the customer order and delivery process. We expect to begin implementing changes in processes, systems and possibly in staffing levels in 2003.

The outside consulting firm will also assist us in complying with new requirements under the Health Insurance Portability and Accountability Act ("HIPAA"). We will continue to incur expenses and make capital expenditures in 2003 in order to comply with these regulations.

LIQUIDITY AND CAPITAL RESOURCES

Our capital needs have been for operating expenses, capital expenditures, the repayment of principal on the Senior Subordinated Notes and interest expense. Our sources of capital have been cash flow from operations.

It is the Company's intent to use excess cash for its ongoing operations, repurchase of notes, and repayment of principal on the Company's outstanding debt. As of March 7, 2003, the Company's remaining unused availability under its credit facility with Fleet, after being reduced for letter of credit requirements, has increased slightly to approximately \$1.8 million from \$1.7 million at December 28, 2002. At December 28, 2002, the Company had no borrowings under its credit facility, and had letters of credit of \$4.4 million outstanding. The Company believes that cash generated from operations and funds available under the credit facility will be sufficient to satisfy its cash requirements through 2003.

The Company made a principal redemption payment on the Senior Subordinated Notes of approximately \$2.9 million on February 28, 2003 to bond holders of record on February 13, 2003. The Company also made principal redemption payments of \$4.2 million on August 28, 2002 and \$1.6 million on February 28, 2002. 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.

Subsequent to the issuance of the Company's 2001 financial statements, the Company's management determined that certain revisions to the 2001 financial statements were required. All 2001 information herein reflects the restated amounts. An effect of the restatement was to adjust the calculation of working capital under the indenture for purposes of determining the excess cash flow payment for the cumulative period from June 2, 2001 through December 28, 2002. The effect of this adjustment was to increase the cumulative payments of excess cash flow during this same period, by approximately \$950,000. Our indenture expressly provides that, in the event of a restatement which affects a previously made excess cash flow payment, the next payment of excess cash flow otherwise due is appropriately adjusted so that the under or over payment is corrected. The Company accordingly expects that, subject to the minimum cash requirements and other provisions of the indenture, it will increase its next cash flow payment in August 2003 by approximately \$950,000. The Company can provide no assurances that such a payment will in fact be made. (See Note 8 to the Consolidated Financial Statements.)

In addition, the Company made an interest payment of approximately \$6.8 million from existing cash balances on September 27, 2002. The next scheduled interest payment of approximately \$6.4 million was made on Friday, March 28, 2003.

During the third quarter of 2002, the Company's Board of Directors authorized the Company to spend up to \$3 million in cash to repurchase (in private, unsolicited transactions) the Company's Senior Subordinated Notes, within a rolling twelve-month period. The initial twelve-month rolling period started in August 2002. These repurchases have been made on individually negotiated discounts to par. As of December 28, 2002, the Company had repurchased Notes with a face value of \$4.5 million for \$3.0 million in cash (which included \$106,000 of accrued interest), resulting in a non-cash, extraordinary gain of \$1.6 million.

Certain holders of the Company's senior notes have objected to these repurchases at a discount. The Company has engaged in discussions with these holders and believes that it has the legal right to continue to repurchase the notes. The Board of Directors is evaluating various means of continuing these repurchases. The Company may seek to repurchase notes in private transactions or other means, including a broader offer to the holders, but can give no assurances as to whether such repurchases will take place or as to the timing, duration or amount of any such repurchases. Depending on the nature or amount of these transactions, the Company may need the consent of its commercial lender.

In 2001, we opened our 400th vision center in the domestic Wal-Mart environment, as provided for in our Wal-Mart master license agreement. In 2003, we do not expect to open additional vision centers in the domestic Wal-Mart environment.

During 2002, we converted 14 Wal-Mart vision centers to supercenters. In 2003, we expect to convert approximately 16 of our existing Wal-Mart vision centers to supercenters. Each supercenter conversion requires expenditures of approximately \$60,000 to \$80,000. The Company opened 5 vision centers in host environments other than domestic Wal-Mart during 2002.

Future Commitments

The table below sets forth the Company's contractual obligations:

	Payments due by fiscal year						Total
	2003	2004	2005	2006	2007	Thereafter	
Long-term debt obligations						\$109,706	\$109,706
Operating lease obligations	\$27,328	\$20,900	\$13,301	\$7,406	\$4,595	\$ 7,414	\$ 80,944
Purchase obligations	\$ 300						\$ 300

The Company's 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.

Inflation

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

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Management's Discussion and Analysis of Financial Condition and Results of Operations discuss the consolidated financial statements of National Vision, which 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 the Company's 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.

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

In December 1999, the SEC issued Staff Accounting Bulletin No. 101, “Revenue Recognition in Financial Statements” (“SAB 101”). SAB 101 summarizes the SEC’s view in applying generally accepted accounting principles to selected revenue recognition issues. The Company defers 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 the Company’s manufacturing and distribution process.

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.

Management 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. Differences may result in the amount and timing of revenue and related costs for any period if management made different judgments or utilized different estimates.

Allowance for Uncollectible Receivables under Reimbursement Plans

Managed care accounts receivable are recorded net of contractual allowances and reduced by an allowance for amounts that may become uncollectible in the future. Substantially all of the Company’s receivables are due from health care plans or third-party administrators located throughout the United States. Approximately 11% of the Company net sales from ongoing businesses 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. Failure by the Company to accurately file for reimbursement on a timely basis with these programs can have an adverse effect on the Company’s 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.

Accounting for Inventory

The Company’s inventories are stated at the lower of weighted average cost or market.

In most cases, the expected sales value (i.e., market value) of the Company’s inventory is higher than its cost. However, as the Company progresses through a selling season, certain slow-moving merchandise may be removed from stores and returned to the Company’s 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, the Company estimates the future selling price of its merchandise, given its current selling price and its planned promotional activities, and provides a reserve for the difference between cost and the expected selling price for all items expected to be sold below cost.

The Company conducts physical inventory counts for a selection of store locations on a periodic basis through the course of the fiscal year and adjusts the Company’s records to reflect the actual inventory counts. Inventory in the Company’s distribution center is counted near the end of the fiscal year. As all locations are not counted as of the Company’s reporting dates, the Company provides a reserve for inventory shrinkage based principally on historical inventory shrinkage experience.

Fresh Start Accounting

In accounting for the effects of the reorganization, the Company 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 the Company’s 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 requires that, at the time of fresh start accounting, the Company early-adopt all accounting principles that will be required within the twelve months following fresh start accounting.

Fresh start accounting principles require that we determine the reorganization value of the reorganized Company. The Company’s 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 the Company’s 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 the Company’s 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 the Company’s adoption of fresh start accounting in May 2001. This intangible asset, which has a value of \$101.7 million at December 28, 2002, represents the value of the Company’s 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 superstore 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. 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 Company 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 superstore conversions; and (5) a permanent adverse change in cash flows generated by an operation.

If we determine that the carrying value of intangibles or long-lived assets may not be recoverable based upon the existence of one or more of the above indicators of impairment, we measure any impairment 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. 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 and other long-lived assets as of December 28, 2002, 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.

The Company emerged from Chapter 11 Bankruptcy on May 31, 2001. As part of our plan of reorganization, the Company's 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, the Company incurred significant net operating losses ("NOL") that result 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 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, with no need for management's judgment in selecting any available alternative, which would not produce a materially different result. 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 December 2002, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standard (“SFAS”) No. 148, “Accounting for Stock-Based Compensation-Transition and Disclosure.” SFAS No. 148 amends SFAS No. 123, “Accounting for Stock-Based Compensation,” to provide alternative methods of transition for an entity that voluntarily changes to the fair value-based method of accounting for stock-based employee compensation. It also amends the disclosure provisions of SFAS No. 123 to require prominent disclosure about the effects on reported net income of an entity’s accounting policy decisions with respect to stock-based employee compensation. SFAS No. 148 also amends the accounting and reporting provisions of Accounting Principles Board (“APB”) Opinion No. 28, “Interim Financial Reporting,” to require disclosure about those effects in interim financial information. SFAS No. 148 is effective for annual and interim periods ending after December 15, 2002. As the Company has elected not to change to the fair value-based method of accounting for stock-based employee compensation, SFAS No. 148 will not have any impact on our financial position, results of operations or cash flows.

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 disclosures of the guarantees 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 issued or modified after December 31, 2002. The disclosure requirements of the Interpretation are effective for financial statements of the interim or annual periods ending after December 15, 2002. The Company does not anticipate that the adoption of FIN No. 45 will have a material impact on its consolidated financial position, results of operations, or cash flows. Additionally, adoption of FIN No. 45 had no impact on the Company’s 2002 financial statement footnote disclosures.

In September 2002, the FASB issued Emerging Issue Task Force (“EITF”) Issue 02-16, “Accounting By A Customer (Including A Reseller) For Cash Consideration Received From A Vendor” which addresses the accounting treatment for vendor allowances. In accordance with the adoption of EITF Issue 02-16 on December 29, 2002, the Company expects to record a charge for a cumulative effect of a change in accounting principle of between \$300,000 and \$500,000, in the first quarter of fiscal 2003.

In June 2002, the FASB issued SFAS No. 146, “Accounting for Costs Associated with Exit or Disposal Activities.” This statement requires recording costs associated with exit or disposal activities at their fair values when a liability has been incurred. Under previous guidance, certain exit costs were accrued upon management’s commitment to an exit plan, which is generally before an actual liability has been incurred. Beginning in fiscal 2003, as vision centers are closed, including lease expirations under the Wal-Mart master license agreement, any costs associated with the closure or disposal will be recorded at fair value when the liability is incurred. Adoption of this statement is required at the beginning of fiscal year 2003.

In April 2002, the FASB issued SFAS No. 145, “Rescission of FASB Statements 4, 44 and 64, Amendment to FASB Statement 13, and Technical Corrections.” One of the major changes of this statement is to change the accounting for the classification of gains and losses arising from the extinguishment of debt. Upon adoption of SFAS No. 145, the Company will follow APB 30, “Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions” in determining whether such extinguishment of debt may be classified as extraordinary. The provisions of this statement related to the rescission of SFAS No. 5, “Accounting for Contingencies” shall be applied in fiscal years beginning after May 15, 2002 with early application encouraged. The Company plans to adopt SFAS No. 145 in the beginning of fiscal 2003, which will result in future period gains or losses on extinguishment of debt being presented as other income versus as extraordinary items.

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 the Company's liquidity. Without limiting the foregoing, the words "believes," "anticipates," "plans," "expects," and similar expressions are intended to identify forward-looking statements.

We do not know whether the forward-looking statements made in this Form 10-K will prove to be correct. We have tried to identify factors which may cause these statements to be incorrect, but we may not have identified all of them. These factors could also have a negative impact on our results. The following is our 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 notes, we are highly leveraged. The notes are subordinated to our credit facility. Assuming the issuance of all of our notes and after giving effect to the establishment of our credit facility, we had as of March 7, 2003:

- total indebtedness of \$107 million represented by the notes, and
- total availability of \$1.8 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. This, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control.

Based upon our current level of operations, we believe that our cash flow from operations, available cash, and available borrowings under our credit facility, will be adequate to meet our future liquidity needs for at least the next two years. A decrease in revenues, coupled with the borrowing base limitation contained in our credit facility, could require us to postpone capital expenditures.

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 to you. For example, it could:

- make it more difficult for us to satisfy our obligations under the notes;
- increase our vulnerability to general adverse economic and industry conditions;
- limit our ability to obtain additional financing to fund future working capital, capital expenditures 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 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 indebtedness, our ability to borrow additional funds. Our failure to comply with the covenants in the indenture under which our notes were issued or our credit facility would result in an event of default which, if not cured or waived, could have a material adverse effect on us.

A substantial number of our vision centers are located in Wal-Mart stores. Our ability to continue to generate revenue depends on our continued relationship with Wal-Mart.

In connection with our emergence from Chapter 11 reorganization, we sold all of our free standing vision centers. We are substantially dependent on Wal-Mart and its affiliates for our current operations. The following chart shows, as of December 28, 2002, 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	518
Wal-Mart Locations	399
Wal-Mart de Mexico	37

In addition, vision centers located in Wal-Mart stores accounted for substantially all of the earnings before interest, taxes, depreciation and amortization of our vision centers for the fiscal year ended December 28, 2002. Vision centers in Wal-Mart stores rely largely on customer traffic generated by the Wal-Mart host store. Our agreement with Wal-Mart does not require Wal-Mart to maintain any existing Wal-Mart store or to open new ones.

Our agreement with Wal-Mart gives us the right to open at least 400 vision centers, including those already open. We have reached that number. Wal-Mart is under no obligation to provide us with additional vision center leases. However, our agreement with Wal-Mart also provides that, if Wal-Mart converts its own store to a “supercenter,” which is a store that contains a grocery department in addition to the traditional Wal-Mart store offering, and relocates our vision center as part of the conversion, the term of our lease begins again. We believe that Wal-Mart may in the future convert many of its stores and thereby cause many of our leases to start again. There were 14 conversions of Wal-Mart stores in which we run vision centers into “supercenters” in the year 2002, and 44 of these conversions prior to 2002. We have received no assurances from Wal-Mart as to how many of their locations will ultimately be converted.

Our agreement with Wal-Mart provides for a nine-year base term at each vision center that begins at opening and gives us a three-year extension option. Wal-Mart is under no obligation to provide us with any further extensions. Forty-four vision centers have base terms that expired in 2002 under our Wal-Mart agreement, substantially all of which have been extended, and another 52 have base terms that expire in 2003, which we have the option to extend. More base terms will expire in subsequent years. As each base term expires, we determine whether to exercise our three-year extension options for our Wal-Mart vision centers. We make those decisions based upon various factors, including, for example:

- the sales levels of each vision center,
- the estimated future profitability of each vision center, and
- the increased minimum license fees charged by Wal-Mart during the option period.

We must exercise our extension option for any Wal-Mart vision center at least six months before its initial license expires. We expect to extend the licenses for a substantial majority of these vision centers. We cannot assure you, however, how many licenses we will actually extend.

In each of the next several years, increasing numbers of vision centers under our Wal-Mart agreement will have their base terms 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. Alternatively, we may choose not to exercise the extension options.

We cannot control our expansion in our host stores, including Wal-Mart, beyond those currently under contract. Although we periodically discuss expansion opportunities with each host, we cannot assure you that any host will offer to extend our current agreements or offer us additional vision centers. Nor can we assure you that any renewal or new store offer will be on terms similar to those in our current agreements. Wal-Mart operates its own optical division. Wal-Mart may, in the future, allocate its future vision centers entirely to its own optical division.

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

The indenture governing our senior 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 several hearing aid centers in Wal-Mart stores. We are also investigating other concepts, such as wellness centers, which would offer various health products and services. Our indenture could limit our ability to pursue certain of these other lines of business that might otherwise be attractive to us. In addition, certain holders of our notes have objected to our engaging in these 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. In fiscal 2003, we expect to close approximately 36 vision centers under our Wal-Mart agreement. We expect to close approximately 41 vision centers in fiscal 2004 under the Wal-Mart agreement. In the months prior to their scheduled date of closure, these vision centers could 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 on our profitability.

We have recently made substantial changes to the inventory we carry and the vendors we use; we could, as a result, have a greater risk of write-offs of inventory and disruption to our retail operations.

We have recently changed our frame offering at our retail locations and have also substantially reduced the number of vendors from whom we buy our products. This change of product creates the risk of write-off of inventory which has become obsolete. In addition, the new flow of products within our system could create administrative problems which would disrupt our retail operations.

We may incur additional expenditures to replace older optometric equipment and thereby create additional pressure on liquidity.

Some of the optometric equipment in our vision centers is older and will need to be replaced. We may need to make significant cash expenditures to replace this equipment.

The military action in Iraq could have a negative impact on our operations, particularly those on military bases.

We have approximately 24 vision centers on military bases in the United States. The military action in Iraq could have a negative impact on these vision centers.

Our lack of growth could adversely affect our ability to make payments on our note, and the price of our common stock.

Average revenues in our Wal-Mart vision centers are approximately \$540,000 per center per year. Average revenues in the other vision centers that we continue to own are less than \$300,000 per center per year. The expiration of our leases with Wal-Mart will cause a reduction in our revenues, which we may not be able to replace with revenues generated by other vision centers.

Our sales revenues could decrease in the future as Wal-Mart leases expire. It is unlikely that we will be able to open enough new vision centers under our Fred Meyer and military contracts to compensate for the loss of the revenues generated by Wal-Mart vision centers for which our leases expire. 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.

The 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.

Your right to receive payments on our notes 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:

- minimum requirements of earnings before interest, taxes, depreciation and amortization in our credit facility of \$19.6 million for the four fiscal quarters ending June 29, 2002 and for each four quarter period ending on the last day of each fiscal quarter for the remainder of the term of our credit facility, and
- minimum fixed charge coverage ratios 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 “Risk Factors — 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. Our indebtedness requires substantial debt service payments and, with respect to the indenture, mandatory redemptions of principal, which may restrict our ability to use our operating cash flow for capital expenditures and other working capital requirements. 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.

Further issuances of our common stock and our notes could adversely affect their trading prices.

We issued a total of 5,000,000 shares of our common stock and \$120,000,000 aggregate principal amount of our notes to creditors pursuant to our plan of reorganization. As of the March 7, 2003, some of the shares of common stock and notes have been held in reserve for distribution to creditors upon the resolution of claims that we have disputed in the bankruptcy court. Although no issuances of securities other than pursuant to our plan of reorganization are currently contemplated (except grants of stock options or other stock awards pursuant to employee benefit plans that are in place) further issuances of our common stock and notes in the future could take place. These issuances could cause adverse changes in the trading prices of the common stock and the notes.

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

Former holders of our old Senior Notes due 2005 held a large majority of our unsecured debt in bankruptcy, and thus are the initial holders of a majority 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 and our notes have all been issued but not distributed. Further distributions will be made pursuant to the bankruptcy plan as disputed claims are resolved. Distributions of our common stock and our notes to holders who decide to sell them immediately could cause sudden adverse changes in the trading prices of our common stock and our notes.

Our common stock may be delisted from The American Stock Exchange, referred to as the AMEX, if it does not maintain certain listing standards.

Our recent operating history, including our filing of and emergence from Chapter 11, has caused the price of our securities to be depressed. In addition, the general market for securities has been severely depressed in recent quarters. The price of our common stock has declined significantly since its original listing date. The rules of the 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. In light of our recent operating history specifically, and the market conditions for stocks in general, 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 received a letter from AMEX concerning our failure to timely file our reports under the securities laws, including this Form 10-K. The letter states that, if we are not current in our filings by June 10, 2003, the exchange may seek to delist or halt trading in our securities. Our Form 10-Q for the first quarter of 2003 has not been filed. Although we intend to file this Form in the near term, we cannot guarantee that we will file the Form 10-Q by June 10, 2003 and that AMEX will not seek to delist or halt trading in our securities.

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 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 the principal amount of the notes, and then for development of our business, and do not anticipate paying any cash dividends in the foreseeable future.

A change in interest rates could adversely affect us.

We have historically borrowed long-term debt under our credit facility at variable interest rates. We therefore incur the risk of increased interest costs if interest rates rise.

The retail eyecare industry is extremely competitive. Failure to attract customers will depress our earning and may adversely affect our ability to repay the notes and the price of our common stock.

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

We also compete for managed care business. Our competition for this business is principally the larger national and regional optical firms. Competition for this business is driven by size of provider network, quality and consistency of service, and by pricing of vision care services. 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 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.

Federal and state governments extensively regulate the health care and insurance industries. A finding that we have violated existing regulations, or future adverse changes in those regulations, could negatively affect our business and its prospects, our ability to repay the notes, and the price of our common stock and our notes.

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 also prohibit various financial arrangements, such as splitting fees with physicians. The legality of our relationships with opticians and independent optometrists has been and may be challenged from time to time. Regulations vary from state to state and are enforced by both courts and regulatory authorities, each with broad discretion. 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, which could impact the price of our common stock and notes and impact our ability to repay the notes. Also, changes in our relationships with independent optometrists and opticians could adversely affect our relationship with Wal-Mart or our other host stores. 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.

In California, optometrists who practice adjacent to our retail locations are providers to and subtenants of a subsidiary, which is licensed as a single-source HMO. This subsidiary is regulated by the Department of Managed Health Care. This agency has recently required that we change our way of doing business. This new way of doing business will increase our costs in California. On a general basis, the regulatory environment in California has become more difficult, and future actions of regulatory agencies or private parties could worsen this trend. Such actions 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.

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 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. These kinds of exclusions and penalties, if applied to us, could have a material adverse effect on our business, which could adversely affect the price of our common stock and our notes, and our ability to repay the notes.

We do not have employment agreements with key management. 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. 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 independent 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 a 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. Some states require that licensed opticians be present when eyeglasses or contact lenses are fitted or dispensed. In some markets it may be difficult for us to attract and retain optometrists if our vision centers generate low sales. Any difficulties or delays in securing the services of vision care 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 retail business may suffer if we fail to keep sufficient licensed optometrists available in our vision centers, which may adversely affect our ability to repay our notes and the price of our common stock and notes.

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.

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. Many managed care payors have existing provider structures in place that they may be unable or unwilling to change. 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 11% 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 capitation and 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 provider network. 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 earnings, 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 corporate 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 are trying 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 change 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 dramatically 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, which could adversely affect both our ability to pay off the notes and the price of our common stock and notes.

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 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 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 was 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.

Our operating history since our emergence from bankruptcy may be insufficient to evaluate our financial condition based on our financial statements.

Our operating history since we emerged from bankruptcy is limited. Our financial statements since the implementation of “fresh start” accounting may be insufficient to draw proper conclusions about our future ability to generate profits and to make payments on the notes.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk

Market risk is the potential change in an instrument’s value caused by, for example, fluctuations in interest and currency exchange rates. The Company’s primary market risk exposures are interest rate risk and the risk of unfavorable movements in exchange rates between the U.S. dollar and the Mexican peso. Monitoring and managing these risks is a continual process carried out by senior management, which reviews and approves the Company’s risk management policies. We manage market risk on the basis of an ongoing assessment of trends in interest rates, foreign exchange rates, and economic developments, giving consideration to possible effects on both total return and reported earnings. The Company’s financial advisors, both internal and external, provide ongoing advice regarding trends that affect management’s assessment. Company’s operations are not considered to give rise to significant market risk.

Interest Rate Risk

The Company borrows long-term debt under our credit facility at variable interest rates. (See Note 8 to Consolidated Financial Statements.) We therefore incur the risk of increased interest costs if interest rates rise. At December 28, 2002, the Company had no outstanding borrowings under its credit facility. The Company’s interest cost under its Senior Notes is fixed at 12% through the expiration date of the Senior Notes, due 2009.

Foreign Currency Risk

The Company’s 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 \$274,000 in 2002 and unrealized income of \$144,000 in 2001. Historically, the Company has not attempted to hedge this equity risk.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

ITEM 9. DISAGREEMENTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Effective May 15, 2002 the Board of Directors, upon the recommendation of the Audit Committee, dismissed its independent accountants, Arthur Andersen LLP, and appointed Deloitte & Touche LLP as its new independent accountant. This matter was previously reported on Form 8-K filed May 21, 2002.



PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Compensation of Directors

Non-employee directors of the Company receive an annual retainer of \$45,000 and also receive medical and dental benefits. Non-employee directors are also eligible to participate in the restated Non-Employee Director Stock Option Plan. Under this stock option plan, non-employee directors are entitled to automatic grants of options to purchase 10,000 shares upon the date of each annual meeting of shareholders. (The non-employee directors as of the date the Company exited from bankruptcy proceedings each received an initial grant covering 15,000 shares.) All option grants are at exercise prices no less than the “fair market value” of a share of common stock on the date of grant. All options vest 50 percent on the second anniversary of the grant date and 25 percent on each of the third and fourth anniversaries of the grant date, or 100 percent upon the death of the director.

Information Concerning Directors

The following information is provided, as of April 3, 2003, regarding current directors and the nominees for election as directors:

Name	Age	Positions with the Company
Peter T. Socha	43	Chairman of the Board
B. Robert Floum	68	Director
James W. Krause	58	Director
Marc Nelson	42	Director
Jeffrey A. Snow	51	Director

Mr. Socha joined the Company in October 1999 as Senior Vice President, Strategic Planning. He served as Senior Vice President, Strategic Planning and Managed Care from February 2000 through June 2001. Prior to joining the Company, Mr. Socha worked as a consultant and served as Executive Vice President of COHR, Inc., from May 1998 to October 1998. He became a director in February 2000 and was elected as Chairman of the Board in May 2002. In March 2003, he became President and Chief Executive Officer of James River Coal Company, a firm engaged in the mining, processing, and sale of steam coal.

Mr. Floum became a director in June 2001. From March 2000 through January 2001, he was acting Chief Operating Officer of Stage Stores. He served as Chief Operating Officer of Jumbo Sports, a sporting goods company, from February 1998 through July 1999.

Mr. Krause joined the Company in April 1994 as President and Chief Executive Officer and a director. He was named Chairman of the Board in June 1995 and retired as an executive of the Company in January 2003.

Dr. Nelson is an optometrist licensed in New Jersey and Pennsylvania. Since 1992, he has been the president and sole shareholder of Nelson Eye Associates, P.C., which operates ten optometric clinics in retail optical locations owned by the Company.

Mr. Snow became a director in June 2001. He was President of Hi Fi Buys, Inc. from April 1982 through May 1997. He is currently Chairman of The Capital Network, LLC, a consulting firm.

Executive Officers

The following table sets forth, as of April 3, 2003, certain information regarding the executive officers of the Company:

Name	Age	Positions with the Company
Reade Fahs	42	President and Chief Executive Officer
Eduardo Egusquiza	50	Senior Vice President, Information Technology
Mitchell Goodman	49	Senior Vice President, General Counsel and Secretary
Paul Gross	39	Senior Vice President, Marketing, Frames Merchandising and New Ventures
Angus C. Morrison	46	Senior Vice President, Chief Financial Officer
Timothy W. Ranney	50	Vice President, Corporate Controller
J. Bruce Steffey	56	Senior Vice President, Retail Operations
Robert W. Stein	47	Senior Vice President, Human Resources and Professional Services

Mr. Fahs joined the Company in April 2002 as President and Chief Operating Officer. He was named Chief Executive Officer in January 2003. From October 1999 until joining the Company, he served first as Chief Executive Officer, then as Executive Director, of First Tuesday, a growth stage company based in the United Kingdom. From 1997 until 1999, he served as a Managing Director of Vision Express, an optical retail company also based in the United Kingdom. He served in various senior management capacities with LensCrafters from 1986 to 1996.

Mr. Egusquiza joined the Company in March 1998 as Senior Vice President, Information Technology.

Mr. Goodman joined the Company as General Counsel and Secretary in September 1992 and was named a Vice President in November 1993 and Senior Vice President in May 1998.

Mr. Gross joined the Company in August 2002. He served as Vice President for PC on Call LLC from August 2000 until shortly before joining the Company. From September 1991 until August 2000 he was employed by LensCrafters as Director of Marketing.

Mr. Morrison joined the Company in February 1995 as Vice President, Corporate Controller. He was appointed Senior Vice President, Chief Financial Officer and Treasurer in March 1998. He served as Treasurer until February 2000.

Mr. Ranney joined the Company in September 1998 and was named Vice President, Corporate Controller in October 1998. From 1991 until joining the Company, he was employed by CVS Corporation, where he served as Store Controller and then as Director of Financial Systems.

Mr. Steffey joined the Company in September 2002 as Senior Vice President Retail Operations. From March 1995 to January 2002 he was employed by Zale Corporation, where he served as Senior Vice President Store Operations.

Mr. Stein joined the Company as Director of Human Resources in May 1992. In January 1993, he was appointed Vice President, Human Resources, and was appointed Senior Vice President in 1999.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires the Company's directors, executive officers and holders of more than ten percent (10%) of our common stock to file with the Securities and Exchange Commission initial reports of ownership and reports of changes in ownership of Common Stock and other equity securities of the Company. The Company believes that, during 2002, its officers, directors and holders of more than ten percent (10%) of Common Stock complied with all Section 16(a) filing requirements, except that a Form 3 was not filed on a timely basis for S. Lynn Butler, the principal accounting officer of the Company. In addition, the Company believes that two ten percent shareholders, Deutsche Bank AG and U.S. Bancorp Investments, Inc., each did not file at least one Form 4 arising out of one or more transactions in our common stock. In making these statements, the Company has relied upon the written representations of its directors and officers and upon copies of reports furnished to the Company.

ITEM 11. EXECUTIVE COMPENSATION

COMPENSATION OF EXECUTIVE OFFICERS

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

Name And Principal Position	Annual Compensation				Long-Term Compensation			All Other Compensation (\$)
	Fiscal Year	Salary (\$)	Bonus (\$)	Other Annual Compensation (\$)	Awards		Payouts	
					Restricted Stock Award(s) (\$)	Securities Underlying Options/ SARs (#)	LTIP Payouts (\$)	
James W. Krause*	2002	364,000	57,000				52,000(2)	395,000(3)
Chairman of the Board and Chief Executive Officer	2001	375,000	100,000	217,000(1)		45,000		20,000(3)
	2000	375,000		113,000(1)				20,000(3)
Reade Fahs	2002	198,000	109,000	54,000(4)	63,400(5)	165,600	10,000(6)	
President and Chief Operating Officer	2001							
	2000							
Eduardo Egusquiza	2002	198,000	30,000				10,000(6)	
Senior Vice President Information Services	2001	193,000	91,000	112,000(1)		9,000		
	2000	188,000		58,000(1)				
Mitchell Goodman	2002	190,000	29,000	15,000(1)			10,000(6)	
Senior Vice President, General Counsel and Secretary	2001	177,000	71,000	102,000(1)		9,000		
	2000	172,000		53,000(1)				
Angus C. Morrison	2002	191,000	29,000					
Senior Vice President, Chief Financial Officer and Treasurer	2001	184,000	66,000	98,000(1)		9,000	10,000(6)	
	2000	170,000		51,000(1)				

(1) Amounts payable pursuant to the Key Employee Retention Program approved during the Company's Chapter 11 Case. For 2002 for Mr. Goodman, this amount represents a special one-time bonus.

(2) Represents cash settlement of \$50,000 and issuance of 5,000 shares for achievement of Company goals in first year under long-term incentive plan.

- (3) The Company has executed a “split dollar” insurance agreement with Mr. Krause. The annual premium (payable by the Company) is \$20,000. The term life portion of this premium is \$2,500; the non-term life portion is \$17,500. For 2002, includes \$375,000 representing amounts accrued under a severance agreement with Mr. Krause.
- (4) Reimbursement of relocation expenses.
- (5) Mr. Fahs was granted 84,400 shares of restricted stock on April 11, 2002. The shares vest in one-third increments on each anniversary of the date of grant. Dividends are payable on the restricted stock.
- (6) Represents cash settlement of \$10,000 and issuance of 1,000 shares for achievement of Company goals in first year under long-term incentive plan.
- * Mr. Krause retired as Chief Executive Officer in 2003.

OPTION GRANTS IN LAST FISCAL YEAR

The following table provides information on option grants to the named executive officers by the Company in 2002. In accordance with rules of the Commission, there are shown the hypothetical gains or “option spreads” that would exist for the respective options. These gains are based on assumed rates of annual compound stock price appreciation of 5% and 10% from the date the options were granted over the full option term.

	No. of Securities Underlying Options/SARs Granted	% of Total Options/SARs Granted to Employees in Fiscal Year(1)	Exercise or Base Price(\$)	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Terms(2)	
					5%	10%
Reade Fahs	165,600(3)	90	0.75	04/11/12	78,000	199,000
Paul Gross	9,000(3)	5	1.00	08/22/12	6,000	14,000
J. Bruce Steffey	9,000(3)	5	.60	10/21/12	3,000	9,000

- (1) The Company granted options covering 183,600 shares to employees in 2002.
- (2) These amounts represent assumed rates of appreciation only. Actual gains, if any, on stock option exercises and holdings of Common Stock are dependent on the future performance of Common stock and overall stock market conditions. There can be no assurance that the amounts reflected in this table will be achieved.
- (3) Grant under the employee stock option plan. Option vests 33% on each of the first three anniversaries of the grant date, subject to (a) continued employment and (b) accelerated vesting upon a change of control. Expiration date is 10th anniversary of grant date.

FISCAL YEAR END OPTION VALUES

The following table provides information, as of April 3, 2003, regarding the number and value of options held by the named executive officers.

	No. of Securities Underlying Unexercised Options at Fiscal Year End		Value of Unexercised In-the-Money Options At Fiscal Year End (\$)	
	Exercisable	Unexercisable(1)	Exercisable	Unexercisable
James W. Krause	11,250	33,750	4,000	12,000
Reade Fahs	0	165,600	0	61,000
Eduardo Egusquiza	2,250	6,750	1,000	2,000
Mitchell Goodman	2,250	6,750	1,000	2,000
Angus C. Morrison	2,250	6,750	1,000	2,000

- (1) Shares represented were not exercisable as of December 28, 2002, and future exercisability is subject to the executive’s remaining employed by the Company for up to seven years from grant date of options.

LONG-TERM INCENTIVE PLANS — AWARDS IN LAST FISCAL YEAR

Name	Number Of Shares, Units Or Other Rights (#) (1)	Performance Or Other Period Until Maturation Or Payout	Estimated Future Payouts Under Non-Stock Price-Based Plans (3)		
			Threshold (#)	Target (#)	Maximum (#)
Reade Fahs	(1)	(2)	1,500	6,000	12,000

- (1) In 2002, the Compensation Committee approved an award of units of Performance Shares. The actual number of Performance Shares issued will depend on operating earnings of the Company (defined as earnings before interest, taxes, depreciation and amortization) over the performance periods, as reflected under “Estimated Future Payouts Under Non-Stock Price-Based Plans” in the chart above.
- (2) There are three performance periods under the terms of the awards: fiscal 2002, fiscal 2002-2003, and fiscal 2002-2004. At the end of each performance period, the Company will determine its operating earnings and will issue units of Performance Shares accordingly. Under the terms of the awards, a shortfall in operating earnings in an early fiscal period can be overcome by operating earnings in a subsequent fiscal period.
- (3) Reflects number of units issuable over the three-year performance period. Smaller number of units can be issued depending on results during the first two fiscal periods. Two-thirds of units will be paid in cash and one-third in shares. Units payable in cash will be paid 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.

Change in Control Arrangements

There are agreements between the Company and the named executive officers which provide severance benefits in the event of termination of employment under certain circumstances following a change in control of the Company (as defined). The circumstances are termination by the Company (other than because of death or disability commencing prior to a threatened change in control (as defined), or for cause (as defined)), or by an officer as the result of a voluntary termination (as defined). Following any such termination, in addition to compensation and benefits already earned, the officer will be entitled to receive a lump sum severance payment equal to up to three times the officer’s annual rate of base salary.

Cause for termination by the Company is the: (i) commission of any act that constitutes, on the part of the officer, (a) fraud, dishonesty, gross negligence, or willful misconduct and (b) that directly results in material injury to the Company, or (ii) officer’s material breach of the agreement, or (iii) officer’s conviction of a felony or crime involving moral turpitude.

Circumstances that would entitle the officer to terminate as a result of voluntary termination following a change in control include, among other things: (i) the assignment to the officer of any duties inconsistent with the officer’s title and status in effect prior to the change in control or threatened change in control; (ii) a reduction by the Company of the officer’s base salary; (iii) the Company’s requiring the officer to be based anywhere other than the Company’s principal executive offices; (iv) the failure by the Company, without the officer’s consent, to pay to the officer any portion of the officer’s then current compensation; (v) the failure by the Company to continue in effect any material compensation plan in which the officer participates immediately prior to the change in control or threatened change in control; or (vi) the failure by the Company to continue to provide the officer with benefits substantially similar to those enjoyed by the officer under any of the Company’s life insurance, medical, or other plans. The term of each agreement is for a rolling three years unless the Company gives notice that it does not wish to extend such term, in which case the term of the agreement would expire three years from the date of the notice.

The plan of reorganization approved in the Company’s Chapter 11 case also provides for severance of one year for any of the executive officers upon termination without cause. The Company has modified this severance plan to provide for payment of the severance over one year and for payment to the executive following termination of the executive because of (i) a significant, adverse change in the executive’s employment responsibilities; (ii) a reduction in the executive’s base salary; (iii) relocation of more than 50 miles from the Company’s office; or (iv) the failure of the Company to pay current compensation. Payments under the severance plan are to be netted against any payments under the change in control agreement.

**COMPENSATION COMMITTEE INTERLOCKS
AND INSIDER PARTICIPATION**

Messrs. Floum, Snow, and Nelson served as members of the Compensation Committee in 2002.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Equity Compensation Plan Information

Plan Category	Number of Securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plan (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders(1)	539,450(2)	\$ 0.58	276,150(3)
Equity compensation plans not approved by security holders	N/A	N/A	N/A

- (1) A total of 720,000 shares, inclusive of options previously granted, are reserved for issuance under the Company's Restated Stock Option and Incentive Award Plan (the "Employee Plan") and 180,000 shares, inclusive of options previously granted, are reserved for issuance under the Company's Restated Non-Employee Director Stock Option Plan (the "Directors Plan").
- (2) Options covering 454,450 shares of common stock have been issued under the Employee Plan and options covering 85,000 shares of common stock have been issued under the Directors Plan.
- (3) The Company awarded its President 84,400 shares of restricted stock under the Employee Plan in April 2002. The Company has also awarded 13,200 performance shares of common stock under the Employee Plan. For determining the number of shares available for future issuance, 26,268 number of shares were deducted in accordance with the Employee Plan as of December 28, 2002.

The Company is not aware of any person who, on April 3, 2003, was the beneficial owner of five percent (5%) or more of outstanding shares of Common Stock, except as set forth below.

	Amount and Nature of Beneficial Ownership	Percent of Class
Deutsche Bank AG(a)	700,421	13.8
Northeast Investors Trust(b)	349,784	6.9
American Express Financial Corporation(c)	292,419	5.8

- (a) This information is derived solely from a Schedule 13G filed on February 12, 2003. The address of this shareholder is Taunusanlage 12, D-60325, Frankfurt am Main, Federal Republic of Germany.
- (b) This information is derived solely from a Schedule 13G filed on February 11, 2003. The address of this shareholder is 50 Congress Street, Boston, Massachusetts 02109.
- (c) This information is derived solely from a Schedule 13G filed on February 13, 2003. The address of this shareholder is 200 AXP Financial Center, Minneapolis, Minnesota 55474.

The following table sets forth information, as of April 3, 2003, concerning beneficial ownership by all directors, by each of the executive officers named in the Summary Compensation Table below, and by all directors and executive officers as a group.

Name and Address of Beneficial Owner (1)	Number of Shares Beneficially Owned	Percent of Outstanding Common Stock
Reade Fahs	140,600(a)	2.7
Jeffrey A. Snow	50,000	*
Peter T. Socha	30,000	*
B. Robert Floum	7,500	*
James W. Krause	5,688	*
Angus C. Morrison	3,584(b)	*
Mitchell Goodman	3,397(b)	*
Eduardo A. Egusquiza	3,250(b)	*
Paul Gross	3,000	*
Marc Nelson	1,500	*
J. Bruce Steffey	0	*
All directors and executive officers as a group (thirteen persons)	254,365	5

* Represents less than one percent of the outstanding Common Stock.

(1) The address of the persons named is 296 Grayson Highway, Lawrenceville, GA 30045.

(a) Includes 55,200 shares that Mr. Fahs will have the right to acquire under the employee stock option plan of the Company in April 2003.

(b) Includes 2,250 shares that this individual has the right to acquire under the employee stock option plan of the Company.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The Company made rent payments of approximately \$80,000 for the St. Cloud laboratory/distribution facility, which is owned by Myrel Neumann, a former director of the Company.

In 2002, Nelson Eye Associates, P.C., which is wholly owned by Marc Nelson, paid the Company approximately \$300,000 in occupancy fees related to the sub-occupancy of ten retail optical locations owned by the Company.

ITEM 14. CONTROLS AND PROCEDURES

Within the 90 days prior to the filing date of this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's 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, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of the date of such evaluation. Subsequent to the evaluation date, the Company was advised by its independent auditors that they had identified certain deficiencies in the Company's controls and procedures over accounting for vendor allowances and discounts. Management has discussed these deficiencies with the audit committee and expects to take immediate corrective action to remedy these deficiencies. Other than described above, there were no other significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to the evaluation date. 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.

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 incorporated by reference 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 the Company's 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 the Company's 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 the Company's 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 the Company's Registration Statement on Form S-1, registration number 33-46645, filed with the Commission on March 25, 1992, and amendments thereto.
4.1	– Form of Common Stock Certificate, incorporated by reference to Exhibit 4.1 to the Company's 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 the Company's 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 the Company's Registration Statement on Form 8-A filed with the Commission on March 24, 1998.
*4.4	– Indenture, dated as of June 15, 2001, between the Company and State Street Bank and Trust Company, as trustee.

- 4.5 – 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 the Company’s Registration Statement on Form 8-A filed with the Commission on August 9, 2001.
- 4.6 – 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 the Company’s Amendment to Quarterly Report on Form 10-Q/A filed with the Commission on August 22, 2001.
- 4.7 – 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 the Company’s Amendment to Quarterly Report on Form 10-Q/A filed with the Commission on August 22, 2001.
- 4.8 – 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 the Company’s Form 10-K for fiscal 2001.
- 4.9 – Lock-Up Agreement, dated May 31, 2001, between U.S. Bancorp Investments, Inc. and the Company, incorporated by reference to Exhibit 4.9 to the Company’s Form 10-K for fiscal 2001.
- 4.10 – 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 the Company’s 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 the Company’s Form 10-Q for the quarterly period ended September 30, 1994, Commission File No. 0-20001. [Portions of Exhibit 10.1 have been omitted pursuant to an order for confidential treatment granted by the Commission. The omitted portions have been filed separately with the Commission.]
- 10.2 – Sublease Agreement, dated December 16, 1991, by and between Wal-Mart Stores, Inc. and the Company, incorporated by reference to the Company’s Registration Statement on Form S-1, registration number 33-46645, filed with the Commission on March 25, 1992, and amendments thereto.
- 10.3 – 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 the Company’s Form 10-K for the fiscal year ended December 30, 1995, Commission File No. 0-20001. [Portions of Exhibit 10.6 have been omitted pursuant to a request for confidential treatment filed with the Commission. The omitted portions have been filed separately with the Commission.]
- ++10.4 – Restated Stock Option and Incentive Award Plan, incorporated by reference to the Company’s Form 10-Q for the quarterly period ended June 29, 1996, Commission File No. 0-20001.
- ++10.5 – First Amendment to Restated Stock Option and Incentive Award Plan, incorporated by reference to the Company’s Form 10-Q for the quarterly period ended March 29, 1997, Commission File No. 0-20001.
- ++10.6 – Restated Non-Employee Director Stock Option Plan, incorporated by reference to the Company’s Form 10-Q filed on June 28, 1997, Commission File No. 0-20001.

- ++10.7 – Form Restricted Stock Award, incorporated by reference to the Company’s Form 10-Q for the quarterly period ended March 29, 1997, Commission File No. 0-20001.
- ++10.8 – Restricted Stock Award made as of April 11, 2002 by the Company to L. Reade Fahs, incorporated by reference to the Company’s Form 10-Q for the quarterly period ended June 29, 2002.
- ++ 10.9 – Form Performance Share Award Agreement, incorporated by reference to the Company’s Form 10-Q for the quarterly period ended June 29, 2002.
- ++10.10 – Form Stock Option 2001 Grant for Employees, incorporated by reference to the Company’s Form 10-Q for the quarterly period ended June 29, 2002.
- ++10.11 – Form Change in Control Agreement, incorporated by reference to the Company’s Form 10-K for the fiscal year ended December 30, 2000.
- 10.12 – Form indemnification agreement for directors and executive officers of the Company, incorporated by reference to the Company’s Form 10-Q for the quarterly period ended June 30, 2001.
- ++ 10.13 – Split Dollar Life Insurance Agreement, dated as of November 3, 1994, among the Company, A. Kimbrough Davis, as Trustee, and James W. Krause, incorporated by reference to the Company’s Form 10-K for the fiscal year ended December 31, 1994, Commission File No. 0-20001.
- ++10.14 – Level IV Management Incentive Plan, incorporated by reference to the Company’s Form 10-K for the fiscal year ended December 31, 1994, Commission File No. 0-20001.
- ++10.15 – Executive Relocation Policy, incorporated by reference to the Company’s Form 10-Q for the quarterly period ended March 30, 1996, Commission File No. 0-20001.
- 10.16 – Loan and Security Agreement dated as of May 30, 2001, between the Company and Fleet Capital Corporation, incorporated by reference to the Company’s Form 10-Q for the quarterly period ended June 30, 2001.
- 10.17 – Letter Agreement dated June 30, 2002 between the Company and Fleet Capital Corporation, incorporated by reference to the Company’s Form 10-Q for the quarterly period ended September 28, 2002.
- *++10.18 – Agreement and General Release dated as of December 27, 2002, between the Company and James W. Krause.
- *21 – Subsidiaries of the Registrant.
- *23.1 – Consent by Deloitte & Touche LLP.
- *23.2 – Notice Regarding Consent of Arthur Andersen LLP.
- *99.1 – Certifications of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Filed with this Form 10-K.

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

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

<u>Date of Report</u>	<u>Item Reported</u>	<u>Financial Statements Filed</u>
October 21, 2002	Item 5	none



NATIONAL VISION, INC. AND SUBSIDIARIES

**CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULE
FOR THE YEAR ENDED DECEMBER 28, 2002,
THE SEVEN MONTHS ENDED DECEMBER 29, 2001,
THE FIVE MONTHS ENDED JUNE 2, 2001, AND
FOR THE YEAR ENDED DECEMBER 30, 2000
TOGETHER WITH AUDITORS' REPORTS**

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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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 December 28, 2002 and December 29, 2001 (Successor Company balance sheets) and the related consolidated statements of operations, shareholders' equity, and cash flows for the year ended December 28, 2002 (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 2002 and 2001 financial statement schedules listed in the Index at page F-1. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on the 2002 and 2001 financial statements and 2002 and 2001 financial statement schedules based on our audits. The financial statements and financial statement schedule as of December 30, 2000 (Predecessor Company balance sheet) and for the one-year period then ended (Predecessor Company operations) were audited by other auditors who have ceased operations. Those auditors expressed an unqualified opinion on those financial statements (which included an explanatory paragraph for the Predecessor Company's emergence from Chapter 11 bankruptcy and adoption of fresh start accounting in accordance with AICPA Statement of Position 90-7, "Financial Reporting for Entities in Reorganization Under the Bankruptcy Code"), and stated that such 2000 financial statement schedule, when considered in relation to the 2000 basic financial statements taken as a whole, presented fairly, in all material respects, the information set forth therein, in their report dated February 25, 2002.

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 December 28, 2002 and December 29, 2001, and the results of their operations and their cash flows for the year ended December 28, 2002 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 December 31, 2000 to June 2, 2001, in conformity with accounting principles generally accepted in the United States of America.

DELOITTE & TOUCHE LLP

Atlanta, Georgia
May 29, 2003

The following is a copy of the previously issued report of Arthur Andersen LLP, which has ceased operations and which report has not been reissued in connection with this Form 10-K, on the consolidated balance sheets of National Vision, Inc. and subsidiaries at December 29, 2001 and December 30, 2000 and the related consolidated statements of operations, changes in shareholders' equity (deficit) and cash flows for the seven months ended December 29, 2001 (successor company), the five months ended June 2, 2001 (predecessor company), and for the years ended December 30, 2000 and January 1, 2000 (predecessor company). Arthur Andersen LLP reported on such financial statements prior to the restatement on the 2001 financial statements.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To National Vision, Inc. and Subsidiaries:

We have audited the accompanying balance sheets of NATIONAL VISION, INC. (a Georgia corporation) AND SUBSIDIARIES as of December 29, 2001 (Successor Company) and Vista Eyecare, Inc. as of December 30, 2000 (Predecessor Company) and the related consolidated statements of operations, shareholders' equity/(deficit) and cash flows for the seven months ended December 29, 2001 (Successor Company), the five months ended June 2, 2001 (Predecessor Company), and for the years ended December 30, 2000 and January 1, 2000 (Predecessor Company). These financial statements and schedule referred to below are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As discussed in Note 4, effective May 31, 2001, the Company was reorganized under a plan confirmed by the United States Bankruptcy Court for the Northern District of Georgia and adopted a new basis of accounting whereby all remaining assets and liabilities were adjusted to their estimated fair values. Accordingly, the consolidated financial statements for periods subsequent to the reorganization are not comparable to the consolidated financial statements presented for prior periods.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of National Vision, Inc. and subsidiaries as of December 29, 2001 and of Vista Eyecare, Inc. and subsidiaries as of December 30, 2000, and the results of their operations and their cash flows for the seven months ended December 29, 2001, the five months ended June 2, 2001, and for the years ended December 30, 2000 and January 1, 2000 in conformity with accounting principles generally accepted in the United States.

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

ARTHUR ANDERSEN LLP

Atlanta, Georgia
February 25, 2002

NATIONAL VISION, INC.
CONSOLIDATED BALANCE SHEETS
December 28, 2002 and December 29, 2001
(In thousands, except share information)

	2002	2001
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 9,020	\$ 9,846
Accounts receivable (net of allowance: 2002 - \$1,031; 2001 - \$2,377)	2,164	3,908
Inventories	17,928	18,621
Other current assets	979	583
Deferred income tax asset	975	3,681
	<u>31,066</u>	<u>36,639</u>
PROPERTY AND EQUIPMENT:		
Equipment	19,876	17,049
Furniture and fixtures	7,833	6,878
Leasehold improvements	6,709	6,008
Construction in progress	1,360	1,061
	<u>35,778</u>	<u>30,996</u>
Less accumulated depreciation	(17,786)	(6,996)
	<u>17,992</u>	<u>24,000</u>
OTHER ASSETS AND DEFERRED COSTS		
(net of accumulated amortization: 2002 - \$658; 2001 - \$259)	1,004	1,332
INTANGIBLE VALUE OF CONTRACTUAL RIGHTS		
(net of accumulated amortization: 2002 - \$11,934; 2001 - \$4,360)	100,960	109,246
	<u>\$151,022</u>	<u>\$171,217</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 3,445	\$ 3,935
Accrued expenses and other current liabilities	24,067	24,712
Current portion of long-term debt	3,824	1,597
	<u>31,336</u>	<u>30,244</u>
DEFERRED INCOME TAX LIABILITY		
	975	3,296
SENIOR SUBORDINATED NOTES		
	105,882	118,403
COMMITMENTS AND CONTINGENCIES (Note 10)		
		—
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, 5,084,400 and 5,000,000 shares issued and outstanding at December 28, 2002 and December 29, 2001, respectively	50	50
Additional paid-in capital	25,097	24,940
Deferred stock compensation	(124)	—
Retained deficit	(12,064)	(5,860)
Accumulated other comprehensive income/(loss)	(130)	144
	<u>12,829</u>	<u>19,274</u>
	<u>\$151,022</u>	<u>\$171,217</u>

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

National Vision, Inc.
CONSOLIDATED STATEMENTS OF OPERATIONS
For the year ended December 28, 2002,
the seven months ended December 29, 2001,
the five months ended June 2, 2001, and for
the year ended December 30, 2000
(In thousands, except per share information)

	Successor		Predecessor	
	Year Ended December 28, 2002	Seven Months ended December 29, 2001	Five Months ended June 2, 2001	Year Ended December 30, 2000
Retail sales, net	\$244,860	\$135,543	\$ 120,557	\$ 307,694
Premium revenue	2,160	—	—	—
Net sales	247,020	135,543	120,557	307,694
Cost of goods sold	112,446	61,488	57,404	143,458
Gross profit	134,574	74,055	63,153	164,236
Selling, general & administrative expense	128,715	71,526	68,377	166,364
Impairment of long-lived assets	—	—	—	2,684
Restructuring expense	—	—	—	1,601
Operating income/(loss)	5,859	2,529	(5,224)	(6,413)
Interest expense, net	13,629	8,389	1,150	7,723
Loss before reorganization items, taxes, extraordinary item and cumulative effect of a change in accounting principle	(7,770)	(5,860)	(6,374)	(14,136)
Reorganization expense/(gain)	—	—	(102,515)	121,539
Earnings/(loss) before taxes, extraordinary item and cumulative effect of a change in accounting principle	(7,770)	(5,860)	96,141	(135,675)
Income taxes	—	—	—	—
Net earnings/(loss) before extraordinary item and cumulative effect of a change in accounting principle	(7,770)	(5,860)	96,141	(135,675)
Extraordinary gain/(loss), net	1,566	—	17,182	(827)
Cumulative effect of a change in accounting principle	—	—	—	(3,378)
Net earnings/(loss)	\$ (6,204)	\$ (5,860)	\$ 113,323	\$ (139,880)
Basic and diluted earnings/(loss) per share:				
Earnings/(loss) before extraordinary item and cumulative effect	\$ (1.55)	\$ (1.17)	\$ 4.54	\$ (6.41)
Extraordinary gain/(loss), net	0.31	—	0.81	(0.04)
Cumulative effect, net	—	—	—	(0.16)
Net earnings/(loss) per share	\$ (1.24)	\$ (1.17)	\$ 5.35	\$ (6.61)

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

National Vision, Inc.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY/(DEFICIT)
For the year ended December 28, 2002, the seven months ended December 29, 2001,
the five months ended June 2, 2001, and for
the year ended December 30, 2000
(In thousands, except share information)

	Common Stock		Additional		Retained	Accumulated		
	Shares	Amount	Paid-in Capital	Deferred Compensation	Earnings/ (Deficit)	Comprehensive Income/(loss)	Comprehensive Income	Total
Predecessor Company:								
Balance, January 1, 2000	21,179,103	\$ 211	\$ 47,387	\$	\$ (16,968)	\$(4,073)		\$ 26,557
Cancellation of shares	(10,000)							
Net loss					(139,880)		\$(139,880)	\$(139,880)
Comprehensive income							\$(139,880)	
BALANCE, December 30, 2000	21,169,103	\$ 211	\$ 47,387	\$ —	\$(156,848)	\$(4,073)		\$(113,323)
Net income through June 2, 2001					113,323		\$ 113,323	113,323
Comprehensive income							\$ 113,323	
Elimination of prior equity	(21,169,103)	(211)	(47,387)		43,525	4,073		—
BALANCE, June 2, 2001	—	\$ —	\$ —	\$ —	\$ —	\$ —		\$ —
Successor Company:								
Distribution of new common shares - June 2, 2001	5,000,000	\$ 50	\$ 24,950	\$ —	\$ —	\$ —		\$ 25,000
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 income							\$ (5,716)	
BALANCE, December 29, 2001	5,000,000	\$ 50	\$ 24,940	\$ —	\$ (5,860)	\$ 144		\$ 19,274
Net loss					(6,204)		\$ (6,204)	(6,204)
Cumulative translation adjustment						(274)	(274)	(274)
Comprehensive income							\$ (6,478)	
Restricted stock awards	84,400		157	(157)				
Amortization of deferred compensation- restricted stock				33				33
BALANCE, December 28, 2002	5,084,400	\$ 50	\$ 25,097	\$(124)	\$ (12,064)	\$ (130)		\$ 12,829

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

National Vision, Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS
for the year ended December 28, 2002, the seven months ended December 29, 2001,
the five months ended June 2, 2001, and for
the year ended December 30, 2000
(In thousands)

	Successor		Predecessor	
	Year Ended December 28, 2002	Seven Months Ended December 29, 2001	Five Months Ended June 2, 2001	Year Ended December 30, 2000
Cash flow from operating activities:				
Net income/(loss)	\$ (6,204)	\$ (5,860)	\$ 113,323	\$(139,880)
Adjustments to reconcile cash to net income/(loss):				
Depreciation & amortization	18,999	11,425	4,808	17,526
Impairment of long-lived assets	—	—	—	2,684
Restructuring reserve	—	—	—	1,601
Reorganization items	—	—	11,748	121,539
Cumulative effect	—	—	—	3,378
Fresh start adjustments	—	—	(114,263)	—
Extraordinary item	(1,566)	—	(17,182)	827
Other	627	256	(259)	1,181
Changes in operating assets & liabilities				
Accounts receivable	1,744	636	5,177	(1,480)
Inventories	693	1,245	4,083	5,026
Other current assets	396	142	597	1,171
Accounts payable	(490)	2,187	1,210	9,351
Accrued expenses and other current liabilities	(1,075)	(5,218)	322	(4,335)
Total adjustments	19,328	10,673	(103,759)	158,469
Net cash provided by operating activities	13,124	4,813	9,564	18,589
Cash flow from investing activities:				
Proceeds from sale of property & equipment	—	—	5,656	—
Purchase of property & equipment	(5,209)	(2,750)	(2,084)	(5,379)
Net cash (used in)/provided by investing activities	(5,209)	(2,750)	3,572	(5,379)
Cash flow from financing activities:				
Advances on revolver	7,378	112,855	125,063	305,751
Payments on revolver	(7,378)	(115,855)	(134,975)	(312,132)
Principal payments on subordinated debt	(5,797)	—	—	—
Repurchases of subordinated debt	(2,932)	—	—	—
Deferred financing costs	—	(286)	(125)	(715)
Stock issuance costs	—	(10)	—	—
Principal payments on other long-term debt	(12)	(86)	—	(934)
Net cash (used in) financing activities	(8,741)	(3,382)	(10,037)	(8,030)
Net increase/(decrease) in cash	(826)	(1,319)	3,099	5,180
Cash, beginning of period	9,846	11,165	8,066	2,886
Cash, end of period	\$ 9,020	\$ 9,846	\$ 11,165	\$ 8,066

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. formerly known as Vista Eyecare, Inc. (the Company) is engaged in the retail sale of optical goods and services. The Company is largely dependent on Wal-Mart Stores, Inc. (Wal-Mart) for continued operation of vision centers which generate a significant portion of the Company's revenues. (See Note 6 — "Wal-Mart Master License Agreement and Other Agreements".)

The Company emerged from Chapter 11 on May 31, 2001 and adopted "fresh start" accounting. (See Note 4 — "Bankruptcy Proceedings and Fresh Start Adjustments".)

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. The Company operates on a 52/53 week retail calendar with the fiscal year ending on the Saturday closest to December 31. Pursuant to such calendar, financial information for fiscal 2002, 2001, and 2000 is presented for the respective 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 fiscal year ending November 30.

Fresh Start Accounting

Upon emergence from bankruptcy, the Company adopted "fresh start" accounting in accordance with AICPA Statement of Position 90-7 ("SOP 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 4 — "Bankruptcy Proceedings and Fresh Start Adjustments".) SOP 90-7 also requires that, at the time of fresh start accounting, the Company early-adopt all accounting principles that will be required within the twelve months following fresh start accounting.

The Company's plan of reorganization in the Chapter 11 Cases provides that, as claims of creditors are resolved, the Company will make periodic distributions of its new common stock and notes. As of December 28, 2002, the Company has made nine such distributions, for a total of approximately 4,348,000 shares of new common stock and approximately \$104.5 million face amount of new notes. The balance of approximately 652,000 shares of new common stock and approximately \$15.5 million face amount of new notes are part of a disputed claim reserve and will be distributed as and when disputed claims are resolved. The common stock and senior notes remaining in the disputed claim reserve are considered issued and outstanding for accounting purposes. Interest expense on the senior notes remaining in the claim reserve are accrued for and paid to the trustee for ultimate distribution to claimholders when disputed claims are resolved.

Revenue Recognition

In December 1999, the SEC issued Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements". SAB 101 summarizes the SEC's view in applying generally accepted accounting principles to selected revenue recognition issues. The Company defers 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. Cash received prior to final delivery of the product is reflected as a deposit liability within accrued liabilities. These estimates are based on historical trends and take into consideration current changes in the Company's manufacturing and distribution process.

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

The Company recognizes cost of product sold to retail customers when the sales transaction is complete and revenue is recognized. Periodically, the Company receives 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

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

Receivables Under Reimbursement Plans

Managed care accounts receivable are recorded net of contractual allowances and are reduced by an allowance for amounts that may become uncollectible. Substantially all of the Company’s receivables are 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, historical and current operating, billing and collection trends.

Inventory

The Company’s inventories are stated at the lower of weighted average cost or market.

In most cases, the expected sales value (i.e., market value) of the Company’s inventory is higher than its cost. However, as the Company progresses through a selling season, certain slow-moving merchandise may be removed from stores and returned to the Company’s 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, the Company estimates the future selling price of its merchandise, given its current selling price and its planned promotional activities, and provides a reserve for the difference between cost and the expected selling price for all items expected to be sold below cost.

The Company conducts physical inventory counts for a selection of store locations near the end of each fiscal quarter and adjusts the Company’s records to reflect the actual inventory counts. The Company’s distribution center is counted near the end of the fiscal year. As all locations are not counted as of the Company’s reporting dates, the Company provides 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, the useful lives used for computation of depreciation range from five to ten years for equipment, from three to nine years for furniture and fixtures, from three to six years for hardware and software related to information systems processing, and from five to nine years which approximate the remaining lease term for leasehold improvements. At the time property and equipment are retired, the cost and related accumulated depreciation are removed from the accounts and any gain or loss is credited or charged to income. Maintenance and repairs are charged to expense as incurred. Replacements and improvements are capitalized.

In August 2001, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards, (“SFAS”) No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets.” SFAS No. 144 supercedes SFAS No. 121, “Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of,” and the accounting and reporting provisions of Accounting Principles Board (“APB”) Opinion No. 30, “Reporting the Results of Operations — Reporting the Effects of Disposal of a Segment of a Business and Extraordinary, Unusual and Infrequently Occurring Events and Transactions,” and amends APB Opinion No. 51, “Consolidated Financial Statements.” SFAS No. 144 retains many of the requirements of SFAS No. 121 and the basic provisions of APB Opinion No. 30; however, it establishes a single accounting model for long-lived assets to be disposed of by sale. The Company adopted SFAS No. 144 upon implementation of fresh start accounting as required by SOP 90-7. Management reviewed the Company’s long-lived assets and has determined that there are no assets requiring impairment loss recognition as of December 28, 2002.

Balance Sheet Financial Instruments: Fair Values

The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, accounts receivable, accounts payable 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 the Company’s long-term debt is determined using the closing price on the most recent trade date prior to December 28, 2002 on the American Stock Exchange.

	Carrying Value	Fair Value
Long-term debt	\$105,882	\$53,805

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

Intangible Value of Contractual Rights

The Company’s most significant intangible asset is the Intangible Value of Contractual Rights, which was established as part of the Company’s adoption of “fresh start” accounting in May 2001. This intangible asset, which has a gross carrying amount of \$113.6 million and accumulated amortization of \$12.0 million at December 28, 2002, 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 superstore 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. Due to the uncertainty involved in predicting the pattern of economic benefits realized from the Wal-Mart relationship, the Company amortizes this asset using the straight-line method.

Amortization expense on the Intangible Value of Contractual Rights was \$7.6 million for the year ended December 28, 2002 and \$4.4 million for the seven months ended December 29, 2001. Future amortization expense for each of the five succeeding years is as follows:

2003	\$7,454
2004	\$7,526
2005	\$7,526
2006	\$7,526
2007	\$7,526

As described in Note 4, the Company emerged from bankruptcy on June 2, 2001. In December 2002, the Company realized net income tax benefits of \$712,000 generated by the predecessor company. 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.

The Company assesses 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 Company 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 superstore conversions; and (5) a permanent adverse change in cash flows generated by an operation.

If we determine that the carrying value of intangibles or long-lived assets may not be recoverable based upon the existence of one or more of the above indicators of impairment, we measure any impairment based on an undiscounted projected cash flow model. If the projected undiscounted 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. Based on our review of our intangible and other long-lived assets as of December 28, 2002, no impairment of these assets was determined to exist.

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, 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, the Company incurred significant net operating losses ("NOL") that result in tax loss carry-forwards. A portion of these carry-forwards are subject to limitations under Section 382 of the Internal Revenue Code.

In accordance with the provisions of SFAS 109, "Accounting for Income Taxes," 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

The Company applies 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. In October 2001, the Company granted stock options to eligible employees. Because the number of shares to be issued and the per share strike price are not subject to uncertainty, this stock option plan qualifies for fixed accounting treatment. As a result, the Company does not record compensation expense in connection with the granting of these stock options.

Had compensation cost for the Plan been determined based on the fair value at the grant date for awards in 2002, 2001, and 2000 consistent with the provisions of SFAS No. 123, the Company's net earnings and earnings per share would have been reduced to the pro forma amounts indicated below (amounts in thousands except per share information):

	Successor		Predecessor	
	Year Ended December 28, 2002	Seven Months Ended December 29, 2001	Five Months Ended June 2, 2001	Year Ended December 30, 2000
As reported:				
Net earnings/(loss)	\$(6,204)	\$(5,860)	\$113,323	\$(139,880)
Pro Forma:				
Compensation expense	\$ 53	\$ 4	\$ (4,312)	\$ 1,912
Pro Forma:				
Net earnings /(loss)	\$(6,257)	\$(5,864)	\$117,635	\$(141,792)
As reported:				
Earnings/(loss) per share	\$ (1.24)	\$ (1.17)	\$ 5.35	\$ (6.61)
Pro forma compensation expense per share	(0.01)	—	0.21	(0.09)
Pro forma earnings/(loss) per share	\$ (1.25)	\$ (1.17)	\$ 5.56	\$ (6.70)

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 December 28, 2002	Seven Months Ended December 29, 2001	Five Months Ended June 2, 2001	Year Ended December 30, 2000
Dividend yield	0.00%	0.00%	(a)	0.00%
Expected volatility	172%	217%	(a)	142%
Risk free interest rates	3.0%	4.50%	(a)	5.1%
Expected lives (years)	3.4	6.7	(a)	5.0

(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. In addition, certain capitalized assets resulting from contractual obligations are included and are being amortized over periods of up to five years.

Self-Insurance Accruals

The Company self-insures 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, net of cooperative advertising credits, for the year ended December 28, 2002, the seven months ended December 29, 2001, the five months ended June 2, 2001, and the year ended December 30, 2000 was approximately \$3.2 million, \$2.8 million, \$3.6 million and \$12.2 million, respectively.

Interest Expense, Net

Interest expense includes interest on debt and capital lease obligations, purchase discounts on invoice payments, the amortization of finance fees, and the amortization of the discount on the subordinated debt.

Foreign Currency Translation

The financial statements of foreign subsidiaries are translated into U.S. dollars in accordance with SFAS No. 52, "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.

Derivative Instruments and Hedging Activities

In 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." The adoption of SFAS No. 133 in 2001 had no impact on the Company's financial statements as the Company does not hold derivative instruments, nor participate in any hedging activities.

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. The Company's only source of other comprehensive income is the cumulative translation adjustment from its operations in Mexico. The Predecessor Company's cumulative other comprehensive income was eliminated as part of fresh start accounting on June 2, 2001.

Use of Estimates

The preparation of these 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 the Company's 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 December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure," an amendment of SFAS No. 123. SFAS No. 148 amends SFAS No. 123 to provide alternative methods of transition for an entity that voluntarily changes to the fair value-based method of accounting for stock-based employee compensation. It also amends the disclosure provisions of SFAS No. 123 to require prominent disclosure about the effects on reported net income of an entity's accounting policy decisions with respect to stock-based employee compensation. SFAS No. 148 also amends APB Opinion No. 28, "Interim Financial Reporting," to require disclosure about those effects in interim financial information. The provisions of SFAS No. 148 are effective for annual and interim periods ending after December 15, 2002. As the Company has elected not to change to the fair value-based method of accounting for stock-based employee compensation, SFAS No. 148 will not have any impact on our financial position, results of operations or cash flows.

In November 2002, the FASB issued Interpretation ("FIN") No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN 45 requires footnote disclosures of the guarantees 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 issued or modified after December 31, 2002. The disclosure requirements of the Interpretation are effective for financial statements of the interim or annual periods ending after December 15, 2002. The Company does not anticipate that the adoption of FIN No. 45 will have a material impact on its consolidated financial position, results of operations, or cash flows. Additionally, adoption of FIN No. 45 had no impact on the Company's 2002 financial statement footnote disclosures.

In September 2002, the FASB issued Emerging Issue Task Force ("EITF") Issue 02-16, "Accounting By A Customer (Including A Reseller) For Cash Consideration Received From A Vendor" which addresses the accounting treatment for vendor allowances. In accordance with the adoption of EITF Issue 02-16 on December 29, 2002, the Company expects to record a change for a cumulative effect of a change in accounting principle of between \$300,000 and \$500,000 in the first quarter of fiscal 2003.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." This statement requires recording costs associated with exit or disposal activities at their fair values when a liability has been incurred. Under previous guidance, certain exit costs were accrued upon management's commitment to an exit plan, which is generally before an actual liability has been incurred. As vision centers are identified for closure beginning in fiscal 2003, any costs associated with the closure or disposal will be recorded at fair value when the liability is incurred. Adoption of this statement is required with the beginning of fiscal year 2003.

In April 2002, the FASB issued SFAS No. 145, “Rescission of FASB Statements 4, 44 and 64, Amendment to FASB Statement 13, and Technical Corrections.” One of the major changes of this statement is to change the accounting for the classification of gains and losses arising from the extinguishment of debt. Upon adoption of SFAS No. 145, the Company will follow APB 30, in determining whether such extinguishment of debt may be classified as extraordinary. The provisions of this statement related to the rescission of FASB Statement 5 will be applied in fiscal years beginning after May 15, 2002. The Company plans to adopt SFAS No. 145 in the beginning of fiscal 2003, which will result in gains on extinguishment of debt being presented as other income instead of as extraordinary items.

4. BANKRUPTCY PROCEEDINGS AND FRESH START ADJUSTMENTS

On April 5, 2000, the Company and ten of its subsidiaries (collectively, the “Debtors”) filed voluntary petitions with the United States Bankruptcy Court for the Northern District of Georgia for reorganization under Chapter 11 (the “Chapter 11 Cases”). 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 by its order entered on May 18, 2001. On May 31, 2001, after securing a new revolving credit facility with Fleet Capital Corporation, the Company emerged from bankruptcy.

The Plan provided for the conversion of the Company’s 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 the Company’s credit facility. The notes are payable over eight years with principal repayments based on excess cash flow for the prior six month period. Any remaining unpaid principal will become due in 2009. Five million shares of new common stock, par value \$0.01, were issued based on the Company’s reorganization value. Under the Plan, former shareholders received no value for their interests. Consequently, all Predecessor common stock securities were cancelled.

The gain on cancellation of indebtedness aggregated \$17.2 million and has been treated as an extraordinary item in the accompanying Condensed Consolidated Statements of Operations for the period ended June 2, 2001.

At December 28, 2002, \$15.5 million of the new notes and approximately 652,000 shares of new common stock were not distributed to creditors whose claims were disputed. The interests of creditors whose claims were not resolved upon the Company’s emergence from Chapter 11, were provided for in the Company’s disputed claim reserve. In accordance with the Plan, the notes and equity are effectively held in trust for the benefit of the creditors, and will be appropriately distributed upon resolution of disputed claims. Any balance remaining in the disputed claims reserve, upon resolution of all claims, will be distributed pro rata to all creditors.

In accounting for the effects of the reorganization, the Company 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 the Company’s 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 requires that any changes in accounting principles required within twelve months of fresh start accounting, must be adopted at fresh start accounting.

Fresh start accounting principles require that we determine the reorganization value of the reorganized Company. The Company’s 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 the Company’s 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 the Company’s disclosure statement accompanying the Plan.

In the allocation of the reorganization value, the Company’s 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 the Company’s 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 superstore 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. 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 the Company’s 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)(e)
Property, plant and equipment, net	1,942 (f)
Other assets	(586)(g)
Intangible value of contractual rights	113,607 (h)
Total fair value adjustments	\$114,263

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	Extinguish- ment 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 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

- (a) Elimination of deferred financing costs associated with the senior 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 notes	(7,063)
Net liabilities extinguished	162,182
Less: Reorganized value	145,000
Gain on extinguishment of debt	\$ 17,182

- (d) Issuance of new senior 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	\$145,000

- (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 licenses.
- (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 the Company's lease agreement and the business relationship developed with Wal-Mart.
- (i) Elimination of Predecessor Company equity.
- (j) Deferred tax effects of fair value adjustments.

5. LIABILITIES SUBJECT TO COMPROMISE AND REORGANIZATION EXPENSE/(GAIN)

As part of fresh start accounting, liabilities subject to compromise in the amount of \$169 million were exchanged for new notes and common stock as part of the discharge of debt in the bankruptcy. These liabilities are identified below (amounts in thousands):

	(Predecessor) June 2, 2001
Accounts payable	\$ 27,830
Accrued expenses and provision for rejected contracts	2,359(a)
Senior notes net of discount, including accrued interest	131,356
Other long-term debt and capital lease obligations	7,700(b)
	<u>\$169,245</u>

(a) This amount is net of an accrual for claims to be paid in cash of approximately \$2.3 million.

(b) This amount is net of \$97,000 worth of capital leases assumed to continue after emergence from bankruptcy.

In accordance with SOP 90-7, the Predecessor Company 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	(Predecessor) Twelve Months Ended December 30, 2000
Fresh start adjustments	\$(114,263)	\$ —
Impairment of goodwill	—	100,805
Impairment of fixed assets	33	12,000
Provision for rejected leases	1,592	1,920
Loss on sale of freestanding division	3,645	—
Other store closing costs	532	670
Professional fees	2,008	3,421
Retention plan	3,231	2,173
Interest income	(127)	(144)
Letter of credit reserve on DIP Facility	197	—
Other reorganization items	637	694
	<u>\$(102,515)</u>	<u>\$121,539</u>
Total reorganization (gain)/expense	<u>\$(102,515)</u>	<u>\$121,539</u>

The following represents activity in the reorganization provisions during 2002. This amount includes an estimate for disputed claims that are expected to be paid in cash (amounts in thousands):

	Balance at December 29, 2001	Charged to Expense	Paid	Other adjustments	Balance at December 28, 2002
Reorganization items	\$1,225	\$ —	\$605	\$372	\$248

The ending accrual for reorganization items consists primarily of amounts accrued for disputed claims to be paid in cash.

6. WAL-MART MASTER LICENSE AGREEMENT AND OTHER AGREEMENTS

Wal-Mart Agreement

At December 28, 2002, the Company operated 399 vision centers in domestic Wal-Mart stores, all of which operate pursuant to a master license agreement. These units generated approximately 87% of our revenue in 2002 and represent the most profitable of the Company's host retail operations measured as a percent of sales. In 1994, the Company and Wal-Mart replaced their original agreement with a new master license agreement (the Wal-Mart Agreement), which increased minimum and percentage license fees payable by the Company and also granted the Company the opportunity to operate up to 400 vision centers in existing and future Wal-Mart stores. The Company opened its 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. The Wal-Mart license agreement is subject to certain customary provisions, including a minimum tangible net worth (as defined) calculation. Management believes that it is in compliance with this provision at December 28, 2002.

Mexico Agreement

In 1994, the Company opened eight vision centers in stores owned and operated by Wal-Mart de Mexico, S.A. de C.V. (Wal-Mart de Mexico). In 1995, the Company completed the negotiation of a master license agreement governing these vision centers. Pursuant to this agreement, each vision center has an individual base term of five years from the date of opening, followed by two options (each for two years), and one option for one year. Each party has the right to terminate a location which fails to meet specified sales levels. The agreement provides for annual fees based on a minimum and percentage of sales. The agreement also gives the Company a right of first refusal to open vision centers in all stores in Mexico owned by Wal-Mart de Mexico. As of December 28, 2002, the Company operated 37 vision centers in Wal-Mart de Mexico stores.

Fred Meyer Agreement

The Company operates 58 leased vision centers in stores owned by Fred Meyer, 55 of which operate pursuant to a master license agreement. The agreement provides for minimum and percentage rent and other customary terms and conditions. The term of the agreement is for five years (expiring December 31, 2003), with a five-year option exercisable by the Company.

7. INVENTORY

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

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

	2002	2001
Raw materials	\$10,024	\$12,262
Finished goods	7,344	5,868
Supplies	560	491
	<u>\$17,928</u>	<u>\$18,621</u>

8. LONG-TERM DEBT

Exit Facility

In May 2001, the Company's secured revolving credit facility with Foothill Capital expired and was replaced with a senior secured revolving Credit Facility (the "Exit Facility") from Fleet Capital Corporation. The Exit Facility has a term of three years, bears interest at the prime rate plus 0.75% per annum or at LIBOR plus 3.0%, and provides availability of \$10 million, subject to borrowing base limitations and letter of credit requirements. The Exit Facility contains various restrictive covenants and requires the Company to maintain minimum EBITDA standards (as defined) and a minimum fixed charge coverage ratio (as defined) of 1.0 to 1.0. The Company paid \$275,000 in commitment fees related to the Exit Facility in 2001. At December 28, 2002, the Company had no outstanding borrowings under the Exit Facility and \$1.7 million of unused availability.

Senior Subordinated Notes

As part of the Company's Plan of Reorganization, the Predecessor Company's \$125 million unsecured notes were converted into new Successor Company secured 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, and are subordinated to debt under the Company's credit facility. These notes are due in 2009; however principal repayments ("Excess Cash Repayments") are required based on excess cash flow (as defined) for the prior six month period, adjusted for existing cash balances, and measured at the end of June and December, beginning with December 2001. The principal repayments are to be made by the end of the second month subsequent to the measurement date. For the six months ended December 28, 2002, the Company made an Excess Cash Repayment of approximately \$2.9 million on February 28, 2003 to bondholders of record on February 13, 2003. This amount is classified as current at December 28, 2002. As future excess cash is contingent upon future cash flows, the only portion reflected as a current liability is the repayment that is based on financial results reported herein.

Subsequent to the issuance of the Company's 2001 financial statements, the Company's management determined that certain revisions to the 2001 financial statements were required. All 2001 information herein reflects the restated amounts. An effect of the restatement was to adjust the calculation of working capital under the indenture for purposes of determining the excess cash flow payment for the cumulative period from June 2, 2001 through December 28, 2002. The effect of this adjustment was to increase the cumulative payments of excess cash flow during this same period, by approximately \$950,000. Our indenture expressly provides that, in the event of a restatement which affects a previously made excess cash flow payment, the next payment of excess cash flow otherwise due is appropriately adjusted so that the under or over payment is corrected. The Company accordingly expects that, subject to the minimum cash requirements and other provisions of the indenture, it will increase its next cash flow payment by approximately \$950,000. The Company can provide no assurances that such a payment will in fact be made.

Long-Term Debt Balances

Long-term debt obligations at December 28, 2002 and December 29, 2001 consisted of the following (amounts in thousands):

	2002	2001
12% Senior Subordinated Notes due 2009	\$109,706	\$120,000
Less current portion	3,824	1,597
Total long-term debt	\$105,882	\$118,403

The Company is party to letters of credit totaling \$4.4 million and \$3.5 million at December 28, 2002 and December 29, 2001, 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 to Consolidated Financial Statements for the fair value estimate of the long-term debt at December 28, 2002.

9. EXTRAORDINARY ITEM

During 2002, the Company repurchased notes with a face value of approximately \$4.5 million for \$3.0 million in cash, which included accrued interest of approximately \$106,000. These transactions resulted in an extraordinary, non-cash gain of approximately \$1.6 million.

In 2001, as part of the Company's emergence from bankruptcy, the Predecessor Company recognized an extraordinary gain of \$17.2 million related to the extinguishment of debt recorded in fresh start accounting. The gain was calculated as follows:

Net liabilities subject to compromise	\$169,245
Deferred financing costs related to cancelled senior notes	(7,063)
Net liabilities extinguished	162,182
Less: Reorganized value	145,000
Gain on extinguishment of debt	\$ 17,182

In 2000, the Company recorded an extraordinary loss of \$827,000 as a result of refinancing the Company's Foothill Credit Facility. This refinancing necessitated the write-off of capitalized costs associated with the previous facility. Because of the Company's decision to fully reserve for the Company's 2001 tax benefit, there is no tax effect on the 2001 extraordinary item. Also, the Company determined that no tax expense would result from the 2002 extraordinary item, and therefore, no tax effect was recorded on the 2002 extraordinary item.

10. COMMITMENTS AND CONTINGENCIES

Senior Subordinated Notes

Under the indenture governing the Company's senior notes, the Company can engage in businesses that are "the same, similar or reasonably related to" the businesses engaged in by the Company as of the date the Company emerged from bankruptcy. In the fourth quarter of 2002, certain holders of the Company's senior notes (who also own a significant percentage of the Company's common stock) notified the Company that on the basis of this limitation in the indenture, they objected to the Company's engaging in lines of business outside of retail vision centers. The Company has engaged in discussions with these holders and believes that, to date, it has complied with the provisions of the indenture. It is possible, however, that the indenture could prohibit the Company from engaging in business opportunities it is exploring or may explore in the future. These same holders have also objected to the Company's repurchase of senior notes.

In May 2003, the Company received a letter from the trustee under the indenture governing its senior subordinated notes, stating that the Company was in default for failing to timely file its Form 10-K for fiscal 2002, and that the Company had 30 days to cure the alleged default. On June 2, 2003, the Company received a letter from the trustee, revoking the previous letter. In addition, the filing of the Form 10-K on June 4, 2003 took place within the 30-day cure period.

Stock Exchange Matters

The Company received a letter from AMEX concerning its failure to timely file its reports under the securities laws, including this Form 10-K. The letter states that, if the Company is not current in its filings by June 10, 2003, the exchange may seek to delist or halt trading in the Company's securities. The Company's Form 10-Q for the first quarter of 2003 has not been filed. Although the Company intends to file this Form 10-Q in the near term, there can be no assurance that it will be filed by June 10, 2003 and that AMEX will not seek to delist or halt trading in the Company's securities.

Non-cancellable Operating Lease and License Agreements

As of December 28, 2002, the Company is a lessee under non-cancellable operating lease agreements for certain equipment which expire at various dates through 2005. Additionally, the Company is required to pay minimum and percentage license fees pursuant to certain commercial leases and pursuant to its agreements with its host store companies.

Our headquarters in Lawrenceville, Georgia is located in a 66,000 square foot building that includes a distribution center and lens laboratory. The building is leased through January 2009. The Company paid approximately \$215,000 annually in rental fees in 2002, 2001 and 2000.

In connection with its acquisition of Midwest Vision, Inc., the Company entered into a ten-year lease for administrative headquarters and an optical laboratory located in St. Cloud, Minnesota. The facility is leased from the former owner of Midwest Vision. Lease expense on the headquarters and laboratory is approximately \$6,667 monthly.

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

Fiscal Year	Operating Leases
2003	\$27,328
2004	20,900
2005	13,301
2006	7,406
2007	4,595
Thereafter	7,414
Total minimum lease payments	\$80,944

Total rental expenses related to cancellable and non-cancellable operating leases were approximately \$33.4 million, \$17.8 million, \$16.5 million, and \$41.0 million for the year ended December 28, 2002, the seven months ended December 29, 2001, the five months ended June 2, 2001, and the year ended December 30, 2000, respectively. Total rental expense includes contingent rental expense of approximately \$6.9 million, \$7.5 million and \$7.9 million in fiscal 2002, 2001 and 2000, respectively.

Legal Proceedings

On May 20, 2002, an entity called Consumer Cause, Inc. filed a complaint against the Company in the Superior Court for Los Angeles County (Case No. BC 274257). A first amended complaint was filed on September 4, 2002. The complaint alleges that the Company's operations in California violate certain provisions of California law governing arrangements between opticians and optometrists. The complaint seeks attorney fees and an injunction prohibiting the Company from continuing the alleged violations. The complaint largely duplicates portions of a complaint filed by the California attorney general against one of the competitors of the Company. The case was dismissed on January 23, 2003; the plaintiff has filed an appeal.

The Company is 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 the financial position or results of operations of the Company.

11. INCOME TAXES

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

	December 28, 2002	December 29, 2001
Total deferred tax assets	\$ 41,077	\$ 43,139
Total deferred tax liabilities	(38,383)	(41,617)
Valuation allowance	(2,694)	(1,137)
Net deferred tax asset	\$ —	\$ 385

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

	December 28, 2002		December 29, 2001	
	Current	Noncurrent	Current	Noncurrent
Depreciation	\$ —	\$ 2,170	\$ —	\$ 281
Accrued expenses and reserves	3,054	71	4,396	83
Inventory	612		419	
Net operating loss carry-forwards		32,997		34,142
Intangible value of contract rights		(38,365)		(41,514)
Alternative minimum tax		59		1,382
Other	3	2,093	3	2,330
Valuation allowance	(2,694)		(1,137)	
Deferred tax asset / (liability)	\$ 975	\$ (975)	\$ 3,681	\$ (3,296)

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 December 28, 2002	Seven Months Ended December 29, 2001	Five Months Ended June 2, 2001	Year Ended December 30, 2000
Federal income tax/(benefit) provision at statutory rate	\$ (2,357)	\$ (2,051)	\$ 39,663	\$ (46,148)
State income taxes, net of federal income tax benefit	(186)	(176)	3,400	(3,393)
Loss on disposed subsidiaries	—	—	(26,912)	—
Professional Fees	—	344	573	—
Change in valuation allowance for U.S. federal and state taxes	1,557	1,137	(17,335)	8,782
Nondeductible goodwill	—	—	—	38,640
Other, net	986	746	611	2,119
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

At December 28, 2002, the Company had U.S. regular tax net operating loss (“NOL”) carry-forwards of approximately \$87 million that can reduce future federal income taxes. If not utilized, these carry-forwards will expire beginning in 2009. Utilization of the Company’s net operating loss carry-forwards of \$87 million at December 28, 2002, could be substantially limited in the event of a greater than 50% change in stock ownership of the Company. The limitation would be based on the stock value and the Federal Exempt Tax Rate on the date of ownership change. These limitations could create a cap on the amount of the NOLs that would be deductible each year going forward until the amount is depleted or the time limitation on the NOLs expires.

During the years ended December 28, 2002 and December 29, 2001, the Company recorded a valuation allowance of approximately \$2.7 million and \$1.1 million, respectively, representing the excess of deferred tax assets over deferred tax liabilities. This valuation allowance was recorded due to the uncertainty of the realizability of the net operating losses and certain other deferred tax assets.

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

12. 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 December 28, 2002	Seven Months Ended December 29, 2001	Five Months Ended June 2, 2001	Year Ended December 30, 2000
Earnings/(loss) before extraordinary items and cumulative effect	\$(7,770)	\$(5,860)	\$ 96,141	\$(135,675)
Extraordinary gain/(loss), net	1,566	—	17,182	(827)
Cumulative effect, net	—	—	—	(3,378)
Net earnings/(loss)	\$(6,204)	\$(5,860)	\$113,323	\$(139,880)
Weighted shares outstanding	5,084	5,000	21,169	21,169
Less: Unvested restricted stock	(84)	—	—	—
	5,000	5,000	21,169	21,169
Basic earnings/(loss) per share:				
Earnings/(loss) before extraordinary items and cumulative effect	\$ (1.55)	\$ (1.17)	\$ 4.54	\$ (6.41)
Extraordinary gain/(loss)	0.31	—	0.81	(0.04)
Loss from cumulative effect	—	—	—	(0.16)
Net earnings/(loss) per basic share	\$ (1.24)	\$ (1.17)	\$ 5.35	\$ (6.61)
Weighted shares outstanding	5,084	5,000	21,169	21,169
Less: Unvested restricted stock	(84)	—	—	—
	5,000	5,000	21,169	21,169
Impact of dilutive options held by employees(1)	436	62	—	—
Aggregate shares outstanding	5,436	5,062	21,169	21,169
Diluted earnings/(loss) per share:				
Earnings/(loss) before extraordinary items and cumulative effect	\$ (1.55)	\$ (1.17)	\$ 4.54	\$ (6.41)
Extraordinary gain/(loss)	0.31	—	0.81	(0.04)
Loss from cumulative effect	—	—	—	(0.16)
Net earnings/(loss) per diluted share	\$ (1.24)	\$ (1.17)	\$ 5.35	\$ (6.61)

- (1) Outstanding options with an exercise price below the average price of the Company's common stock have been presented as common stock equivalents in the previous table. However, due to the Company's net losses in the seven months ended December 29, 2001, fiscal 2000 and fiscal 2002, these options have been excluded from the computation of diluted earnings per common share, due to their anti-dilutive effect. Although the Company reported net earnings for the five months ended June 2, 2001, there were no outstanding options with an exercise price below the average price of the Company's common stock during this period.

Outstanding options with an exercise price below the average price of the Company’s common stock have been excluded from the computation of diluted earnings per common share, in all periods presented due to their anti-dilutive effect.

13. SUPPLEMENTAL DISCLOSURE INFORMATION

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

(i) Supplemental Cash Flow Information

	Successor		Predecessor	
	Year Ended December 28, 2002	Seven Months Ended December 29, 2001	Five Months Ended June 2, 2001	Year Ended December 30, 2000
Cash paid for/(received)				
Interest	\$14,257	\$4,906	\$860	\$2,729
Income taxes	\$ (1,243)	\$ 433	\$167	\$ —

(ii) Supplemental Balance Sheet Information

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

	Balance at December 28, 2002	Balance at December 29, 2001
Accrued employee compensation and benefits	\$5,736	\$6,452
Accrued rent expense	\$5,914	\$4,714
Accrued capital expenditures	\$ 442	\$ 584
Customer deposit liability	\$2,158	\$2,491
Accrued interest	\$3,297	\$3,691

(iii) Supplemental Income Statement Information

The components of interest expense, net, are summarized as follows:

	Successor		Predecessor	
	Year Ended December 28, 2002	Seven Months Ended December 29, 2001	Five Months Ended June 2, 2001	Year Ended December 30, 2000
Interest expense on debt and capital leases	\$13,941	\$8,476	\$ 805	\$6,902
Finance fees and amortization of deferred financing costs	299	139	349	881
Interest income	(141)	(156)	—	—
Other(1)	(470)	(70)	(4)	(60)
	<u>\$13,629</u>	<u>\$8,389</u>	<u>\$1,150</u>	<u>\$7,723</u>

(1) In the fourth quarter of 2002, the Company received approximately \$300,000 in the form of cash and equipment as settlement of certain amounts due the Company from the sale of its freestanding business, which had closed in 2001. The gain was reflected in the fourth quarter of 2002 and is presented below Operating Income as a component of interest expense, net.

Contractual interest expense for the five months ended June 2, 2001 and for the year ended December 30, 2000 was \$8.1 million and \$20.7 million, respectively.

14. SHAREHOLDERS' EQUITY

Employee Stock Options and Incentive Award Plan

In 1996, the Company adopted the restated Stock Option and Incentive Award Plan (the Plan) pursuant to which incentive stock options qualifying under Section 422A of the Internal Revenue Code and nonqualified stock options may be granted to key employees. The Plan also provides for the issuance of other equity awards, such as awards of restricted stock. The Plan replaced and restated all the Company's prior employee stock option plans. The Plan is administered by the Compensation Committee of the Company's Board of Directors. The Compensation Committee has the authority to determine the persons receiving options, option prices, dates of grants and vesting periods, although no option may have a term exceeding ten years. All options outstanding at the Company's emergence from bankruptcy in 2001 were cancelled. The Plan was amended in 1999 to increase the number of shares under the Plan from 3,350,000 to 4,350,000. In October 2001, the Committee reduced the number of shares available under the Plan to 720,000 and granted stock options and performance stock grants to key managers. After giving effect to outstanding awards, there were, at December 28, 2002, 180,550 remaining unissued shares under the Plan.

In 2001, the Compensation Committee granted to employees 288,750 options to purchase shares of the Company's 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 the Company achieves certain financial goals prior to the end of the seven-year period. Unexercised options expire ten years from the date of grant.

In 2002, the Compensation Committee granted to employees 183,600 options to purchase shares of the Company's common stock at the stated market value on the date of grant. The options vest in one-third increments on the first three anniversaries of the date of grant, subject to 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 the Company's President and Chief Operating Officer. The shares vest in one-third increments on the first time anniversary of the date of grant, subject to continued employment. Unamortized deferred compensation expense with respect to the restricted stock amounted to approximately \$124,000 at December 28, 2002 and is being amortized over the three-year vesting period. Compensation expense related to the issuance of restricted stock aggregated \$33,000 in 2002.

Directors' Stock Option Plan

In April 1997, the Company adopted the Restated Non-Employee Director Stock Option Plan (the Directors' Plan), pursuant to which stock options for up to 500,000 shares of Common Stock may be granted to non-employee directors. The Directors' Plan replaced and restated the Company's prior non-employee director stock option plan. All options outstanding at the Company's emergence from bankruptcy were cancelled. In October 2001, the Committee reduced the number of shares under the Plan to 180,000 and made a one-time grant to eligible non-employee directors of options to purchase 15,000 shares. Non-employee directors also receive 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. In 2002 and 2001, the Compensation Committee granted to directors 40,000 and 60,000 options, respectively, to purchase shares of the Company's common stock. The remaining shares available for grant under the Directors' Plan totaled 95,000 at December 28, 2002.

All Stock Option Plans

In 2002, 2001 and 2000, all exercise prices 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 December 28, 2002 were as follows:

	Successor		Predecessor	
	Year Ended December 28, 2002	Seven Months Ended December 29, 2001	Five Months Ended June 2, 2001	Year Ended December 30, 2000
Options outstanding beginning of period	348,750	—	2,739,642	2,615,421
Options granted	223,600	348,750	—	431,200
Options exercised	—	—	—	—
Options cancelled	(32,900)	—	(2,739,642)	(306,979)
Options outstanding end of period	539,450	348,750	—	2,739,642
Options exercisable end of period	—	—	—	1,245,105
Weighted average option prices per share:				
Granted	\$ 0.830	\$ 0.400	—	\$ 1.989
Exercised	—	—	—	—
Cancelled	\$ 0.400	—	\$ 4.409	\$ 4.611
Outstanding at year end	\$ 0.580	\$ 0.400	—	\$ 4.409
Options exercisable end of period	—	—	—	\$ 4.570

The following table shows the options outstanding and the options exercisable with pertinent data related to each at December 28, 2002:

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	315,850	6.25	\$0.40	0	\$0.00
\$0.55 - \$0.55	9,000	9.82	\$0.55	0	\$0.00
\$0.75 - \$0.75	165,600	9.29	\$0.75	0	\$0.00
\$1.00 - \$1.18	49,000	9.45	\$1.15	0	\$0.00
\$0.40 - \$1.18	539,450	7.54	\$0.58	0	\$0.00

Preferred Stock

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

Shareholder Rights Plan

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

In 2000, the Company cancelled 10,000 shares of the Predecessor Company's Common Stock.

15. SELECTED QUARTERLY FINANCIAL DATA (Unaudited)

Selected quarterly data for the Company for the fiscal years ended December 28, 2002 and December 29, 2001 is as follows: (amounts in thousands except per share information)

Fiscal 2002	Successor			
	Quarter Ended March 30	Quarter Ended June 29	Quarter Ended September 28	Quarter Ended December 28
Retail sales, net	\$61,873	\$61,235	\$61,075	\$60,677
Premium revenue	—	700	670	790
Net sales	61,873	61,935	61,745	61,467
Cost of goods sold	26,980	27,680	27,387	30,399
Gross profit	34,893	34,255	34,358	31,068
Selling, general & administrative expense	32,733	32,247	32,119	31,616
Operating income	2,160	2,008	2,239	(549)
Interest expense, net	3,580	3,564	3,539	2,945
Loss before taxes and extraordinary item	(1,420)	(1,556)	(1,300)	(3,494)
Income tax benefit	—	—	—	—
Net loss before extraordinary item and Extraordinary gain, net (See Note 9)	(1,420)	(1,556)	(1,300)	(3,494)
	—	—	547	1,019
Net loss	<u>\$ (1,420)</u>	<u>\$ (1,556)</u>	<u>\$ (753)</u>	<u>\$ (2,475)</u>
Basic and diluted loss per share:				
Loss before extraordinary item	\$ (0.28)	\$ (0.31)	\$ (0.26)	\$ (0.70)
Extraordinary item, net	0.00	0.00	0.11	0.20
Net loss per basic and diluted share	<u>\$ (0.28)</u>	<u>\$ (0.31)</u>	<u>\$ (0.15)</u>	<u>\$ (0.50)</u>
Supplemental information:				
Capital expenditures	\$ 796	\$ 1,357	\$ 825	\$ 2,231
Depreciation and amortization	\$ 4,953	\$ 4,868	\$ 4,791	\$ 4,387

FISCAL 2001	Predecessor		Successor		
	Quarter Ended March 31	Two Months Ended June 2	One Month Ended June 30	Quarter Ended September 29	Quarter Ended December 29
Net sales	\$74,735	\$ 45,822	\$18,606	\$59,741	\$57,196
Cost of goods sold	34,525	22,879	8,295	26,097	27,096
Gross profit	40,210	22,943	10,311	33,644	30,100
Selling, general & administrative expense	39,071	29,306	9,938	31,440	30,148
Operating income/(loss)	1,139	(6,363)	373	2,204	(48)
Interest expense, net	739	411	1,109	3,673	3,607
Earnings/(loss) before reorganization items and taxes	400	(6,774)	(736)	(1,469)	(3,655)
Reorganization expense/(gain)	1,789	(104,304)	—	—	—
Earnings/(loss) before taxes and extraordinary gain	(1,389)	97,530	(736)	(1,469)	(3,655)
Income tax expense	—	—	—	—	—
Earnings/(loss) before extraordinary gain	(1,389)	97,530	(736)	(1,469)	(3,655)
Extraordinary gain, net	—	17,182	—	—	—
Net earnings / (loss)	<u>\$ (1,389)</u>	<u>\$ 114,712</u>	<u>\$ (736)</u>	<u>\$ (1,469)</u>	<u>(3,655)</u>
Basic and diluted earnings/(loss) per share:					
Earnings/(loss) before extraordinary gain	\$ (0.07)	\$ 4.61	\$ (0.15)	\$ (0.29)	\$ (0.73)
Gain from extraordinary item	—	0.81	—	—	—
Net earnings/(loss) per basic and diluted share	<u>\$ (0.07)</u>	<u>\$ 5.42</u>	<u>\$ (0.15)</u>	<u>\$ (0.29)</u>	<u>\$ (0.73)</u>
Supplemental information:					
Capital expenditures	\$ 1,259	\$ 825	\$ 335	\$ 970	\$ 1,445
Depreciation and amortization	\$ 2,867	\$ 1,941	\$ 1,536	\$ 4,979	\$ 4,910

16. RELATED PARTY TRANSACTIONS

In 2002, 2001 and 2000, the Company made rent payments of approximately \$80,000 per year for the St. Cloud laboratory/distribution facility, which is owned by Myrel Neuman, a former director of the Company. In 2002, the Company received approximately \$300,000 in rent payments from Dr. Marc Nelson, a current director of the Company, for leased office space in ten of the Company’s vision centers in Wal-Mart. The Company paid insurance premiums of approximately \$443,000 in 2000 for insurance policies purchased through an agency in which J. Smith Lanier, II, a director of the Predecessor Company during 2000, has a substantial ownership interest.

17. SUBSEQUENT EVENTS

In the first quarter of 2003, the Company has closed thirteen of its domestic Wal-Mart stores pursuant to its master license agreement. These stores represented net sales of \$8.3 million in 2002.

SCHEDULE II

NATIONAL VISION, INC.
VALUATION AND QUALIFYING ACCOUNTS

Year Ended December 28, 2002, Seven Months Ended December 29, 2001,
Five Months Ended June 2, 2001 and Year Ended December 30, 2000
(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:					
Year ended December 30, 2000					
Allowance for uncollectible accounts receivable	\$3,836	\$1,236	\$1,482	\$ 2,214	\$4,340
Provision for self-insured liabilities	\$2,593	\$9,863	\$2,807	\$12,061	\$3,202
Five months ended June 2, 2001					
Allowance for uncollectible accounts receivable	\$4,340	\$6,195	\$ —	\$ 7,706	\$2,829
Provision for self-insured liabilities	\$3,202	\$4,741	\$1,163	\$ 5,359	\$3,747
Successor:					
Seven months ended December 29, 2001					
Allowance for uncollectible accounts receivable	\$2,829	\$ 320	\$ —	\$ 1,360	\$1,789
Provision for self-insured liabilities	\$3,747	\$4,894	\$2,103	\$ 7,673	\$3,071
Year ended December 28, 2002					
Allowance for uncollectible accounts receivable	\$1,789	\$ 50	\$ —	\$ 983	\$ 856
Provision for self-insured liabilities	\$3,071	\$8,589	\$3,005	\$11,924	\$2,741

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

June 3, 2003

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on June 3, 2003 by the following persons on behalf of the registrant, in the capacities indicated.

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

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 annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures, as defined in Exchange Act Rules 13a-14 and 15d-14, for the registrant and have:
 - a. Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b. Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - c. Presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, 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 in the design or operation of internal controls that could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: June 3, 2003

/s/ Reade Fahs

Reade Fahs
Title: Chief Executive Officer

I, Angus C. Morrison, 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 annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures, as defined in Exchange Act Rules 13a-14 and 15d-14, for the registrant and have:
 - a. Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b. Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - c. Presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, 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 in the design or operation of internal controls that could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: June 3, 2003

/s/ Angus C. Morrison

Angus C. Morrison
Title: Chief Financial Officer

NATIONAL VISION, INC.,

as Issuer,

and

STATE STREET BANK AND TRUST COMPANY,

as Trustee

INDENTURE

Dated as of June 15, 2001

\$120,000,000 of

12% Senior Secured Notes due 2009

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310(a)(1)	7.10
(a)(2)	7.10
(a)(3)	N.A.
(a)(4)	N.A.
(a)(5)	7.10
(b)	7.08; 7.10; 11.02
(c)	N.A.
311(a)	7.11
(b)	7.11
(c)	N.A.
312(a)	2.05
(b)	11.03
(c)	11.03
313(a)	7.06
(b)(1)	N.A.
(b)(2)	7.06
(c)	7.06; 11.02
(d)	7.06
314(a)	4.06; 4.08; 11.02
(b)	4.21
(c)(1)	11.04
(c)(2)	11.04
(c)(3)	N.A.
(d)	N.A.
(e)	11.05
(f)	N.A.
315(a)	7.01(b)
(b)	7.05; 11.02
(c)	7.01(a)
(d)	7.01(c)
(e)	6.11
317(a)(last sentence)	2.09
(a)(1)(A)	6.05
(a)(1)(B)	6.04
(a)(2)	N.A.
(b)	6.07
(c)	9.04
317(a)(1)	6.08
(a)(2)	6.09
(b)	2.04
3148a)	11.01
(c)	11.01

N.A. means Not Applicable.

Note: This Cross-Reference Table shall not, for any purpose, be deemed to be part of this Indenture.

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INDENTURE, dated as of June 15, 2001, between NATIONAL VISION, INC. (f/k/a Vista Eyecare, Inc.), a Georgia corporation (the “Company”), and State Street Bank and Trust Company, as Trustee (the “Trustee”).

The Company has duly authorized the creation of an issue of 12% Senior Secured Notes due 2009 and, to provide therefor, the Company has duly authorized the execution and delivery of this Indenture. All things necessary to make the Notes (as defined), when duly issued and executed by the Company and authenticated and delivered hereunder, the valid and binding obligations of the Company and to make this Indenture a valid and binding agreement of the Company, have been done.

Each party hereto agrees as follows for the benefit of the other parties and for the equal and ratable benefit of the Holders of the Company’s 12% Senior Secured Notes due 2009:

GRANTING CLAUSES

The Company hereby Grants to the Trustee as of the date hereof, as trustee for the benefit of the Holders, all of the Company’s right, title and interest, subject to the provisions set forth below, whether now owned or hereafter acquired in, to, and under (a) all tangible and intangible assets of the Company; and (b) all present and future claims, demands, causes and choses in action in respect of any or all of the foregoing and all payments on or under and all proceeds of the conversion, voluntary or involuntary, into cash or other liquid property, all cash proceeds, accounts, accounts receivable, notes, drafts, acceptances, chattel paper, checks, deposit accounts, insurance proceeds, condemnation awards, rights to payment of any and every kind and other forms of obligations and receivables, instruments and other property which at any time constitute all or part of or are included in the proceeds of any of the foregoing (all of the foregoing referenced to in this paragraph being referred to collectively herein as the “Security”).

The Holders of the Notes are entitled to the benefit of Liens on the Security, subject to the priorities, limitations and provisions set forth herein. For as long as all or any portion of the Indebtedness under the New Credit Facility remains outstanding, unpaid or unsatisfied, the Trustee, and by accepting a Note, each Holder, acknowledge and agree that (i) the security interest granted to the Trustee for the benefit of the Holders in the Security shall, irrespective of the time of perfection or creation of any security interests or other Liens in the Security on behalf of the Lender or Trustee, be junior and subordinate to the interests of such Lender and (ii) to refrain from taking any action to foreclose upon, take possession of, liquidate or otherwise proceed against the Security.

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The Grant made in the initial paragraph of the Granting Clause is made in trust (as described above) to secure the payment of principal of and interest on, and any other amounts owing in respect of the Notes, equally and ratably without prejudice, priority or distinction and to secure compliance with the provisions of this Indenture, all as provided in this Indenture; and after satisfaction of such obligations, amounts received as a result of such Grant shall be available without restriction to the Company.

The Trustee, as trustee on behalf of the Holders, acknowledges such Grant and accepts the trusts under this Indenture in accordance with the provisions of this Indenture.

ARTICLE ONE

DEFINITIONS AND INCORPORATION BY REFERENCE

SECTION 1.01 Definitions.

“10% Issues” means each holder of 10% or more of the outstanding principal amount of the Notes on the Effective Date.

“Acquired Indebtedness” means Indebtedness of a Person or any of its Subsidiaries existing at the time such Person becomes a Restricted Subsidiary of the Company or at the time it merges or consolidates with the Company or any of its Subsidiaries or is assumed in connection with the acquisition of assets from such Person and in each case not incurred by such Person in connection with, or in anticipation or in contemplation of, such Person becoming a Restricted Subsidiary of the Company or such acquisition, merger or consolidation.

“Affiliate” means, with respect to any specified Person, any other Person who directly or indirectly through one or more intermediaries controls, or is controlled by, or is under common control with, such specified Person. The term “control” means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise; and the terms “controlling” and “controlled” have meanings correlative of the foregoing.

“Affiliate Transaction” has the meaning set forth in Section 4.11.

“Agent” means any Registrar, Paying Agent or co-Registrar.

“Asset Acquisition” means (a) an Investment by the Company or any Restricted Subsidiary of the Company in any other Person pursuant to which such Person shall become a Restricted Subsidiary of the Company or any Restricted Subsidiary of the Company, or shall be merged with or into the Company or any Restricted Subsidiary of the Company, or (b) the acquisition by the Company or any Restricted Subsidiary of the Company of the assets of any Person (other than a Restricted Subsidiary of the Company) which constitute all or substantially all of the assets of such Person or comprise any division or line of business of such Person or any other properties or assets of such Person other than in the ordinary course of the Company’s or such Restricted Subsidiary’s business.

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“Asset Sale” means any direct or indirect sale, issuance, conveyance, transfer, lease (other than operating leases entered into in the ordinary course of business), assignment or other transfer for value by the Company or any of its Restricted Subsidiaries (including any Sale and Leaseback Transaction) to any Person other than the Company or a Wholly Owned Restricted Subsidiary of the Company of (a) any Capital Stock of any Restricted Subsidiary of the Company; or (b) any other property or assets of the Company or any Restricted Subsidiary of the Company other than in the ordinary course of business; provided, however, that Asset Sales shall not include (i) a transaction or series of related transactions for which the Company or its Restricted Subsidiaries receive aggregate consideration of less than \$750,000, (ii) the sale, lease, conveyance, disposition or other transfer of all or substantially all of the assets of the Company as permitted under Section 5.01, (iii) the sale, lease, conveyance, disposition or other transfer by the Company or any Restricted Subsidiary of assets or property in transactions constituting Investments that are not prohibited under Section 4.10, (iv) leases or subleases to third persons not interfering in any material respect with the business of the Company or any of its Restricted Subsidiaries, (v) the sale, conveyance, disposition, or other transfer of the Capital Stock of ProCare Eye Exam, Inc. or (vi) the creation of any Lien not prohibited by this Indenture.

“Authenticating Agent” has the meaning set forth in Section 2.02.

“Bankruptcy Law” means Title 11, U.S. Code or any similar Federal, state or foreign law for the relief of debtors.

“Board of Directors” means, as to any Person, the board of directors of such Person or any duly authorized committee thereof.

“Board Resolution” means, with respect to any Person, a copy of a resolution certified by the Secretary or an Assistant Secretary of such Person to have been duly adopted by the Board of Directors of such Person and to be in full force and effect on the date of such certification, and delivered to the Trustee.

“Business Day” means any day other than a Saturday, Sunday or any other day on which commercial banking institutions in the City of New York or the city in which the principal corporate trust office of the Trustee is located are required or authorized by law or other governmental action to be closed.

“Capitalized Lease Obligation” means, as to any Person, the obligations of such Person under a lease that are required to be classified and accounted for as capital lease obligations under GAAP and, for purposes of this definition, the amount of such obligations at any date shall be the capitalized amount of such obligations at such date, determined in accordance with GAAP.

“Capital Stock” means (i) with respect to any Person that is a corporation, any and all shares, interests, participations or other equivalents (however designated and whether or not voting) of corporate stock, including each class of Common Stock and Preferred Stock of such Person, and (ii) with respect to any Person that is not a corporation, any and all partnership, membership or other equity interests of such Person.

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“Cash Equivalents” means (i) marketable direct obligations issued by, or unconditionally guaranteed by, the United States Government or issued by any agency thereof and backed by the full faith and credit of the United States, in each case maturing within one year from the date of acquisition thereof; (ii) marketable direct obligations issued by any state of the United States of America or any political subdivision of any such state or any public instrumentality thereof maturing within one year from the date of acquisition thereof and, at the time of acquisition, having one of the two highest ratings obtainable from either S&P or Moody’s; (iii) commercial paper maturing no more than one year from the date of creation thereof and, at the time of acquisition, having a rating of at least A-1 from S&P or at least P-1 from Moody’s; (iv) certificates of deposit or bankers’ acceptances maturing within one year from the date of acquisition thereof issued by any bank organized under the laws of the United States of America or any state thereof or the District of Columbia or any U.S. branch of a foreign bank having at the date of acquisition thereof combined capital and surplus of not less than \$500,000,000 and a Thompson or Keefe Bank Watch Rating of “B” or better; (v) repurchase obligations with a term of not more than seven days for underlying securities of the types described in clause (i) above entered into with any bank meeting the qualifications specified in clause (iv) above; (vi) in the case of any foreign Restricted Subsidiary, Investments: (a) in direct obligations of the sovereign nation (or any agency thereof) in which such foreign Restricted Subsidiary is organized or is conducting a substantial amount of business or in obligations fully and unconditionally guaranteed by such sovereign nation (or any agency thereof), (b) of the type and maturity described in clauses (i) through (v) above of foreign obligors, which Investments or obligors (or the parents of such obligors) have ratings described in such clauses or equivalent ratings from comparable foreign rating agencies or (c) of the type and maturity described in clauses (i) through (v) above of foreign obligors (or the parents of such obligors), which Investments or obligors (or the parents of such obligors) are not rated as provided in such clauses or in clause (vi)(b) but which are, in the reasonable judgment of the Company, comparable in investment quality to such Investments and obligors (or the parents of such obligors); and (vii) investments in money market funds which invest substantially all their assets in securities of the types described in clauses (i) through (vi) above.

“Change of Control” means the occurrence of one or more of the following events after the Effective Date: (i) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all or substantially all of the assets of the Company to any Person or group of related Persons for purposes of Section 13(d) of the Exchange Act (a “Group”), together with any Affiliates thereof (whether or not otherwise in compliance with the provisions of this Indenture) other than the creation of a Lien permitted pursuant to this Indenture; (ii) the approval by the holders of Capital Stock of the Company of any plan or proposal for the liquidation or dissolution of the Company (whether or not otherwise in compliance with the provisions of this Indenture); (iii) any Person or Group shall become the owner, directly or indirectly, beneficially or of record, of shares representing more than 50% of the aggregate ordinary voting power represented by the issued and outstanding

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Capital Stock of the Company; or (iv) the replacement of a majority of the Board of Directors of the Company over a two-year period from the directors who constituted the Board of Directors of the Company at the beginning of such period, and such replacement shall not have been approved by a vote of at least a majority of the Board of Directors of the Company then still in office who either were members of such Board of Directors at the beginning of such period or whose election as a member of such Board of Directors was previously so approved. Notwithstanding anything to the contrary contained in the foregoing, a “Change of Control” shall not be deemed to occur upon the consummation of the merger of the Company with an Affiliate incorporated solely for the purpose of reincorporating the Company in another jurisdiction.

“Change of Control Offer” has the meaning set forth in Section 4.14.

“Change of Control Payment Date” has the meaning set forth in Section 4.14.

“Commission” means the U.S. Securities and Exchange Commission.

“Common Stock” of any Person means any and all shares, interests or other participations in, and other equivalents (however designated and whether voting or non-voting) of such Person’s common stock, whether outstanding on the Effective Date or issued after the Effective Date, and includes, without limitation, all series and classes of such common stock.

“Company” means National Vision, Inc. (f/k/a Vista Eyecare, Inc.), a Georgia corporation.

“Consolidated EBITDA” means, with respect to any Person, for any period, the sum (without duplication) of (i) Consolidated Net Income and (ii) to the extent Consolidated Net Income has been reduced thereby, (A) all income taxes of such Person and its Restricted Subsidiaries paid or accrued in accordance with GAAP for such period (other than income taxes attributable to extraordinary, unusual or nonrecurring gains or losses or taxes attributable to sales or dispositions outside the ordinary course of business), (B) Consolidated Interest Expense, (C) Consolidated Non-cash Charges less any non-cash items increasing Consolidated Net Income for such period, all as determined on a consolidated basis for such Person and its Restricted Subsidiaries in accordance with GAAP, and (D) after-tax losses from Asset Sales or abandonments or reserves relating thereto.

“Consolidated Fixed Charge Coverage Ratio” means, with respect to any Person, the ratio of Consolidated EBITDA of such Person during the four full fiscal quarters for which financial statements are reasonably available (the “Four Quarter Period”) most recently ending on or prior to the date of the transaction giving rise to the need to calculate the Consolidated Fixed Charge Coverage Ratio (the “Transaction Date”) to Consolidated Fixed Charges of such Person for the Four Quarter Period as determined from an Officers’ Certificate delivered to the Trustee at the time that such calculation is required to be made. In addition to and without limitation of the foregoing, for purposes of this definition, “Consolidated EBITDA” and

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“Consolidated Fixed Charges” shall be calculated after giving effect on a pro forma basis for the period of such calculation to (i) the incurrence or repayment of any Indebtedness of such Person or any of its Restricted Subsidiaries (and the application of the proceeds thereof) giving rise to the need to make such calculation and any incurrence or repayment of other Indebtedness (and the application of the proceeds thereof), other than the incurrence or repayment of Indebtedness in the ordinary course of business for working capital purposes pursuant to working capital facilities, occurring during the Four Quarter Period or at any time subsequent to the last day of the Four Quarter Period and on or prior to the Transaction Date, as if such incurrence or repayment, as the case may be (and the application of the proceeds thereof), occurred on the first day of the Four Quarter Period and (ii) any asset sales or other dispositions or Asset Acquisitions (including, without limitation, any Asset Acquisition giving rise to the need to make such calculation as a result of such Person or one of its Restricted Subsidiaries (including any Person who becomes a Restricted Subsidiary as a result of the Asset Acquisition) incurring, assuming or otherwise being liable for Acquired Indebtedness and also including any Consolidated EBITDA (including any pro forma expense and cost reductions calculated on a basis consistent with Regulation S-X under the Exchange Act) attributable to the assets which are the subject of the Asset Acquisition or asset sale or other disposition during the Four Quarter Period) occurring during the Four Quarter Period or at any time subsequent to the last day of the Four Quarter Period and on or prior to the Transaction Date, as if such asset sale or other disposition or Asset Acquisition (including the incurrence, assumption or liability for any such Acquired Indebtedness) occurred on the first day of the Four Quarter Period. If such Person or any of its Restricted Subsidiaries directly or indirectly guarantees Indebtedness of a third Person, the preceding sentence shall give effect to the incurrence of such guaranteed Indebtedness as if such Person or any Restricted Subsidiary of such Person had directly incurred or otherwise assumed such guaranteed Indebtedness; provided that if such guarantee is limited to a principal amount that is less than the amount of such Indebtedness, such effect shall be limited to the incurrence of such Indebtedness in such limited amount. Furthermore, in calculating “Consolidated Fixed Charges” for purposes of determining the denominator (but not the numerator) of this “Consolidated Fixed Charge Coverage Ratio,” (1) interest on outstanding Indebtedness determined on a fluctuating basis as of the Transaction Date and which will continue to be so determined thereafter shall be deemed to have accrued at a fixed rate per annum equal to the rate of interest on such Indebtedness in effect on the Transaction Date; (2) if interest on any Indebtedness actually incurred on the Transaction Date may optionally be determined at an interest rate based upon a factor of a prime or similar rate, a eurocurrency interbank offered rate, or other rates, then the interest rate in effect on the Transaction Date will be deemed to have been in effect during the Four Quarter Period; and (3) notwithstanding clause (1) above, interest on Indebtedness determined on a fluctuating basis, to the extent such interest is covered by agreements relating to Interest Swap Obligations, shall be deemed to accrue at the rate per annum resulting after giving effect to the operation of such agreements.

“Consolidated Fixed Charges” means, with respect to any Person for any period, the sum, without duplication, of (i) Consolidated Interest Expense, plus (ii) the product of (x) the amount of all dividend payments on any series of Preferred Stock of such Person (other than dividends paid in Qualified Capital Stock) paid, accrued or scheduled to be paid or accrued

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during such period times (y) a fraction, the numerator of which is one and the denominator of which is one minus the then current effective consolidated federal, state and local tax rate of such Person, expressed as a decimal.

“Consolidated Interest Expense” means, with respect to any Person for any period, the sum of, without duplication: (i) the aggregate of the interest expense of such Person and its Restricted Subsidiaries for such period determined on a consolidated basis in accordance with GAAP, including without limitation, (a) any amortization of debt discount and amortization or write-off of deferred financing costs, (b) the net costs under Interest Swap Obligations, (c) all capitalized interest and (d) the interest portion of any deferred payment obligation; and (ii) the interest component of Capitalized Lease Obligations paid, accrued and/or scheduled to be paid or accrued by such Person and its Restricted Subsidiaries during such period as determined on a consolidated basis in accordance with GAAP.

“Consolidated Net Income” means, with respect to any Person, for any period, the aggregate net income (or loss) of such Person and its Restricted Subsidiaries for such period on a consolidated basis, determined in accordance with GAAP; provided that there shall be excluded therefrom (a) after-tax gains from Asset Sales or abandonments or reserves relating thereto, (b) after-tax items classified as extraordinary or nonrecurring gains, (c) the net income of any Person acquired in a “pooling of interests” transaction accrued prior to the date it becomes a Restricted Subsidiary of the referent Person or is merged or consolidated with the referent Person or any Restricted Subsidiary of the referent Person, (d) the net income (but not loss) of any Restricted Subsidiary of the referent Person to the extent that the declaration of dividends or similar distributions by that Restricted Subsidiary of that income is restricted by a contract, operation of law or otherwise, (e) the net income of any Person, other than a Restricted Subsidiary of the referent Person, except to the extent of cash dividends or distributions paid to the referent Person or to a Wholly Owned Restricted Subsidiary of the referent Person by such Person, (f) any restoration to income of any contingency reserve, except to the extent that provision for such reserve was made out of Consolidated Net Income accrued at any time following the Effective Date, (g) income or loss attributable to discontinued operations (including, without limitation, operations disposed of during such period whether or not such operations were classified as discontinued), and (h) in the case of a successor to the referent Person by consolidation or merger or as a transferee of the referent Person’s assets, any earnings of the successor corporation prior to such consolidation, merger or transfer of assets.

“Consolidated Net Worth” of any Person means the consolidated stockholders’ equity of such Person, determined on a consolidated basis in accordance with GAAP, less (without duplication) amounts attributable to Disqualified Capital Stock of such Person.

“Consolidated Non-cash Charges” means, with respect to any Person, for any period, the aggregate depreciation, amortization and other non-cash expenses of such Person and its Restricted Subsidiaries reducing Consolidated Net Income of such Person and its Restricted Subsidiaries for such period, determined on a consolidated basis in accordance with GAAP (excluding any such charge which requires an accrual of or a reserve for cash charges for any future period).

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“Consolidated Tangible Assets” means, with respect to any Person, as of any date of determination, the total assets, less goodwill, deferred financing costs and other intangibles and less accumulated amortization, shown on the most recent balance sheet of such Person, determined on a consolidated basis in accordance with GAAP.

“Corporate Trust Office” means the office of the Trustee at which at any particular time its corporate trust business shall be principally administered, which office at the date of execution of this Indenture is located at Goodwin Square, 225 Asylum Street, 23rd Floor, Hartford, CT 06103, except that with respect to presentation of Notes for payment or for registration of transfer or exchange, such term shall mean any office or agency of the Trustee at which, at any particular time, its corporate agency business shall be conducted.

“Covenant Defeasance” has the meaning set forth in Section 8.01.

“Currency Agreement” means any foreign exchange contract, currency swap agreement or other similar agreement or arrangement designed to protect the Company or any Restricted Subsidiary of the Company against fluctuations in currency values.

“Custodian” means any receiver, trustee, assignee, liquidator, sequestrator or similar official under any Bankruptcy Law.

“Default” means an event or condition the occurrence of which is, or with the lapse of time or the giving of notice or both would be, an Event of Default.

“Default Interest” has the meaning set forth in Section 2.12.

“Default Interest Payment Date” has the meaning set forth in Section 2.12.

“Default Notice” has the meaning set forth in Section 10.02.

“Depository” means The Depository Trust Company, its nominees and successors.

“Disclosure Statement” means the Disclosure Statement to Accompany Joint Plan of Reorganization Under Chapter 11, Title 11, United States Code Filed by Vista Eyecare, Inc. and Certain of its Debtor Subsidiaries and 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 April 13, 2001 of the Company relating to certain matters including the issuance of the Notes.

“Disqualified Capital Stock” means that portion of any Capital Stock which, by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable), or upon the happening of any event, matures or is mandatorily

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redeemable, pursuant to a sinking fund obligation or otherwise, or is redeemable at the sole option of the holder thereof on or prior to the final maturity date of the Notes.

“Dollars” and “\$” means U.S. Legal Tender.

“EBITDA” means earnings before interest, taxes, depreciation, and amortization.

“Effective Date” means May 31, 2001.

“Enforcement Expenses” means all reasonable costs and expenses incurred by Lender in connection with its enforcement of any rights or remedies under the New Credit Facility, the documentation of any workout, restructuring or forbearance arrangement with respect to the New Credit Facility, the collection of any indebtedness under the New Credit Facility or the protection of, or realization upon, any security under the New Credit Facility after the occurrence and during the continuance of a default or event of default under the New Credit Facility including, by way of example, attorney’s fees, court costs, appraisal and consulting fees, auctioneers’ fees, rent, storage, insurance premiums, costs of completing work-in-progress or refurbishing Security under the New Credit Facility, advertising costs and shipping expenses, whether or not such amounts are allowed as a claim against the Company in any proceeding under Bankruptcy Law.

“Equity Offering” means a sale of Qualified Capital Stock of the Company other than Indebtedness or Disqualified Capital Stock convertible or exchangeable into Capital Stock of the Company.

“Event of Default” has the meaning set forth in Section 6.01.

“Excess Cash Flow” shall have the meaning set forth in Section 3.06.

“Exchange Act” means the Securities Exchange Act of 1934, as amended, or any successor statute or statutes thereto.

“fair market value” means, with respect to any asset or property, the price which could be negotiated in an arm’s-length, free market transaction, for cash, between a willing seller and a willing and able buyer, neither of whom is under undue pressure or compulsion to complete the transaction. Unless the TIA otherwise requires, fair market value shall be determined by the Board of Directors of the Company acting reasonably and in good faith and shall be evidenced by a Board Resolution of the Board of Directors of the Company delivered to the Trustee.

“GAAP” means generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or in such other statements by such other entity as may be approved by a significant segment of the accounting profession of the United States, which are in effect as of the Effective Date and consistently applied.

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“Grant” means mortgage, pledge, bargain, sell, warrant, alienate, remise, release, convey, assign, transfer, create, and grant a lien upon and a security interest in and right of set-off against, deposit, set over and confirm pursuant to this Indenture. A Grant of any property hereunder shall include all rights, powers and options (but none of the obligations) of the Granting party thereunder or with respect thereto, including the immediate and continuing right to claim for, collect, receive and give receipt for principal and interest payments in respect of such property and all other moneys payable thereunder, to give and receive notices and other communications, to make waivers or other agreements, to exercise all rights and options, to bring suits in equity, action of law, or other judicial or administrative proceedings in the name of the Granting party or otherwise and generally to do and receive anything that the Granting party is or may be entitled to do or receive thereunder or with respect thereto.

“guarantee” means a guarantee (other than by endorsement of negotiable instruments for collection in the ordinary course of business), direct or indirect, in any manner (including, without limitation, letters of credit and reimbursement agreements in respect thereof), of all or any part of any Indebtedness.

“Holder” means the Person, in its capacity as a holder of a Note, in whose name a Note is registered on the Registrar’s books.

“incur” has the meaning set forth in Section 4.12.

“Indebtedness” means with respect to any Person, without duplication, (i) all Obligations of such Person for borrowed money, (ii) all Obligations of such Person evidenced by bonds, debentures, notes or other similar instruments, (iii) all Capitalized Lease Obligations of such Person, (iv) all Obligations of such Person issued or assumed as the deferred purchase price of property, all conditional sale obligations and all Obligations under any title retention agreement (but excluding trade accounts payable and other accrued liabilities arising in the ordinary course of business that are not overdue by 90 days or more or are being contested in good faith by appropriate proceedings promptly instituted and diligently conducted), (v) all Obligations for the reimbursement of any obligor on any letter of credit (other than a letter of credit relating to a trade account payable that is not considered Indebtedness pursuant to clause (iv) above), banker’s acceptance or similar credit transaction, (vi) guarantees and other contingent obligations in respect of Indebtedness referred to in clauses (i) through (v) above and clause (viii) below, (vii) all Obligations of any other Person of the type referred to in clauses (i) through (vi) which are secured by any lien on any property or asset of such Person, the amount of such Obligation being deemed to be the lesser of the fair

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market value of such property or asset or the amount of the Obligation so secured, (viii) all net Obligations of such Person under currency agreements and interest swap agreements, (ix) all Disqualified Capital Stock issued by such Person with the amount of Indebtedness represented by such Disqualified Capital Stock being equal to the greater of its voluntary or involuntary liquidation preference and its maximum fixed repurchase price, but excluding accrued dividends, if any. For purposes hereof, the “maximum fixed repurchase price” of any Disqualified Capital Stock which does not have a fixed repurchase price shall be calculated in accordance with the terms of such Disqualified Capital Stock as if such Disqualified Capital Stock were purchased on any date on which Indebtedness shall be required to be determined pursuant to this Indenture, and if such price is based upon, or measured by, the fair market value of such Disqualified Capital Stock, such fair market value shall be determined reasonably and in good faith by the Board of Directors of the issuer of such Disqualified Capital Stock.

“Indenture” means this Indenture, as amended or supplemented from time to time in accordance with the terms hereof.

“interest” when used with respect to any Note means the amount of all interest accruing on such Note, including any applicable Default Interest pursuant to Section 2.12.

“Interest Payment Date” means the stated maturity of an installment of interest on the Notes.

“Interest Swap Obligations” means, with respect to any Person, the Obligations of such Person under (i) interest rate swap agreements, interest rate cap agreements and interest rate collar agreements, and (ii) other agreements or arrangements designed to protect such Person against fluctuations in interest rates.

“Internal Revenue Code” means the Internal Revenue Code of 1986, as amended to the date hereof and from time to time hereafter.

“Investment” by any Person in any other Person means, with respect to any Person, any direct or indirect loan or other extension of credit (including, without limitation, a guarantee) or capital contribution to (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others), or any purchase or acquisition by such Person of any Capital Stock, bonds, notes, debentures or other securities or evidences of Indebtedness issued by, such other Person. “Investment” shall exclude extensions of trade credit by the Company and its Restricted Subsidiaries on commercially reasonable terms in accordance with normal trade practices of the Company or such Restricted Subsidiary, as the case may be. For the purposes of Section 4.10, (i) “Investment” shall include and be valued at the fair market value of the net assets of any Restricted Subsidiary at the time that such Restricted Subsidiary is designated an Unrestricted Subsidiary and shall exclude the fair market value of the net assets of any Unrestricted Subsidiary at the time that such Unrestricted Subsidiary is designated a Restricted Subsidiary and (ii) the amount of any Investment shall be the original cost of such Investment plus the cost of all additional Investments by the Company or any of its Restricted Subsidiaries, without any adjustments for increases or decreases in value, or write-ups, write-downs or write-offs with respect to such Investment, reduced by the payment of dividends or distributions in connection with such Investment or any other amounts received in respect of such Investment; provided that no such payment of dividends or distributions or receipt of any such

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other amounts shall reduce the amount of any Investment if such payment of dividends or distributions or receipt of any such amounts would be included in Consolidated Net Income. If the Company or any Restricted Subsidiary of the Company sells or otherwise disposes of any Common Stock of any direct or indirect Restricted Subsidiary of the Company such that, after giving effect to any such sale or disposition, the Company no longer owns, directly or indirectly, greater than 50% of the outstanding Common Stock of such Restricted Subsidiary, the Company shall be deemed to have made an Investment on the date of any such sale or disposition equal to the fair market value of the Common Stock of such Restricted Subsidiary not sold or disposed of.

“Issuance” means the issuance of the Notes on the Effective Date.

“Legal Defeasance” has the meaning set forth in Section 8.01.

“Legal Holiday” has the meaning set forth in Section 11.07.

“Lender” means the lender under the New Credit Facility.

“Lien” means any lien, mortgage, deed of trust, pledge, security interest, charge or encumbrance of any kind (including any conditional sale or other title retention agreement, any lease in the nature thereof and any agreement to give any security interest).

“Managed Care Entity” means (i) NVAL VisionCare Systems of California, Inc., ProCare Eye Exam, Inc. and NVAL VisionCare Systems of North Carolina, Inc. and (ii) any other Subsidiary of the Company whose financial condition or activities are regulated under the laws of any state in connection with the provision of health or vision care products or services (or related administrative services) and shall include, without limitation, a health maintenance organization (whether single or multi service), third party administrator, or any entity similar to any of the foregoing.

“Maturity Date” means March 30, 2009.

“Moody’s” means Moody’s Investors Service, Inc. and its successors.

“Net Cash Proceeds” means, with respect to any Asset Sale, the proceeds in the form of cash or Cash Equivalents including payments in respect of deferred payment obligations when received in the form of cash or Cash Equivalents (other than the portion of any such deferred payment constituting interest) received by the Company or any of its Restricted Subsidiaries from such Asset Sale net of (a) reasonable out-of-pocket expenses and fees relating to such Asset Sale (including, without limitation, legal, accounting and investment banking fees and sales commissions), (b) taxes paid or payable after taking into account any reduction in consolidated tax liability due to available tax credits or deductions and any tax sharing arrangements,

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(c) repayment of Indebtedness that is required to be repaid in connection with such Asset Sale and (d) appropriate amounts to be provided by the Company or any Restricted Subsidiary, as the case may be, as a reserve, in accordance with GAAP, against any liabilities associated with such Asset Sale and retained by the Company or any Restricted Subsidiary, as the case may be, after such Asset Sale, including, without limitation, pension and other post-employment benefit liabilities, liabilities related to environmental matters and liabilities under any indemnification obligations associated with such Asset Sale.

“New Credit Facility” means the Loan and Security Agreement dated as of May 30, 2001, between the Company and Fleet Capital Corporation, together with the related documents thereto (including, without limitation, any security documents), in each case as such agreements may be amended (including any amendment and restatement thereof), supplemented or otherwise modified from time to time, including any agreement extending the maturity of, refinancing, replacing or otherwise restructuring (including increasing the amount of available borrowings thereunder in excess of the amount that would be permitted at any time pursuant to subsection (ii) of the definition of Permitted Indebtedness in Section 1.01 (provided that such increase in borrowings is permitted by Section 4.12) or adding Restricted Subsidiaries of the Company as additional borrowers or guarantors thereunder) all or any portion of the Indebtedness under such agreement or any successor or replacement agreement and whether by the same or any other agent, lender or group of lenders. Indebtedness under the New Credit Facility shall be deemed to include (i) all loans at any time made, and all of the indebtedness, liabilities and obligations at any time incurred by the Company or its Restricted Subsidiaries or otherwise existing, under the New Credit Facility, (ii) any and all loans made or other credit extended by the Lender to the Company or its Restricted Subsidiaries during the pendency of any proceeding under Bankruptcy Law, (iii) all interest at any time accrued with respect to any of the foregoing (including any interest that accrues during the pendency of any proceeding under Bankruptcy Law, whether or not the Lender is authorized under Bankruptcy Law to collect such interest from the Company or any Restricted Subsidiary) and (iv) all Enforcement Expenses for which the Company or its Restricted Subsidiaries is at any time obligated to pay to the Lender under any agreement or applicable law (whether or not the Lender is authorized under Bankruptcy Law to collect such Enforcement Expenses from the Company or its Restricted Subsidiaries).

“Non-Payment Default” has the meaning set forth in Section 10.02.

“Notes” means the 12% Senior Secured Notes due 2009 of the Company, issued on the Effective Date, as amended or supplemented from time to time in accordance with the terms of this Indenture, that are issued pursuant to this Indenture.

“Obligations” means all obligations for principal, interest, penalties, fees, indemnification, reimbursements, damages and other liabilities payable under the documentation governing any Indebtedness.

“Officer” means, with respect to any Person, the Chairman of the Board of Directors, any Vice Chairman of the Board of Directors, the Chief Executive Officer, the President, any Vice President, the Chief Financial Officer, the Treasurer, the

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Controller, or the Secretary of such Person, or any other officer designated by the Board of Directors serving in a similar capacity.

“Officers’ Certificate” means, with respect to any Person, a certificate signed by the Chief Executive Officer, the President or any Vice President and the Chief Financial Officer or any Treasurer of such Person that shall comply with applicable provisions of this Indenture.

“Opinion of Counsel” means a written opinion, in form and substance reasonably acceptable to the Trustee, from legal counsel who is reasonably acceptable to the Trustee complying with the requirements of Sections 11.04 and 11.05, as they relate to the giving of an Opinion of Counsel, and delivered to the Trustee.

“Paying Agent” has the meaning set forth in Section 2.03.

“Payment Blockage Period” has the meaning set forth in Section 10.02.

“Payment Default” has the meaning set forth in Section 10.02.

“Permitted Indebtedness” means, without duplication, each of the following:

- (i) Indebtedness under the Notes issued in the Issuance and this Indenture not to exceed \$120,000,000 in aggregate principal amount;
- (ii) Indebtedness incurred by the Company and its Restricted Subsidiaries pursuant to or in connection with the New Credit Facility in an amount at any time outstanding not to exceed the sum of (a) an aggregate principal amount at any time outstanding not to exceed the greater of (x) \$15,000,000 and (y) the sum, at such time, of (I) 85% of the consolidated book value of accounts receivable of the Company and its Restricted Subsidiaries and (II) 60% of the consolidated book value of inventory of the Company and its Restricted Subsidiaries, plus (b) accrued interest in respect of the New Credit Facility and fees at any time owing to Lender, in each case as and to the extent provided under the New Credit Facility; plus (c) Enforcement Expenses;
- (iii) other Indebtedness of the Company and its Restricted Subsidiaries outstanding on the Effective Date reduced by the amount of any scheduled amortization payments or mandatory prepayments, when actually paid (except to the extent paid from the proceeds of Refinancing Indebtedness);
- (iv) Interest Swap Obligations of the Company covering Indebtedness of the Company or any of its Restricted Subsidiaries and Interest Swap Obligations of any Restricted Subsidiary of the Company covering Indebtedness of such Restricted Subsidiary; provided, however, that such Interest Swap Obligations are entered into to protect the Company and its Restricted Subsidiaries from fluctuations in interest rates on Indebtedness incurred in accordance with this Indenture;

- (v) Indebtedness under Currency Agreements; provided that in the case of Currency Agreements which relate to Indebtedness, such Currency Agreements do not increase the Indebtedness of the Company and its Restricted Subsidiaries outstanding other than as a result of fluctuations in foreign currency exchange rates or by reason of fees, indemnities and compensation payable thereunder;
- (vi) Indebtedness of a Wholly Owned Restricted Subsidiary of the Company to the Company or to a Wholly Owned Restricted Subsidiary of the Company for so long as such Indebtedness is held by the Company or a Wholly Owned Restricted Subsidiary of the Company, in each case subject to no Lien other than Liens permitted under this Indenture; provided that if as of any date any Person other than the Company or a Wholly Owned Restricted Subsidiary of the Company owns or holds any such Indebtedness or holds a Lien in respect of such Indebtedness other than a Lien permitted under this Indenture, such date shall be deemed the incurrence of Indebtedness not constituting Permitted Indebtedness by the issuer of such Indebtedness;
- (vii) Indebtedness of the Company to a Wholly Owned Restricted Subsidiary of the Company for so long as such Indebtedness is held by a Wholly Owned Restricted Subsidiary of the Company, in each case subject to no Lien other than a Lien permitted under this Indenture; provided that (a) any Indebtedness of the Company to any Wholly Owned Restricted Subsidiary of the Company is unsecured and subordinated, pursuant to a written agreement, to the Company's obligations under this Indenture and the Notes (including any Indebtedness that is pari passu with this Indenture and the Notes) and (b) if as of any date any Person other than a Wholly Owned Restricted Subsidiary of the Company owns or holds any such Indebtedness or any Person holds a Lien in respect of such Indebtedness other than a Lien permitted under this Indenture, such date shall be deemed the incurrence of Indebtedness not constituting Permitted Indebtedness by the Company;
- (viii) Indebtedness arising from the honoring by a bank or other financial institution of a daylight overdraft or Indebtedness arising from the honoring by a bank or other financial institution of a check, draft or similar instrument inadvertently drawn against insufficient funds in the ordinary course of business; provided, however, that such Indebtedness is extinguished within two business days of incurrence;
- (ix) Indebtedness of the Company or any of its Restricted Subsidiaries represented by reimbursement obligations in respect of letters of credit for the account of the Company or such Restricted Subsidiary, as the case may be, which letters of credit were issued in order to provide security for workers' compensation claims, payment obligations in connection with self-insurance or similar requirements in the ordinary course of business;
- (x) Indebtedness in respect of trade letters of credit, standby letters of credit or performance, surety or appeal bonds, in each case incurred in the ordinary course of business and securing obligations not constituting Indebtedness;

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- (xi) Indebtedness represented by Capitalized Lease Obligations and Purchase Money Indebtedness of the Company and its Restricted Subsidiaries not to exceed the greater of (i) \$2,500,000 and (ii) 5% of Consolidated Tangible Assets of the Company and its Restricted Subsidiaries at any one time outstanding;
- (xii) Refinancing Indebtedness; and
- (xiii) additional Indebtedness of the Company and its Restricted Subsidiaries in an aggregate principal amount not to exceed \$2,500,000 at any one time outstanding (which amount may, but need not, be incurred in whole or in part under the New Credit Facility).

“Permitted Investments” means (i) Investments by the Company or any Restricted Subsidiary of the Company in any Person that is or will become immediately after such Investment a Wholly Owned Restricted Subsidiary of the Company or that will merge or consolidate into the Company or a Wholly Owned Restricted Subsidiary of the Company, (ii) Investments in the Company by any Restricted Subsidiary of the Company; provided that any Indebtedness evidencing such Investment is unsecured and subordinated, pursuant to a written agreement, to the Company’s obligations under the Notes and this Indenture; (iii) investments in cash and Cash Equivalents; (iv) loans and advances to employees and officers of the Company and its Restricted Subsidiaries in the ordinary course of business for bona fide business purposes not in excess of \$500,000 at any one time outstanding; (v) Currency Agreements and Interest Swap Obligations entered into in the ordinary course of the Company’s or its Restricted Subsidiaries’ businesses and otherwise in compliance with this Indenture; (vi) additional Investments not to exceed \$1,000,000 at any one time outstanding; (vii) Investments in securities of trade creditors or customers received pursuant to any workout, compromise, plan of reorganization or similar arrangement upon the bankruptcy or insolvency or financial distress of such trade creditors or customers; (viii) Investments made by the Company or its Restricted Subsidiaries as a result of consideration received in connection with an Asset Sale made in compliance with Section 4.15; and (ix) Investments by the Company or its Restricted Subsidiaries in joint ventures in an aggregate amount not in excess of \$1,000,000 at any time outstanding.

“Permitted Liens” means the following types of Liens:

- (i) Liens for taxes, assessments or governmental charges or claims either (a) not delinquent or (b) contested in good faith by appropriate action and as to which the Company or its Restricted Subsidiaries shall have set aside on its books such reserves, if any, as may be required pursuant to GAAP;
- (ii) statutory Liens of landlords and Liens of carriers, warehousemen, mechanics, suppliers, materialmen, repairmen and other Liens imposed by law incurred in the ordinary course of business for sums not yet delinquent or being contested in good faith, if such reserve or other appropriate provision, if any, as shall be required by GAAP shall have been made in respect thereof;

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- (iii) Liens incurred or deposits made in the ordinary course of business in connection with workers' compensation, unemployment insurance and other types of social security, or to secure the performance of tenders, statutory obligations, surety and appeal bonds, bids, leases, government contracts, performance and return-of-money bonds and other similar obligations (exclusive of obligations for the payment of borrowed money), including any Lien securing letters of credit issued in connection with any of the foregoing;
- (iv) judgment Liens not giving rise to an Event of Default;
- (v) easements, rights-of-way, zoning restrictions and other similar charges or encumbrances in respect of real property not interfering in any material respect with the ordinary conduct of the business of the Company or any of its Restricted Subsidiaries;
- (vi) any interest or title of a lessor under any Capitalized Lease Obligation; provided that such Liens do not extend to any property or asset which is not leased property subject to such Capitalized Lease Obligation;
- (vii) Liens upon specific items of inventory or other goods and proceeds of any Person securing such Person's obligations in respect of bankers' acceptances issued or created for the account of such Person to facilitate the purchase, shipment or storage of such inventory or other goods;
- (viii) Liens securing reimbursement obligations with respect to commercial letters of credit which encumber documents and other property relating to such letters of credit and products and proceeds thereof;
- (ix) Liens encumbering deposits made to secure obligations arising from statutory, regulatory, contractual, or warranty requirements of the Company or any of its Restricted Subsidiaries, including rights of offset and set-off;
- (x) Liens securing Interest Swap Obligations which Interest Swap Obligations relate to Indebtedness that is otherwise permitted under this Indenture;
- (xi) Liens securing Purchase Money Indebtedness permitted pursuant to clause (xi) of the definition of "Permitted Indebtedness"; provided, however, that (A) the Indebtedness shall not exceed the cost of such property or assets and shall not be secured by any property or assets of the Company or any Restricted Subsidiary of the Company other than the property and assets so acquired or constructed and (B) the Lien securing such Indebtedness shall be created within 180 days of such acquisition or construction or, in the case of a refinancing of any Purchase Money Indebtedness, within 180 days of such refinancing; (xii) Liens securing obligations under Currency Agreements;
- (xii) Liens securing obligations under Currency Agreements;

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- (xiii) any lease or sublease not interfering in any material respect with the business of the Company and its Subsidiaries;
- (xiv) Liens with respect to obligations that do not in the aggregate exceed \$1,500,000 at any one time outstanding;
- (xv) Liens in favor of customs and revenue authorities arising as a matter of law to secure payment of custom duties in connection with the importation of goods;
- (xvi) Liens on the assets of a Managed Care Entity pursuant to the applicable rules, or regulations of, or undertakings made to, any regulatory entity having jurisdiction and authority over such Managed Care Entity;
- (xvii) Liens arising under customary provisions in joint venture agreements and other similar agreements; and
- (xviii) Liens securing Acquired Indebtedness incurred in accordance with Section 4.12; provided that (A) such Liens secured such Acquired Indebtedness at the time of and prior to the incurrence of such Acquired Indebtedness by the Company or a Restricted Subsidiary of the Company and were not granted in connection with, or in anticipation of, the incurrence of such Acquired Indebtedness by the Company or a Restricted Subsidiary of the Company and (B) such Liens do not extend to or cover any property or assets of the Company or of any of its Restricted Subsidiaries other than the property or assets that secured the Acquired Indebtedness prior to the time such Indebtedness became Acquired Indebtedness of the Company or a Restricted Subsidiary of the Company and are no more favorable to the lienholders than those securing the Acquired Indebtedness prior to the incurrence of such Acquired Indebtedness by the Company or a Restricted Subsidiary of the Company.

“Person” means an individual, partnership, corporation, unincorporated organization, limited liability company, trust or joint venture, or a governmental agency or political subdivision thereof.

“Physical Notes” has the meaning set forth in Section 2.01.

“plan of liquidation” means, with respect to any Person, a plan (including by operation of law) that provides for, contemplates or the effectuation of which is preceded or accompanied by (whether or not substantially contemporaneously) (a) the sale, lease, conveyance or other disposition of all or substantially all of the assets of such Person otherwise than as an entirety or substantially as an entirety and (b) the distribution of all or substantially all of the proceeds of such sale, lease, conveyance or other disposition and all or substantially all of the remaining assets of such Person to holders of Capital Stock of such Person.

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“Preferred Stock” of any Person means any Capital Stock of such Person that has preferential rights to any other Capital Stock of such Person with respect to dividends or redemptions or upon liquidation.

“principal” of any Indebtedness (including the Notes) means the principal amount of such Indebtedness.

“pro forma” means, with respect to any calculation made or required to be made pursuant to the terms of this Indenture, a calculation in accordance with Article 11 of Regulation S-X under the Securities Act, as determined by the Board of Directors of the Company in consultation with its independent public accountants.

“Purchase Money Indebtedness” means Indebtedness of the Company or its Restricted Subsidiaries incurred for the purpose of financing all or any part of the purchase price or the cost of installation, construction or improvement of property or equipment.

“Qualified Capital Stock” means any Capital Stock that is not Disqualified Capital Stock.

“Qualified Proceeds” means any of the following or any combination of the following: (i) cash, (ii) Cash Equivalents, (iii) assets that are used or usable in the business of the Company and its Subsidiaries as existing on the Effective Date or a business reasonably related or complementary thereto and (iv) Capital Stock of any Person engaged primarily in the business of the Company and its Subsidiaries as existing on the Effective Date or a business reasonably related or complementary thereto if, in connection with the receipt by the Company or any Restricted Subsidiary of the Company of such Capital Stock: (A) such Person becomes a Restricted Subsidiary; or (B) such Person is merged, consolidated or amalgamated with or into, or transfers or conveys substantially all of its assets to, or is liquidated into the Company or any Restricted Subsidiary of the Company.

“Record Date” means the Record Date specified in the Notes.

“Redemption Date” when used with respect to any Note to be fully or partially redeemed, means the date fixed for such redemption pursuant to this Indenture and the Notes.

“redemption price” when used with respect to any Note to be redeemed, means the price fixed for such redemption, including principal, pursuant to this Indenture and the Notes.

“Reference Date” has the meaning set forth in Section 4.10.

“Refinance” means, in respect of any security or Indebtedness, to refinance, extend, renew, refund, repay, prepay, redeem, defease or retire, or to issue a security or Indebtedness in exchange or replacement for, such security or Indebtedness in whole or in part. “Refinanced” and “Refinancing” shall have correlative meanings.

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“Refinancing Indebtedness” means any Refinancing by the Company or any Restricted Subsidiary of the Company of Indebtedness incurred in accordance with Section 4.12 or clauses (i) and (iii) of the definition of Permitted Indebtedness, in each case that does not (1) result in an increase in the aggregate principal amount of Indebtedness of such Person as of the date of such proposed Refinancing (plus the amount of any accrued interest required to be paid under the terms of the instrument governing such Indebtedness and plus the amount of reasonable fees and expenses incurred by the Company in connection with such Refinancing) or (2) create Indebtedness with (A) a Weighted Average Life to Maturity that is less than the Weighted Average Life to Maturity of the Indebtedness being Refinanced or (B) a final maturity earlier than the final maturity of the Indebtedness being Refinanced; provided that (x) if such Indebtedness being Refinanced is Indebtedness of the Company only, then such Refinancing Indebtedness shall be Indebtedness solely of the Company, (y) if such Indebtedness being Refinanced is subordinate or junior to the Notes, then such Refinancing Indebtedness shall be subordinate or junior to the Notes at least to the same extent and in the same manner as the Indebtedness being Refinanced, and (z) if the full amount of such Indebtedness incurred is used to make optional redemptions pursuant to Section 3.03, and such Indebtedness is pari passu with or subordinate to the Notes, such Indebtedness may have a Weighted Average Life to Maturity that is less than the Weighted Average Life to Maturity of the Indebtedness being Refinanced.

“Registrar” has the meaning set forth in Section 2.03.

“Registration Rights Agreement” means the Registration Rights Agreement dated as of the Effective Date among the Company and the 10% Issuers.

“Restricted Payment” shall have the meaning set forth in Section 4.10.

“Restricted Security” has the meaning assigned to such term in Rule 144(a)(3) under the Securities Act; provided, however, that the Trustee shall be entitled to request and conclusively rely on an Opinion of Counsel with respect to whether any Note constitutes a Restricted Security.

“Restricted Subsidiary” of any Person means any Subsidiary of such Person which at the time of determination is not an Unrestricted Subsidiary.

“Restructuring Expenses” means restructuring and reorganization costs, including professional fees, payments under retention and severance plans and programs, payments to settle claims, including claims of landlords under leases, expenses associated with the disposition or closing of facilities, including retail locations, and any other costs and expenses associated with the plans of reorganization described in the Disclosure Statement, including any amounts placed in any claims reserve.

“Sale and Leaseback Transaction” means any direct or indirect arrangement with any Person or to which any such Person is a party, providing for the leasing to the Company or a Restricted Subsidiary of any property, whether owned by the Company or any Restricted Subsidiary at the Effective Date or later acquired, which has been or is to be sold or transferred by the

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Company or such Restricted Subsidiary to such Person or to any other Person from whom funds have been or are to be advanced by such Person on the security of such Property.

“S&P” means Standard & Poor’s Ratings Services, a division of The McGraw Hill Companies, Inc., and its successors.

“Securities Act” means the Securities Act of 1933, as amended, and the rules and regulations of the Commission promulgated thereunder.

“Security” has the meaning set forth in the Granting Clause.

“Significant Subsidiary,” with respect to any Person, means any Restricted Subsidiary of such Person that satisfies the criteria for a “Significant Subsidiary” set forth in Rule 1.02(w) of Regulation S-X under the Exchange Act.

“Subsidiary,” with respect to any Person, means (i) any corporation of which the outstanding Capital Stock having at least a majority of the votes entitled to be cast in the election of directors under ordinary circumstances shall at the time be owned, directly or indirectly, by such Person or (ii) any other Person of which at least a majority of the voting interest under ordinary circumstances is at the time, directly or indirectly, owned by such Person.

“Surviving Entity” shall have the meaning set forth in Section 5.01.

“TIA” means the Trust Indenture Act of 1939 (15 U.S.C. §§ 77aaa-77bbb), as amended, as in effect on the date of this Indenture, except as otherwise provided in Section 9.03.

“Trust Officer” means any officer of the Trustee assigned by the Trustee to administer this Indenture, or in the case of a successor trustee, an officer assigned to the department, division or group performing the corporate trust work of such successor and assigned to administer this Indenture.

“Trustee” means the party named as such in this Indenture until a successor replaces it in accordance with the provisions of this Indenture and thereafter means such successor.

“UCC” means the Uniform Commercial Code, as in effect in New York, as amended.

“Unrestricted Subsidiary” of any Person means (i) any Subsidiary of such Person that at the time of determination shall be or continue to be designated an Unrestricted Subsidiary by the Board of Directors of such Person in the manner provided below and (ii) any Subsidiary of an Unrestricted Subsidiary. The Board of Directors may designate any Subsidiary (including any

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newly acquired or newly formed Subsidiary) to be an Unrestricted Subsidiary unless such Subsidiary owns any Capital Stock of, or owns or holds any Lien on any property of, the Company or any other Subsidiary of the Company that is not a Subsidiary of the Subsidiary to be so designated; provided that (x) the Company certifies to the Trustee that such designation complies with Section 4.10 and (y) each Subsidiary to be so designated and each of its Subsidiaries has not at the time of designation, and does not thereafter, create, incur, issue, assume, guarantee or otherwise become directly or indirectly liable with respect to any Indebtedness pursuant to which the lender has recourse to any of the assets of the Company or any of its Restricted Subsidiaries. The Board of Directors may designate any Unrestricted Subsidiary to be a Restricted Subsidiary only if (x) immediately after giving effect to such designation, the Company is able to incur at least \$1.00 of additional Indebtedness (other than Permitted Indebtedness) in compliance with Section 4.12 and (y) immediately before and immediately after giving effect to such designation, no Default or Event of Default shall have occurred and be continuing. Any such designation by the Board of Directors shall be evidenced to the Trustee by promptly filing with the Trustee a copy of the Board Resolution giving effect to such designation and an Officers' Certificate certifying that such designation complied with the foregoing provisions.

"U.S. Government Obligations" mean direct obligations of, and obligations guaranteed by, the United States of America for the payment of which the full faith and credit of the United States of America is pledged.

"U.S. Legal Tender" means such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of public and private debts.

"Weighted Average Life to Maturity" means, when applied to any Indebtedness at any date, the number of years obtained by dividing (a) the then outstanding aggregate principal amount of such Indebtedness into (b) the sum of the total of the products obtained by multiplying (i) the amount of each then remaining installment, sinking fund, serial maturity or other required payment of principal, including payment at final maturity, in respect thereof, by (ii) the number of years (calculated to the nearest one-twelfth) which will elapse between such date and the making of such payment.

"Wholly Owned Restricted Subsidiary" of any Person means any Restricted Subsidiary of such Person of which all the outstanding voting securities (other than in the case of a foreign Restricted Subsidiary, directors' qualifying shares or an immaterial amount of shares required to be owned by other Persons pursuant to applicable law) are owned by such Person or any Wholly Owned Restricted Subsidiary of such Person.

"Working Capital" means the sum of accounts receivable (net of reserves), inventories, and other current assets (exclusive of cash), less the sum of accounts payable and accrued expenses.

SECTION 1.02 Incorporation by Reference of TIA.

Whenever this Indenture refers to a provision of the TIA, such provision is incorporated by reference in, and made a part of, this Indenture. The following TIA terms used in this Indenture have the following meanings:

“indenture securities” means the Notes.

“indenture security holder” means a Holder.

“indenture to be qualified” means this Indenture.

“indenture trustee” or “institutional trustee” means the Trustee.

“obligor” on the Indenture securities means the Company or any other obligor on the Notes.

All other TIA terms used in this Indenture that are defined by the TIA, defined by TIA reference to another statute or defined by Commission rule and not otherwise defined herein have the meanings assigned to them therein.

SECTION 1.03 Rules of Construction.

Unless the context otherwise requires:

- (1) a term has the meaning assigned to it;
- (2) an accounting term not otherwise defined has the meaning assigned to it in accordance with GAAP as of any date of determination;
- (3) “or” is not exclusive;
- (4) words in the singular include the plural, and words in the plural include the singular;
- (5) “herein,” “hereof” and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or other subdivision; and
- (6) any reference to a statute, law or regulation means that statute, law or regulation as amended and in effect from time to time and includes any successor statute, law or regulation; provided, however, that any reference to the Bankruptcy Law shall mean the Bankruptcy Law as applicable to the relevant case.

ARTICLE TWO

THE NOTES

SECTION 2.01 Form and Dating.

The Notes and the Trustee's certificate of authentication relating thereto shall be substantially in the form of Exhibit A. The Notes may have notations, legends or endorsements required by law, stock exchange rule or depository rule or usage. The Company and the Trustee shall approve the form of the Notes and any notation, legend or endorsement on them. If required, the Notes may bear the appropriate legend regarding any original issue discount for federal income tax purposes. Each Note shall be dated the date of its issuance and shall show the date of its authentication.

The terms and provisions contained in the Note, annexed hereto as Exhibit A, shall constitute, and are hereby expressly made, a part of this Indenture and, to the extent applicable, the Company and the Trustee, by their execution and delivery of this Indenture, expressly agree to such terms and provisions and to be bound thereby.

Notes shall be issued in the form of permanent certificated Notes in definitive registered form in substantially the form set forth in Exhibit A (the "Physical Notes"). The aggregate principal amount of each Note may from time to time be decreased as a result of prepayments of principal pursuant to Sections 3.03 and 3.06 by adjustments made on the records of the Trustee.

SECTION 2.02 **Execution and Authentication; Aggregate Principal Amount**

Two Officers, or an Officer and an Assistant Secretary, shall sign, or one Officer or an Assistant Secretary (each of whom shall, in each case, have been duly authorized by all requisite corporate actions) shall attest to, the Notes for the Company by manual or facsimile signature.

If an Officer or Assistant Secretary whose signature is on a Note was an Officer or Assistant Secretary at the time of such execution but no longer holds that office or position at the time the Trustee authenticates the Note, the Note shall nevertheless be valid.

A Note shall not be valid until an authorized signatory of the Trustee manually signs the certificate of authentication on the Note. The signature shall be conclusive evidence that the Note has been authenticated under this Indenture.

The Trustee shall authenticate Notes for original issue in the aggregate principal amount not to exceed \$120,000,000 upon a written order of the Company in the form of an Officers' Certificate of the Company. Each such written order shall specify the amount of Notes to be authenticated and the date on which the Notes are to be authenticated and such other information

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as the Trustee may reasonably request. The aggregate principal amount of Notes outstanding at any time may not exceed \$120,000,000, except as provided in Sections 2.07 and 2.08.

In the event that the Company shall issue and the Trustee shall authenticate any Notes issued under this Indenture subsequent to the Effective Date pursuant to the first sentence of the immediately preceding paragraph, the Company shall use its reasonable efforts to obtain the same “CUSIP” number for such Notes as is printed on the Notes outstanding at such time; provided, however, that if any series of Notes issued under this Indenture subsequent to the Effective Date is determined, pursuant to an Opinion of Counsel of the Company in a form satisfactory to the Trustee to be a different class of security than the Notes outstanding at such time for federal income tax purposes, the Company may obtain a “CUSIP” number for such Notes that is different than the “CUSIP” number printed on the Notes then outstanding.

Notwithstanding the foregoing, all Notes issued under this Indenture shall vote and consent together on all matters (as to which any of such Notes may vote or consent) as one class and no series of Notes will have the right to vote or consent as a separate class on any matter.

The Trustee may appoint an authenticating agent (the “Authenticating Agent”) reasonably acceptable to the Company to authenticate Notes. Unless otherwise provided in the appointment, an Authenticating Agent may authenticate Notes whenever the Trustee may do so. Each reference in this Indenture to authentication by the Trustee includes authentication by such Authenticating Agent. An Authenticating Agent has the same rights as an Agent to deal with the Company or with any Affiliate of the Company.

The Notes shall be issuable in fully registered form only, without coupons, in denominations of \$1,000 and any integral multiple thereof.

SECTION 2.03 Registrar and Paying Agent.

The Company shall maintain an office or agency (which shall be located in the Borough of Manhattan in the City of New York, State of New York) where (a) Notes may be presented or surrendered for registration of transfer or for exchange (“Registrar”), (b) Notes may be presented or surrendered for payment (“Paying Agent”) and (c) notices and demands to or upon the Company in respect of the Notes and this Indenture may be served. The Company hereby initially designates the office of State Street Bank and Trust Company N.A., 61 Broadway, 15th Floor, New York, New York 10006, Attn: Corporate Trust Division, as its office or agency in the Borough of Manhattan, the City of New York. The Registrar shall keep a register of the Notes and of their transfer and exchange. The Company, upon prior written notice to the Trustee, may have one or more co-Registrars and one or more additional paying agents acceptable to the Trustee. The term “Paying Agent” includes any additional Paying Agent. The Company may act as its own Paying Agent, except that for the purposes of

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payments on the Notes pursuant to Sections 4.14 and 4.15, neither the Company nor any Affiliate of the Company may act as Paying Agent.

The Company shall enter into an appropriate agency agreement with any Agent not a party to this Indenture, which agreement shall incorporate the provisions of the TIA and implement the provisions of this Indenture that relate to such Agent. The Company shall notify the Trustee, in advance, of the name and address of any such Agent. If the Company fails to maintain a Registrar or Paying Agent, or fails to give the foregoing notice, the Trustee shall act as such and shall be entitled to appropriate compensation in accordance with Section 7.07.

The Company initially appoints the Trustee as Registrar, Paying Agent and agent for service of demands and notices in connection with the Notes, until such time as the Trustee has resigned or a successor has been appointed. Any of the Registrar, the Paying Agent or any other agent may resign upon 30 days' notice to the Company.

SECTION 2.04 Paying Agent To Hold Assets in Trust.

The Company shall require each Paying Agent other than the Trustee to agree in writing that, subject to Article Ten, such Paying Agent shall hold in trust for the benefit of the Holders or the Trustee all assets held by the Paying Agent for the payment of principal of or interest on, the Notes (whether such assets have been distributed to it by the Company or any other obligor on the Notes), and the Company and the Paying Agent shall notify the Trustee of any Default by the Company (or any other obligor on the Notes) in making any such payment. The Company at any time may require a Paying Agent to distribute all assets held by it to the Trustee and account for any assets disbursed and the Trustee may at any time during the continuance of any payment Default, upon written request to a Paying Agent, require such Paying Agent to distribute all assets held by it to the Trustee and to account for any assets distributed. Upon distribution to the Trustee of all assets that shall have been delivered by the Company to the Paying Agent, the Paying Agent shall have no further liability for such assets.

SECTION 2.05 Holder Lists.

The Trustee shall preserve in as current a form as is reasonably practicable the most recent list available to it of the names and addresses of the Holders. If the Trustee is not the Registrar, the Company shall furnish or cause the Registrar to furnish to the Trustee five (5) Business Days before each Interest Payment Date and at such other times as the Trustee may request in writing a list as of such date and in such form as the Trustee may require of the names and addresses of the Holders, which list may be conclusively relied upon by the Trustee.

SECTION 2.06 Transfer and Exchange.

When Notes are presented to the Registrar or a co-Registrar with a request to register the transfer of such Notes or to exchange such Notes for an equal principal amount of Notes or other authorized denominations, the Registrar or co-Registrar shall register the transfer or make the exchange as requested if its requirements for such transaction are met; provided, however, that the Notes presented or surrendered for registration of transfer or exchange shall be duly endorsed or accompanied by a written instrument of transfer in form satisfactory to the Company, the Trustee and the Registrar or co-Registrar, duly executed by the Holder thereof or his attorney duly authorized in writing. To permit registration of transfers and exchanges, the Company shall execute and the Trustee shall authenticate Notes. No service charge shall be made for any registration of transfer or exchange, but the Company may require payment of a sum sufficient to cover any transfer tax, fee or similar governmental charge payable in connection therewith (other than any such transfer taxes or similar governmental charge payable upon exchanges or transfers pursuant to Sections 2.10, 3.04, 4.14, 4.15 or 9.05, in which event the Company shall be responsible for the payment of such taxes).

The Registrar or co-Registrar shall not be required to register the transfer of or exchange of any Note (i) during a period beginning at the opening of business 15 days before the mailing of a notice of redemption of Notes and ending at the close of business on the day of such mailing, (ii) selected for redemption in whole or in part pursuant to Article Three, except the unredeemed portion of any Note being redeemed in part or (iii) between a Record Date and the next succeeding Interest Payment Date.

SECTION 2.07 Replacement Notes.

If a mutilated Note is surrendered to the Trustee or if the Holder of a Note claims that the Note has been lost, destroyed or wrongfully taken, the Company shall issue and the Trustee shall authenticate a replacement Note if the Trustee's requirements are met. If required by the Trustee or the Company, such Holder must provide satisfactory evidence of such loss, destruction or taking, and an indemnity bond or other indemnity of reasonable tenor, sufficient in the reasonable judgment of the Company and the Trustee, to protect the Company, the Trustee or any Agent from any loss which any of them may suffer if a Note is replaced. Every replacement Note shall constitute an obligation of the Company. The Company and the Trustee each may charge such Holder for its expenses in replacing such Note.

SECTION 2.08 Outstanding Notes.

Notes outstanding at any time are all the Notes that have been authenticated by the Trustee except those canceled by it, those delivered to it for cancellation and those described in this Section as not outstanding. Subject to the provisions of Section 2.09, a Note does not cease to be outstanding because the Company or any of its Affiliates holds the Note.

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If a Note is replaced pursuant to Section 2.07 (other than a mutilated Note surrendered for replacement), it ceases to be outstanding unless the Trustee receives proof satisfactory to it that the replaced Note is held by a bona fide purchaser. A mutilated Note ceases to be outstanding upon surrender of such Note and replacement thereof pursuant to Section 2.07.

If on a Redemption Date or the Maturity Date the Paying Agent holds U.S. Legal Tender or U.S. Government Obligations sufficient to pay all of the principal and interest due on the Notes payable on that date and is not prohibited from paying such money to the Holders thereof pursuant to the terms of this Indenture, then on and after that date such Notes shall be deemed not to be outstanding and interest on them shall cease to accrue.

SECTION 2.09 Treasury Notes.

In determining whether the Holders of the required principal amount of Notes have concurred in any direction, waiver, consent or notice, Notes owned by the Company or an Affiliate of the Company shall be considered as though they are not outstanding, except that for the purposes of determining whether the Trustee shall be protected in relying on any such direction, waiver or consent, only Notes which a Trust Officer of the Trustee actually knows are so owned shall be so considered. The Company shall notify the Trustee, in writing, when it or, to its knowledge, any of its Affiliates repurchases or otherwise acquires Notes, of the aggregate principal amount of such Notes so repurchased or otherwise acquired and such other information as the Trustee may request and the Trustee shall be entitled to rely thereon.

SECTION 2.10 Temporary Notes.

Until definitive Notes are ready for delivery, the Company may prepare and the Trustee shall authenticate temporary Notes upon receipt of a written order of the Company in the form of an Officers' Certificate. The Officers' Certificate shall specify the amount of temporary Notes to be authenticated and the date on which the temporary Notes are to be authenticated. Temporary Notes shall be substantially in the form of definitive Notes but may have variations that the Company considers appropriate for temporary Notes and so indicate in the Officers' Certificate. Without unreasonable delay, the Company shall prepare and execute and the Trustee shall authenticate, upon receipt of a written order of the Company pursuant to Section 2.02, definitive Notes in exchange for temporary Notes.

SECTION 2.11 Cancellation.

The Company at any time may deliver Notes to the Trustee for cancellation. The Registrar and the Paying Agent shall forward to the Trustee any Notes surrendered to them for transfer, exchange or payment. The Trustee, or at the direction of the Trustee, the Registrar or the Paying Agent, and no one else, shall cancel and, at the written direction of the Company, shall dispose, in its customary manner, of all Notes surrendered for transfer, exchange, payment or cancellation. Subject to Section 2.07, the Company may not issue new Notes to replace Notes that it has paid or delivered to the Trustee for

cancellation. If the Company shall acquire any of the Notes, such acquisition shall not operate as a redemption or satisfaction of the Indebtedness represented by such Notes unless and until the same are surrendered to the Trustee for cancellation pursuant to this Section 2.11.

SECTION 2.12 Defaulted Interest.

The Company shall pay interest on overdue principal and on overdue installments of interest (without regard to any applicable grace periods), to the extent lawful, from time to time on demand at the rate then borne by the Notes plus 2%. Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months, and, in the case of a partial month, the actual number of days elapsed.

If the Company defaults in a payment of interest on the Notes, it shall pay the defaulted amounts, plus (to the extent lawful) any interest payable on the defaulted amounts (collectively, “Default Interest”), to the Persons who are Holders on a subsequent special record date, which special record date shall be the fifteenth day next preceding the date fixed by the Company for the payment of Default Interest or the next succeeding Business Day if such date is not a Business Day. The Company shall notify the Trustee in writing of the amount of Default Interest proposed to be paid on each Note and the date of the proposed payment (a “Default Interest Payment Date”), and at the same time the Company shall deposit with the Trustee an amount of money equal to the aggregate amount proposed to be paid in respect of such Default Interest or shall make arrangements satisfactory to the Trustee for such deposit on or prior to the date of the proposed payment, such money when deposited to be held in trust for the benefit of the Persons entitled to such Default Interest as provided in this Section; provided, however, that in no event shall the Company deposit monies proposed to be paid in respect of Default Interest later than 11:00 a.m. New York City time of the proposed Default Interest Payment Date. At least 15 days before the subsequent special record date, the Company shall mail (or cause to be mailed) to each Holder, as of a recent date selected by the Company, with a copy to the Trustee, a notice that states the subsequent special record date, the payment date and the amount of Default Interest to be paid. Notwithstanding the foregoing, any Default Interest which is paid prior to the expiration of the 30-day period set forth in Section 6.01(a) shall be paid to Holders as of the regular record date for the Interest Payment Date for which interest has not been paid. Notwithstanding the foregoing, the Company may make payment of any Default Interest in any other lawful manner not inconsistent with the requirements of any securities exchange on which the Notes may be listed, and upon such notice as may be required by such exchange.

SECTION 2.13 CUSIP Numbers.

The Company in issuing the Notes may use one or more “CUSIP” numbers, and, if so, the Trustee shall use the CUSIP numbers in notices of redemption or exchange as a convenience to Holders; provided, however, that no representation is

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hereby deemed to be made by the Trustee as to the correctness or accuracy of the CUSIP number printed in the notice or on the Notes, and that reliance may be placed only on the other identification numbers printed on the Notes. The Company shall promptly notify the Trustee of any change in the CUSIP numbers.

SECTION 2.14 Deposit of Monies.

Prior to 11:00 a.m. New York City time on each Interest Payment Date, Maturity Date, Redemption Date and Change of Control Payment Date, the Company shall have deposited with the Paying Agent in immediately available funds money sufficient to make cash payments, if any, due on such Interest Payment Date, Maturity Date, Redemption Date and Change of Control Payment Date, as the case may be, in a timely manner which permits the Paying Agent to remit payment to the Holders on such Interest Payment Date, Maturity Date, Redemption Date and Change of Control Payment Date, as the case may be.

ARTICLE THREE

REDEMPTION

SECTION 3.01 Notices to Trustee.

If the Company elects to redeem Notes pursuant to Paragraph 5 of the Notes and Section 3.03, it shall notify the Trustee and the Paying Agent in writing of the Redemption Date and the principal amount of the Notes to be redeemed.

The Company shall give each notice provided for in this Section 3.01 at least 45 but not more than 90 days before the Redemption Date (unless a shorter notice period shall be satisfactory to the Trustee, as evidenced in a writing signed on behalf of the Trustee), together with an Officers' Certificate stating that such redemption shall comply with the conditions contained herein and in the Notes, the Redemption Date, the redemption price and the principal amount of the Notes to be redeemed.

If the Company is required to make an offer to redeem Notes pursuant to the provisions of Section 4.14 or 4.15 hereof, it shall furnish to the Trustee at least 45 days but not more than 90 days before a Redemption Date (or such shorter period as may be agreed to by the Trustee in writing), an Officers' Certificate setting forth (i) the Section of this Indenture pursuant to which the redemption shall occur, (ii) the Redemption Date, (iii) the principal amount of Notes to be redeemed, (iv) the redemption price and (v) a statement to the effect that (a) the Company or one of its Subsidiaries has effected an Asset Sale and the conditions set forth in Section 4.15 have been satisfied or (b) a Change of Control has occurred and the conditions set forth in Section 4.14 have been satisfied, as applicable.

SECTION 3.02 Selection of Notes To Be Redeemed.

In the event that less than all of the Notes are to be redeemed at any time, selection of such Notes for redemption will be made by the Trustee in compliance with the requirements of the principal national securities exchange, if any, on which such Notes are listed or, if such Notes are not then listed on a national securities exchange, on a pro rata basis; provided, however,

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that no Notes of a principal amount of \$1,000 or less shall be redeemed in part; provided, further, that if a partial redemption is made with the proceeds of an Equity Offering, selection of the Notes or portions thereof for redemption shall be made by the Trustee only on a pro rata basis or on as nearly a pro rata basis as is practicable (subject to DTC procedures), unless such method is otherwise prohibited. Notice of redemption shall be mailed by first-class mail at least 30 but not more than 60 days before the redemption date to each Holder of Notes to be redeemed at its registered address. If any Note is to be redeemed in part only, the notice of redemption that relates to such Note shall state the portion of the principal amount thereof to be redeemed. A new Note in a principal amount equal to the unredeemed portion thereof will be issued in the name of the Holder thereof upon cancellation of the original Note. On and after the redemption date, interest will cease to accrue on Notes or portions thereof called for redemption as long as the Company has deposited with the Paying Agent funds in satisfaction of the applicable redemption price pursuant to this Indenture.

SECTION 3.03 Optional Redemption.

The Notes will be redeemable after the Effective Date, at the Company's option, in whole at any time or in part from time to time, upon not less than 30 nor more than 60 days' notice, at a redemption price equal to 100% of the principal amount thereof, plus, in each case, accrued and unpaid interest thereon, if any, to the date of redemption. If the Company shall consummate an Equity Offering, the proceeds of such offering shall be used to (i) pay (subject to waiver by the Lender) amounts owing under the New Credit Facility and (ii) make principal payments (subject to waiver by the Holders of a majority in aggregate principal amount of the Notes) on the Notes. In order to effect the foregoing redemption with the proceeds of any Equity Offering, the Company shall make such redemption not more than 120 days after the consummation of any such Equity Offering.

SECTION 3.04 Notice of Redemption.

At least 30 days but not more than 60 days before any Redemption Date, the Company shall mail or cause to be mailed a notice of redemption by first class mail to each Holder of Notes to be redeemed at its registered address, with a copy to the Trustee and any Paying Agent. At the Company's request, the Trustee shall give the notice of redemption in the Company's name and at the Company's expense. The Company shall provide such notices of redemption to the Trustee at least ten days before the intended mailing date. In any case, failure to give such notice or any defect in the notice to the holder of any Note shall not affect the validity of the proceeding for the redemption of any other Note.

Each notice of redemption shall identify (including the CUSIP number) the Notes to be redeemed and shall state:

- (1) the Redemption Date;

- (2) the redemption price and the amount of accrued interest, if any, to be paid;
- (3) the name and address of the Paying Agent;
- (4) the subparagraph of the Notes pursuant to which such redemption is being made;
- (5) that Notes called for redemption must be surrendered to the Paying Agent to collect the redemption price plus accrued interest, if any;
- (6) that, unless the Company defaults in making the redemption payment, interest on Notes or applicable portions thereof called for redemption ceases to accrue on and after the Redemption Date, and the only remaining right of the Holders of such Notes is to receive payment of the redemption price plus accrued interest as of the Redemption Date, if any, upon surrender to the Paying Agent of the Notes redeemed;
- (7) if any Note is being redeemed in part, the portion of the principal amount of such Note to be redeemed and that, after the Redemption Date, and upon surrender of such Note, a new Note or Notes in the aggregate principal amount equal to the unredeemed portion thereof will be issued; and
- (8) if fewer than all the Notes are to be redeemed, the identification of the particular Notes (or portion thereof) to be redeemed, as well as the aggregate principal amount of Notes to be redeemed and the aggregate principal amount of Notes to be outstanding after such partial redemption.

No representation is made as to the accuracy of the CUSIP numbers listed in such notice or printed on the Notes.

The Company will comply with the requirements of Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent such laws and regulations are applicable in connection with the purchase of Notes.

SECTION 3.05 Effect of Notice of Redemption.

Once notice of redemption is mailed in accordance with Section 3.04, such notice of redemption shall be irrevocable and Notes called for redemption become due and payable on the Redemption Date and at the redemption price plus accrued interest as of such date, if any. Upon surrender to the Trustee or Paying Agent, such Notes called for redemption shall be paid at the redemption price plus accrued interest thereon to the Redemption Date, but installments of interest, the maturity of which is on or prior to the Redemption Date, shall be payable to Holders of record at the close of business on the relevant record dates referred to in the Notes. Interest shall accrue on or after the Redemption Date and shall be payable only if the Company defaults in payment of the redemption price.

SECTION 3.06 Mandatory Redemption.

The Notes shall be redeemed, in whole or in part, on each February 28 and August 31 (each such date, a “Mandatory Redemption Payment Date”), by payment of 100% of Excess Cash Flow in accordance with the provisions of Section 3.07. “Excess Cash Flow” shall mean Consolidated EBITDA for the fiscal six month period expiring on the last day of each December and June, respectively, prior to each Mandatory Redemption Payment Date (such last day, the “Balance Sheet Date”, provided, however, that the initial “Balance Sheet Date” shall be designated as December 31, 2001 and the initial Mandatory Redemption Payment Date shall be February 28, 2002), plus (to the extent made, incurred or accrued during such six month period) decreases in Working Capital, but less (to the extent made, incurred or accrued during such six month period), without duplication, (i) the items described in clause (ii) of the definition of “Consolidated EBITDA” (exclusive of depreciation and amortization), (ii) expenditures on capital assets, (iii) increases in Working Capital, (iv) payments or prepayments of principal and fees or other amounts under the New Credit Facility, (v) any optional redemption amount paid by the Company pursuant to Section 3.03 since the most recent Mandatory Redemption Payment Date, (vi) payments of Restructuring Expenses, and (vii) any payments made pursuant to Section 4.14; provided, however, that any payment of Excess Cash Flow shall be reduced to the extent necessary so that, after giving effect to such payment, the amount of cash possessed by the Company as of each respective Balance Sheet Date is at least \$3,000,000. Cash possessed by the Company is determined on a consolidated basis in accordance with GAAP. The Company shall provide at least five Business Days notice to the Trustee prior to each Mandatory Redemption Payment Date setting forth the amount, if any, of Excess Cash Flow to be distributed. The Trustee may rely on such notice with respect to the amount of such Excess Cash Flow without further inquiry. If the Trustee does not receive such a notice setting forth an amount of Excess Cash Flow to be distributed prior to any Mandatory Redemption Payment Date, it may assume, without further inquiry, that no mandatory redemption pursuant to this Section 3.06 shall be made for such Mandatory Redemption Payment Date. If, after any Mandatory Redemption Payment Date, it is determined, by audit or otherwise, to record adjustments to the Company’s financial statements as of the related Balance Sheet Date (such adjustments, the “Financial Adjustments”), no adjustment shall be made to the related calculation of Excess Cash Flow, but the calculation of Excess Cash Flow next succeeding the recording of such Financial Adjustments shall be adjusted to give effect to such Financial Adjustments, with the effect that the dollar amount resulting from the calculation of Excess Cash Flow related to such Mandatory Redemption Payment Date plus the dollar amount of such succeeding calculation of Excess Cash Flow shall be equal to the aggregate dollar amount which would have been calculated if the applicable Financial Adjustments had been made as of the initial relevant Balance Sheet Date and not as of such succeeding Balance Sheet Date.

SECTION 3.07 Deposit of Redemption Price.

On or before 11:00 a.m. New York City time on the Redemption Date and in accordance with Section 2.14, the Company shall deposit with the Paying Agent U.S. Legal Tender sufficient to pay the redemption price plus accrued interest, if any, of

all Notes to be redeemed on that date. The Paying Agent shall promptly return to the Company any U.S. Legal Tender so deposited which is not required for that purpose, except with respect to monies owed as obligations to the Trustee pursuant to Article Seven.

Unless the Company fails to comply with the preceding paragraph and defaults in the payment of such redemption price plus accrued interest, if any, interest on the Notes to be redeemed will cease to accrue on and after the applicable Redemption Date, whether or not such Notes are presented for payment.

SECTION 3.08 Notes Redeemed in Part.

Upon surrender of a Note that is to be redeemed in part, the Trustee shall authenticate for the Holder a new Note or Notes equal in principal amount to the unredeemed portion of the Note surrendered.

ARTICLE FOUR

COVENANTS

SECTION 4.01 Payment of Notes.

- (a) The Company shall pay the principal of, Default Interest, if any, and interest on the Notes on the dates and in the manner provided in the Notes and in this Indenture.
- (b) An installment of principal of or interest on the Notes shall be considered paid on the date it is due if the Trustee or Paying Agent (other than the Company or any of its Affiliates) holds, prior to 11:00 a.m. New York City time on that date, U.S. Legal Tender designated for and sufficient to pay the installment in full and is not prohibited from paying such money to the Holders pursuant to the terms of this Indenture or the Notes.
- (c) Notwithstanding anything to the contrary contained in this Indenture, the Company may, to the extent it is required to do so by law, deduct or withhold income or other similar taxes imposed by the United States of America from principal or interest payments hereunder.

SECTION 4.02 Maintenance of Office or Agency.

The Company shall maintain the office or agency required under Section 2.03. The Company shall give prior written notice to the Trustee of the location, and any change in the location, of such office or agency. If at any time the Company shall fail to maintain any such required office or agency or shall fail to furnish the Trustee with the address thereof, such presentations, surrenders, notices and demands may be made or served at the address of the Trustee set forth in Section 11.02.

SECTION 4.03 Corporate Existence.

Except as provided in Article Five, the Company shall do or shall cause to be done all things necessary to preserve and keep in full force and effect its corporate existence and the corporate, partnership or other existence of each of its Restricted Subsidiaries in accordance with the respective organizational documents of the Company and each such Restricted Subsidiary and the rights (charter and statutory) and material franchises of the Company and its Restricted Subsidiaries.

SECTION 4.04 Payment of Taxes and Other Claims.

The Company shall pay or discharge or cause to be paid or discharged, before the same shall become delinquent, (i) all material taxes, assessments and governmental charges (including withholding taxes and any penalties, interest and additions to taxes) levied or imposed upon the Company or any of the Subsidiaries or properties of the Company or any of the Subsidiaries and (ii) all material lawful claims for labor, materials and supplies that, if unpaid, might by law become a Lien upon the property of the Company or any of the Subsidiaries; provided, however, that the Company shall not be required to pay or discharge or cause to be paid or discharged any such tax, assessment, charge or claim whose amount, applicability or validity is being contested in good faith by appropriate negotiations or proceedings properly instituted and diligently conducted for which adequate reserves, to the extent required under GAAP, have been taken.

SECTION 4.05 Maintenance of Properties and Insurance.

- (a) The Company and each of its Subsidiaries shall cause all material properties owned by or leased to it and used or useful in the conduct of its business to be maintained and kept in normal condition, repair and working order and supplied with all necessary equipment and shall cause to be made all necessary repairs, renewals, replacements, betterments and improvements thereof, all as in the judgment of the Company or such Subsidiary may be necessary so that the business carried on in connection therewith may be properly and advantageously conducted at all times; provided, however, that nothing in this Section shall prevent the Company or any of its Subsidiaries from discontinuing the use, operation or maintenance of any of such properties, or disposing of any of them, if such discontinuance or disposal is, in the judgment of the Board of Directors of the Company or of the Board of Directors of the Subsidiary concerned, or of an officer (or other agent employed by the Company or any of its Subsidiaries) of the Company or such Subsidiary having managerial responsibility for any such property, desirable in the conduct of the business of the Company or any of its Subsidiaries.
- (b) The Company and the Subsidiaries shall cause to be provided insurance (including appropriate self-insurance) against loss or damage of the kinds that, in the good faith judgment of the respective Boards of Directors or other governing body or officer or other agent of the Company or such Subsidiaries, as the case may be, are adequate and appropriate for the conduct of the business of the Company or such Subsidiaries, as the case

may be, with reputable insurers or with the government of the United States of America or an agency or instrumentality thereof, in such amounts, with such deductibles, and by such methods as shall be customary, in the good faith judgment of the respective Boards of Directors or other governing body or officer or other agent of the Company or such Subsidiary, as the case may be, for companies similarly situated in the industry.

SECTION 4.06 Compliance Certificate; Notice of Default.

- (a) The Company shall deliver to the Trustee, within 90 days after the end of each of the Company's fiscal years, an Officers' Certificate (signed by the principal executive officer, principal financial officer and/or principal accounting officer) stating that a review of its activities and the activities of its Restricted Subsidiaries during the preceding fiscal year has been made under the supervision of the signing officers with a view to determining whether it has kept, observed, performed and fulfilled its obligations under this Indenture and further stating, as to each such officer signing such certificate, that to the best of such officers' knowledge the Company during such preceding fiscal year has kept, observed, performed and fulfilled each and every such obligation and no Default or Event of Default occurred during such year and at the date of such certificate there is no Default or Event of Default that has occurred and is continuing or, if such signers do know of such Default or Event of Default, the certificate shall describe the Default or Event of Default and its status with particularity. The Officers' Certificate shall also notify the Trustee should the Company elect to change the manner in which it fixes its fiscal year end.
- (b) The annual financial statements delivered pursuant to Section 4.08 shall be accompanied by a written report of the Company's independent certified public accountants (who shall be a firm of established national reputation) stating (A) that their audit examination has included a review of the terms of this Indenture and the form of the Notes as they relate to accounting matters, and (B) whether, in connection with their audit examination, any Default or Event of Default has come to their attention and if such a Default or Event of Default has come to their attention, specifying the nature and period of existence thereof; provided, however, that, without any restriction as to the scope of the audit examination, such independent certified public accountants shall not be liable by reason of any failure to obtain knowledge of any such Default or Event of Default that would not be disclosed in the course of an audit examination conducted in accordance with generally accepted auditing standards.
- (c) So long as any of the Notes are outstanding (i) if any Default or Event of Default has occurred and is continuing or (ii) if any Holder seeks to exercise any remedy hereunder with respect to a claimed Default under this Indenture or the Notes, the Company shall promptly deliver to the Trustee by registered or certified mail or by telegram, telex or facsimile transmission followed by hard copy by registered or certified mail an Officers' Certificate specifying such event, notice or other action promptly of its becoming aware of such occurrence.

SECTION 4.07 Compliance with Laws.

The Company shall comply, and shall cause each of its Subsidiaries to comply, with all applicable statutes, rules, regulations, orders and restrictions of the United States of America, all states and municipalities thereof and of any governmental department, commission, board, regulatory authority, bureau, agency and instrumentality of the foregoing, in respect of the conduct of their respective businesses and the ownership of their respective properties, except for such noncompliances as could not singly or in the aggregate reasonably be expected to have a material adverse effect on the financial condition, business or results of operations of the Company and its Subsidiaries taken as a whole.

SECTION 4.08 Reports to Holders.

The Company shall deliver to the Trustee within 15 days after the filing of the same with the Commission, copies of the quarterly and annual reports and of the information, documents and other reports, if any, which the Company is required to file with the Commission pursuant to Section 13 or 15(d) of the Exchange Act. Notwithstanding that the Company may not be subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act, the Company shall file with the Commission, to the extent permitted, and provide the Trustee and Holders with such annual reports and such information, documents and other reports specified in Sections 13 and 15(d) of the Exchange Act. The Company shall also comply with the other provisions of TIA § 314(a).

SECTION 4.09 Waiver of Stay, Extension or Usury Laws.

The Company covenants (to the extent that it may lawfully do so) that it shall not at any time insist upon, plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay or extension law or any usury law or other law that would prohibit or forgive the Company from paying all or any portion of the principal of or interest on the Notes as contemplated herein, wherever enacted, now or at any time hereafter in force, or which may affect the covenants or the performance of this Indenture; and (to the extent that it may lawfully do so) the Company hereby expressly waives all benefit or advantage of any such law, and covenants that it shall not hinder, delay or impede the execution of any power herein granted to the Trustee, but shall suffer and permit the execution of every such power as though no such law had been enacted.

SECTION 4.10 Limitation on Restricted Payments.

The Company shall not, and shall not cause or permit any of its Restricted Subsidiaries to, directly or indirectly, (a) declare or pay any dividend or make any distribution (other than dividends or distributions payable in Qualified Capital Stock of the Company) on or in respect of shares of the Company's Capital Stock to holders of such Capital Stock, (b) purchase, redeem or otherwise acquire or retire for value any Capital Stock of the Company or any warrants, rights or options to purchase or acquire shares of any class of such Capital Stock, (c) make any principal payment on, purchase, defease, redeem, prepay, decrease or otherwise acquire or retire for value, prior to any scheduled final maturity, scheduled repayment or scheduled sinking fund payment, any Indebtedness of the Company that is subordinate or junior in right of payment to the Notes or (d)

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make any Investment (other than Permitted Investments) (each of the foregoing actions set forth in clauses (a), (b) (c) and (d) being referred to as a “Restricted Payment”), if at the time of such Restricted Payment or immediately after giving effect thereto, (i) a Default or an Event of Default shall have occurred and be continuing or (ii) the Company is not able to incur at least \$1.00 of additional Indebtedness (other than Permitted Indebtedness) in compliance with Section 4.12 or (iii) the aggregate amount of Restricted Payments (including such proposed Restricted Payment) made subsequent to the Effective Date (the amount expended for such purposes, if other than in cash, being the fair market value of such property as determined reasonably and in good faith by the Board of Directors of the Company) shall exceed the sum of: (w) 50% of the cumulative Consolidated Net Income (or if cumulative Consolidated Net Income shall be a loss, minus 100% of such loss) of the Company earned subsequent to the Effective Date and on or prior to the date the Restricted Payment occurs (the “Reference Date”) (treating such period as a single accounting period); plus (x) 100% of the aggregate net cash proceeds received by the Company from any Person (other than a Subsidiary of the Company) from the issuance and sale subsequent to the Effective Date and on or prior to the Reference Date of Qualified Capital Stock of the Company; plus (y) without duplication of any amounts included in clause (iii)(x) above, 100% of the aggregate net cash proceeds of any equity contribution received by the Company from a holder of the Company’s Capital Stock (excluding, in the case of clauses (iii)(x) and (y), any net cash proceeds from an Equity Offering to the extent used to redeem the Notes); plus (z) without duplication, the sum of (1) the aggregate amount returned in cash on or with respect to Investments (other than Permitted Investments) made subsequent to the Effective Date whether through interest payments, principal payments, dividends or other distributions or payments, (2) the net cash proceeds received by the Company or any of its Restricted Subsidiaries from the disposition of all or any portion of such Investments (other than to a Subsidiary of the Company) and (3) upon redesignation of an Unrestricted Subsidiary as a Restricted Subsidiary, the fair market value of such Subsidiary; provided, however, that the sum of clauses (1), (2) and (3) above shall not exceed the aggregate amount of all such Investments made subsequent to the Effective Date.

Notwithstanding the foregoing, the provisions set forth in the immediately preceding paragraph do not prohibit: (1) the payment of any dividend within 60 days after the date of declaration of such dividend if the dividend would have been permitted on the date of declaration; (2) if no Default or Event of Default shall have occurred and be continuing, the acquisition of any shares of Capital Stock of the Company, either (i) solely in exchange for shares of Qualified Capital Stock of the Company or (ii) through the application of net proceeds of a substantially concurrent sale for cash (other than to a Subsidiary of the Company) of shares of Qualified Capital Stock of the Company; (3) if no Default or Event of Default shall have occurred and be continuing, the acquisition of any Indebtedness of the Company that is subordinate or junior in right of payment to the Notes either (i) solely in exchange for shares of Qualified Capital Stock of the Company, or (ii) through the application of net proceeds of a substantially concurrent sale for cash (other than to a Subsidiary of the Company) of (A)

shares of Qualified Capital Stock of the Company or (B) Refinancing Indebtedness; and (4) so long as no Default or Event of Default shall have occurred and be continuing, repurchases by the Company of Common Stock of the Company from employees of the Company or any of its Subsidiaries or their authorized representatives or successors upon the death, disability or termination of employment of such employees, in an aggregate amount not to exceed \$500,000 in any calendar year. In determining the aggregate amount of Restricted Payments made subsequent to the Effective Date in accordance with clause (iii) of the immediately preceding paragraph, amounts expended pursuant to clauses (1), (2)(ii), 3(ii)(A), (4) and (5) shall be included in such calculation.

Not later than the date of making any Restricted Payment, the Company shall deliver to the Trustee an Officers' Certificate stating that such Restricted Payment complies with this Indenture and setting forth in reasonable detail the basis upon which the required calculations were computed, which calculations may be based upon the Company's latest available internal quarterly financial statements.

SECTION 4.11 Limitations on Transactions with Affiliates.

- (a) The Company shall not, and shall not permit any of its Restricted Subsidiaries to, directly or indirectly, enter into or permit to exist any transaction or series of related transactions (including, without limitation, the purchase, sale, lease or exchange of any property or the rendering of any service) with, or for the benefit of, any of its Affiliates (each an "Affiliate Transaction"), other than (x) Affiliate Transactions permitted under paragraph (b) below and (y) Affiliate Transactions on terms that are no less favorable than those that might reasonably have been obtained in a comparable transaction at such time on an arm's-length basis from a Person that is not an Affiliate of the Company or such Restricted Subsidiary. All Affiliate Transactions (and each series of related Affiliate Transactions which are similar or part of a common plan) involving aggregate payments or other property with a fair market value in excess of \$250,000 shall be approved by a majority of non-interested directors of the Board of Directors or a majority of non-interested directors of a committee of the Board of Directors of the Company or such Restricted Subsidiary, as the case may be, such approval to be evidenced by a Board Resolution stating that such majority of non-interested directors of the Board of Directors or such majority of non-interested directors of the committee of the Board of Directors, as the case may be, have determined that such transaction complies with the foregoing provisions. If the Company or any Restricted Subsidiary of the Company enters into an Affiliate Transaction (or a series of related Affiliate Transactions related to a common plan) that involves an aggregate fair market value of more than \$5,000,000, the Company or such Restricted Subsidiary, as the case may be, shall, prior to the consummation thereof, obtain a favorable opinion as to the fairness of such transaction or series of related transactions to the Company or the relevant Restricted Subsidiary, as the case may be, from a financial point of view, from an independent nationally recognized investment banking firm and file the same with the Trustee.
- (b) The restrictions set forth in clause (a) shall not apply to (i) reasonable fees and compensation paid to and indemnity provided on behalf of, officers, directors, employees or consultants of the Company or any Restricted Subsidiary of the Company as determined in good faith by the Company's Board of Directors or a committee thereof or

senior management; (ii) transactions exclusively between or among the Company and any of its Wholly Owned Restricted Subsidiaries or exclusively between or among such Wholly Owned Restricted Subsidiaries, provided such transactions are not otherwise prohibited by this Indenture; (iii) any agreement as in effect as of the Effective Date or any amendment thereto or any transaction contemplated thereby (including pursuant to any amendment thereto) in any replacement agreement thereto so long as any such amendment or replacement agreement is not more disadvantageous to the Holders in any material respect than the original agreement as in effect on the Effective Date; (iv) Restricted Payments permitted by this Indenture; (v) any payment, issuance of securities or other payments, awards or grants, in cash or otherwise, pursuant to, or the funding of, employment arrangements and stock option and stock ownership plans approved by the Board of Directors, or the appropriate committee of the Board of Directors, of the Company; and (vi) loans or advances to officers, directors or employees of the Company or its Restricted Subsidiaries not in excess of \$500,000 at any one time outstanding. —

SECTION 4.12 Limitation on Incurrence of Additional Indebtedness

The Company shall not, and shall not permit any of its Restricted Subsidiaries to, directly or indirectly, create, incur, assume, guarantee, acquire, become liable, contingently or otherwise, with respect to, or otherwise become responsible for payment of (collectively, “incur”) any Indebtedness (other than Permitted Indebtedness); provided, however, that if no Default or Event of Default shall have occurred and be continuing at the time of or as a consequence of the incurrence of any such Indebtedness, the Company may incur Indebtedness (including, without limitation, Acquired Indebtedness) if on the date of the incurrence of such Indebtedness, after giving effect to the incurrence thereof, the Consolidated Fixed Charge Coverage Ratio of the Company is greater than 2.5 to 1.0 if such incurrence is on or prior to March 30, 2003 and 3.0 to 1.0 if such incurrence is thereafter and; provided further, that the no incurrence of Permitted Indebtedness shall be subject to the Consolidated Fixed Charge Coverage Ratio.

For purposes of determining any particular amount of Indebtedness under this Section 4.12, guarantees, Liens or obligations with respect to letters of credit supporting Indebtedness otherwise included in the determination of such particular amount shall not be included.

Indebtedness of any Person which is outstanding at the time such Person becomes a Restricted Subsidiary or is merged with or into or consolidated with the Company or a Restricted Subsidiary shall be deemed to have been incurred at the time such Person becomes a Restricted Subsidiary or is merged with or into or consolidated with the Company or a Restricted Subsidiary, and Indebtedness which is assumed at the time of the acquisition of any asset shall be deemed to have been incurred at the time of such acquisition.

The Company shall not incur any Indebtedness which by its terms (or by the terms of any agreement governing such Indebtedness) is subordinated in right of payment to any other Indebtedness of the Company unless such Indebtedness is also

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by its terms (or by the terms of any agreement governing such Indebtedness) made expressly subordinate in right of payment to the Notes pursuant to subordination provisions that are substantively identical to the subordination provisions of such Indebtedness (or such agreement) that are most favorable to the holders of any other Indebtedness of the Company.

SECTION 4.13 Limitation on Dividend and Other Payment Restrictions Affecting Subsidiaries.

The Company shall not, and shall not cause or permit any of its Restricted Subsidiaries to, directly or indirectly, create or otherwise cause or permit to exist or become effective any encumbrance or restriction on the ability of any Restricted Subsidiary of the Company to (a) pay dividends or make any other distributions on or in respect of its Capital Stock; (b) make loans or advances or to pay any Indebtedness or other obligation owed to the Company or any other Restricted Subsidiary of the Company; or (c) transfer any of its property or assets to the Company or any other Restricted Subsidiary of the Company; except for such encumbrances or restrictions existing under or by reason of: (1) applicable law; (2) this Indenture; (3) any instrument governing Acquired Indebtedness, which encumbrance or restriction is not applicable to any Person, or the properties or assets of any Person, other than the Person or the properties or assets of the Person so acquired; (4) agreements existing on the Effective Date to the extent and in the manner such agreements are in effect on the Effective Date; (5) any security or pledge agreements, leases or options (or similar agreements) containing customary restrictions on transfers of the assets encumbered thereby or leased or subject to option or on the transfer or subletting of the leasehold interest represented thereby to the extent such agreements, leases or options are not otherwise prohibited under this Indenture; (6) restrictions on cash or other deposits or net worth and prohibitions on assignment imposed by leases that are permitted under this Indenture; (7) customary provisions in joint venture agreements and other similar agreements; (8) the New Credit Facility and any instruments issued pursuant thereto; (9) any agreement or instrument governing Capital Stock of any Person that is acquired after the Effective Date; (10) Liens permitted to be incurred pursuant to Section 4.17; (11) any restrictions on a Managed Care Entity pursuant to the applicable rules or regulations of, or undertakings made to, any regulatory entity having jurisdiction and authority over such Managed Care Entity; or (12) an agreement governing Indebtedness incurred to Refinance the Indebtedness issued, assumed or incurred pursuant to an agreement referred to in clauses (2) through (11) above; provided, however, that the provisions relating to such encumbrance or restriction contained in any such Indebtedness are no less favorable to the Company in any material respect as determined by the Board of Directors of the Company in their reasonable and good faith judgment than the provisions relating to such encumbrance or restriction contained in agreements referred to in such clauses (2) through (11).

SECTION 4.14 Change of Control.

- (a) Upon the occurrence of a Change of Control, each Holder shall have the right to require that the Company purchase all or a portion of such Holder's Notes pursuant to the offer

described below (the “Change of Control Offer”), at a purchase price equal to 100% of the principal amount thereof plus accrued and unpaid interest, if any, thereon to the date of purchase.

- (b) Within 30 days following the date upon which the Change of Control occurred, the Company shall send, by first class mail, a notice to each Holder at such Holder’s last registered address, with a copy to the Trustee, which notice shall govern the terms of the Change of Control Offer. The notice to the Holders shall contain all instructions and materials necessary to enable such Holders to tender Notes pursuant to the Change of Control Offer. Such notice shall state:

- (i) that the Change of Control Offer is being made pursuant to this Section 4.14 and that all Notes tendered and not withdrawn shall be accepted for payment;
- (ii) the purchase price (including the amount of accrued interest) and the purchase date (which shall be no earlier than 30 days nor later than 45 days from the date such notice is mailed, other than as may be required by law) (the “Change of Control Payment Date”);
- (iii) that any Note not tendered shall continue to accrue interest;
- (iv) that, unless the Company defaults in making payment therefor, any Note accepted for payment pursuant to the Change of Control Offer shall cease to accrue interest after the Change of Control Payment Date;
- (v) that Holders electing to have a Note purchased pursuant to a Change of Control Offer shall be required to surrender the Note, with the form entitled “Option of Holder to Elect Purchase” on the reverse of the Note completed, to the Paying Agent at the address specified in the notice prior to the close of business on the third Business Day prior to the Change of Control Payment Date;
- (vi) that Holders shall be entitled to withdraw their election if the Paying Agent receives, not later than the second Business Day prior to the Change of Control Payment Date, a telegram, telex, facsimile transmission or letter setting forth the name of the Holder, the principal amount of the Notes the Holder delivered for purchase and a statement that such Holder is withdrawing his election to have such Notes purchased;
- (vii) that Holders whose Notes are purchased only in part shall be issued new Notes in a principal amount equal to the unpurchased portion of the Notes surrendered; provided, however, that each Note purchased and each new Note issued shall be in an original principal amount of \$1,000 or integral multiples thereof; and
- (viii) the circumstances and relevant facts regarding such Change of Control.

On the Change of Control Payment Date, the Company shall, to the extent permitted by law, (i) accept for payment all Notes or portions thereof properly tendered pursuant to the Change of Control Offer, (ii) deposit with the Paying Agent an amount

equal to the aggregate Change of Control Payment in respect of all Notes or portions thereof so tendered and (iii) deliver, or cause to be delivered, to the Trustee for cancellation the Notes so accepted together with an Officers' Certificate stating that such Notes or portions thereof have been tendered to and purchased by the Company. The Paying Agent shall promptly mail to each Holder of Notes the Change of Control Payment for such Notes, and the Trustee shall promptly authenticate and deliver to each Holder new Physical Notes equal in principal amount to any unpurchased portion of the Notes surrendered, if any, provided that each new Physical Note shall be in a principal amount of \$1,000 or an integral multiple thereof. The Company shall notify the Trustee and the Holders of the results of the Change of Control Offer on or as soon as practicable after the Change of Control Payment Date.

Neither the Board of Directors of the Company nor the Trustee may waive the provisions of this Section 4.14 relating to the Company's obligation to make a Change of Control Offer or a Holder's right to redemption upon a Change of Control.

The Company shall comply with the requirements of Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent such laws and regulations are applicable in connection with the repurchase of Notes pursuant to a Change of Control Offer. To the extent that the provisions of any securities laws or regulations conflict with the provisions of this Section 4.14, the Company shall comply with the applicable securities laws and regulations and shall not be deemed to have breached their obligations under the provisions of this Section 4.14 by virtue thereof.

SECTION 4.15 Limitation on Asset Sales.

The Company shall not, and shall not permit any of its Restricted Subsidiaries to, consummate an Asset Sale unless (i) the Company or the applicable Restricted Subsidiary, as the case may be, receives consideration at the time of such Asset Sale at least equal to the fair market value of the assets sold or otherwise disposed of (as determined in good faith by the Company's Board of Directors), (ii) at least 75% of the consideration received by the Company or the Restricted Subsidiary, as the case may be, from such Asset Sale shall be in the form of Qualified Proceeds and shall be received at the time of such disposition; and (iii) upon the consummation of an Asset Sale, the Company shall apply, or cause such Restricted Subsidiary to apply, the Net Cash Proceeds relating to such Asset Sale within 360 days of receipt thereof (A) first to prepay (subject to waiver by the Lender) Indebtedness under the New Credit Facility and (B) then to make (subject to waiver by the Holders of a majority in aggregate principal amount of the Notes) redemptions of principal on the Notes by means of a redemption notice as described in Section 3.04.

In the event of the transfer of substantially all (but not all) of the property and assets of the Company and its Restricted Subsidiaries as an entirety to a Person in a transaction permitted pursuant to Section 5.01, the surviving entity shall be deemed to have sold the properties and assets of the Company and its Restricted Subsidiaries not so transferred for purposes of this

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Section 4.15, and shall comply with the provisions of this Section 4.15 with respect to such deemed sale as if it were an Asset Sale. In addition, the fair market value of such properties and assets of the Company or its Restricted Subsidiaries deemed to be sold shall be for cash in an Asset Sale for purposes of this Section 4.15.

SECTION 4.16 Limitation on Preferred Stock of Restricted Subsidiaries

The Company shall not permit any of its Restricted Subsidiaries to issue any Preferred Stock (other than to the Company or to a Wholly Owned Restricted Subsidiary of the Company) or permit any Person (other than the Company or a Wholly Owned Restricted Subsidiary of the Company) to own any Preferred Stock of any Restricted Subsidiary of the Company.

SECTION 4.17 Limitation on Liens.

The Company shall not, and shall not cause or permit any of its Restricted Subsidiaries to, directly or indirectly, create, incur, assume or permit or suffer to exist any Liens of any kind against or upon any property or assets of the Company or any of its Restricted Subsidiaries whether owned on the Effective Date or acquired after the Effective Date, or any proceeds therefrom, or assign or otherwise convey any right to receive income or profits therefrom unless (i) in the case of Liens securing Indebtedness that is expressly subordinate or junior in right of payment to the Notes, the Notes are secured by a Lien on such property, assets or proceeds that is senior in priority to such Liens and (ii) in all other cases, the Notes are equally and ratably secured, except for (A) Liens existing as of the Effective Date to the extent and in the manner such Liens are in effect on the Effective Date; (B) Liens securing Indebtedness and other obligations under the New Credit Facility; (C) Liens securing the Notes; (D) Liens in favor of the Company or a Wholly Owned Restricted Subsidiary of the Company on assets of any Restricted Subsidiary of the Company; (E) Liens securing Refinancing Indebtedness which is incurred to Refinance any Indebtedness which has been secured by a Lien permitted under this Indenture and which has been incurred in accordance with the provisions of this Indenture; provided, however, that such Liens (I) are no less favorable to the Holders and are not more favorable to the lienholders with respect to such Liens than the Liens in respect of the Indebtedness being Refinanced and (II) do not extend to or cover any property or assets of the Company or any of its Restricted Subsidiaries not securing the Indebtedness so Refinanced; and (F) Permitted Liens.

SECTION 4.18 INTENTIONALLY OMITTED.

SECTION 4.19 DTC and PORTAL Eligibility.

The Company shall use its reasonable efforts to cause the Notes, or a portion thereof, to be registered for book-entry with the Depository Trust Company, its nominee or successors (“DTC”) as soon as is practicable but in any event within 30 days

from the Effective Date. The Trustee shall act as custodian for DTC with respect to the Notes. To the extent that the Notes are eligible for qualification on the PORTAL MARKET, the Company shall use its reasonable efforts to cause the Notes to be so qualified.

SECTION 4.20 Conduct of Business.

The Company and its Restricted Subsidiaries shall not engage in any businesses which are not the same, similar or reasonably related to the businesses in which the Company and its Restricted Subsidiaries are engaged on the Effective Date.

SECTION 4.21 Protection of Security; Acknowledgment of Pledge.

- (a) The Company shall, from time to time, execute and deliver all such supplements and amendments hereto and all such financing statements, continuation statements, instruments of further assurance and other instruments, and shall take such other action necessary or advisable to:
 - (i) maintain or preserve the lien and security interest (and the priority thereof) of this Indenture or carry out more effectively the purposes hereof;
 - (ii) perfect, publish notice of or protect the validity of any Grant made or to be made by this Indenture; or
 - (iii) preserve and defend title to the Security and the several rights of the Trustee and the Holders in the Security (as their several interests appear as set in the Granting Clauses) against the claims of all persons and parties;

and the Company hereby designates the Trustee its agent and attorney-in-fact to execute any financing statement, continuation statement or other instrument required by the Trustee pursuant to this Section 4.21.

- (b) The Company shall not take any action and shall use its best efforts not to permit any action to be taken by others that would release any Person from any of such Person's material covenants or obligations under any instrument or agreement included in the Security or that would result in the amendment, hypothecation, subordination, termination or discharge of, or impair the validity or effectiveness of, any such instrument or agreement, except as expressly provided in this Indenture or such other instrument or agreement.
- (c) The Company shall punctually perform and observe all of its obligations and agreements included in the Security, including but not limited to filing or causing to be filed all UCC financing statements and continuation statements required to be filed by the terms of this Indenture in accordance with and within the time periods provided for herein.
- (d) The Company shall cause to be furnished to the Trustee, promptly after the execution and delivery of this Indenture, and promptly after the execution and delivery of any amendment hereto or any other instrument of further assurance, an Opinion of Counsel stating that, in the

opinion of such counsel, subject to customary exclusions and exceptions reasonably acceptable to the Trustee, either (i) this Indenture has been properly recorded, registered and filed so as to make effective the Lien intended to be created hereby and reciting the details of such action, or (ii) no such action is necessary to make such Lien and assignment effective.

- (e) The Company shall cause to be furnished to the Trustee, on or before each anniversary of the execution of this Indenture, an Opinion of Counsel, dated as of such date, stating that, in the opinion of such counsel, subject to customary exclusions and exceptions reasonably acceptable to the Trustee, either (i) all such action has been taken with respect to the recording, registering, filing, re-recording, re-registering and refilling of the Indenture, all supplemental indentures, financing statements, continuation statements and all other instruments of further assurance as are necessary to maintain the Lien of this Indenture and reciting the details of such action, or (ii) no such action is necessary to maintain such Lien and assignment effective.

ARTICLE FIVE

SUCCESSOR CORPORATION

SECTION 5.01 Merger, Consolidation and Sale of Assets.

- (a) The Company shall not, in a single transaction or series of related transactions, consolidate or merge with or into any Person, or sell, assign, transfer, lease, convey or otherwise dispose of (or cause or permit any Restricted Subsidiary of the Company to sell, assign, transfer, lease, convey or otherwise dispose of) all or substantially all of the Company's assets (determined on a consolidated basis for the Company and the Company's Restricted Subsidiaries) whether as an entirety or substantially as an entirety to any Person unless: (i) either (1) the Company shall be the surviving or continuing corporation or (2) the Person (if other than the Company) formed by such consolidation or into which the Company is merged or the Person which acquires by sale, assignment, transfer, lease, conveyance or other disposition the properties and assets of the Company and of the Company's Restricted Subsidiaries substantially as an entirety (the "Surviving Entity") (x) shall be a corporation organized and validly existing under the laws of the United States or any State thereof or the District of Columbia and (y) shall expressly assume, by supplemental indenture (in form and substance satisfactory to the Trustee), executed and delivered to the Trustee, the due and punctual payment of the principal of and interest on all of the Notes and the performance of every covenant of the Notes, this Indenture and the Registration Rights Agreement on the part of the Company to be performed or observed; (ii) immediately after giving effect to such transaction and the assumption contemplated by clause (i)(2)(y) above (including giving effect to any Indebtedness and Acquired Indebtedness incurred or anticipated to be incurred in connection with or in respect of such transaction), the Company or such Surviving Entity, as the case may be, (1) shall have a Consolidated Net Worth equal to or greater than the Consolidated Net Worth of the Company immediately prior to such transaction and (2) shall be able to incur at least \$1.00 of additional Indebtedness (other than Permitted Indebtedness) pursuant to Section 4.12; (iii) immediately before and immediately after giving

effect to such transaction and the assumption contemplated by clause (i)(2)(y) above (including, without limitation, giving effect to any Indebtedness and Acquired Indebtedness incurred or anticipated to be incurred and any Lien granted in connection with or in respect of the transaction), no Default or Event of Default shall have occurred or be continuing; and (iv) the Company or the Surviving Entity shall have delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that such consolidation, merger, sale, assignment, transfer, lease, conveyance or other disposition and, if a supplemental indenture is required in connection with such transaction, such supplemental indenture comply with the applicable provisions of this Indenture and that all conditions precedent in this Indenture relating to such transaction have been satisfied. Notwithstanding the foregoing clauses (ii) and (iii), (a) any Restricted Subsidiary may consolidate with, merge into or transfer all or part of its properties and assets to the Company or to another Restricted Subsidiary and (b) the Company may merge with or transfer all of its properties and assets to an Affiliate incorporated or formed solely for the purpose of either reincorporating or reforming the Company in another State of the United States so long as the amount of Indebtedness of the Company and its Restricted Subsidiaries is not increased thereby.

- (b) For purposes of this Section 5.01, the transfer (by lease, assignment, sale or otherwise, in a single transaction or series of transactions but excluding the creation of any Lien permitted to be incurred pursuant to Section 4.17) of all or substantially all of the properties or assets of one or more Restricted Subsidiaries of the Company the Capital Stock of which constitutes all or substantially all of the properties and assets of the Company, shall be deemed to be the transfer of all or substantially all of the properties and assets of the Company.
- (c) The creation of a Lien permitted to be incurred pursuant to Section 4.17 shall not constitute a disposition for the purposes of this Section 5.01.

SECTION 5.02 Successor Corporation Substituted.

Upon any consolidation, combination or merger or any transfer of all or substantially all of the assets of the Company in accordance with Section 5.01, in which the Company is not the continuing corporation, the successor Person formed by such consolidation or into which the Company is merged or to which such conveyance, lease or transfer is made shall succeed to, and be substituted for, and may exercise every right and power of, the Company under this Indenture and the Notes with the same effect as if such surviving entity had been named as such.

ARTICLE SIX

REMEDIES

SECTION 6.01 Events of Default.

An "Event of Default" means any of the following events:

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- (a) the failure to pay interest on any Notes when the same becomes due and payable and the default continues for a period of 30 days (whether or not such payment shall be prohibited by Article Ten of this Indenture);
- (b) the failure to pay the principal on any Notes, when such principal becomes due and payable, at maturity, upon redemption or otherwise (including the failure to make a payment to purchase Notes tendered pursuant to a Change of Control Offer or the failure to make a mandatory redemption pursuant to Section 3.06) (whether or not such payment shall be prohibited by Article Ten of this Indenture);
- (c) a default in the observance or performance of any other covenant or agreement contained in this Indenture which default continues for a period of 30 days after the Company receives written notice specifying the default (and demanding that such default be remedied) from the Trustee or the Holders of at least 25% of the outstanding principal amount of the Notes (except in the case of a default with respect to Section 5.01, which shall constitute an Event of Default with such notice requirement but without such passage of time requirement);
- (d) the failure to pay at final maturity (giving effect to any applicable grace periods and any extensions thereof) the principal amount of any Indebtedness of the Company or any Restricted Subsidiary of the Company, or the acceleration of the final stated maturity of any such Indebtedness (which acceleration is not rescinded, annulled or otherwise cured within 20 days of receipt by the Company or such Restricted Subsidiary of notice of any such acceleration) if the aggregate principal amount of such Indebtedness, together with the principal amount of any other such Indebtedness in default for failure to pay principal at final maturity or which has been accelerated, aggregates \$5,000,000 or more at any time;
- (e) one or more judgments in an aggregate amount in excess of \$5,000,000 shall have been rendered against the Company or any of its Restricted Subsidiaries and such judgments remain undischarged, unpaid or unstayed for a period of 60 days after such judgment or judgments become final and non-appealable;
- (f) the Company or any of its Significant Subsidiaries pursuant to or under or within the meaning of any Bankruptcy Law:
 - (i) commences a voluntary case or proceeding;
 - (ii) consents to the entry of an order for relief against it in an involuntary case or proceeding;
 - (iii) consents to the appointment of a Custodian of it or for all or substantially all of its property;
 - (iv) makes a general assignment for the benefit of its creditors; or
 - (v) shall generally not pay its debts when such debts become due or shall admit in writing its inability to pay its debts generally; or

(g) a court of competent jurisdiction enters an order or decree under any Bankruptcy Law that:

- (i) is for relief against the Company or any of its Significant Subsidiaries in an involuntary case or proceeding,
- (ii) appoints a Custodian of the Company or any of its Significant Subsidiaries for all or substantially all of their properties taken as a whole, or
- (iii) orders the liquidation of the Company or any of its Significant Subsidiaries,

and in each case the order or decree remains unstayed and in effect for 60 days.

SECTION 6.02 Acceleration.

If an Event of Default (other than an Event of Default specified in Section 6.01 (f) or (g) relating to the Company) shall occur and be continuing, the Trustee or the Holders of at least 25% in principal amount of outstanding Notes may declare the principal of and accrued interest on all the Notes to be due and payable by notice in writing to the Company and the Trustee specifying the respective Event of Default and that it is a declaration of acceleration, and the same shall become immediately due and payable. If an Event of Default specified in Section 6.01 (f) or (g) with respect to the Company occurs and is continuing, then all unpaid principal of and accrued and unpaid interest on all of the outstanding Notes shall ipso facto become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Holder.

At any time after a declaration of acceleration with respect to the Notes as described in the preceding paragraph, the Holders of a majority in principal amount of the Notes may rescind and cancel such declaration and its consequences (a) if the rescission would not conflict with any judgment or decree, (b) if all existing Events of Default have been cured or waived except nonpayment of principal or interest that has become due solely because of the acceleration, (c) to the extent the payment of such interest is lawful, interest on overdue installments of interest and overdue principal, which has become due otherwise than by such declaration of acceleration, has been paid, (d) if the Company has paid the Trustee its reasonable compensation and reimbursed the Trustee for its expenses, disbursements and advances and (e) in the event of the cure or waiver of an Event of Default of the type described in Section 6.01, the Trustee shall have received an Officers' Certificate and an Opinion of Counsel that such Event of Default has been cured or waived. No such rescission shall affect any subsequent Default or impair any right consequent thereto.

SECTION 6.03 Other Remedies.

- (a) If an Event of Default occurs and is continuing, the Trustee may pursue any available remedy by proceeding at law or in equity to collect the payment of the principal of or

interest on the Notes or to enforce the performance of any provision of the Notes or this Indenture.

- (b) All rights of action and claims under this Indenture or the Notes may be enforced by the Trustee even if it does not possess any of the Notes or does not produce any of them in the proceeding. A delay or omission by the Trustee or any Holder in exercising any right or remedy accruing upon an Event of Default shall not impair the right or remedy or constitute a waiver of or acquiescence in the Event of Default. No remedy is exclusive of any other remedy. All available remedies are cumulative to the extent permitted by law.]

SECTION 6.04 Waiver of Past Defaults.

Prior to the acceleration of the Notes, the Holders of a majority in aggregate principal amount of the Notes then outstanding by notice to the Trustee may, on behalf of the Holders of all the Notes, waive any existing Default or Event of Default and its consequences under this Indenture, except a Default or Event of Default specified in Section 6.01(a) or (b) or in respect of any provision hereof which cannot be modified or amended without the consent of the Holder so affected pursuant to Section 9.02. When a Default or Event of Default is so waived, it shall be deemed cured and shall cease to exist. This Section 6.04 shall be in lieu of § 316(a)(1)(B) of the TIA and such § 316(a)(1)(B) of the TIA is hereby expressly excluded from this Indenture and the Notes, as permitted by the TIA.

SECTION 6.05 Control by Majority.

Holders of the Notes may not enforce this Indenture or the Notes except as provided in this Article Six and under the TIA. The Holders of a majority in aggregate principal amount of the then outstanding Notes have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee, provided, however, that the Trustee may refuse to follow any direction (a) that conflicts with any rule of law or this Indenture, (b) that the Trustee, in its sole discretion, determines may be unduly prejudicial to the rights of another Holder (it being understood that the Trustee shall have no duty to ascertain whether or not such actions or forbearances are unduly prejudicial to such Holders), or (c) that may expose the Trustee to personal liability for which adequate indemnity provided to the Trustee against such liability is not reasonably assured to it; provided, further, however, that the Trustee may take any other action deemed proper by the Trustee that is not inconsistent with such direction or this Indenture. This Section 6.05 shall be in lieu of § 316(a)(1)(A) of the TIA, and such § 316(a)(1)(A) of the TIA is hereby expressly excluded from this Indenture and the Notes, as permitted by the TIA.

SECTION 6.06 Limitation on Suits.

No Holder of any Notes shall have any right to institute any proceeding with respect to this Indenture or the Notes or any remedy hereunder, unless the Holders of at least 25% in aggregate principal amount of the outstanding Notes have made written request, and offered reasonable indemnity, to the Trustee to institute such proceeding as Trustee under the Notes and

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this Indenture, the Trustee has failed to institute such proceeding within 30 days after receipt of such notice, request and offer of indemnity and the Trustee, within such 30-day period, has not received directions inconsistent with such written request by Holders of a majority in aggregate principal amount of the outstanding Notes.

The foregoing limitations shall not apply to a suit instituted by a Holder of a Note for the enforcement of the payment of the principal of or interest on such Note on or after the respective due dates expressed or provided for in such Note.

A Holder may not use this Indenture to prejudice the rights of any other Holders or to obtain priority or preference over such other Holders.

SECTION 6.07 Right of Holders To Receive Payment.

Notwithstanding any other provision in this Indenture, the right of any Holder of a Note to receive payment of the principal of and interest on such Note, on or after the respective due dates expressed or provided for in such Note, or to bring suit for the enforcement of any such payment on or after the respective due dates, is absolute and unconditional and shall not be impaired or affected without the consent of the Holder.

SECTION 6.08 Collection Suit by Trustee.

If an Event of Default specified in paragraph (a) or (b) of Section 6.01 occurs and is continuing, the Trustee may recover judgment in its own name and as trustee of an express trust against the Company, or any other obligor on the Notes for the whole amount of the principal of and accrued interest remaining unpaid, together with interest on overdue principal and interest on overdue installments of interest, to the extent lawful, in each case at the rate per annum provided for by the Notes and such further amount as shall be sufficient to cover the costs and expenses of collection, including the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel and any other amounts due the Trustee pursuant to the provisions of Section 7.07.

SECTION 6.09 Trustee May File Proofs of Claim.

The Trustee may file such proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Trustee (including any claim for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents, counsel, accountants and experts) and the Holders allowed in any judicial proceedings relative to the Company (or any other obligor upon the Notes), its creditors or its property and shall be entitled and empowered to collect and receive any monies or other property payable or deliverable on any such claims and to distribute the same, and any Custodian in any such judicial proceedings is hereby authorized by each Holder to make such payments to the Trustee and, in the event that the Trustee shall consent to the making of such payments directly to the Holders, to pay to the Trustee any

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amount due to it for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agent and counsel, and any other amounts due the Trustee under Section 7.07. Nothing herein contained shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Holder any plan of reorganization, arrangement, adjustment or composition affecting the Notes or the rights of any Holder thereof, or to authorize the Trustee to vote in respect of the claim of any Holder in any such proceeding.

SECTION 6.10 Priorities.

If the Trustee collects any money pursuant to this Article Six it shall pay out such money in the following order:

First: to the Trustee, its agents and attorneys for amounts due under Section 7.07, including payment of all compensation, expense and liabilities incurred, and all advances made, by the Trustee and the cost and expenses of collection;

Second: to Holders for interest accrued on the Notes, ratably, without preference or priority of any kind, according to the amounts due and payable on the Notes for interest;

Third: to Holders for the principal amounts owing under the Notes, ratably, without preference or priority of any kind, according to the amounts due and payable on the Notes for the principal; and

Fourth: the balance, if any, to the Company.

The Trustee, upon prior written notice to the Company, may fix a record date and payment date for any payment to Holders pursuant to this Section 6.10.

SECTION 6.11 Undertaking for Costs.

In any suit for the enforcement of any right or remedy under this Indenture or in any suit against the Trustee for any action taken or omitted by it as Trustee, a court may in its discretion require the filing by any party litigant in the suit of an undertaking to pay the costs of the suit, and the court in its discretion may assess reasonable costs, including reasonable attorneys' fees, against any party litigant in the suit, having due regard to the merits and good faith of the claims or defenses made by the party litigant. This Section 6.11 does not apply to any suit by the Trustee, any suit by a Holder pursuant to Section 6.07, or a suit by a Holder or Holders of more than 10% in aggregate principal amount of the outstanding Notes.

ARTICLE SEVEN

TRUSTEE

SECTION 7.01 Duties of Trustee.

- (a) If an Event of Default has occurred and is continuing, the Trustee shall exercise such of the rights and powers vested in it by this Indenture and use the same degree of care and skill in its exercise thereof as a prudent person would exercise or use under the circumstances in the conduct of his own affairs.
- (b) Except during the continuance of an Event of Default:
 - (1) The Trustee need perform only those duties as are specifically set forth in this Indenture and no covenants or obligations shall be implied in this Indenture that are adverse to the Trustee.
 - (2) The Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Trustee and conforming to the requirements of this Indenture. However, in the case of any such certificates or opinions that by any provision hereof are specifically required to be furnished to the Trustee, the Trustee shall examine the certificates and opinions to determine whether or not they conform to the requirements of this Indenture, but need not verify the contents thereof.
- (c) Notwithstanding anything to the contrary herein contained, the Trustee may not be relieved from liability for its own negligent action, its own negligent failure to act, or its own willful misconduct, except that:
 - (1) This paragraph does not limit the effect of paragraph (b) of this Section 7.01.
 - (2) The Trustee shall not be liable for any error of judgment made in good faith by a Trust Officer, unless it is proved that the Trustee was negligent in ascertaining the pertinent facts.
 - (3) The Trustee shall not be liable with respect to any action it takes or omits to take in good faith in accordance with a direction received by it pursuant to Section 6.02, 6.04 or 6.05.
- (d) No provision of this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder or in the exercise of any of its rights or powers if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

- (e) Every provision of this Indenture that in any way relates to the Trustee is subject to paragraphs (a), (b), (c), (d), and (f) of this Section 7.01 and Section 7.02.
- (f) The Trustee shall not be liable for interest on any money or assets received by it except as the Trustee may agree in writing with the Company. Assets held in trust by the Trustee need not be segregated from other assets except to the extent required by law.

SECTION 7.02 Rights of Trustee.

Subject to Section 7.01:

- (a) The Trustee may rely and shall be fully protected in acting or refraining from acting upon any document believed by it to be genuine and to have been signed or presented by the proper Person. The Trustee need not investigate any fact or matter stated in the document.
- (b) Before the Trustee acts or refrains from acting, it may consult with counsel of its selection and may require an Officers' Certificate or an Opinion of Counsel, which shall conform to Sections 11.04 and 11.05. The Trustee shall not be liable for any action it takes or omits to take in good faith in reliance on such Officers' Certificate or Opinion of Counsel. The Trustee may consult with counsel and the written advice of such counsel or any Opinion of Counsel shall be full and complete authorization and protection from liability in respect to any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon.
- (c) The Trustee may act through its attorneys and agents and shall not be responsible for the misconduct or negligence of any agent appointed with due care.
- (d) The Trustee shall not be liable for any action that it takes or omits to take in good faith which it reasonably believes to be authorized or within its rights or powers.
- (e) The Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, notice, request, direction, consent, order, bond, debenture, or other paper or document, but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Trustee shall determine to make such further inquiry or investigation, it shall be entitled, upon reasonable notice to the Company, to examine the books, records, and premises of the Company, personally or by agent or attorney and to consult with the officers and representatives of the Company, including the Company's accountants and attorneys.
- (f) The Trustee shall be under no obligation to exercise any of its rights or powers vested in it by this Indenture at the request, order or direction of any of the Holders pursuant to the provisions of this Indenture, unless such Holders have offered to the Trustee reasonable

indemnity satisfactory to the Trustee against the costs, expenses and liabilities which may be incurred by it in compliance with such request, order or direction.

- (g) The Trustee shall not be required to give any bond or surety in respect of the performance of its powers and duties hereunder.
- (h) Delivery of reports, information and documents to the Trustee under Section 4.08 is for informational purposes only and the Trustee's receipt of the foregoing shall not constitute constructive notice of any information contained therein or determinable from information contained therein, including the Company's compliance with any of their covenants hereunder (as to which the Trustee is entitled to rely exclusively on Officers' Certificates).

SECTION 7.03 Individual Rights of Trustee.

The Trustee in its individual or any other capacity may become the owner or pledgee of Notes and may otherwise deal with the Company, or any of its Subsidiaries, or their respective Affiliates with the same rights it would have if it were not Trustee. Any Agent may do the same with like rights. However, the Trustee must comply with Sections 7.10 and 7.11.

SECTION 7.04 Trustee's Disclaimer.

The Trustee makes no representation as to the validity or adequacy of this Indenture or the Notes, and it shall not be accountable for the Company's use of the proceeds from the Notes, it shall not be responsible for the use or application of any money received by any Paying Agent other than the Trustee, and it shall not be responsible for any statement of the Company in this Indenture or the Notes other than the Trustee's certificate of authentication.

SECTION 7.05 Notice of Default.

If a Default or an Event of Default occurs and is continuing and if it is known to a Trust Officer, the Trustee shall mail to each Holder notice of the uncured Default or Event of Default within 90 days after obtaining knowledge thereof. Except in the case of a Default or an Event of Default in payment of principal of, or interest on, any Note, including an accelerated payment, a Default in payment on the Change of Control Payment Date pursuant to a Change of Control Offer and a Default in compliance with Article Five hereof, the Trustee may withhold the notice if and so long as its Board of Directors, the executive committee of its Board of Directors or a committee of its directors and/or Trust Officers in good faith determines that withholding the notice is in the interest of the Holders. The foregoing sentence of this Section 7.05 shall be in lieu of the proviso to § 315(b) of the TIA and such proviso to § 315(b) of the TIA is hereby expressly excluded from this Indenture and the Notes, as permitted by the TIA.

SECTION 7.06 Reports by Trustee to Holders.

Within 60 days after May 15 of each year beginning with 2002, the Trustee shall, to the extent that any of the events described in TIA § 313(a) occurred within the previous twelve months, but not otherwise, mail to each Holder a brief report dated as of such date that complies with TIA § 313(a). The Trustee also shall comply with TIA §§ 313(b), (c) and (d).

A copy of each report at the time of its mailing to Holders shall be mailed to the Company and filed with the Commission and each stock exchange, if any, on which the Notes are listed.

The Company shall promptly notify the Trustee if the Notes become listed on any stock exchange and the Trustee shall comply with TIA § 313(d).

SECTION 7.07 Compensation and Indemnity.

The Company shall pay to the Trustee from time to time such compensation for its services as has been agreed to in writing signed by the Company and the Trustee. The Trustee's compensation shall not be limited by any law on compensation of a trustee of an express trust. The Company shall reimburse the Trustee upon request for all reasonable out-of-pocket expenses incurred or made by it in connection with the performance of its duties under this Indenture. Such expenses shall include the reasonable fees and expenses of the Trustee's agents, counsel, accountants and experts.

The Company shall indemnify each of the Trustee (or any predecessor Trustee) and its agents, employees, stockholders, Affiliates and directors and officers for, and hold them each harmless against, any and all loss, liability, damage, claim or expense (including reasonable fees and expenses of counsel), including taxes (other than taxes based on the income of the Trustee) incurred by them except for such actions to the extent caused by any negligence or willful misconduct on their part, arising out of or in connection with the acceptance or administration of this trust including the reasonable costs and expenses of defending themselves against any claim or liability in connection with the exercise or performance of any of their rights, powers or duties hereunder. The Trustee shall notify the Company promptly of any claim asserted against the Trustee for which it may seek indemnity. Failure by the Trustee to so notify the Company shall not relieve the Company of its Obligations hereunder except to the extent such failure shall have prejudiced the Company. The Company shall have the right upon written notice to the Trustee, to assume, at its own expense, the defense of such claim, including the employment of counsel reasonably satisfactory to the Trustee; provided, however, that any settlement of a claim shall be approved in writing by the Trustee if such settlement would result in an admission of liability by the Trustee or if such settlement would not be accompanied by a full release of the Trustee for all liability arising out of the events giving rise to such claim. If, however, the

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Company declines or fails to assume the defense, or to employee counsel reasonably satisfactory to the Trustee, in either case in a timely manner, then the Trustee may employ separate counsel of its own choosing and the Company shall pay the reasonable fees and expenses of such counsel.

To secure the Company's payment obligations in this Section 7.07, the Trustee shall have a lien prior to the Notes on all assets or money held or collected by the Trustee, in its capacity as Trustee. The obligations of the Company under this Section shall not be subordinated to the payment of amounts due under the New Credit Facility pursuant to Article Ten except assets or money held in trust to pay principal of or interest on particular Notes.

When the Trustee incurs expenses or renders services after an Event of Default specified in Section 6.01 (f) or (g) occurs, such expenses and the compensation for such services are intended to constitute expenses of administration under any Bankruptcy Law.

The provisions of this Section 7.07 shall survive the termination of this Indenture.

SECTION 7.08 Replacement of Trustee.

The Trustee may resign at any time by so notifying the Company. The Holders of a majority in principal amount of the outstanding Notes may remove the Trustee and appoint a successor Trustee with the Company's consent, by so notifying the Company and the Trustee. The Company may remove the Trustee if:

- (1) the Trustee fails to comply with Section 7.10;
- (2) the Trustee is adjudged bankrupt or insolvent;
- (3) a receiver or other public officer takes charge of the Trustee or its property; or
- (4) the Trustee becomes incapable of performing its obligations under this Indenture.

If the Trustee resigns or is removed or if a vacancy exists in the office of Trustee for any reason, the Company shall notify each Holder of such event and shall promptly appoint a successor Trustee. Within one year after the successor Trustee takes office, the Holders of a majority in aggregate principal amount of the outstanding Notes may appoint a successor Trustee to replace the successor Trustee appointed by the Company.

A successor Trustee shall deliver a written acceptance of its appointment to the retiring Trustee and to the Company. Immediately after that, the retiring Trustee shall transfer all property held by it as Trustee to the successor Trustee, subject to the lien provided in Section 7.07, the resignation or removal of the retiring Trustee shall become effective, and the successor Trustee shall have all the rights, powers and duties of the Trustee under this Indenture. The Company shall mail notice of such successor Trustee's appointment to each Holder.

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If a successor Trustee does not take office within 30 days after the retiring Trustee resigns or is removed, the retiring Trustee, the Company or the Holders of at least 10% in aggregate principal amount of the outstanding Notes may petition any court of competent jurisdiction for the appointment of a successor Trustee.

If the Trustee fails to comply with Section 7.10, any Holder may petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor Trustee.

Notwithstanding any resignation or replacement of the Trustee pursuant to this Section 7.08, the Company's obligations under Section 7.07 shall continue for the benefit of the retiring Trustee.

SECTION 7.09 Successor Trustee by Merger, Etc.

If the Trustee consolidates with, merges or converts into, or transfers all or substantially all of its corporate trust business to, another corporation, the resulting, surviving or transferee corporation without any further act shall, if such resulting, surviving or transferee corporation is otherwise eligible hereunder, be the successor Trustee; provided, however, that such corporation shall be otherwise qualified and eligible under this Article Seven.

SECTION 7.10 Eligibility; Disqualification.

This Indenture shall always have a Trustee who satisfies the requirement of TIA §§ 310(a)(1), (2) and (5). The Trustee (or, in the case of a Trustee that is a subsidiary of another bank or a corporation included in a bank holding company system, the related bank or bank holding company) shall have a combined capital and surplus of at least \$100,000,000 as set forth in its most recent published annual report of condition, and have (or one of its Affiliates shall have) a corporate trust office in the City of New York. In addition, if the Trustee is a subsidiary of another bank or a corporation included in a bank holding company system, the Trustee, independently of such bank or bank holding company, shall meet the capital requirements of TIA § 310(a)(2). The Trustee shall comply with TIA § 310(b); provided, however, that there shall be excluded from the operation of TIA § 310(b)(1) any indenture or indentures under which other securities, or certificates of interest or participation in other securities, of the Company are outstanding, if the requirements for such exclusion set forth in TIA § 310(b)(1) are met. The provisions of TIA § 310 shall apply to the Company, as obligor of the Notes.

SECTION 7.11 Preferential Collection of Claims Against Company

The Trustee shall comply with TIA § 311(a), excluding any creditor relationship listed in TIA § 311(b). A Trustee who has resigned or been removed shall be subject to TIA § 311(a) to the extent indicated therein.

ARTICLE EIGHT

DISCHARGE OF INDENTURE; DEFEASANCE

SECTION 8.01 Termination of Company's Obligations.

This Indenture shall be discharged and shall cease to be of further effect (except as to surviving rights or registration of transfer or exchange of the Notes, as expressly provided for in this Indenture) as to all outstanding Notes when (a) either (i) all Notes, theretofore authenticated and delivered (except lost, stolen or destroyed Notes which have been replaced or paid and Notes for whose payment money has theretofore been deposited in trust or segregated and held in trust by the Company and thereafter repaid to the Company or discharged from such trust) have been delivered to the Trustee for cancellation or (ii) all Notes not theretofore delivered to the Trustee for cancellation have become due and payable and the Company has irrevocably deposited or caused to be deposited with the Trustee funds in an amount sufficient to pay and discharge the entire Indebtedness on the Notes not theretofore delivered to the Trustee for cancellation, for principal of and interest on the Notes to the date of deposit together with irrevocable instructions from the Company directing the Trustee to apply such funds to the payment thereof at maturity or redemption, as the case may be; provided that from and after the time of deposit, the money deposited shall not be subject to the rights of the Lender pursuant to the provisions of Article Ten; (b) the Company has paid all other sums payable under this Indenture by the Company; and (c) the Company has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel stating that all conditions precedent under this Indenture relating to the satisfaction and discharge of this Indenture have been complied with; provided, however, that such counsel may rely, as to matters of fact, on an Officers' Certificate of the Company.

The Company may, at its option and at any time, elect to have its obligations discharged with respect to the outstanding Notes ("Legal Defeasance"). Such Legal Defeasance means that the Company shall be deemed to have paid and discharged the entire indebtedness represented by the outstanding Notes and Holders and any amounts deposited under this Section 8.01, shall cease to be subject to any obligations to, or the rights of, the Lender under Article Ten once such deposit has been made, except for (a) the rights of Holders to receive payments in respect of the principal of and interest on the Notes when such payments are due, (b) the Company's obligations with respect to the Notes concerning issuing temporary Notes, registration of Notes, mutilated, destroyed, lost or stolen Notes and the maintenance of an office or agency for payments, (c) the rights, powers, trust, duties and immunities of the Trustee and the Company's obligations in connection therewith and (d) the Legal Defeasance provisions of this Section 8.01. In addition, the Company may, at its option and at any time, elect to have the obligations of the Company released with respect to covenants contained in Sections 4.04, 4.05, 4.08 and 4.10 through 4.20 and Article Five ("Covenant Defeasance") and Holders and any amounts deposited under this Section 8.01, shall cease to be subject to any obligations to, or the rights of, the Lender under Article Ten once such deposit has been made, and thereafter any omission to comply with such obligations shall not constitute a Default or Event of Default with

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respect to the Notes. In the event of Covenant Defeasance, those events described under Section 6.01 (except those events described in Section 6.01(a), (b), (f) and (g)) shall no longer constitute an Event of Default with respect to the Notes.

In order to exercise either Legal Defeasance or Covenant Defeasance:

- (a) the Company must irrevocably deposit with the Trustee, in trust, for the benefit of the Holders cash in United States dollars, non-callable U.S. Government Obligations, or a combination thereof, in such amounts as shall be sufficient, in the opinion of a nationally recognized firm of independent public accountants, to pay the principal of and interest on the Notes on the stated date for payment thereof or on the applicable Redemption Date, as the case may be;
- (b) in the case of Legal Defeasance, the Company shall have delivered to the Trustee an Opinion of Counsel in the United States reasonably acceptable to the Trustee (which may be counsel to the Company) confirming that (i) the Company has received from, or there has been published by, the Internal Revenue Service a ruling or (ii) since the date of this Indenture, there has been a change in the applicable federal income tax law, in either case to the effect that, and based thereon such Opinion of Counsel shall confirm that, the Holders shall not recognize income, gain or loss for federal income tax purposes as a result of such Legal Defeasance and shall be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Legal Defeasance had not occurred;
- (c) in the case of Covenant Defeasance, the Company shall have delivered to the Trustee an Opinion of Counsel in the United States reasonably acceptable to the Trustee (which may be counsel to the Company) confirming that the Holders shall not recognize income, gain or loss for federal income tax purposes as a result of such Covenant Defeasance and shall be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Covenant Defeasance had not occurred;
- (d) no Default or Event of Default shall have occurred and be continuing on the date of such deposit (other than a Default or Event of Default with respect to the Indenture resulting from the incurrence of Indebtedness, all or a portion of which will be used to defease the Notes concurrently with such incurrence) or insofar as Events of Default under Section 6.01 (f) or (g) from bankruptcy or insolvency events are concerned, at any time in the period ending on the 91st day after the date of deposit;
- (e) such Legal Defeasance or Covenant Defeasance shall not result in a breach or violation of, or constitute a default under this Indenture or any other material agreement or instrument to

which the Company or any of its Subsidiaries is a party or by which the Company or any of its Subsidiaries is bound;

- (f) the Company shall have delivered to the Trustee an Officers' Certificate stating that the deposit was not made by the Company with the intent of preferring the Holders over any other creditors of the Company or with the intent of defeating, hindering, delaying or defrauding any other creditors of the Company or others;
- (g) the Company shall have delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that all conditions precedent provided for or relating to the Legal Defeasance or the Covenant Defeasance, as the case may be, have been complied with; and
- (h) the Company shall have delivered to the Trustee an Opinion of Counsel to the effect that after the 91st day following the deposit, the trust funds shall not be subject to the effect of any applicable bankruptcy, insolvency, reorganization or similar laws affecting creditors' rights generally.

Notwithstanding the foregoing, the Opinion of Counsel required by clause (b) with respect to Legal Defeasance need not be delivered if all the Notes not theretofore delivered to the Trustee for cancellation (i) have become due and payable, (ii) shall become due and payable on the maturity date within one year or (iii) are to be called for redemption within one year under arrangements satisfactory to the Trustee for the giving of notice of redemption by such Trustee in the name, and at the expense, of the Company.

SECTION 8.02 Application of Trust Money.

The Trustee or Paying Agent shall hold in trust U.S. Legal Tender or U.S. Government Obligations deposited with it pursuant to Section 8.01, and shall apply the deposited U.S. Legal Tender and the money from U.S. Government Obligations in accordance with this Indenture to the payment of the principal of and interest on the Notes. The Trustee shall be under no obligation to invest said U.S. Legal Tender or U.S. Government Obligations except that, upon request of the Company, the Trustee shall invest said U.S. Legal Tender in U.S. Government Obligations.

The Company shall pay and indemnify the Trustee against any tax, fee or other charge imposed on or assessed against the Legal Tender or U.S. Government Obligations deposited pursuant to Section 8.01 or the principal and interest received in respect thereof other than any such tax, fee or other charge which by law is for the account of the Holders of outstanding Notes.

SECTION 8.03 Repayment to the Company.

Subject to Sections 7.07 and 8.01, the Trustee and the Paying Agent shall promptly pay to the Company upon request any excess U.S. Legal Tender or U.S. Government Obligations held by them at any time and thereupon shall be relieved from all liability with respect to such money. The Trustee and the Paying Agent shall pay to the Company upon request any money held by them for the payment of principal or interest that remains unclaimed for one year after the due date for payment of such principal or interest; provided, however, that the Company shall, if requested by the Trustee or Paying Agent, give to the Trustee or Paying Agent, indemnification reasonably satisfactory to it against any and all liability which may be incurred by it by reason of such paying; provided, further, that the Trustee or such Paying Agent, before being required to make any payment, may at the expense of the Company cause to be published once in a newspaper of general circulation in the City of New York or mail to each Holder entitled to such money notice that such money remains unclaimed and that after a date specified therein which shall be at least 30 days from the date of such publication or mailing any unclaimed balance of such money then remaining shall be repaid to the Company. After payment to the Company, Holders entitled to such money must look to the Company for payment as general creditors unless an applicable law designates another Person, and all liability of the Trustee and such Paying Agent with respect to such money shall cease.

SECTION 8.04 Reinstatement.

If the Trustee or Paying Agent is unable to apply any U.S. Legal Tender or U.S. Government Obligations in accordance with Section 8.01 by reason of any legal proceeding or by reason of any order or judgment of any court or governmental authority enjoining, restraining or otherwise prohibiting such application, the Company's obligations under this Indenture and the Notes shall be revived and reinstated as though no deposit had occurred pursuant to Section 8.01 until such time as the Trustee or Paying Agent is permitted to apply all such U.S. Legal Tender or U.S. Government Obligations in accordance with Section 8.01; provided, however, that if the Company has made any payment of interest on or principal of any Notes because of the reinstatement of its obligations, the Company shall be subrogated to the rights of the Holders of such Notes to receive such payment from the U.S. Legal Tender or U.S. Government Obligations held by the Trustee or Paying Agent.

SECTION 8.05 Release of Security.

The Trustee may and, when required by the provisions of this Indenture, shall execute instruments to release property from the lien of this Indenture, or convey the Trustee's interest in the same, in a manner and under circumstances that are consistent with the provisions of this Indenture. No party relying upon an instrument executed by the Trustee as provided in this Article Eight shall be bound to ascertain the Trustee's authority, inquire into the satisfaction of any conditions precedent or see to the application of any moneys.

SECTION 8.06 Acknowledgment of Discharge by Trustee.

After (i) the conditions of Section 8.01 have been satisfied, (ii) the Company has paid or caused to be paid all other sums payable hereunder by the Company and (iii) the Company has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that all conditions precedent referred to in clause (i) above relating to the satisfaction and discharge of this Indenture have been complied with, the Trustee upon request shall acknowledge in writing the discharge of the Company's obligations under this Indenture except for those surviving obligations specified in Section 8.01 and release the Security in accordance with Section 8.05, provided the legal counsel delivering such Opinion of Counsel may rely as to matters of fact on one or more Officers' Certificates of the Company.

ARTICLE NINE

MODIFICATION OF THE INDENTURE

SECTION 9.01 Without Consent of Holders.

Subject to the provisions of Section 9.02, the Company and the Trustee may amend, waive or supplement this Indenture without notice to or consent of any Holder: (a) to cure any ambiguity, defect or inconsistency; (b) to comply with Section 5.01 of this Indenture; (c) to provide for uncertificated Notes in addition to certificated Notes; (d) to comply with any requirements of the Commission in order to effect or maintain the qualification of this Indenture under the TIA; or (e) to make any change that would provide any additional benefit or rights to the Holders or that does not adversely affect the rights of any Holder. Notwithstanding the foregoing, the Trustee and the Company may not make any change pursuant to this Section 9.01 that adversely affects the rights of any Holder under this Indenture without the consent of such Holder. In formulating its determination on such matters, the Trustee shall be entitled to rely on such evidence as it deems appropriate, including, without limitation, solely on an Opinion of Counsel (which may be counsel to the Company) or an Officers' Certificate, and may not be held liable therefor.

Upon the request of the Company accompanied by a Board Resolution authorizing the execution of any such amended or supplemental Indenture, and upon receipt by the Trustee of the documents described in Section 9.06, the Trustee shall join with the Company in the execution of any amended or supplemental Indenture authorized or permitted by the terms of this Indenture and to make any further appropriate agreements and stipulations which may be therein contained, but the Trustee may but shall not be obligated to enter into such amended or supplemental Indenture which affects its own rights, duties or immunities under this Indenture or otherwise.

SECTION 9.02 With Consent of Holders.

The Company and the Trustee may amend or supplement this Indenture or the Notes or any amended or supplemental Indenture with the written consent of the Holders of Notes of not less than a majority in aggregate principal amount of the Notes then outstanding.

Upon the request of the Company accompanied by a Board Resolution authorizing the execution of any such amended or supplemental Indenture, and upon the filing with the Trustee of evidence satisfactory to the Trustee of the consent of the Holders of Notes as aforesaid, and upon receipt by the Trustee of the documents described in Section 9.06, the Trustee shall join with the Company in the execution of such amended or supplemental Indenture unless such amended or supplemental Indenture affects the Trustee's own rights, duties or immunities under this Indenture or otherwise, in which case the Trustee may in its sole discretion, but shall not be obligated to, enter into such amended or supplemental Indenture.

It shall not be necessary for the consent of the Holders of Notes under this Section 9.02 to approve the particular form of any proposed amendment or waiver, but it shall be sufficient if such consent approves the substance thereof.

After an amendment, supplement or waiver under this Section becomes effective, the Company shall mail to the Holders of Notes affected thereby a notice describing the amendment, supplement or waiver. Any failure of the Company to mail such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such amended or supplemental Indenture or waiver. Subject to Sections 6.04 and 6.07, the Holders of a majority in aggregate principal amount of the Notes then outstanding may waive compliance in a particular instance by the Company with any provision of this Indenture or the Notes. However, without the consent of each Holder of the Notes affected thereby, an amendment or waiver may not, directly or indirectly: (i) reduce the amount of Notes whose Holders must consent to an amendment; (ii) reduce the rate of or change or have the effect of changing the time for payment of and interest, including Default Interest, on any Notes; (iii) reduce the principal of or change or have the effect of changing the fixed maturity of any Notes, or change the date on which any Notes may be subject to redemption or repurchase, or reduce the redemption or repurchase price therefor; (iv) make any Notes payable in money other than that stated in the Notes; (v) make any change in provisions of this Indenture protecting the right of each Holder to receive payment of principal of and interest on such Note on or after the due date thereof or to bring suit to enforce such payment, or permitting Holders of a majority in principal amount of the Notes to waive Defaults or Events of Default; (vi) after the Company's obligation to purchase Notes arises thereunder, amend, change or modify in any material respect the obligation of the Company to make and consummate a Change of Control Offer in the event of a Change of Control which has occurred or modify any of the provisions or definitions with respect thereto; (vii) modify or amend Section 3.03 or Section 4.15; (viii) modify or change any provision of this Indenture or the related

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definitions affecting the subordination or ranking of the Notes in a manner which adversely affects the Holders; or (ix) permit the creation of any Lien ranking prior to or on parity with the lien of this Indenture (other than as set forth in Article 10) with respect to any part of the Security or, except as otherwise permitted or contemplated herein, terminate the lien of this Indenture on any such property at any time subject hereto or deprive any Holder of the security provided by the lien of this Indenture.

SECTION 9.03 Compliance with TIA.

Every amendment, waiver or supplement of this Indenture or the Notes shall comply with the TIA as then in effect; provided, however, that this Section 9.03 shall not of itself require that this Indenture or the Trustee be qualified under the TIA or constitute any admission or acknowledgment by any party hereto that any such qualification is required prior to the time this Indenture and the Trustee are required by the TIA to be so qualified.

SECTION 9.04 Revocation and Effect of Consents.

Until an amendment, waiver or supplement becomes effective, a consent to it by a Holder is a continuing consent by the Holder and every subsequent Holder of a Note or portion of a Note that evidences the same debt as the consenting Holder's Note, even if notation of the consent is not made on any Note. Subject to the following paragraph, any such Holder or subsequent Holder may revoke the consent as to such Holder's Note or portion of such Note by notice to the Trustee or the Company received before the date on which the Trustee receives an Officers' Certificate certifying that the Holders of the requisite principal amount of Notes have consented (and not theretofore revoked such consent) to the amendment, supplement or waiver. An amendment, supplement or waiver becomes effective upon receipt by the Trustee of such Officers' Certificate and evidence of consent by the Holders of the requisite percentage in principal amount of outstanding Notes.

The Company may, but shall not be obligated to, fix a Record Date for the purpose of determining the Holders entitled to consent to any amendment, supplement or waiver. If a Record Date is fixed, then notwithstanding the second sentence of the immediately preceding paragraph, those Persons who were Holders at such Record Date (or their duly designated proxies), and only those Persons, shall be entitled to revoke any consent previously given, whether or not such Persons continue to be Holders after such Record Date. No such consent shall be valid or effective for more than 90 days after such Record Date unless consents from Holders of the requisite percentage in principal amount of outstanding Notes required hereunder for the effectiveness of such consents shall have also been given and not revoked within such 90 day period.

SECTION 9.05 Notation on or Exchange of Notes.

If an amendment, supplement or waiver changes the terms of a Note, the Trustee may require the Holder of such Note to deliver it to the Trustee. The Trustee may place an appropriate notation on the Note about the changed terms and return it to the Holder. Alternatively, if the Company or the Trustee so determine, the Company in exchange for the Note shall issue and the Trustee shall authenticate a new Note that reflects the changed terms.

SECTION 9.06 Trustee to Sign Amendments, Etc.

The Trustee shall execute any amendment, supplement or waiver authorized pursuant to this Article Nine; provided, however, that the Trustee may, but shall not be obligated to, execute any such amendment, supplement or waiver which affects the Trustee's own rights, duties or immunities under this Indenture. In executing such amendment, supplement or waiver the Trustee shall be entitled to receive indemnity reasonably satisfactory to it, and shall be fully protected in relying upon an Opinion of Counsel and an Officers' Certificate of the Company, stating that no Event of Default shall occur as a result of such amendment, supplement or waiver and that the execution of such amendment, supplement or waiver is authorized or permitted by this Indenture; provided, however, that the legal counsel delivering such Opinion of Counsel may rely as to matters of fact on one or more Officers' Certificates of the Company. Such Opinion of Counsel shall not be an expense of the Trustee.

SECTION 9.07 Effect on New Credit Facility.

No amendment of, or supplement or waiver to, this Indenture shall adversely affect the rights of the Lender under Article Ten of this Indenture without the consent of such holder.

ARTICLE TEN

SUBORDINATION OF NOTES

SECTION 10.01 Notes Subordinated to New Credit Facility.

Anything herein to the contrary notwithstanding, the Company, for itself and its successors, and each Holder, by his or her acceptance of Notes, agrees that the payment of all Obligations owing to the Holders in respect of the Notes is subordinated, to the extent and in the manner provided in this Article Ten, to the prior payment in full in cash or Cash Equivalents, or such payment duly provided for, of the New Credit Facility to the satisfaction of the Lender; provided, however, that once the Trustee has received payments from the Company for the benefit of the Holders in accordance with the provisions of Section 8.01, such payments shall not be subject to this Article Ten. Notwithstanding anything to the contrary in this Article Ten or otherwise in this Indenture, at no time shall the Notes be subordinated to any portion of the indebtedness under the New Credit Facility in excess of the sum of (i) \$15,000,000, plus (ii) accrued interest in respect of the New Credit Facility and fees at any time owing to Lender, in each case as and to the extent provided under the New Credit Facility, plus (iii) Enforcement Expenses.

This Article Ten is made for the benefit of the Lender and such holder is made an obligee hereunder and may enforce such provisions.

SECTION 10.02 Suspension of Payment When New Credit Facility is in Default

- (a) Unless Section 10.03 shall be applicable, if any default occurs and is continuing in the payment when due, whether at maturity, upon any redemption, by declaration or otherwise, of any principal of, interest on, unpaid drawings for letters of credit issued in respect of, or regularly accruing fees with respect to, the New Credit Facility (a “Payment Default”), then no payment or distribution of any kind or character shall be made by or on behalf of the Company or any other Person on its or their behalf with respect to any Obligations on the Notes or to acquire any of the Notes for cash or property or otherwise and until such Payment Default shall have been cured or waived or shall have ceased to exist on the New Credit Facility as to which such Payment Default relates shall have been paid in full in cash or Cash Equivalents, after which the Company shall (subject to other provisions of this Article Ten) resume making any and all required payments in respect of the Notes, including any missed payments.
- (b) Unless Section 10.03 shall be applicable, if any other event of default (other than a Payment Default) occurs and is continuing with respect to the New Credit Facility permitting the Lender to accelerate the maturity thereof (a “Non-Payment Default”) and if an officer of the Lender gives written notice of the event of default to the Trustee (a “Default Notice”), then, unless and until all events of default have been cured or waived or have ceased to exist or the Trustee receives notice thereof from such officer of the Lender terminating the Payment Blockage Period, during the 180 days after the delivery of such Default Notice (the “Payment Blockage Period”), then neither the Company nor any other Person on its behalf shall (x) make any payment or distribution of any kind or character with respect to any Obligations on or with the respect to the Notes or (y) acquire any of the Notes for cash or property or otherwise. Notwithstanding anything herein to the contrary, (i) in no event will a Payment Blockage Period extend beyond 180 days from the date the applicable Default Notice is received by the Trustee and (ii) only one such Payment Blockage Period may be commenced within any 360 consecutive days. For all purposes of this Section 10.02(b), no event of default which existed or was continuing on the date of the commencement of any Payment Blockage Period with respect to the New Credit Facility shall be, or be made, the basis for the commencement of a second Payment Blockage Period by a representative of the Lender whether or not within a period of 360 consecutive days, unless such event of default shall have been cured or waived for a period of not less than 90 consecutive days (it being acknowledged that any subsequent action, or any breach of any financial covenants for a period commencing after the date of commencement of such Payment Blockage Period that, in either case, would give rise to an event of default pursuant to any provisions under which an event of default previously existed or was continuing shall constitute a new event of default for this purpose). The Company shall promptly notify the Lender if payment of the Notes is accelerated because of an Event of Default.
- (c) In the event that, notwithstanding the foregoing, any payment shall be received by the Trustee or any Holder when such payment is prohibited by the foregoing provisions of this Section 10.02, such payment shall be held in trust for the benefit of, and shall be paid over or delivered to, the Lender. The Trustee shall be entitled to rely on information regarding

amounts then due and owing on the New Credit Facility, if any, received from the Lender (or its representative) or, if such information is not received from the Lender or its representative, from the Company and only amounts included in the information provided to the Trustee shall be paid to the Lender.

Nothing contained in this Article Ten shall limit the right of the Trustee or the Holders of Notes to take any action to accelerate the maturity of the Notes pursuant to Section 6.02 or to pursue any rights or remedies hereunder; provided that all amounts thereafter due or declared to be due with respect to the New Credit Facility shall first be paid in full in cash or Cash Equivalents before the Holders are entitled to receive any payment of any kind or character with respect to Obligations on the Notes. In no event shall the honoring of any request for loans or extensions under the New Credit Facility after the occurrence or during the continuance of a default or an event of default under the New Credit Facility be construed to be a waiver of such default or event of default, unless such default or event of default is expressly waived in writing by the Lender. Notwithstanding anything in this Section 10.02, once the Trustee has received payments from the Company for the benefit of the Holders in accordance with the provisions of Section 8.01, such payments shall not be subject to this Article Ten.

SECTION 10.03 Notes Subordinated to Prior Payment of New Credit Facility on Dissolution, Liquidation or Reorganization of Company

- (a) Upon any payment or distribution of assets of the Company of any kind or character, whether in cash, property or securities, to creditors upon any liquidation, dissolution, winding-up, reorganization, assignment for the benefit of creditors or marshaling of assets of the Company or in a bankruptcy, reorganization, insolvency, receivership or other similar proceeding relating to the Company or its property, whether voluntary or involuntary, partial or complete, or by operation of law or otherwise, all Obligations due or to become due under the New Credit Facility shall first be paid in full in cash or Cash Equivalents, or such payment duly provided for to the satisfaction of the Lender, before any payment or distribution of any kind or character is made on account of any Obligations on the Notes, or for the acquisition of any of the Notes for cash or property or otherwise. Upon any such dissolution, winding-up, liquidation, reorganization, receivership or similar proceeding, any payment or distribution of assets of the Company of any kind or character, whether in cash, property or securities, to which the Holders of the Notes or the Trustee under this Indenture would be entitled, except for the provisions hereof, shall be paid by the Company or by any receiver, trustee in bankruptcy, liquidating trustee, agent or other Person making such payment or distribution, or by the Holders or by the Trustee under this Indenture if received by them, directly to the Lender, or to the lender under any credit agreement pursuant to which the New Credit Facility may have been issued, for application to the payment of amounts remaining unpaid until the New Credit Facility has been paid in full in cash or Cash Equivalents after giving effect to any concurrent payment, distribution or provision therefor to or for the Lender.

- (b) To the extent any payments of principal or interest on the New Credit Facility (whether by or on behalf of the Company, as proceeds of security or enforcement of any right of setoff or otherwise) are declared to be fraudulent or preferential, set aside or required to be paid to any receiver, trustee in bankruptcy, liquidating trustee, agent or other similar Person under any bankruptcy, insolvency, receivership, fraudulent conveyance or similar law, then, if such payment is recovered by, or paid over to, such receiver, trustee in bankruptcy, liquidating trustee, agent or other similar Person, the New Credit Facility or part thereof originally intended to be satisfied shall be deemed to be reinstated and outstanding as if such payment had not occurred.
- (c) In the event that, notwithstanding the foregoing, any payment or distribution of assets of the Company of any kind or character, whether in cash, property or securities, shall be received by any Holder when such payment or distribution is prohibited by this Section 10.03, such payment or distribution shall be held in trust for the benefit of, and shall be paid over or delivered to, the Lender, or to the lender under any credit agreement pursuant to which the New Credit Facility may have been issued, for application to the payment of amounts remaining unpaid until the New Credit Facility has been paid in full in cash or Cash Equivalents, after giving effect to any concurrent payment, distribution or provision therefor to or for the Lender.
- (d) The consolidation of the Company with, or the merger of the Company with or into, another corporation or the liquidation or dissolution of the Company following the conveyance or transfer of all or substantially all of its assets, to another corporation upon the terms and conditions provided in Article Five hereof and as long as permitted under the terms of the New Credit Facility shall not be deemed a dissolution, winding-up, liquidation or reorganization for the purposes of this Section if such other corporation shall, as a part of such consolidation, merger, conveyance or transfer, assume the Company's obligations hereunder in accordance with Article Five hereof.

For purposes of this Article Ten, the words "cash, property or securities" shall not be deemed to include shares of stock of the Company as reorganized or readjusted, or securities of the Company or any other corporation provided for by a plan of reorganization or readjustment, the payment of which (i) is subordinated or junior, at least to the extent provided in this Article Ten, with respect to the payment of the New Credit Facility and to the payment in full of all securities issued in exchange therefore to the Lender and (ii) is not payable prior to payment in full of the Indebtedness under the New Credit Facility; provided, however, that (x) the indebtedness under the New Credit Facility is assumed by any new corporation or other entity resulting from any such proceeding and (y) the rights of Lender are not, without the consent of Lender, altered in or as the result of any such proceeding. The consolidation of the Company with, or the merger of the Company into, another corporation or the liquidation or dissolution of the Company following the conveyance or transfer of its property as an entirety, or substantially as an entirety, to another corporation upon the terms and conditions provided for in Article Five shall not be deemed a dissolution, winding-up, liquidation or reorganization for the purposes of this Section 10.03 if such other corporation shall, as part of such consolidation, merger, conveyance or transfer, comply with the conditions set forth in Article Five.

SECTION 10.04 Payments may be Paid Prior to Dissolution.

Nothing contained in this Article Ten or elsewhere in this Indenture shall prevent (i) the Company, except under the conditions described in Sections 10.02 and 10.03, from making payments at any time for the purpose of making payments of principal of and interest on the Notes, or from depositing with the Trustee any moneys for such payments, or (ii) in the absence of actual knowledge by the Trustee that a given payment would be prohibited by Section 10.02 or 10.03, the application by the Trustee of any moneys deposited with it for the purpose of making such payments of principal of, and interest on, the Notes to the Holders entitled thereto unless at least two Business Days prior to the date upon which such payment would otherwise become due and payable a corporate trust officer of the Trustee shall have actually received the written notice provided for in the first sentence of Section 10.02(b) or in Section 10.07 (provided that, notwithstanding the foregoing, the Holders receiving any payments made in contravention of Section 10.02 and/or 10.03 (and the respective such payments) shall otherwise be subject to the provisions of Section 10.02 and Section 10.03). The Company shall give prompt written notice to the Trustee of any dissolution, winding-up, liquidation or reorganization of the Company, although any delay or failure to give any such notice shall have no effect on the subordination provisions contained herein.

SECTION 10.05 Holders to be Subrogated to Rights of Lender.

Subject to the payment in full in cash or Cash Equivalents of the New Credit Facility, the Holders of the Notes shall be subrogated to the rights of the Lender to receive payments or distributions of cash, property or securities of the Company applicable to the New Credit Facility until the Notes shall be paid in full; and, for the purposes of such subrogation, no such payments or distributions to the Lender of any cash, property or securities to which the Holders or the Trustee would be entitled except for the provisions of this Article Ten, and no payment pursuant to the provisions of this Article Ten to or for the benefit of the Lender by the Holders or the Trustee shall, as between the Company, its creditors other than the Lender, and the Holders be deemed to be a payment by the Company to or on account of the New Credit Facility; and no payments or distributions of cash, property or securities to or for the benefit of the Holders pursuant to the subrogation provisions of this Article Ten, which would otherwise have been paid to the Lender, shall be deemed to be a payment by the Company to or for the account of the Notes. It is understood that the provisions of this Article Ten are and are intended solely for the purpose of defining the relative rights of the Holders, on the one hand, and the Lender, on the other hand. Notwithstanding anything to the contrary in this Section 10.05, the Holders shall, under no circumstances, have any rights or claims against the Lender for any alleged impairment of subrogation of rights of the Holders.

SECTION 10.06 Obligations of the Company Unconditional.

Nothing contained in this Article Ten or elsewhere in this Indenture or in the Notes is intended to or shall impair, as among the Company, its creditors other than the Lender, and the Holders, the obligation of the Company, which is absolute and

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unconditional, to pay to the Holders the principal of and any interest on the Notes as and when the same shall become due and payable in accordance with their terms, or is intended to or shall affect the relative rights of the Holders and creditors of the Company other than the Lender, nor shall anything herein or therein prevent the Holder of any Note or the Trustee on its behalf from exercising all remedies otherwise permitted by applicable law upon default under this Indenture, subject to the rights, if any, of the Lender under this Article Ten in respect of cash, property or securities of the Company received upon the exercise of any such remedy, and further subject to the provisions of Section 10.10.

SECTION 10.07 Notice to Trustee.

The Company shall give prompt written notice to the Trustee of any fact known to the Company which would prohibit the making of any payment to or by the Trustee in respect of the Notes pursuant to the provisions of this Article Ten, although any delay or failure to give any such notice shall have no effect on the subordination provisions contained herein. If the Trustee shall not have received any such notice at least two Business Days prior to its making or receipt of such a payment in respect of the Notes, it may make or receive such payment without further inquiry. Regardless of anything to the contrary contained in this Article Ten or elsewhere in this Indenture, the Trustee shall not be charged with knowledge of the existence of any default or event of default with respect to the New Credit Facility or of any other facts which would prohibit the making of any payment to or by the Trustee unless and until the Trustee shall have received notice in writing from the Company, or from the Lender or a representative therefor, and, prior to the receipt of any such written notice, the Trustee shall be entitled to assume (in the absence of actual knowledge to the contrary) that no such facts exist. The Trustee shall be entitled to rely on the delivery to it of any notice pursuant to this Section 10.07 to establish that such notice has been given by a Lender (or a representative therefor).

SECTION 10.08 Reliance on Judicial Order or Certificate of Liquidating Agent.

Upon any payment or distribution of assets of the Company referred to in this Article Ten, the Trustee, subject to the provisions of Article Seven hereof, and the Holders of the Notes shall be entitled to rely upon any order or decree made by any court of competent jurisdiction in which any insolvency, bankruptcy, receivership, dissolution, winding-up, liquidation, reorganization or similar case or proceeding is pending, or upon a certificate of the receiver, trustee in bankruptcy, liquidating trustee, assignee for the benefit of creditors, agent or other Person making such payment or distribution, delivered to the Trustee or the Holders of the Notes, for the purpose of ascertaining the Persons entitled to participate in such payment or distribution, the Lender and other Indebtedness of the Company, the amount thereof or payable thereon, the amount or amounts paid or distributed thereon and all other facts pertinent thereto or to this Article Ten.

SECTION 10.09 Trustee's Relation to New Credit Facility.

The Trustee and any agent of the Company or the Trustee shall be entitled to all the rights set forth in this Article Ten with respect to the New Credit Facility and nothing in this Indenture shall deprive the Trustee or any such agent of any of its rights as such holder.

With respect to the Lender, the Trustee undertakes to perform or to observe only such of its covenants and obligations as are specifically set forth in this Article Ten, and no implied covenants or obligations with respect to the Lender shall be read into this Indenture against the Trustee. The Trustee shall not be deemed to owe any fiduciary duty to the Lender.

Whenever a distribution is to be made or a notice given to the Lender, the distribution may be made and the notice may be given to its representative, if any.

SECTION 10.10 Subordination of Liens.

- (a) The Holders agree at all times, whether before, after or during the pendency of any proceeding under Bankruptcy Law and notwithstanding the priorities which would ordinarily result from the order of granting or perfection of any Liens, that any Liens which the Lender may at any time have in or with respect to any of the Security shall constitute first priority Liens in such Security to secure the payment and performance of the New Credit Facility and shall be superior to any Lien or other interest at any time held by the Trustee in the Security arising pursuant to the Granting Clause of this Indenture, by operation of applicable law or otherwise; and any Lien or other interests at any time held by the Trustee in any of the Security shall be subordinate and junior in priority to any Liens at any time held by the Lender therein. For as long as all or any portion of the Indebtedness under the New Credit Facility remains outstanding, unpaid or unsatisfied and the commitment of the Lender thereunder has not been terminated, the Trustee and each Holder agrees to refrain from taking any action to foreclose upon, take possession of, liquidate or otherwise proceed against the Security.
- (b) For purposes of the priorities set forth in Section 10.10(a), any claim of right of setoff by the Trustee shall be treated in all respects as a Lien and no claim to right of setoff by the Trustee shall be asserted to defeat or diminish the rights or priorities provided for herein in favor of the Lender.
- (c) In no event shall the Trustee institute, encourage, or join as a party in the institution of, or assist in the prosecution of, any action, suit or proceeding seeking a determination that the Lien of the Lender is invalid, unperfected or unavoidable, or is or should be subordinated to the interests of any other person.
- (d) If at any time the Lender shall subordinate, in whole or in part, its Lien upon any of the Collateral to or in favor of any other Person, the priority of the Lender's Lien in the Security vis-a-vis the Trustee shall not be affected thereby and the Lender's Lien shall continue to be superior to the Trustee's Lien or Liens in the Security as provided in this Section 10.10.

- (e) Except as otherwise permitted by this Indenture or the Notes, if the Trustee shall receive any proceeds from any sale, liquidation, casualty or other disposition of any of the Security, whether in connection with the initiation of any action by the Lender or the Trustee to enforce or foreclose upon its Lien or otherwise, the Trustee shall be obligated to hold such proceeds in trust and promptly turn over such proceeds, less their costs and expenses incurred in connection with any such action, to the Lender for application to the New Credit Facility until the New Credit Facility is paid in full and any commitments by the Lender under the New Credit Facility have been terminated or expired.
- (f) Without impairing, abrogating or in any way affecting the rights of the Lender hereunder, including the relative priorities established in Section 10.10(a) hereof, the Lender may, during any proceeding under Bankruptcy Law, give or withhold its consent to the Company's or any bankruptcy trustee's use or consumption of any of the Security (including cash proceeds of any of the Security) or may provide financing or otherwise extend credit to the Company or any bankruptcy trustee secured by a senior Lien upon any or all of the Security, whether created, acquired or arising prior to or after the commencement of any such proceeding, and the Trustee and the Holders shall be deemed to have consented to the Company's or any bankruptcy trustee's use of such portion of the Security if and to the extent consented to by the Lender. Nothing contained in this Article Ten, including this Section 10.10, shall prohibit the Holders or the Trustee from (i) seeking adequate protection solely in the form of a priority claim under Bankruptcy Law subordinate to any similar claim now or hereafter held by the Lender provided that such priority claim is subject to the terms of this Article Ten, (ii) objecting to the reasonableness of the terms of any proposed financing by the Lender to the Company after the commencement of any proceeding under Bankruptcy Law by or against the Company or (iii) requesting a replacement lien subordinate to any lien now or hereafter held by the Lender provided that such replacement lien is subject to the provisions of this Article Ten. Any Lien at any time granted to or otherwise acquired by the Trustee in any of the Security, whether such Security is created, acquired or arises prior to or after the commencement of any such proceeding under Bankruptcy Law, shall be subject to all of the terms of this Section 10.10 and shall be subordinate in priority to all Liens granted to or otherwise obtained by the Lender with respect to any such Security, including Liens granted to or conferred upon the Lender to secure financings in any such proceeding.
- (g) If the Lender consents to the sale of any or all of the Security during any proceeding under Bankruptcy Law (whether such sale is to be made pursuant to 11 U.S.C. §363, pursuant to a plan of reorganization or otherwise), then the Holders shall be deemed to have consented to any such sale and all of the terms applicable to thereto and the Trustee shall, if requested to do so by the Lender in connection with any such sale, promptly execute and deliver to the Lender a release of the Holders' Liens with respect to the Security to be sold. Notwithstanding the foregoing, the Trustee shall not be obligated to release or terminate its Lien on any proceeds of the sale, transfer or disposition of any Security to the extent that such proceeds are (i) not applied to the payment of the New Credit Facility in accordance with the terms of the New Credit Facility or (ii) in excess of the amount necessary to repay the New Credit Facility in full.

- (h) If in or as a result of any proceeding under Bankruptcy Law the Lender returns, refunds or repays to the Company or any trustee or committee appointed in such proceeding any payment or proceeds of any Security in connection with any action, suit or proceeding alleging that the Lender's receipt of such payment or proceeds was a transfer voidable under state or federal law, then the Lender shall not be deemed ever to have received such payment or proceeds for purposes of this Section 10.10 in determining whether and when the New Credit Facility has been paid in full.
- (i) The Trustee shall (1) upon the request of the Lender and whether or not an event of default exists under the New Credit Facility, release its Liens in any of the Security concurrently with the Lender's release of its Lien therein in connection with the Company's authorized disposition of such Security pursuant to the terms of the New Credit Facility and (2) if requested to do so by the Lender after and during the continuance of an event of default under the New Credit Facility, release its Liens in the Security in connection with and in order to facilitate any orderly liquidation sale of such Security by the Company or any bankruptcy trustee or receiver for the Company, and promptly upon the request of the Lender the Trustee shall execute and deliver such documents, instruments and agreements as are necessary to effectuate such release and to evidence such release in the appropriate public records. Notwithstanding the foregoing, the Trustee shall not be obligated to release or terminate its Lien on any proceeds of the sale, transfer or disposition of any Security to the extent that such proceeds are (i) not applied to the payment of the New Credit Facility in accordance with the terms of the New Credit Facility or (ii) in excess of the amount necessary to repay the New Credit Facility in full.
- (j) With respect to any insurance proceeds that may be received on the Security, the Lender shall have the sole and exclusive right, as against the Trustee, to adjust settlement of insurance claims in the event of any covered loss, theft or destruction of the Security. All proceeds of such insurance shall inure to the Lender. If such proceeds are applied to the New Credit Facility, any proceeds remaining after payment of the New Credit Facility and all expenses of collection, including reasonable attorney's costs, fees and expenses, shall be promptly remitted to the Trustee for payment of the Notes, or to the Company, as applicable.

SECTION 10.11 Subordination Rights Not Impaired by Acts or Omissions of the Company or Holders of the New Credit Facility

No right of any present or future Lender to enforce subordination as provided herein shall at any time in any way be prejudiced or impaired by any act or failure to act on the part of the Company or by any act or failure to act, in good faith, by any such holder, or by any noncompliance by the Company with the terms of this Indenture, regardless of any knowledge thereof which any such holder may have or otherwise be charged with.

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Without in any way limiting the generality of the foregoing paragraph, the Lender may, at any time and from time to time, without the consent of or notice to the Trustee, without incurring responsibility to the Trustee or the Holders of the Notes and without impairing or releasing the subordination provided in this Article Ten or the obligations hereunder of the Holders of the Notes to the Lender, do any one or more of the following: (i) change the manner, place or terms of payment or extend the time of payment of, or renew or alter, the New Credit Facility, or otherwise amend or supplement in any manner the New Credit Facility, or any instrument evidencing the same or any agreement under which the New Credit Facility is outstanding; (ii) sell, exchange, release or otherwise deal with any property pledged, mortgaged or otherwise securing the New Credit Facility; provided, that the Lender shall promptly deliver to the Trustee (unless otherwise directed in writing by the Trustee or by a court of competent jurisdiction) any proceeds remaining from the sale transfer or other disposition of the Security after the payment in full of the New Credit Facility or, if the Lender shall still be in possession of all or part of the Security after such repayment, the Security or such part thereof remaining, without representation or warranty on the part of the Lender; (iii) add or release any Person liable in any manner for the payment or collection of the New Credit Facility; (iv) exercise or refrain from exercising any rights against the Company and any other Person; (v) waive any default or event of default under the New Credit Facility; and (vi) increase or decrease the amount of Indebtedness or the rate of interest or the amount of any other charges payable in connection with the New Credit Facility. The Company, Trustee, and the Holders each hereby waives any defense based on the adequacy of a remedy at law which might be asserted as a bar to the remedy of specific performance of this Article Ten and any action brought therefore by the Lender. To the fullest extent permitted by applicable law, the Company, Trustee, and Holders each hereby further waives: (A) presentment, demand, protest, notice of protest, notice of default or dishonor, notice of payment or nonpayment and any and all other notices and demands of any kind in connection with all negotiable instruments evidencing all or any portion of the Indebtedness under the New Credit Facility; (B) the right to require the Lender to enforce any Lien that the Lender may now or hereafter have in any collateral given as security for the Indebtedness under the New Credit Facility or to pursue any claim it may have against any guarantor of the Indebtedness under the New Credit Facility, as a condition to the Lender's entitlement to receive any payment on account of the Indebtedness under the New Credit Facility; and (C) notice of any loans or other credit made available to the Company or Restricted Subsidiaries, extensions of time granted, amendments to the New Credit Facility or any instrument evidencing the same or any agreement under which the New Credit Facility is outstanding or other action taken in reliance on the provisions of this Article Ten.

SECTION 10.12 Noteholders Authorize Trustee to Effectuate Subordination of Notes.

Each Holder of Notes by its acceptance of them authorizes and expressly directs the Trustee on its behalf to take such action as may be necessary or appropriate to effectuate, as between the Lender and the Holders of Notes, the subordination provided in this Article Ten, and appoints the Trustee its attorney-in-fact for such purposes, including (i) in the event of any dissolution, winding-up, liquidation or reorganization of the Company (whether in bankruptcy, insolvency, receivership,

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reorganization or similar proceedings or upon an assignment for the benefit of creditors or otherwise) tending towards liquidation of the business and/or assets of the Company, the filing of a claim for the unpaid balance of its Notes and accrued interest in the form required in those proceedings and (ii) the execution of amendments to financing statements necessary to reflect of record the provisions of this Article Ten and the relative priorities set forth herein.

If the Trustee does not file a proper claim or proof of debt in the form required in such proceeding prior to 30 days before the expiration of the time to file such claim or claims, then the Lender or its representative are or is hereby authorized to have the right to file and are or is hereby authorized to file an appropriate claim for and on behalf of the Holders of said Notes. Nothing herein contained shall be deemed to authorize the Trustee or the Lender or its representative to authorize or consent to or accept or adopt on behalf of any Holder any plan of reorganization, arrangement, adjustment or composition affecting the Notes or the rights of any Holder thereof, or to authorize the Trustee or the Lender or its representative to vote in respect of the claim of any Holder in any such proceeding.

SECTION 10.13 This Article Ten Not to Prevent Events of Default.

The failure to make a payment on account of principal of or interest on the Notes by reason of any provision of this Article Ten will not be construed as preventing the occurrence of an Event of Default.

SECTION 10.14 Trustee's Compensation Not Prejudiced.

Nothing in this Article Ten will apply to amounts due to the Trustee pursuant to other sections of this Indenture.

ARTICLE ELEVEN

MISCELLANEOUS

SECTION 11.01 TIA Controls.

If any provision of this Indenture limits, qualifies, or conflicts with another provision which is required to be included in this Indenture by the TIA, the required provision shall control; provided, however, that this Section 11.01 shall not of itself require that this Indenture or the Trustee be qualified under the TIA or constitute any admission or acknowledgment by any party hereto that any such qualification is required prior to the time this Indenture and the Trustee are required by the TIA to be so qualified.

SECTION 11.02 Notices.

Any notices or other communications required or permitted hereunder shall be in writing, and shall be sufficiently given if made by hand delivery, by telex, by telecopier or registered or certified mail, postage prepaid, return receipt requested, addressed as follows:

if to the Company:

National Vision, Inc.
296 Grayson Highway
Lawrenceville, GA 30045-5737
Facsimile No. (770) 822-2029

Attention: General Counsel

with a copy to:

Kilpatrick Stockton LLP
Suite 2800, 1100 Peachtree Street
Atlanta, GA 30309-4530
Facsimile No. (404) 815-6555

Attention: David A. Stockton

if to the Trustee:

State Street Bank and Trust Company
Goodwin Square
225 Asylum Street, 23rd Floor
Hartford, CT 06103
Facsimile No.: (860) 244-1897

Attention: Corporate Trust Division (National Vision, Inc. 12% Senior Secured Notes due 2009)

The Company and the Trustee by written notice to the other may designate additional or different addresses for notices to such Person. Any notice or communication to the Company or the Trustee shall be deemed to have been given or made as of the date so delivered if hand delivered; when answered back, if telexed; when receipt is acknowledged, if faxed; one (1) Business Day after mailing by reputable overnight courier and five (5) calendar days after mailing if sent by registered or certified mail, postage prepaid (except that a notice of change of address shall not be deemed to have been given until actually received by the addressee).

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Any notice or communication mailed to a Holder shall be mailed to him by first class mail or other equivalent means at his address as it appears on the registration books of the Registrar ten (10) days prior to such mailing and shall be sufficiently given to him if so mailed within the time prescribed.

Failure to mail a notice or communication to a Holder or any defect in it shall not affect its sufficiency with respect to other Holders. If a notice or communication is mailed in the manner provided above, it is duly given, whether or not the addressee receives it.

SECTION 11.03 Communications by Holders with Other Holders.

Holders may communicate pursuant to TIA § 312(b) with other Holders with respect to their rights under this Indenture or the Notes. The Company, the Trustee, the Registrar and any other Person shall have the protection of TIA § 312(c).

SECTION 11.04 Certificate and Opinion as to Conditions Precedent.

Upon any request or application by the Company to the Trustee to take any action under this Indenture, the Company shall furnish to the Trustee:

- (1) an Officers' Certificate, in form and substance satisfactory to the Trustee, stating that, in the opinion of the signers, all conditions precedent to be performed by the Company, if any, provided for in this Indenture relating to the proposed action have been complied with; and
- (2) an Opinion of Counsel stating that, in the opinion of such counsel, all such conditions precedent to be performed by the Company, if any, provided for in this Indenture relating to the proposed action have been complied with (which counsel, as to factual matters, may rely on an Officers' Certificate).

SECTION 11.05 Statements Required in Certificate or Opinion.

Each certificate or opinion with respect to compliance with a condition or covenant provided for in this Indenture, other than the Officers' Certificate required by Section 4.06, shall include:

- (1) a statement that the Person making such certificate or opinion has read such covenant or condition;
- (2) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based;

- (3) a statement that, in the opinion of such Person, he has made such examination or investigation as is reasonably necessary to enable him to express an informed opinion as to whether or not such covenant or condition has been complied with; and
- (4) a statement as to whether or not, in the opinion of each such Person, such condition or covenant has been complied with.

SECTION 11.06 Rules by Trustee, Paying Agent, Registrar.

The Trustee may make reasonable rules in accordance with the Trustee’s customary practices for action by or at a meeting of Holders. The Paying Agent or Registrar may make reasonable rules for its functions.

SECTION 11.07 Legal Holidays.

A “Legal Holiday” used with respect to a particular place of payment is a Saturday, a Sunday or a day on which banking institutions in New York, New York or at such place of payment are not required to be open. If a payment date is a Legal Holiday at such place, payment may be made at such place on the next succeeding day that is not a Legal Holiday, and no interest shall accrue for the intervening period.

SECTION 11.08 Governing Law.

THIS INDENTURE AND THE NOTES SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK BUT WITHOUT GIVING EFFECT TO APPLICABLE PRINCIPLES OF CONFLICTS OF LAW.

SECTION 11.09 No Adverse Interpretation of Other Agreements.

This Indenture may not be used to interpret another indenture, loan or debt agreement of the Company or any of its Subsidiaries. Any such indenture, loan or debt agreement may not be used to interpret this Indenture.

SECTION 11.10 No Personal Liability.

No director, officer, partner, member, employee, agent or stockholder, as such, of the Company shall have any liability for any obligations of the Company under the Notes, this Indenture or the Registration Rights Agreement or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each Holder of Notes by accepting a Note waives and releases all such liability. The waiver and release are part of the consideration for the issuance of the Notes.

SECTION 11.11 Successors.

All agreements of the Company in this Indenture and the Notes shall bind its successors. All agreements of the Trustee in this Indenture shall bind its successors.

SECTION 11.12 Duplicate Originals.

All parties may sign any number of copies of this Indenture. Each signed copy shall be an original, but all of them together shall represent the same agreement.

SECTION 11.13 Severability.

In case any one or more of the provisions in this Indenture or in the Notes shall be held invalid, illegal or unenforceable, in any respect for any reason, the validity, legality and enforceability of any such provision in every other respect and of the remaining provisions shall not in any way be affected or impaired thereby, it being intended that all of the provisions hereof shall be enforceable to the full extent permitted by law.

SECTION 11.14 Independence of Covenants.

All covenants and agreements in this Indenture and the Notes shall be given independent effect so that if any particular action or condition is not permitted by any of such covenants, the fact that it would be permitted by an exception to, or otherwise be within the limitations of, another covenant shall not avoid the occurrence of a Default or an Event of Default if such action is taken or condition exists.

SIGNATURES

IN WITNESS WHEREOF, the parties hereto have caused this Indenture to be duly executed, all as of the date first written above.

NATIONAL VISION, INC.,
as Issuer

By:

Name:
Title:

STATE STREET BANK AND TRUST
COMPANY, as Trustee

By:

Name:
Title:

EXHIBIT A

CUSIP No.: []

NATIONAL VISION, INC.

12% SENIOR SECURED NOTE DUE 2009

No. []

\$

NATIONAL VISION, INC., a Georgia corporation (the “Company”), for value received promises to pay to or registered assigns the principal sum of Dollars, as described in the Indenture, but not later than March 30, 2009.

Interest Payment Dates: March 30 and September 30, commencing September 30, 2001.

Record Dates: March 15 and September 15

Reference is made to the further provisions of this Note contained herein, which will for all purposes have the same effect as if set forth at this place. The Notes under the Indenture are being issued pursuant to the Plan which provides among other things, that the Notes are being issued in exchange for and in satisfaction of certain claims against the Company. All terms used in these Notes which are defined in the Indenture have the meanings assigned to them in the Indenture.

IN WITNESS WHEREOF, the Company has caused this Note to be signed manually or by facsimile by its duly authorized officers.

NATIONAL VISION, INC

By:

Name:

Title:

By:

Name:

Title:

Dated: []

Certificate of Authentication

This is one of the 12% Senior Secured Notes due 2009 referred to in the within-mentioned Indenture.

STATE STREET BANK AND TRUST COMPANY, as Trustee

By: _____

Authorized Signatory

Date of Authentication: []

(REVERSE OF SECURITY)

12% Senior Secured Note due 2009

1. Interest. NATIONAL VISION, INC. (f/k/a Vista Eyecare, Inc.), a Georgia corporation (the “Company”), promises to pay interest on the principal amount of this Note at the rate per annum shown above. Interest on the Notes will accrue from the most recent date on which interest has been paid or, if no interest has been paid, from the Effective Date. The Company will pay interest semiannually in arrears on each Interest Payment Date, commencing September 30, 2001. Interest will be computed on the basis of a 360-day year of twelve 30-day months and, in the case of a partial month, the actual number of days elapsed.

The Company shall pay interest on overdue principal and on overdue installments of interest (without regard to any applicable grace periods), to the extent lawful, from time to time on demand at the rate borne by the Notes plus 2%.

2. Method of Payment. The Company shall pay interest on the Notes (except Default Interest) to the Persons who are the registered Holders at the close of business on the Record Date immediately preceding the Interest Payment Date even if the Notes are cancelled on registration of transfer or registration of exchange after such Record Date. The Company will pay principal and accrued interest on the Notes to the persons who are registered holders of the Notes on March 30, 2009. Holders must surrender Notes to a Paying Agent to collect principal payments. The Company shall pay principal and interest in money of the United States that at the time of payment is legal tender for payment of public and private debts (“U.S. Legal Tender”). However, the Company may pay principal and interest by its check payable in such U.S. Legal Tender. The Company may deliver any such interest payment to the Paying Agent or to a Holder at the Holder’s registered address.

3. Paying Agent and Registrar. Initially, State Street Bank and Trust Company (the “Trustee”) will act as Paying Agent and Registrar. The Company may change any Paying Agent, Registrar or co-Registrar without notice to the Holders.

4. Indenture. The Company issued the Notes under an Indenture, dated as of June 15, 2001 (the “Indenture”), among the Company and the Trustee. This Note is one of a duly authorized issue of Notes of the Company designated as its 12% Senior Secured Notes due 2009 (the “Notes”). The Notes are limited (except as otherwise provided in the Indenture) in aggregate principal amount to \$120,000,000. Capitalized terms herein are used as defined in the Indenture unless otherwise defined herein. The terms of the Notes include those stated in the Indenture and those made part of the Indenture by reference to the Trust Indenture Act of 1939 (15 U.S. Code §§ 77aaa-77bbbb) (the “TIA”), as in effect on the date of the Indenture. Notwithstanding anything to the contrary herein, the Notes are subject to all such terms, and Holders of Notes are referred to the Indenture and said Act for a statement of them.

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Each Holder, by accepting a Note, agrees to be bound by all of the terms and provisions of the Indenture, as the same may be amended from time to time in accordance with its terms.

5. **Optional Redemption.** The Notes will be redeemable, at the Company's option, in whole at any time or in part from time to time, upon not less than 30 nor more than 60 days' notice, at a redemption price equal to 100% of the principal amount thereof, plus, in each case, accrued and unpaid interest thereon, if any, to the date of redemption. If the Company shall consummate an Equity Offering, the proceeds of such offering shall be used to (i) pay (subject to waiver by the Lender) amounts owing under the New Credit Facility and (ii) make principal payments (subject to waiver by the Holders of a majority in aggregate principal amount of the Notes) on the Notes. In order to effect the foregoing redemption with the proceeds of any Equity Offering, the Company shall make such redemption not more than 120 days after the consummation of any such Equity Offering.

6. **Notice of Redemption.** Notice of redemption will be mailed at least 30 days but not more than 60 days before the Redemption Date to each Holder of Notes to be redeemed at such Holder's registered address. Notes in denominations larger than \$1,000 may be redeemed in part.

Except as set forth in the Indenture, if monies for the redemption of the Notes called for redemption shall have been deposited with the Paying Agent for redemption on such Redemption Date, then, unless the Company defaults in the payment of such redemption price plus accrued interest, if any, the Notes called for redemption will cease to bear interest from and after such Redemption Date and the only right of the Holders of such Notes will be to receive payment of the redemption price plus accrued interest, if any.

7. **Mandatory Redemption.** The Notes shall be redeemed, in whole or in part, on each February 28 and August 31 (each such date, a "Mandatory Redemption Payment Date"), by payment of 100% of Excess Cash Flow in accordance with the provisions of Section 3.07. "Excess Cash Flow" shall mean Consolidated EBITDA for the fiscal six month period expiring on the last day of each December and June, respectively, prior to each Mandatory Redemption Payment Date (such last day, the "Balance Sheet Date", provided, however, that the initial "Balance Sheet Date" shall be designated as December 31, 2001 and the initial Mandatory Redemption Payment Date shall be February 28, 2002), plus (to the extent made, incurred or accrued during such six month period) decreases in Working Capital, but less (to the extent made, incurred or accrued during such six month period), without duplication, (i) the items described in clause (ii) of the definition of "Consolidated EBITDA" (exclusive of depreciation and amortization), (ii) expenditures on capital assets, (iii) increases in Working Capital, (iv) payments or prepayments of principal and fees or other amounts under the New Credit Facility, (v) any optional redemption amount paid by the Company pursuant to Section 3.03 since the most recent Mandatory Redemption Payment Date, (vi) payments of Restructuring Expenses, and (vii) any payments made pursuant to Section 4.14; provided, however, that any

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payment of Excess Cash Flow shall be reduced to the extent necessary so that, after giving effect to such payment, the amount of cash possessed by the Company as of each respective Balance Sheet Date is at least \$3,000,000. Cash possessed by the Company is determined on a consolidated basis in accordance with GAAP. If, after any Mandatory Redemption Payment Date, it is determined, by audit or otherwise, to record adjustments to the Company's financial statements as of the related Balance Sheet Date (such adjustments, the "Financial Adjustments"), no adjustment shall be made to the related calculation of Excess Cash Flow, but the calculation of Excess Cash Flow next succeeding the recording of such Financial Adjustments shall be adjusted to give effect to such Financial Adjustments, with the effect that the dollar amount resulting from the calculation of Excess Cash Flow related to such Mandatory Redemption Payment Date plus the dollar amount of such succeeding calculation of Excess Cash Flow shall be equal to the aggregate dollar amount which would have been calculated if the applicable Financial Adjustments had been made as of the initial relevant Balance Sheet Date and not as of such succeeding Balance Sheet Date.

8. Subordination. The Notes are subordinated in right of payment, in the manner and to the extent set forth in the Indenture, to the prior payment in full in cash or Cash Equivalents of the New Credit Facility of the Company. Each Holder by his acceptance hereof agrees to be bound by such provisions and authorizes and expressly directs the Trustee, on his behalf, to take such action as may be necessary or appropriate to effectuate the subordination provided for in the Indenture and appoints the Trustee his attorney-in-fact for such purposes.

9. Notes Secured. The Holder of this Note is entitled to the benefit of Liens on the Security provided by the Company pursuant to the Indenture, subject to the priorities, limitations and provisions set forth therein. For as long as all or any portion of the Indebtedness under the New Credit Facility remains outstanding, unpaid or unsatisfied and the commitment to the Lender thereunder has not been terminated, the Trustee, and by accepting a Note, each Holder, acknowledge and agree that (i) the security interest granted to the Trustee for the benefit of the Holders in the Security shall, irrespective of the time of perfection or creation of any security interests or other Liens in the Security on behalf of the Lender under the New Credit Facility or the Trustee, be junior and subordinates to the interests of such Lender and (ii) to refrain from taking any action to foreclose upon, take possession of, liquidate or otherwise proceed against the Security. The Notes are issued pursuant to the Indenture and are secured by the specified tangible and intangible assets constituting the Security to the extent provided in the Indenture.

10. Offer to Purchase. Section 4.14 of the Indenture provides that, upon the occurrence of a Change of Control, and subject to further limitations contained therein, the Company will make an offer to purchase certain amounts of the Notes in accordance with the procedures set forth in the Indenture.

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11. **Registration Rights.** Pursuant to a Registration Rights Agreement among the Company and certain Holders, the Company will be obligated to consummate a registration for resale of such Notes.
12. **Denominations; Transfer; Exchange.** The Notes are in registered form, without coupons, and in denominations of \$1,000 and integral multiples of \$1,000. A Holder shall register the transfer of or exchange Notes in accordance with the Indenture. The Registrar may require a Holder, among other things, to furnish appropriate endorsements and transfer documents and to pay certain transfer taxes or similar governmental charges payable in connection therewith as permitted by the Indenture. The Registrar need not register the transfer of or exchange of any Notes or portions thereof selected for redemption.
13. **Persons Deemed Owners.** The registered Holder of a Note shall be treated as the owner of it for all purposes.
14. **Unclaimed Money.** If money for the payment of principal or interest remains unclaimed for one year, the Trustee and the Paying Agent will pay the money back to the Company. After that, all liability of the Trustee and such Paying Agent with respect to such money shall cease.
15. **Discharge Prior to Redemption or Maturity.** If the Company at any time deposits with the Trustee U.S. Legal Tender or U.S. Government Obligations sufficient to pay the principal of and interest on the Notes to redemption or maturity and complies with the other provisions of the Indenture relating thereto, the Company will be discharged from certain provisions of the Indenture and the Notes (including certain covenants and including, under certain circumstances, its obligation to pay the principal of and interest on the Notes but without affecting the rights of the Holders to receive such amounts from such deposits).
16. **Amendment; Supplement; Waiver.** Subject to certain exceptions set forth in the Indenture, the Indenture or the Notes may be amended or supplemented with the written consent of the Holders of a majority in aggregate principal amount of the Notes then outstanding, and any past Default or Event of Default or noncompliance with any provision may be waived with the written consent of the Holders of a majority in aggregate principal amount of the Notes then outstanding. Without notice to or consent of any Holder, the parties thereto may amend or supplement the Indenture or the Notes to, among other things, cure any ambiguity, defect or inconsistency, provide for uncertificated Notes in addition to or in place of certificated Notes, comply with any requirements of the Commission in order to effect or maintain the qualification of the Indenture under the TIA or comply with Article Five of the Indenture or make any other change that does not adversely affect the rights of any Holder of a Note.
17. **Restrictive Covenants.** The Indenture imposes certain limitations on the ability of the Company and its Subsidiaries to, among other things, incur additional Indebtedness, pay dividends or make certain other Restricted Payments, consummate certain Asset Sales, enter into certain transactions with Affiliates, incur liens, impose restrictions on the ability of a Subsidiary

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to pay dividends or make certain payments to the Company and its Subsidiaries, merge or consolidate with any other Person or sell, assign, transfer, lease, convey or otherwise dispose of all or substantially all of the assets of the Company. Such limitations are subject to a number of important qualifications and exceptions. Pursuant to Section 4.06 of the Indenture, the Company must annually report to the Trustee on compliance with such limitations.

18. Successors. When a successor assumes, in accordance with the Indenture, all the obligations of its predecessor under the Notes and the Indenture, the predecessor, subject to certain exceptions, will be released from those obligations.

19. Defaults and Remedies. If an Event of Default occurs and is continuing, the Trustee or the Holders of not less than 25% in aggregate principal amount of Notes then outstanding may declare all the Notes to be due and payable in the manner, at the time and with the effect provided in the Indenture. Holders of Notes may not enforce the Indenture or the Notes except as provided in the Indenture. The Trustee is not obligated to enforce the Indenture or the Notes unless it has received indemnity reasonably satisfactory to it. The Indenture permits, subject to certain limitations therein provided, Holders of a majority in aggregate principal amount of the Notes then outstanding to direct the Trustee in its exercise of any trust or power. The Trustee may withhold from Holders of Notes notice of any continuing Default or Event of Default (except a Default in payment of principal or interest when due, for any reason or a Default in compliance with Article Five of the Indenture) if it determines that withholding notice is in their interest.

20. Trustee Dealings with the Company and Its Subsidiaries. The Trustee under the Indenture, in its individual or any other capacity, may become the owner or pledgee of Notes and may otherwise deal with the Company, its Subsidiaries or their respective Affiliates as if it were not the Trustee.

21. No Recourse Against Others. No partner, director, officer, employee, member or stockholder, as such, of the Company shall have any liability for any obligation of the Company under the Notes, the Indenture or the Registration Rights Agreement or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each Holder of Notes by accepting a Note waives and releases all such liability. The waiver and release are part of the consideration for the issuance of the Notes.

22. Authentication. This Note shall not be valid until the Trustee or Authenticating Agent manually signs the certificate of authentication on this Note.

23. Governing Law. This Note and the Indenture shall be governed by and construed in accordance with the laws of the State of New York, as applied to contracts made and performed within the State of New York, without regard to principles

of conflict of laws. Each of the parties hereto agrees to submit to the jurisdiction of the courts of the State of New York in any action or proceeding arising out of or relating to this Note.

24. Abbreviations and Defined Terms. Customary abbreviations may be used in the name of a Holder of a Note or an assignee, such as: TEN COM (= tenants in common), TEN ENT (= tenants by the entirety), JT TEN (= joint tenants with right of survivorship and not as tenants in common), CUST (= Custodian), and U/G/M/A (= Uniform Gifts to Minors Act).

25. CUSIP Numbers. Pursuant to a recommendation promulgated by the Committee on Uniform Security Identification Procedures, the Company has caused CUSIP numbers to be printed on the Notes as a convenience to the Holders of the Notes. No representation is made as to the accuracy of such numbers as printed on the Notes and reliance may be placed only on the other identification numbers printed hereon.

The Company will furnish to any Holder of a Note upon written request and without charge a copy of the Indenture, which has the text of this Note. Requests may be made to: National Vision, Inc., 296 Grayson Highway, Lawrenceville, GA 30045-5737, Attention: General Counsel.

ASSIGNMENT FORM

If you the Holder want to assign this Note, fill in the form below and have your signature guaranteed:

I or we assign and transfer this Note to:

(Print or type name, address and zip code and social security or tax ID number of assignee)

and irrevocably appoint , agent to transfer this Note on the books of the Company. The agent may substitute another to act for him.

Dated: Signed:

(Sign exactly as your name appears

on the other side of this Note)

Signature Guarantee:

☐OPTION OF HOLDER TO ELECT PURCHASE©

If you want to elect to have this Note purchased by the Company pursuant to Section 4.14 of the Indenture, check the box:

[]

If you want to elect to have only part of this Note purchased by the Company pursuant to Section 4.14 of the Indenture, state the amount you elect to have purchased:

\$

Dated:

NOTICE: The signature on this assignment
must correspond with the name as it appears
upon the face of the within Note in every
particular without alteration or enlargement
or any change whatsoever and be guaranteed.

Signature Guarantee:

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Note: This Table of Contents shall not, for any purpose, be deemed to be part of this Indenture

AGREEMENT AND GENERAL RELEASE

National Vision, Inc. (the “Company”) and James Krause (“Mr. Krause” or “you”) agree that the following Agreement and General Release (“Agreement”) describes their complete agreement and understanding regarding Mr. Krause’s continued employment with the Company and Mr. Krause’s termination of employment with the Company in accordance with the Company’s Severance Plan.

1. This Agreement fully supersedes any and all prior agreements, letters or understandings between Mr. Krause and the Company (including any subsidiary of the Company) pertaining to the terms and conditions of Mr. Krause’s employment and/or termination from such employment, and Mr. Krause shall have no rights under any prior agreements between Mr. Krause and the Company; provided that the Agreement dated November 6, 1996 between you and National Vision Associates, Ltd., as amended May 15, 2001, with respect to change in control (the “Change in Control Agreement”) shall remain in full force and effect only until and shall terminate on January 5, 2003; further provided that the Indemnification Agreement dated June 28, 2001 between you and the Company shall remain in full force and effect.

2. Definitions. For the purposes of this Agreement, the following terms shall have the following meanings:

(a) “Confidential Information” shall mean any information, without regard to form, relating to Company’s customers, operation, finances, and business that derives economic value, actual or potential, from not being generally known to other Persons, including, but not limited to, technical or nontechnical data, formulas, patterns, compilations (including compilations of customer information), programs, devices, methods, techniques,

processes, financial data or lists of actual or potential customers and suppliers (including identifying information about customers and suppliers), whether or not in writing. Confidential Information includes information disclosed to Company by third parties that Company is obligated to maintain as confidential. Confidential Information shall not include any information that has or will become generally known or available to the public.

(b) "Customers" shall mean those entities from whose premises the Company offers any goods and services to retail customers and which are, as of the Effective Date of this Agreement, Walmart, Walmart (Mexico), Fred Meyer and the U.S. Government through its military exchanges located in the U.S.

(c) "Effective Date" shall mean the effective date of this Agreement as provided in paragraph 15(c).

(d) "Employment Period" shall mean the time period from November 3, 2002 through your Severance Date, as described in paragraph 3.

(e) "Person" shall mean any individual, corporation, bank, partnership, joint venture, association, joint stock company, trust, unincorporated organization or other entity.

(f) "Services" shall mean services which are substantially similar to the duties or functions you performed as Chief Executive Officer of the Company, including responsibility for sales and revenue growth, profitability, strategic planning and leadership, and executive oversight.

(g) "Severance Date" shall mean January 10, 2003 or, if earlier: (1) your voluntarily termination of your employment before January 10, 2003, (2) your death, or (3) your material violation of any of

the provisions of paragraphs 10-13 of this Agreement and the Company's written notice to you of such violation and the date of your last day of employment.

(h) "Territory" shall mean the areas identified in the attached Exhibit A. You acknowledge that you have reviewed Exhibit A and that it accurately reflects the territory in which you have and will perform Services on behalf of the Company.

3. **Employment Period.** You will continue with your current responsibilities as the Chief Executive Officer until January 5, 2003. Effective November 3, 2002, for the Employment Period, your base compensation will be paid at an annual rate of \$241,735, less applicable withholdings for taxes and benefits. It is the understanding of you and the Company that you will take three (3) weeks paid vacation during the Employment Period. During the Employment Period your responsibilities will be to continue management of the Company and to support a smooth transition to your successor. During the Employment Period, you will continue to participate in the Company's employee benefit plans on the same basis as you have been participating prior to entering into this Agreement.

4. **Severance Pay.**

(a) Your employment with the Company will terminate effective January 10, 2003, unless earlier terminated as described in Section 2(e). You and the Company agree that your termination of employment is for a Qualifying Reason under the Severance Plan. Within eight (8) days after the Effective Date of this Agreement or as of January 11, 2003, if later, the Company will begin to pay you on normal payroll dates an amount equal to your base salary rate under Section 3, less applicable withholding for taxes and any other deductions you may authorize, for the period commencing January 11, 2003 and continuing for twelve (12) months (your "Severance

Pay”); provided that all such payments shall cease in the event of your material violation of any of the provisions of paragraphs 10-13 of this Agreement. Because the vacation you will take in accordance with paragraph 3 will use your vacation entitlement, you will not be paid for any earned and unused vacation as of your Severance Date. Notwithstanding the foregoing, if a Change in Control of the Company, as defined in the Change in Control Agreement, occurs prior to January 11, 2003 and you are eligible to receive benefits under that agreement, you shall be provided the benefits of the Change in Control Agreement offset by any benefits otherwise payable under this Agreement so that there is no duplication of benefits.

(b) In the event of your death before your Severance Date, you shall be entitled to those benefits that would be paid to any Company employee dying while employed and any compensation and benefits under this Agreement shall cease. In the event of your death after your Severance Date and before all Severance Pay has been paid, your surviving spouse or other designated beneficiary will be paid any benefits and bonus or Performance Share awards if not already paid otherwise under paragraph 5 (a) – (c) and the remainder of any unpaid Severance Pay in a lump sum.

5. Immediately following your Severance Date, the Company will provide you with the information and elections available to any terminated employee with respect to continued medical coverage in accordance with the Consolidated Omnibus Budget Reconciliation Act (COBRA), 401(k) plan distributions and termination of other benefits, subject to the following:

(a) You shall be eligible to participate in the Company’s quarterly bonus incentive program for incentives earned in the fourth (4th) quarter of 2002, even though paid subsequent to 2002, but shall not be eligible to participate in the Company’s bonus program after December 31, 2002.

(b) Your stock options granted on October 25, 2001 that are vested as of your Severance Date may be exercised at any time during your tenure as a member of the Company's Board of Directors and for one (1) year following the date you cease to serve on the Board of Directors, notwithstanding the provisions of the Stock Option Award Certificate issued upon the grant of your options. All unvested options shall be forfeited as of your Severance Date.

(c) You shall be eligible for any award made under your Performance Shares Award for the 2002 Performance Period, even though paid in 2003, but no award for any subsequent Performance Period will be made. You will not be eligible for any further award of Performance Shares.

(d) The Split Dollar Life Insurance Agreement dated December 3, 1994 among you, National Vision Associates, Ltd., and A. Kimbrough Davis as trustee shall remain in full force and effect with the Company continuing to pay policy premiums in accordance with the terms of that agreement. It is anticipated that the policies will become self-funding in 2003. The Company will be willing to consider termination of this Agreement prior to January 1, 2004 in accordance with IRS Notice 2002-8 if you so desire.

6. Board Service. Effective January 11, 2003, and so long as you serve as a duly elected member of the Company's Board of Directors, you shall be entitled to the compensation and benefits provided to the Company's "outside" members of the Board of Directors. This Agreement provides nothing more or less than otherwise provided by the Company to such "outside" directors from time to time.

7. **Covenant Not To Sue and Release.** As a material inducement to the Company to enter into this Agreement, you irrevocably release and forever discharge the Company and any affiliated, related, or successor companies, their benefit plans and programs, or any of their respective present or former agents, directors, officers, employees, owners, representatives, or attorneys (hereinafter collectively referred to as the “Releasees”), or any of them, to the full extent permitted by law, from any and all losses, expenses, liabilities, claims, rights and entitlements of every kind and description (collectively referred to as “Claims”), whether known or unknown, that you have now or may later claim to have had against any of the Releasees arising out of anything that has occurred up through the date you sign this Agreement, including any claims based upon your employment with and termination of employment from the Company, also including paragraph 4 of this Agreement. This Release includes, but is not limited to, any claims which have been asserted or could have been asserted for back pay, reinstatement, personal injuries, breach of contract (express or implied), breach of any covenant of good faith and fair dealing (express or implied), or for recovery of any losses or other damages to you or your property based on any alleged violation of Title VII of the Civil Rights Act of 1964, 42 U.S.C. § 2000e et seq. (prohibiting discrimination on account of race, sex, color, national origin or religion); the Americans with Disabilities Act, 42 U.S.C. § 12101 et seq. (prohibiting discrimination on account of disabilities); the Family and Medical Leave Act of 1993, 29 U.S.C. § 2601 et seq.; the Employee Retirement Income Security Act of 1974, 29 U.S.C. § 1001 et seq.; the Age Discrimination in Employment Act (“ADEA”), 29 U.S.C. § 621 et seq. (prohibiting discrimination on account of age); the Georgia Equal Employment for Persons with Disabilities Code, OCGA §§ 34-6A-1 to 34-6A-6 (prohibiting discrimination on account of disability; or any other federal, state, or local

statutory or common law. This release is only applicable for events occurring through the signing of this Agreement. You affirm that the waiver of rights and claims under the ADEA set out in this Agreement is made in exchange for consideration in addition to anything of value to which you are already entitled. Notwithstanding the preceding paragraph, it is understood and agreed that the Release of the preceding paragraph does not (1) waive your right to receive benefits under any employee benefit plan of the Company that have accrued and/or become vested prior to the date of this Agreement, (2) waive your rights under any employee benefit plan of the Company which are intended, under the terms and provisions of such plan, to survive your separation from the Company, (3) waive any right you may have to claim or receive indemnification as an officer or director of the Company under any applicable state laws, the Company's Articles of Incorporation, or the Company's By-Laws, or (4) waive any right you may have to claim or receive insurance coverage or be defended under any directors and officers insurance coverage which applies to directors and/or officers of the Company and which applies to you in your capacity as chief executive officer and as a current or former director of the Company.

8. Representation. You represent and warrant that you have not filed any complaint or charges against the Releasees in any court or with any other local, state, or federal agency. You agree that you will not hereafter file, or voluntarily participate in any charge, complaint, claim or lawsuit alleging a violation of law by Releasees based on anything that has occurred up to the present date. You further acknowledge that should any administrative complaint or charge be filed against the Releasees (or any of them) with any federal, state, or local agency, including for instance the Equal Employment Opportunity Commission or the Department of Labor, you

will have no right to recover damages or obtain relief of any kind in any such proceeding. Any claim asserted by you under the ADEA is expressly excluded from the provisions set forth in the preceding two sentences. This release is only applicable for events occurring through the signing of this Agreement. You further agree that you will not voluntarily assist anyone else in asserting any claim against the Releasees (or any of them) although nothing contained herein shall prevent you from complying with any valid court order or subpoena and providing truthful testimony in any matter if subpoenaed or ordered to do so.

9. Waiver. You acknowledge that you may have sustained or may yet sustain damages, costs, or expenses that are presently unknown and that relate to claims between you and the Releasees. You expressly waive and relinquish all rights and benefits which you may have under any state or federal statute or common law principle that would otherwise limit the effect of this Agreement to Claims known or suspected prior to the date you sign this Agreement, and do so understanding and acknowledging the significance and consequence of such specific waiver. Thus, for the purpose of implementing a full and complete release and discharge of the Released Parties, you expressly acknowledge that this Agreement is intended to include in its effect, without limitation, all claims which you do not know or suspect to exist in your favor at the time of execution hereof, and that this Agreement contemplates the extinguishment of any such claim or claims. This release does not, however, waive claims arising from facts occurring after you sign this Agreement.

10. Confidential Information.

(a) Company Trade Secrets. During your employment with the Company and after your employment ends, you will hold in strictest confidence and shall not use, except for the benefit of the Company, any Trade Secrets of the Company, as that term is defined under applicable law.

(b) Company Confidential Information. During your employment with the Company (including the Employment Period) and for a period of two (2) years after your Severance Date, you shall hold in strictest confidence and shall not use, except for the benefit of the Company any Confidential Information of the Company.

(c) Company Property. Upon termination of your employment with the Company you shall return to the Company all records, documents and material containing confidential information of the Company and/or any parent or affiliated company prepared by you or coming into your possession by virtue of your employment with the Company, including all copies thereof.

11. Covenants Against Competition. For a period of two (2) years after you sign this Agreement (“Non-Competition Period”), you will not perform Services within the Territory for any Person providing or offering goods or services identical to or substantially similar to those provided or offered by Company. In addition, you will provide the Company with prior written notice of your commencement of employment or any consulting relationship for any vendor or supplier of the Company as of the Effective Date of this Agreement.

12. Solicitation of Customers. You acknowledge that the Company has developed a significant relationship with each Customer for the purpose of offering goods and services for eyewear and eye care needs. During your employment (including the Employment Period) and for a period of two (2) years after your Severance Date, you agree not to solicit Customers for any Person other than the Company for the purposes of offering any goods or services from the Customer premises to retail customers, without the express prior written permission of the Company.

13. Solicitation of Employees. During your employment (including the Employment Period) and for a period of two (2) years after your Severance Date, you will not solicit or induce to leave employment with the Company anyone who is an employee of the Company or was an employee of the Company within one (1) year of your Severance Date.

14. Injunctive Relief. You acknowledge that breach of the provisions of any of paragraphs 10, 11, 12 and 13 this Agreement would result in irreparable injury and permanent damage to the Company, which prohibitions or restrictions you acknowledge are both reasonable and necessary under the circumstances, singularly and in the aggregate, to protect the interests of the Company. You recognize and agree that the ascertainment of damages in the event of a breach of the provisions of paragraphs 10-13 of this Agreement would be difficult, and that money damages alone would be an inadequate remedy for the injuries and damages which would be suffered by the Company from breach of this section by you.

You therefore agree: (i) that, in the event of a breach of the provisions of paragraphs 10-13 of this Agreement, the Company, in addition to and without limiting any of the remedies or rights which it may have at law or in equity or pursuant to this Agreement, shall have the right to injunctive relief or other similar remedy in order to specifically

enforce the provisions hereof and (ii) that in the event you breach the provisions of paragraphs 10-13 of this Agreement, the Company may immediately terminate your employment and all payments of compensation and benefits under this Agreement shall immediately cease, unless otherwise prohibited by law. Nothing contained herein shall preclude the Company from seeking monetary damages that are allowable by law.

15. Effective Date; Revocation.

(a) **Consideration Period.** Because the arrangements discussed in this Agreement affect important rights and obligations, we advise you to consult with an attorney before you agree to the terms set forth herein. You will have at least twenty-one (21) days from the date you receive this Agreement within which to consider it. If you decide to accept the benefits offered herein, you must sign this Agreement on your Severance Date or by the later of (a) seven (7) days after your Severance Date or (b) the 21st day after you received this Agreement. (Thus, in the event that you receive this Agreement less than twenty-one (21) days before your Severance Date, you may nevertheless take a full twenty-one (21) days to consider it before signing it). After signing the Agreement, please return it promptly to the Company. If you do not wish to accept the terms of this Agreement, you do not have to do anything. But, your employment will nevertheless terminate on your Severance Date and you will be treated as if you had voluntarily terminated employment for purposes of benefits and other entitlements.

(b) **Revocation Rights.** For a period of up to and including seven (7) days after the date you sign this Agreement, you may revoke it entirely. No rights or obligations contained in this Agreement shall become enforceable before the end of the 7-day revocation period. If you decide to revoke the Agreement, you must deliver to the Company (Attention: Mitchell Goodman, Esq., National Vision, Inc., 296 Grayson Highway, Lawrenceville, Georgia 30045) a signed notice of revocation on or before the last day of this 7-day period.

(c) **Effective Date.** This Agreement shall become effective (the “Effective Date”) on the eighth day after the date you execute it below, unless it is earlier revoked by you pursuant to the provisions set forth in the “Revocation Rights” section of this Agreement. If you resign or are terminated by the Company for Cause prior to January 10, 2003 the Company may, at its option, revoke this Agreement by giving you oral or written notice of revocation. Upon exercise of the Company’s right of revocation, this Agreement shall be canceled and void, and neither you nor the Company shall have any rights or obligations arising under it.

16. **Severability.** The provisions of this Agreement are severable, and if any term of this Agreement is held to be illegal, invalid, or unenforceable by a court of competent jurisdiction, the remaining terms shall remain in full force and effect.

17. **Successors and Assigns.** This agreement shall inure to the benefit of both the Company and James Krause and its successors and assigns and shall be binding upon you and your heirs, administrators, executors and personal representatives.

18. **Governing Law.** This Agreement is made and entered into in the State of Georgia and shall be interpreted, enforced, and governed under the laws of Georgia. The language of all parts of this Agreement shall in all cases be construed as a whole, according to its fair meaning, and not strictly for or against any of the parties.

You affirm that the only consideration for executing this Agreement is the promises expressly stated herein. You represent and acknowledge that in executing this Agreement, you do not and have not relied upon any promise, inducement, representation, or statement made by any of the Released Parties or their agents, representatives, or attorneys about the subject matter, meaning, or effect of this Agreement that is not stated in this document.

James Krause
NATIONAL VISION, INC

By: _____

Date: _____

Date: **December __, 2002**

Exhibit A

Alabama	Nevada
Alaska	New Hampshire
Arizona	New Jersey
California	New Mexico
Colorado	New York
Connecticut	North Carolina
Florida	North Dakota
Georgia	Oregon
Hawaii	Pennsylvania
Idaho	Puerto Rico
Kansas	South Carolina
Kentucky	South Dakota
Louisiana	Tennessee
Maine	Texas
Maryland	Virginia
Massachusetts	Washington
Minnesota	West Virginia
Montana	Wyoming
Mexico	

NATIONAL VISION, INC.

SUBSIDIARY COMPANIES

Name of Subsidiary	Jurisdiction of Incorporation
NVAL Healthcare Systems, Inc.	Georgia
NVAL Visioncare Systems of California, Inc.	California
International Vision Associates, Ltd.	Georgia
Mexican Vision Associates, S.A. de C.V.	Mexico
Mexican Vision Associates Operadora, S. de R.L. de C.V.	Mexico
Mexican Vision Associates Servicios, S. de R.L. de C.V.	Mexico

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement Nos. 333-84425, 333-84287, and 333-27187 of National Vision, Inc. on Form S-8 of our report dated May 29, 2003, relating to the 2002 and 2001 consolidated financial statements and financial statement schedule of National Vision, Inc. and subsidiaries appearing in this Annual Report on Form 10-K of National Vision, Inc. for the year ended December 28, 2002.

DELOITTE & TOUCHE LLP

Atlanta, Georgia
May 29, 2003

NOTICE REGARDING CONSENT OF ARTHUR ANDERSEN LLP

Section 11(a) of the Securities Act of 1933, as amended (the “Securities Act”), provides that if any part of a registration statement at the time such part becomes effective contains an untrue statement of a material fact or an omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading, any person acquiring a security pursuant to such registration statement (unless it is proved that at the time of such acquisition such person knew of such untruth or omission) may sue, among others, every accountant who has consented to be named as having prepared or certified any part of the registration statement, or as having prepared or certified any report or valuation which is used in connection with the registration statement, with respect to the statement in such registration statement, report or valuation which purports to have been prepared or certified by the accountant.

This Annual Report on Form 10-K is incorporated by reference into Registration Statement File Nos. 333-84425, 333-84287, and 333-27187 on Form S-8 (collectively, the “Registration Statements”) of the Company and, for purposes of determining any liability under the Securities Act, is deemed to be a new registration statement for each Registration Statement into which it is incorporated by reference.

Effective May 15, 2002 the Board of Directors of the Company, upon the recommendation of its Audit Committee, dismissed its independent accountants, Arthur Andersen LLP (“Andersen”). See the Company’s Current Report on Form 8-K filed May 21, 2002 for more information. After reasonable efforts, the Company has been unable to obtain Andersen’s written consent to the incorporation by reference into the Registration Statements of its audit reports with respect to the Company’s financial statements as of and for the fiscal years ended December 29, 2001 and December 30, 2000 and the related consolidated statements of operations, changes in shareholders’ equity (deficit) and cash flows for the seven months ended December 29, 2001 (successor company), the five months ended June 2, 2001 (predecessor company), and for the years ended December 30, 2000 and January 1, 2000 (predecessor company).

Under these circumstances, Rule 437a under the Securities Act permits the Company to file this Form 10-K without a written consent from Andersen. However, as a result, with respect to transactions in the Company’s securities pursuant to the Registration Statements that occur subsequent to the date this Annual Report on Form 10-K is filed with the Securities and Exchange Commission, Andersen will not have any liability under Section 11(a) of the Securities Act for any untrue statements of a material fact contained in the financial statements audited by Andersen or any omissions of a material fact required to be stated therein. Accordingly, you would be unable to assert a claim against Andersen under Section 11(a) of the Securities Act because it has not consented to the incorporation by reference of its previously issued reports into the Registration Statements. To the extent provided in Section 11(b)(3)(C) of the Securities Act, however, other persons who are liable under Section 11 (a) of the Securities Act, including the Company’s officers and directors, may still rely on Andersen’s original audit reports as being made by an expert for purposes of establishing a due diligence defense under Section 11(b) of the Securities Act.

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of National Vision, Inc. (the "Company") on Form 10-K for the period ending December 28, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Reade Fahs, Chief Executive Officer of the Company and I, Angus C. Morrison, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 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.

A signed original of this written statement required by Section 906 has been provided to National Vision, Inc. and will be retained by National Vision, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

/s/ Reade Fahs

Reade Fahs
Chief Executive Officer
June 3, 2003

/s/ Angus C. Morrison

Angus C. Morrison
Chief Financial Officer
June 3, 2003