FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1999-09-10** | Period of Report: **1999-07-31**
SEC Accession No. 0000893220-99-001062

FILER

U S VISION INC

CIK:**1045639**| IRS No.: **223032948** | Fiscal Year End: **0331**
Type: **10-Q** | Act: **34** | File No.: **000-23397** | Film No.: **99709780**
SIC: **5990** Retail stores, nec

Mailing Address
1 HARMON DRIVE
BLACKWOOD NJ 08012

Business Address
1 HARMON DRIVE
BLACKWOOD NJ 08012
6092281000

1

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

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED JULY 31, 1999.

OR

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

For the Transition Period from _______________ to _______________.

Commission File Number: 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	08012
(Address of principal executive offices)	(Zip Code)

(856) 228-1000

(Registrant's telephone number, including area code)

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 [ ]

As of September 1, 1999, there were 7,793,807 shares of the registrant's common stock outstanding.

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\ U.S. VISION, INC.
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<TABLE>
<CAPTION>

</TABLE>

PART I. FINANCIAL INFORMATION

ITEM 1: FINANCIAL STATEMENTS

U.S. VISION, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except per share amounts)
(Unaudited)

	July 31, 1999	January 31, 1999
ASSETS		
Current assets:		
Cash	$ 841	$ 693
Accounts receivable	15,581	13,520
Inventory	25,337	22,818
Prepaid expenses and other	955	847
Total current assets	42,714	37,878
Property, plant, and equipment, net	34,602	31,634
Goodwill, net of accumulated amortization of $705 and $570, respectively	5,430	5,565
Other	753	517
	$ 83,499	$ 75,594
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable-trade	$ 10,520	$ 7,894
Accrued expenses	4,482	5,238
Current portion of obligations under capital lease	555	660
Current portion of long-term debt	706	934
Total current liabilities	16,263	14,726
Obligations under capital lease, less current portion	1,290	1,542
Long-term debt, less current portion	15,689	12,527
Other long-term liabilities	337	329

Stockholders' equity:		
Common stock, $0.01 par value:		
Authorized shares-15,000,000, issued and outstanding shares-7,793,807, at July 31, 1999 and January 31, 1999	78	78
Additional paid-in capital	115,766	115,766
Accumulated deficit	(65,924)	(69,374)
Total stockholders' equity	49,920	46,470
	$ 83,499	$ 75,594

</TABLE>

See accompanying notes to condensed consolidated financial statements (unaudited).

U.S. VISION, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Dollars in thousands, except per share amounts)
(Unaudited)

<TABLE>
<CAPTION>

	Three Months Ended July 31,		Six Months Ended July 31,	
	1999	1998	1999	1998
<S>	<C>	<C>	<C>	<C>
Net sales	$35,601	$31,753	$73,442	$66,419
Cost of sales	10,820	9,647	22,481	20,289
Gross profit	24,781	22,106	50,961	46,130
Operating expenses:				
Selling, general, and administrative expenses	21,947	18,912	43,848	38,869
Depreciation and amortization	1,399	941	2,747	2,073
	23,346	19,853	46,595	40,942
Operating income	1,435	2,253	4,366	5,188
Interest expense, net	91	89	188	207
Income before income tax provision	1,344	2,164	4,178	4,981
Income tax provision	164	70	728	70
Net income	$ 1,180	$ 2,094	$ 3,450	$ 4,911
Net income per share	$ 0.15	$ 0.27	$ 0.44	$ 0.63
Net income per share - assuming dilution	$ 0.15	$ 0.26	$ 0.44	$ 0.61

</TABLE>

See accompanying notes to condensed consolidated financial statements (unaudited).

U.S. VISION, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW
(Dollars in thousands)

<TABLE>
<CAPTION>

	Six Months Ended July 31, 1999	Six Months Ended July 31, 1998
<S>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 3,450	$ 4,911
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,747	2,073
Changes in operating assets and liabilities:		
Accounts receivable	(2,061)	507
Inventory	(2,519)	(1,707)
Other	(351)	(163)
Accounts payable - trade	2,626	1,825
Accrued expenses	(747)	(608)
Net cash provided by operating activities	3,145	6,838
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property, plant, and equipment, net	(5,573)	(3,637)
Acquisition of business	--	(1,592)
Net cash used in investing activities	(5,573)	(5,229)
CASH FLOWS FROM FINANCING ACTIVITIES:		
1997 initial public offering costs	--	(174)
Proceeds from borrowings:		
Revolving line of credit	31,697	7,998
Other	106	26
Repayments of borrowings:		
Revolving line of credit	(28,350)	(8,505)
Term loans	(165)	(317)
Other	(712)	(423)
Net cash provided by (used in) financing activities	2,576	(1,395)
Net increase in cash	148	214
Cash at beginning of period	693	365
Cash at end of period	$ 841	$ 579

</TABLE>

See accompanying notes to condensed consolidated financial statements (unaudited).

U.S. VISION, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. BASIS OF FINANCIAL STATEMENT PRESENTATION

The accompanying unaudited condensed consolidated financial statements of U.S. Vision, Inc. and its wholly owned subsidiaries have been prepared in accordance with generally accepted accounting principles for interim financial reporting. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for complete financial statements and should be read in conjunction with the company's audited consolidated financial statements and notes which are included in the company's annual report on Form 10-K for the fiscal year ended January 31, 1999. All significant intercompany transactions and balances have been eliminated in consolidation. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation of the interim financial information have been included. Operating results for the interim period are not necessarily indicative of results that may be expected for the fiscal year ending January 31, 2000.

2. USE OF ESTIMATES

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

3. INVENTORY

Inventory is as follows (in thousands):

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<S>	July 31, 1999 <C>	January 31, 1999 <C>
Finished goods	$21,446	$18,782
Work-in-process	954	1,230
Raw materials	2,937	2,806
	$25,337	$22,818

</TABLE>

4. INCOME TAXES

As of January 31, 1999, the company had net operating loss carry forwards of approximately $16,000,000, which will begin to expire in the year 2006. Approximately $6,300,000 of these carry forwards are available to offset future taxable income without limitation and approximately $9,700,000 of these carry forwards (the "Restricted NOLs") are significantly limited due to ownership changes experienced by the company. As a result of these limitations, approximately $780,000 of the Restricted NOLs will become available for use each year through the year 2008. The remaining 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.

5. NET INCOME PER SHARE

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

<TABLE>
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	Three Months Ended July 31,		Six Months Ended July 31,	
	1999	1998	1999	1998

<S> <C> <C> <C> <C>

Net income	$1,180	$2,094	$3,450	$4,911
Basic average common shares outstanding	7,794	7,773	7,794	7,767
Effect of dilutive securities:				
Options	--	263	--	244
Diluted average common shares outstanding	7,794	8,036	7,794	8,011
Net income per share	$ 0.15	$ 0.27	$ 0.44	$ 0.63
Net income per share - assuming dilution	$ 0.15	$ 0.26	$ 0.44	$ 0.61

</TABLE>

Options to purchase additional shares of common stock have no impact on earnings per share for the three months and six months ended July 31, 1999 as their effect was antidilutive.

6. STORE CLOSING AND GOODWILL WRITE-OFF

In fiscal 1995, the company recorded a charge of $10,473,000 relating to the closing of approximately 139 retail stores. All such stores were closed prior to January 31, 1996. Sales and operating losses for these 139 stores totaled $10,554,000 and $2,737,000 for fiscal 1995. The charge included $6,500,000 for estimated lease termination liabilities, $1,483,000 of property and equipment write-offs for leasehold improvements and other equipment located in the closed stores, $1,600,000 of inventory previously stocked in these stores, and $890,000 in other costs associated with the closings.

Additionally, in fiscal 1995, the company wrote-off goodwill of $8,067,000 which reduced the remaining unamortized balance to $3,083,000 at January 31, 1996. A significant portion of goodwill was attributable to assets that were closed or otherwise liquidated prior to January 31, 1996, including 194 stores over the prior three fiscal periods and the closing of the company's Dallas lab facility. Consequently, the company determined that the cumulative effect of store closings and the closing of the Dallas facility was indicative of a significant impairment of goodwill.

In fiscal 1995, the company further evaluated inventory determined to be slow moving and, as a result, wrote off an additional $1,500,000 of inventory. This charge was recorded as a component of cost of sales.

U.S. VISION, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Approximately $3,459,000 of unpaid lease liabilities recorded in fiscal 1995 remained at January 31, 1997, of which $1,825,000 was recorded as a current liability and $1,634,000 was classified in other long-term liabilities. At January 31, 1998, approximately $762,000 of these liabilities remained unpaid, of which $407,000 was recorded as a current liability and $355,000 as other long-term liabilities. In fiscal 1997, the company realized a $689,000 gain as a result of favorable settlements of certain of its freestanding store leases. This gain was offset by a $300,000 loss the company realized from the sale of its Dallas facility in fiscal 1997.

In fiscal 1998, the company incurred $462,000 of lease termination payments and at January 31, 1999, the remaining balance of the accrued liability was approximately $300,000. Since April 30, 1999, the balance of the accrued liability has been incurred and, accordingly, the balance of the accrued liability was eliminated as of July 31, 1999.

U.S. VISION, INC.

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

RESULTS OF OPERATIONS

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

	Three Months Ended July 31,		Six Months Ended July 31,	
	1999	1998	1999	1998
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	30.4	30.4	30.6	30.6
Gross profit	69.6	69.6	69.4	69.4
Operating expenses:				
Selling, general and administrative	61.7	59.5	59.7	58.5
Depreciation and amortization	3.9	3.0	3.7	3.1
Operating income	4.0	7.1	6.0	7.8
Interest expense, net	0.2	0.3	0.3	0.3
Income before income tax provision	3.8	6.8	5.7	7.5
Income tax provision	0.5	0.2	1.0	0.1
Net income	3.3%	6.6%	4.7%	7.4%

THREE MONTHS ENDED JULY 31, 1999 COMPARED TO THREE MONTHS ENDED JULY 31, 1998

Net sales increased $3.8 million, or 12.1%, from $31.8 million for the three months ended July 31, 1998 to $35.6 million for the three months ended July 31, 1999. A 4.3% increase in comparable store sales accounted for $1.3 million of the increase in net sales. New store openings, net of closings, accounted for the remaining $2.5 million of the increase.

Cost of sales as a percentage of net sales remained constant at 30.4%

Selling, general and administrative expenses increased by $3.0 million, or 16.0%, from $18.9 million for the three months ended July 31, 1998 to $21.9 million for the three months ended July 31, 1999. The increase was principally due to an increase in retail salaries, advertising and store expenses associated with the company's aggressive store expansion program and greater department store rents which are tied directly to sales volume. As a percentage of net sales, selling, general and administrative expenses increased 2.2% principally due to the opening of 55 new locations. In addition to normal operating expenses, pre-opening costs are expensed as incurred.

Depreciation and amortization increased by $0.5 million, or 48.7%, from

$0.9 million for the three months ended July 31, 1998 to $1.4 million for the three months ended July 31, 1999. This was due to increased amortization of goodwill as a result of the acquisitions of businesses during the second and third quarter of fiscal 1998. In addition, depreciation expense increased due to capital expenditures associated with store openings and the purchase of additional coating machinery for the manufacturing facility.

SIX MONTHS ENDED JULY 31, 1999 COMPARED TO SIX MONTHS ENDED JULY 31, 1998

Net sales increased $7.0 million, or 10.6%, from $66.4 million for the six months ended July 31, 1998 to $73.4 million for the six months ended July 31, 1999. The increase in net sales was primarily attributable to sales generated by the 55 new stores opened by the company during the past six months. Comparable store sales increased by 2.1% during the six months ended July 31, 1999 compared to the same period last year.

Cost of sales as a percentage of net sales remained constant at 30.6%

Selling, general and administrative expenses increased by $4.9 million, or 12.8%, from $38.9 million for the six months ended July 31, 1998 to $43.8 million for the six months ended July 31, 1999. The increase was principally due to an increase in retail salaries, advertising and store expenses associated with the company's aggressive store expansion program and greater department store rents which are tied directly to sales volume. As a percentage of net sales, selling, general and administrative expenses increased 1.2% principally due to the opening of 55 new locations. In addition to normal operating expenses, pre-opening costs are expensed as incurred.

Depreciation and amortization increased by $0.6 million, or 32.5%, from $2.1 million for the six months ended July 31, 1998 to $2.7 million for the six months ended July 31, 1999. This was due to increased amortization of goodwill as a result of the acquisitions of businesses during the second and third quarter of fiscal 1998. In addition, depreciation expense increased due to capital expenditures associated with store openings and the purchase of additional coating machinery for the manufacturing facility.

LIQUIDITY AND CAPITAL RESOURCES

The company's primary sources of cash for the first six months of fiscal 1999 were from operations and the company's revolving line of credit. Cash and working capital at July 31, 1999 were $841,000 and $26.5 million, respectively, compared to $693,000 and $23.2 million, respectively, at January 31, 1999.

For the six months ended July 31, 1999, cash provided by operating activities was $3.1 million compared to cash provided by operating activities of $6.8 million for the six months ended July 31, 1998. The $3.7 million decrease resulted from a decrease in net income and increases in: (a) accounts receivable, principally the result of the increase in net sales; (b) higher inventory as a result of more store openings as well as the introduction of higher priced branded product; and (c) accounts payable due to purchases of materials to support the second quarter revenues.

Cash used in investing activities in the first six months of fiscal 1999 was $5.6 million compared to $5.2 million in the first six months of fiscal 1998. Capital expenditures during the first six months of fiscal 1999 were primarily for new store openings, new laboratory equipment and development work on the company's integrated management information system.

The company's principal external source of liquidity is its $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, which was 6.96 % as of July 31, 1999, matures in July 2001 and renews

automatically for a one-year period, subject to either party's right to terminate by notice of non-renewal. As of July 31, 1999, the company had $11.7 million outstanding under its revolving line of credit and $8.3 million of availability. The loan agreement prohibits the payment of dividends to stockholders and contains customary covenants. The company must also maintain certain financial ratios pertaining to its net worth, current ratio and ratio of cash to fixed charges. The company is currently in compliance with all financial covenants and management does not believe that the financial covenants set forth in its revolving line of credit will have an adverse impact on its operations or future plans.

In July 1998, the company received a commitment from Commerce BankLease, a unit of Commerce Bank, N.A., for a $1,000,000 five-year equipment lease financing facility. During the month of August 1999, the company executed the agreement and lease financed approximately $922,000 to be paid over a period of 60 months. The company anticipates it will be recorded as a capital lease.

YEAR 2000 COMPLIANCE

The company's management recognizes the need to ensure that its operations and relationships with host stores and other third parties will not be adversely impacted by the Year 2000 issue. The Year 2000 problem is a result of computer programs being written using two digits rather than four to define the applicable year. Any of the company's programs that recognize a date using "00" as the year 1900 rather than the Year 2000 could result in system failures or miscalculations.

During the third quarter of fiscal 1998, the company completed the assessment of its internal critical and non-critical hardware and software. Included in the company's assessment was the identification of all critical and non-critical computer programs and hardware, including environmental systems that are dependent on embedded microchips, such as security systems and VAC systems. Based on its assessment, the company determined that its significant information technology systems would not be affected, but a portion of its non-critical programs and certain hardware would require modification or replacement. The company has made the necessary modifications to the non-critical programs and hardware so that these systems can properly utilize dates beyond December 31, 1999. The total cost of the modifications was less than $100,000. In addition, the company is currently developing a Year 2000 compliant point of sale and order entry system in its retail locations and, therefore, does not anticipate having any Year 2000 compliance issues with respect to the information technology systems to be utilized by its retail stores.

The company also depends on the systems of its suppliers and host stores. Consequently, the company is in the process of receiving adequate assurances from its host stores that those systems on which the company relies are or will be Year 2000 compliant before the end of 1999.

The company has developed and will implement contingency plans designed to allow continued operations in the event of failure of the company's or third party systems to be Year 2000 compliant.

The failure of the company, or third parties upon which the company relies, to identify Year 2000 issues and successfully and timely resolve them could have a material adverse impact on the operations of the company.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

The company occasionally makes forward-looking statements concerning its 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: the company's ability to maintain its relationship with its 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 the company's revenue and market share; the company's ability to effectively manage its business functions while growing the company's business in a rapidly changing environment; and the quality of the company's plans and strategies, and the ability of the company to execute such plans and strategies.

In addition, forward-looking statements concerning the company's expected revenue or earnings levels are subject to many additional uncertainties applicable to competitors generally and to general economic conditions over which the company has no control, such as the performance of its host stores. The company does not 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 the company has not made additional comments on those forward-looking statements.

PART II. OTHER INFORMATION

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

As contemplated in the company's Proxy Statement which was mailed to stockholders beginning on May 7, 1999, the company's stockholders elected William A. Schwartz, Jr., Dennis J. Shaughnessy, J. Roger Sullivan, Jr., Richard K. McDonald, G. Kenneth Macrae and Peter M. Troup as directors of the company, each to serve until the annual meeting of stockholders to be held in 2000. The company's stockholders also considered a proposal to ratify the selection of Ernst & Young LLP as the independent auditor of the company for the year ending January 31, 2000.

Each of the foregoing proposals were approved at the company's annual meeting of stockholders on June 8, 1999. Each Board nominee received the number of votes indicated below.

<TABLE>
<CAPTION>

Nominee	No. of Votes Cast For Election	No. of Votes Cast Against or Withheld
<S>	<C>	<C>
William A. Schwartz, Jr.	5,062,324	501,928
Dennis J. Shaughnessy	5,062,324	501,928

J. Roger Sullivan, Jr.	5,062,324	501,928
Richard K. McDonald	5,062,324	501,928
G. Kenneth Macrae	5,062,324	501,928
Peter M. Troup	5,062,324	501,928

</TABLE>

With respect to the approval of the proposal to ratify the selection of Ernst & Young LLP, the votes cast for, against and abstaining were as follows:

<TABLE>
<S> <C>

Votes For	5,558,457
Votes Against or Withheld	2,900
Abstentions	2,895

</TABLE>

U.S. VISION, INC.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

A. EXHIBITS

The following exhibits are filed as a part of this report:

<TABLE>
<CAPTION>

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**	Subordinated Note Purchase Agreement
10.4**	Amendment to Subordinated Note Purchase Agreement
10.5**	J.C. Penney License Agreement
10.6**	Vision Care Agreement
10.7***	Employment Agreement for William A. Schwartz, Jr.
10.8***	Form of Employment Severance Agreement
10.9**	Form of Non-Statutory Option Agreement
10.10**	Form of Indemnification Agreement
10.11**	Stockholders' Agreement
10.12**	Form of Sears Lease
10.13**	Commerce Bank Mortgages and Schedules
10.14**	DRPA Loan Documentation
27+	Financial Data Schedule

</TABLE>

----

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

*** Previously filed as an exhibit to the company's report on Form

10-K for the fiscal year ended January 31, 1999, filed with the SEC on April 30, 1999.

\+ Filed herewith.

B. REPORTS ON FORM 8-K

No reports on Form 8-K were filed by the company during the three (3) months ended July 31, 1999.

U.S. VISION, INC.

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.

U.S. VISION, INC.

(Registrant)

September 10, 1999

/s/Kathy G. Cullen

Kathy G. Cullen, Chief Financial Officer
(Principal Financial and Accounting Officer)

U.S. VISION, INC.

EXHIBIT INDEX

Exhibit Number	Exhibit
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\+   Filed herewith.

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This schedule contains summary financial information extracted from the
Condensed Consolidated Balance Sheet at July 31, 1999 (Unaudited) and the
Condensed Consolidated Statement of Operations for the Six Months Ended July 31,
1999 (Unaudited) and is qualified in its entirety by reference to such financial
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