U.S. VISION

02011698

0-23397

January 22, 2002

Dear Shareholders:

We usually issue this annual letter to shareholders on a timely basis after the close of our fiscal year, but during 2001 we were in the midst of a proposed sale of the company, which we expected to close, thereby negating the need for an annual meeting and letter to shareholders. Unfortunately, that transaction was terminated and we now need to proceed with our annual meeting for the fiscal year ended January 31, 2001, and the election of directors.

To lower the cost of this meeting, we have eliminated the glossy annual report and included with this letter a copy of our last Annual Report on Form 10-K as filed with the Securities and Exchange Commission for the fiscal year ended January 31, 2001, along with the notice and proxy statement relating to the annual meeting.

We take this belated opportunity to thank our employees, shareholders and customers for their continued support.

Sincerely,

William A. Schwartz, Jr.
Chairman of the Board, President and Chief Executive Officer

U.S. Vision, Inc. • P.O. Box 124 • Glen Oaks Industrial Park • Gloucester Township • Glendora, NJ 08029 • (856) 228-1000

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

AMENDMENT NO. 1
TO
FORM 10-K

(Mark One)

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

For the Fiscal Year Ended January 31, 2001

OR

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

Commission File No. 0-23397

U. S. Vision, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**22-3032948**
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification no.)

1 Harmon Drive
Glen Oaks Industrial Park
Glendora, New Jersey 08029
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: **(856) 228-1000**

Securities registered pursuant to Section 12(b) of the Act: **NONE**

Securities Registered Pursuant to Section 12(g) of the Act:

Common Stock, par value $.01 per share	**7,802,942**
(Title of class)	(Number of Shares Outstanding as of April 20, 2001)

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

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

The aggregate market value of voting stock held by nonaffiliates of the registrant is approximately $3,846,745. This amount was calculated by reducing the total number of shares of the registrant's common stock outstanding by the total number of shares of common stock held by officers, directors, and stockholders owning in excess of 10% of the registrant's common stock, and multiplying the remainder by the average of the bid and asked price for the registrant's common stock on April 20, 2001, as reported on the National Association of Securities Dealers, Inc. Automated Quotation System. The information provided shall in no way be construed as an admission that any officer, director, or more than 10% stockholder of the registrant may be deemed an affiliate of the registrant or that such person is the beneficial owner of the shares reported as being held by such person, and any such inference is hereby disclaimed.

PART I

Item 1. BUSINESS.

Overview

U.S. Vision, Inc. ("we," "us," "our," or the "company") is a retailer of optical products and services through retail optical departments licensed to operate within national and regional department stores and through a limited number of freestanding retail locations. As of January 31, 2001, we operated 629 locations in 47 states and Canada, consisting of 596 licensed departments and 33 freestanding stores. We currently operate 420 retail optical departments in J.C. Penney's and are their primary optical licensee. In addition, we operate 66 Sears retail optical departments and 110 retail optical departments in regional department stores. Our freestanding stores are located in malls and shopping centers.

Our retail optical departments are full-service retail vision care stores that offer an extensive selection of designer brands and private label prescription eyewear, contact lenses, sunglasses, ready made readers and accessories. Also, an on-premises, independent doctor of optometry performs complete eye examinations and prescribes eyeglasses and contact lenses. Our extensive selection of designer and private label branded eyewear allows us to tailor our merchandise selection to meet the needs of our host store customers. See "Business — Products and Services — Merchandise Selection" and "Store Operations."

We operate a single, modern optical laboratory, distribution and lens grinding facility at which we fill customer orders for prescription eyewear and maintain a central inventory of frames. Customer orders are placed at the retail stores and are transmitted into the central optical laboratory daily, where the lenses are ground, cut, finished and custom fitted to optical frames in the size and style selected by the customer. The finished eyewear is then shipped to the retail store for delivery to the customer within a few working days and can be completed overnight if requested by the customer. See "Business — Optical Laboratory."

Since 1991, we have been a national provider of managed vision care benefits through our participation in programs which offer comprehensive eyewear benefits to plan participants. In fiscal 2000, approximately 33% of our revenues were attributable to purchases by participants in managed vision care programs. See "Business — Managed Vision Care."

Our corporate headquarters are located at 1 Harmon Drive, Glen Oaks Industrial Park, Glendora, New Jersey 08029 and our telephone number is (856) 228-1000.

Products and Services

Merchandise Selection. We carry a full selection of men's, women's and children's eyeglass frames, a complete line of contact lenses, sunglasses, ready made readers, and ancillary products for eyeglasses and contact lenses. Prescription eyewear and accessories accounted for 89% of our sales during fiscal 2000. We offer an extensive selection of designer and private label branded eyewear. Designer eyeglass frames offered include Guess, Halston and Eddie Bauer, among others and, at certain stores, Giorgio Armani, Calvin Klein and Polo by Ralph Lauren. We also offer private label branded eyeglass frames such as Kenneth Cole, Arizona, Ashley Stewart, Oliver Winston, City Slickers and Rascals, among others. U.S. Vision also offers a wide variety of value-added eyewear features and services on which we realize a higher gross margin. These eyewear features and services include lightweight, virtually unbreakable polycarbonate lenses, including progressive lenses and photochromic lenses, as well as scratch resistant and anti-reflective coatings. In addition, we carry a complete line of contact lenses by major contact lens manufacturers such as Bausch & Lomb, Wesley Jessen, and Johnson & Johnson, including daily wear and extended wear soft contact lenses and cosmetic tinted lenses. During fiscal 2000, contact lenses accounted for approximately 11% of the company's sales.

Pricing. U.S. Vision maintains a promotional pricing strategy which stresses a quality product delivered at a competitive price. Our frames and lenses are generally competitively priced, with prices varying based on market locations. While we earn a higher gross margin on our private-label lines, designer frames generally command premium prices, resulting in higher gross profit dollars per transaction.

Full Customer Service. We strive to provide our customers with exceptional care and value by combining the personal service typically associated with a private optometrist with the broad product selection and competitive prices of a large optical retailer. Management believes that providing superior customer service from knowledgeable and courteous employees complements the customer-oriented policies of our department store hosts.

Managed Vision Care

Since 1991, we have been a participating provider of managed vision care benefits primarily through Vision One, a national vision care program which offers comprehensive eyewear benefits to over 90 million covered lives through a network of over 2,000 optical locations. Managed care programs are marketed directly to employers, employee benefit plan sponsors and insurance companies such as General Motors, Metropolitan Life, Aetna, Cigna, AARP, Prudential and Blue Cross/Blue Shield. Managed care programs give employers the opportunity to offer their employees a group discount at retail optical locations of participating providers with minimal direct cost to the employer. The discounts vary under the plans from fixed percentage discounts to fixed dollar amounts with the balance paid by the subscriber. As a result of these benefits, management believes that many managed care participants have vision examinations on a regular basis and may become more frequent customers of the company. In addition, managed care participants frequently apply their discounts and allowances toward the purchase of premium eyeglass products and related accessories. Under the terms of our contract with Cole National, a competitor of the company and the owner of the Vision One program, we pay an administrative fee for each Vision One member transaction. Our contract with Cole National expires in 2002. We retain the right, though we have not exercised it in the past, to refuse to participate in particular Vision One programs under which we cannot profitably provide goods and services, and to participate in other managed care vision plans under certain conditions. Approximately 33% of our revenues are generated from our participation in various managed vision care programs.

Store Operations

Location and Layout. We operate most of our stores on the premises of national and regional department stores in the United States and Canada. These stores generally operate under names such as "J.C. Penney Optical Center" and "Sears Optical," which associate the departments with the host store. Our retail optical departments generally operate under a lease or license arrangement through which the host store collects the sales receipts, retains rent computed as an agreed upon percentage of sales and remits the remainder to us on a regular basis. Our leased retail optical departments typically average in size from 500 to 800 square feet. Our retail optical departments are often located within the host department store near the host store's other licensed departments such as the beauty salon and photography studio. Management believes that the location of our retail optical departments within a host store influences our ability to take full advantage of the host store's customer traffic.

Each of our stores follows a standard merchandise layout plan which is designed to emphasize fashion, invite customer browsing and enhance the customer's shopping experience. All of our stores are similar in appearance and are operated under certain uniform standards and procedures. We have developed a new store prototype design and all of our new and remodeled retail optical departments are designed in accordance with this prototype.

Our freestanding stores operate under various trade names such as Royal Optical, Service Optical and Wall & Ochs and are located in malls and shopping centers. Our freestanding stores generally range in size from 900 to 1,400 square feet.

Store Management. Our store management structure consists of field managers and store managers. The store managers, along with two to three associates known as Optechs, are responsible for the day-to-day operations of each of our retail optical departments. Optechs undertake a comprehensive training program that familiarizes them with the company's product lines, customer services, store procedures and automated systems. Our field managers are each assigned responsibility for the sales, customer relations and daily operation for a number of stores in their geographic area. Management believes that providing knowledgeable and responsive customer service is an important element of our success and, accordingly, has developed and implemented a variety of employee training and incentive programs.

On-Site Independent Optometrist. We have made arrangements with licensed optometrists to provide eye examination services at or adjacent to our retail locations in those states where it is permitted. See "Government Regulations." The independent optometrists sublease space and equipment from us or from the host store. We and the optometrists do not share in each other's revenues. We believe the presence of the optometrists at the stores helps to generate eyeglass sales, leads to repeat customers and reinforces the quality and professionalism of each store.

Relationship with Host Stores

Most of our stores operate as licensed optical departments within a host department store such as J.C. Penney, Sears, Hudson's Bay, May (Strawbridge's, Famous Barr and L.S. Ayres), Marshall Field's, Dayton's, Hudson's and Carson Pirie Scott, among others. Management believes that our relationships with our host stores provide several competitive advantages such as:

- lower operating expenses;
- lower initial capital investment;
- loyal host store customer base;
- established host store advertising and marketing programs;
- one-stop shopping convenience; and
- access to the host store's private label credit card.

Management believes its hosts' reputation of quality, trust and value further enhances our customer relations.

Management believes the company has developed excellent relationships with the host stores in which it operates. We routinely consult with the host stores about the size and placement of our optical departments within newly opened or remodeled host stores. Although management strives to continue to enhance these relationships, the loss of one of our major host stores, such as J.C. Penney or Sears, could cause a significant decrease in our sales and have a materially adverse effect on our results of operations.

Our retail optical departments within J.C. Penney stores are subject to a master lease that expires in December 2003. On January 31, 2001, we had 420 locations within J.C. Penney. Our master lease with J.C. Penney provides that only a limited number of our J.C. Penney optical centers may be closed by J.C. Penney in any calendar year without cause. This limitation, however, does not apply if J.C. Penney closes an entire J.C. Penney department store, either temporarily or permanently. The lease also provides that J.C. Penney will reimburse us for certain costs relating to the closed department. Our optical departments within Sears stores are each subject to a lease which provides for a year-to-year term, subject to early termination by either party, without cause, on thirty-days prior written notice. Our retail optical departments located within other department stores are subject to lease arrangements which contain short notice lease termination provisions. These leases provide for monthly lease payments based upon a percentage of our sales at each location.

In January 1999, as part of our objective to diversify our host store base, we signed a lease agreement with Hudson's Bay Company, the operator of over 450 retail locations in Canada. In March 1999, we opened 15 retail optical departments within The Bay, a traditional department store division of Hudson's Bay. At January 31, 2001, we were operating in 46 Hudson's Bay vision centers under the names The Bay and Zellers.

Marketing and Advertising

We engage in a variety of marketing and promotional efforts to maintain and strengthen our customer base. Our advertising program is targeted at the department store consumer and is designed to convey a message of value, fashion, convenience and trust to our customer base. We work with each of our host stores to design advertising programs that convey this message in a manner consistent with that of the host store, targeted at their specific customer base. For example, we work with J.C. Penney to develop targeted catalog inserts which advertise our J.C. Penney optical departments. These advertising promotions generally mention the availability of on-site professional eye examinations and our acceptance, as a participating provider of managed vision care benefits, of the discounts and allowances offered by managed vision care plans. These targeted inserts are mailed to selected customers based on previous spending patterns at the host store. We augment these programs by providing local advertising in individual geographic markets. We have an in-house advertising department which permits us to respond quickly to fashion trends, competitor advertising and promotional initiatives.

Optical Laboratory

We operate a 60,000 square foot modern optical laboratory and lens grinding facility adjacent to our headquarters in Glendora, New Jersey. Customer orders for prescription eyewear, sunglasses and contact lenses are transmitted daily from each of our store locations to our central laboratory. Customer orders generally are processed and shipped to stores within a few working days and can be completed overnight if requested by the customer. Most prescription lenses are completed from semi-finished polycarbonate or plastic lenses obtained from third-party suppliers. These lenses are finished in a highly technical process that grinds the surface of the lens to fit the prescription utilizing modern grinding equipment, much of it computer-guided. The lenses are then custom fitted to optical frames in the size and style selected by the customer. Other prescriptions, including many standard prescriptions, can be manufactured by cutting and edging a prefinished lens, also purchased from a third-party supplier, to fit the frames selected. Contact lenses, accessories and non-prescription sunglass orders are filled from available stock and shipped to our retail optical departments.

Our laboratory is furnished with machinery capable of custom grinding, polishing, cutting, edging, tinting and coating prescription lenses. Management believes it has the manufacturing capacity in our laboratory to accommodate all of our projected growth for the foreseeable future.

Purchasing

Our relationship with our vendors has enabled us to gain access to a wide array of brand name product offerings. As a leading retailer of eyewear in the United States, we purchase significant quantities of frames, lenses and contact lenses from our suppliers. In fiscal 2000, Bausch & Lomb, Signet Armorlite and Vistakon, our largest suppliers, accounted for approximately 8%, 14% and 9%, respectively, of our total merchandise purchases. All raw materials for products we manufacture are available from numerous suppliers.

Historically, we manufactured, imported and distributed optical frames and sunglasses principally for sale in our retail optical stores and, to a lesser extent, for sale to other optical distributors and retailers through our Styl-Rite Optical subsidiary. During fiscal 1999, we decided it was more cost effective to import optical frames and sunglasses rather than manufacture these products. Accordingly in July 2000, management closed our manufacturing operations at Styl-Rite and consolidated our importing and distribution functions with our other centralized operations at our corporate headquarters in Glendora, New Jersey. See "Management's Discussion and Analysis of Financial Condition and Results of Operation."

Management Information Systems

Currently, customer prescription orders for our optical products are prepared by the stores on order forms and the details of each order are transmitted daily to our centralized laboratory. These orders are then entered into the laboratory's computerized order entry system which, for lenses, also makes the necessary optical calculations to grind and finish the lenses to the correct prescription and shape them to the dimensions of the frame selected by the customer. The present laboratory order entry system also tracks each order through every step of the manufacturing process until the finished product is shipped to the retail optical department.

In fiscal 2000, we completed the design of an integrated management information system, which includes an automated order entry system at each of our optical stores, and new manufacturing and financial systems at our corporate headquarters. This new integrated system is designed to facilitate the transmission of the order to the laboratory and provide our stores with improved order pricing and costing capability. This new system is also designed to provide our stores with the capability to capture sales and customer information, including prescription data, enhancing our ability to monitor sales and merchandise trends and to improve customer service after the sale. In addition, the automated order entry system is designed to enable the stores to validate, at the time of sale, whether a particular frame selected by the customer is in stock and whether the combination of the customer's prescription, selected lenses and frame is within manufacturing tolerances. The integrated information system is expected to enhance our operating efficiencies by permitting all orders to be electronically transmitted from the stores to the laboratory. In December 2000, we initiated a beta test of the system in 8 stores. The beta test was successfully completed in February 2001 and the rollout to the first fifty stores commenced in March 2001.

Competition

We compete with other national, regional, and local retail optical chains and independent optical retailers. Most optical retailers generally serve individual or local markets, and, as a result, competition is fragmented and varies substantially among locations and geographic areas. Although the retail optical industry is highly competitive, management believes none of our competitors has more than an 8% market share based on revenue. The principal competitive factors affecting our retail operations are merchandise selection, quality and consistency of products and services, price, location within the host store, convenience, availability of on-site professional eye examinations and access to a host store's private label credit card. The retail optical industry engages in price-related promotions as a standard marketing practice. Several of our competitors have greater financial and other resources than us, which may enable competitors to pursue more aggressive pricing and promotional strategies at the expense of profits for longer periods of time than we can.

Our ability to achieve our growth strategy by opening new retail optical departments in existing and new host stores is dependent on our ability to obtain suitable optical locations within existing and new host stores. Management does not believe our growth strategy will be adversely affected by the fact that some competitors operate more retail optical departments in host stores than we do.

Additionally, we face competition from advances in vision correction technologies, including laser surgery and other surgical vision correction procedures. This could result in decreased demand for eyeglasses and contact lenses.

To the extent our customers may not be covered by our eye care benefit plans, we may compete with other vision care benefit plans and retailers who provide alternative vision care plans. As the number of national and regional managed vision care programs increase, competition for customers will intensify among the various vision care programs.

Employees

As of January 31, 2001, we had approximately 2,350 full-time and part-time employees, of which approximately 1,900 were employed in our retail outlets, 350 were employed in manufacturing and distribution in our laboratory in Glendora, New Jersey, and 100 were employed in administrative, marketing and managerial positions at the company's headquarters in Glendora.

Government Regulations

We are subject to a variety of federal, state and local laws, rules and regulations affecting the health care industry and the delivery of health care services. State and local legal requirements vary widely among jurisdictions and are subject to frequent change. Federal legal requirements are also subject to change.

Relationships between the company and independent optometrists and ophthalmologists are subject to federal, state and local laws and regulations. State laws generally prohibit the practice of medicine and optometry by unlicensed practitioners. In addition, many states prohibit medical practitioners and optometrists from splitting fees with business corporations such as the company and prohibit the practice of medicine and optometry by corporate entities. Some states have enacted laws governing the ability of ophthalmologists and optometrists to enter into contracts to provide professional services with business corporations or lay persons. Some states prohibit the company from computing our fee for rent, equipment leases and management services provided by us based on a percentage of the gross revenue of the ophthalmologists and the optometrists. Such requirements are particularly comprehensive in California and Texas, where we operate a significant number of stores. Further, some states restrict the location of optometric offices in relation to optical stores, such as ours, and regulate advertising and the solicitation of prospective patients.

Relationships between us and independent ophthalmologists and optometrists are also subject to the fraud and abuse provisions of the federal Social Security Act which include the "anti-kickback" laws. The anti-kickback laws prohibit the offering, payment, solicitation or receipt of any direct or indirect remuneration for the referral of Medicare or Medicaid patients or for the ordering or providing of Medicare or Medicaid covered services, items or equipment. Violations of these laws may result in substantial civil or criminal penalties for individuals or entities and exclusion from participation in the Medicare and Medicaid programs. Several states, including states in which we operate, have adopted similar laws that cover patients with private health insurance coverage as well as those covered by government programs. Although management believes it is not in violation of the anti-kickback laws, the applicability of these provisions has been subject to only limited judicial and regulatory interpretation. In addition, certain of our products must comply with standards set by the United States Food and Drug Administration.

We, as well as the independent optometrists providing services in or adjacent to our stores, from time to time receive inquiries from regulatory bodies regarding our compliance with applicable state and local regulations. If our relationships with ophthalmologists and optometrists are challenged, we may be required to alter the manner in which we conduct our business. There can be no assurance that a review of our business by courts or regulatory authorities will not result in determinations that could adversely affect operations or that new laws, regulations or interpretations of current laws and regulations will not have a material adverse effect on our business, financial condition or results of operations.

Item 2. PROPERTIES

We own a 20,000 square foot facility in Glendora, New Jersey, which serves as our corporate headquarters, a neighboring 24,000 square foot distribution facility, and a neighboring 60,000 square foot optical laboratory. The real property on which these facilities are located, as well as the buildings and certain equipment located therein, other than the distribution facility, secure the company's obligations under the DRPA Term Loans. See Note 5 to Notes to Consolidated Financial Statements. The real property on which the distribution facility is located secures the company's obligations under a mortgage loan agreement. Styl-Rite owns a 40,000 square foot facility in Miami, Florida, which was formerly utilized to manufacture frames and an adjacent 20,000 square foot building that is currently rented. See "Management's Discussion and Analysis of Financial Conditions and Results of Operations--Liquidity and Capital Resources."

Our freestanding store locations are subject to lease arrangements which contain varying terms and are not subject to short notice lease termination provisions. The leases provide for monthly base lease payments plus, under certain circumstances, include an additional rent provision based on a percentage of the company's sales at each location.

Item 3. LEGAL PROCEEDINGS.

We are subject to various pending and threatened litigation from time to time in the ordinary course of our business. Although all litigation involves some degree of uncertainty, in the opinion of management, liabilities, if any, arising from such litigation or threat thereof are not expected to have a material adverse effect on the company.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

None.

PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

Our stock is traded on Nasdaq under the symbol "USVI."

For the period indicated below, the following table sets forth the high and low bid information of our stock as reported on Nasdaq, rounded to the nearest eighth of a dollar.

	2000 Closing Prices		1999 Closing Prices	
Calendar Period	Low	High	Low	High
February 1 - April 30	$2.00	$3.25	$3.50	$6.68
May 1 - July 31	1.50	3.13	4.93	5.63
August 1 - October 31	2.75	4.25	3.43	5.25
November 1 - January 31	1.94	4.25	2.38	3.75

As of April 20, 2001, there were approximately 55 record holders of our stock. We have not declared or paid any cash dividends on our stock since our organization. Under the terms of our revolving bank line of credit, our ability to pay cash dividends to our shareholders is restricted.

Item 6. SELECTED FINANCIAL DATA.

The selected consolidated financial information regarding the company's financial position and operating results set forth below for the fiscal years ended January 31, 2001, 2000, 1999, 1998 and 1997 have been derived from our audited consolidated financial statements. The selected consolidated financial data set forth below should be read in conjunction with our consolidated financial statements and related notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this report.

	Year Ended January 31,				
	2001	2000	1999	1998	1997
	(In thousands except share and per share data)				
Statements of Operations Data:					
Net sales	$ 147,617	$ 143,419	$ 131,491	$ 122,763	$ 111,544
Cost of sales	44,645	45,516	40,648	38,584	34,273
Gross profit	102,972	97,903	90,843	84,179	77,271
Operating expenses:					
Selling, general and Administrative	92,070	91,726	79,119	73,367	68,366
Depreciation and amortization	4,708	4,670	3,879	3,390	3,271
Special non-recurring charges (1)	752	2,835	–	–	–
Store closings and disposals (2)	–	–	–	(389)	–
Total operating expenses	97,530	99,231	82,998	76,368	71,637
Operating income (loss)	5,442	(1,328)	7,845	7,811	5,634
Interest expense, net	456	469	21	2,486	3,499
Income (loss) before income tax	4,986	(1,797)	7,824	5,325	2,135
Income tax provision	191	22	355	–	–
Net income (loss)	$ 4,795	$ (1,819)	$ 7,469	$ 5,325	$ 2,135
Net income (loss) per share – basic (3)	$ 0.61	$ (0.23)	$ 0.96	$ 0.90	$ 0.41
Shares used in computing net income (loss) per share – basic (3)	7,802,942	7,802,942	7,789,299	5,661,089	5,270,678
Net income (loss) per share -- assuming dilution (4)	$ 0.61	$ (0.23)	$ 0.94	$ 0.89	$ 0.40
Shares used in computing net income (loss) per share -- assuming dilution (4)	7,835,554	7,802,942	7,964,409	5,767,546	5,377,835
Net income per share -- pro forma (5)				$ 0.96	
Shares used in computing net income per share – pro forma (5)				7,877,835	

Footnotes on following page.

	Year Ended January 31,				
	2001	2000	1999	1998	1997
Selected Operating Data:					
Stores open at end of period:					
Licensed departments	596	640	557	507	488
Freestanding stores	33	46	57	63	66
Total stores	629	686	614	570	554
Comparable store sales increase (6)	3.3%	1.9%	4.2%	9.2%	8.3%

	January 31,				
	2001	2000	1999	1998	1997
	(In thousands)				
Balance Sheet Data:					
Cash	$ 240	$ 454	$ 693	$ 365	$ 374
Working capital	20,460	19,127	23,152	17,967	11,321
Total assets	81,078	83,033	75,594	60,129	54,403
Long-term debt	18,384	20,369	14,069	8,296	22,623
Shareholders' equity	49,446	44,651	46,470	38,818	13,810

(1) See Note 11 to Notes to Consolidated Financial Statements.

(2) As a result of favorable settlements on terminated leases, the company realized a gain in fiscal 1997 related to the closing and disposal of stores during fiscal 1992 through 1995.

(3) Net income per share has been computed using the weighted average number of shares outstanding after giving effect for all periods presented to the 64-for-1 stock dividend and the conversion of all outstanding Series A Preferred Stock and Series C Preferred Stock into common stock upon the closing of the company's initial public offering in December 1997. Cash dividends on preferred stock of $217,000 were deducted from net income in computing net income per share for the fiscal year ended January 31, 1998.

(4) Net income per share -- assuming dilution has been computed using the weighted average number of shares outstanding after giving effect to the 64-for-1 stock dividend and the conversion of all outstanding Series A Preferred Stock and Series C Preferred Stock into common stock upon the closing of the company's initial public offering in December 1997. In addition, common share equivalents such as warrants and options are included in the computation for the years ended January 31, 2001, 1999, 1998 and 1997, respectively. Cash dividends on preferred stock of $217,000 were deducted from net income in computing net income per share - assuming dilution for the fiscal year ended January 31, 1998.

(5) Net income per share -- pro forma is calculated by dividing net income after adjustment for applicable interest expense, net of tax ($2,208,000) by the adjusted number of weighted average shares outstanding after giving effect to the 2,500,000 shares that were sold at the initial public offering price to repay $20,375,000 of debt.

(6) Comparable-store sales reflect existing stores that have been open over twelve months.

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

General Overview

Our net sales consist primarily of retail sales of prescription eyewear and contact lenses, net of refunds and allowances for customer returns. The company's sales are influenced by customer traffic in our host department stores, the successful implementation of our promotional programs and our participation in various managed vision care plans. The principal components of our cost of sales include the cost of materials, including eyeglass frames and lenses, as well as manufacturing, assembly, labor and overhead costs associated with operating our centralized optical laboratory. Prices of frames vary widely, from inexpensive to high-end designer brands.

Our selling, general and administrative expenses include primarily labor-related expenses at the store level, rent and occupancy costs, managed vision care costs, advertising and administrative expenses. The rent we pay to our host stores is calculated as a percentage of net sales within each retail optical department. Freestanding store rent is generally a fixed monthly payment plus, in many cases, a percentage of net sales above certain revenue levels. Flat fees per transaction are paid by us to vision care plans in which we participate.

Our fiscal year ends on January 31. Accordingly, references herein to "fiscal 2000," "fiscal 1999," and "fiscal 1998" refer to the company's fiscal years ended January 31, 2001, January 31, 2000, and January 31, 1999, respectively.

Results of Operations

The following table sets forth selected statements of operations items expressed as a percentage of net sales for the periods indicated:

	Year Ended January 31,		
	2001	**2000**	**1999**
Net sales	100.0%	100.0%	100.0%
Cost of sales	30.2	31.7	30.9
Gross profit	69.8	68.3	69.1
Operating expenses:			
Selling, general and administrative	62.4	63.9	60.2
Depreciation and amortization	3.2	3.3	2.9
Operating income, excluding unusual items	4.2	1.1	6.0
Special non-recurring charges	(0.5)	(2.0)	0.0
Operating income (loss)	3.7	(0.9)	6.0
Interest expense, net	0.3	0.3	0.0
Income(loss) before income tax	3.4	(1.2)	6.0
Income tax provision	0.2	0.0	0.3
Net income (loss)	3.2%	(1.2)%	5.7%

Fiscal 2000 Compared to Fiscal 1999

Net sales increased $4.2 million, or 2.9%, from $143.4 million for fiscal 1999 to $147.6 million for fiscal 2000. A 3.3% increase in comparable-store sales accounted for nearly all of the increase in net sales. The increase in comparable store sales was mostly the result of an increase in the number of eyeglasses sold.

Cost of sales decreased by $0.9 million, or 1.9%, from $45.5 million in fiscal 1999 to $44.6 million in fiscal 2000. The decrease was due principally to a reduction in labor costs including the closing of the frame manufacturing plant in Miami, Florida in July 2000. As a percentage of net sales, cost of sales decreased from 31.7% in fiscal 1999 to 30.2% in fiscal 2000. The decrease was due to a reduction in material costs and labor costs.

Selling, general and administrative expenses increased by $0.3 million, or 0.4%, from $91.7 million in fiscal 1999 to $92.1 million in fiscal 2000. As a percentage of net sales, selling, general and administrative expenses decreased from 63.9% in fiscal 1999 to 62.4% in fiscal 2000. The decrease was principally due to cost savings implemented by management, a reduction in advertising expenditures, closing of unprofitable locations and leverage created by the comparable store sales increase.

Unusual charges for fiscal 2000 included the one time write-off of approximately $0.8 million related to the closing of 82 unprofitable stores.

Fiscal 1999 Compared to Fiscal 1998

Net sales increased $11.9 million, or 9.1%, from $131.5 million for fiscal 1998 to $143.4 million for fiscal 1999. A 1.9% increase in comparable-store sales accounted for $2.4 million of the increase in net sales. New store openings, net of store closings, accounted for the remaining $9.5 million of the increase. The increase in comparable store sales was the result of an increase in the number of eyeglasses sold.

Cost of sales increased by $4.9 million, or 12.0%, from $40.6 million in fiscal 1998 to $45.5 million in fiscal 1999. The increase was due principally to the $11.9 million increase in net sales. As a percentage of net sales, cost of sales increased from 30.9% in fiscal 1998 to 31.7% in fiscal 1999. The increase was due to additional discounts offered by the company in response to increased promotional pressure from our competition, as well as an increase in labor rates in the manufacturing facilities and retail in response to low unemployment rates.

Selling, general and administrative expenses increased by $12.6 million, or 15.9%, from $79.1 million in fiscal 1998 to $91.7 million in fiscal 1999. As a percentage of net sales, selling, general and administrative expenses increased from 60.2% in fiscal 1998 to 63.9% in fiscal 1999. The increase was principally due to an increase in expenses associated with 106 new store openings, as these stores open with relatively low sales volume, an overall increase in base salary rates as a result of the competitive labor market, and greater department store rents which are tied directly to sales volume. Duplicate administrative fees and claims associated with changing healthcare administrators during fiscal 1999 also contributed to the increase.

Unusual charges for fiscal 1999 included the one time write-off of approximately $2.8 million related to the strategic decision to close our Styl-Rite frame manufacturing facility in Miami, Florida. We are relocating Styl-Rite's importing and distribution functions to our corporate headquarters. In connection with this plan, the company recorded a charge of $2,835,000, which was comprised of $2,224,000 in write-offs of inventory used solely in the manufacturing process, $161,000 in machinery and equipment, $250,000 in buildings and $200,000 for uncollectible receivables. The write-offs associated with the buildings and machinery and equipment were intended to reduce their carrying costs to their estimated net realizable value. The company also will incur approximately $250,000 in additional payroll costs between February 1 and June 30, 2000, which will be expensed when paid.

Depreciation and amortization increased by $0.8 million, or 20.4%, from $3.9 million in fiscal 1998 to $4.7 million in fiscal 1999. This was due to increased amortization of goodwill as a result of the acquisitions of businesses during fiscal 1998 and 1999. In addition, depreciation expense increased due to capital expenditures associated with new store openings and the purchase of additional machinery for the manufacturing facility.

Interest expense, net increased by $448,000 from $21,000 in fiscal 1998 to $469,000 in fiscal 1999. The increase was principally due to increased borrowings on our line of credit. See "Liquidity and Capital Resources."

Quarterly Fluctuations

Our financial position and results of operations are slightly affected by seasonal fluctuations in sales and operating profits. Our sales and operating profits are generally lower in the fourth quarter, due to the Christmas season, which has historically been a period of reduced sales of prescription optical products. This trend has been mitigated somewhat by the increase in vision care sales under plans which are on a calendar year basis and require participants to use or lose their benefits annually. Quarterly sales can also be affected by the timing and amount of sales contributed by new stores. Accordingly, the results of operations for interim periods are not necessarily indicative of results for the entire fiscal year.

The following tables set forth certain unaudited financial data for the quarters indicated:

	Fiscal 2000 Quarter Ended				Fiscal 1999 Quarter Ended			
	April 30, 2000	July 31, 2000	Oct. 31, 2000	Jan. 31, 2001	April 30, 1999	July 31, 1999	Oct. 31, 1999	Jan. 31, 2000
	(In thousands, except percentages and per share data)							
Net sales	$ 41,894	$ 36,771	$ 37,395	$ 31,557	$ 37,841	$ 35,601	$ 36,223	$ 33,754
Gross profit	29,040	25,610	26,252	22,070	26,180	24,781	25,004	21,938
% of net sales	69.3%	69.6%	70.2%	69.9%	69.2%	69.6%	69.0%	65.0%
Operating income (loss)	$ 2,619	$ 1,149	$ 1,484	$ 190	$ 2,931	$ 1,435	$ 170	$ (5,864)
% of net sales	6.3%	3.1%	4.0%	0.6%	7.7%	4.0%	0.5%	(17.4)%
Net income (loss)	$ 2,345	$ 994	$ 1,358	$ 98	$ 2,270	$ 1,180	$ 488	$ (5,757)
% of net sales	5.6%	2.7%	3.6%	0.3%	6.0%	3.3%	1.3%	(17.1)%
Net income (loss) per share -- basic	$ 0.30	$ 0.13	$ 0.17	$ 0.01	$ 0.29	$ 0.15	$ 0.06	$ (0.74)
Net income (loss) per share – assuming dilution	$ 0.30	$ 0.13	$ 0.17	$ 0.01	$ 0.29	$ 0.15	$ 0.06	$ (0.74)

The decrease in operating income in the fourth quarter of fiscal 2000 was due to seasonally lower net sales and a $752,000 write-off due to store closings.

The decrease in operating income in the fourth quarter of fiscal 1999 was due to seasonally lower net sales, a $2.8 million write-off due to the closure of the Styl-Rite manufacturing facility, duplicate administrative fees and claims associated with changing healthcare administrators during the year and the negative leverage on expenses of opening 106 locations during the year with an extremely low sales base.

Income Taxes

As of January 31, 2001, we had net operating loss carry forwards of approximately $14,100,000 which will begin to expire in the year 2006. Approximately $5,900,000 of these carry forwards are available to offset future taxable income without limitation and approximately $8,200,000 of these carry forwards (the "Restricted NOLs") are significantly limited due to ownership changes. Approximately $780,000 of the Restricted NOLs will become available for use each year through the year 2008. Approximately $3,400,000 of the Restricted NOLs are expected to expire unutilized. A valuation allowance has been established to fully reserve the future benefit of all the net operating loss carry forwards.

Liquidity and Capital Resources

Our primary cash sources for fiscal 2000 were from operations. Our working capital requirements are seasonal and traditionally peak at the end of the fourth quarter and the beginning of the first quarter. Cash and working capital at January 31, 2001 were $240,000 and $20.5 million, respectively, compared to $454,000 and $19.1 million, respectively, at January 31, 2000.

For the year ended January 31, 2001, cash provided by operating activities was $9.5 million compared to cash provided by operating activities of $5.3 million for the year ended January 31, 2000. The $4.2 million increase resulted from an increase in net income and a reduction of inventory caused by a reduction in store count and controlling inventory levels offset by a decrease in accounts payable.

Cash used in investing activities in fiscal 2000 was a planned reduction to $6.3 million compared to $10.4 million in fiscal 1999 and $10.8 million in fiscal 1998. Capital expenditures in fiscal 2000 of $6.3 million were primarily for new store openings and development work on the company's integrated management information system. In fiscal 2001, we expect to spend approximately $4.0 million on capital expenditures for new store openings, the integrated management information system and other capital expenditures. Historically, we have funded capital expenditures through a revolving line of credit, debt financing activities, including capital leases and operating cash flow.

Our principal external source of liquidity is our $20.0 million revolving line of credit with Commerce Bank, N.A. The revolving line of credit facility bears interest at the lower of the prime rate as published in the Wall Street Journal or the thirty (30) day rate for United States Treasury Bills plus 250 basis points and matures in December 2002. As of January 31, 2001, we had $12,033,000 outstanding under our revolving line of credit and $7,967,000 of availability. The loan agreement prohibits the payment of dividends to shareholders and contains customary covenants. We must also maintain certain financial ratios including a specified net worth level, current ratio, and a fixed charge ratio. As of January 31, 2001, we were in compliance with all of the financial covenants. We do not believe that the financial covenants set forth in our revolving line of credit will have an adverse impact on our operations or future plans.

We have commitments from Commerce BankLease, a unit of Commerce Bank, N.A., for a $2,000,000 five-year equipment lease financing facility. During fiscal 2000 and 1999, the Company executed the agreement and leased approximately $382,000 and $922,000, respectively of laboratory equipment and furniture and fixtures, which will be paid for over a period of 60 months. The leased laboratory equipment has been recorded as a capital lease on the consolidated balance sheet.

Based upon our current operating and new store opening plans, we believe we can fund our working capital and capital expenditure needs for the foreseeable future through borrowings under the revolving line of credit and cash generated from operations.

Effects of Inflation

We believe that the effects of inflation on our operations have not been material during the past three years.

Caution Regarding Forward-Looking Statements

We occasionally make forward-looking statements concerning our plans, goals, product and service offerings, store openings and closings and anticipated financial performance. These forward-looking statements may generally be identified by introductions such as "outlook" for an upcoming period of time, or words and phrases such as "should", "expect", "hope", "plans", "projected", "believes", "forward-looking" (or variants of those words and phrases) or similar language indicating the expression of an opinion or view concerning the future.

These forward-looking statements are subject to risks and uncertainties based on a number of factors and actual results or events may differ materially from those anticipated by such forward-looking statements. These factors include, but are not limited to: our ability to maintain our relationship with our host stores such as J.C. Penney and Sears, as well as with Cole National Corporation, a competitor of the company and the owner of the Vision One managed vision care plan in which the company participates; the growth rate of our revenue and market share; our ability to effectively manage our business functions while growing the company's business in a rapidly changing environment; and the quality of our plans and strategies, as well as our ability to execute such plans and strategies.

In addition, forward-looking statements concerning our expected revenue or earnings levels are subject to many additional uncertainties applicable to competitors generally and to general economic conditions over which we have no control, such as the performance of our host stores. We do plan to generally publicly update prior forward-looking statements for unanticipated events or otherwise and, accordingly, prior forward-looking statements should not be considered to be "fresh" simply because we have not made additional comments on those forward-looking statements.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Our earnings are affected by changes in interest rates due to the impact those changes have on the interest expense payable by us under our variable rate debt revolving line of credit, for which the outstanding balance was $12,033,000 as of January 31, 2001. A 1.0% change in the underlying prime rate or the thirty (30) day rate for United States Treasury Bills would result in a $120,000 change in the annual amount of interest on such debt. This amount is determined by considering the impact of the hypothetical interest rates on our revolving line of credit outstanding as of January 31, 2001.

Item 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The Financial Statements together with the report thereon of Ernst & Young LLP, independent auditors, are included in this report commencing at Page F-1.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

Set forth below is biographical and other information about the persons who make up the Board of Directors and who have been nominated for election at the company's 2001 annual meeting:

Richard K. McDonald Age: 54 Director since 1994 Executive, Audit and Compensation Committees	Since 1989, Mr. McDonald has served as the President and Director of Constitution Capital Corporation, a general partner of M&M General Partnership and a general partner of RKM Investment Company, the general partner of Constitution Partners I, L.P.
G. Kenneth Macrae Age: 72 Director since 1990 Compensation, Executive and Stock Option Committees	He is a consultant to Keystone Venture Capital Management Co., a venture capital firm in Philadelphia, Pennsylvania. Prior to serving as a consultant, Mr. Macrae was from 1983 to 1997 the President of Keystone Venture Capital Management Co. and the President and Director of KVM IV MCGP, Inc., the general partner of Keystone Venture IV Management Company, L.P. and Keystone IV, L.P.
William A. Schwartz, Jr. Age: 59 Director since 1967 Executive Committee	Mr. Schwartz serves as the company's President, Chief Executive Officer and Chairman of the Board and has served in that capacity for the company and its predecessors since 1967. Mr. Schwartz also serves on the board of directors of Commerce Bancorp Inc. (NASDAQ: CBH). Mr. Schwartz is married to Gayle E. Schmidt.
Dennis J. Shaughnessy Age: 54 Director since 1994 Audit, Compensation and Stock Option Committees	Since 1989, Mr. Shaughnessy has served as the Managing Director, Treasurer and Director of Grotech Capital Group, Inc., the general partner of Grotech Partners III, L.P., Grotech III Companion Fund, L.P. and Grotech III Pennsylvania Fund, L.P. and Managing Director, Treasurer and Director of Grotech Capital Group IV, Inc., the general partner of Grotech Partners IV, L.P. Mr. Shaughnessy also serves on the board of directors of Polk Audio Inc. (NASDAQ: PKAU) and FTI Consulting, Inc. (AMEX: FCN).
J. Roger Sullivan, Jr. Age: 58 Director since 1994 Audit Committee	Since March 1994, Mr. Sullivan has served as a vice president of Grotech Capital Group, Inc., the general partner of Grotech Partners III, L.P. and Grotech Capital IV, Inc., the general partner of Grotech Partners IV, L.P.
Peter M. Troup Age: 57 Director since 1997	Since 1996, Mr. Troup has served as a management consultant to the retail industry.

Information Concerning Executive Officers

Background information about the company's executive officers, is set forth below.

Gayle E. Schmidt
Age: 48

Ms. Schmidt has served as the company's Executive Vice President and Chief Operating Officer since April 2000. From 1990 to March 2000, she served as the company's Executive Vice President, Manufacturing.

George T. Gorman
Age: 49

Mr. Gorman has served as the company's President, Retail since February 1998. From September 1996 to January 1998, he served as the Executive Vice President, Retail of the company.

George E. McHenry, Jr.
Age: 48

Mr. McHenry has served as the company's Executive Vice President, Chief Financial Officer and Secretary since July 2000. From February 1998 to July 2000, he served as the company's Chief Administrative Officer, Secretary and Treasurer. From 1990 to February 1998, he served as the company's Chief Financial Officer, Treasurer and Secretary.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act of 1934, as amended, requires the company's executive officers and directors and persons who own more than ten percent of a registered class of the company's equity securities (collectively, the "Reporting Persons") to file reports of ownership and changes in ownership with the Securities and Exchange Commission and to furnish the company with copies of these reports. The company believes that all filings required to be made by the Reporting Persons during the fiscal year ended January 31, 2001 were made on a timely basis.

Item 11. EXECUTIVE COMPENSATION.

Summary Compensation Table

The following table presents information concerning total compensation earned by the Named Executive Officers--the Chief Executive Officer and the three other most highly compensated executive officers of the company who served in such capacities as of January 31, 2001 for services rendered to the company during each of the last three fiscal years. The information presented below represents all compensation earned by the Named Executive Officers for all services performed for the company or any of its subsidiaries.

		Annual Compensation		Long-Term Compensation Awards	
Name and Principal Positions	Fiscal Year	Salary	Bonus	Shares Underlying Options	All Other Compensation(1)
William A. Schwartz, Jr. .... President and Chief Executive Officer	2000	$297,000	$ --	228,735	$ 35
	1999	275,000	--	--	--
	1998	222,000	50,000	--	--
George T. Gorman .... President, Retail	2000	185,000	--	80,665	1,256
	1999	176,000	--	--	1,297
	1998	161,300	25,000	65,000	1,068
Gayle E. Schmidt .... Executive Vice President and Chief Operating Officer	2000	185,000	--	76,050	--
	1999	176,000	--	--	--
	1998	161,200	25,000	--	--
George E. McHenry, Jr. ..... Executive Vice President, Chief Financial Officer and Secretary	2000	175,000	--	76,050	1,167
	1999	163,900	--	--	860
	1998	152,200	25,000	--	725
Kathy G. Cullen .... Senior Vice President and Chief Financial Officer	2000(2)	75,833	--	--	--
	1999	130,000	--	--	--
	1998	116,200	20,000	--	--

(1) Includes the value of the Company's contributions to the Company-sponsored 401(k) plan and the amount paid by the Company for term life insurance coverage under health and welfare plans.

(2) Ms. Cullen resigned from her position in July 2000.

Stock Options

The following table sets forth certain information about the stock option awards that were made to the Named Executive Officers during fiscal 2000. All of these options are transferable to family members under specified conditions.

Option Grants In Last Fiscal Year

Name	Number of Shares Underlying Options Granted	Percentage of Total Options Granted to Employees in Fiscal Year	Exercise Price Per Share	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term[1] 5%($)	10%($)
William A. Schwartz, Jr.	228,735	29.5%	$3.00	6/01/10	0	0
George T. Gorman	80,665	10.4	3.00	6/01/10	0	0
Gayle E. Schmidt	76,050	9.8	3.00	6/01/10	0	0
George E. McHenry, Jr.	76,050	9.8	3.00	6/01/10	0	0
Kathy G. Cullen[2]	76,050	9.8	3.00	6/01/10	0	0

(1) Potential value is reported net of the option exercise price, but before taxes associated with exercise. These amounts represent assumed rates of appreciation only. Actual gains, if any, on stock option exercises are dependent on the future performance of the company's common stock, as well as on the option holders' continued employment through the vesting period. The potential realizable values are zero because the market price of the company's common stock was less than the exercise price of the options on the date granted.

(2) Ms. Cullen resigned from her position with the company in July 2000. All of her options expired unexercised.

Aggregated Option Exercises In Last Fiscal Year And Fiscal Year-End Option Values

Name	Number of Shares Underlying Unexercised Options at Fiscal Year-End: Exercisable	Unexercisable	Value of Unexercised In-the Money Options[1] At Fiscal Year-End: Exercisable	Unexercisable
William A. Schwartz, Jr.	228,735	228,735	$0	$285,919
George T. Gorman	80,665	80,665	0	100,831
Gayle E. Schmidt	76,050	76,050	0	95,063
George E. McHenry, Jr.	76,050	76,050	0	95,063

(1) Amounts were calculated using the closing price of the common stock on the last trading day of the fiscal year ($4.25).

Employment Agreements

We entered into an employment agreement in 1998 with William A. Schwartz, Jr., President and Chief Executive Officer. The employment agreement provides for a guaranteed base salary and the right to be considered for such bonus programs as are adopted by the board. The initial term of Mr. Schwartz's employment agreement was for three years and automatically renews annually for successive three-year terms if not terminated by either party. Under the terms of Mr. Schwartz's agreement, he is entitled to salary continuation of the balance of the term of his employment agreement, but not less than one year, if his employment is terminated by us other than for cause or if he resigns for good reason under the terms of the agreement. The severance payable to Mr. Schwartz will depend on his monthly salary at that time. His current monthly salary is $22,917. If all or substantially all of the assets of the company are sold, or a merger or sale of all or substantially all of the stock of the company occurs while Mr. Schwartz is employed by the company, he will receive a bonus payment of $750,000.

We also entered into salary continuation agreements in 1998 with George T. Gorman, President-Retail, Gayle E. Schmidt, Executive Vice President and Chief Operating Officer and George E. McHenry, Jr., Executive Vice President and Chief Financial Officer and Secretary. Under the terms of each of these agreements, the executive is entitled to salary continuation for one year if the executive's employment is terminated by us other than for cause, or if the executive resigns with good reason under the terms of the agreement. The severance due to each executive depends on the executive's monthly salary at that time. The current monthly salary for each executive is as follows: Mr. Gorman -- $16,133; Ms. Schmidt -- $16,133; and Mr. McHenry -- $15,026. Each executive has also agreed not to compete with the Company for a period of six months following the termination of the executive's employment with the company.

Other Benefits

401(k) Retirement Plan. The company maintains a 401(k) retirement savings plan that is available to substantially all employees. Under the terms of the plan, the company matches 25% of each participant's voluntary contributions up to 3% of the participant's compensation. A participant vests ratably in the matching contributions over the first five years of employment (20% per year).

Director Compensation

Mr. Schwartz, who is the only director that is also an employee, does not receive any additional compensation for serving on the Board of Directors.

Annual Retainer Fee. Historically, each director of the company who is not an employee of the company or any of its subsidiaries receives an annual retainer payable in either cash or shares of company stock. The form and amount of the annual retainer to be paid by the company to eligible directors in fiscal 2001 has not yet been determined. In fiscal 2000, each eligible director received warrants to purchase 13,000 shares of our common stock at a per share exercise price of $2.875.

Other Benefits. We reimburse directors for the reasonable expenses associated with attending Board meetings and provides them with liability insurance coverage for their activities as directors of the company.

Meetings and Committees of the Board

The Board met five times during fiscal 2000. During fiscal 2000, all then incumbent directors attended at least 75% of the meetings of the Board and the Board committees on which they served.

The Board has four standing committees: the Audit Committee, the Compensation Committee, the Executive Committee and the Stock Option Committee. The Board does not have a nominating committee. The functions customarily attributable to a nominating committee are performed by the Board as a whole.

Audit Committee. The Audit Committee of the Board of Directors, currently consisting of Messrs. McDonald, Shaughnessy and Sullivan, is authorized to recommend to the Board of Directors independent certified public accounting firms for selection as auditors of the company, make recommendations to the Board of Directors on auditing matters, examine and make recommendations to the Board of Directors concerning the scope of audits, and review and approve the terms of transactions between or among the company and related parties. None of the members of the Audit Committee is an employee of the company. Mr. McDonald is the Chairman of the Audit Committee. The Audit Committee met four times during fiscal 2000.

Compensation Committee. The Compensation Committee of the Board of Directors, currently consisting of Messrs. Shaughnessy, Macrae and McDonald, is authorized to exercise all of the powers of the Board of Directors with respect to matters pertaining to compensation and benefits, including, but not limited to, salary matters, incentive/bonus plans, investment programs and insurance plans. The Compensation Committee is also authorized to exercise all of the powers of the Board of Directors in matters pertaining to employee promotions and the designation or revision of employee positions and job titles. None of the members of the Compensation Committee is an employee of the company. Mr. Shaughnessy is Chairman of the Compensation Committee. The Compensation Committee met once during 2000.

Executive Committee. The Executive Committee of the Board of Directors, currently consisting of Messrs. Macrae, McDonald and Schwartz, is authorized to exercise substantially all of the powers of the board in the management and business affairs of the company, except it does not have the authority to declare dividends, authorize the issuance of shares of our common stock, modify the company's certificate of incorporation or bylaws, adopt any agreement of merger or consolidation or recommend to the shareholders the sale, lease or exchange of all or substantially all of the company's assets or the dissolution of the company. Regularly scheduled meetings of the board are held periodically each year and special meetings are held from time to time. As a consequence, the occasions on which this committee is required to take action are limited. The committee did not meet during fiscal 2000.

Stock Option Committee. The Stock Option Committee of the Board of Directors, currently consisting of Messrs. Shaughnessy and Macrae, is authorized to administer the company's existing stock option plan. The committee did not meet separately from the board during fiscal 2000.

Audit Committee Report

The audit functions of the Audit Committee are focused on three areas:

- the adequacy of the company's internal controls and financial reporting process and the reliability of the company's financial statements;
- the independence and performance of the company's independent auditors; and
- the company's compliance with legal and regulatory requirements.

We meet with management periodically to consider the adequacy of the company's internal controls and the objectivity of its financial reporting. We discuss these matters with the company's independent auditors and with appropriate company financial personnel. We regularly meet privately with the independent auditors who have unrestricted access to the Audit Committee. We also recommend to the Board the appointment of the independent auditors and review periodically their performance and independence from management. In addition, the Audit Committee reviews the company's financing plans and reports recommendations to the full Board for approval and to authorize action.

The Directors who serve on the committee are all "Independent" for purposes of the Nasdaq listing standards. That is, the Board of Directors has determined that none of us has a relationship with USV that may interfere with our independence from USV and its management. The Board has adopted a written charter setting out the audit related functions the committee is to perform.

Management has primary responsibility for the company's financial statements and the overall reporting process, including the company's system of internal controls. The independent auditors audit the annual financial statements prepared by management, express an opinion as to whether those financial statements fairly present the financial position, results of operations and cash flows of the company in conformity with accounting principles generally accepted in the United States and discuss with us any issues they believe should be raised with us. We reviewed the company's audited financial statements for the fiscal year ended January 31, 2001, with both management and Ernst & Young, the company's independent auditors, to discuss those financial statements. Management represented to us that the financial statements were prepared in accordance with generally accepted accounting principles.

We received from and discussed with Ernst & Young the written disclosure and the letter required by Independence Standards Board Standard No. 1, (Independence Discussions with Audit Committees). These items relate to that firm's independence from the company. We also discussed with Ernst & Young any matters required to be discussed by Statement on Auditing Standards No. 61 (Communication with Audit Committees).

Based on these reviews and discussions, we recommended to the Board that the company's audited financial statements for the fiscal year ended January 31, 2001, be included in its Annual Report on Form 10-K for filing with the Securities and Exchange Commission. The Committee also recommended the reappointment, subject to shareholder approval, of the independent auditors, and the Board of Directors concurred in such recommendation.

Submitted by the Audit Committee of the company's Board of Directors.

Richard K. McDonald (Chairman)
Dennis J. Shaughnessy
J. Roger Sullivan, Jr.

Compensation Committee Report

The company's executive compensation program is philosophically designed to reward exceptional performance and to align the financial interests of the company's senior executives with those of the equity owners of the company. To achieve this end, the Committee has developed and implemented a compensation program designed to attract and retain highly skilled executives with the business experience and acumen necessary for achievement of the company's long-term business objectives. The Compensation Committee uses compensation surveys to provide information and data to assist it in developing compensation programs that are competitive with other similarly-situated companies.

The company's executive compensation consists of three components: base salary; an annual performance-based bonus; and stock-based compensation. The general guidelines used by the company to determine these components are described below. Subject to these guidelines, bonus awards and option grants are awarded on a discretionary rather than a formulaic basis.

Base Salary

The base salaries paid to the company's executive officers are based upon recommendations of senior management, and require approval of the Compensation Committee. Management takes into account a variety of factors in determining base salary, including:

- competitive salaries for comparable officers at comparable companies;
- individual performance and an assessment of the value of the individual's services to USV;
- the fairness of individual executive officers' salaries relative to their responsibilities;
- the salaries of other executive officers; and

- the company's financial performance.

At different times, depending upon prevailing circumstances, the Compensation Committee gives these criteria varying degrees of weight.

Annual Bonus

The company uses annual incentive bonuses to recognize individual performance and reward exceptional contributions to the company's business. Bonuses are determined as follows. At the end of each fiscal year, a bonus pool is proposed by senior management and reviewed with the Compensation Committee. The bonus pool, which includes amounts to be paid to the Chief Executive Officer and the three other most highly compensated officers in the company, is allocable based on:

- the company's EBITDA growth rate for the year (taking into account long-term investment);
- each individual's contribution to the whole; and
- the prior year's bonus pool.

Although these factors are considered, bonus pools are allocated on a discretionary, rather than a formulaic basis.

Once the bonus pool is established, senior USV management are responsible for making recommendations to the Compensation Committee regarding allocation to executives other than the three most highly compensated officers of the company based on a subjective assessment of individual performance. The Compensation Committee is responsible for determining the CEO's bonus and the CEO makes recommendations to the Compensation Committee regarding allocation of the bonus pool to the four other most highly compensated executive officers of the company, which the Compensation Committee then approves or disapproves. Subject to certain guidelines based on salary levels, bonuses are entirely discretionary, with exceptional efforts and results rewarded disproportionately.

Stock Options

The Committee believes that its stock option program appropriately links executive interest to stockholder value. The company makes annual option grants to eligible employees based on performance and issues options to certain employees upon initial employment and (promotion) and in connection with entering into certain new employment arrangements.

The number of options available for grant each year and the allocation of options is determined as described below. At the end of the year, an aggregate option pool available for grant to company executives is proposed by senior management and reviewed with and approved by the Compensation Committee and the Stock Option Committee. As is the case with bonuses, once the option pool is established, senior USV management are responsible for making recommendations to the Compensation Committee regarding allocation to executives other than the five most highly compensated executive officers. As is the case with bonuses, the CEO makes recommendations to the Compensation Committee regarding option grants to the four most highly compensated executive officers other than the CEO and the Compensation Committee determines the number of options to be granted to the CEO. Subject to certain guidelines based on salary levels, option grants from the established pool are discretionary. In addition, a certain number of options are set aside each year for extraordinary grants to new hires, renewals or other grants that fall outside the annual grant program. All grants are reviewed and approved by the Compensation Committee and the Stock Option Committee, and the vast majority of the options granted vest over a three-year period.

Summary

The Compensation Committee believes that the company's executive compensation program must continually provide executives with a strong incentive to focus on and achieve the company's business objectives and link a significant portion of long-term remuneration directly to stock price appreciation realized by all of the company's shareholders. By assuring that executives are appropriately compensated and therefore motivated, the long-term interests of shareholders will be best served. The actions taken by the Compensation Committee in 2000 were consistent with this focus and the principles outlined above.

Submitted by the Compensation Committee of the company's Board of Directors

Dennis J. Shaughnessy (Chairman)
G. Kenneth Macrae
Richard K. McDonald

Compensation Committee Interlocks and Insider Participation

Neither Messrs. Shaughnessy, Macrae or McDonald is an officer or employee, or former officer or employee, of the company or any of its subsidiaries. No interlocking relationship exists between the members of the company's Board or Compensation Committee and the board of directors or compensation committee of any other company, nor has any such interlocking relationship existed in the past.

Performance Graph

The following Performance Graph compares, for the period that our Peer Group common stock has been publicly traded (since December 2, 1997), the cumulative total stockholder return for the company, The Nasdaq Stock Market (U.S. Compares) Index (the "Nasdaq Market Index"), and The Peer Group Index (the "Peer Group Index"). The Peer Group Index consists of the company and the following companies which are engaged primarily in the retail optical business: Cole National Corporation; Luxottica; Vista Eyecare, Inc.; and Emerging Vision, Inc. The Performance Graph assumes that $100 was invested beginning on the date of our initial public offering in each of USV and the indexes. Total return performance for the Nasdaq Market Index and the Peer Group Index is weighted based on the market capitalization of the companies included in each index and assumes that dividends are reinvested. In fiscal 2000, we did not declare or pay any dividends on our common stock. Immediately following the Performance Graph is a chart of the numerical plot-points that support the graph. We caution that the stock price performance shown in the graph below should not be considered indicative of potential future stock price performance.

TOTAL RETURN TO STOCKHOLDERS
(Assumes $100 Investment on 12/2/97)

	12/02/97	01/30/1998	1/29/1999	01/31/2000	01/31/2001
U.S. Vision, Inc	$100.00	$106.94	$ 79.17	$ 31.60	$ 47.23
Nasdaq Market Index	$100.00	$112.42	$ 88.43	$131.41	$220.18
Peer Group Index	$100.00	$100.89	$156.72	$247.15	$173.91

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

Stock Ownership

The following table sets forth, as of January 31, 2001, certain information regarding the beneficial ownership of our common stock by:

- Each person or entity who is known by us to own beneficially 5% or more of our outstanding common stock;
- each director of the company;
- each of our Named Executive Officers; and
- all of our directors and executive officers as a group.

Name and Address of Beneficial Owner	Number of Shares Beneficially Owned[1]	Options or Warrants Exercisable Within 60 Days	Percentage of Shares Beneficially Owned[1]
Norcross Roberts Group c/o George E. Norcross III 1701 Route 70 East Cherry Hill, NJ 08034	1,848,675	--	23.7%
Grotech Partners IV, L.P. .... 9690 Deereco Road Timinium, MD 21093	1,583,951	--	20.3%
Stolberg Partners, L.P....................... 767 Third Avenue New York, NY 10017	1,525,159	--	19.5%
Constitution Partners I, L.P. .... 600 Grant Street, 57th Floor, USX Tower Pittsburgh, PA 15219	487,228	--	6.2%
William A. Schwartz(2)	60,190	228,735	3.6%
Dennis J. Shaughnessy (3)................	1,953,795	39,000	25.4%
J. Roger Sullivan, Jr.(3)....................	1,953,795	39,000	25.4%
Richard K. McDonald(4)..................	737,254	19,500	9.6%
George T. Gorman(2).......................	--	80,665	1.0%
Gayle E. Schmidt(2)	1,040	76,050	*
George E. McHenry, Jr.(2)...............	--	76,050	*
Peter M. Troup	8,228	63,944	*
G. Kenneth Macrae...........................	2,471	27,618	*
Directors and executive officers as a group (9) persons	2,762,978	650,562	40.4%

* Represents less than 1%

(1) Beneficial ownership is determined in accordance with the rules of the Commission and generally includes voting or investment power with respect to securities. Except as otherwise indicated by footnote, and subject to community property laws where applicable, the persons named in the table above have sole voting and investment power with respect to all shares of Class A common stock shown as beneficially owned by them.

(2) The address of Messrs. Schwartz, Gorman and McHenry, and Ms. Schmidt is c/o U.S. Vision, Inc., One Harmon Drive, Glendora, NJ 08029.

(3) The shares of stock listed in Mr. Shaughnessy's and Mr. Sullivan's name are owned by Grotech Partners IV, L.P., Grotech Partners III, L.P., Grotech III Companion Fund, L.P. and Grotech III Pennsylvania Fund, L.P., each a limited partnership in which Mr. Shaughnessy and Mr. Sullivan serve as directors or officers of the respective general partners. Grotech Capital Group, Inc., the general partner of Grotech Partners III, L.P., Grotech III Companion Fund, L.P. and Grotech III Pennsylvania Fund, L.P., is the holder of 1,295 of these shares. Grotech Capital Group IV, LLC, the general partner of Grotech Partners IV, L.P., is the holder of 3,166 of these shares. Messrs. Shaughnessy and Sullivan disclaim beneficial ownership of these shares for all purposes.

(4) A portion of these shares of stock held in Mr. McDonald's name are owned by M&M General Partnership and Constitution Partners I, L.P., each a limited partnership in which Mr. McDonald serves as a director or officer of the respective general partners. Mr. McDonald disclaims beneficial ownership of these shares, except to the extent of his pecuniary interest therein.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

Certain Relationships and Related Party Transactions

Since 1990, we have leased a retail store, office and administrative space located in a 7,000 square foot building in Philadelphia, Pennsylvania, from a limited partnership in which William A. Schwartz, Jr., Gayle E. Schmidt and George E. McHenry, Jr., each of whom is an executive officer of the company and a 10% limited partner of the partnership. Mr. Schwartz is also the general partner of the partnership. We made payments to the partnership of $136,600 in each of the fiscal 1998, 1999 and 2000. Management believes that the lease terms are comparable to those that could have been obtained pursuant to an arm's length transaction with unaffiliated partners.

PART IV

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

Financial Statements

The following financial statements of the company are filed as a part of this report:

All financial statement schedules have been omitted because they are not applicable or the required information is shown in the consolidated financial statements and notes thereto.

Reports on Form 8-K

The company filed a Form 8-K dated January 5, 2001, to report the proposed acquisition of the company by the Norcross Roberts Group.

Report of Independent Auditors

Board of Directors and Shareholders
U.S. Vision, Inc.

We have audited the accompanying consolidated balance sheets of U.S. Vision, Inc. as of January 31, 2001 and 2000, and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for each of the three years in the period ended January 31, 2001. These financial statements 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of U.S. Vision, Inc. at January 31, 2001 and 2000, and the consolidated results of its operations and its cash flows for each of the three years in the period ended January 31, 2001, in conformity with accounting principles generally accepted in the United States.

/s/Ernst & Young LLP

Philadelphia, Pennsylvania
March 16, 2001

U.S. Vision, Inc.

Consolidated Balance Sheets

(Dollars in thousands, except share and per share amounts)

	January 31, 2001	January 31, 2000
ASSETS		
Current assets:		
Cash	$ 240	$ 454
Accounts receivable	10,879	12,006
Inventory	20,954	23,785
Prepaid expenses and other	1,130	542
Total current assets	33,203	36,787
Property, plant, and equipment, net	40,524	37,890
Goodwill, net of accumulated amortization of $1,217 and $868, respectively	6,356	6,705
Other	995	1,651
Total assets	$ 81,078	$ 83,033
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable—trade	$ 4,865	$ 10,094
Accrued expenses	6,483	5,859
Current portion of obligations under capital lease	945	646
Current portion of long-term debt	450	1,061
Total current liabilities	12,743	17,660
Obligations under capital lease	2,272	1,759
Long-term debt, less current portion	16,112	18,610
Other long-term liabilities	505	353
Shareholders' equity:		
Common stock, $0.01 par value:		
Authorized shares—15,000,000, issued and outstanding shares—7,802,942	78	78
Additional paid-in capital	115,766	115,766
Accumulated deficit	(66,398)	(71,193)
Total shareholders' equity	49,446	44,651
Total liabilities and shareholders' equity	$ 81,078	$ 83,033

See accompanying notes to consolidated financial statements.

U.S. Vision, Inc.

Consolidated Statements of Operations

(Dollars in thousands, except per share amounts)

	Year ended January 31, 2001	2000	1999
Net sales	$ 147,617	$ 143,419	$ 131,491
Cost of sales	44,645	45,516	40,648
Gross profit	102,972	97,903	90,843
Operating expenses:			
Selling, general, and administrative expenses	92,070	91,726	79,119
Special non-recurring charges	752	2,835	—
Depreciation and amortization	4,708	4,670	3,879
	97,530	99,231	82,998
Operating income (loss)	5,442	(1,328)	7,845
Interest expense, net	456	469	21
Income (loss) before income tax provision	4,986	(1,797)	7,824
Income tax provision	191	22	355
Net income (loss)	$ 4,795	$ (1,819)	$ 7,469
Net income (loss) per share – basic	$ 0.61	$ (0.23)	$ 0.96
Net income (loss) per share - assuming dilution	$ 0.61	$ (0.23)	$ 0.94

See accompanying notes to consolidated financial statements.

U.S. Vision, Inc.

Consolidated Statements of Changes in Shareholders' Equity

(In thousands, except share data)

	Common Stock ($0.01 par value per share) Shares	Common Stock ($0.01 par value per share) Amount	Additional Paid-In Capital	Accumulated Deficit	Total Shareholders' Equity
Balance at January 31, 1998	7,770,679	$ 78	$ 115,583	$ (76,843)	$ 38,818
Net income				7,469	7,469
Additional initial public offering costs			(174)		(174)
Stock issuance in connection with acquisition	16,700	—	200		200
Stock issuance in connection with director stock compensation plan	15,563	—	157		157
Balance at January 31, 1999	7,802,942	78	115,766	(69,374)	46,470
Net loss				(1,819)	(1,819)
Balance at January 31, 2000	7,802,942	78	115,766	(71,193)	44,651
Net income				4,795	4,795
Balance at January 31, 2001	7,802,942	$ 78	$115,766	$ (66,398)	$ 49,446

See accompanying notes to consolidated financial statements.

U.S. Vision, Inc.

Consolidated Statements of Cash Flows

(In thousands)

	Year ended January 31, 2001	2000	1999
Cash flows from operating activities:			
Net income (loss)	$ 4,795	$ (1,819)	$ 7,469
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	4,708	4,670	3,879
Special non-recurring charges	396	2,835	—
Changes in operating assets and liabilities, net of effect of acquisitions:			
Accounts receivable	1,127	1,104	(1,547)
Inventory	2,831	(2,918)	(4,275)
Other	49	(953)	(415)
Accounts payable - trade	(5,229)	2,200	1,718
Accrued expenses	777	203	(396)
Net cash provided by operating activities	9,454	5,322	6,433
Cash flows from investing activities:			
Additions to property, plant, and equipment, net	(6,313)	(9,601)	(8,894)
Acquisitions	—	(795)	(1,892)
Net cash used in investing activities	(6,313)	(10,396)	(10,786)
Cash flows from financing activities:			
Proceeds from borrowings:			
Revolving line of credit	72,560	75,570	29,265
Other	682	870	424
Repayments of borrowings:			
Revolving line of credit	(74,741)	(69,680)	(23,090)
Term loans	(381)	(355)	(524)
Other	(1,475)	(1,570)	(1,220)
1997 initial public offering costs	—	—	(174)
Net cash provided by (used in) financing activities	(3,355)	4,835	4,681
Net increase (decrease) in cash	(214)	(239)	328
Cash at beginning of period	454	693	365
Cash at end of period	$ 240	$ 454	$ 693
Supplemental disclosure of cash flow information:			
Interest paid	$ 1,434	$ 1,065	$ 554
Income taxes paid	$ 188	$ 863	$ 235
Supplemental schedule of non-cash investing and financing activities:			
Capital lease obligations incurred	$ 1,575	$ 45	$ —
Note payable incurred in connection with acquisitions	$ —	$ 758	$ 1,206

See accompanying notes to consolidated financial statements.

U.S. Vision, Inc.

Notes to Consolidated Financial Statements

1. Organization

U.S. Vision, Inc. (the "Company") was formed in March 1990 and incorporated in the Commonwealth of Pennsylvania. In March 1997, the Company reincorporated in the State of Delaware. The Company's principal business activity is the retail sale and manufacturing of prescription eyewear through approximately 629 stores located throughout the United States.

2. Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and all of its wholly owned subsidiaries. All significant intercompany transactions and balances have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Inventory

Inventory, consisting principally of frames and lenses, is valued at the lower of cost or market, determined by the first-in, first-out method.

Property, Plant, and Equipment

Property, plant, and equipment are stated at cost. Depreciation, which includes assets under capital leases, is computed using the straight-line method. The general range of useful lives is 10 to 30 years for buildings and improvements, and 3 to 10 years for automobiles, machinery and equipment, computer equipment, and furniture and fixtures. Depreciation expense totaled $4,342,000, $4,349,000, and $3,703,000 in fiscal 2000, 1999, and 1998, respectively.

Long-Lived Assets

Long-lived assets, which principally includes property, plant, and equipment, and goodwill arising from business acquisitions, are amortized on a straight-line basis over the expected period to be benefited from 15 to 40 years. In accordance with FASB Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," the Company periodically evaluates the realizability of long-lived assets as events or circumstances indicate a possible inability to recover their carrying amounts. Long-lived assets are grouped and evaluated on a per store basis by applying various analyses, including undiscounted cash flows and profitability projections.

U.S. Vision, Inc.

Notes to Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

Advertising

The Company expenses advertising costs as incurred. Advertising expense was $8,950,000, $9,764,000, and $8,035,000 in fiscal 2000, 1999, and 1998, respectively.

Store Openings and Closings

The noncapital expenditures incurred in opening new stores or remodeling existing stores are expensed as incurred. When a store is closed, the remaining investment in leasehold improvements and the amount estimated to terminate the lease are expensed.

Revenue Recognition

Revenue is recognized when merchandise is delivered or shipped to the customer.

Reclassification

Certain prior-year amounts have been reclassified to conform with the current-year presentation.

Accounting for Internal Use Software

The Company capitalizes certain costs incurred with developing or obtaining internal-use software in accordance with the provisions of AICPA Statement of Position 98-1. Total costs capitalized for the years ended January 31, 2001, 2000 and 1999 included capitalization of interest expense of $999,000, $739,000, and $554,000 respectively.

3. Inventory

Inventory is as follows (In thousands):

	January 31,	
	2001	2000
Finished goods	$20,954	$22,810
Work-in-process	—	870
Raw materials	—	105
	$20,954	$23,785

4. Property, Plant, and Equipment

Property, plant, and equipment is as follows (In thousands):

	January 31,	
	2001	2000
Land and buildings	$8,018	$ 7,303
Leasehold improvements	10,641	10,242
Machinery and equipment	22,639	21,460
Data processing equipment and related capitalized costs	17,744	15,310
Furniture and fixtures	16,653	14,684
	75,695	68,999
Less accumulated depreciation	35,171	31,109
	$40,524	$37,890

5. Long-Term Debt

Long-term debt is as follows (In thousands):

	January 31,	
	2001	2000
$20,000,000 Revolving Line of Credit which expires on December 31, 2002. Interest is payable monthly at the lower of prime, as defined, or the thirty day rate for U.S. Treasury Bills plus 250 basis points (8.08% at January 31, 2001). The revolving line of credit is secured by substantially all the assets of the Company.	$12,033	$14,214
DRPA Term Loan due February 1, 2010. Requires quarterly payments of $13,322, which includes principal and interest at 2%. Final payment of $702,434 is due on January 31, 2010. The term loan is secured by the land and building of the Corporate headquarters.	1,022	1,054
DRPA Term Loan due February 1, 2010. Requires quarterly payments of $25,313, which includes principal and interest at 2%. Final payment of $1,334,625 is due on January 31, 2010. The term loan is secured by the land and building of the New Jersey manufacturing facility.	1,942	2,004

5. Long-Term Debt (continued)

DRPA Term Loan due on June 7, 2005. Requires quarterly payments of $33,175, which includes principal and interest at 2%. The term loan is secured by certain equipment located in the New Jersey manufacturing facility.	539	660
Mortgage loan payable due October 2004. Requires monthly payments of $5,121, which includes principal and interest at 8.5%. Final payment of $413,000 is due on October 2004. The loan is secured by the land and building of the New Jersey distribution facility.	497	516
Note payable to stockholder due July 7, 2001. Requires quarterly payments of $41,666 plus simple interest based on the prime rate at the first day of each calendar quarter (9.0% at January 31, 2001).	83	249
Other	446	974
	16,562	19,671
Less current portion	450	1,061
	$ 16,112	$18,610

The revolving credit agreement contains various financial covenants including maintaining a specified net worth level, current ratio, and a fixed charge ratio. The revolving credit agreement also prohibits the payment of dividends to common shareholders. As of January 31, 2001, the Company was in compliance with the all financial covenants.

The carrying amounts of the Company's debt approximate their fair values.

Maturities of long-term debt for each of the next five years and thereafter are as follows (In thousands):

Year ended January 31,	
2002	$ 450
2003	12,405
2004	371
2005	727
2006	145
Thereafter	2,464
	$16,562

6. Lease Commitments

Capital lease obligations are machinery and equipment leases which expire on various dates through 2005. Assets under capital leases at January 31, 2001 and 2000, were $3,389,000 and $3,232,000, net of accumulated amortization of $1,211,000 and $795,000, respectively, and are included as a component of property, plant, and equipment in the consolidated balance sheets.

Future minimum payments required under capital leases and noncancellable operating leases with lease terms in excess of one year as of January 31, 2001, are as follows (In thousands):

Year ended January 31,	Capital Leases	Operating Leases
2002	$ 1,226	$ 935
2003	1,048	569
2004	688	294
2005	408	167
2006	187	45
Thereafter	-	10
Total lease payments	3,557	$ 2,020
Less amount representing interest	340	
Present value of minimum capitalized lease payments	3,217	
Less current portion	945	
Long-term portion	$ 2,272	

At January 31, 2001, the Company operated 33 of its retail stores under operating leases with varying terms. The leases expire at various dates from fiscal 2001 to fiscal 2006, and many have renewal options for up to five additional years. The leases provide for minimum lease payments and, in many cases, require payment of additional rents if sales exceed stipulated levels. These additional rents are not significant. The leases also require, in most cases, payment of taxes and common area expenses such as maintenance, security, and other expenses.

The Company also operated 596 licensed optical departments under leases with expiration dates ranging from 60-days to 5-years. These leases provide for monthly lease payments calculated as a percentage of sales. Rent expense under these leases was $18,215,000, $17,378,000, and $15,537,000 in fiscal 2000, 1999, and 1998, respectively. Approximately 70% of these leases are with one large national retailer. The Company's master lease provides that only a limited number of the Company's optical centers with this retailer may be closed in any calendar year without cause.

The Company also operates other facilities under operating leases. Rent expense for all operating leases, including those on its retail stores and licensed optical departments described above, was $20,323,000, $19,867,000, and $18,270,000 in fiscal 2000, 1999, and 1998, respectively.

6. Lease Commitments (continued)

The Company has commitments from Commerce BankLease, a unit of Commerce Bank, N.A., for a $2,000,000 five-year equipment lease financing facility. During fiscal 2000 and 1999, the Company executed the agreement and leased approximately $382,000 and $922,000 of laboratory equipment, which will be paid for over a period of 60 months. The leased laboratory equipment has been recorded as a capital lease on the consolidated balance sheet.

7. Income Taxes

The components of the income tax provision are as follows (In thousands):

	Year ended January 31,		
	2001	2000	1999
Current provision	$ 217	$ 48	$ 476
Deferred benefit	(26)	(26)	(121)
Income tax provision	$ 191	$ 22	$ 355

Deferred income tax liabilities and assets result from differences in the tax basis of assets and liabilities and their reported amounts in the consolidated financial statements. Significant components of the Company's deferred income taxes are as follows (In thousands):

	Year ended January 31,		
	2001	2000	1999
Deferred tax assets:			
Net operating loss carryover	$5,347	$5,856	$5,730
Inventory costs	466	1,262	414
Alternative Minimum Tax Credit	258	232	206
Other	196	124	170
Store closing reserves	8	171	199
Total deferred tax assets	6,275	7,645	6,719
Valuation allowance	(3,970)	(5,451)	(4,965)
Net deferred tax assets	2,305	2,194	1,754
Deferred tax liability:			
Depreciation	(2,047)	(1,962)	(1,548)
Total deferred tax liability	(2,047)	(1,962)	(1,548)
Net deferred tax asset	$ 258	$ 232	$ 206

The deferred tax valuation reserve decreased by $1,481,000 and increased by $486,000 for fiscal 2000 and 1999, respectively. The valuation reserve has been established to eliminate the benefit of all net deferred tax assets except for the credit on the Alternative Minimum Tax.

7. Income Taxes (continued)

A reconciliation of the income tax provision with amounts determined by applying the U.S. Statutory rate to income before income tax is as follows (in thousands):

	Year ended January 31, 2001	2000	1999
Income tax provision at the statutory rate	$ 1,738	$ (611)	$ 2,660
Amortization of goodwill	99	83	54
Nondeductible expenses	61	121	47
Increase (decrease) in deferred tax asset valuation reserve	(1,481)	486	(2,691)
State income tax provision	111	76	136
Other taxes	(337)	(133)	149
Income tax provision	$ 191	$ 22	$ 355

As of January 31, 2001, the Company had net operating loss carry forwards of approximately $14,100,000 which will begin to expire in the year 2006. Approximately $5,900,000 of these carry forwards are available to offset future taxable income without limitation and approximately $8,200,000 of these carry forwards (the "Restricted NOLs") are significantly limited due to ownership changes. Approximately $780,000 of the Restricted NOLs will become available for use each year through the year 2008. Approximately $3,400,000 of the Restricted NOLs are expected to expire unutilized.

8. Net Income Per Share

The following table (In thousands except per share data) presents the calculation of earnings per share for the periods indicated.

	Year ended January 31, 2001	2000	1999
Net income available to common shareholders	$ 4,795	$ (1,819)	$ 7,469
Basic average common shares outstanding	7,803	7,803	7,789
Effect of dilutive securities:			
Options and warrants	33	-	175
Diluted average common shares outstanding	7,836	7,803	7,964
Net income per share - basic applicable to common shareholders	$ 0.61	$(0.23)	$ 0.96
Net income per share - assuming dilution applicable to common shareholders	$ 0.61	$(0.23)	$ 0.94

Options to purchase shares of common stock have no impact on earnings per share for the year ended January 31, 2000, as their effect was antidilutive.

9. Commitments and Contingencies

The Company is subject to various pending and threatened litigation from time to time in the ordinary course of our business. Although all litigation involves some degree of uncertainty, in the opinion of management, liabilities, if any, arising from such litigation or threat thereof are not expected to have a material adverse effect on the company.

10. Acquisitions

On July 31, 1999, the Company acquired ten licensed optical retail stores located within The Bay and Zeller's full line stores in the Quebec province. On September 20, 1999, the Company acquired all of the assets and inventory of twenty-four licensed optical departments from a regional department store retailer. Both acquisitions were accounted for under the purchase method of accounting. The operating results of these acquisitions are included in the consolidated financial statements since the date of the acquisitions. The total cost of these acquisitions was $1.5 million, and the excess of the purchase price over the fair market value of the acquired assets and liabilities assumed has been recorded as goodwill. The total goodwill recorded on these acquisitions was $1.2 million, which is being amortized on a straight line basis from the respective date of each acquisition. Pro forma results of operations have not been included for these acquisitions as the effect is not material.

On July 7, 1998, the Company acquired nine licensed optical retail stores located within Sears full line stores and two medical center locations. On October 4, 1998, the Company acquired all of the assets and inventory of sixteen licensed optical departments from a department store division of a national retailer. Both acquisitions were accounted for under the purchase method of accounting. The operating results of these acquisitions are included in the consolidated financial statements since the date of the acquisitions. The total cost of these acquisitions was $3.2 million, and the excess of the purchase price over the fair market value of the acquired assets and liabilities assumed has been recorded as goodwill. The total goodwill recorded on these acquisitions was $2.8 million which is being amortized on a straight line basis from the respective date of each acquisition. Pro forma results of operations have not been included for these acquisitions as the effect is not material.

11. Special Non-Recurring Charges

In fiscal 1999 the Company's board of directors approved a plan to close its plastic frame manufacturing facility located in Florida. The Company relocated the importing and distribution of frames, previously manufactured or imported in Florida, to its Glendora, NJ distribution facility. In connection with this plan, the company recorded a charge of $2,835,000, which was comprised of $2,224,000 in write-offs of inventory used solely in the manufacturing process, $161,000 in machinery and equipment, $250,000 in buildings and $200,000 for uncollectible receivables. The write-offs associated with the buildings and machinery and equipment were intended to reduce their carrying costs to their estimated net realizable value.

In fiscal 2000 the company closed approximately 80 under-performing stores and recorded a charge of $752,000 for lease termination charges and the write-off of furniture and fixtures and leasehold improvements.

12. Segment Information

The Company operates exclusively in the business of marketing, distribution, and production of optical products through retail optical stores. On January 31, 2001, the Company operated in 47 states and in Canada. Approximately 66% of the Company's sales were in licensed departments of one retailer for fiscal 2000, 1999 and 1998. Sales in licensed departments of another retailer were approximately 12% for fiscal 2000, 1999 and 1998. A termination of either of these licenses could cause a loss of sales, which would affect operating results adversely.

The Company's sales to customers, operating income and net property, plant and equipment are summarized by geographical areas below. Sales to customers are attributed to the geographical areas based on the point of sale.

	United States	Canada	Consolidated
		(In thousands)	
Year Ended January 31, 2001			
Sales to customers	$ 141,616	$ 6,001	$ 147,617
Operating income (loss)	6,615	(1,173)	5,442
Property, plant and equipment, net	38,535	1,989	40,524
Year Ended January 31, 2000			
Sales to customers	$ 140,463	$ 2,956	$ 143,419
Operating income (loss)	(333)	(995)	(1,328)
Property, plant and equipment, net	37,010	880	37,890
Year Ended January 31, 1999			
Sales to customers	$ 131,491	$ -	$ 131,491
Operating income (loss)	7,845	-	7,845

13. Stock Based Compensation Plans

In February 1996, the Board of Directors authorized the formation of an incentive stock option plan. The number of shares of Common Stock for which options could be granted under this plan cannot exceed in the aggregate 1,300,000 shares. The price at which shares may be purchased pursuant to options granted under the plan may not be less than the fair market value of the shares of Common Stock on the date the option is granted. In June 2000, the Board of Directors amended the incentive stock option plan to increase the aggregate number of shares subject to issuance by 700,000 shares from 1,300,000 shares to 2,000,000 shares.

13. Stock Based Compensation Plans (continued)

The following table summarizes the Company's stock option activity:

	Year Ended January 31, 2001		2000		1999	
	Number of shares	Weighted Average Exercise Price	Number of shares	Weighted Average Exercise Price	Number of shares	Weighted Average Exercise Price
Options outstanding at beginning of year	1,010,473	$ 9.09	1,086,523	$ 8.99	769,523	$ 7.75
Granted	797,467	3.00	—	—	317,000	12.00
Forfeited	107,420	7.34	76,050	7.69	—	—
Options outstanding at end of year	1,700,520	$ 6.31	1,010,473	$ 9.09	1,086,523	$ 8.99
Exercisable at end of year	906,665	$ 8.52	851,973	$ 8.54	832,440	$ 8.14
Available for future grants	451,595		419,385		343,335	

In June 2000, 105,500 warrants were issued to various directors with an exercise price of $2.88 per share (fair market value on date of grant). These warrants vested immediately upon grant and expire in June 2005.

The Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25) and related interpretations in accounting for its employee stock options because the alternative fair value accounting provided for under FASB Statement No. 123, "Accounting for Stock-Based Compensation," requires use of option valuation models that were not developed for use in valuing employee stock options. If the Company had recognized compensation costs based upon the fair value of the stock options at the date of the grant, as prescribed by FAS 123, the Company's pro forma results would have been:

Fiscal Year Ended January 31,	Pro Forma Net Income (Loss)	Pro Forma - Diluted Net Income (Loss) Per Share
2001	$ 3,970,000	$ 0.51
2000	$(2,300,000)	$ (0.29)
1999	$ 6,700,000	$ 0.85

13. Stock Based Compensation Plans (continued)

The fair value of options granted in fiscal 2000 and fiscal 1998 was $1.07 and $5.54 per share, respectively. The fair value of the options was estimated at the date of the grant using a Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 5.75%, dividend yield of 0%, expected volatility of the market price of the common stock of 63.8% in fiscal 2000 and 43.5% in fiscal 1998, and weighted average expected life of the options of 2 years for fiscal 2000 and 5 years for fiscal 1998. The estimated fair value of the options was amortized to expense over the vesting period of the options for the purposes of determining pro forma net income and pro forma net income per share. The effects of applying FAS 123 for purposes of providing pro forma disclosures are not likely to be representative of the effects on reported net income in future years.

During 1998, the Company issued 15,563 shares of common stock to directors. Compensation expense, based on the fair market value of the stock at the date of grant, of $158,000 has been included in the statement of income for fiscal 1998.

14. Employee Benefit Plan

The Company implemented an employee savings plan (the "plan") during fiscal 1995 pursuant to Section 401(k) of the Internal Revenue Code. All employees who have been credited with at least 250 hours of service within three consecutive months are eligible to participate in the plan. Employees may elect to contribute to the plan through payroll deductions in an amount not to exceed the amount permitted under the Internal Revenue Code. The Company has the discretion to make matching contributions on behalf of the participants. Employees are fully vested in their contributions. Company contributions vest at a rate of 20% on each participant's anniversary date in the plan provided that the participant has completed 1,000 hours of service with the Company as of such date. During fiscal 2000, 1999 and 1998, the Company contributed $140,000, $135,000, and $104,000, respectively to the plan.

EXHIBIT INDEX

Exhibit Number	Exhibit
3.1*	Restated Certificate of Incorporation of the Company
3.2*	Bylaws of the Company
10.1*	Loan and Security Agreement between the Company and Commerce Bank, as amended
10.2*	Stock Option Plan, including form of Stock Option Agreement
10.3+	Amendment to Stock Option Plan
10.4*	Subordinated Note Purchase Agreement
10.5**	Amendment to Subordinated Note Purchase Agreement
10.6**	J.C. Penney License Agreement
10.7**	Vision Care Agreement
10.8***	Employment Agreement for William A. Schwartz, Jr.
10.9***	Form of Employment Severance Agreement
10.10**	Form of Non-Statutory Option Agreement
10.11**	Form of Indemnification Agreement
10.12**	Shareholders' Agreement
10.13**	Form of Sears Lease
10.14**	Commerce Bank Mortgages and Schedules
10.15**	DRPA Loan Documentation
10.16***	Form of Warrant
21+	Subsidiaries of the Company
23+	Consent of Independent Auditors

* Previously filed as an exhibit to the Form S-1 (Reg. No. 333-35819) filed with the Commission on September 17, 1997.

** Previously filed as an exhibit to Amendment No. 1 to the Form S-1 (Reg. No. 333-35819) filed with the Commission on October 29, 1997.

*** Previously filed as an exhibit to the company's Form 10-K for the fiscal year ended January 31, 1998, which was filed with the Securities and Exchange Commission on April 30, 1999.

**** Previously filed as an exhibit to the company's Form 10-Q for the quarter ended July 31, 2000, which was filed with the Securities and Exchange Commission on September 13, 2000.

\+ Filed herewith.

Exhibit 10.3

FIRST AMENDMENT TO U.S. VISION, INC. STOCK OPTION PLAN

U.S. Vision, Inc., a Delaware corporation (the "*Company*"), adopted a Stock Option Plan dated as of February 29, 1996 (the "*Plan*"), providing for shares of the Company's common stock, $0.01 par value per share (the "*Common Stock*"), to be issued under the Plan pursuant to the terms and conditions stated in the Plan. Subject to stockholder approval, at a meeting held on April 19, 2000, the Board of Directors of the Company adopted resolutions amending the Plan to increase the aggregate number of shares subject to issuance under the Plan from 1,300,000 to 2,000,000. Also, at the Annual Meeting of stockholders of the Company held on June 22, 2000, the stockholders of the Company approved the amendment to the Plan.

As a result of the approval by the Company's Board of Directors and the stockholders, the Plan is hereby amended to increase the total number of shares subject to issuance under the Plan from 1,300,000 to 2,000,000.

IN WITNESS WHEREOF, the Company, acting by and through its officers hereunto duly authorized, has executed this instrument as of the 22nd day of June, 2000.

U.S. VISION, INC.

By:/s/____________________
Kathy G. Cullen, Senior Vice
President and Chief Financial Officer

U.S. Vision, Inc.

Exhibit 21 - Subsidiaries of the Company

Names of Subsidiaries	State of Incorporation
USV Optical, Inc.	Texas
Styl-Rite Optical Mfg. Co., Inc.	Florida
U.S. Vision Holdings, Inc.	Delaware
Health Eyecare Statistics, Inc.	Ontario, Canada
9072-8411 Quebec, Inc.	Quebec, Canada

Exhibit 23

Consent of Independent Auditors

We consent to the incorporation by reference in the Registration Statements on

(i) Form S-3 No. 333-91797
(ii) Form S-8 No. 333-81061
(iii) Form S-8 No. 333-71619
(iv) Form S-8 No. 333-71621
(v) Form S-3 No. 333-75839

of our report dated March 16, 2001, with respect to the consolidated financial statements of U.S. Vision, Inc., included in the Annual Report (Form 10-K) for the year ended January 31, 2001.

/s/ Ernst & Young LLP

Philadelphia, Pennsylvania
April 27, 2001

Board of Directors

William A. Schwartz, Jr.
Chairman of the Board and
Chief Executive Officer
U.S. Vision, Inc.

Dennis J. Shaughnessy
Managing Director
Grotech Capital Group, Inc.

J. Roger Sullivan, Jr.
Special Partner
Grotech Capital Group, Inc.

G. Kenneth Macrae
Management Consultant
Keystone Venture Capital
Management Co.

Richard K. McDonald
President and Director
Constitution Capital Corporation

Peter M. Troup
Management Consultant

Corporate Officers

William A. Schwartz, Jr.
President and Chief Executive Officer

George T. Gorman
President, Retail

Gayle E. Schmidt
Executive Vice President
& Chief Operating Officer

Carmen J. Nepa III
Chief Financial Officer and
Secretary

Independent Auditors

Ernst and Young LLP
Two Commerce Square
Suite 4000
Philadelphia, PA 19103-7096

General Counsel

Sayles, Lidji & Werbner, P.C.
4400 Renaissance Tower
1201 Elm Street
Dallas, TX 75270

Corporate Headquarters

Glen oaks Industrial Park
Glendora, NJ 08029

Shareholder Information

Investor Relations
Investor inquiries should be addressed to
Carmen J. Nepa III, Chief Financial Officer,
Glen Oaks Industrial Park, Glendora, NJ 08029

Transfer Agent
Registrar and Transfer Company
10 Commerce Drive
Cranford, NJ 07016-3572

Forward Looking Statements
This annual report includes "forward looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and is subject to the safe-harbor created by that section. The company's actual results may differ significantly from the results discussed in any forward looking statements.

Form 10-K
A copy of U.S. Vision's Annual Report to the Securities and Exchange Commission on Form 10-K for fiscal 2000 is available, without charge, upon written request to Investor Relations at the corporate headquarters address.