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SIGNATURE

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

[X] Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended May 5, 2001, or

[ ] Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from ________ to ________.

Commission file number 33-66342

COLE NATIONAL GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	34-1744334 (I.R.S. employer identification no.)
5915 Landerbrook Drive Mayfield Heights, Ohio (Address of principal executive offices)	44124 (Zip Code)

(440) 449-4100
(Registrant's telephone number, including area code)

The registrant meets the conditions set forth in General Instruction H(1)(a) and (b) of Form 10-Q and is therefore filing this form in the reduced disclosure format.

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. _X_ YES ___ NO

All of the outstanding capital stock of the registrant is held by Cole National Corporation.

As of May 31, 2001, 1,100 shares of the registrant's common stock, $.01 par value, were outstanding.

COLE NATIONAL GROUP, INC. AND SUBSIDIARIES
FORM 10-Q
QUARTER ENDED MAY 5, 2001
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COLE NATIONAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)
(Dollars in thousands)

	May 5, 2001	February 3, 2001
Assets		
Current assets:		
Cash and cash equivalents	$ 35,484	$ 36,725
Accounts receivable, less allowance for doubtful accounts of $7,011 and $7,348, respectively	37,943	40,429
Current portion of notes receivable	4,272	4,272
Inventories	129,784	122,238
Refundable income taxes	547	571
Prepaid expenses and other	12,872	15,188
Deferred income tax benefits	2,009	2,009
Total current assets	222,911	221,432
Property and equipment, at cost	265,891	268,742
Less — accumulated depreciation and amortization	(146,527)	(145,723)
Total property and equipment, net	119,364	123,019
Notes receivable, excluding current portion, less reserves for uncollectible amounts of $4,585 and $4,537, respectively	5,611	6,573
Deferred income taxes and other assets	57,209	57,422
Intangible assets, net	150,117	151,588
Total assets	$ 555,212	$ 560,034
Liabilities and Stockholder's Equity		
Current liabilities:		
Current portion of long-term debt	$ 86	$ 49
Accounts payable	48,656	55,644
Payable to affiliates, net	81,596	81,789
Accrued interest	7,314	6,337
Accrued liabilities	75,951	75,654
Accrued income taxes	1,407	502
Total current liabilities	215,010	219,975
Long-term debt, net of discount and current portion	274,240	274,262
Other long-term liabilities	11,320	11,506
Stockholder's equity	54,642	54,291
Total liabilities and stockholder's equity	$ 555,212	$ 560,034

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

COLE NATIONAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(Dollars in thousands)

	Thirteen Weeks Ended	
	May 5, 2001	**April 29, 2000**
Net revenue	$270,291	$257,281
Costs and expenses:		
Cost of goods sold	87,116	86,328
Operating expenses	166,035	158,178
Depreciation and amortization	9,309	9,311
Total costs and expenses	262,460	253,817
Operating income	7,831	3,464
Interest and other (income) expense:		
Interest expence	6,901	6,882
Interest and other income	(936)	(133)
Total interest and other (income) expense, net	5,965	6,749
Income (loss) before income taxes	1,866	(3,285)
Income tax provision (benefit)	1,306	(1,937)
Net income (loss)	$ 560	$ (1,348)

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

COLE NATIONAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(Dollars in thousands)

	Thirteen Weeks Ended	
	May 5, 2001	**April 29, 2000**
Cash flows from operating activities:		
Net income (loss)	$ 560	$ (1,348)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	9,309	9,311
Non-cash interest, net	305	264
Gain on sale of fixed assets	(683)	—
Increases (decreases) in cash resulting from changes in operating assets and liabilities:		
Accounts and notes receivable, prepaid expenses and other assets	5,553	890
Inventories	(7,546)	(3,615)
Accounts payable, accrued liabilities and other liabilities	(6,908)	(174)
Accrued interest	977	445
Accrued, refundable and deferred income taxes	929	(2,503)
Net cash provided by operating activities	2,496	3,270
Cash flows from investing activities:		
Purchases of property and equipment, net	(5,933)	(9,101)
Proceeds from sale of fixed assets, net	4,712	—
Systems development costs	(2,107)	(1,823)
Other, net	(105)	55
Net cash used for investing activities	(3,433)	(10,869)
Cash flows from financing activities:		
Repayment of long-term debt	(10)	(123)
Advances to affiliates, net	(94)	(340)
Payment of deferred financing fees	—	(188)
Other, net	(200)	(196)
Net cash used for financing activities	(304)	(847)
Cash and temporary cash investments:		
Net decrease during the period	(1,241)	(8,446)
Balance, beginning of the period	36,725	28,953
Balance, end of the period	$35,484	$ 20,507

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

COLE NATIONAL GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(1) Summary of Significant Accounting Policies

Basis of Presentation

Cole National Group, Inc. is a wholly owned subsidiary of Cole National Corporation. The consolidated financial statements include the accounts of Cole National Group and its wholly owned subsidiaries (collectively, the “Company “). All significant intercompany transactions have been eliminated in consolidation.

The accompanying consolidated financial statements have been prepared without audit and certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted, although management believes that the disclosures herein are adequate to make the information not misleading. Results for interim periods are not necessarily indicative of the results to be expected for the full year. These statements should be read in conjunction with the Company’s consolidated financial statements and notes thereto included in its annual report on Form 10-K for the fiscal year ended February 3, 2001.

In the opinion of management, the accompanying financial statements contain all adjustments (consisting only of normal recurring accruals) necessary to present fairly Cole National Group, Inc.’s financial position as of May 5, 2001 and the results of operations and cash flows for the 13 weeks ended May 5, 2001 and April 29, 2000.

Inventories

The accompanying interim consolidated financial statements have been prepared without physical inventories.

Cash Flows

Net cash flows from operating activities reflect net cash payments (receipts) for income taxes and payments for interest of $380,000 and $5,620,000, respectively, for the 13 weeks ended May 5, 2001, and ($61,000) and $6,173,000, respectively, for the 13 weeks ended April 29, 2000.

Total Other Comprehensive Income (Loss)

Total other comprehensive income (loss) for the 13 weeks ended May 5, 2001 and April 29, 2000 is as follows (000’s omitted):

	13 Weeks Ended	
	May 5, 2001	**April 29, 2000**
Net income (loss)	$ 560	$(1,348)
Cumulative translation loss	(209)	(209)
Total other comprehensive income (loss)	$ 351	$(1,557)

(2) Segment Information

Information on the Company's reportable segments is as follows (000's omitted):

	13 Weeks Ended	
	May 5, 2001	April 29, 2000
Net revenue:		
Cole Vision	$216,381	$206,625
Things Remembered	53,910	50,656
Consolidated net revenue	$270,291	$257,281
Operating income (loss):		
Cole Vision	$ 11,380	$ 9,449
Things Remembered	(1,068)	(2,378)
Total segment operating income	10,312	7,071
Unallocated amounts:		
Corporate expenses	(2,481)	(3,607)
Consolidated operating income	7,831	3,464
Interest and other income, net	(5,965)	(6,749)
Income (loss) before income taxes	$ 1,866	$ (3,285)

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Certain information required by this item has been omitted pursuant to General Instruction H of Form 10-Q.

The following is a discussion of certain factors affecting Cole National Group's results of operations for the 13 week periods ended May 5, 2001 and April 29, 2000 (the Company's first quarter). This discussion should be read in conjunction with the consolidated financial statements and notes thereto included elsewhere in this filing and the audited financial statements for the fiscal year ended February 3, 2001 included in the annual report on Form 10-K.

Fiscal years end on the Saturday closest to January 31 and are identified according to the calendar year in which they begin. For example, the fiscal year ended February 3, 2001 is referred to as "fiscal 2000." The current fiscal year, which will end February 2, 2002, is referred to as "fiscal 2001."

Results of Operations

The following table sets forth certain operating information for the first quarter fiscal 2001 and fiscal 2000 (dollars in millions):

	First Quarter		
	2001	**2000**	**Change**
Net revenue:			
Cole Vision	$216.4	$206.6	4.7%
Things Remembered	53.9	50.7	6.4
Total net revenue	$270.3	$257.3	5.1%
Gross margin	$183.2	$171.0	7.1%
Operating expenses	166.1	158.2	5.0
Depreciation and amortization	9.3	9.3	—
Operating income	$ 7.8	$ 3.5	126.1%
Percentage of net revenue:			
Gross margin	67.8%	66.4%	1.4
Operating expenses	61.5	61.5	—
Depreciation and amortization	3.4	3.6	(0.2)
Operating income	2.9%	1.3%	1.6
Number of retail locations at the end of the period:			
Cole Licensed Brands	1,186	1,078	
Pearle company-owned	438	447	
Pearle franchised	421	421	
Total Cole Vision	2,045	1,946	
Things Remembered	781	791	
Total Cole National	2,826	2,737	

The increase in consolidated net revenue for the first quarter was primarily attributable to increases in comparable store sales at Cole Vision, an increase in the number of Target Optical locations, additional managed vision care revenue and a shift in the calendar that benefited gift sales at Things Remembered. Changes in comparable store sales by business compared to the same period a year ago were:

	First Quarter
Cole Licensed Brands (U.S.)	4.9%
Pearle company-owned (U.S.)	1.2%
Total Cole Vision	2.7%
Things Remembered	0.1%
Total Cole National	2.1%
Pearle U.S. franchise stores	(1.9)%
Pearle U.S. chain-wide	(0.5)%

At Cole Licensed Brands, the first quarter comparable store sales increase reflected an increase in both the number of transactions and the average spectacle selling price. Sales at Target Optical locations opened since the first quarter 2000 provided an additional $3.4 million of net revenue. At Pearle, the first quarter company-owned comparable store sales were driven by the average spectacle selling price as a result of not repeating a “50% off frame” promotion that ran during the entire first quarter of fiscal 2000. At Things Remembered, comparable store sales were flat, in part from not repeating February 2000’s aggressive merchandise clearance promotion and from the general slowdown in mall traffic. However, the average selling price increased as a result of sales of new merchandise at higher average unit retails, more personalization and not repeating last year’s promotion. The $3.2 million increase in total revenue at Things Remembered resulted primarily from a calendar shift due to last year’s 53rd week causing the first quarter of fiscal 2001 to end one week closer to Mothers Day, an important gift giving occasion.

The gross margin dollar increase for the first quarter resulted from improvements in net revenue and gross margin rate at both Cole Vision and Things Remembered. The gross margin rate at Cole Vision improved 0.9 percentage points compared to the first quarter 2000. The primary causes for the improvement were the increased average spectacle selling price at Cole Licensed Brands and Pearle, and the additional revenue from managed vision care. The gross margin rate at Things Remembered increased 1.8 percentage points compared to first quarter 2000 reflecting the improvement in average selling price due in part to not repeating last year’s aggressive clearance promotion.

The increase in operating expenses for the first quarter was primarily due to costs incurred to support the increase in net revenue and the Target Optical expansion. Operating expenses as a percentage of net revenue were essentially flat between years. However, first quarter 2000 included a $1.8 million charge for severance costs recorded in connection with a headcount reduction at Cole Vision. Excluding last year’s severance charge, operating expenses as a percentage of net revenue increased 0.7 percentage points for the first quarter of 2001. The increase in operating expenses as a percentage of net revenue was primarily attributable to a 1.0 percentage point increase in payroll costs and a 0.2 percentage point increase in store occupancy costs partially offset by improved leverage in systems costs and other operating expenses. The increase in payroll as a percentage of net revenue reflected additional payroll costs incurred for training, improving customer satisfaction and selling and for the Target Optical expansion. The leverage loss in store occupancy costs was also a result of the Target Optical expansion.

The increase in operating income was primarily attributable to the increase in net revenues and gross margin rates at both Cole Vision and Things Remembered, and to the severance charge included in fiscal 2000 results, which are discussed above. During the first quarter of fiscal 2001, 22 Target Optical locations were opened, bringing the total number to 139. The Company’s profit improvement for the first quarter was achieved after absorbing the increased losses from the continued expansion of Target Optical. While progress is being made, there is still much work to be done to build this start-up into an efficient and profitable chain.

The decrease in interest and other (income) expense, net, was primarily the result of a $0.7 million gain from the sale of a Dallas facility no longer needed for Pearle’s operations. An income tax provision (benefit) was recorded in the first quarter of fiscal 2001 and fiscal 2000 using the Company’s estimated annual effective tax rates of 70% and 59%, respectively. The increase in rate approximates the full year effective rate realized in fiscal 2000.

Forward-Looking Information

Certain sections of this Form 10-Q Report, including this Management's Discussion and Analysis, contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those forecasted due to a variety of factors that can adversely affect the Company's operating results, liquidity and financial condition such as risks associated with the timing and achievement of improvements in the operations of the optical business, the success of new store openings and the rate at which new stores achieve profitability, the Company's ability to select, stock and price merchandise attractive to customers, success of systems development and integration, competition in the optical industry, integ ration of acquired businesses, economic and weather factors affecting consumer spending, operating factors affecting customer satisfaction, including manufacturing quality of optical and engraved goods, the Company's relationship with host stores and franchisees, the mix of goods sold, pricing and other competitive factors, and the seasonality of the business. Forward-looking statements are made based upon management's expectations and beliefs concerning future events impacting Cole National Group, Inc. All forward-looking statements involve risk and uncertainty.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Company is exposed to market risk from changes in foreign currency exchange rates, which could impact its results of operations and financial condition. Foreign exchange risk arises from the Company's exposure in fluctuations in foreign currency exchange rates because The Company's reporting currency is the United States dollar. Management seeks to minimize the exposure to foreign currency fluctuations through natural internal offsets to the fullest extent possible.

PART II — OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits The following Exhibits are filed herewith and made a part hereof:

None.

(b) Reports on Form 8-K

None.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

COLE NATIONAL GROUP, INC.

By: /s/ William P. Lahiff, Jr.

William P. Lahiff, Jr.
Senior Vice President and Controller
(Duly Authorized Officer and Principal Accounting Officer)

Date: June 14, 2001