SIGHT RESOURCE CORP
Form 10-Q
August 13, 2002

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

for Quarterly Period Ended June 29, 2002 Commission File Number 0-21068

Sight Resource Corporation

(Exact name of registrant as specified in its charter)

Delaware	04-3181524
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

6725 Miami Avenue, Suite 102, Cincinnati, Oh 45243

(Address of principal executive offices) (Zip Code)

(513) 527-9700

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since the last report)

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______

APPLICABLE ONLY TO CORPORATE ISSUERS: Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

On August 11, 2002, 30,667,709 shares (does not include 30,600 shares held as treasury stock) of common stock, par value $0.01 per share, were outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

SIGHT RESOURCE CORPORATION
Consolidated Balance Sheets
(In thousands, except share and per share data)

	As of June 29, 2002	As of December 29, 2001
Assets	(unaudited)	
Current assets:		
Cash and cash equivalents	$ 851	$ 1,356
Accounts receivable, net of allowance of $1,855 and $1,915, respectively	2,548	2,613
Inventories	5,416	4,666
Prepaid expenses and other current assets	423	395

Total current assets	9,238	9,030
Property and equipment, net	2,405	2,729
Other assets:		
Intangible assets, net	19,439	19,770
Web site development	2,288	2,288
Other assets	120	127
Total assets	$ 33,490	$ 33,944
Liabilities and Stockholders' Equity		
Current liabilities:		
Revolver notes payable	$ 2,500	$ 2,500
Current portion of long term debt	5,328	5,979
Current portion of capital leases	4	10
Accounts payable	6,060	5,789
Accrued expenses	1,899	1,813
Dividends payable	254	--
Total current liabilities	16,045	16,091
Non-current liabilities:		
Long term debt, less current maturities	926	928
Capital leases	17	17
Total non-current liabilities	943	945
Series B redeemable convertible preferred stock 1,452,119 shares issued and outstanding	6,535	6,535
Stockholders' equity:		
Preferred Stock, $.01 par value. Authorized 5,000,000 shares; no shares of Series A issued and outstanding	--	--
Common Stock, $.01 par value. Authorized 70,000,000 shares; 30,698,309 at June 29, 2002 and 29,597,703 at December 29, 2001 shares issued and outstanding	307	296
Additional paid-in capital	41,546	41,810
Treasury stock at cost, 30,600 shares at June 29, 2002 and December 29, 2001	(137)	(137)
Accumulated deficit	(31,749)	(31,596)
Total stockholders' equity	9,967	10,373
	$ 33,490	$ 33,944

See accompanying notes to consolidated financial statements.

SIGHT RESOURCE CORPORATION
Consolidated Statements of Operations
(In thousands, except share and per share data)

	THREE MONTHS ENDED		
	JUNE 29, 2002	JUNE 30, 2001	JUN
	(unaudited)		
Net revenue	$ 14,080	$ 14,505	$
Cost of revenue	4,113	4,822	
Gross profit	9,967	9,683	
Selling, general and administrative expenses	10,368	11,421	
Income (loss) from operations	(401)	(1,738)	
Interest expense, net	(169)	(193)	
Loss before taxes	(570)	(1,931)	
Income tax expense	9	24	
Net Loss	(579)	(1,955)	
Dividends on redeemable convertible preferred stock	127	129	
Net Loss attributable to common stockholders	$ (706)	$ (2,084)	$
Basic and diluted Loss per common share	$ (0.02)	$ (0.21)	$
Weighted average number of common shares outstanding - Basic and Diluted	30,698,000	9,991,000	

See accompanying notes to consolidated financial statements.

SIGHT RESOURCE CORPORATION
Consolidated Statements of Cash Flows
(In thousands)

	SIX MONTHS ENDED	
	JUNE 29, 2002	JUNE 30, 200
	(unaudited)	
Operating activities:		
Net loss	$ (153)	$(2,260)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	929	1,820
Amortization and write-off of deferred financing costs	--	100
Loss on disposal of assets	--	22
Changes in operating assets and liabilities:		
Accounts receivable	65	69
Inventories	(750)	561
Prepaid expenses and other current assets	(28)	(202)
Accounts payable and accrued expenses	352	(269)
Net cash provided by (used in) operating activities	415	(159)
Investing activities:		
Purchases of property and equipment	(274)	(240)
Proceeds from sale of assets	--	--
Other assets (liabilities)	7	(5)
Net cash used in investing activities	(267)	(245)
Financing activities:		
Principal payments	(653)	(17)
Proceeds from notes	--	76
Proceeds from issuance of stock	--	14
Net cash provided by (used in) financing activities	(653)	73
Net decrease in cash and cash equivalents	(505)	(331)
Cash and cash equivalents, beginning of period	1,356	532
Cash and cash equivalents, end of period	$ 851	$ 201

Supplementary cash flow information:		
Interest paid	$ 349	$ 441
Income taxes paid	22	55

See accompanying notes to consolidated financial statements

SIGHT RESOURCE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) THE COMPANY

(a) Nature of Business

Sight Resource Corporation (the "Company") manufactures, distributes and sells eyewear and related products and services.

(b) Eyeshop Merger

In July 2001, the Company merged with eyeshop.com, inc. ("Eyeshop"), an early-stage optical development company established by E. Dean Butler in late 1999. Concurrent with the merger, there were two Common Stock Purchase Agreements whereby the former shareholders of Eyeshop purchased additional shares of the Company. It was anticipated that, following the merger, available cash resources of the combined companies would be devoted to continuation and improvement of the business of the Company, with a decision to be made at a future date as to when the Eyeshop development activities should be resumed. As of June 29, 2002, no decision had been made to resume Eyeshop development activities.

Pursuant to a merger agreement, former Eyeshop stockholders are also entitled to receive additional shares of the Company's common stock if and when certain options, warrants and other rights to receive the Company's common stock that were held by the Company's security holders as of May 23, 2001 are exercised. The Company issued a total of 7,306,662 shares of common stock to former Eyeshop stockholders and assumed 1,757,096 stock options in connection with the merger.

Collectively, the former stockholders of Eyeshop together with the common stock purchasers associated with Eyeshop held approximately 18,876,162 shares of the Company's common stock immediately after the merger and the common stock financings, or approximately 64% of the Company's issued and outstanding common stock and approximately 61% of the Company's issued and outstanding voting securities.

The Company has completed its accounting for the merger. The treatment, for accounting purposes, was considered to be a purchase of Eyeshop's assets and assumption of Eyeshop's liabilities by the Company. The aggregate purchase price was $2,054,000 and the costs of the assets acquired and liabilities assumed have been allocated on the basis of the estimated fair value of the net assets required. There was no goodwill provided in the transaction.

SIGHT RESOURCE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements have been prepared by the Company without audit, pursuant to the rules and regulations of the United States Securities and Exchange Commission the ("SEC"). In the opinion of the Company, these consolidated financial statements contain all adjustments (consisting of only normal, recurring adjustments) necessary to present fairly the Company's financial position as of June 29, 2002 and the results of its operations and cash flows for the periods presented.

The Company's fiscal year ends on the last Saturday in December. Each quarter represents a 13-week period, except during a 53-week year in which case one quarter represents a 14-week period. The quarters and six months ended June 29, 2002 and June 30, 2001 were 13-week and 26-week periods, respectively. Fiscal years 2002 and 2001 are 52-week fiscal years.

The accompanying consolidated financial statements and related notes should be read in conjunction with the audited consolidated financial statements which are contained in the Company's Annual Report on Form 10-K, as amended on Form 10-K/A, for the year ended December 29, 2001.

(3) GOODWILL AND INTANGIBLE ASSETS

The Company adopted the provisions of Statement of Financial Accounting Standards No. 141, Business Combinations ("Statement 141") effective July 1, 2001 and Statement No. 142, Goodwill and Other Intangible Assets ("Statement 142"), effective December 30, 2001. Statement 141 addresses financial accounting and reporting for business combinations requiring the use of the purchase method of accounting and reporting for goodwill and other intangible assets requiring that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of Statement 142. The Company had up to six months from the adoption of Statement 142 to determine the fair value of each reporting unit and compare it to the reporting unit's carrying amount. Statement 142 also requires intangible assets with estimated useful lives be amortized over their respective useful life to their estimated residual values, and reviewed for impairment. As of June 29, goodwill had a value of $14,305,000 and other intangibles with a definite useful life value of $5,134,000.

Based on independent third party enterprise valuations of each of the Company's reporting units, the Company did not recognize any impairment of its goodwill and intangible assets upon adoption of Statement 142. The Company completed its initial review of Statement 142 during the second quarter 2002.

In the three and six months ended June 30, 2001, $261,000 and $522,000, respectively, of goodwill amortization was included in selling, general and administrative expenses. The net loss for the three and six months ended June 30, 2001 without goodwill amortization would have been $1,694,000 and $1,738,000, respectively. No goodwill amortization was incurred during 2002. For the year ended December 29, 2001, goodwill amortization of $1,046,000 was included in selling, general and administrative expenses. The net loss for the year ended December 29, 2001 without goodwill amortization would have been $4,441,000. In accordance with Statement 142, the Company will test each reporting unit's goodwill for impairment as of end of the fiscal year.

SIGHT RESOURCE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

(4) EARNINGS PER SHARE

The following table provides a reconciliation of the numerators and denominators of the basic and diluted loss per share computations for the three and six months ended June 29, 2002 and June 30, 2001:

	THREE MONTHS ENDED		SIX
	JUNE 29, 2002	JUNE 30, 2001	JUNE 29, 200
	(In thousands, except share and per		
Basic and Diluted Loss Per Share			
Net loss	$ (579)	$ (1,955)	$ (15
Net loss available to common stockholders	$ (706)	$ (2,084)	$ (40
Weighted average common shares outstanding	30,698,000	9,991,000	30,329,00
Net loss per share	$ (0.02)	$ (0.21)	$ (0.0

Outstanding options, warrants and convertible preferred stock were not included in the computation of diluted loss per share for the three and six months ended June 29, 2002 and June 30, 2001, because they would have been antidilutive. The following table presents the number of shares of common stock underlying outstanding options, warrants and convertible preferred stock, which shares were not included in such computation of diluted loss per share.

	THREE MONTHS ENDED		SIX
	JUNE 29, 2002	JUNE 30, 2001	JUNE 29, 200
Options	6,206,596	0	6,206,59
Warrants	1,992,568	5,463	1,992,56
Convertible preferred stock	3,243,900	1,452,119	3,243,90

Total	11,443,064	1,457,582	11,443,06

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

The Company manufactures, distributes and sells eyewear and related products and services. As of June 29, 2002, the Company's operations consisted of 116 eye care centers, and one optical laboratory and distribution center, and was one of the fifteen largest providers in the United States based upon annual sales. The Company's eye care centers operate primarily under the brand names Cambridge Eye Doctors, E.B. Brown Opticians, Eyeglass Emporium, Kent Optical, Shawnee Optical, Vision Plaza, and Vision World. The Company also provides, or where necessary to comply with applicable law, administers the business functions of optometrists, ophthalmologists and professional corporations that provide, vision related professional services.

The Company operates one optical laboratory and distribution center. The regional optical laboratory provides complete services to the Company's eye care centers that do not have lab facilities, including polishing, cutting and edging, tempering, tinting and coating of ophthalmic lenses. The distribution center provides and maintains an inventory of all accessories and supplies necessary to operate an eye care center, as well as "ready made" eye care products, including contact lenses and related supplies. The inventory of eyeglass lenses, frames, contact lenses, accessories and supplies is acquired through a number of sources, domestic and foreign. Management believes that the optical laboratory and distribution center has the capacity to accommodate additional multi-site eye care centers. In early 2001, the Company operated two regional optical laboratories and three distribution centers. During 2001, one laboratory and two distribution centers were closed and their operations were consolidated into the remaining laboratory and distribution center. The laboratory and distribution centers were closed in an effort for the Company to realize greater operating efficiencies from lower inventories and lower payroll costs.

The Company's results of operations and balance sheet include the accounts (including revenues, assets and liabilities) of the Company, its wholly owned subsidiaries, and five professional corporations ("PCs") of which the Company's subsidiaries bear financial and operational risks and rewards. The Company has no direct equity ownership in the PCs, but has rights and involvement that permit the Company to consolidate the PCs into the Company's financial statements. The Company, through its subsidiaries, provides, for a fee, certain administrative and other services to each of the PCs. The outstanding voting stock of each of the PCs is 100% owned by a licensed optometrist who generally has, in turn, executed an agreement in favor of a subsidiary of the Company that provides that if the employment of the optometrist-owner is terminated, then the optometrist-owner must sell all of the outstanding stock of the PC to another qualified person eligible to serve as a new optometrist-owner. The purchase price for the sale of the PC stock is either (i) at a nominal per share price or

(ii) equal to the aggregate book value of the PC which will always be a nominal amount because each PC operates and is expected to continue to operate at an almost break-even level generating a nominal profit, if any at all.

Because the assets and liabilities of the PCs are, for accounting purposes, consolidated with the assets and liabilities of the Company and its subsidiaries, any transaction by which operating assets were transferred by a Company subsidiary to a PC has been properly eliminated for accounting purposes. While the holding of assets by the PCs lessens the Company's control over those assets, the Company believes that the assets are adequately protected and maintained.

RESULTS OF OPERATIONS

Three Months Ended June 29, 2002 and June 30, 2001

Net Revenue. During the three months ended June 29, 2002, the Company generated net revenue of $14,080,000, as compared to net revenue of $14,505,000 for the three months ended June 30, 2001. The decrease of $425,000, or 2.9%, in net revenue primarily relates to six less eye care centers operating during the three months ended June 29, 2002 as compared to the corresponding period in 2001.

Cost of Revenue. Cost of revenue decreased from $4,822,000 for the operation of the Company's 122 eye care centers during the three months ended June 30, 2001 to $4,113,000 for the operation of the Company's 116 eye care centers during the three months ended June 29, 2002. Cost of revenue as a percentage of net revenue decreased from 33.2% for the three months ended June 30, 2001 to 29.2% for the three months ended June 29, 2002. The improvement as a percentage of net revenue primarily reflects the consolidation of optical laboratory operations, improved margins on frames and slightly higher eye exam revenue. Cost of revenue principally consisted of the cost of manufacturing, purchasing and distributing optical products to customers of the Company.

Selling, General and Administrative Expenses. Selling, general and administrative expenses decreased to $10,368,000 for the three months ended June 29, 2002 from $11,421,000 for the three months ended June 30, 2001. The decrease of $1,053,000 primarily relates to reduced staffing levels and lower amortization expenses of $261,000 resulting from the Company's adoption of Statement 142. Selling, general and administrative expenses, as a percentage of net revenue, decreased from 78.7% for the three months ended June 30, 2001 to 73.6% for the three months ended June 29, 2002.

The Company adopted Statement 142 as of December 30, 2001 and had up to six months from the date of adoption to complete its determination of the fair value of each of the Company's reporting units. Based on independent third party enterprise valuations of each of the Company's reporting units, the Company did not recognize any impairment of its goodwill and intangible assets upon completion of such determinations. Further, under the new guidelines set forth in Statement 142, the Company ceased amortization of its goodwill, which reduced selling, general and administrative expenses for the three months ended June 29, 2002 by $261,000 compared to the three months ended June 30, 2001.

Interest Expense, Net. Interest expense, net decreased to $169,000 for the three months ended June 29, 2002 from $193,000 for the three months ended June 30, 2001. The decrease of $24,000 is primarily associated with a lower average balance of debt outstanding during the three months ended June 29, 2002 as compared to the corresponding period in 2001.

Income Tax Expense. The Company has a significant net operating loss carryforward and as such provides for income taxes only to the extent that it expects to pay cash taxes (primarily state taxes) for current income.

Net Loss. The Company realized a net loss of $579,000 for the three months ended June 29, 2002 as compared to a net loss of $1,955,000 for the three months ended June 30, 2001.

Dividends on Redeemable Convertible Preferred Stock. During the three months ended June 29, 2002 the Company accrued $127,000 for cash dividends payable to the redeemable convertible preferred stockholders. The dividends are accruing pursuant to an agreement dated May 21, 2001 and are scheduled to be paid at the earliest of the following events, as outlined in the letter with the redeemable convertible preferred stockholder:

(i) the merger, consolidation, reorganization, recapitalization, dissolution or liquidation of the Company where the stockholders of the Company immediately following the consummation of the merger no longer own more than 50% of the voting securities of the Company; (ii) the sale, lease, exchange or other transfer of all or substantially all of the assets of the Company; (iii) the consummation of an equity financing by the Company in which proceeds to the Company, net of transaction costs, are greater than or equal to $10,000,000; (iv) the end of the first twelve month period in which earnings before income taxes, depreciation and amortization are equal to or greater than $5,000,000; or (v) or the refinancing of the Company's outstanding indebtedness to Fleet Bank. The Company is presently unable to predict when the cash dividend will be paid.

During 2001, the Company accrued and issued stock dividends.

Net Loss Attributable to Common Stockholders. The Company realized a net loss attributable to common stockholders of $706,000, or $(0.02) per share, for the three month period ended June 29, 2002 as compared to $2,084,000, or $(0.21) per share, for the three month period ended June 30, 2001. The per share net loss for the three months ended June 29, 2002 and the per share loss for the three months ended June 30, 2001, were affected by an increase in the number of outstanding shares of common stock primarily due to the closing of the merger with Eyeshop and related stock purchase transactions that occurred between May 23, 2001 and July 20, 2001.

RESULTS OF OPERATIONS

Six Months Ended June 29, 2002 and June 30, 2001

Net Revenue. During the six months ended June 29, 2002, the Company generated net revenue of $29,356,000, as compared to net revenue of $30,564,000 for the six months ended June 30, 2001. The decrease of $1,208,000, or 4.0%, in net revenue primarily relates to six less eye care centers operating during the three months ended June 29, 2002 as compared to the corresponding period in 2001.

Cost of Revenue. Cost of revenue decreased from $9,740,000 for the operation of the Company's 122 eye care centers during the six months ended June 30, 2001 to $8,480,000 for the operation of the Company's 116 eye care centers during the six months ended June 29, 2002. Cost of revenue as a percentage of net revenue decreased from 31.9% for the six months ended June 30, 2001 to 28.9% for the six months ended June 29, 2002. The improvement as a percentage of net revenue primarily reflects the consolidation of optical laboratory operations, improved margins on frames and slightly higher eye exam revenue. Cost of revenue principally consisted of the cost of manufacturing, purchasing and distributing optical products to customers of the Company.

Selling, General and Administrative Expenses. Selling, general and administrative expenses decreased to $20,658,000 for the six months ended June 29, 2002 from $22,610,000 for the six months ended June 30, 2001. The decrease of $1,952,000 primarily relates to reduced staffing levels and lower amortization expenses of $522,000 resulting from the Company's adoption of Statement 142. Selling, general and administrative expenses, as a percentage of net revenue, decreased from 74.0% for the six months ended June 30, 2001 to 70.4% for the six months ended June 29, 2002.

The Company adopted Statement 142 as of December 30, 2001 and had up to six months from the date of adoption to complete its determination of the fair value of each of the Company's reporting units. Based on independent third party enterprise valuations of each of the Company's reporting units, the Company did not recognize any impairment of its goodwill and intangible assets upon completion of such determinations. Further, under the new guidelines set forth in Statement 142, the Company ceased amortization of its goodwill, which reduced selling, general and administrative expenses for the six months ended June 29, 2002 by $522,000 compared to the six months ended June 30, 2001.

Interest Expense, Net. Interest expense, net decreased to $358,000 for the six months ended June 29, 2002 from $429,000 for the six months ended June 30, 2001. The decrease of $71,000 is primarily associated with a lower average balance of debt outstanding during the six months ended June 29, 2002 as compared to the corresponding period in 2001.

Income Tax Expense. The Company has a significant net operating loss carryforward and as such provides for income taxes only to the extent that it expects to pay cash taxes (primarily state taxes) for current income.

Net Loss. The Company realized a net loss of $153,000 for the six months ended June 29, 2002 as compared to a net loss of $2,260,000 for the six months ended June 30, 2001.

Dividends on Redeemable Convertible Preferred Stock. During the six months ended June 29, 2002 the Company accrued $254,000 for cash dividends payable to the redeemable convertible preferred stockholders. The dividends are accruing pursuant to an agreement dated May 21, 2001 and are scheduled to be paid at the earliest of the following events, as outlined in the letter with the redeemable convertible preferred stockholder:

(i) the merger, consolidation, reorganization, recapitalization, dissolution or liquidation of the Company where the stockholders of the Company immediately following the consummation of the merger no longer own more than 50% of the voting securities of the Company; (ii) the sale, lease, exchange or other transfer of all or substantially all of the assets of the Company; (iii) the consummation of an equity financing by the Company in which proceeds to the Company, net of transaction costs, are greater than or equal to $10,000,000; (iv) the end of the first twelve month period in which earnings before income taxes, depreciation and amortization are equal to or greater than $5,000,000; or (v) or the refinancing of the Company's outstanding indebtedness to Fleet Bank. The Company is presently unable to predict when the cash dividend will be paid.

During 2001, the Company accrued and issued stock dividends.

Net Loss Attributable to Common Stockholders. The Company realized a net loss attributable to common stockholders of $407,000, or $0.01 per share, for the six month period ended June 29, 2002 as compared to a net loss of $2,517,000, or $0.26 per share, for the six month period ended June 30, 2001. The per share net income for the six months ended June 29, 2002 and the per share loss for the six months ended June 30, 2001, were

affected by an increase in the number of outstanding shares of common stock primarily due to the closing of the merger with Eyeshop and related stock purchase transactions that occurred between May 23, 2001 and July 20, 2001.

LIQUIDITY AND CAPITAL RESOURCES

At June 29, 2002, the Company had $851,000 in cash and cash equivalents and a working capital deficit of $6,807,000 in comparison to $1,356,000 in cash and cash equivalents and working capital deficit of approximately $7,061,000 as of December 29, 2001. The reduction in working capital deficit of $254,000 is primarily due to the increase of inventories and a decrease in outstanding indebtedness offset in part by an increase in accounts payable and a decrease in cash. The largest portion of the net working capital deficit at June 29, 2002 was debt of $7,570,000 that matures on December 31, 2002. The Company may need to raise additional funds during 2002 to replace maturing bank debt and may seek to raise those funds through additional financings, including public or private equity offerings. There can be no assurance that such funds will be available on terms acceptable to the Company, if at all. If adequate funds are not available, the Company may be required to limit its operations, which would have a material and adverse affect on the Company. In addition, in its report on the Company's consolidated financial statements as of and for the periods ended December 29, 2001, the Company's independent auditors have expressed substantial doubt about the Company's ability to continue as a going concern due to the Company's recurring losses and ability to pay its outstanding debts.

On March 26, 2001, the Company entered into a Third Modification Agreement (as defined below) with Fleet Bank that, among other things, extended the maturity date of the loans to December 31, 2002. The Third Modification Agreement required that the Company obtain equity financing in the amount of $1,000,000 by May 2001. On May 14, 2001, the Company entered into the Amended and Restated Third Modification Agreement which extended the date for an equity infusion from May 2001 to July 2001. In July 2001, the Company obtained equity proceeds of $1,750,000.

Effective April 1, 1999, the Company acquired all of the outstanding shares of capital stock of Kent Optical Company and its associated companies (collectively, "Kent"). The purchase price paid in connection with this acquisition was $5,209,000 in cash, $1,000,000 in notes payable over three years and 160,000 shares of common stock. In addition, the Company offered to issue additional consideration to the Kent stockholders if the market price of the Company's common stock did not equal or exceed $5.00 per share at any time during the period from April 23, 2000 to April 23, 2001, which the market price of the common stock did not achieve. The amount of additional consideration due to the Kent stockholders for each share of common stock issued in the acquisition and held by them on April 23, 2001 is equal to the difference between $5.00 and the greater of (a) the market price of the common stock on April 23, 2001 or (b) $2.73. At the Company's option, the additional consideration may be paid to the Kent stockholders in cash or in additional shares of the Company's common stock valued at its market price on the date that the additional consideration becomes payable to the Kent stockholders. At the time of acquisition, the Company included the value of this additional consideration in its determination of the purchase price. As a result of the Company's obligation to issue additional consideration to the former Kent stockholders, on February 7, 2002, the Company entered into a settlement agreement in which it agreed to pay such additional consideration by issuing 1,100,636 shares of its common stock to the former Kent stockholders. The shares were issued on February 27, 2002. Additionally, the payment terms and interest rates on the outstanding acquisition notes of $667,000 and outstanding obligations from the acquisition contract of $100,000 were revised, as disclosed in the Company's annual report.

As of June 29, 2002, the Company had warrants outstanding which provide it with potential sources of financing as outlined below. However, because the current market value of the Company's common stock is significantly less than the exercise prices for most of the warrants with the greatest potential for proceeds, it is unlikely that any significant proceeds will be realized by the Company.

Securities	Number	Potential Proceeds	Exe Pri Per
Carlyle Warrants	1,000,000	$ 200,000	$0
Class II Warrants	679,684	2,100,224	3
Bank Austria AG, f/k/a Creditanstalt, Warrants	150,000	693,750	4
Fleet Warrants	50,000	25,500	0
Fleet Warrants	50,000	7,810	0
	1,929,684	$3,027,284	

The Company also has outstanding 62,884 Class I Warrants. The Class I Warrants entitle the holder to purchase an amount of shares of the Company's common stock equal to an aggregate of up to 19.9% of the shares of common stock purchasable under the Company's warrants and options outstanding as of October 9, 1997, which have not subsequently terminated or expired, on the same terms and conditions of existing warrant and option holders. The purchaser is obligated to exercise these warrants at the same time the options and warrants of existing holders are exercised, subject to certain limitations. The amount of proceeds from the exercise of these Class I Warrants cannot be estimated at this time. However, for the same reasons stated above, it is unlikely that any proceeds would be realized by the Company.

On April 15, 1999, the Company entered into a credit agreement (the "1999 Agreement") with Fleet National Bank ("Fleet") pursuant to which the Company could borrow $10,000,000 on an acquisition line of credit, of which $7,000,000 is on a term loan basis and $3,000,000 is on a revolving line of credit basis, subject to certain performance criteria and an asset-related borrowing base for the revolver. The performance criteria include, among others, financial condition covenants such as net worth requirements, indebtedness to net worth ratios, debt service coverage ratios, funded debt coverage ratios, and pretax profit, net profit and EBITDA requirements.

At December 25, 1999, the Company was not in compliance with the following financial covenants of the 1999 Agreement: minimum net worth, minimum debt service coverage, maximum funded debt service coverage and minimum net profit. However, on March 31, 2000, the Company and Fleet entered into a modification agreement (the "Original Modification Agreement") that amended the 1999 Agreement in order to, among other things, waive the Company's default, adjust certain covenants to which the Company is subject and terminate the acquisition line of credit. In addition, the Original Modification Agreement limited the revolving line note to $2,500,000 and the term loan to $6,750,000 and established the maturity date for each of these credit lines as March 31, 2001. As part of the Original Modification Agreement, the Company issued to Fleet warrants to purchase 50,000 shares of the Company's common stock at an exercise price of $0.51 per share, which was equal to the average closing price of the common stock for the last five trading days for the month of August 2000, and warrants to purchase 50,000 shares of the Company's common stock at an exercise price of $0.156 per share, which was equal to the average closing price of the Company's common stock for the last five trading days for the month of December 2000. In August 2000, as a result of a bank merger, Sovereign Bank of New England ("Sovereign") became the successor party to Fleet in the 1999 Agreement and the Original Modification Agreement.

On November 30, 2000, the Company and Sovereign entered into a second modification agreement (the "Second Modification Agreement") that amended the terms of the Original Modification Agreement in order to, among other things, defer certain payments required under the term note and amend certain terms and conditions of the 1999 Agreement. At December 30, 2000, the Company was in default for non-compliance with certain negative covenants contained in the Second Modification Agreement relating to minimum net worth, minimum debt service coverage, maximum funded debt service coverage and minimum net profit.

On March 26, 2001, the Company and Sovereign entered into the Third Modification Agreement (the "Third Modification Agreement") that amended the terms of the Original Modification Agreement and the Second Modification Agreement in order to, among other things, waive the Company's default, adjust or delete certain covenants to which the Company was subject, change the repayment terms and extend the maturity date of the loans to December 31, 2002. In addition, the Third Modification Agreement required that the Company close an equity financing of at least $1,000,000 with third party investors on or before May 31, 2001. The Third Modification Agreement established the following annual interest rates for both the revolving line and term loans: (i) from February 1, 2001 through September 30, 2001 - six (6%) percent, (ii) from October 1, 2001 through December 31, 2001 - seven (7%) percent, (iii) from January 1, 2002 through December 31, 2002 - prime rate subject to a minimum rate of eight (8%) percent and a maximum rate of eleven (11%) percent. The scheduled monthly principal payments did not begin until July 1, 2001 and were set as $30,000 from July 1, 2001 through December 31, 2001, and $100,000 from January 1, 2002 through December 31, 2002. On May 14, 2001, the Company entered into the Amended and Restated Third Modification Agreement which restated the terms described above and extended the date for which the Company was required to close an equity financing to July 2001. In August 2001, Sovereign sold the loan back to Fleet.

As of June 29, 2002, the Company's outstanding indebtedness under the 1999 Agreement was $2,500,000 under the revolving line of credit and $5,070,000 under the term loan.

The Company was in compliance with the covenants contained in the Amended and Restated Third Modification Agreement for the six months ended June 29, 2002. The Company has obtained waivers from the bank for all breaches of loan covenants to date, but the Company may not receive waivers for any future breaches that may occur. Any breach that is not waived may result in the bank declaring the breach to be a default under the 1999 Agreement, which would require immediate repayment of all outstanding principal and accrued interest at a time when the Company may not be able to repay the bank.

On July 20, 2001, pursuant to an Agreement and Plan of Merger (the "Merger Agreement") dated as of May 23, 2001 by and among the Company, Eyeshop Acquisition Corporation, a Delaware corporation and wholly-owned subsidiary of the Company ("EAC"), and eyeshop.com, inc. ("Eyeshop"), EAC merged with and into Eyeshop (the "Merger") and Eyeshop became a wholly-owned subsidiary of the Company.

Pursuant to the Merger Agreement, former Eyeshop stockholders are also entitled to receive additional shares of the Company's common stock if and when the options, warrants and other rights to receive the Company's common stock that were held by the Company's security holders as of May 23, 2001 are exercised. The Company issued a total of 7,306,662 shares of Common Stock to former Eyeshop stockholders in connection with the Merger. Concurrently with the Eyeshop merger, the Company assumed outstanding options under the Eyeshop stock option plan to purchase up to an aggregate of 1,757,096 shares of the Company's common stock.

RECENT ACCOUNTING PRONOUNCEMENTS

The Company adopted the provisions of Statement 141, effective July 1, 2001 and Statement 142, effective December 30, 2001. Statement 141 addresses financial accounting and reporting for business combinations requiring the use of the purchase method of accounting and reporting for goodwill and other intangible assets requiring that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead be tested for impairment at least annually in accordance with the provisions of Statement 142. Under Statement 142, the Company was required to reassess the useful lives and residual values of all intangible assets acquired in purchase business combinations, and make any necessary amortization period adjustments by the end of the first interim period after adoption. In addition, to the extent an intangible asset is identified as having an indefinite useful life, the Company was required to test the intangible asset for impairment in accordance with the provisions of Statement 142 within the first interim period. Any impairment loss would be measured as of the date of adoption and recognized as the cumulative effect of a change in accounting principle in the first interim period.

In connection with the transitional goodwill impairment evaluation, Statement 142 requires the Company to perform an assessment of whether there is an indication that goodwill (and equity-method goodwill), which totaled $14,305,000 million at December 30, 2001, is impaired as of December 30, 2001, the date of adoption. To accomplish this, the Company has identified its reporting units and determined the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units as of the date of adoption. The Company had up to six months from the date of adoption to determine the fair value of each reporting unit and compare it to the reporting unit's carrying amount. To the extent a reporting unit's carrying amount exceeds its fair value, an indication exists that the reporting unit's goodwill may be impaired and the Company must perform the second step of the transitional impairment test. In the second step, the Company must compare the implied fair value of the reporting unit's goodwill, determined by allocating the reporting unit's fair value to all of its assets (recognized and unrecognized) and liabilities in a manner similar to a purchase price allocation in accordance with Statement 141, to its carrying amount, both of which would be measured as of the date of adoption, which is December 30, 2001 for the Company. This second step is required to be completed as soon as possible, but no later than the end of the year of adoption. Any transitional impairment loss will be recognized as the cumulative effect of a change in accounting principle in the Company's statement of operations.

Based on independent third party enterprise valuations of each of the Company's operating units, the Company did not recognize any impairment of its goodwill and intangible assets upon adoption of Statement 142. During the second quarter 2002, the Company finalized the enterprise evaluations. Further, under the Statement 142's new guidelines, the Company ceased amortization of its goodwill, which favorably impacts the three and six months ended June 29, 2002 by $261,000 and $522,000, respectively, compared to the prior periods.

Effective December 30, 2001, the Company adopted Statement 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". Statement 144 retained many of the fundamental provisions of Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of", but resolved certain implementation issues associated with that Statement. Statement 144 also requires the results of operations of a component entity that is classified as held for sale or has been disposed of to be reported as discontinued operations in the Condensed Consolidated Statements of Operations if certain conditions are met. These conditions include elimination of the operations and cash flows of the component entity from the ongoing operations of the Company, and no significant continuing involvement by the Company in the operations of the component entity after the disposal transaction. The adoption of Statement 144 did not have a material impact on the Company's consolidated results of operations.

In August 2001, the Financial Accounting Standards Board ("FASB") issued Statement No. 143, "Accounting for Asset Retirement Obligations", which will be effective for the Company beginning December 29, 2002. Statement 143 addresses the financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs.

In April 2002, the FASB issued Statement 145, "Rescission of FASB Statements No. 4, 44, 64, Amendment of FASB Statement 13, and Technical Corrections", which will be effective for the Company beginning January 1, 2003. Statement 145 rescinds Statement 4, 44, 64 and amends Statement No. 13, "Accounting for

Leases", to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. The Company has assessed the impact of Statements 143 and 145, and estimates that the impact of these standards will not be material.

MANAGEMENT'S DISCUSSION OF CRITICAL ACCOUNTING POLICIES

Revenue Recognition and Allowance for Bad Debts

The Company recognizes revenue from the sale of eyewear at the time an order is complete and revenue from eyecare services when the service is performed. The Company has fee for service arrangements with most of its third party payers. The Company recognizes revenue with third party payers net of contractual allowances. The level of management judgment used to determine revenue is small.

Because of various circumstances, such as changes in third party plan contractual allowances, changes in patient co-pays, and goods or services denied by third party payers, the Company reviews the agings of receivables from third party payers and patients on at least a monthly basis. Sometimes claims have incomplete or inaccurate information, and the Company re-submits those claims to the third party payer. If amounts are denied by the third party payer and the Company has recourse to the patient, the Company pursues payment from the patient. Based on the Company's history of collectibility of older third party payer and patient receivables, the Company provides a reserve for uncollectibility.

At June 29, 2002 and December 29, 2001, the Company had reserved for 42% of the gross amount of the outstanding third party payer and patient receivables. If actual collectibility of these receivables is significantly different from management's estimate, it could have a material (favorable or unfavorable) result on the operating results and liquidity of the Company.

Impairment of Long Lived Assets

The Company records impairment losses on long-lived assets when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the book value of those items. The Company's cash flow estimates are based on historical results adjusted to reflect the Company's best estimate of future market and operating conditions. In performing this analysis, the Company considers such factors as current results, trends and future prospects, in addition to other economic factors. Based on those analyses during the years 1999 through 2001, the Company did not record any charges for the impairment of long-lived assets. At June 29, 2002, the Company had long-lived assets, including goodwill and other intangibles of $19,439,000, property and equipment of $2,405,000, and web site development costs of $2,288,000.

Conditions that could cause future impairment are deterioration of on-going or forecasted operating results resulting from increased competition, a recession in the United States or lack of liquidity causing the Company to limit its operations. If one or more of these conditions occur, the future analyses may indicate that certain long-lived assets are impaired, at which time the Company would recognize an impairment charge. That impairment charge may be material and have a significant impact on the Company's results of operations.

Further, the Company's software development relates to software acquired in the Eyeshop merger. It was anticipated that, following the merger, available cash resources of the combined companies would be devoted to continuation and improvement of the business of the Company, with a decision to be made at a future date as to when the Eyeshop development activities should be resumed. As of June 29, 2002, no decision had been made to the timing of resuming Eyeshop web site development activities. If the Company were to make a future decision to not resume development of this web site, then it is possible that the Company may have to recognize an impairment charge up to the entire amount of $2,288,000 and that charge may have a material impact on the Company's results of operations.

Income Taxes

The Company has a history of unprofitable operations and these losses have generated a sizeable federal tax net operating loss, or NOL, carryforward of approximately $28,074,000 million as of December 29, 2001. Generally accepted accounting principles require that the Company records a valuation allowance against the deferred tax asset associated with this NOL if it is "more likely than not" that the Company will not be able to utilize it to offset future taxes. Due to the size of the NOL carryforward in relation to the Company's history of unprofitable operations, the Company has not recognized any of this net deferred tax asset. The Company currently provides for income taxes only to the extent that it expects to pay cash taxes (primarily state taxes) for current income.

It is possible, however, that the Company could be profitable in the future at levels which cause management to conclude that it is more likely than not that the Company will realize all or a portion of the NOL carryforward. Upon reaching such a conclusion, the Company would immediately record the estimated net realizable value of the deferred tax asset at that time and would then provide for income taxes at a rate equal to the Company's combined federal and state effective rates, which would

approximate 40% under current tax rates. Subsequent revisions to the estimated net realizable value of the deferred tax asset could cause the Company's provision for income taxes to vary significantly from period to period, although the Company's cash tax payments would remain unaffected until the benefit of the NOL is utilized.

Consolidation Accounting

The Company's results of operations and balance sheet include the accounts (including revenues, assets and liabilities) of the Company, its wholly owned subsidiaries, and five professional corporations ("PCs") of which the Company's subsidiaries bear financial and operational risks and rewards. The Company has no direct equity ownership in the PCs, but has rights and involvement that permit, under the tests set forth in FASB Emerging Issues Task Force bulletin 97-2, "Application of FASB Statement No. 94, Consolidation of All Majority-Owned

Subsidiaries, and APB Opinion No. 16, Business Combinations, To Physician Practice Management Entities," the Company to consolidate the PCs into the Company's financial statements. The Company, through its subsidiaries, provides, for a fee, certain administrative and other services to each of the PCs. The outstanding voting stock of each of the PCs is 100% owned by a licensed optometrist who generally has, in turn, executed an agreement in favor of a subsidiary of the Company that provides that if the employment of the optometrist-owner is terminated, then the optometrist-owner must sell all of the outstanding stock of the PC to another qualified person eligible to serve as a new optometrist-owner. The purchase price for the sale of the PC stock is either (i) at a nominal per share price or (ii) equal to the aggregate book value of the PC which will always be a nominal amount because each PC operates and is expected to continue to operate at an almost break-even level generating a nominal profit, if any at all.

Because the assets and liabilities of the PCs are, for accounting purposes, consolidated with the assets and liabilities of the Company and its subsidiaries, any transaction by which operating assets were transferred by a Company subsidiary to a PC has been properly eliminated for accounting purposes. While the holding of assets by the PCs lessens the Company's control over those assets, the Company believes that the assets are adequately protected and maintained.

In December 2001, the SEC requested that all registrants identify and describe their most "critical accounting policies" in Management's Discussion and Analysis. The SEC indicated that a "critical accounting policy" is one which is both important to the portrayal of the company's financial condition and results and requires management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. The Company believes that the following of the Company's accounting policies fit this definition.

BUSINESS RISKS AND CAUTIONARY STATEMENTS

Statements in this Quarterly Report on Form 10-Q under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations," as well as oral statements that may be made by the Company or by officers, directors or employees of the Company acting on the Company's behalf, that are not historical fact constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that could cause the actual results of the Company to be materially different from the historical results or from any results expressed or implied by such forward-looking statements. Such factors include, but are not limited to, the risk factors set forth below.

The Company does not intend to update any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

RISKS RELATED TO THE COMPANY'S BUSINESS

The Company has experienced losses in each year of operation since inception in November 1992. For the fiscal year ended December 29, 2001, the Company incurred a net loss of $5,500,000 bringing its accumulated deficit to $31,600,000 at December 29, 2001. The Company may never achieve profitability and, if it achieves profitability, it may not be able to maintain profitability.

The Company's primary loan facilities expire at December 31, 2002 and the Company may not be able to obtain financing or refinancing at terms acceptable to the Company.

As of June 29, 2002, the Company owed Fleet Bank $2,500,000 under a revolving loan and $5,070,000 under a term loan. Interest rates on the loans during 2002 are at prime rate with a minimum of 8% and a maximum of 11% The principal payments during 2002 on the term loan are $100,000 per month. Given the Company's history, including substantial historical losses, the Company may not be able to obtain financing or refinancing at terms acceptable to the Company. The Company is making every effort to refinance these loans on terms that are acceptable to the Company. The failure to obtain additional financing would result in the declaration of a default with such loan facilities and could materially and adversely affect the Company's business and financial condition. Any additional equity financing, if available, may be dilutive to the Company's stockholders and any debt financing, if available, may involve restrictions on the Company's financing and operating activities.

The Company has previously breached certain loan covenants for which waivers of such breaches have been granted, but the Company may not be able to obtain waivers of any future breaches of loan covenants that may occur, which could result in a default under existing or future loan agreements.

The Company has previously defaulted on a credit line agreement due to non-compliance with negative covenants relating to minimum net worth, minimum debt service coverage, maximum funded

debt service coverage and minimum net profit. The Company has obtained waivers from the bank for all breaches of loan covenants to date, but future breaches may occur for which the Company may not be able to obtain waivers. Any breach that is not waived may result in the bank declaring the breach to be a default under the loan agreement, which would require immediate repayment of all outstanding principal and accrued interest at a time when the Company may not be able to repay the bank. Accordingly, the declaration of a default under the loan agreement could materially and adversely affect the Company's business and financial condition.

The Company is dependent upon certain key management personnel and may not be able to attract and retain additional personnel.

The Company's future success is dependent in part on the Company's ability to retain certain key personnel, particularly E. Dean Butler, the Company's Chairman and Carene S. Kunkler, the Company's President and Chief Executive Officer, and the Company's ability to recruit and retain qualified personnel over time. The Company may not be able to retain its existing personnel or attract additional qualified employees in the future.

The primary eye care market is highly competitive. The Company's current and potential competitors include many larger companies with substantially greater financial, operating, marketing and support resources.

The optical industry is highly competitive and includes chains of retail optical stores, multi-site eye care centers, and a large number of individual opticians, optometrists and ophthalmologists who provide professional services and/or dispense prescription eyewear. Because retailers of prescription eyewear generally service local markets, competition varies substantially from one location or geographic area to another. The Company believes that the principal competitive factors affecting retailers of prescription eyewear are location and convenience, quality and consistency of product and service, price, product warranties, and a broad selection of merchandise. In the Company's current regional markets, the Company faces competition from national and regional retail optical chains which, in many cases, have greater financial resources than the Company.

The Company may not be able to acquire new managed primary eye care contracts, existing contracts may not be expanded in any meaningful way and the Company may not be successful in retaining existing managed care business.

As an increasing percentage of optometric and ophthalmologic patients are coming under the control of managed care entities, the Company believes that its success will, in part, be dependent upon the Company's ability to negotiate, on behalf of existing and prospective affiliated practices, contracts with HMOs, employer groups and other private third party payors pursuant to which services will be provided on a risk-sharing or capitated basis by some or all affiliated practices. The proliferation of contracts that pass much of the risk of providing care from the payor to the provider in markets the Company serves may result in greater predictability of revenues, but greater unpredictability of expenses. The Company may not be able to negotiate, on behalf of the affiliated practices, satisfactory arrangements on a risk-sharing or capitated basis. In addition, to the extent that patients or enrollees covered by such contracts require more frequent or extensive care than anticipated, operating margins may be reduced or, in the worst case, the revenues derived from such contracts may be insufficient to cover the costs of the services provided. As a result, affiliated practices may incur additional costs, which would reduce or eliminate anticipated earnings under such contracts. Any such reduction or elimination of earnings would have a material adverse affect on the Company's business and results of operations. Further, the Company may not be successful in retaining existing managed care business. If the Company were to loose a significant managed care account, it could have a material adverse affect on the Company's business and results of operations. Currently, the Company is appealing a potential loss of managed care business that represents approximately 2.5% of the Company's overall revenue. If the Company is unsuccessful in the appeal process, the Company could lose this business as patients over time use other eye care providers.

The Company may be exposed to significant risk from liability claims if the Company is unable to obtain insurance at acceptable costs or is otherwise unable to protect itself against potential product liability claims.

The provision of professional eye care services entails an inherent risk of professional malpractice and other similar claims. The Company does not influence or control the practice of medicine or optometry by professionals or have responsibility for compliance with certain regulatory and other requirements directly applicable to individual professionals and professional groups. As a result of the relationship between the Company's affiliated practices and itself, the Company may become subject to some professional malpractice actions under various theories. Claims, suits or complaints relating to professional services provided by affiliated practices may be asserted against the Company in the future.

The Company may not be able to retain adequate liability insurance at reasonable rates and the Company's insurance may not be adequate to cover claims asserted against it, in which event its business and results of operations may be materially adversely affected.

The Company's operations and success are dependent upon its ability to enter into agreements with health care providers.

Certain states prohibit the Company from practicing medicine, employing physicians to practice medicine on the Company's behalf or employing optometrists to render optometric services on the Company's behalf. Accordingly, the success of the Company's operations as a full-service eye care provider depends upon its ability to enter into agreements with health care providers, including institutions, independent physicians and optometrists, to render surgical and other professional services at facilities owned or managed by the Company. The Company may not be able to enter into agreements with other health care providers on satisfactory terms or such agreements may not be profitable to the Company.

The Company is subject to extensive federal, state and local regulation, which could materially affect the Company's operations.

The health care industry is highly regulated by federal, state and local law. The regulatory environment in which the Company operates may change significantly in the future. The Company expects to modify agreements and operations from time to time as the business and regulatory environment changes. Although the Company believes that its operations comply with applicable law, the Company may not be able to address changes in the regulatory environment successfully.

The Company's common stock was delisted from the Nasdaq Stock Market, which makes it more difficult for stockholders to sell shares of the Company's common stock.

On September 11, 2000, the Nasdaq National Market ("Nasdaq") terminated the Company's listing on Nasdaq and the Company's common stock began trading on the Over-the-Counter Bulletin Board (the "OTC"). Stockholders are likely to find it more difficult to trade the Company's common stock on the OTC than on Nasdaq. In order for the Company's common stock to resume trading on Nasdaq, the Company must satisfy all of Nasdaq's requirements for initial listing, apply for listing and be accepted for listing by Nasdaq. The Company does not currently satisfy Nasdaq's initial listing requirements and may never satisfy Nasdaq's listing requirements or, if the Company does satisfy such requirements in the future, the Company's securities may not be accepted for listing by Nasdaq. If the Company's securities are not accepted for listing on Nasdaq or another stock exchange, it will also likely be more difficult for the Company to raise equity capital.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company has not entered into any transactions using derivative financial instruments or derivative commodity instruments and believes that its exposure to market risk associated with other financial instruments (such as investments) is not material.

As of June 29, 2002, approximately $7,570,000 of the Company's debt is subject to a floating interest rate and every 1% increase in the relevant interest rate would adversely affect the Company on an annual basis by $76,000.

PART II - OTHER INFORMATION

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

The Annual Meeting of Stockholders of the Company was held on May 30, 2002. The following actions were taken at the meeting:

- William Connell and William G. McLendon were elected as Directors of the Company for a three year term expiring at the 2005 Annual Meeting of Stockholders.

NAME	SHARES VOTED FOR	SHARES WITHHELD
Connell	29,671,016	458,031
McLendon	29,598,316	530,731

- The 2002 Employee, Director and Consultant Stock Option Plan was adopted.

SHARES VOTED FOR	SHARES VOTED AGAINST	SHARES WITHHELD
23,413,019	767,696	27,774

- An amendment to the Company's Restated Certificate of Incorporation increasing the number of authorized shares of common stock from 50,000,000 to 70,000,000 was adopted.

SHARES VOTED FOR	SHARES VOTED AGAINST	SHARES WITHHELD
23,788,652	380,447	39,390

- The appointment of KPMG LLP as independent public accountants for the Company for the fiscal year ending December 28, 2002 was ratified.

SHARES VOTED FOR	SHARES VOTED AGAINST	SHARES WITHHELD
30,085,148	35,900	7,999

ITEM 5. OTHER INFORMATION

Mr. William Connell resigned as a Director of the Company effective July 18, 2002. Mr. Connell's resignation was not the result of any disagreement with the Company.

ITEM 6. EXHIBITS AND REPORTS ON FORM 10-K

a) The exhibits filed with this report are listed on the Exhibit Index.
b) No reports on Form 8-K were filed during the quarter ended June 29, 2002.

SIGNATURES

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

Sight Resource Corporation

Date:	August 13, 2002	BY: /S/	CARENE S. KUNKLER

Carene S. Kunkler
President and Chief Executive Officer
(duly authorized officer)

Date:	August 13, 2002	BY: /S/	DUANE D. KIMBLE, JR.

Duane D. Kimble, Jr.
Chief Financial Officer
(principal financial officer)

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EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION
10.37	Carene S. Kunkler's employment contract
99.2	Certification by Carene S. Kunkler pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99.3	Certification by Duane D. Kimble, Jr., pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002